

# Transition from a Limited Access Order to an Open Access Order: The Case of South Korea

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## H.1 Introduction:

During the second half of the 20<sup>th</sup> century South Korea (Korea, hereafter) transformed itself from a poor nation to a rich and democratic country. While Korea relied heavily on American aid endeavoring to emerge from the ashes of the Korean War (1950-53) in the 1950s, it has become a significant donor country.<sup>1</sup> Korea has demonstrated the long-term viability and strength of its economy by quickly overcoming both the Asian financial crisis of 1997 and the global financial crisis of 2008. Moreover, Korea has been successfully consolidating its democracy since the democratic transition in 1987. The Korean people have made two changes of government through free and fair election, and there has been no successful or attempted coup. Democracy has become the only game in town.

Many scholars have tried to explain Korea's success story of sustained economic growth. There have, however, been few scholarly attempts to explain both economic and political development of Korea. Mo and Weingast (2009; Mo-Weingast, hereafter) is a notable exception. They applied the framework of transition from a limited access order (LAO) to an open access order (OAO) developed by North, Wallis, and Weingast (2009; NWW, hereafter) and North, Wallis, Webb, and Weingast (2007; NWWW, hereafter). Korea is one of the three countries that have completed (Japan) or moved far along the transition to an open access order (Korea and Taiwan) outside of Europe and the Anglo-American countries (Australia, Canada, New Zealand, and the United States), as NWW and Mo-Weingast indicated.

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<sup>1</sup> Korea plans to increase its aid from the present 0.09 percent of GDP to 0.25 percent of GDP by 2015.

NWW's conceptual framework of limited and open access orders provides a useful tool for political economy approach that integrates developments in both the polity and the economy. NWW recognizes the interdependence of political system and economic system. Their theory of double balance posits that, over the long-term, the degree of political openness tends to match with that of economic openness and vice versa. Most developing countries are locked in the equilibrium of limited access in both the economy and the polity, while advanced democracies are in the equilibrium of open access in both the economy and the polity. A limited access order contains violence by creating and distributing rents among the powerful individuals and groups, while an open access order maintains stability by granting everyone equal access to political and economic opportunities. Substantial development occurs as a LAO matures from a *fragile* to *basic* to *mature* LAO as well as a LAO makes transition to an OAO.

This chapter attempts to explain the economic and political development of Korea by applying the lens of NWW and NWW's framework as Mo-Weingast did. I will review the post-colonial history of Korean development, discuss several issues in applying the LAO-OAO framework to the Korean case, and make comparisons with Taiwan and the Philippines to explain Korea's transition to an open access order.

Mo-Weingast focuses on three turning points in the post-colonial history of Korea: Park Chung-hee's military coup of 1961 and his establishment of "developmental state", democratic transition in 1987, and financial crisis in 1997. In contrast, my account of Korean development starts with the land reform around 1950. A crucial weakness of existing studies of Korean development is the inability to explain the origin of the developmental state, and I will demonstrate that the land reform played a critical role in laying the foundation for future development. My second turning point starts with the Student Democratic Revolution of 1960 rather than the military coup of 1961 led by Park.

I will show that Korea developed from a *fragile* LAO (1945-48) to *basic* LAO (1948-60) to a *basic/mature* LAO (1960-1987) to a *mature* LAO with doorstep conditions (1987-1997), and has been making a transition to an OAO since 1997. Also, I will provide an account of how successful control of violence has been established and how different mix of rents for the dominant coalition has developed over time.

Although the focus of the chapter is Korea, I will briefly present some comparison of Korea with Taiwan as another successful case and the Philippines as an unsuccessful case to explore what made it possible for Korea (and Taiwan) to make a transition to an OAO. Back in the 1950s, the Philippines appeared more promising in terms of both economic and political development than Korea and Taiwan. A comparison of these three countries provides insights about the distinct early features of Korea and Taiwan that positively influenced their subsequent development. The comparison illustrates the crucial role of sweeping land reform in Korea and Taiwan, which is rarely seen in other countries, except in Japan.

The chapter demonstrates the usefulness of NWW's and NWWW's conceptual framework in explaining the post-colonial development of Korea. It also suggests that the doorstep conditions do not work the same way in today's developing countries as they did in the historical experiences of Western Europe and North America. The chapter closes with a brief discussion of the challenges Korea faces to complete the transition and consolidate its OAO.

## **H.2: History**

### **H2.1 Origin of the Korean “Developmental State”**

Previous explanations of Korean development focused on the role of state vs. market. While some studies emphasize the role of market and trade liberalization (McKinnon 1973; World Bank 1987), the “developmental state” explanation became dominant in light of the mounting evidence for the interventionist role of the Korean state (Amsden 1989; Haggard 1990; Chang 1994). This group of scholars stress the importance of an autonomous and meritocratic bureaucracy as the core of developmental state, and the role of Park Chung-hee in establishing it. Mo-Weingast also follow the key arguments of the developmental state literature. They argue that Korea's transition to open access order started with the “developmental state” under Park's leadership in the early 1960s. They characterize Syngman Rhee's regime (1948-60) as “predatory state” in agreement with most of the developmental state literature.

A weakness in this literature is the lack of adequate explanation about the origin of developmental state. What made it possible for Korea (and Taiwan) to establish “developmental state” unlike other developing countries? What explains the transformation from a predatory state (Rhee regime) to a developmental state (Park regime)?

Some scholars suggest a historical explanation: the Confucian tradition of bureaucracy and Japanese colonial experience (Woo-Cumings 1995). Others suggest the role of security threat. These explanations are plausible, since they distinguish Korea (and Taiwan) from other developing countries, and Mo-Weingast subscribe to these explanations. The historical experience of Confucian statecraft and bureaucratic traditions helped to build coherent and meritocratic bureaucracy in Korea. The security threat from North Korea gave South Korean leaders incentives to pursue long-term growth rather than short-term rents. Neither explanation of the developmental state, however, can explain the differences between Rhee’s and Park’s regimes. Why didn’t the Confucian bureaucratic tradition and security threat lead President Rhee to form a developmental state?

In fact, Korea’s conditions in the early 1960s were more favorable for economic growth than those of most developing countries (Rodrik 1995; Benabou 1996; Mo-Weingast, 65; Eichengreen 2009). Korea had unusually equal distribution of income and wealth and a high level of human capital when the Park regime began its export-led industrialization drive. These conditions were critical. As Rodrik (1995) notes, the exceptionally low levels of inequality in Korea (and Taiwan) made it possible for the state bureaucracy to be autonomous and free from capture by powerful economic interests. As Eichengreen (2009) points out, Korea’s high primary education enrollment and completion rate circa 1960 provided a labor force equipped with basic numeracy and literacy, which was well suited to the circumstances of a relatively poor, late-industrializing economy. Park’s industrialization drive would not have been so successful without these favorable conditions.

These conditions were not inherited from Japanese colonial period, but were the result of the land reform circa 1950. The sweeping land reform dissolved the landed elite and produced an unusually equal distribution of wealth and income. It also helped to

rapidly expand education by enabling most people to afford to educate their children. These conditions in turn helped to establish coherent and meritocratic bureaucracy by providing a pool of highly educated people to compete in higher civil service exams and by removing powerful landlords who could capture or corrupt the bureaucracy for their own economic interests. Thus, land reform contributed to widening economic openness.

## H2.2 South Korea, 1945 to the Present: Chronology

South Korea's post-colonial history (1945-present) can be divided into five periods. South Korea developed from a *fragile* LAO (1945-48) to *basic* LAO (1948-60) to a *basic/mature* LAO (1960-1987) to a *mature* LAO with doorstep conditions (1987-1997), and has been making a transition to an OAO since 1997.

