

Korean Industrial Policy: From the Arrest of the Millionaires to Hallyu

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Within days after he seized power in the 1961 military coup d'état in South Korea, Major General Park Chung-hee ordered the arrest of fifty-one of the country's leading businessmen. The head of Samsung, the largest chaebol (family-owned conglomerate), who had been travelling in Japan, was immediately placed under house arrest when he returned to Korea. The charge in all cases was "illicit profiteering."

Park and his military junta ruled over a desperately poor country. South Korea's per capita GDP in 1961 was less than \$100, lower than that of Guatemala, Cameroon, or Chad. This low number, however, did not truly reflect South Korea's actual level of development. The country had a modernized military, mass literacy, large trading firms, some industrialization, and substantial U.S. aid. (Some of these capabilities have a dark history.¹) And yet, what was also true in 1961 was that South Korea was poorer than North Korea, whose per capita GDP was nearly a third higher.

Additionally, South Korea stood on the front line of the Cold War, and was part of a U.S. regional security strategy of capitalist states which included Japan and Taiwan. They all faced the threat posed by the Asian Communist countries of China, the USSR, and North Korea. The North Korean

invasion of South Korea a decade before had led to nearly a million civilian casualties. The security situation confronting South Korea remained grave and existential.

Park and his military government felt that South Korea desperately needed to industrialize, but American aid, which mostly consisted of consumer goods, wasn't helping on this front. In his memoir, *The Country, The Revolution and I*, Park wrote, “we want a piece of brick rather than a lump of sugar.”²

The specifics of the charge of “illicit profiteering” included unfair bidding for government contracts, monopolistic sales and foreign exchange practices, and generally living off of government licenses.³ Given that this broad definition could apply to virtually every Korean chaebol owner at the time, all were vulnerable. In addition to jailing them, Park threatened to confiscate their properties and levy immense fines. After two months in detention, the “illicit profiteers” were released after signing an agreement stating that they would donate all their property when required for national construction. The most important thirteen were given the task of industrializing the country. In effect they were offered a compromise where they could avoid further jail time if they built factories, though they would still have to pay fines by donating company shares. The thirteen business leaders also received further dispensations if they met export targets.⁴

The key sectors targeted by Park and his military government for industrialization were cement, electricity, synthetic fiber, iron, and oil refining. The last was nationalized, as was the banking system. These were not sectors where South Korea enjoyed comparative advantage or even much

expertise, but that was exactly Park's point; he believed they were vital to creating a rich nation and strong army.

By arresting the millionaires and then releasing them, Park established the ground rules for a state-business partnership directed toward the goal of industrialization, with the state firmly in charge. Park, in his memoir, wrote of the Meiji Reform in Japan as his influence: "Millionaires who promoted the reform were allowed to enter the central stage, thus promoting national capitalism."⁵

Il SaKong, the former Korean minister of finance (1983–87) and chairman emeritus of the Institute for Global Economics, Korea, interprets the episode this way: "the most important aspect of the measure was that President Park's policies encouraged what we call 'positive-sum entrepreneurship' rather than 'rent-seeking business activities.'"⁶

SaKong, in a book coauthored with Leroy Jones, characterizes "zero-sum entrepreneurship," as activities like the search for monopoly rents, along with foreign exchange arbitrage or land speculation, things that don't increase aggregate resources. In contrast, "positive-sum entrepreneurship" consists of activities that increase productive capacity and benefit society on the whole.⁷ Because the windfalls associated with zero-sum entrepreneurship are so profitable, Jones and SaKong argue that it was necessary for Park to step in to forcibly rechannel the activities of the illicit profiteers towards productive sectors required for Korea's development.

It worked, according to SaKong: "We believe the policy was the primary driver of Korea's economic take-off that began in the early 1960s. The total

amount of fines collected from the law itself was not significant enough for explaining Korea's take-off.”⁸

A Thought Experiment

Imagine, as a thought experiment, that America's leading billionaires were arrested by a military junta and charged with “rent-seeking business activities,” “zero-sum entrepreneurship,” and not contributing to productive capacity. They could offer various moral and political arguments in their defense. But what economic arguments could they muster? They could try many:

Shareholder capitalism. The billionaires could point out they are merely trying to increase the value of their company for shareholders and maximize their profits given the incentives at hand. If that is a crime, then the problem is in the incentives (which was in effect General Park's argument).

Libertarianism. The billionaires could argue that, when it comes to the economy, the government needs to butt out. They could secretly fund a libertarian political network to spread this message. Or they could publicly make their argument, via the *Washington Post*/Amazon/Whole Foods⁹ or Facebook/Instagram/WhatsApp or Bloomberg News or one of Alphabet's companies.

Demand measures and UBI. The billionaires could insist the real growth problems were on the demand side. They could ask the junta if they had considered using Keynesian levers. Or what about Modern Monetary

Theory? If these ideas didn't appease the junta, the billionaires could then play what would seem like a get out of jail free card: universal basic income.

