

# 2013 Modularization of Korea's Development Experience: Operation of the Economic Planning Board in the Era of High Economic Growth in Korea

2014



MINISTRY OF  
STRATEGY  
AND FINANCE



**KDI SCHOOL**  
KDI School of Public Policy and Management



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2013 Modularization of Korea's Development Experience:  
**Operation of the Economic Planning Board  
in the Era of High Economic Growth in Korea**

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<b>Title</b>	Operation of the Economic Planning Board in the Era of High Economic Growth in Korea
<b>Supervised by</b>	Ministry of Strategy and Finance (MOSF), Republic of Korea
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<b>Research Management</b>	KDI School of Public Policy and Management
<b>Supported by</b>	Ministry of Strategy and Finance (MOSF), Republic of Korea

Government Publications Registration Number 11-1051000-000444-01

ISBN 979-11-5545-096-3 94320

ISBN 979-11-5545-095-6 [SET 18]

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Knowledge  
Sharing  
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Government Publications  
Registration Number

11-1051000-000444-01

Knowledge Sharing Program

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# Preface

The study of Korea's economic and social transformation offers a unique window of opportunity to better understand the factors that drive development. Within one generation, Korea had transformed itself from a poor agrarian society to a modern industrial nation, a feat never seen before. What makes Korea's experience unique is that its rapid economic development was relatively broad-based, meaning that the fruits of Korea's rapid growth were shared by many. The challenge of course is unlocking the secrets behind Korea's rapid and broad-based development, which can offer invaluable insights, lessons and knowledge that can be shared with the rest of the international community.

Recognizing this, the Korean Ministry of Strategy and Finance (MOSF) and the Korea Development Institute (KDI) launched the Knowledge Sharing Program (KSP) in 2004 to share Korea's development experience and to assist its developing country partners. The body of work presented in this volume is part of a greater initiative launched in 2007 to systematically research and document Korea's development experience and to deliver standardized content as case studies. The goal of this undertaking is to offer a deeper and wider understanding of Korea's development experience in hopes that Korea's past can offer lessons for developing countries in search of sustainable and broad-based development. In furtherance of the plan to modularize 100 cases by 2012, this year's effort builds on the 20 case studies completed in 2010, 40 cases in 2011, and 41 cases in 2012. Building on the past three year's endeavor that saw publication of 101 reports, here we present 18 new studies that explore various development-oriented themes such as industrialization, energy, human capital development, government administration, Information and Communication Technology (ICT), agricultural development, and land development and environment.

In presenting these new studies, I would like to express my gratitude to all those involved in this great undertaking. It was their hard work and commitment that made this possible. Foremost, I would like to thank the Ministry of Strategy and Finance for their encouragement and full support of this project. I especially would like to thank KSP Executive Committee, composed of related ministries/departments, and the various Korean research institutes, for their involvement and the invaluable role they played in bringing this project together. I would also like to thank all the former public officials and senior practitioners for lending their time and keen insights and expertise in preparation of the case studies.

Indeed, the successful completion of the case studies was made possible by the dedicated efforts of the researchers from the public sector and academia involved in conducting the studies, which I believe will go a long way in advancing knowledge on not only Korea's own development but also development in general. Lastly, I would like to express my gratitude to Professors Kye Woo Lee, Jinsoo Lee, Taejong Kim and Changyong Choi for their stewardship of this enterprise, and to the Development Research Team for their hard work and dedication in successfully managing and completing this project.

As always, the views and opinions expressed by the authors in the body of work presented here do not necessarily represent those of the KDI School of Public Policy and Management.

**April 2014**

**Joon-Kyung Kim**

**President**

**KDI School of Public Policy and Management**



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# Summary

<b>Chapter 1 Introduction: EPB's Purpose, Goals and Performance Evaluation</b>	<p>In the early 1960s, Korea was one of the poorest countries in the world that lacked financial resources for economic development and was highly dependent on foreign aid. The Park Chung-hee administration that came to power through the May 16 Military Revolution pursued strong economic development policies that were primarily administered by the Economic Planning Board (EPB), under the goal of economic reconstruction. As a result, Korea managed to achieve high economic growth and an advanced industrial structure, and improved its various social indicators in merely a few decades.</p> <p>The EPB has drawn many positive evaluations from domestic and international academia and media with regard to its contribution to the country's economic progress. By utilizing the EPB, Korea is widely thought to have carried out policies that have effectively mobilized and distributed limited resources, promoted exports to attain high economic growth, and endeavored to bring about social integration.</p>
<b>Chapter 2 EPB's Background and Necessity</b>	<p>In 1961, faced with poor economic conditions and political instability, the new government that emerged from a military revolution founded the EPB as a government agency responsible for pushing forward economic development policies.</p> <p>At the time of its establishment, the EPB's three major objectives were to formulate economic development plans, oversee the government's annual budget allocation and attract foreign capital. The EPB played a central role in the Park Chung-hee administration's national economic policy decision-making process.</p>

<p><b>Chapter 3 Implementation Strategy and System</b></p>	<p>The EPB, launched on July 22, 1961, was initially an organization comprised of four bureaus (Overall Planning Bureau, Budget Bureau, Material Resource Mobilization Planning Bureau, and Bureau of Statistics), 19 divisions and 228 staff. In December 1963, the Deputy Prime Minister post was introduced, which was a position concurrently held by the EPB Minister. Accordingly, the EPB also gained a higher status and it officially obtained the authority to coordinate a broad range of economic policies related to the economic development plans. For coordinating and deciding on matters related to economic development plans and economic policies, the EPB operated various coordinating bodies, including working-level meetings of the ministries concerned.</p>
<p><b>Chapter 4 Economic Planning Board: Details and Implementation</b></p>	<p>The economic development plans were primarily administered by the EPB. During Korea's high growth era, the EPB was reorganized to closely connect the functions of planning, financial resource allocation, as well as survey and evaluation. In its early years, the EPB's Economic Survey Division of the Overall Planning Bureau surveyed and analyzed the economic trends at home and abroad, while the Budget Bureau performed the budget functions, and the Bureau of Statistics planned, surveyed and provided statistics. Meanwhile, the Korea Development Institute (KDI), as the EPB's think-tank, took part in the process of designing the government's economic policies and thereby directly supported Korea's economic and social development.</p> <p>Back when the economic development plans were formulated, like any other developing country, Korea lacked resources for investment and thus sought to attract and efficiently manage foreign capital. As a mechanism to promptly adjust and efficiently implement economic policies in a rapidly changing environment, a Monthly Economic Trend Report Meeting was held and attended by the President and economy-related officials.</p>

<p><b>Chapter 5</b> <b>Analysis of EPB's</b> <b>Success Factors</b></p>	<p>The President's determination and vision of government policy for economic development promptly spread throughout the EPB and bureaucratic groups. Policy goals were also clearly presented and reasonably aligned with policy objectives and concrete policy means. The EPB possessed plenty of resources, including legal, human and material resources, and other forms of influence, such as information and informal authority. It recruited talented individuals and utilized think-tanks like the Korea Development Institute (KDI). The views of many experts and front-line officials were actively incorporated into preparing the economic development plans, reviewing the progress of major policies or seeking ways of improvement. In terms of Korea's political and economic conditions, presidential leadership remained relatively stable, making it possible to persistently pursue national goals. The government appears to have won political support, at least on the economic front, by generating visible outcomes through effectively coordinating economic policies.</p>
<p><b>Chapter 6</b> <b>Conclusion and</b> <b>Policy Implications</b></p>	<p>Key lessons drawn from operating the EPB are as follows: First, at the initial stage of the development path in developing economies, positive consideration should be given to creating an organization that holds the authority to allocate the budget and manage foreign capital, as in the case of the EPB, in order to efficiently merge and manage domestic and foreign capital. Second, it is important for the agency's divisions to provide credible information and timely research outcomes, and it is just as crucial to make full use of think-tanks like the KDI. Third, a smart policy coordination mechanism needs to be put in place. Fourth, the nation's leader should show strong commitment toward economic development and lend full support to the respective agency in charge. Fifth, no less important is a liberal atmosphere within the organization, as well as the ethics and competence of the high-ranking and front-line officials responsible for economic planning. Sixth, from a long-term perspective, building a national consensus is crucial for succeeding in economic planning or development administration.</p>

## Chapter 1. Introduction: EPB's Purpose, Goals and Performance Evaluation

This report aims to systematically present the Economic Planning Board (EPB)'s background, key functions, and the system and process of implementing such functions, so that Korea's development experience in operating an economic planning agency during its high growth era might be used in the policy making process of other developing



economies. Accordingly, this report seeks to focus on how the EPB was operated and generated outcomes during the conditions it faced at the time. The major time frame is the 1960~1970s, which is widely referred to as Korea's development era or high growth period. Other time periods are also addressed, but this report mainly discusses this specific time frame in order to serve as a reference to countries or scholars interested in the experience and outcome of operating a strong government-led policy implementation system when formulating economic development plans like Korea.

