

# How To Transform an Impoverished Nation into a Modern Economy

by Mike Billington

On Dec. 19, 2012, South Koreans elected Park Geun-hye to be their new President, succeeding her fellow Saenuri Party member Lee Myung-bak, who is limited by law to a single term. Miss Park campaigned on her own political record and program, but was not shy about referencing the legacy of her father, Park Chung-hee (1917-79), the man primarily responsible for the Korean Miracle—transforming one of the poorest nations on Earth, which had suffered from 35 years of Japanese colonial domination and three years of destruction during the Korean War of 1950-53, into one of the world’s pre-eminent industrial powers, with a standard of living among the highest in the world for both urban and rural citizens.

One would expect Miss Park to be proud of her father’s legacy as the Father of the modern South Korean state, but it must be noted that her father has also been castigated by many in her own country, and by many followers of the British free-trade model abroad, as a tyrant. Park Chung-hee (hereafter simply “Park”), although he took power through a military coup in 1961, won every one of the five elections in which he contested for the Presidency. He did invoke martial law more than once during his tenure (1961-79), and did use military force to suppress upheavals. He survived multiple assassination attempts by North Korean assassins during his Presidency—one of those attempts killed his wife, the mother of Park Geun-hye. But today he is largely remembered positively for what he con-



*Park Chung-hee (1917-79), President of the Republic of Korea (1963-79).*

tributed to the development and the future of his nation. In 1998, Park was voted in a national poll to be the best President ever by over 75% of the South Korean population.

My purpose is not to compare Miss Park to her father, but to present a picture of the extraordinary methods used by her father to achieve the Korean Miracle, and to demonstrate that those methods can be usefully understood as a form of the American System of Political Economy, even if Park had to fight every step of the way against many of the policies demanded by Washington, where the American System has been largely

relegated to the historical dust bin, especially since the assassination of President John F. Kennedy. My intention is to show that if the Western world can finally discard the British free-trade mantra and return to the regulated, development-oriented policies of America’s Founding Fathers, as promoted by Lyndon LaRouche today, then the Korean Model will be an invaluable aid in the necessary transformation of poor and underdeveloped nations.

## **The Korean Model and the American System**

Park Chung-hee’s system, developed over time after his relatively bloodless coup against a weak South Korean government in 1961, was based on principles which are strikingly similar to those of the American System, developed by Alexander Hamilton and implemented by such Presidents as John Quincy Adams, Abraham Lincoln, and Franklin Roosevelt.



Greek Foreign Ministry/Nikos Papathanasiou



Government of Chile

Will incoming President Park Geun-hye (left) continue the legacy of her father, Park Chung-hee? On the right is Lee Myung-bak, the outgoing President and former CEO of Hyundai.

These principles were described by Joong-kyung Kim<sup>1</sup> at an historic conference in Washington, D.C. in June 2010, titled “Recasting the Korean Model,” as follows:

- directed credit, selective industrial promotion, and export-push trade policies;
- a carrot and stick approach in linking the government’s support with performance-based standards of success, both in industry and in rural development;
- selective support to the firms with the potential to become industrial champions in the heavy and chemical industries;
- emphasis on technical and vocational high schools and training centers;
- material support for the rural sector based on the Green Revolution in agricultural science, linked to government-provided construction supplies to villages that helped themselves—the so-called Saemaul Undong, or New Village Movement.

The results speak for themselves. In 1961, the per-capita income of South Korea was 101st out of 125 countries. Per-capita income in North Korea (where

1. Joong-kyung Kim, an official at the Korean Development Institute (KDI), is the son of Chong-nyon Kim, the Chief of Staff to Park Chung-hee during his Presidency, and one of the “triumvirate” described below.

most of the industry was developed under Japanese colonial rule) was three times higher at that time. Per-capita income in South Korea is now 13th in the world. Between 1961 and 1980, South Korean gross domestic product exploded from \$12 billion to \$57 billion, with an average 8.5% growth rate—the fastest in the world. Electricity generation expanded ten-fold, while life-expectancy increased from 55 to 66 years. While there were only 4,500 engineers in the country in 1960, there were 45,000 by 1980. Other parameters are equally impressive.