Ineffectiveness of industrial policy. Perhaps the most persuasive economic arguments the billionaires could offer are the strands within mainstream economics attacking industrial policy. This goes well beyond questioning the nonstandard terminology of “zero-sum entrepreneurship.” Instead, this approach holds that the state cannot play a constructive role in allocating resources across sectors or crafting the overall composition of the economy, that the idea of targeting specific sectors such as manufacturing is fundamentally outrageous. As Michael Boskin, chairman of George H. W. Bush's Council of Economic Advisers allegedly said (which he denies), “It doesn't make any difference whether a country makes potato chips or computer chips.”¹⁰ Economists view sectoral allocations as primarily stemming from free market forces, including consumer preferences and comparative advantage. They are not something anyone should or could dictate.

But these are arguments from twenty-first-century America, not 1960s Korea. Seoul is only fifty kilometers from the DMZ. The Korean millionaires didn't have much choice except to follow Park's orders and redirect their business activities away from rent seeking and financial arbitrage and towards the sectors he demanded; his command to industrialize grew out of the barrel of a gun. Hyung-A Kim, an academic specialist on the period, writes of the chaebol owners, “The consequences of resisting or challenging the state's first five-year plan were severe, whether in terms of their businesses or their personal safety.”¹¹

Miracle on the River Han

During the following decades of Park's rule, first as dictator and then as president after his democratic election in 1963, Korea's manufacturing output increased dramatically. In the 1970s he revealed his masterstroke: the heavy and chemical industry (HCI) drive.¹² Hyundai Heavy Industries, which built its first ship only in 1973, became the world's largest shipbuilder in just ten years. It was aided on this path when the Korean government declared that any oil delivered to Korea had to use Korean-made ships.

Korea entered a period of hypergrowth. Exports, especially in heavy manufacturing, increased 28 percent annually over most of the 1970s. Real wage growth was the fastest of any industrializing country, including those in previous industrial revolutions, increasing 19 percent annually between 1976 and 1979.¹³

The South Korean economic "takeoff," "hypergrowth," or even "miracle" has been widely studied from many perspectives, particularly in the 1980s and '90s, when there was much debate about its causes. The specific mechanisms at work in Korea's economic takeoff have been most fully articulated by the late MIT economist Alice Amsden in her classic work on the Korean economy, *Asia's Next Giant*.¹⁴ Amsden, expanding on Alexander Gerschenkron's historical work on economic backwardness, identifies Korea as a "late industrializer."¹⁵ Whereas the United Kingdom and the United States had industrialized on the basis of invention and innovation, respectively, Korea industrialized by "learning." Late industrializers "borrow" (she doesn't use the word "steal") foreign technology from countries on the technological edge and then adapt, improve, and implement the technology locally.

The state is central to this process. It allocates capital to favored sectors and firms, provides access to easy, if not free, credit, and grants protection from imports. But at the same time firms are subject to relentless “discipline” by the state bureaucracy. As Amsden writes, “the state intervenes with subsidies to distort relative prices in order to stimulate economic activity. In exchange for subsidies the state has imposed performance standards on private firms.”¹⁶ State-favored firms are allowed to fail; this isn’t state socialism. Rather, they have to reach aggressive export targets in order to keep receiving their subsidies. Domestically, they are prevented from abusing their monopoly power through price controls. Illegal capital flight in South Korea was punishable by death.

Currency manipulation undergirds this whole economic model. (The United States labeled South Korea a currency manipulator in 1988, and it remains on a U.S. Treasury watch list.) Education plays a much less central role. Amsden describes the quality of education in South Korea as “strained” and its role as largely passive in the country’s industrialization. Whereas in the U.S. education is the go-to solution for every economic problem, Amsden writes, “the role played by education in economic development ought not to be deified.”¹⁷

Political scientists and economists working in the heterodox tradition tended to view Korea as a variant or special case of the Japanese statist development model. That model had led to Japan’s economic takeoff years earlier and was now being applied by President Park in Korea.

For instance, political scientist Jung-En Woo, in her account of Korean economic success, which focuses on how the state channeled financial

resource to promote rapid industrialization, writes, “Instead of being the miraculous model of the triumphant procession of neoclassical economics into the mysterious East, the Korean model limns its origins in the relatively ruthless mercantilism of prewar Japan.”¹⁸

Indeed, President Park was intimately familiar with the economic model of prewar Japan. He was educated at the Japanese Military Academy and served in the Japanese Manchurian army in the sinister Japanese puppet state of Manchukuo. In his memoirs he writes frequently of the importance to him of the Meiji Restoration in Japan, including its concept of “rich nation, strong military.” He borrowed the word “Yushin” for his constitution from the Meiji “Ishin” or “great renewal.” President Park was familiar with postwar Japan as well. This included its long history of state interventions in the economy, and the success of its heavy-industry-focused New Long-Range Economic Plan of 1958–62.

In his book *MITI and the Japanese Miracle*,¹⁹ Chalmers Johnson analyzes the state-guided market system behind the miracle. While Amsden uses the terms “late industrializers” and “learning states” to characterize East Asian economic development, Johnson, writing from a political science perspective about Japan, uses the term “developmental state,” a concept he pioneered. Japan used targeted industrial policies to change the composition of the economy and to industrialize. He identifies four key elements of the Japanese model: an “elite bureaucracy staffed by the best managerial talent available in the system”; “a political system in which the bureaucracy is given sufficient scope to take initiative and operate effectively”; preservation of competition in the economy; and, finally, an agency that controls industrial policy, such as Japan’s Ministry of International Trade and Industry (MITI).