Table H.1. From a Fragile LAO to an OAO: South Korea, 1945-Present

Fragile LAO (1945-48)	<ul style="list-style-type: none"> <li>• Liberation from Japanese rule; Occupation by the US &amp; the USSR (1945)</li> <li>• Establishment of two Koreas (1948)</li> </ul>
Basic LAO (1948-60)	<ul style="list-style-type: none"> <li>• Electoral democracy, but authoritarian tendency</li> <li>• Land reform (1948-52)</li> <li>• Korean War (1950-53)</li> <li>• State monopoly of violence</li> <li>• Import substitution industrialization, dependence on US aid</li> </ul>
Basic/Mature LAO (1960-87)	<ul style="list-style-type: none"> <li>• Electoral democracy (1960-61, 63-72), military rule (1961-63), authoritarian regime (1972-87)</li> <li>• Export-oriented, <i>chaebol</i>-centered industrialization</li> </ul>
Mature LAO with Doorstep Conditions (1987-97)	<ul style="list-style-type: none"> <li>• Democratic transition (1987)</li> <li>• Check on state violence, Decline of violent social movements</li> <li>• Firm civilian control over the military</li> <li>• Expansion of civil society organizations</li> <li>• Improving the rule of law</li> <li>• Economic liberalization</li> <li>• <i>Chaebol</i>'s market power and moral hazard</li> </ul>
Transition to OAO (1997-present)	<ul style="list-style-type: none"> <li>• Democratic consolidation</li> <li>• Financial crisis and the change of government (1997)</li> <li>• Reform of <i>Chaebol</i> and financial system</li> <li>• Economic liberalization</li> <li>• Improving the rule of law</li> <li>• Control of corruption</li> </ul>

### **H.2.3 Fragile (1945-48) and Basic LAO (1948-60):**

When Korea was liberated from Japanese colonial rule in 1945, it was primarily an agricultural economy with few landlords and a vast number of peasants. The richest 2.7 percent of rural households owned two thirds of all the cultivated lands, while 58 percent owned no land at all. A radical land reform took place first in North Korea in 1946, which gave landlords no compensation and distributed lands to peasants for free.

The most important source of fragility and instability during the period of American Military Government (1945-48) was the land problem. Immediately after the liberation from Japanese rule in 1945, leftist forces had strong political influence as well as violence potential. By the time when South Korean state was established in 1948, these groups were weakened considerably partly because of suppression but also because of the government's commitment to land reform. Although there were some partisan guerillas in the mountains, they were completely eliminated during the Korean War. A state monopoly on violence was established and there were no powerful groups, other than the military, who possessed serious violence potential that could threaten the state. Also, remarkable was that Korean peninsula maintained peace and the two Korean governments never attempted to launch another war despite the mutual hostility and tensions that dominated inter-Korean relations up to the present.

Land redistribution in South Korea was carried out in two stages: by the American Military Government (AMG) in 1948 and by the South Korean government from 1950 to 1952. In March 1948, the AMG began to distribute 240,000 hectares of former Japanese lands to former tenants, which accounted for 11.7 percent of total cultivated land. When the first election was held in the South in May 1948, all parties pledged to implement land reform and the Constitution included a commitment to land reform. Syngman Rhee's government began to implement agrarian land reform in 1950, just before the Korean War broke out. Restricting the upper ceiling of landownership to three hectares, the government redistributed 330,000 hectares of farmland by 1952. The landlords received 1.5 times the annual value of all crops in compensation from the government,

and their former tenants were to pay the same amount to the government in five years.<sup>2</sup> In anticipation of the reforms, about 500,000 hectares had been sold directly by landlords to their tenants, the bulk in 1948 and 1949 (Hong 2001). In total, ownership of 52 percent of total cultivated land was transferred to tenants and the “principle of land to tillers” was realized. By 1956, the top 6 percent owned only 18 percent of the cultivated lands. Tenancy dropped from 49 percent to 7 percent of all farming households, and the area of cultivated land under tenancy fell from 65 percent to 18 percent (Ban, Moon, and Perkins 1980; Lie 1998; Putzel 1992).

Land reform profoundly transformed Korean society. The traditional Yangban (aristocracy) landlord class was dissolved. Peasants became farmers (Lie 1998). Land redistribution and the destruction of large private properties during the Korean War produced an unusually equal distribution of assets and income in Korea (Mason et al. 1980; You 1998). Land reform opened space for state autonomy from the dominant class, as there was no organized privileged class or special interests immediately after the land reform, although the chaebol’s growth and increasing economic concentration eventually became a concern. Although the markets were not fully open and competitive, land reform created a considerable degree of open access in the markets.

Land reform also contributed to rapid expansion of education by making it affordable to a majority of population. Enrollment in primary schools doubled between 1945 and 1955, while enrollment in secondary schools increased more than eight times, and enrollment in colleges and universities increased ten times (Kwon 1984). Considering that government’s budgetary commitment to public education was minimal during that period, the speed of educational expansion would have been slower without land reform. It was common that many farmers with small landholdings sold their lands to support their children’s college education.

The spectacular increase in an educated labor force not only contributed to high economic growth, but also paved the road for the establishment of meritocratic bureaucracy. Although the higher civil service exam (*Haengsi*) was instituted as early as 1949, only 4 percent of those filling higher entry-level positions came in via the exam

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<sup>2</sup> The price of land was very cheap in the Korean land reform, considering that it was 2.5 times the annual produce in the land reform in Japan and Taiwan. Moreover, Korean landlords had to see their compensation in government bonds to drop in real value because of hyper inflation.

under Syngman Rhee's government (1948-60). The higher positions were filled primarily through special appointments. This reflected not only Rhee's reliance on clientelistic ties but also a shortage of a pool of highly educated people (Kang 2002). Park Chung-hee's government (1961-79), however, was able to establish a meritocratic bureaucracy manned by the supply of enough university-educated people, although he still allocated a substantial part of the higher ranks to the military who did not pass the highly competitive civil service exam (You 2008).

An important question for this period is why the Rhee regime chose to implement the sweeping land reform and why it was so successful, in contrast to other developing countries (see Montinola's case study of the Philippines in this volume). The security threat from North Korea as well as the radical land reform in 1946 in North Korea made it imperative for Rhee regime to court the support of peasants through extensive land reform (You 2008). Even the Korea Democratic Party that represented the interests of landlords did not openly object to land reform, but only tried to delay the implementation of the reform and to increase the compensation for the landlords. The position of the landed class in the National Assembly had been seriously weakened by the collaboration of large land owners with the Japanese. Rhee showed his strong commitment for land reform by appointing Cho Bong-Am, a former communist, as Minister of Agriculture, and he drafted a progressive land reform law with compensation of 150 percent of annual produce. Although there was an attempt to increase the compensation to 300 percent, the Assembly passed the Land Reform Act with 150 percent of compensation and payment on February 2, 1950, and President Rhee signed it into law on March 10, 1950 (Kim 2001).

Land reform not only helped President Rhee to consolidate his political support among the rural population, but also contributed to stabilizing the country. Land reform removed the most attractive aspect of the communist appeal to the peasants, depriving communist partisan guerillas of their support base in rural areas and helped establish a legitimate state monopoly of violence.

Land reform was, however, not intended to open access. Rather than promoting open access and competition in the economy, Rhee regime used distribution of privileged access to state-controlled resources to consolidate its coalition. The chaebols began to



emerge under the patronage of Rhee regime, and they paid back through illicit political contributions. The major sources of chaebol accumulation during the Rhee period were selective allocation of import licenses and quotas, bargain price acquisition of former Japanese properties, aid funds and materials, cheap bank loans, and government and U.S. military contracts for reconstruction activities (Jones and Sakong 1980, 271-2).

The sale of vested properties, formerly Japanese-owned industrial properties taken over by the American Military Government and subsequently transferred to the Rhee government, typically favored interim plant managers as well as the politically well-connected. The Rhee government set the price of the properties at 25-30 percent of the market value and offered the new owners generous installment plans. In return for their windfall gains, the new owners of these properties provided kickbacks to Rhee's Liberal Party. Vested properties provided the initial base for many chaebols (Lim 2003, 42).

The privatization of commercial banks in the 1950s shows another example of the irregularities in the disposal of state-owned properties. The government initially put banks up for sale in 1954 with provisions designed to prevent the control of financial institutions by industrial capitalists. When no bids satisfied these provisions, however, the government drastically relaxed the requirements. The result was the control of major commercial banks by a few chaebols, who were major contributors to Rhee's Liberal Party. Using political connections, they borrowed money from the banks in order to make bids for the ownership of the same banks (Lim 2003, 42).