In the early 1960s, Korea was one of the world's poorest countries that lacked financial resources necessary for economic development and depended heavily on foreign aid. However, the Park Chung-hee administration, which came to power through the May 16 Military Revolution in 1961, pursued government-led economic development policies primarily orchestrated by the EPB under the purpose of economic reconstruction. As a result, the country achieved remarkable economic development in merely a few decades. Korea's average economic growth rate marked 9.1 percent from 1961 to 1979. The country's per capita income that stood at only US\$82 in 1961 jumped 19-fold to US\$1,636 by 1979, and its exports recorded a high average annual growth rate of 38 percent in 1961~1979. During this period, its industrial structure continued to be upgraded over time. Compared to the early 1960s, Korea also advanced significantly in many social indicators, including the infant mortality rate and average life expectancy. In addition, it gained a higher international status by joining the OECD DAC in 2009 to become the only country in the world to transform from an aid recipient to donor.

The EPB has received many positive evaluations from domestic and international academia and media with regard to its contribution to the country's economic progress. By fully utilizing the EPB, Korea is widely thought to have carried out measures that effectively mobilized and distributed limited resources and promoted exports to attain high economic growth and social integration.

## Chapter 2. EPB's Background and Necessity

Korea was liberated from 35 years of Japanese colonial rule on August 15, 1945. The Korean government was founded in 1948, but not long afterwards, the economy was pushed to the brink of collapse following the Korean War (1950~1953). The country's per capita GNP in 1960 was US\$79. It was hard to expect self-sustaining economic development through private sector initiative and most companies were unable to attract money from abroad. Faced with this situation, the government's option was to promote economic planning. Meanwhile, the political landscape, during the period after liberation until the early 1960s, was highly unstable, and foreign aid was gradually decreasing.

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It was under such circumstances that the “May 16 Revolution” broke out in 1961. The new Korean government that came to power through the military revolution was firmly committed to economic development and it created the EPB as a government agency to strongly pursue economic development policies. The EPB was mandated with deliberating and executing investment priorities for economic development, coordinating differing views among relevant ministries, and overseeing price stability and external economic policies. At the time of its establishment, the EPB’s three major objectives were to formulate economic development plans, oversee the government’s budget allocation, and attract foreign capital. The EPB played a central role in the Park Chung-hee administration’s national economic policy decision-making process. There are many other cases of countries established after World War II that also created planning agencies and formulated economic development plans. Korea, however, is a rare case in that it formulated various economic development plans with more authority than other government ministries with the confidence and support of the President, and achieved notable economic development.

### Chapter 3. Implementation Strategy and System

The EPB was launched on July 22, 1961, as an organization comprised of four bureaus(Overall Planning Bureau, Budget Bureau, Material Resource Mobilization Planning Bureau, and Bureau of Statistics), 19 divisions and 228 staff. In December 1963, the Deputy Prime Minister post was introduced, which was a position concurrently held by the EPB Minister. Accordingly, the EPB’s status was elevated and it officially gained the authority to coordinate a broad range of economic policies related to the economic development plans.

In the early years of the EPB, its three key functions were planning, budget and cooperation. From among these three, the EPB’s primary function was planning. This includes not only the simple formulation of short- and long-term economic plans, but also developing policy measures to respond to the constantly arising economic issues. Therefore, performing its planning function naturally involved matters falling under the administration of other government ministries, which meant that consulting and coordinating with other ministries was essential. In other words, this planning function included a coordinating function, while the budget function (mobilizing domestic capital) and the cooperation function (attracting foreign capital), acted as two important pillars that backed up this main function.

The EPB’s functions at the initial stage can be broken down further into four categories: (1) designing overall plans for the efficient operation of the national economy; (2) managing the implementation of the plans and coordinating economy-related policies, which were effectively carried out as the EPB was also charged with overseeing budget allocation and execution; (3) procuring and distributing resources necessary for economic development

and engaging in international cooperation and coordination to attract and manage foreign capital; and (4) researching data needed for economic development and formulating statistics.

In order to coordinate and determine matters related to the economic development plans, as well as economic and financial policies, the EPB operated various coordinating bodies including working-level meetings of concerned ministries. Many of the meetings, including the Economic Ministers' Discussions and Industrial Policy Deliberation Meeting, were chaired by the EPB Minister, who also served as the Deputy Prime Minister. In the 1960-1970s, the Economic Ministers' Meeting, Economic Vice Ministers' Meeting and Monthly Economic Trend Report Meeting were formed and operated to play a part in the country's economic development.

## Chapter 4. Economic Planning Board: Details and Implementation

Korea's economic performance in the 1960~1970s was largely driven by successful implementation of the economic development plans orchestrated by the EPB with great support from the President. In the First Five-Year Economic Development Plan (1962~1966), which was drafted by the EPB and finalized after deliberation by the Central Economic Committee, Cabinet Conference and Supreme Council for National Reconstruction, the basic objective was a self-sustaining economy. The Second Plan (1967~1971) was then pursued under the basic objective of modernizing the industrial structure and solidifying the self-sustaining economy, with a stronger focus on building the chemical, steel and machine industries, and expanding exports. It was formulated with a more advanced planning method with the increased participation of domestic and international experts. In the Third Plan (1972~1976) and Fourth Plan (1977~1981), in addition to growth, under plans for growth and balance, the heavy and chemical industry, balanced development, improved income distribution and enhanced living standards were set as major objectives and relevant economic policies were implemented.

During the high growth era, the EPB was reorganized to closely connect the functions of planning, budget, as well as survey and evaluation. The Economic Survey Division of the Overall Planning Bureau surveyed and analyzed economic trends at home and abroad, and also instructed and fostered state-run and private economic research institutes. The Budget Bureau, transferred from the Ministry of Finance, performed the budget functions and the Bureau of Statistics planned, surveyed and provided various statistics. Meanwhile, the state-run Korea Development Institute (KDI) played a major role as the EPB's think-tank.

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At the time the economic development plans were formulated, like any other developing country, Korea lacked resources for investment. Korea actively sought to attract and efficiently manage foreign capital for economic development. The EPB's Economic Cooperation Division, within the Material Resources Mobilization Planning Bureau when the EPB was first founded, performed the role of researching and coordinating economic cooperation with foreign or international organizations, overseeing annual material resource mobilization plans and attracting and adopting foreign resources for economic development. Thus, the EPB played a key role in the inducement and management of foreign capital. As a mechanism to promptly adjust and efficiently implement economic policies in a rapidly changing environment, a Monthly Economic Trend Report Meeting was held and attended by economy-related officials. President Park Chung-hee personally chaired this meeting held at the EPB building, received reports on pending economic issues, and thoroughly reviewed the implementation process of major national policy agendas, such as the Saema-eul Movement (new village movement).

To respond to the changing conditions, the EPB's functions evolved as follows: In the 1960s, the EPB led all economic policy-related affairs, but in the 1970s, particularly in the process of putting in place policies to foster the heavy and chemical industry under the Ministry of Commerce and Industry as the lead, the EPB also supported policy implementation of other ministries, and assumed the role of planning and coordinating national economic policies among all the ministries. Entering the 1980s, the EPB placed more emphasis on growth with stability than just growth, and its organizational structure and functions were adjusted to concentrate on solidifying an economic system where the market system could function better on its own, compared to government-led and goal-oriented industrial policies.

## Chapter 5. Analysis of EPB's Success Factors

The President's determination and government policy vision regarding economic development promptly spread throughout the EPB and bureaucratic groups. Policy goals were also clearly presented and reasonably aligned with policy objectives and concrete policy means.