The World according to the World Bank

The period when these books were published, the 1980s and early 1990s, was the time of “Japan as Number One” (it was then the world’s largest manufacturing economy), with the “Four Tigers” of Hong Kong, Singapore, South Korea, and Taiwan rising behind it. But this was also the era of the ascendancy of laissez-faire ideology, the neoliberal Washington Consensus. The idea that East Asia grew through industrial planning or semi-mythical Meiji Restoration policies was completely at odds with this dominant paradigm.²⁰

Differing explanations of what accounted for East Asia’s rapid growth came to a head in the World Bank’s controversial 1993 report, *The East Asian Miracle: Economic Growth and Public Policy*.²¹ Japan, the Bank’s second largest funder, wanted a report acknowledging the success of industrial policy based on subsidized credit targeting specific sectors. According to the Japanese view, comparative advantage was not static and could be altered through government interventions. But the Bank’s ideology was firmly against sectoral-based industrial policies, only seeing a role for government subsidies when it came to education and infrastructure.

Professor Robert Wade of the London School of Economics, who was previously a World Bank staff economist (and whose father was New Zealand’s ambassador to South Korea and Japan), explains the context of this report and the political pressures behind it. Wade says, “the Bank held you had to have a free market in finance because that was most efficient. However, the Japanese were adamant that industrial policy—including

directed credit—had worked in Japan, as well as Korea, Taiwan, and Singapore.”

The final report held that industrial policy doesn't work, but that directed credit policies could work—an incoherent conclusion, given that directed credit is one of several instruments of industrial policy. “The report was inconsistent, with conflicted message throughout the text,” says Wade:

The inconsistency was no accident. The authors of the report had to respond to the Japanese Ministry of Finance, which paid the Bank a large sum of money to write the report, and which wanted the Bank to say that its favorite policy instrument, directed credit, could be effective. The authors, who were World Bank staff, also had to respond to the ideology of the Bank, which said that industrial policy—wrongly equated to “the state picking winners”—could not be effective.

Wade wrote a line by line analysis of the report's contradictions, published in the *New Left Review* in 1996.²²

Yet the World Bank insisted that there was a clear takeaway: the growth in East Asia was the result of free markets. “Rapid growth in each economy was primarily due to the application of a set of common, market-friendly economic policies,” the Bank's president Lewis Preston wrote in the foreword. “The importance of good macroeconomic management and broadly based educational systems for East Asia's rapid growth is abundantly demonstrated.”²³

These debates from the early 1990s about the wisdom of targeted industrial policy, as opposed to the Washington Consensus, are half-forgotten today, though they couldn't be more relevant. Many of the leading protagonists, such as Amsden and Johnson, are dead. And in the late 1990s the Asian financial crisis and the ongoing stagnation in Japan (arguably stemming from the Plaza Accord) exposed vulnerabilities in the East Asian model. Then the tech revolution took place in the United States. The debate seemed to be over.

The Return of Industrial Policy?

Twenty-five years later, things look very different. The word *neoliberal* is now an insult. The United States has experienced its own financial crisis, exposing the limits of a growth model based on financialization. Though the U.S. economy has created Facebook, Amazon, Apple, Netflix, Google, and other tech giants, it failed to translate its breakthroughs in technology into long-term productivity gains or revived manufacturing. U.S. labor productivity growth has stagnated, averaging only 1.3 percent a year since late 2005, as opposed to the 2.8 percent annual growth seen over the preceding decade.²⁴ Multifactor productivity in manufacturing industries has actually been declining since 2004.

Pundits and management consultants assured us that tech would lead to the reshoring of advanced manufacturing, but the opposite happened. U.S. manufacturing employment plunged in the 2000s, shortly after China's accession to the World Trade Organization. The locus of manufacturing, as well as innovation in key advanced technologies, ranging from LCD flat-panel displays to electronic ink to lithium-ion batteries, has moved to East

Asia, though all of these technologies were invented in the United States. America is even turning into an “also-ran” in smart phones. Smartphones are all manufactured and—except for Apple’s—designed abroad.

GLOBAL SMARTPHONE MARKET, Q2 2019

	Shipments (million units)	Market Share (%)
Samsung (South Korea)	75	23
Huawei (China)	59	18
Oppo (China)	36	11
Apple (USA)	35	11
Xiaomi (China)	32	10
Vivo (China)	28	9

Source: IHS Markit.

The key difference from the 1980s and '90s is the rise of China. China has been experiencing its own economic “hypergrowth” or “takeoff” or “miracle” for thirty years. Though China is *sui generis*—given its size, Communist Party control, and use of state-owned enterprises (SOEs)—it in some ways fits the developmental state model, and was included in the World Bank’s 1993 report.²⁵ China’s manufacturing output is now the largest in the world. Its rise poses a full-blooded strategic challenge to America’s economic supremacy, and an intellectual challenge to the neoclassical model of economic growth and the Washington Consensus.

But the mainstream economics profession has hardly changed its views on industrial policy in response to this challenge. “The rise of China hasn’t led to much rethinking in the core developmental agenda,” Wade says. “The Washington Consensus has been subject to a lot of criticism but it seems to remain the default position at the World Bank and other developmental organizations. The only difference is that fuzzy concepts like ‘governance’

have been added at the margins.” This same insight largely holds true of the academy as well. Sector-based industrial policies remain a controversial, almost taboo topic, even if “horizontal” policies that benefit all firms and sectors, such as education or infrastructure, are widely called for.