The political system did not operate according to the principles of open access and competition, either. Although South Korea was established as a constitutional democracy, formal institutions of democracy did not always work in a democratic way. Universal suffrage as well as basic rights was given by the Constitution, but Koreans were not yet prepared to exert their political rights and civil liberties. Syngman Rhee's regime became increasingly authoritarian and corrupt over his 12-year presidency (1948-60). The Rhee regime did not hesitate to suppress opposition and manipulate elections to perpetuate his rule. When Rhee wanted to amend the Constitution from indirect presidential election by the parliament to direct presidential election in 1952, he was faced with opposition by a majority of members of the parliament. He successfully mobilized state terror and threats by imposing a martial law to force the members of the parliament to agree to the

constitutional amendment. The National Security Law, enacted in 1948, made both communism and recognition of North Korea as a political entity illegal, was used to suppress and persecute dissidents and left-leaning political leaders and groups.

Rhee's Liberal Party was essentially nothing more than his personal networks (Lee 1968, 71-76; Lie 1998, 35). It is notable that the Liberal Party did not have any class base, while the leading opposition, the Democratic Party's initial base was the landed class. Since the landed class was dissolved after the land reform and the Korean War, the political competition became more oriented toward personal appeals of leaders and distribution of patronage. Corruption scandals erupted in presidential election years, which involved exchanges of rents and illicit political contributions. Vote-buying practices became widespread and fraudulent vote-counting was common. Thus, the formally open access political system did not in fact guarantee open access and competition in political affairs.

#### **H.2.4 Basic/Mature LAO (1960-1987):**

The people's demand for democracy increased over time from 1960 to 1987. Expansion of education produced anti-authoritarian forces among students and intellectuals. Industrialization and economic growth expanded the middle class and working class, and their voice and organizations grew over time. Student demonstrations in protest of election fraud in April 1960 led to the resignation of Syngman Rhee as president. The democratic opening was short-lived, however, as the military junta led by General Park Chung-hee overthrew the Chang Myeon government (1960-61) in May 1961. Although pro-democracy forces were growing over time, they were too weak then to contend with the military.

Park Chung-hee and Chun Doo-hwan ruled Korea as formally civilian presidents for most of the time, but they filled bulk of the ruling party leadership and the bureaucracy with those from the military. Park created the Korean Central Intelligence Agency (KCIA) and Democratic Republican Party to consolidate his power base before running for presidency in 1963. The core leadership and the staff of the KCIA as well as the DRP came from the military. The KCIA, which was notorious for its persecution of dissidents

and violation of human rights, began as a corps of 3,000 officers dedicated to military rule (Kim 1971, 111-12). The DRP's major platforms were economic development and anti-communism. It did not have any class base, and the military officers that constituted the leadership of the DRP were from humble social backgrounds. Over time, however, the DRP forged an alliance with the chaebols. It was structured along a hierarchical, single command system with a large staff, modeled on Kuomintang (KMT) in Taiwan. Park had to dispense patronage to military officers not only to utilize their loyalty for governing but also to prevent any revolt from within the military. As the single most powerful group with violence potential, the military enjoyed bulk of appointments in the cabinet and high-level government positions as well as the KCIA and the DRP.<sup>3</sup>

Park ran very competitive presidential elections twice, in 1963 and in 1971, although 1967 presidential election was not very close. There was speculation that Park would not have been able to win the 1963 and 1971 elections without large-scale vote-buying and vote-counting fraud. He apparently concluded that democracy was too expensive and risky. He declared martial law, disbanded the National Assembly, and junked the existing constitution in 1972. The so-called *Yushin* Constitution abolished direct presidential election, which effectively guaranteed his life-time presidency. Also, the *Yushin* Constitution gave him an authority to nominate a third of the National Assemblymen, which guaranteed an absolute majority seats to the ruling Democratic Republican Party. Park issued many Emergency Measures, which were used to suppress criticism of the *Yushin* Constitution and his dictatorship.

Even when presidential and National Assembly elections were regularly held, they were far from open and competitive. Anti-communism rhetoric was conveniently used to suppress dissidents. The National Security Law was frequently abused to persecute dissidents, and Korean CIA and police were used to suppress anti-government activities. In addition, vote-buying and fraudulent counting limited the scope of real contestation through elections. It is notable, however, anti-dictatorship student movement continued to grow in spite of harsh suppression and the major opposition New Democratic Party won the most votes in the 1978 general National Assembly elections, although Park's

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<sup>3</sup> Interestingly, Park Chung-hee regime abstained from dispensing patronage jobs to economic ministries. Ministers and high-level officials in economic ministries were filled with technocrats, while non-economic ministries accommodated many military officers (Kang 2002, 85-90).

Democratic Republican Party still maintained a large majority in the National Assembly because of its advantage from the electoral system.<sup>4</sup>

After Park's assassination by his KCIA chief, Kim Jae-kyu in 1979, there was another short period of democratic opening, but the military junta led by General Chun Doo-hwan seized power through a two-stage coup and bloody suppression of the Kwangju uprising. After a short period of direct military rule, Chun became a civilian President through uncontested indirect election. It was not easy, however, to contain the ever-growing student movement and labor movement, particularly as student and labor groups became increasingly radical and militant. Student and labor movements were increasingly led by a radical nationalist camp who were often anti-American and pro-North Korea and another camp who emphasized class struggle and envisioned socialist revolution. While student movements used largely peaceful tactics before the Kwangju uprising, they increasingly utilized violent tactics such as use of Molotov cocktails.

When hundreds of thousands of citizens, including students, blue-collar workers, and new middle-class white-collar workers, came out to streets in Seoul and all over the country in 1987, President Chun had to surrender to their key demands for democracy, including direct presidential election. President Chun is known to have considered using military force to suppress the demonstrations, but apparently he could not risk committing another massacre like one that occurred during the violent suppression of Kwangju uprising in 1980. The United States also urged Chun to restrain from using the military force, perhaps alarmed by the increasing anti-American sentiments among Koreans due to U.S. support of the military crackdown of the Kwangju.

Although I've described this period (1960-87) as a long journey to democracy, the period is better known as a period of economic take-off, or export-led industrialization. Korea was not only poorer than most countries in Latin America, but also than some countries in Africa when it began export-led growth in the 1960s. In 1960, Korea was much poorer than Mexico and Argentina and somewhat poorer than the Philippines and Senegal, but today it is much richer than any of these countries (Table 2).

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<sup>4</sup> NDP got 32.8 percent of the total votes, while DRP's vote share was 31.7 percent. NDP and DRP obtained 61 seats and 68 seats, respectively, out of the 154 seats from the nationwide two-member districts, and DRP added another 77 seats from the President's appointment.

Table H.2. Growth of Real GDP per capita, 1960-2003, for Selected Countries

	Real GDP per capita (2000 dollars)			Average annual growth 1960-2003 (%)
	1960	1987	2003	
S. Korea	1,458	7,374	17,597	6.05
Taiwan	1,444	9,396	19,885	6.34
Philippines	2,039	2,965	3,575	1.38
Mozambique	838	922	1,452	1.48
Senegal	1,776	1,474	1,407	-0.43
Mexico	3,719	6,595	7,938	1.84
Argentina	7,838	9,624	10,170	0.75

Source: Penn World Table 6.2

Korea has enjoyed sustained economic growth with average annual growth rate of 6% since 1960. Indeed, it has not experienced negative growth except for three years during this long period: slightly negative growth (-0.7%) in 1962 after the 1961 military coup led by General Park Chung-hee, -5.8% growth in 1980 in the midst of political turmoil after President Park's assassination and with the second oil shock, and -9.0% growth in 1998 with the financial crisis.<sup>5</sup>

The change of the Korean government's strategy from promoting import substitution industry to encouraging and subsidizing export industries contributed to boosting exports and raising productivity. To be sure, the economic system was nowhere near operating on the principle of open access and competition, either internally or externally. Externally, imports were discouraged and strictly regulated with high tariffs and non-tariff barriers. Foreign direct investment was strictly restricted, although foreign loans were sought for enthusiastically. Internally, the government owned and controlled commercial banks and distributed under-priced credit to favored firms and industries, to reward export performance but also in exchange with political donations.