In particular, the EPB held the trust and support of the President when implementing major policies and plans. It possessed plenty of resources such as legal, human and material resources, as well as other forms of influence, including information and unofficial authority. It was empowered with the authority for budget allocation and foreign capital management pursuant to the Government Organization Act, and could procure resources needed for achieving policy goals. As such, the EPB was given considerable authority within the organization itself, as well as with respect to other agencies, that enabled it

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to plan and implement more effective economic development strategies. Also, it gained relatively higher recognition than other government ministries after the EPB Minister was appointed to also serve as the Deputy Prime Minister. Former EPB Ministers include Chang Key-young, and Nam Duck-woo, and their leadership and experience is widely thought to have contributed significantly to the EPB's performance. The dedicated EPB officials, together with the KDI research fellows, who significantly contributed to the process of formulating various economic policies, created a synergy effect.

When preparing the economic development plans, reviewing the progress of major policies or seeking ways of improvement, the views of many experts and front-line officials were actively incorporated. In particular, in the early stage of economic development, foreign experts from USAID and the Advisory Delegation of the German Government were stationed in Korea as economic aid advisories and took part in designing the economic development plans through meetings with Korean economic policy experts. The few differences that did arise in this process among the government ministries concerned were promptly and efficiently adjusted through various coordinating groups.

In terms of Korea's political and economic conditions, presidential leadership remained relatively stable in 1961~1979, making it possible to persistently pursue national goals. The government appeared to have won political support, at least on the economic front, by generating visible outcomes through effectively formulating and coordinating economic policies.

## Chapter 6. Conclusion and Policy Implications

Key lessons drawn from operating the EPB are as follows: First, at the initial stage of the development path in developing economies, positive consideration should be given to creating an organization that holds the authority to allocate the budget and manage foreign capital, as in the case of the EPB, in order to efficiently merge and manage domestic and foreign capital. Second, it is important to have divisions that provide credible information and timely research outcomes, and it is just as crucial to make full use of think-tanks like KDI. Third, a smart policy coordination mechanism needs to be put in place. This would include introducing and operating various consultative and coordinating bodies like the Monthly Economic Trend Report Meeting. Fourth, the country's leader should show strong commitment toward economic development and lend full support to the respective agency in charge. Fifth, no less important is the liberal atmosphere within an organization, as well as the ethics and competence of the high-ranking and front-line officials responsible for economic planning. Sixth, from a long-term perspective, building a national consensus is crucial for succeeding in economic planning or development administration.

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Korea's EPB went through some notable changes after the rapid growth period, namely, from the 1980s onward. It not only performed its original function of planning and coordination but also occasionally got involved in the affairs of other ministries; and grew in size. These were some of the problems that came to light after the EPB became a super ministry for some time. Such problems eventually led to the EPB's abolishment in 1994. Reflecting on Korea's experience, it would be better for developing countries to manage economic policies through participative administration or cooperative governance with time, as the policy environment becomes more complex and diverse and moves onto a higher level of development.

The following matters should be taken into consideration when providing policy advice to prospective partners: First, it is important to have an understanding that planning is not everything. When introducing the EPB's functions and roles to interested developing economies, it is necessary to also highlight the adverse effects of planning, and to guide toward a market economy when having reached a certain stage of development. Second, there is also the need to underscore that an agency like the EPB should be operated under a fair government personnel system. Korea had an open recruit system to hire government officials through a fair process, and many talented officials chose to work at the EPB to play an important role in the economic development process. Third, there is a need to stress that even if a country has a strong leader or competent government officials, it cannot achieve economic development without the dedicated efforts and voluntary cooperation of the nation's people. Finally, socialist countries need to note that Korea's economic system was, in principle, operated under the framework of a market mechanism although the government played a predominant role over the private sector.

2013 Modularization of Korea's Development Experience  
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# Chapter 1

## Introduction: EPB's Purpose, Goals and Performance Evaluation

1. Evaluation of Performance of Initial Goals
2. EPB's Contribution to Korea's Economic and Social Development
3. Expected Benefits from Operating an Economic Planning Agency

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# Introduction: EPB's Purpose, Goals and Performance Evaluation

## 1. Evaluation of Performance of Initial Goals

### 1.1. Korea's Past and Present

Like many other underdeveloped countries, Korea was scarred with a painful history of colonial occupation in the early 20<sup>th</sup> century. It lost its sovereignty to Japan in 1910 and was under colonial rule for 35 years. Although liberated when Japan surrendered to the Allied Forces on August 15, 1945, the peninsula was divided by the 38<sup>th</sup> parallel and administered by the US and Soviet Union, which resulted in dividing the country into the South (democracy) and the North (communism). Afterwards, the United Nations (UN) resolved that the two Koreas should carry out a general election for a unified national government, but this notion was rejected by the North. Thus, the general elections were held only in the South on May 10, 1948, after which it promulgated its Constitution on July 17, 1948 and established the government of the Republic of Korea on August 15, 1948.

This government exerted diverse efforts to rebuild the economy that had suffered from the heavy exploitation under Japanese rule. Such efforts, however, turned out to be in vain with the outbreak of the Korean War on June 25, 1950. The war finally came to an end with the Korean War Armistice Agreement signed on July 27, 1953, but the division of the peninsula had become permanent.

At the time, the word “hope” seemed to be irrelevant to Korea. Back then, it was one of the poorest countries in the world which depended heavily on foreign aid, lacking the resources necessary for economic development. Geopolitically, South Korea was faced with communist powers with North Korea and China to the north and west, respectively, and there was the Pacific Ocean to its south. Meanwhile, to its east was former colonial



ruler Japan, and the two nations were on unfriendly terms until they normalized diplomatic relations in 1965. Therefore, South Korea was, in a way, completely segregated from its neighboring countries, and its only dependable ally was the US.<sup>1</sup> Back then, most believed that the Korean economy would not be able to grow further.

However, a military revolution led by then Major General Park Chung-hee broke out on May 16, 1961, and after Park became president, the military government implemented full-scale economic development plans primarily administered by the government, which achieved high economic growth in merely a few decades. The revolutionary forces launched the Economic Planning Board (EPB) in July 1961 as an agency specializing in economic development planning, and as dealt in more detail below, the EPB performed an important role in pursuing Korea's economic development policies especially in the 1960~1970s. While Korea's performance in economic development is notable, there was also criticism that it had brought about problems such as income disparity. Still, the late President Park is widely recognized as the first political leader in Korea to initiate a systematic economic development plan.<sup>2</sup>

Korea, at the time, carried out distinct growth strategies that differed from most other developing countries. When faced with scarce natural resources and low foreign reserves as Korea did back then, many countries tended to opt for an import substitution strategy. However, Korea, in the early 1960s, stressed a strategy that promoted exports led by the government. As the country had a relatively abundant and well-educated workforce, it primarily focused on manufacturing labor-intensive products<sup>3</sup> and gradually increased its

1. Sung, Keuk Je, ed. (2010), *Was There an Economic Miracle in Korea?*, *Development Experience of the Korean Economy*, Kyung Hee University Press, p. 13.
2. Some view that the military revolution broke out in 1961 because public sentiment thought that North Korean military threats existed amid circumstances of continued political confusion and economic recession. (refer to Sung, ed. 2010, p. 13). President Park Chug-hee was inaugurated in 1962, the year after the military revolution, and remained in power for 18 years until he was assassinated in 1979. US TIME Magazine (May 1961 edition), described the late President Park to have been born into a poor family and held a conviction for justice and egalitarianism. Meanwhile, it is difficult to deem that income distribution was completely neglected during the late Park administration. With the awareness that the country lacked natural resources and foreign reserves, the government carried out a "growth first, equity later" strategy to allocate the limited financial resources to sectors with higher growth prospects. Thus, the Korean government, as in many other developing countries, believed that a primary focus on growth would eventually cause the Kuznets inverted-U hypothesis to hold and that the matter of distribution would improve with time.
3. In the early 1960s, the trend in advanced economies had already started to shift from a labor-intensive to a capital-intensive industry. Korea, on the other hand, had an abundant well-educated workforce, and therefore held relatively favorable conditions for making labor-intensive products. Kim, Heung-ki, ed. (1999), *The Korean Economy in Glory and Disgrace: 33 Years of the Economic Planning Board*, Maeil Business Newspaper, 1999, pp. 97~98. Furthermore, placed in a situation where the government assumed the roles of the market and private companies, because of the vulnerable state of private companies at the time, the government was intent on fostering a "group" that could spearhead economic development. This later led to the emergence of the so-called chaebols (large conglomerates).