Though mainstream economists have hardly embraced the heterodox literature of earlier years on developmental states—or are even aware of it—there has been rethinking in some quarters. New trade models show that free trade is not necessarily an unqualified positive. Gomory and Baumol have built a model that shows there can be “inherent conflicts in trade” between an industrialized country and a newly industrializing one: growth in one comes at the expense of the other.²⁶ And shockingly, in 2019 the IMF published a working paper, “The Return of the Policy That Shall Not Be Named: Principles of Industrial Policy,”²⁷ that offered a positive assessment of the role industrial policy played in the growth of East Asia. The paper argued that “the success of the Asian Miracles was not a matter of luck but the result of [true industrial policy].”

But these and the smattering of similar papers are anomalies,²⁸ far from the main thrust of contemporary economics, which is going in a very different direction. Economics is changing, rapidly; economics is becoming “progressive.” This is the economics of gender, race and identity, inequality, oppression, privilege, inclusivity, and power. Not too long ago, economics was one of the few academic fields where professors could be overtly rather than covertly conservative, but today the social justice movement of the humanities is in the process of colonizing it. Identity politics is ascendant.

Nevertheless, this rectification campaign still uses the standard tools and models of mainstream economics: taxation, benefits, deficits. The larger neoclassical framework still applies. The heterodox economists from the industrial policy debates of the 1980s and 1990s were—and often remain—marginalized in the economics profession. Today’s progressive economists couldn’t be more “establishment.” It is unclear if they are truly on the left or are just following today’s conventional thinking.

Industrial policy remains largely taboo (with the very big exception of Green policies). There is no acknowledgment of varieties of capitalism, whether “the coordinated market economy” of Germany or the national capitalism of East Asia. There is no acknowledgment that there might be a deep flaw in the overall productive structure of the U.S. economy, or a drift towards “zero-sum entrepreneurship”—issues that the conventional tool kit, even a progressive one, can’t fix.

Developmental states offer new ideas and methods for reaching some of the outcomes that progressives are seeking, such as inclusive prosperity. But this approach is remote from the current victim identity framework of U.S. universities, which has shaped the progressive agenda. As a result, American economics has never been more parochial, when it needs to be more global.

America’s Economic Backwardness

Rather than trying to shoehorn the rise of China into a Western, neoclassical macro growth model—which would only repeat the controversies of the *East Asian Miracle* report—it might be more fruitful to assess the United States from the perspective of the East Asian “national capitalism” model.

After all, this could be the economics of the future. We await a comprehensive analysis of the United States from this perspective by Chinese scholars. But even without it, a cursory look reveals major gaps in the U.S. approach.

The United States does have a developmental state focused on innovation, but as chronicled by scholars William Bonvillian and Charles Weiss,²⁹ this model falls short when it comes to implementation. The country does not apply this technological innovation to “legacy” sectors such as energy, transport, construction, and manufacturing, which have fallen behind. And private firms do little to make up for the lack of state support: American corporations like Apple are post-national: they are happy to take the fruits of federally funded innovation but see no reason to manufacture domestically. This situation would be unthinkable to Henry Ford, who increased his Detroit workers’ wages so they could buy more. Moreover, when America does innovate and creates new hard technologies, they don’t scale domestically, both because of financial constraints and a lack of infant industry protections in the United States.

There is also the financialization of corporations to consider. The financial sector itself is bloated and often rogue; it tends to channel credit to itself rather than to the productive economy. Monopolization and decreased market competition have led to windfall profits for corporations without the need for investment.

In fact, the United States is moving down the skill chain. It is deindustrializing. America still has strengths in the “intangible economy,” but most job growth has come in low-skill, low-pay services. It is no longer

on the technological frontier in many manufacturing industries, such as machine tools, passenger rail, batteries, electric vehicles, 5G hardware, robotics, etc.—really, most “hard” technologies. It is regressing and becoming economically “backward.”

Heavy industries like shipbuilding, which so enchanted General Park and the Japanese, have been gutted in the United States. America, unlike its competitors, does not subsidize commercial shipbuilding, and as a result, it has fallen behind: as of 2015, only 0.35 percent of global commercial ship construction took place in the United States, compared to 37 percent in South Korea, 27 percent in Japan, and 21 percent in China.³⁰

There is one upside to this situation. The United States is now in the position of being a late industrializer—like the East Asian “learning state” countries—meaning it too can learn and borrow from those on the technological frontier. As Gerschenkron put it, there are “advantages to backwardness.” It’s much easier to catch up than to innovate. Using the learning-state approach, the United States can quickly catch up in industries deemed strategically important, such as telecommunications, in which China’s Huawei now dominates the production of hardware needed for 5G.

Indeed it would be cruel to American workers not to at least try “late industrialization” as part of an overall developmental strategy. But elite Americans couldn’t care less about the ruin of these displaced industries and the resulting loss of manufacturing jobs—heavy industry is hardly the subject of TED Talks. The current preferred policy solution is to tell these formerly middle-class workers to get more education or to move. Their own solution is opioids and deaths of despair.