Creation and distribution of rents was common not only under Syngman Rhee's regime, but also under Park Chung-hee and Chun Doo-hwan's rule. Eradication of corruption was one of key demands of the April Student Revolution in 1960, and Park initially announced anti-corruption as a top priority as Chun did in 1980 to justify the military takeover. Immediately after the coup of May 16, 1961, the military junta arrested chaebol owners on charges of illicit wealth accumulation, but the investigation ended

<sup>5</sup> Korea experienced another negative growth in 2009 under the influence of the global financial crisis, but it is predicted to record a robust growth in 2010.

with a negotiation on the political and economic terms between the military and business owners. The junta not only reduced the fines for illicit wealth accumulation, but also provided financial subsidies for those industrialists who pledged to undertake specific industrial projects and to provide political funds (Kim and Im 2001). An important punishment, however, was confiscation of equity shares in commercial banks, which in effect renationalized the banks that had been privatized in the late 1950s (Lim 2003, 44).

This episode shows that the military junta led by Park Chung-hee was eager to fill their “legitimacy deficit” that came from the overthrow of a legitimate democratic government by showcasing their will to fight corruption on the one hand and by forging a partnership with the business to propel industrialization and economic growth on the other hand. After the Student Revolution in 1960, the short-lived Chang Myon government proclaimed its “Economy First” policy and was preparing a launch of an Economic Development Plan (Lee 1968). Park realized that sustained military rule would not be possible without good economic performance and that he needed the business as an ally for economic growth as well as a source of political funds. Since he did not want an equal partnership with the business, however, he seized firm control of the banks that would enable him to direct the incipient chaebols to invest in the sectors and industries according to the state plans. Thus, a system of rent exchanges between the government, banks, and chaebols was formed in early years of Park and it lasted until the East Asian financial crisis hit the Korean economy hard in 1997.

Under Park Chung-hee and Chun Doo-hwan, the most important forms of rents were allocation of low-interest-rate domestic and foreign loans. The government favored chaebol firms and exporters in the distribution of rents in return for their political contributions, and often protected their monopoly by restricting entry of other firms in specific industries. During the 1960s export performance provided the government with a relatively objective criterion for under-priced credit allocation, while during the heavy and chemical industrialization drive in the 1970s government support was more based on industry than on export performance. Since chaebol firms were primary exporters and pioneers in HCI drive, chaebol expanded rapidly under Park’s regime and the problem of too-big-to-fail began to emerge.

Typically, a firm that gets governmental approval for an industrial project will be financed by one-fifth equity and four-fifths foreign and domestic loans. It also receives other subsidies such as tax exemption. If the project becomes successful, the firm starts a new line of business with the profits. Once again, the firm will not put up much equity but will rely heavily on external debt. The extension of this process leads to a group of firms, or chaebol (Jones and Sakong 1980, 273-4).

There were substantial differences in the importance of rent-seeking and patronage between import substitution and export-oriented industrialization strategies, however. Under an import substitution policy, government protection and favors were decisive for the profitability of businesses. Under an export-oriented policy, however, firms had to compete in foreign markets. Although various forms of favors and subsidies helped the firms to compete in foreign markets, productivity and competitiveness became increasingly important. Also, the government's discretion was constrained, because they had to reward export performance, not just political loyalty and contributions. Thus, rent-seeking and corruption were contained within certain limits, and the bureaucracy exercised discretion based on impersonal rather than personalistic or clientelistic criteria (Mo-Weingast).

As the size and power of the chaebol grew, Chun Doo-hwan government (1980-87) began to take measures for gradual economic liberalization. The government began to liberalize imports gradually at U.S. request, but it also began to liberalize financial markets by reducing regulations of nonbank financial institutions, many of which had long been controlled by chaebol groups. In addition, some measures such as enactment of Monopoly Regulation and Fair Trade Act were introduced to counter the market power of the chaebol, but these measures were not vigorously implemented. Interestingly, chaebol grew even bigger and concentration increased further as a result of liberalization measures. Combined sales of top ten chaebols, as percent of GDP, grew from 15.1% in 1974 to 32.8% in 1979 to 67.4% in 1984 (Amsden 1989, 116, 134-7). Thus, the Korean economy was increasing openness and competition on some dimensions, but increasing chaebol concentration and the collusion between the political and business elites limited access and competition on other dimensions.

During this period, property right protection was not given to everyone equally. For example, President Park issued an Emergency Decree for Economic Stability and Growth to bail out the overleveraged chaebol in 1971, which transformed curb market loans into bank loans to be repaid over five years at lower interest rates, with a grace period of three years during which curb market loans were to be frozen. Out of 209,896 persons who registered as creditors, 70 percent were small lenders with assets in the market below 1 million won, or \$2,890 (Woo 1991: 109-115; Kim and Im 2001). Thus, the state ignored and violated property right of a large number of small creditors to save the *chaebol*.

Not all chaebols were treated equally, either. President Chun used the Industrial Rationalization to punish un-supportive chaebols and to favor the connected and supportive chaebols. The Kukje Group, then the seventh largest chaebol, was dissolved and Kukje's 23 affiliates were given to poorly performing chaebols that gave Chun large bribes or had family ties with him. Kukje Group's owner, Yang Jung-mo, was known to have refused to pay large bribes. Thus, property rights of firms outside of winning coalition, particularly firm owners who paid few bribes or had ties with the opposition were very insecure (Schopf 2004).

### **H.2.5 Mature LAO with doorstep conditions (1987-97):**

The land reform and export-led industrialization not only contributed to opening access to economic activities but also created increasing pressures for political opening by expanding education and the middle class over time. In addition, the security threat declined as South Korea became far superior to North Korea in terms of economic and military power (including US military support) and security could no longer be used to justify the authoritarian regime, along with the decline of anti-communism rhetoric that had been used to suppress dissident movements. Although the first democratic transition in 1960 was followed by the Park coup in 1961 and the second democratic opening in 1979 was suppressed by the military junta led by Chun in 1980, the democratic opening in 1987 was more decisive and has not yet reverted back to authoritarian rule.<sup>6</sup>

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<sup>6</sup> Przeworski and Limongi (1999) found that no democracy failed in a country with a per capita income higher than USD 6,000 (1985 PPP). Korea was approaching that level of economic development when it



After the democratic transition in 1987, Koreans enjoyed increasingly open access to political opportunities. Korea met the doorstep conditions that could lead to transition to an OAO. There were important developments with regard to civilian control of the military and check on state violence, burgeoning of all forms of organizations, and improvement in the rule of law. In addition, there were attempts to increase economic opening by further liberalizing markets and restraining the market power of the *chaebols*, although these efforts were not very successful.

Recall that the Rhee regime made a significant achievement with respect to the state monopoly of violence. The Korean War helped to eliminate militant leftist groups such as partisan guerillas, and the land reform contributed to solidify political stability by removing sources of discontents and potential support for communism from the large peasant population. Thus, there were no powerful groups with violence potential except for the military and the police at the end of the war. However, military coups in 1961 and 1980 showed that the control of the military by the central government was shaky. During the Park's and Chun's presidency, a large number of military officers were appointed as ministers and members of National Assembly.

The democratic transition in 1987 gave an opportunity to firmly establish civilian control of the military. The military exercised self-restraint during the transition. President Kim Young-sam (1993-98) purged a group of politically ambitious military officers. Former presidents Chun Doo-whan and Roh Tae-woo were prosecuted and convicted of treason and corruption, which sent a strong message to the military that even successful coup leaders could be punished eventually. When the Koreans elected Kim Dae-jung, a long-time opposition leader who used to be accused by the authoritarian regimes of being a pro-communist or pro-North Korea, as president in 1997, the military did not intervene. This proved the firm establishment of civilian control of the military. There has not been a single attempted coup for over two decades since the democratic transition.

Democracy also provided check on arbitrary state violence such as torture, unexplained death, and violent suppression of protests. In parallel, militant social

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made democratic transition in 1987, as Korea reached USD 6,000 (1985 PPP) of per capita GDP in 1990 (Mo-Weingast). The Korean case may add evidence to their findings.

movements declined over time, although they have not disappeared entirely. The rule of law improved as well. In particular, the Constitutional Court played an important role in protecting human rights and property rights. Various forms of organizations blossomed. Under authoritarian regimes, not only political organizations and labor unions but also business associations and professional associations were tightly controlled by the government. After the democratic transition in 1987, numerous civil society organizations in various fields were newly and freely created. Many of the industry associations, unions, and NGOs that are currently active were formed during the first three years of democracy (Mo-Weingast, 153-4).

The rapid increase in political opening brought about demands for further economic opening. On the one hand, business demanded deregulation. In particular, the chaebols sought to weaken or remove regulations on the chaebols such as the credit control system and restrictions on total equity investment, based on Monopoly Regulation and Fair Trade Act. On the other hand, there was a growing concern about economic concentration by the chaebols and collusion between political elites and chaebols.