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exports. Imports were regulated to a certain extent with a focus on increasing exports, and various tax-related and financial measures were designed to boost exports.<sup>4</sup> As a result of such efforts, Korea was able to achieve high export-oriented growth within a relatively short period of time.

By contrast, Korea's trade and export policies changed somewhat beginning in the 1970s. This was largely because Korea's fast increase in exports was met by trade barriers in major advanced economies, and Korean policymakers became aware of the need to develop more sophisticated export items. Furthermore, Korea's circumstances called for developing its own military industry, as the US had announced that it would greatly reduce the role of the US military in the Asian region including Korea. Against this backdrop, in the 1970s, Korea modified its initial "neutral" export promotion policies to focus on targeted industrial development.

Notably, this modification or shift in trade and industrial policies brought about both positive and negative effects. Focusing financial support on the major heavy and chemical industry,<sup>5</sup> must have helped strengthen competitiveness of the industry per se. However, in the course of fostering the heavy and chemical industry, money supply increased and skilled workers from other sectors were drawn to the heavy and chemical industry, causing inflation and wage hikes. Furthermore, the overall productivity of the heavy and chemical industry at the time was not particularly high.<sup>6</sup> Then, the occurrence of the 1979 oil shock and a tightened export market caused Korea's export growth rate to record negative digits. Labor disputes also intensified. Some voiced concerns that a government-led economic development strategy restricted the autonomy and creativity of the private sector and market.

From the 1980s, Korea recognized these negative aspects and began to shift its economic policies, stressing macroeconomic stability along with structural reform of the overall economy such as adjusting investments in the heavy and chemical sector. These efforts

4. In the early years of the Park Chung-hee administration, the government operated a government guarantee system in which the Korean government guaranteed repayment if domestic private companies were unable to repay the foreign loans. This was due to the fact that foreign banks and companies were reluctant to provide loans because of the low credit ratings of Korean companies.

5. The government selected six sectors (petrochemical, automobile, shipping, machinery, electronics, steel), and in the late 1970s, around 80 percent of all available financial resources were injected into these sectors (Sung, ed. (2010), p.14). This "selective" policy that fostered the heavy and chemical industry was highly criticized for giving rise to Korea's "chaebol (conglomerates)" to spark issues of social equity and collusive links between business and politics. In particular, there is also the view that the extremely high debt ratio and unfair corporate behavior, such as cross-shareholding eventually triggered inefficiency in the Korean economy as a whole, and was one of the many factors that later caused the economic difficulties during the Asian financial crisis in the late 1990s.

6. The Korean light industry's competitiveness was on the decrease from the late 1960s due to its deteriorating financial structure and rising wages. The government endeavored to foster the heavy and chemical industry as an import substitution industry from the Second Five-Year Economic Development Plan, but the industry still remained in an infant stage. Kim ed. (1999), p. 176.

were administered by the EPB.<sup>7</sup> It turned from its previous growth policy to seek a policy of growth with stability, and it also initiated liberalization policies in the economy such as opening the industrial products market and liberalizing interest rates. The government concentrated further on managing the balance of payments in order to ease chronic inflationary pressures and the burden of foreign debt, and continued efforts for financial soundness. In particular, from 1986 to 1988, backed by such policy efforts and the global “three lows (low oil prices, low interest rates, weak dollar),” Korea recorded a large current account surplus. It also designed more policies to enhance social equity through balanced development between different regions and classes. In this respect, the social welfare system was widely expanded, including the introduction of the national health insurance system, and especially in 1987, political democracy was ushered in with a direct presidential election, which gave rise to more demands from all different parts of society.

Even after entering the 1990s, Korea continued to focus on structural efforts in the economy at large, primarily administered by the EPB. Nonetheless, there was increasingly more skepticism over a government-led economic development approach in the country, and in 1994, the EPB was abolished and consolidated with the Ministry of Finance to become the Ministry of Finance and Economy. Then, due to the effects of the Asian financial crisis in the late 1990s, Korea encountered an economic crisis as to which it received an IMF bailout in 1997. There are several different views concerning the reason for Korea’s vulnerability to external shocks, but many experts perceive it was caused by the inefficiency in Korea’s corporate, finance, labor and public sectors that had occurred from its development era. The Korean government initiated various reform programs to escape the foreign exchange crisis, and as a result, it managed to overcome the crisis in just one and a half years.<sup>8</sup>

When the global financial crisis broke out in 2008, Korea was relatively less affected by external shocks. This is widely perceived to be largely attributed to the fact that it had

7. There are three different views on rapid economic growth and the role of government in East Asian economic development: (i) the neoclassical view, (ii) the developmental-state view and (iii) the market-friendly view. In all three views, it is noted that government intervention was required when the pre-conditions for the market economy had not been sufficiently established. A well-functioning market system requires special social, institutional, legal and cultural pre-conditions in developing nations. Once the socio-cultural preconditions, as well as market-facilitating legal and economic preconditions are met, the role of government must be altered in terms of the degree, scope and direction. As economic development proceeded, the Korean government’s intervention was gradually reduced and redirected in its policy from the 1970s on. In particular, during the 1997 financial crisis, the government accelerated its support of market function during the process of solving the crisis in the banking and corporate sectors. As a result, the 1997 financial crisis made a great contribution in accessing the market economy. Kim, Dal Hyun, *The Role of the Government in Management of Economic Development in Korea*, Sung, Keuk Je (ed.), Development Experience of the Korean Economy, Kyung Hee University Press, 2010, pp. 54–55.

8. The corporate debt ratio and BIS capital adequacy ratio of financial institutions improved significantly, and maintaining the approach for financial soundness, efforts were also actively carried out for legislation concerning the privatization of public corporations and improving industrial relations.

consistently adhered to its past economic stabilization policies that had been administered by the EPB in the 1980s. Most notably, Korea's efforts for financial soundness are thought to have left it with relatively more room to reinvigorate the economy through financial means, compared to many other countries like the European economies.

The following section will take a closer look at Korea's current standings on the global stage.

As of 2011, Korea positioned itself among the global leaders in several manufacturing rankings, as the world's seventh largest goods exporter and fifth largest auto manufacturer, and taking the top spot in shipbuilding and second place in semi-conductor sales and mobile handset shipments. Its foreign exchange reserves and nominal GDP (PPP basis) also rank eighth and 12<sup>th</sup> in the world, respectively. Furthermore, the country's per capita GDP exceeds US\$20,000. As seen in the table, the industrial structure continued to be upgraded over time.<sup>9</sup>

**Table 1-1 | Evolution of the Industrial Structure**

	1960		1979		2012	
	Portion of Production	Portion of Employment	Portion of Production	Portion of Employment	Portion of Production	Portion of Employment
Primary Industry	36.8%	63.8%	20.9%	35.8%	2.8%	0.2%
Secondary Industry	15.9%	7.9%	26.0%	23.6%	31.8%	20.1%
Tertiary Industry	47.3%	28.3%	53.1%	40.6%	65.4%	79.7%

Source: Korean Statistical Information Service, <http://kosis.kr/>.

Korea has also advanced significantly in terms of its social indicators. The country's average life expectancy stood at 55 years in 1962, the first year the First Economic Development Plan was implemented, but has jumped to 81.2 years as of 2011, which places it in 7<sup>th</sup> place among countries with a population of over 10 million.<sup>10</sup> The infant mortality rate was 90 out of 1,000 babies in 1962, but now records almost insignificant levels. Meanwhile, Korea ranked overall first among 157 International Telecommunications Union (ITU) member countries in the ICT Development Index (IDI) for 2013 in the individual

9. KITA Institute for International Trade (2011), *Korea in the World*.

10. World Health Organization (2013), *World Health Statistics*.

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indexes, fixed-telephone subscriptions per 100 inhabitants, and percentage of households with internet access.<sup>11</sup>

Korea has continued to increase its role in international society. The country became the 29<sup>th</sup> member of the OECD in 1996, which brought it a step closer to joining the ranks of advanced economies. Korea also drew the attention of the global financial market and market participants when it hosted the 2010 G20 Seoul Summit, the premier international forum that was organized to seek solutions for the world economy after the recent global financial crisis. Particularly noteworthy is that Korea became the first country to transform from an aid recipient to donor by joining the OECD Development Assistance Committee (DAC) in 2009, and it is also the 11<sup>th</sup> largest contributor to the UN regular budget as of 2012 (E-Government Index).