Professor Dan Breznitz of the University of Toronto cautions, “The real problem of jumping to the next stage is it will cost a huge amount of capital.” Using private capital, relying on entrepreneurs, or merely changing incentives will be insufficient. Breznitz, author of the forthcoming book *Innovation in Real Places: Strategies for Prosperity in an Unforgiving World*, says, “ideally, the political system would enable allocation of capital, but even in the defense industry I don’t know if this will happen.”

If the federal government remains dysfunctional, large states could step in with their own developmental policies. Or the United States could make technology transfer a condition for imports in high-tech industries or any other industry in which it is technologically behind. Catching up is important in advanced manufacturing, but is also a way to restart commoditized manufacturing where things are dire. As Intel’s Andy Grove once said, “abandoning today’s ‘commodity’ manufacturing can lock you out of tomorrow’s emerging industry.”³¹

The central weakness of the “learning state” model is that its institutions are only designed to take the country to the technological frontier. Once it is on the frontier, those exact same institutions might hold the state back from inventing the next frontier. But the fact that the United States is behind in so many areas of manufacturing shows that this assumption no longer holds true. Learning states clearly can innovate. Americans shouldn’t be certain that China won’t dominate the industries of the future, as set out in its own industrial policy promoting advanced manufacturing, “Made in China 2025.”

Hallyu: Culture as an Export Industry

Americans might take comfort in the belief that at least the United States remains unchallenged in supremacy in global pop culture—in its soft power. China might dominate the building of 5G networks, but American firms will dominate the content that flows across them, or so this line of thinking goes. But this is no longer entirely the case. Korea has been able to innovate and to advance the frontiers of the global entertainment industry. In doing so, it has projected its soft power around the world and proved that its developmental model can be applied to the cultural arena. China and other states have noticed, and a new competition between developmental states in the realm of cultural products is just beginning.³² Enter *Hallyu*.

Hallyu (Korean Wave) refers to the vogue for Korean cultural products. The term was coined by Chinese journalists writing in the *Beijing Youth Daily* in the 1990s. The original *Hallyu* craze across Asia was for K-drama, such as the smash hit series *Winter Sonata*. This was followed by the frenzy for K-pop in China (some accounts claim the decisive moment here was the 2000 performance by the Korean group H.O.T. at the Beijing Workers' Gymnasium). *Hallyu* today includes games, animation, film, food, cosmetics, and also plastic surgery. The Korean Wave, rather than cresting, now has global popularity.

Games are by far the most commercially important *Hallyu* export category. American non-gamers may be more familiar with Korean art cinema, which is the result of cultural-industrial policies including a presidential decree.³³ Most internationally visible of all might be K-pop, which began attracting mainstream attention in the United States with Psy's 2012 "Gangnam Style," the first video to exceed two billion YouTube views.

K-pop is defined by its largely manufactured, institutional character. Rather than “bands,” K-pop artists are part of *idol groups*. Idols are not the singer-songwriters of yore crafting their own material on acoustic guitars in their bedrooms—and unlike manufactured American pop talent, they do not even pretend to be. Instead, idols are products of extremely rigorous, multiyear training, often first outside a K-pop talent agency, and then later as an official, contracted agency trainee. Only a small percentage of trainees become idols. Most idol groups last less than three years.

The production of K-pop utilizes a sophisticated global supply chain of choreographers, videographers, and distributors. While a few idols write their own songs, the system mostly relies on an international pool of creative talent. Key songwriting teams have been based in Sweden (Korean lyricists are employed to write the lyrics); more recently there has been a move to use American songwriters, some based in South Korea.

The importance of idol *fandom* is also distinctive. Western pop groups have their own fan bases, but their social media interactions aren't at the same level of intensity as those of K-pop idol groups.³⁴ Idol groups' cultivation of their social media following is vital to their success. The fans of the leading idol group BTS, for instance, are known as ARMY. When BTS was snubbed at the 2019 Grammys, ARMY took to social media to express their outrage and undertook a systemic effort to push BTS to the top of the charts again. And, just as K-pop production makes use of global networks of talent, so K-pop fandom is borderless: there are BTS ARMYs throughout the world.

K-pop, ultimately, is *post-music*. It is designed for its impact on social media and fandom and needs to be seen (online) rather than just heard. “Idol K-

pop is ocular-centric, but not all Korean popular music is,” says CedarBough Saeji, a scholar of Korean contemporary culture at Indiana University.

The liberalization of Korean culture is critical for understanding the rise of the Korean Wave. Restrictions on foreign travel were fully lifted in 1988, meaning many *Hallyu* directors have attended LA film schools. Under the dictatorship songs could be banned for sounding too Japanese, or for being vulgar, degenerate, or unwholesome. Today there is freedom of expression. South Korea is a flourishing democracy.

But cultural explanations don't offer the complete story when it comes to *Hallyu*. Korea is a developmental state. A line item equivalent to \$280 million for “*Hallyu* assistance”³⁵ in just one government ministry's budget in 2013 shows there is more to the story (how much other ministries are spending is unclear).