When Park Chung-hee chose to favor the chaebols as a vehicle for export industry, the incipient chaebols were weak. The government was strong enough to direct their investment decisions, as the heavy and chemical industrialization drive of the 1970s demonstrated. Although the Park and Chun regimes increasingly relied on informal political contributions from the chaebols, they were still able to maintain strong government discipline on business. After the democratic transition, however, politicians' dependence on campaign funds increased chaebol's political influence and government discipline of large businesses weakened. The ruling party still maintained close connections with the chaebols, and the opposition was often divided and lacked independent sources of political funds. The political parties were still weak in terms of presenting clear programmatic appeals, and political competition centered on personal appeals and regional cleavages that had formed from unbalanced regional development during the authoritarian era. In addition, growth of Korean economy in size and technology made it increasingly difficult for the government to control the private sector.

While the chaebols grew during the authoritarian era and continued to expand in both economic and political influence after democratization, political and social organizations

that could counterbalance chaebol influence were not so strong because of the stunted growth of civil society under the authoritarian regimes (Mo-Weingast). This imbalance of power led to economic policy that was more responsive to chaebol's demands than to popular demand for chaebol reform. The government was unable to contain the chaebol's moral hazard, and their incentives to become too big to fail (TBTF) led to over-investment and over-borrowing, including excessive short-term foreign debt. The Kim Young-sam government's (1993-98) capital market account liberalization and deregulation of non-bank financial institutions (NBFIs) encouraged the chaebols to finance their overly ambitious investment through their affiliated NBFIs and international capital markets. Although Korean economy was growing continuously after democratization, it became vulnerable to the East Asian financial crisis of 1997 after a series of bankruptcies of over-leveraged chaebols.

#### **H.2.6 Transition to an OAO (1997-present):**

The financial crisis of 1997 was a critical test for whether Korea would revert back to a more limited access order or make a real transition to an open access order. The economic crisis might have made Koreans blame the inefficiency of democratic political institutions and policy making processes and revive nostalgia for authoritarian rule. Note that several countries in Latin America over the last century and a half moved closer to the doorstep conditions but moved away when crises brought a return of the military to politics or undermined rule of law (NWW).

In this regard, the election of Kim Dae-jung in 1998 as president in a closely contested race in the midst of financial crisis was a significant event. Kim had been a long-time opposition leader. Ten years later, Koreans made another change of government by electing conservative candidate Lee Myung-bak as president. These two changes of government, from conservative to liberal (1998) and from liberal to conservative (2008), satisfied the so-called "two turn over test" for democratic consolidation. As I noted earlier, the military exercised restraint in both elections.

President Kim Dae-jung pursued the "parallel development of democracy and market economy" and declared the end of government-business collusion or crony capitalism. He

launched the so-called 'IMF-plus', a comprehensive reform program that went beyond the IMF-mandated reforms (You 2009). External liberalization, including a full-fledged opening of financial markets, selling-off troubled financial institutions to foreign investors, lifting foreign exchange regulations, and radical liberalization of inward foreign investment was carried out. Structural reforms were carried out in the financial, corporate, labor and public sectors. The chaebol reforms sought to enhance transparency and accountability in corporate governance and accounting practices. Financial reform strengthened the financial safety net and consolidated financial supervisory functions. Also, the government quickly expanded the social safety net such as unemployment insurance, health insurance, national pension system, and public assistance for the poor.

These reforms increased openness and competition in the economy. It is probably too early to tell how much improvement has been made in the openness of the economy. On the one hand, there has been improvement in corporate governance and protection of minority shareholders. Financial markets have been completely restructured. On the other hand, many reform measures have been resisted by the powerful chaebols and the new conservative government of Lee Myung-bak has been weakening regulations on the chaebols.

Nevertheless, the sweeping economic reforms of the Kim Dae-jung government enhanced the basic institutional structure of market-based corporate discipline. Now, many new economic players such as banks, foreign investors, and institutional investors are acting independently both of the government and the chaebols. In this sense, the degree of economic openness significantly improved after the crisis (Mo-Weingast, 218-9).

The Kim Dae-jung government and the subsequent Roh Moo-hyun government (2003-08) increased openness and competition in the polity as well. Reforms in election and political financing laws increased transparency as well as free and fair competition. Intraparty competition for nomination of candidates for important elected office became more participatory and transparent as major parties introduced new processes similar to primary elections. Abuse of powerful agencies such as the prosecution, police, revenue, and information agencies for political purpose decreased remarkably, in particular under the Roh government. Rule of law improved further with the establishment of the Human

Rights Commission. A lot of efforts were made to curb corruption, including the establishment of the Korea Independent Commission Against Corruption, appointment of special prosecutors for several cases involving top-level officials, and comprehensive investigation of presidential election campaign funds. Civil society organizations exerted substantial influence to hold the government, politicians, and chaebols accountable through negative election campaign against corrupt politicians and in support of minority shareholder activism.

After ten years of liberal rule, Koreans elected conservative and business-friendly Lee Myung-bak as president. The alternation of power between the liberal Democratic Party and the conservative Grand National Party and electoral contestation increasingly based on policy issues shows the development of political party system in Korea.<sup>7</sup> Also, a few minor parties including the Democratic Labor Party have developed to incorporate more diverse ideological spectrum. Although regional politics still dominate Korea's electoral landscapes, programmatic competition surrounding the issues of social policy and North Korea policies has been increasingly affecting voter choice.

There is a concern that the Lee Myung-bak government (2008-13) is retreating from the economic and political reforms of the previous governments. There are signs that rule of law is weakening recently as the legally guaranteed terms for public offices who were appointed under the previous government are not respected. Government intervention in the market is still occurring arbitrarily as in the case of attempted price control for necessity goods. Human rights groups such as Amnesty International have expressed concerns on the retrogression of freedom of press and freedom of expression more generally under the new government. However, it is very unlikely that Korea will go back to the authoritarian era again, because the political system is competitive and civil society has grown strong.

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<sup>7</sup> Both the major conservative party and the major liberal party has changed its name and gone through reorganizations including splits and mergers for the last two decades. The conservative Grand National Party has developed from Chun Doo-hwan's Democratic Justice Party, which merged with the opposition parties led by Kim Young-sam and Kim Jong-pil in 1991. The Democratic Liberal Party created by three-party merger changed its name to New Korea Party and again to Grand National Party. The liberal "Democratic Party" has developed from the Party for Peace and Democracy that Kim Dae-jung created before the 1987 presidential election. It has reorganized itself and changed its name several times to National Congress for New Politics, to New Millennium Democratic Party, to Uri Party, and to Democratic Party.

### **H.3: Reflections on the LAO-OAO Framework and the Korean Case**

Having briefly reviewed the post-colonial history of South Korea with the lens of LAO-OAO framework, this section discusses a few key issues of the framework with regard to the Korean case.

#### **H.3.1: Open access and economic development:**

One of the disturbing facts about Korea's economic development is that the miraculous economic take-off and sustained growth took place under the authoritarian regimes of Park Chung-hee (1961-79) and Chun Doo-hwan (1980-87). The authoritarian regimes not only suppressed political rights of citizens but also heavily intervened in the economy. Only after Korea achieved substantial growth political democratization and economic liberalization came. Does the Korean case suggest that economic growth comes first and transition to an open access order comes later?

It should be noted, however, that Korea's economic growth was possible because of a series of changes within the structure of the dominant coalition. The association of landed elites with the Japanese occupation weakened their influence in the larger society and the polity. Land reform that might otherwise have been effectively neutralized by landed elites, was effective and dissolved the privileged landlord class creating an unusually equal distribution of income and wealth. This, in turn, contributed to the rapid expansion of education. These constituted favorable conditions for the establishment of an autonomous developmental state. Land reform was not an expression of open access, but a reaction by a limited access polity to external threat. Export-led industrialization limited the role of patronage and corruption because firms had to compete in the global markets. Allocation of government favors such as under-priced credit was largely based on objective criteria such as export performance.

It is notable that the financial crisis of 1997 was caused by the erosion of open access in the economy. The chaebols grew too big to fail during the authoritarian era and further increased their political influence after the democratic transition in 1987. The financial

crisis, however, provided an opportunity for sweeping economic reforms. The comprehensive reforms undertaken by Kim Dae-jung government increased openness in the economy, and Korean economy continued to grow after a year of negative growth in 1998.