The concept of *directed credit*, to the purpose of increasing the technological productivity of the population, is the core of the American System of Political Economy, as opposed

to the British system of unregulated free trade under monetary policies determined by the private banking system. Also central to both the American System and Park Chung-hee’s Korean Model was the concept of shared growth—assuring that all members of the society, rural and urban, entrepreneurs and workers, participated in the nation’s progress, through uplifting the productivity of the nation as a whole.

### Park and the Meiji Restoration

Park, as a promising young officer in the Korean military in his youth, was chosen by the Japanese colonial rulers for special training in Japan. He served in the Japanese Army in Manchuria during World War II. It is of note that despite the colonial character of the Japanese control of Manchuria, that area was the focus of Japan’s industrial development before and during the war.

Park came away from his experience in Japan and Manchuria as a committed advocate of the Meiji Restoration of late-19th-Century Japan, through which Japan had emerged from feudal backwardness to become a global industrial power. The Meiji Restoration was significantly influenced by the advocates of the American System in the West, in particular the German-American economist Friedrich List, author of *Outlines of Ameri-*

*can Political Economy*. These concepts stayed with Park as he served in the post-World War II army in Korea, including as an officer during the Korean War.

At the end of the Korean War in 1953, the cities, farms, and factories of South Korea were largely destroyed. There were only 205 Korean university graduates in the country. North Korea, which contained most of the nation's electricity-generation capacity, cut off the power supply to the South. The South Korean government, under the Presidency of Syngman Rhee, made some efforts to build the economy, but the nation was facing stagnation and collapse in 1960 when he was forced to resign by popular opposition.

The following year, Major General Park organized a coup and took power. The newly installed Kennedy Administration in the United States extracted a pledge from Park that he would hold free elections within two years, and otherwise offered America's support to Park's plans for development, inviting him to Washington in November of that year.

Park declared an "administrative democracy," to meet Korea's social and political reality, rather than introducing what he considered unworkable West European democracy (see References: Kim Hyung-A, 2004). He immediately established an Economic Reconstruction Committee, identifying six key industries to be promoted: cement, synthetic fibers, electricity, fertilizer, iron, and oil refineries. He strongly supported nuclear power development, which had been launched by Syngman Rhee in the 1950s under President Eisenhower's "Atoms for Peace" program. Park entertained the development of a nuclear weapons program, but later dropped the idea.

Park's first Five Year Plan generally ignored the advice coming from the International Monetary Fund and most of the Americans (who encouraged South Korea to emphasize handicrafts, labor-intensive agriculture, and small export industries), in favor of the rapid development of heavy industry and mechanized agriculture.

By 1963 Park had established himself as an effective political leader and chose to resign from the military and run for President as a civilian. While maintaining close relations with President Kennedy, welcoming



JFK Presidential Library and Museum

*President John F. Kennedy meets with Gen. Park Chung-hee in the White House, Nov. 14, 1961.*

U.S. economic aid and investment, Park declared that he was campaigning against the "pre-modern, feudalistic, flunky-ist opposition," and for a "nationalist democracy" as opposed to a European-style populist democracy. He declared a Korea-first policy to protect the nascent industries (like the protectionism at the heart of the American System of Alexander Hamilton). Park won the election by a narrow margin, but his party took 110 of the 175 legislative seats.

With the electoral victory, Park began his Korean Model policies in earnest. One of the first steps was to establish relations with Japan, although this evoked huge opposition and mass riots across the country due to the historical anger against the often brutal Japanese colonial occupation. Park is reported by British Foreign Office official J.E. Hoare to have countered these protests by blaming the British for Japan's seizure of power in Korea after the 1905 Russo-Japanese War—a profoundly correct analysis (to which Dr. Hoare took great offense).