State Intervention:

Correcting Market Failures versus Creating Markets

When the original Korean Wave, K-drama, took off in the 1990s, the government became convinced of the potential for culture to be an export industry. Korean President Kim Dae-jung argued that culture was the industry of the future and should be a national priority. In a 2001 speech, Kim said,

We should develop *Hallyu* in the direction of making this as lasting and beneficial for our economy. In detail, we should constantly create contents in music, soaps, movies, animations, games, and characters. In 2003, the

size of creative cultural industry will grow up to \$290 billion, which is bigger than the size of the semi-conductor market—which is estimated at \$280 billion.

In 2008, President Lee Myung-bak emphasized the importance of *Hallyu* for “national branding and national image” and its role in soft power.³⁶

Underpinning the development of the technological aspects of *Hallyu* was the Korean government’s 1999 “horizontal” industrial policy, Cyber Korea 21, whose goal was to create a knowledge-based information society. By 2002 Korea had the most extensive broadband participation in the world, a development which supported gaming and online K-pop fandom later on.

But other *Hallyu* policies were more targeted, something anathema to Western planners. Hye-Kyung Lee of King’s College London, whose research focus is on cultural policy, has been able to disentangle the different channels through which the government supports *Hallyu*. She writes:

Since the mid-2000s, the Korean Wave policy has developed into a complex web of activities including planning, funding, investment, market research, marketing, branding, training, consulting, showcasing, events and networking engaging a vast array of governmental actors in and outside the country. The Korean Wave has become a key stream of the state cultural policy and some existing policy initiatives have become part of the Korean Wave project.³⁷

Lee sees three major components of the government’s support for *Hallyu*:

(1) *Law.* The 1999 Framework Act on the Promotion of Cultural Industries and sector-specific laws, such as the Promotion of Motion Pictures and Video Products Act and the Music Industry Promotion Act, defined promotion of these industries as the state's responsibility.

(2) *Government agencies.* The Korea Creative Content Agency provides comprehensive support, especially in the area of export. The Korean Film Council, an arm's-length body, is also involved, providing help at every step from film production to export.

(3) *Financing.* The government agencies provide direct subsidies to cultural industries. In addition to loan guarantees offered by state financial institutions, there are public-private partnership VC funds ultimately backed by the SME (small and medium-sized enterprise) Ministry's fund of funds, the Motae Fund. Currently, direct subsidies are larger than VC funding.

Lee, in her *Cultural Policy in South Korea: Making a New Patron State*, observes that the United Kingdom also supports cultural industries. But the support is much more limited and is centered almost entirely on horizontal policies, such as promoting education or trying to establish creative clusters, with very little direct funding of culture-industry firms. Lee says, "in the UK, cultural industrial policy is non-market interventionist, and is designed to correct for market failures. In Korea, the goals of industrial policy are more ambitious: to create new markets."³⁸

There are contradictions, from a Western ideological perspective, in Korea's cultural-industrial policies. Following the Asian financial crisis, Korea

extensively deregulated its industries. It reduced oligopolistic control by the chaebols, allowing smaller firms to emerge and thrive, including the new K-pop talent agencies. Korea has been widely lauded by Western economists for these market-friendly reforms. But these same economists fail to mention that Korea continued its state-led developmental practices, as seen in the government promotion of *Hallyu*.

Lee explains, “Policy makers see no inherent contradiction between state intervention and the market economy in the nation-wide effort for cultural industrial ‘catch-up.’ The market is merely a tool for achieving the ultimate policy goal of national economic survival and prosperity.”

The K-pop talent agencies are flourishing on their own, without government subsidies. But as CedarBough Saeji observes, K-pop idols also appear on platforms and in media which do receive state support. Further, she points out that K-pop has been embraced by the Foreign Ministry which uses it as a tool of “cultural diplomacy.” Saeji argues, “it’s a fantasy to say that K-pop naturally arose without state support. People want to say that anything the government touches is inauthentic. But even Korean traditional performing arts wouldn’t exist if the government hadn’t stepped in to preserve them.”

Though Korea has no comparative advantages in terms of pop music, and several severe disadvantages such as the use of the Hangeul alphabet and global lack of Korean speakers, through industrial policy it has been able to catch up to and in some ways surpass the Western pop commercial model. BTS won Billboard’s “Top Social Artist” in 2017 and 2018, and the group had three Billboard No. 1 albums in twelve months during 2018–19. Throughout Asia and in third-world countries, K-pop is the sound of today.

But whether K-pop will be the sound of tomorrow is unclear—for geopolitical reasons. China banned *Hallyu* products for two years following South Korea's 2016 decision to deploy the THAAD missile defense system. There may have been commercial motives too, with China protecting its burgeoning gaming and music (C-pop) industries. Chinese fans now need to travel to Hong Kong to see K-pop idol groups. *Hallyu*, ultimately, might be a case study of the limits of soft power and what happens when it runs into the realities of hard power.

In the next few years South Korea, according to some forecasts, will surpass France in terms of per capita GDP. Though South Korea is now immensely richer than in 1961, the security threat it faced then has never really been resolved. North Korea is now a nuclear power, and China could soon become the largest economy in the world. If it were to catch up to Korean levels of individual affluence, its economy would be many times the size of America's.