Also, it should be noted that democratization did not harm the economy. It is true that Korea achieved remarkable economic growth under the authoritarian regimes, with average annual growth rate of 6.3% during the 1972-86 period. Korea's economic performance has not declined after the democratic transition, with average annual growth rate of 5.9% during the 1987-2004 period (Penn World Table 6.2).

### **H3.2: Theory of the double balance:**

NWW propose a theory of the double balance, which suggests that economic and political systems both tend to be open access or limited access. This implies that sustaining fundamental changes in either the economic or political system cannot occur without fundamental changes in the other.

They also emphasize that the formal institutions work differently depending on the social order in which they are embedded. When the institutional forms of an OAO are transplanted to a LAO, the logic of the LAO bends them to the purpose of rent-creation to sustain the existing dominant coalition. This argument can be interpreted to imply that the formal institutions of democracy will not work well in a limited access economy and that formal institutions of the market economy will work differently in a limited access political system.

The theory of double balance sheds insights into our understanding of economic and political developments in Korea. The land reform produced a considerable degree of openness and competition in the economy. On the one hand, the relatively open access economy produced pressures for open access politics. The movement for democracy continuously grew until the democratic transition of 1987.

On the other hand, open access and competition in the economic system was restricted under the authoritarian regimes, because the limited access political system undermined open access and competition in economic activities. Although there were no

big chaebols or powerful economic interests under Syngman Rhee's presidency, his authoritarian regime developed patronage politics and used distribution of rents such as allocation of foreign exchanges, former Japanese assets, and American aid to build up and reward political loyalty and illegal political contributions. Park Chung-hee's and his successors' policy of favoring the chaebols created a triangle collusion of government-banks-chaebol, and the growing chaebol's market and non-market power increasingly limited access and competition in the markets. Although the Korean government has tried to limit the market power of the chaebol's and promote competition since the legislation of Fair Trade and Anti-Monopoly Act of 1981, serious efforts to reform the chaebols did not take place until the financial crisis and change of government in 1997.

After the democratic transition in 1987, Korea came to have another imbalance: relatively more open politics and less open economy. This imbalance could produce forces to find equilibrium in either direction: toward more open economy, or back toward less open politics. In the midst of financial crisis, Koreans chose the former. The post-crisis reforms made Korean economy more open, and the double balance moved toward the direction of open access, both in the polity and the economy.

Another question is why the formal institutions of democracy did not work in Korea during the 1950s? It was not because powerful economic interests captured the political process. Korea was probably unprepared for democracy then. Open access political systems require citizens who share belief systems in open access and competition and vibrant civil society as well as political parties that can aggregate people's preferences (NWW). All these factors were lacking, and the authoritarian tendency of Syngman Rhee did not face much resistance until the short-lived student revolution of April 1960.

Indeed, the right question to ask is how Korea was able to develop democracy in a couple of generations. And the answer is the relative openness in the economy, which was created primarily by land reform.

### **H.3.3: Rents and corruption:**

NWW's key claim is that, in a limited access society, violence is contained by creating economic rents for powerful individuals and groups. They suggest that the types of rent



as well as their effects on economic development tend to change from a fragile to basic to mature LAO and to an OAO, in which Schumpeterian innovative rents dominate. They note that patronage and corruption will be more prevalent in LAOs than in OAOs, because creation and distribution of rents will involve patronage and corruption.

Table H.3. Different types of rent in different periods in South Korea

Types of Social Order	Types of rent
Basic LAO (1948-60)	Redefinition of property rights (land reform) US aid, vested properties, import license, foreign exchanges
Basic/Mature LAO (1960-87)	protection (learning), credit rationing, monopoly, land speculation
Mature LAO (1987-97)	monopoly, land speculation, protection (learning), credit rationing, Schumpeterian
Transition to an OAO (1997- )	Schumpeterian, monopoly, land speculation

Creation and distribution of rents by the government as well as corruption and rent-seeking activities were ubiquitous throughout the post-independence history of Korea. The most prevalent types of rent changed over time. During the 1950s, American aid was the most important source of rents. Allocation of import licenses and foreign exchanges was also important under the import substitution industrialization strategy.

During the early era of export-led industrialization centered on light industry in the 1960s and heavy and chemical industry in the 1970s, government-provided protection from internal and external competition, combined with various subsidies in the form of under-priced credit rationing and tax exemptions, was the most important source of rents.

Over time, monopoly rents became increasingly important as the chaebol's market power grew. Also, land speculation became an important source of rents as land prices tended to rise more than the overall prices. Lastly, Schumpeterian innovative rents have been growing recently as Korean economy is increasingly heading towards high-tech industry.

Different types of rents can have different effects on economic development. Apparently, the protection rents for infant industry largely translated to learning rents in

Korea, as Khan and Jomo (2000) argued. Since protection from competition was not permanent, these protected firms eventually had to compete in global markets. Although the distribution of rents did involve corrupt exchanges, the degree of corruption was not too high because the government rewarded export performance rather than simply favoring high-bribe givers. However, corrupt exchanges between the top of the government (including corrupt Presidents Chun Doo-hwan and Roh Tae-woo) and the chaebols grew over time until the mid-1990s.<sup>8</sup> These corrupt exchanges and the government-bank-chaebol collusion led to inefficient over-investment based on over-borrowing, which brought several chaebol failures and contributed to the financial crisis of 1997. Recently, innovative rents have become increasingly important as Korean economy develops high-tech industry as well as culture industry. This development is consistent with the logic of open access economy.

There is evidence that the overall level of corruption has been decreasing in Korea since the late 1990s (You 2009). The chaebol's informal political contributions have declined substantially, according to evidence from prosecutorial investigations of high-level corruption scandals. Experience of petty bureaucratic corruption has declined remarkably, according to surveys of businessmen and the general public. Vote-buying practices have almost disappeared, according to the voter surveys.

Table H.4 Trends of various measures of experienced corruption in Korea, 1992-2008.

Year	1992	1996	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
GCB bribery								6	4	2	1	2
SMG bribery			7.9	6.7	7.1	5.7	1.8	1.1	1.1	0.8	0.7	0.3
KIPA bribery (small businesses)				25.0	16.2			13.8	11.6	6.6	7.4	4.8
NEC vote-buying	18.2	14.7		12.4				2.9				1.4

*GCB bribery*: Percentage of people whose family members bribed public officials during the last year, in Transparency International's Global Corruption Barometer Survey.

*SMG bribery*: Percentage of clients who bribed public officials of Seoul Metropolitan Government in the past year, in Seoul Metropolitan Government's Integrity Survey.

*KIPA bribery*: Percentage of small businessmen who bribed public officials in the past year, in the surveys of Korea Institute of Public Administration.

*NEC vote-buying*: Percentage of voters who were given money, gift, free tour, or entertainment by candidates or political parties during the National Assembly election.

<sup>8</sup> Prosecutorial investigations of high-level corruption scandals and journalistic accounts suggest that top-level businessmen's informal political donations steadily increased over time from the 1950s until the early 1990s. The amount of illegal political donations seems to have decreased only after the late 1990s.

### **H.3.4: Doorstep conditions:**

NWW and NWWW suggested that there are three (necessary but not sufficient) doorstep conditions for a transition to OAO: 1) rule of law for elites, 2) support for perpetually-lived organizations for elites, and 3) centralized political control of organizations with violence potential.

As I noted earlier, Korea came to meet these three conditions after the democratic transition in 1987.<sup>9</sup> Rule of law was weak even for elites, and support for perpetually-lived organizations was inadequate under authoritarian regimes. Authoritarian rulers often ignored basic human rights of the dissidents (eg. torture) and violated property rights of citizens (eg. freezing of curb market). Even the then seventh largest chaebol was dissolved when the owners of the chaebol did not bribe sufficiently and were suspected to have ties with the opposition. Industrial restructuring in the early 1980s show that Chun Doo-hwan government threatened property rights to extract further bribes from chaebols (Schopf 2004).

The development of rule of law and of support for organizations in Korea seems to differ from the experiences of Western Europe and North America. In the history of Western Europe and North America, rule of law and support for organizations developed for elites first and then expanded to the whole population over time. In Korea, however, rule of law and support for organizations developed for both elites and non-elites only after the democratic transition.