How was Korea able to attain such remarkable economic development in the 1960~1970s and attain its current international status? Was there truly a “Han River Miracle” in the 1960~1970s, one that matched the “Miracle on the Rhine” in West Germany after World War II? Several answers may be provided, but one frequent response is that Korea’s economic planning unit, the Economic Planning Board (EPB), played an important role during this period. Many experts point to the fact that the EPB was able to initiate effective economic development strategies under the strong commitment of the President and his support for the agency.

The economic development strategy that Korea pursued in the 1960~1970s does not go without criticism that it had its share of problems. However, if Korea’s economic development experience is replicated in other developing countries around the world, it would provide not only developing economies but also advanced economies with an important opportunity. When there are more successful cases of other developing economies reaching the levels of Korea’s per capita income, it would be able to contribute to alleviating the poverty issue around the globe today.

However, this report focuses on discussing the background of the EPB’s establishment in the early 1960s, its goals and functions until the late 1970s, and its operation and system. This report attempts to draw implications for other developing countries by addressing the

11. Ministry of Science, ICT and Future Planning, *Press Release*, Oct. 7, 2013. Traditionally, a country’s economic development tends to be measured by its per capita income. However, noting that many developing countries continue to show little improvement in the living standards of the majority of the people, in other words, the quality of social living standards, despite higher per capita income passing the 1960s and 1970s, nowadays, many economic development scholars think that the improvement of social indicators are an important measurement of economic development that should be considered in line with the higher levels of income(See Todaro, Michael P., and Stephen C. Smith, *Economic Development* [2012], 11<sup>th</sup> ed. Prentice Hall pp.14-22, and Meier, Gerald M., and James E. Rauch (2000), *Leading Issues in Economic Development*, 7<sup>th</sup> ed., Oxford University Press, 2000, pp.5-7 & pp.69-71 for more details.).

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operation of “hardware” or the EPB itself, as opposed to going into the details of various economic policies. The main purpose of this report is to introduce the establishment and operation process of the EPB to policymakers and consultants who are interested in referring to Korea’s economic planning and development experience when designing policies in developing countries.

## 1.2. Evaluation of EPB’s Performance

As mentioned earlier, the EPB was a government agency that was created under the order of the then Chairman of the Supreme Council for National Reconstruction, Park Chung-hee, who had led the May 16 Military Revolution in 1961. At the time, there was a strong sentiment for pursuing economic development to actualize the nation’s determination for higher living standards by achieving economic prosperity. This was embodied in the launch of the EPB on July 22, 1961.

When the EPB was established, it was armed with planning and coordinating functions, which were supported by budgetary and foreign capital inducement functions. Therefore, the EPB was deemed the key authority in formulating and implementing economic development strategies.<sup>12</sup> Furthermore, the President’s confidence and support toward the EPB, and the organization’s relatively close cooperative ties with the Economic Affairs Office of the President was also one of the major driving forces that enabled the EPB to perform its role.

The EPB’s distinct organizational culture can also be considered to have contributed to enhancing the quality of the agency’s performance. First, the EPB’s recruitment was conducted in a more open fashion due to the fact that it had merged the functions of several different ministries. It was in charge of international affairs such as foreign aid management and foreign capital inducement, and therefore more open and global mindsets were nurtured at the organization. Under a more open and performance-based personnel management system, the organization was relatively free from regionalism and school ties, and as a result, contributed to enhancing the efficiency of the EPB’s performance.

Second, the EPB had conditions that were favorable for performing its planning and budgetary roles under a fair and balanced approach with the overall economic framework in mind and being relatively free from interest groups. The agency had a setting where problems were addressed and solutions were devised with a broad view of the entire economy. Thus, even if individual ministries approached a matter at hand from their respective perspectives, the EPB was in a position to persuade or help gain the understanding of the ministry concerned as it approached the situation with an overall vision and framework for the national economy.

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12. See Chapter 3 of this report for more details on the organization and functions of the EPB.

Third, one of the EPB's responsibilities was planning and coordinating the different affairs of several ministries, and therefore, the rationale for persuading its counterpart was deemed considerably important.

Based upon the conditions and settings mentioned above, the EPB formulated and coordinated short- and long-term development plans and coordinated economic policies across all ministries to bring all related government agencies under its jurisdiction. The following section will elaborate on a few cases where short- and long-term economic issues were addressed effectively through policies. The first case concerns the formulation and implementation of the five-year economic development plans. In February 1962, the First Five-Year Economic Development Plan was announced with the goal of "correcting the social and economic vicious cycle and establishing a foundation for a self-sustaining economy. With this, Korea ushered in an era of comprehensive economic development. It initiated government-led export-oriented growth strategies based on the relatively abundant and well-educated workforce, and later reaped substantial results pursuant to the overall global trend that moved toward free trade grounded on the IMF and General Agreement on Tariffs and Trade (GATT) system. Entering the 1970s, economic conditions deteriorated following shifts toward protectionism around the world and the two rounds of oil shocks, but these conditions were adequately addressed by the EPB. In particular, as the Middle Eastern region emerged as an important market for the construction industry with its "oil money," the EPB led measures to increase inflow of foreign currency by promoting the advancement of Korean construction companies in the Middle East. This is often attributed as one of factors that lay the foundation for Korean construction businesses to later grow into large-scale global companies. Meanwhile, especially nearing the late 1970s, more concerns were voiced about the side-effects of development such as the inflation caused by the government's unbalanced growth strategy, and to this end, the EPB announced the April 17 stabilization measures in 1979. These measures became the basis for the stabilization measures that emerged at the forefront of the Korean economy in the 1980s.

Aside from this, there were also several coordinating bodies like the Economic Ministers' Meeting (chaired by the Deputy Prime Minister) for the purpose of smoothly managing the economic ministries under the EPB's jurisdiction. One meeting, the Monthly Economic Trend Report Meeting, held at the EPB building, was even chaired by the President. With the country's leader personally looking over major economic issues through this meeting once a month, more interest was directed toward the matters addressed, and the relevant government ministries were able to effectively seek various short- and long-term economic development strategies.<sup>13</sup>

13. See Chapter 3 and 4 of this report for more details on the operation of such coordinating bodies.

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Views on the EPB's performance are, however, somewhat divided. Those who place more importance on the side-effects than the benefits of growth tend to argue that the policy direction of the EPB, especially during the development era of the 1960~1970s, was completely mistaken. They claim that the unbalanced growth strategy ultimately intensified the imbalance of opportunities among economic entities, and also argue that the benefits bestowed on the chaebol at the time still burdens the Korean economy to this day. More views along the same line also assert that one of the major mistakes was the excessive investments into the heavy and chemical industry in the 1970s, and that the inflation triggered by development weighed down on the Korean economy for a considerable period of time. There is also the criticism that the allocation of the government's financial resources was focused on the economic development sectors rather than the enhancement of equity or social welfare. Moreover, there is the argument that government-led economic measures caused the efficiency of the overall economy to deteriorate due to less creativity and autonomy in the private sector and companies.

Meanwhile, the EPB was lauded by those who place importance on quantitative indicators such as the high growth rate and per capita income growth, accomplishments achieved through increasing exports. They assert that, "rapid growth was possible because of the growth-oriented strategy aimed at eradicating absolute poverty," and argue that the EPB's achievements should not be disparaged based only on the side-effects. Their view is that by achieving fast growth, the country's widespread poverty problem was alleviated and the nation's living standards improved. There is also the assertion that growth and higher employment came hand in hand, and played a part in expanding the basis for self-sustaining growth.

For instance, Kang et al. (2008)<sup>14</sup> noted that, "The EPB fully performed its role and duty for over three decades until the Korean economy began to reach advanced levels in the early 1990s. It presented the directions going forward for the economy and designed economic development plans that effectively utilized limited resources, and is thereby assessed to have contributed greatly to the country's economic development." Recently, several high-ranking Korean government officials have even voiced the need for a government agency like the EPB that could effectively plan and implement economic and social policies.