Under China's national strategy of "military-civil fusion," its military capabilities are growing alongside its economic capabilities and, in some ways, encompass them. For instance, the Chinese National Intelligence Law of 2017 (revised in 2018) holds that all organizations in China—private or public, foreign-owned or domestic—and all Chinese citizens, whether in China or abroad, must comply with state national security interests: "All organizations and citizens shall, according to the law, provide support and assistance to and cooperate with the State intelligence work, and keep secret the State intelligence work that they know."³⁹

Twilight of the Idols: The Millionaire Policy Returns

How might America respond? Offering a seeming echo of General Park's strategies, the most talked-about policy idea in the West at the moment concerns billionaires and multimillionaires. The policy, devised by the economists Emmanuel Saez and Gabriel Zucman, is a wealth tax on the richest Americans.⁴⁰ The hope is that this will reduce inequality and lead to "tax justice." Though Democratic politicians have differing ideas of how the proceeds could be spent (including on Green manufacturing), in its purest form the actual policy focus is on the impact of the tax itself. Maybe this would help with wealth distribution in the United States—there are debates—but the policy is otherwise strangely accepting and perhaps even optimistic about the functioning of the American economy.

In this sense, a tax on American billionaires couldn't be more different from what was tried in South Korea by General Park: U.S. billionaires are not being corralled into a national strategy for development. There are no calls to change the defective growth pattern in the U.S. economy that has led to this inequality in the first place. There are no calls to end "zero-sum entrepreneurship," financialization, monopolization, or rent-seeking activities. There are no calls for the reallocation of resources to highly productive, highly paid, or strategically important sectors such as manufacturing. There is nothing about the need for an innovation policy. There is no industrial strategy.

"Small-state," traditional free market economists, unlike progressive economists, are well aware of the risks of a predatory state. But like progressive economists, they too can't see the value of a developmental state. Economics is stuck in a rut.

Like much of the conventional wisdom offered in economic models today, K-pop lyrics are often meaningless. But one song is different: BTS's "Idol" offers genuine insight into Korean idol groups' self-perception and mocks their critics.

Given the universal power of art, or at least of hyper-commercialized, global post-music, the lyrics of "Idol" can also describe the point of view of conventional Western economists and policymakers. Despite their numerous policy failures, they retain their status. And although the developmental states of East Asia present both new challenges to U.S. dominance as well as new economic possibilities for mass prosperity, economists refuse to change their thinking about industrial policy:

You can call me artist (artist)
You can call me idol (idol)
I don't care
I don't care
I'm proud of it (proud of it)
No more irony (irony)
(yeah yeah yeah yeah)
I know what I am (I know what I am)
I know what I want (I know what I want)
I never gon' change (I never gon' change)⁴¹

¹ Robert Wade of the London School of Economics believes these advanced capabilities are built on the legacy of nearly half a century of Japanese colonial rule, which, unlike British colonial rule in Africa, developed strong institutions of production and state authority. Needless to say, this is an

extremely sensitive topic in Korea, where Wade notes that the Japanese legacy tends to be presented only in negative terms. See, for example, Jeyup S. Kwak, “[South Korea Struggles with Legacy of Japanese Colonization](#),” *Wall Street Journal*, August 12, 2015.

² Chung-hee Park, *The Country, The Revolution and I* (Seoul: Hollym, 1970), 156.

³ The specifics of the law can be found in Leroy Jones and Il SaKong, *Government, Business, and Entrepreneurship in Economic Development: The Korean Case* (Cambridge: Harvard University Press, 1980): 280–82.

⁴ There are conflicting accounts of the details of the punishment as well as of the deal, since neither were well documented. See Hyung-A Kim, “State Building: The Military Junta’s Path to Modernity through Administrative Reforms,” in *The Park Chung Hee Era: The Transformation of South Korea*, ed. Byung-Kook Kim and Ezra F. Vogel (Cambridge: Harvard University Press, 2011), 85–111; as well as Eun Mee Kim and Gil-Sung Park, “The Chaebol,” in Kim and Vogel, 265–94.

⁵ Park, *Country*, 120.

⁶ Il SaKong, correspondence with the author, email, September 2019.

⁷ Jones and SaKong, *Government, Business, and Entrepreneurship*, 280–82

⁸ SaKong, correspondence, email, September 2019.

⁹ The *Washington Post* was purchased by Jeff Bezos in 2013. In reaction to the 2019 National Conservatism Conference, Megan McArdle published an article in the paper attacking industrial planning. See Megan McArdle, “Conservatives Want to Revive a One-Time Trick from More Than 100 Years Ago,” *Washington Post*, July 23, 2019.

¹⁰ Lester C. Thurow, “Microchips, Not Potato Chips,” *Foreign Affairs* 73, no. 4 (July–August 1994): 189–92.

¹¹ Hyung-A Kim, *Korea’s Development under Park Chung Hee: Rapid Industrialization, 1961–79* (London: RoutledgeCurzon, 2004), 82–83.

¹² For a quantitative assessment of the HCI drive see, Nathan Lane, “Manufacturing Revolutions—Industrial Policy and Industrialization in South Korea.” 2019

¹³ Even if South Korea was racing forward economically, politically it returned to authoritarian rule. The new *Yushin* constitution of 1972 allowed Park to be president for life. Under his repressive *Yushin* regime unions were curtailed, if not made illegal, and there were violent clashes between student groups and the Korean Central Intelligence Agency (KCIA). In 1979 President Park was assassinated by the Director of the KCIA during a banquet at a KCIA safe-house in Seoul.