This difference may apply to many developing countries in which formal institutions of rule of law for everyone were introduced after independence but authoritarian rulers ignored the rule of law. Democratization in these countries means that formal institutions of rule of law for everyone cannot be violated by the rulers and that rule of law largely depends on the independence and integrity of the judiciary. Rule of law in Korea improved with the active role of the Constitution Court, the Human Rights Commission, and special prosecutors who were appointed by the National Assembly and President to

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<sup>9</sup> Mo-Weingast seem to imply that the doorstep conditions were met much earlier, i.e. during Park Chung-hee's rule.

investigate high-profile corruption cases. Conviction of two former presidents on charges of treason and corruption (1996) and the extensive investigation of presidential campaign funds (2003) also contributed to rule of law, because these events signaled that no person is above the law.

### **H.3.5: Consolidation of an OAO:**

NWW propose that an OAO is consolidated when open access in all systems is mutually reinforcing. Consolidation of an OAO requires not just formal institutions of democracy and market economy but also citizens' shared belief systems on equality and inclusion, vibrant civil society, and competitive political parties.

Korea appears to be moving towards a successfully consolidating OAO. There seems to be a consensus that democracy is only game in town. Civil society organizations have been expanding rapidly. Political parties are still somewhat unstable, but they have been vying for control in competitive elections. Korea's peaceful transfer of power in 1997 from conservative to liberal, and in 2007 from liberal to conservative, demonstrate the working of open and competitive party politics. Korea's market economy is increasingly characterized by open access and competition, both internally and externally.

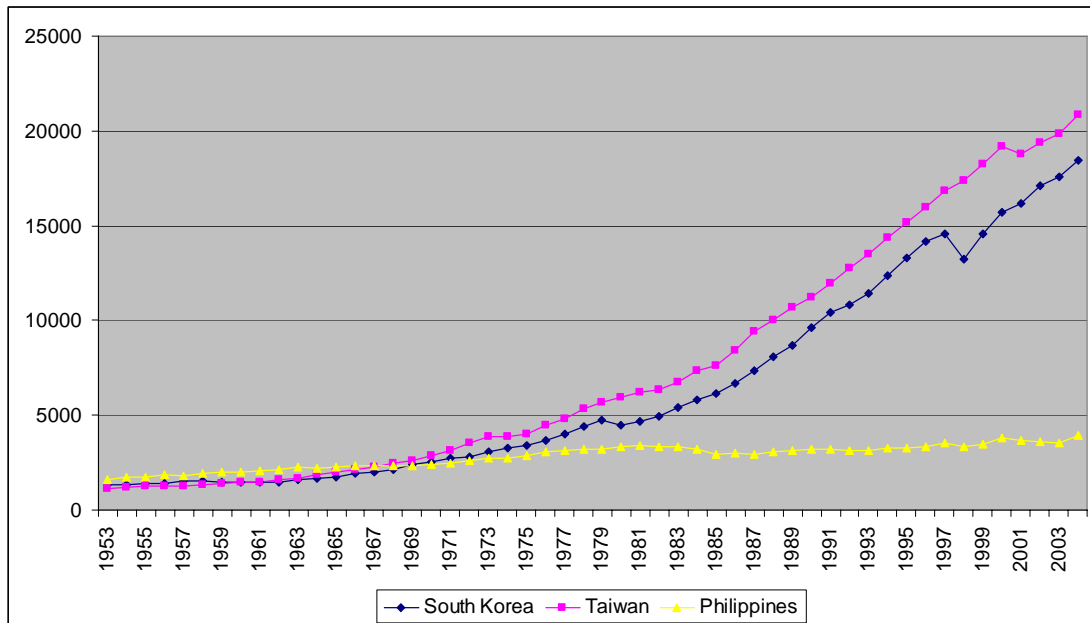
We also observe that open access in various systems mutually reinforces one another. Democratization has helped to invigorate civil society, and vibrant civil society has played an active role in promoting open access in politics as well as in economic system. Civil society organizations pressured anti-corruption reforms and promoted women's rights and human rights of foreign migrant workers. Minority share-holder movements contributed to protecting minority share-holders and to reforming corporate governance.

However, there are still some restrictions to access in political and economic opportunities. The government sometimes intervenes in the market arbitrarily. The National Security Law still bans Communist party and prohibits even listening to North Korean radio. There also have been some setbacks in the rule of law and freedom of expression under the new conservative government. The lack of progress or even some setbacks in the above areas poses challenge to consolidation of OAO in South Korea.

#### H.4: What Made Korea's Transition Possible?

So far, I have interpreted Korea's post-independence history with the lens of LAO-OAO framework and discussed some issues about the framework. The big question is what made Korea's transition to OAO possible, while most developing countries failed to do so? In order to answer this question, I will compare the post-colonial history of Korea with that of Taiwan and the Philippines. Finding similarities with Taiwan, another success story, and differences with the Philippines, a failure story, will give an insight to this question. Note that, in the early period of independence, the Philippines was somewhat better off in terms of per capita income and educational attainment and looked more promising than Korea and Taiwan. Figure 1 shows that the per capita GDP of the Philippines was slightly higher than that of Korea and Taiwan until the late 1960s, but the stagnating long-run performance of the Philippines is sharply contrasted with the sustained high growth of Korea and Taiwan.

Figure H.1. Real GDP per capita of South Korea, Taiwan, and the Philippines, 1953-2004 (in 2000 constant dollars)



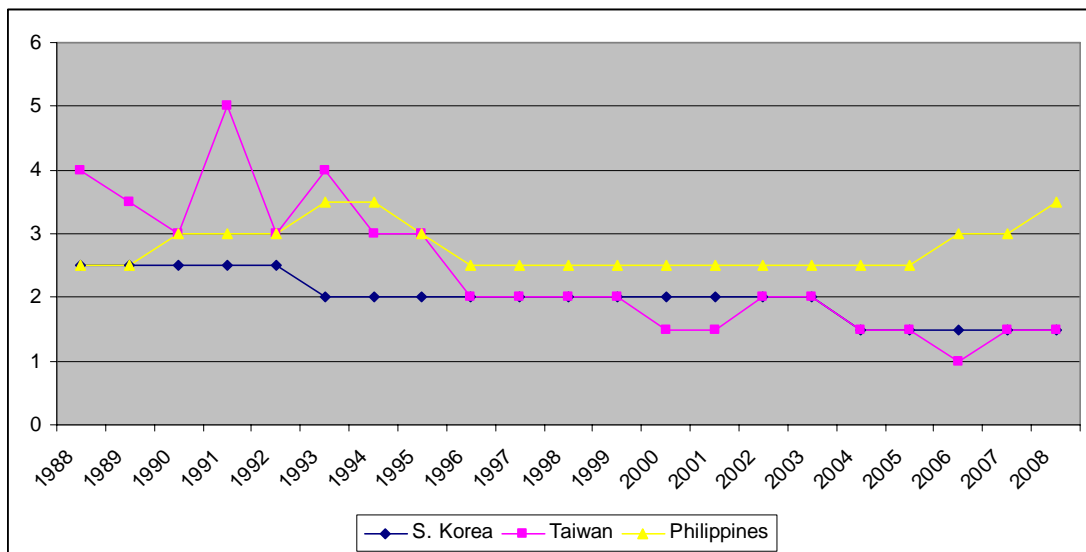
Source: Penn World Table 6.2.

It is not just economic development but also political development that shows the inferior performance of the Philippines to Korea and Taiwan. These countries all

experienced democratic transitions in the late 1980s. Formal institutions of democracy seem to be working better in Korea and Taiwan than in the Philippines, however, according to the Freedom House’s assessment (Figure 2). Freedom House ratings (political rights, civil liberties, and combined average scores) range from 1 (most free) to 7 (most unfree). Combined average score of 1 to 2.5 is categorized as “Free,” 3-5 as “Partly Free,” and 5.5-7 as “Not Free.”