Meanwhile, there is a policy research institution that has been receiving renewed interest along with the EPB. It is the Korea Development Institute (KDI), which was founded in 1971. Since its inception, KDI has been a direct help to the Korean government through research and policy development covering a wide range of sectors including economic,

14. Kang, Gwang-ha et al. (2008), *The Policy-Decision Making System during the Rapid Economic Growth in Korea: Economic Planning Board and Inter-Ministerial Committees*, Korea Development Institute, p.45.



social, industrial, educational and welfare issues. KDI has been deeply involved in the process of formulating and implementing economic policies through close cooperation with the government, in particular, the Office of the President and the EPB. The late President Park held the KDI close to his heart, to the extent that he would frequently stop by at the institution and encouraged the researchers. KDI was founded under the recognition that the government should benefit from well-educated Koreans instead of merely depending on foreign experts when formulating its economic policies.<sup>15</sup> The following provides a few examples of evaluations of the role of KDI, the EPB's think-tank, mentioned in well-known journals or magazines.

#### Box 1-1 | Evaluations of KDI's Role

National Economic Management (Ch. 7) (1983), *World Development Report*

- The Korea Development Institute, which works in close collaboration with EPB, was also a channel through which outsiders contributed advice; it became the research arm of the government for economic policies (p.68).
- Development research institutes (such as the Korea Development Institute) can provide forums for government and outsiders to exchange ideas (p.70).

Shinohara, Miyoei, Toru Yanagihara, and Kwang Suk Kim (1983), *The Japanese and Korean Experiences in Managing Development*

- During the formulation of the Fifth Plan... and before the plan guidelines were completed, the EPB and the Korea Development Institute (KDI) jointly held a series of public conferences to present and discuss the likely issues and alternative targets and policy directions of the plan (p.49).
- With the Fourth Plan, the Korea Development Institute began issuing a discussion paper to facilitate the EPB's review and examination of alternative goals, targets, and policy directions for the plan before it prepared the guidelines (p.78).

Henderson, Jeffrey, David Hulme, Richard Phillips, and EunMee Kim (2002), *Economic Governance and Poverty Reduction in South Korea*

- The institutional position and power of the KDI relative to the other think tanks directly mirrored that of the EPB and its near absolute power over all the line ministries engaged in policy implementation (p.13).

15. Chung, In-young (2002), *Memoirs of the Economic Brains of KDI: A 30-Year History*, Korea Development Institute, p.142.

Leipziger, Danny M., and Vinod Thomas(1993), *The Lessons of East Asia*

- Fellows of the prestigious Korea Development Institute were more highly paid than ministers (p.19).

The Economist [The good think-tank guide. (Dec. 1992). The Economist, 321, 49.

Retrieved from, <http://search.proquest.com/docview/224188553?accountid=40940>

- Until recently, the prize for the most influential think tank would probably have gone to the Korea Development Institute, the intellectual powerhouse of South Korea's rapid industrialization. From its campus-like buildings on a hill 30 minutes from the centre of Seoul, KDI has shaped Korea's financial and macroeconomic policies.

(Clever-4; Connected-5; Canny-4; Cushy-2; Kooky-3).

Overall, the government-led economic development strategies, under the President's support for the planning agency, led to remarkable outcomes in the Korean economy, especially in the 1960~1970s. During this process, especially since the early 1970s, KDI has made a great contribution by engaging either in the formulation of long-term plans or in short-term policy making.

## 2. EPB's Contribution to Korea's Economic and Social Development

Korea's full-scale efforts for economic development can be considered to have started in 1962 when it launched its Five-Year Economic Development Plan.<sup>16</sup> Korea formulated and implemented four five-year development plans in 1962~1981, and particularly during the Park Chung-hee administration (1961-1979), overall average annual GNP growth rate was recorded at 9.1 percent. Other Asian countries in situations similar to Korea posted an average annual economic growth rate of 7.4 percent in Thailand, 5 percent in Indonesia, 4.2 percent in India, and 4 percent in the Philippines (Maddison, 1995). A comparison with other economies during the same period shows that Korea accomplished rapid economic

16. A long-term economic development plan was also formulated by Korea's founding government, the Rhee Syngman administration. However, it was a plan that had been hurriedly prepared for the purpose of receiving US aid, and President Rhee, a supporter of a liberal economy, did not believe in government-led economic planning. This long-term development plan was eventually scrapped. A long-term national plan was also put together under the President Yoon Bo-seon and Prime Minister Chang Myon administration, shortly before the late President Park administration, but it was never implemented due to political reasons.

growth. The country's per capita income that stood at only US\$82 in 1961 jumped 19-fold to US\$1,636 by 1979, and its exports recorded a high average annual growth rate of 38 percent in 1961~1979. As mentioned earlier, the industrial structure continued to become more upgraded. The number of people with an income below the poverty line fell from around 40 percent to 10 percent of the total population. The unemployment rate continued to improve, posting 7.1 percent and 4.5 percent in the last year of the First Plan and Fourth Plan, respectively. The development plans are seen as having contributed to not only high growth, but also contributing considerably to easing the unemployment issue.

**Table 1-2 | Comparison of Five-Year Economic Development Plans**

(Unit: %)

	1 <sup>st</sup> (1962~1966)		2 <sup>nd</sup> (1967~71)		3 <sup>rd</sup> (1972~76)		4 <sup>th</sup> (1977~86)	
	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual
GNP Growth Rate	7.1	7.8	7.0	9.7	8.6	10.1	9.2	5.6
Unemployment Rate <sup>1)</sup>	14.8	7.1	5.0	4.5	4.0	3.9	3.8	4.5
Prices (GNP deflator)	-	19.3	-	13.9	-	21.0	8.8	19.9
Export Growth Rate (Real)	28.0	38.6	17.1	33.8	22.7	32.7	16.0	10.5

Source: Economic Planning Board (1982), *Economic Policies of the Development Era: The Twenty Year History of the Economic Planning Board*, p.223.

Note: 1) Period end.

The EPB's major direction of economic policies was set on economic policies and this is viewed to have contributed significantly to the national economy. Back then, the Korean market was not yet properly developed as its people lacked purchasing power, and therefore, an effective approach was to make use of overseas demand in a global market that was becoming rapidly integrated on the tides of free trade. The growth of exporting companies led to increased employment, and this can be deemed to have contributed to improving the nation's living standards through alleviating the poverty issue.

In the early stage of Korea's economic development, its growth strategy based on various government-led protection and support measures, primarily administered by the EPB, is also thought to have positively contributed to the overall national economy. Excessive protection or regulations on private economic activities can hinder creativity in the private sector and weaken corporate competitiveness. Furthermore, there would be limits to the extent that the government could manage the economic activities of the private sector when the economy grows in size and develops a more complex and diverse structure. However, when the domestic market is small and lacking in capital and technical skills, as was the

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case of Korea in the early years of the development era, it is possible to construe that protection and support measures led by the government can somewhat contribute to the development of the vulnerable domestic industry, as opposed to free competition based on market principles.<sup>17</sup>

The EPB also played an important part in enhancing the country's living conditions and establishing the foundation for the country's industrial development by concentrating on increasing investments in social overhead capital such as roads, ports and railways. The past administrations had tended to use foreign capital for providing help to small business owners or the unemployed, but the Park Chung-hee administration took a different approach. It perceived that it was crucial to invest in infrastructure, a key sector of economic development. In particular, the construction of Pohang Iron and Steel Company (POSCO), now a global supplier of steel, and Gyeongbu (Seoul-Busan) Expressway, which plays a central role in the country's logistics, were pushed forward under the leadership and determination of the late President Park, despite much opposition from domestic and international experts. In the stage of expanding SOC, the EPB, together with KDI, also carried out studies on long-term demand forecasts and measures for procuring resources for these state projects.

To respond to the changing environment, the EPB constantly worked towards enhancing social equity. Especially in the 1970s, when economic development appeared to have reached a stage of maturity, it began to step up its interest in policies for social development such as balanced regional development and improved social welfare. In fact, the Third Five-Year Plan and Fourth Five-Year Plan set "harmony of growth, stability and balance" and "growth, equity and efficiency" as their policy principle, respectively. In particular, the Saemaueul Movement, which was fully launched from the 1970s, was one of the major projects intended to achieve balanced regional development with the awareness that economic development plans, focusing on unbalanced growth, will likely widen the development gap between urban and rural regions. The progress of the Saemaueul Movement was regularly reported at the Monthly Economic Trend Report Meeting chaired by the President, and relevant measures were carried out according to the instructions of the President. For instance, in 1971, the government distributed 335 bags of cement to all villages across the country, and ordered that it be used for widening roads, fixing roofs, and

17. As mentioned above, there are three different views on rapid economic growth and the role of government in East Asian economic development: (i) the neoclassical view, (ii) the developmental-state view and (iii) the market-friendly view. From among these views, the developmental-state view states that since developing countries have a wide range of market failure, their governments inevitably intervene in their markets, and the successful economic performance in East Asian countries was mainly due to positive government intervention in the markets. Kim, Dal Hyun, *The Role of the Government in Management of Economic Development in Korea*, Sung, Keuk Je (ed.), *Development Experience of the Korean Economy*, Kyung Hee University Press, 2010, pp. 54-55.

repairing and building maintenance facilities in the village. The Saemaeul Movement was an important project that promoted increased income and improved facilities in villages, based on a spirit of diligence, self-help and cooperation among village residents.