Park negotiated a treaty with Japan in 1965, and Japan quickly became South Korea's largest trading partner and a major source of foreign investment. Park

also followed many of the policies which had transformed Japan after World War II, reflecting both the American System roots of the Meiji Restoration and the more recent American System policies of Gen. Douglas MacArthur, who ran the U.S. occupation of Japan after the war.

Park's reforms included directing credit and providing tax breaks selectively to successful companies. As historian Gregg Brazinsky wrote: "By mobilizing domestic capital and promoting exports, the Republic of Korea dramatically raised growth rates, after two decades of futile efforts to do so by U.S. and Korean leaders" (Brazinsky, 2007). The large family-owned conglomerates (the chaebol, such as Hyundai and Samsung) played a leading role, but the accusations against Park of favoritism and cronyism are generally bogus. These large firms had to prove themselves capable of competing with the best of the foreign corporations, or face a cut-off of preferential credit. Seven of the ten such conglomerates active in 1965 had vanished by 1975 (Kim Hyung-A, 2004).

### **Shared Growth: The New Village Movement**

In the early 1970s, Park launched the programs that would come to characterize the Korean Model, based on the concept of Shared Growth. Under Japanese occupation, North Korea (which borders Manchuria) was developed as an industrial center, while the South was predominantly agricultural. Under Park, protective tariffs and directed credit fostered the development of heavy industry, and created huge numbers of industrial jobs, while at the same time a remarkable program was launched to transform the stagnant rural economy, where 63% of the population lived, and to integrate the agricultural sector with the industrial economy. This was known as the New Village Movement, or Saemaul Undong, a program which nearly doubled farmer income and increased productivity by 50% within a decade.

This approach is a major reason that undeveloped nations of Africa are looking to the Korean Model as a means of escaping their entrenched poverty. The current Western policies toward Africa maintain the stench of the colonial era, whether from Western government agencies, the UN and IMF, or the private funds of bil-



Government of the Republic of Korea

*President Park Chung-hee at a construction site in a rural village. The New Village Movement, or Saemaul Undong, modernized villages and developed their infrastructure.*

lionaires such as Bill Gates and George Soros. Their approach is the same: Aid the small-holder farms through mini-grants and marketing schemes to sell their cash crops abroad, and similar aid which keeps the farmers small and poor, based on the premise that major infrastructure programs, such as dams, transportation systems, and power supplies are not "appropriate" for underdeveloped nations.

Park had a different vision. While the national government built the required infrastructure nationwide, and funded a Green Revolution program in agricultural science, Park began a self-help approach in the rural villages which promised the peasants a means to participate in the national reconstruction effort. Saemaul Undong teams went to each of over 34,000 villages in 1970 with 300 bags of cement, some basic machinery, and some advisors, telling the village leaders that they should use the supplied materials to build roads, irrigation systems, and other needed local infrastructure. In a year's time, the Saemaul Undong team would evaluate the progress in each village. Those that used the government-issued supplies well, received 500 more bags of cement, some iron-reinforcing rods, and new equipment. Those that did not meet the grade, were given nothing. Access to scarce but increasing supplies of electricity were also apportioned according to proven success.

The lesson was soon learned. Although only half the villages qualified for the continued government support in the first year, by the end of the decade most villages



Courtesy of Korea Saemaul Undong Center

*Villagers build a bridge in the 1970s. The government provided raw materials, such as wood and cement, for infrastructure construction undertaken by community members.*

were fully participating. By 1980, 97% of the villages were electrified, compared to only 12% in 1964. The income of the poorest farmers increased by 76% over the 1970s, while that of the larger farmers doubled. Reforestation projects saved vast areas which had been denuded of vegetation by the war. Rice yields increased by 50% between 1970 and 1977, bringing South Korea's rice yield per hectare up to that of Japan. The growth in total agricultural output leaped from an average of 3.4% per year in the decades after World War II, to 6.8% annually during the 1970s.