Korea’s combined average score of political rights and civil liberties has improved from 2.5 (1988-92) to 2 (1993-2003) to 1.5 (2004-08). The same score for Taiwan has also improved from “between 3 and 5” (1988-95) to “between 1.5 and 2” (1996-2003) to “between 1 and 1.5” (2004-08). However, the same score for the Philippines has worsened from 2.5 (1996-2005) to 3 (2006-07) to 3.5 (2008). The Freedom House changed the status of the Philippines from “Free” to “Partly Free” in 2006, and its political rights rating declined again in 2008, due to credible allegations of massive electoral fraud, corruption, and a spike in political killings specifically targeting left-wing political activists. While Korea and Taiwan have been successfully consolidating democracy, the Philippine democracy seems to have been deteriorating recently.

Figure H.2. Freedom House ratings for Korea, Taiwan, and the Philippines, 1998-2008.



It is interesting to compare the levels of corruption in Korea, Taiwan, and the Philippines. Table 5 presents various indicators of corruption for these countries. Business International's corruption ratings for 1980-83 and Transparency International's *historical* CPI scores for 1980-85 and 1988-92 as well as average values for TI's CPI (1995-2008) tell that Taiwan was the least corrupt, the Philippines the most corrupt, and Korea in between.<sup>10</sup> BI ratings range between 1 (most corrupt) and 10 (least corrupt), and CPI ranges between 0 (most corrupt) and 10 (least corrupt). Both BI ratings (1980-83) and TI ratings for various periods (1980-85, 1988-92, and 1995-2008) consistently show that the Philippines was perceived to be much more corrupt than Korea and Taiwan. Between Korea and Taiwan, Korea was perceived to be somewhat more corrupt than Taiwan.

The average percentage of businessmen who cited corruption as the biggest obstacle for doing business from World Economic Forum's Executive Opinion Survey (2003-08) is about 3 percent in Taiwan, 5 percent in Korea, and 22 percent in the Philippines. The average percentage of respondents whose family members paid a bribe to public officials during the last year from TI's Global Corruption Barometer Survey (2004-08) is about 2 percent in Taiwan, 3 percent in Korea, and 18 percent in the Philippines. These data all show that corruption has been extremely pervasive in the Philippines, while it has been much less of a problem in Korea and Taiwan. Between Korea and Taiwan, Korea seems to have had a slightly higher level of corruption than Taiwan. Closer look at various indicators of corruption, however, tells that Korea's level of corruption has been declining and converging to that of Taiwan recently (You 2009).

Table H.5. Various indicators of corruption in Korea, Taiwan, and the Philippines

	BI 80-83	CPI 80-85	CPI 88-92	CPI 95-08	Problem 03-08	Bribery 04-08
Taiwan	6.75	6.0	5.1	5.5	3.0%	2.0%
Korea	5.75	3.9	3.5	4.6	5.4%	3.0%
Philippines	4.50	1.0	2.0	2.8	22.4%	17.8%

*Notes:*

*BI 80-83:* Business International's average perceived corruption ratings for 1980-83

*CPI 80-85:* Transparency International's historical data for 1980-85

<sup>10</sup> It is not appropriate to compare the *historical* CPI scores with the annual CPI scores that have been published by the TI since 1995, because the underlying data sources are different.

*CPI 88-92*: Transparency International's historical data for 1988-92  
*CPI 95-08*: Transparency International's average CPI for 1995-2008

*Problem 03-08*: Average percentage of businessmen who cite corruption as the biggest problem for doing business out of 14-15 factors, from World Economic Forum, *Global Competitiveness Report*, 2003-08.

*Bribery 04-08*: Average percentage of people whose family members bribed public officials during the last 12 months (%), from Transparency International, Global Corruption Barometer Survey, 2004-08.

Korea and Taiwan have shown much better performance than the Philippines both in terms of economic development and in terms of democratic consolidation and control of corruption. While Korea and Taiwan appear to be making transitions to open access orders, the Philippines is locked in a limited access order. What enabled Korea and Taiwan to make a transition to OAO but did not allow the Philippines to do so?

One answer could be the presence of 'developmental states' in Korea and Taiwan and a 'predatory state' in the Philippines. But that simply moves the question back one level to why Korea and Taiwan were able to establish a developmental state, while the Philippines failed to do so. The biggest advantages that Korea and Taiwan enjoyed over the Philippines seem to be implementing successful land reform and establishing state monopoly of violence in the early period of independence.

Successful land reform reduced the influence of the landed class and laid the foundation for open access economy in Korea and Taiwan, while in the Philippines the failure of land reform led to continuing dominance of large landlords as well as high inequality in income and wealth. The failure of land reform helped the landed oligarchy to maintain and expand their wealth and power, and the economic policy machinery was routinely hijacked by the powerful landed and business elites. While the relatively more open access and competition in the economy spurred economic growth in Korea and Taiwan, the more limited access and competition in the economy hindered economic development in the Philippines.

In Korea and Taiwan, state monopoly on violence was established early. In both countries, land reform helped to produce political stability and to eliminate non-state organizations with violence potential. In both countries, political control over the military was firmly established and there have been no attempted coups since their democratic



transitions. In the Philippines, however, insurgencies based on peasant grievances have continued including Huk rebellion in the 1940s, New People's Army during the Martial Law period, and decades of Muslim insurgency in the southern Philippines that continued until the 2008 peace accord. Also, militant landlords used to establish private armies. Even after the democratic transition, coup attempts recurred frequently and political killings increased during the last several years. Failure of land reform was a major source of insurgencies and political instability in the Philippines.

The next question is why was land reform successful in South Korea and Taiwan but unsuccessful in the Philippines? The key answer appears to be the existence or absence of urgent external threat from neighboring communist countries. In South Korea and Taiwan, communist threat from North Korea and mainland China gave the political elites little choice regarding land reform. It was imperative for them to buy hearts and minds of peasants through sweeping land reform. The landlords were discredited and lost political influence because of their collaboration with the Japanese during the colonial period. In the Philippines, there were no serious external threats, and internal threats from insurgencies were not as great as to force the political and landed elites to acquiesce to the peasant demand for land reform. Since their colonial master was the United States, the landlords' collaboration with the colonial ruler did not weaken their political influence.

The security threat from North Korea as well as economic performance competition with North Korea has had enduring effects on South Korea's political and economic development. North Korea initially showed better economic performance than South Korea after the end of Korean War, and South's GDP per capita did not surpass that of North until around 1970 according to South Korean government's assessment (Reference). Perhaps South Korean dictators could not afford being too corrupt in the face of North Korean threat. Even the corrupt presidents Chun Doo-hwan and Roh Tae-woo were constrained, compared to Marcos. On the other hand the security threat was utilized to justify authoritarian regimes. Some restrictions on freedom of expression, notably National Security Law, are still justified on the ground of national security threat from North Korea.

## **H.5: Conclusion**

This chapter demonstrates the usefulness of NWW's and NWWW's conceptual framework in understanding the post-colonial development of Korea. The role of land reform in opening access to economic opportunities and establishing state monopoly of violence was critical to later economic and political development. The land reform also contributed to expanding education and establishing meritocratic and autonomous bureaucracy. The relatively open access economy not only brought about rapid and sustained economic growth but also created increasing pressures for open access polity, which led to democratic transition of 1987. Although export-led industrialization helped to increase open access and competition in the economy, economic concentration by the chaebols and collusion between government and the chaebols increasingly limited access and competition. The 1997 financial crisis was a critical point when Korea could have reverted back to a limited access order or continued to make a transition toward an open access order. Fortunately, post-crisis reforms enabled Korea to further open the economy and the polity.

My findings suggest that external threat and competition has played an important role. The communist threat from North Korea helped the land reform, and the fierce competition with North Korea helped to check extreme forms of rent-seeking and corruption. The export-led growth strategy exposed the South Korean firms to global competition, which limited the importance of collusive rent-seeking and promoted learning and innovation rents.

Comparison of the Korean experience with those of Taiwan and the Philippines reveals the critical importance of land reform. In Taiwan, the success of land reform under the communist threat of mainland China also helped to remove privileged landed class and to develop economy without excessive distributive struggle, which made the democratic transition and consolidation processes smooth. In the Philippines, however, the initial failure of land reform in the absence of external threat led to continuous distributive struggles, which has made democratic consolidation difficult and helped the insurgencies to continue.

The chapter also suggests that the doorstep conditions may not work the same way in today's developing countries as they did in the historical experiences of Western Europe and North America. Whereas the rule of law was established for elites first and expanded to broader population over time in the history of Western Europe and North America, it developed at the same time for both elites and non-elites in Korea.

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