As illustrated above, the EPB is viewed to have made considerable contributions to Korea's economic development and improved living standards in the 1960~1970s by effectively mobilizing and distributing limited resources and promoting exports through the economic development plans. It is viewed to have clearly set out and presented visions and goals to build a national consensus on these plans, and effectively mobilized human resources to also bring about social integration.

### 3. Expected Benefits from Operating an Economic Planning Agency

Factors often thought to hinder economic development in developing countries are the lack of resources and inefficient investment. Numerous developing economies tend to devise 'rosy' plans such as large-scale SOC construction and industry-fostering projects, but generate few success stories. This is largely because it is difficult to achieve visible outcomes when development plans are not systematically formulated and lack a clear priority on public investment or do not closely monitor the execution of such investments. Then, what benefits<sup>18</sup> might developing countries expect from operating a planning agency similar to the EPB?

First, it would be expected to play a part in realizing notable economic development so long as mid- to long-term economic plans are effectively pursued and strategic investments are adequately executed. As illustrated above, Korea devised mid- to long-term economic development plans through the EPB, and has often been cited as having attained remarkable economic development in terms of major indicators, through timely coordination of economic policies and close monitoring of their implementation.

18. This comes with a condition. It is important to note that, as mentioned earlier, Korea's unbalanced growth strategy caused an imbalance in opportunities for economic entities, at least in the early stages of implementation, and there was also criticism that the creativity of the private sector and market was somewhat limited under the government's development strategy based on intervention and support. As will be discussed in Chapter 5 of this report, the outcome of operating a planning agency may differ according to the given conditions. First, the determination of the state leader is important. In the case of Korea, the President was deeply committed to economic development and he supported and lent confidence to the EPB. This was one of the strong driving forces behind EPB's performance. Second, in the early years of the development era, Korea had an abundant and well-educated workforce. At the time, the Korean people shared the consensus of the need to break away from a state of poverty. Third, think-tanks like KDI contributed greatly in the process of formulating the government's economic policies. Fourth, despite the presence of the government directives over the market system, Korea, in principle, placed importance on the operation of the price mechanism, and therefore, the conditions of its experience may differ from that of socialist systems.

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Second, an organization like the EPB could bring in an additional benefit of national cohesion for developing countries where economic development is being held back because of religious, tribal or regional conflicts. In Korea, the country's leader at the time (the late President Park Chung-hee) expressed a strong commitment toward economic development and presented the government's vision through the EPB. This helped form a consensus on the government's policies, at least on the economic front, and drew higher political support and participation from the general public.

Third, it could positively contribute to channeling foreign capital into more efficient sectors. The EPB played an important role in not only economic planning but also attracting and managing foreign capital.

Fourth, development of the rural community might be sought in addition to the urban area and growth pole. In Korea, modernization of the rural area was facilitated through the EPB's Monthly Economic Trend Report Meeting that was personally chaired by the President. This meeting regularly reviewed and encouraged progress on the Saemaeul Movement. It is a case that can be noted by developing countries with an industrial structure oriented around the primary industry and a large agricultural population. If the country's leader shows continued interest in rural development policies through an organization similar to the EPB, this would considerably help promote rural development.

Fifth, an organization like the EPB with a relatively fair public servant appointment process would enable economic development through talented individuals armed with work capacity, ethics and patriotism. In countries where the private sector has not yet fully developed, the role of government officials is extremely important. Even if the country's leader and government are firmly committed to economic development and resources are at hand, economic development cannot be assured if the government officers responsible for actually implementing the policies are incapable or unethical. Korea had a fair and open recruiting system for government officials, and many of the top-performing officials desired to work at the EPB. These EPB officials played an important role in the economic development process.<sup>19</sup>

19. During Korea's development era, there were special cases where individuals with certain qualifications or qualities were selected and recruited as government officials. But in most cases, government officials were recruited through national examinations. In particular, the examination system designed for recruiting middle-ranking government officials is one worth noting. This system can be considered to be a relatively fair and open recruiting system in that there were no restrictions on the examinee's qualifications. The candidates that passed the exam underwent a one-year training and then became a government official, assigned to a position that was one level below division chief of a ministry of the central government. The national examination consisted of three stages: 1) multiple-choice question-type exam; 2) an essay-type exam; and 3) an interview. In the early 1960s, there were few job opportunities in Korea's private sector, and so many of the country's top talent took the national examination. This national examination for recruiting government officials has changed over the years in terms of the number of officials selected, exam subjects or positions, etc., but the overall framework of the recruiting system is still largely the same today.

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## Chapter 2

### EPB's Background and Necessity

1. Domestic and International Conditions at EPB's Establishment
2. Reasons and Grounds for EPB's Establishment
3. Objectives and Roles of EPB
4. Comparison with Foreign Cases

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# EPB's Background and Necessity

## 1. Domestic and International Conditions at EPB's Establishment

### 1.1. Domestic Conditions

The EPB was established just two months after the May 16 Revolution broke out in 1961. Why was this agency specializing in economic development launched so swiftly? In short, it can be deemed to be because of their determination to rescue the country from poverty. In fact, at the time, Korea's conditions for economic development were not all that favorable. Furthermore, it lacked natural resources and was severely short of resources needed for economic development. It did have a relatively well-educated and capable workforce, and the people held comparatively strong enthusiasm for economic development, but these advantages were not systematically reflected in economic development after South Korea was founded in 1948.

The Korean economy was rather highly dependent on foreign aid before the 1960s. The invasion of North Korea that started the Korean War (1950~53) caused the South Korean economy to fall deeper, and most people survived with the help of relief aid sent from the US and the international community. From 1950 to 1961, the economic and military assistance from the US marked US\$2.5 billion and US\$400 million, respectively, which was a tremendous amount that accounted for 12 and 73 percent of Korea's GDP and GNI, respectively.

In 1960, Korea's economy was sectioned into agriculture and fisheries making up 36.8 percent, mining and manufacturing 15.9 percent, and services 47.3 percent. In terms of employment, agriculture and fisheries made up 63.8 percent of all jobs, mining and



manufacturing 7.9 percent, and services 28.3 percent. Domestic investment and domestic private savings made up 10 and 5 percent of the country's GDP, respectively, while more than 50 percent of the national budget was funded by US aid.

**Figure 2-1 |** Korea after the Korean War and US Aid



Source :US Army copyright, PD-US Gov-Military-Army, Senior Chosun, April 19, 2012.  
[http://senior.chosun.com/site/data/html\\_dir/2012/04/19/2012041965021.html](http://senior.chosun.com/site/data/html_dir/2012/04/19/2012041965021.html).

In the early 1960s, Korea held a relatively abundant surplus workforce in the rural sectors, and based on this, carried conditions where it could seek labor-intensive industrial development. With a small domestic market, it faced a situation where it was necessary to seek export-oriented development policies to sell domestic products in overseas markets. Furthermore, as evidenced in the low private saving rates, it can be perceived that Korea needed to pursue economic development based on foreign capital from the early stage of the country's development.

Although economic development was deemed an urgent task at the time, it was difficult to expect self-sustainable economic development through the initiative of the private sector. These were times when average households had difficulties finding food to put on the table. In 1960, the personal net savings as share of GDP was -2.2 percent, indicating that more was spent than earned. The businesses that did exist at the time were less well off than today's SMEs, and the circumstances did not allow for most of the private companies to borrow foreign capital.<sup>20</sup>

20. Kim, ed. (1999), *op. cit.*, pp. 24~26.

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Thus, economic development had eventually fallen under the responsibility of the government. Furthermore, as Korea lacked natural resources and capital savings, and its market functions were also not fully developed, in many aspects, it needed to formulate and implement a government-led economic development plan.<sup>21</sup>

Amid such circumstances came the outbreak of the “May 16 Revolution” in 1961. A new government that rose to power through a military revolution presented a target of rebuilding the economy and pursued a strong government-led economic development strategy.