### Heavy and Chemical Industries

Another hallmark of the Korean Model was the Heavy and Chemical Industries (HCI) policy, which not only directed credit to these industries, but extended some of the principles of the Saemaul Movement to industry. The chaebol that are today recognized internationally as leading industrial innovators, such as Hyundai and Samsung, rose rapidly under the HCI program, while those that were not competitive were allowed to fail. The primary focus was on five industries: machinery; shipbuilding and transport; iron and steel; chemicals and fertilizers; and electronics.

Park drew from the Japanese experience in heavy industry development from 1957-67, and received help from the United States, especially in the defense industries that were connected to the HCI. However, Park had to do battle with many of the U.S. advisors (and some of his own U.S.-trained technocrats) in order to achieve the industrial transformation of the 1970s. Eco-

conomic advisors at the U.S. Operations Mission in Seoul had advised Park to promote small and medium-sized enterprises (SME) rather than heavy industry, as "more appropriate" for the scale of the Korean economy, and to counter the dominance of the central government in economic planning, while also advising the government to privatize the state-sector industries (Kim Hyung-A, 2004).

Park rejected the advice. He created the Korean Development Institute (KDI) in 1971, to bring together a team of economists dedicated to rapid industrialization of the country, and also to lure back to Korea some of those foreign-educated economists who otherwise might have chosen to stay abroad to further their careers. Within the administration, Park

established a triumvirate of himself, Economic Manager Kim Chongnyon, and O Wonchol, who oversaw the defense aspects of the industrial buildup. (While this report does not cover the development of the South

## Who Gets Electricity?

*Park Chung-hee's words from a meeting in 1972 may sound harsh, but they were aimed not at depriving anyone, but at uplifting all to a national mission:*

When I see 'round the country, I find some villages which are doing the Saemaul Movement well, some which are not doing so well, and some which are sleeping as if they are not interested at all. I will encourage and support only those villages which are doing well now and help them to advance more, not caring about the others.... I think electricity is the most urgent for the modernization of the agricultural villages. If electricity is installed in a highly motivated, hard-working village, it will create several times more benefits than government budget support. However, if not, the villagers will play cards and gamble or do other worthless things under the electric lights. So, the electricity should be installed preferentially at the villages which are successfully doing the Saemaul Movement.



Courtesy of Hyundai

*Hyundai, one of the companies supported by the Heavy and Chemical Industries (HCI) program under President Park Chung-hee, is now one of the largest industrial and construction conglomerates in the world.*

Korean economy after Park's assassination in 1979, it is worthy of note that when the two generals who ruled Korea after Park, from 1980 to 1993, were put on trial in 1995 for corruption and for ordering military operations against civilian demonstrations, in a highly politicized environment, the investigations concluded that Park Chung-hee and his collaborators in the triumvirate were clean of corruption. Park, in particular, was famously austere in his lifestyle.)

Park held weekly meetings with his economic officials and CEOs from many of the leading companies, to motivate and drive his vision. The records of these meetings are in the public record.

The HCI also integrated scientists from the universities into the drive for industrial excellence. Forty-six leading academics in physics and chemistry were hired as advisors to the Ministry of Commerce and Industry, which interfaced with the HCI.

Missions were deployed to the U.S. and Japan in 1973 to seek investments for the heavy industries project. Domestic industrial firms that wished to participate in HCI were required to raise 30% of the required investment on their own, with no more than half to come from foreign sources.

Beginning in 1973, five major industrial complexes were established, focused respectively on machinery, petrochemicals, shipbuilding, electronics, and steel. The process was not limited to Korea. Alon Levkowitz, an Israeli scholar, wrote that the chaebol were able to build huge infrastructure projects in the Middle East at low cost, backed by financial support from the Korean government. Levkowitz noted that this development aid came "with an absence of any perceived political agenda or ideological aspirations to influence the governments of the Mid-east" (Levkowitz, 2011). Similar projects were

launched across Southeast Asia.