¹⁴ Alice Amsden, *Asia’s Next Giant: South Korea and Late Industrialization* (Oxford: Oxford University Press, 1992). See also Alice Amsden, *The Rise of “The Rest”: Challenges to the West From Late-Industrializing Economies* (Oxford: Oxford University Press, 2001).

¹⁵ Alexander Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge: Harvard University Press, 1962).

¹⁶ Amsden, *Asia's Next Giant*, 8.

¹⁷ Amsden, *Asia's Next Giant*, 239.

¹⁸ Jung-En Woo, *Race to the Swift: State and Finance in Korean Industrialization* (New York: Columbia University Press, 1991), 42.

¹⁹ Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925–1975* (Stanford: Stanford University Press, 1982).

²⁰ For an excellent and comprehensive intellectual history of the debates of this era, see Stephan Haggard, *Developmental States* (Cambridge: Cambridge University Press, 2018).

²¹ Nancy M. Birdsall et al., *The East Asian Miracle: Economic Growth and Public Policy; Main Report (English)*, A World Bank Policy Research Report (New York: Oxford University Press, 1993).

²² Robert Wade, “Japan, the World Bank, and the Art of Paradigm Maintenance: The East Asian Miracle in Political Perspective,” *New Left Review* 217 (May/June 1996): 3–37.

²³ Lewis T. Preston, foreword to Birdsall et al., *East Asian Miracle*, vi.

²⁴ Chad Syverson, “Challenges to Mismeasurement Explanations for the U.S. Productivity Slowdown” (NBER Working Paper No. 21974, February 2016).

²⁵ Amsden, writing in 2001, found China’s growth strategy reminiscent of Japan in the 1950s and 1960s. See Amsden, *Rise of “The Rest,”* 178–79.

²⁶ Ralph E. Gomory and William J. Baumol, *Global Trade and Conflicting National Interests* (Cambridge: MIT Press, 2001).

²⁷ Reda Cherif and Fuad Hasanov, “The Return of the Policy That Shall Not Be Named: Principles of Industrial Policy” (IMF Working Paper No. 19/74, March 26, 2019).

²⁸ Haggard, *Developmental States*, 72–73.

²⁹ William B. Bonvillian and Charles Weiss, *Technological Innovation in Legacy Sectors* (Oxford: Oxford University Press, 2015).

³⁰ Aaron Klein, “[Decline in US Shipbuilding Industry: A Cautionary Tale of Foreign Subsidies Destroying US Jobs](#),” Eno Center for Transportation, September 1, 2015. Shipbuilding also serves as a good example of why firm-to-firm misallocation research, the main thrust of academic and OECD research into the productivity slowdown, is useless here, given that the United States has been bumped from the sector altogether. For an example of this mainstream approach, see Dan Andrews, Chiara Criscuolo, and Peter N. Gal, “The Best versus the Rest: The Global Productivity Slowdown,

Divergence across Firms, and the Role of Public Policy” (OECD Productivity Working Papers No. 5, December 2, 2016).

³² Those who recall the Blum-Byrnes agreements also know that this sort of competition is not entirely new, nor is it without precedent in U.S. history.

³³ For an extensive history of Korean art cinema and the role of the state, see Euny Hong, *The Birth of Korean Cool* (New York: Picador, 2014), specifically Chapter 11, “K-Cinema, the Journey from Crap to Cannes.”

³⁴ Emily Blake, “The Strength of K-Pop Fandom, by the Numbers,” *Forbes*, April 4, 2018.

³⁵ This number is reported in Ingyu Oh and Hyo-Jung Lee, “K-pop in Korea: How the Pop Music Industry is Changing a Post-Developmental Society,” *Cross-Currents: East Asian History and Culture Review* E-Journal 9, (December 2013).

³⁶ Both speeches are quoted in Tae Young Kim and Dal Yong Jin, “Cultural Policy in the Korean Wave: An Analysis of Cultural Diplomacy Embedded in Presidential Speeches,” *International Journal of Communication* 10 (2016): 5514–34.

³⁷ Hye-Kyung Lee, “From National Culture to Transnational Consumerism,” in *The Korean Wave: Korean Media Go Global*, ed. Youna Kim (Abingdon: Routledge, 2013), 191.

³⁸ Hye-Kyung Lee, *Cultural Policy in South Korea: Making a New Patron State* (London: Routledge, 2019) and correspondence with author.

³⁹ For an (unofficial) English translation of the law, see “[National Intelligence Law of the PRC \(2017\)](#),” China Law Translate, June 27, 2017. For a legal primer on the law, see Mannheimer Swartling, *Applicability of Chinese National Intelligence Law to Chinese and Non-Chinese Entities* (Stockholm: Mannheimer Swartling, 2019).

⁴⁰ Emmanuel Saez and Gabriel Zucman, *The Triumph of Injustice: How the Rich Dodge Taxes and How to Make Them Pay* (New York: W. W. Norton, 2019).

⁴¹ BTS, “[Idol](#),” by Bang Si-hyuk et al., track 15 on *Love Yourself: Answer*, Big Hit, 2018. There are typically English translations for every idol pop song within about twenty-four hours of release.

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