

# Understanding the economic development of Korea from a co-evolutionary perspective

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## Abstract

This paper applied a co-evolutionary perspective to understanding the economic development history of Korea, which is said to have shown almost miraculous economic growth. After reviewing economic policies and the economic situation over the last half-century, we categorized the dynamic competitive strategies of the government and recognized the co-evolutionary development. By way of illustration, we documented the case of Korean automobile industry from a co-evolutionary perspective. In conclusion, we argue that ‘learning-by-doing’ and the competitive dynamic strategies of the government and market forces are the key factors in understanding the forces underlying this economic success.

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## 1. Introduction

Korea is known as a country that showed miraculous economic growth, but suffered a devastating economic crisis. Due to these contradictory experiences, there seem to be no clear-cut assessments of past Korean economic performance and the lessons derived from it. The controversies over what gave rise to the past economic performance are often accompanied by

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talk of political issues, political calculations, and even conspiracies. Therefore, it is a legitimate study to seek to extract the essence of Korean economic growth and any valuable lessons from it.

There are many issues involved in the causes of Korean economic growth; labor exploitation, the economic concentration of *chaebol*, Korean-type conglomerates, a laggard but supportive financial sector, and so on. In this paper, we would like to take a more fundamental perspective, namely, a co-evolutionary perspective, to review Korean economic history.

Whatever criteria are taken, no one can deny that the Korean economy has grown very well. We would like to derive the main lessons behind the economic path towards this success over the past five decades. As we know everything changes but change itself, and both the government and the private sector have responded to each other's changes in an ongoing dynamic way. Over the five decades, their strategies have changed, and the economy seems to have been moving towards a better form. In this paper, we have maintained a co-evolutionary perspective regarding the government policies and the private sector's responses, and investigated the role of the government that enabled the transition of the economy toward more knowledge-based one. We strongly believe that these efforts will benefit us in building a prosperous future for the Korean economy, and hope that it will be similarly beneficial to other countries and building up their own economic prosperity.

Section 2 reviews the economic history of Korea from a knowledge-flow perspective. Section 3 puts forward appropriate questions to solve, and addresses the main forces behind the economic changes in Korea. Section 4 investigates what made the transition from the old to the new economic system. Section 5 illustrates the industrial development trajectory by studying the automobile industry of Korea. Section 6 rounds off with some concluding comments.

## 2. A historical review from a knowledge-flow perspective

### 2.1. Starting from scratch

#### 2.1.1. Starting point: a review of the situation in the 1960s and 1970s

Before we review the situation in the 1960s and 1970s, it would be worth mentioning the historical material base in Korea. Korea was traditionally an agriculture-oriented country and had a centuries-old landlord class. It was hard to expect the accumulation of commercial or industrial capital in these conditions. However, land reform in South Korea, which had begun with the passing of a land reform act in 1949, abolished the landlord class and initiated the transformation of land capital into industrial capital.<sup>1</sup> The government-run land reform induced landlords to give up their controls over peasants and enabled the state to draw support from peasants who benefited from the land reform. Eventually, the government took over landlords' place in rural communities and the Korean War in 1950 reinforced this process. Both land reform and the Korean War destroyed the landlord class, thus giving the government a basis for implementing its policies. The transformation of land capital into industrial capital laid the foundation of the industrialization of the 1960s and 1970s.

The beginnings of the economic miracle of Korea were not promising enough for there to be hope of any economic success. Due to the scarcity of natural resources, Korea's economic growth had to rely on its labor resources, which were qualitatively very poor. The illiteracy ratios in 1960 and 1970 were 27.9 and 11.6%, respectively (see KDI, 1995, for details). It took almost two

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<sup>1</sup> Landlords received government bonds convertible to industrial capital. Korea's land reform was relatively successful among capitalist countries in the sense that it had abolished the landlord class (Shin, 1997).

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