Park arranged with France in 1975 to build a nuclear fuel reprocessing plant in South Korea, as well as two nuclear power plants. The U.S. government, having abandoned the Atoms for Peace policies of the Eisenhower and Kennedy administrations, complained loudly that reprocessing capacities, although essential for any nuclear nation and fully legal under all international nuclear energy agreements, would move South Korea closer to the capacity to produce nuclear weapons. Park responded, publicly, that South Korea could in fact produce a nuclear weapon, but had not yet chosen to do so. If the United States were to remove its nuclear umbrella, Park said, Korea would build a weapon itself.

The anti-science mafia in the U.S. went ballistic. U.S. Secretary of Defense Donald Rumsfeld threatened Park with a cut-off of support for Korea's ambitious nuclear power program, and Washington coerced France to renege on the reprocessing deal. Korea turned to Canada for its nuclear reactors, and built its own heavy water fuel rod plant. In 1976, Park established the Korean Nuclear Engineers, which took over from the American company Burns and Roe as the primary

nuclear advisors, and set up a Nuclear Fuel Development Corporation.

Today, South Korea has become a major exporter of nuclear power reactors of its own design. But agreements that were forced on Seoul by the U.S. in the past, limiting its freedom to produce a full-cycle nuclear fuel capacity, continue to deprive South Korea of its lawful rights as a modern scientific and industrial nation. Ongoing negotiations to rectify this injustice are being dragged out by the U.S. side.

### Assassination

In regard to the accusations that Park Chung-hee was a dictator who trampled on human rights, there is no denying that he used the full power of his office and the state, including the declaration of martial law three times, and other repressive measures, to maintain order and assure the implementation of his grand design for the progress of the nation. When the Constitution restricted him to two terms in office, he held a referendum to change the Constitution, and won. He stood for election five times, and won five times, in elections deemed fair even by the U.S.-based pro-democracy NGOs that organized and supported much of the opposition.

After his assassination at the hands of his own Korean CIA chief in 1979, a study was discovered in Park's home titled: "A Plan for Remodeling Korea for the 2000s." Some of his plans were carried out under subsequent governments, but, as historian Kim Hyung-A has reported, in the years immediately following Park, Korean economics was increasingly dominated by American-trained "neo-liberal technocrats." It is an irony that the concepts underlying Park's policies were more in keeping with the American System of Political Economy than were those of the American-trained technocrats.

But today, the spirit of the Korean Model is alive and well. Korea is a leading player in the development of infrastructure and heavy industry across Southeast Asia, in the Mideast, and increasingly in Africa, with few, if any, strings attached. The 2010 conference in Washington mentioned above had a major focus on Africa, whose continued lack of development today reflects its ongoing domination by the colonial powers. One panel in the conference was titled "The Saemaul Undong in Congo: A Way to Create Jobs for the Rural Community."

The outgoing President Lee Myung-bak, who was

previously the CEO of Hyundai Engineering and Construction, a leader in building infrastructure projects around the world, took a particular interest as President in projecting the Korean Model into Africa. He visited several African and Mideast nations to offer Korea's methods and technical expertise in water development, nuclear energy, and overall industrial and agricultural planning. Although relations with North Korea have not been good over these recent years, South Korea has engaged with Russia and China in efforts to solve the lingering crisis with North Korea by the only means possible: peace through development. This involves both Russia's efforts to build gas pipelines and rail lines through North Korea to the South, and Seoul's interest in participating in Russia's ambitious plans for the development of the Russian Far East.

Expectations for the incoming Presidency of Park's daughter Park Gyun-hye are high, in terms of further expanding South Korea's rapid rise as an industrial powerhouse, with the aim of taking the Korean Model to the most impoverished areas of the world. If, and only if, the current collapse of the trans-Atlantic economies is reversed, through precisely the American System reforms promoted by Lyndon LaRouche, and only if the London-Wall Street drive for global war is stopped, then the Korean Model can and will play a crucial role in the subsequent global economic renaissance.

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