## 1.2. International Conditions

On the international front, two points are worth noting. First, in circumstances where the Korean economy was highly dependent on foreign aid, a downward trend in this aid caused Koreans to realize the need to build a basis for a self-reliant economy. Second, given the shift towards free trade in the international trade order, developing countries were under less pressure to reduce tariffs or open their markets compared to advanced economies. Therefore, the conditions were relatively favorable for Korea to pursue export promoting policies.

During the period following 1945 when South Korea began to establish itself as a nation, assistance from several advanced nations including the US was one of the major driving forces of the country’s economic growth. The foreign aid that Korea received from the US and international organizations can be divided into three categories as shown below in <Table 2-1>. Until the late 1950s, Korea’s main donor was the US, and most of the aid was in the form of grant assistance.

21. Economic planning may be described as a deliberate governmental attempt to coordinate economic decision making over the long run and to influence, direct, and in some cases even control the level and growth of a nation’s principal economic variables (income, consumption, employment, investment, saving, exports, imports, etc.) to achieve a predetermined set of quantitative economic objectives. The rationale for development planning can be summarized as follows: The first reason is market failure. Markets in developing economies are permeated by imperfections of structure and cooperation, and therefore governments have an import role to play in integrating markets and modifying prices. The second reason is resource mobilization and allocation. This argument stresses that developing economies cannot afford to waste their very limited financial and skilled human resources, and therefore, the government needs to choose and coordinate investment projects so as to channel these scarce factors into their most productive outlets. The third reason is attitudinal or psychological impact. It is often assumed that a detailed statement of national economic and social objectives in the form of a specific development plan can have an important attitudinal or psychological impact on a diverse and often fragmented population. Through an economic plan, it is possible to mobilize popular support and overcome sectionalism. The fourth reason is foreign aid. The formulation of detailed development plans has often been a necessary condition for the receipt of foreign aid. (Todaro, Michael P., and Stephen C. Smith, *Economic Development*, 11 ed. Prentice Hall, 2012.), p.513–516.

**Table 2-1 | History of Foreign Aid to Korea (1945~)**

Category		Emergency Relief Aid Period (1945~1953)	Main Period of Foreign Assistance (1953~1961)	Transition Period to Loans (1962~)
US	Basic Act	MDA (Mutual Defense Assistance Act)	MSA (Mutual Security Act)	FAA (Foreign Assistance Act)
	Purpose	Emergency Relief Aid	Economic Stability and Defense Reinforcement	Economic Assistance Based on Loans
	Agency in Charge	GARIOA (Government and Relief in Occupied Areas) (1945~1949)	FOA (Foreign Operation Agency) (1953~1955)	USAID (US Agency for International Development) (1961~)
	Name of Institution and Major Forms of Assistance	ECA (Economic Cooperation Administration, 1949~1950) Assistance SEC (Supplies Economic Cooperation, 1951~1953) Assistance Provision of Relief Aid Supplies	ICA (International Cooperation Administration, 1955~1961) Assistance PL480 (Public Law 480, 1956~)Military Assistance	Development Loans
	Assistance Type	Technical Assistance, Wartime Emergency Aid, etc.	Defense Support Assistance (Project and Non-Project Aid) Surplus Agricultural Commodities Assistance	Development Grants, Support Assistance, Surplus Agricultural Commodities Assistance, etc.

Category		Emergency Relief Aid Period (1945~1953)	Main Period of Foreign Assistance (1953~1961)	Transition Period to Loans (1962~)
International Organizations	UN	UNRRA (United Nations Relief and Rehabilitation Administration)	UNKRA (United Nations Korean Reconstruction Agency) - Economic Reconstruction Assistance	UNDP (United Nations Development Program) - Technical Cooperation
	UN Forces		CRIK (Civil Relief in Korea)	

Source: Ministry of Finance (1993), *Foreign Capital and the Korean Economic Development: A Thirty-Year History*, Korea Development Bank.

After the armistice that ended the Korean War, South Korea began to receive concentrated support and assistance from western countries, especially the US. In 1954, the US government requested that the Korean government establish an organization solely mandated with consulting on affairs related to its aid agencies.<sup>22</sup> Later, it expressed that it would be significantly reducing its grants and shifting its assistance focus to concessional loans.<sup>23</sup>

US aid to Korea was US\$154 million in 1954, reached its peak at US\$383 million in 1957, and then progressively began to decline to record US\$199 million in 1961.<sup>24</sup> Initially, this was a considerable issue for Korea, which had been largely dependent on foreign aid for its economic growth.

As a result, Koreans perceived that the most important task at hand would be to expand the basis for creating a self-sustaining economy less affected by external factors like reduction in foreign aid.

22. Kim, ed. (1999), *op. cit.*, p.26. At this point in time, Korea also recognized the need for a government agency in charge of post-war economic reconstruction, and in February 1955, it abolished the Planning Agency under the Prime Minister's Office and established the Ministry of Reconstruction as an independent ministry in charge of planning and aid management.

23. From the late 1950s, the US Administration and Congress could no longer permit the US fiscal deficit that was largely attributed to huge amounts of military expenses and foreign aid assistance. Therefore, it placed a policy priority on fiscal balance of the US and began to shift its assistance policy from grants to expanded concessional loans. These changes in US policy were directly reflected in the amount of aid provided to South Korea (Choi, Sang-oh, 2005).

24. Afterwards, foreign assistance continued to decline and recorded only US\$5 million in 1972 (Economic Planning Board, 1974, p.213).

Meanwhile, the free trade was the dominant trend in the international trade order in the early 1960s. This was largely attributed to the GATT that took effect in January 1948 as a part of international efforts led by the US for all countries to escape from the damage caused by World War II and seek prosperity.<sup>25</sup>

As is widely known, GATT set forth two basic principles: First, when a member country signs a trade agreement with a certain member country on lowering tariffs or opening its market, the conditions of this agreement must be applied to all other members without discrimination. The other principle is that, when a country imports a good, it must ensure the same rights as the same type of goods produced domestically.

Developing countries, however, were an exception and did not need to lower tariffs for imported goods for a certain time. In other words, even though developing countries are imposed relatively lower tariffs when selling their goods in advanced economy markets, they do not need to lower their tariffs when importing goods from other countries. Such GATT principles, coupled with the free trade approaches, were highly favorable conditions for developing countries like Korea to pursue an export-oriented development strategy.<sup>26</sup>

## 2. Reasons and Grounds for EPB's Establishment

The need to establish a planning agency like the EPB, specialized in pursuing economic development strategies on a national level, had already been raised in the late 1950s near the end of President Rhee Syngman's time in office. To this end, the Ministry of Reconstruction was established in February 1955. At the time, there had been a Planning Agency carrying out planning and budget functions under the Prime Minister's Office, but it had not been particularly effective due to a lack of interest from President Rhee. Thus, the Ministry of Reconstruction was given the planning function of this Planning Agency, in addition to the role of managing foreign aid. Meanwhile, the budget function of the Planning Agency was transferred to the Ministry of Finance. However, there was frequent friction between the Ministry of Reconstruction and Ministry of Finance with regards to their foreign capital management and domestic capital management roles, respectively. As a result, the Ministry

25. GATT was one of the two pillars that led the post-war global economic order, along with the Bretton Woods agreement that took effect on December 1945. Based on the Bretton Woods agreement, the IMF and IBRD were established with the basic objective of stabilizing post-war global monetary order and stimulating the economy, respectively.

26. This global trend of free trade continued until the late 1960s. Then, after the US announced that it would suspend the dollar's convertibility into gold in August 1971, and the Bretton Woods agreement was modified into the Smithsonian agreement, trade protectionism emerged. Moreover, in the 1970s, there were significant movements toward so-called resource nationalism with resource-rich countries forming cartels to arbitrarily control prices and supply. In June 1973, oil-producing countries sharply increased oil prices, thereby triggering the first oil shock.

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of Reconstruction's influence on planning and coordination over all ministries was not as strong as initially anticipated.

Against this backdrop, in 1958, the Rhee Syngman administration founded the Industrial Development Committee as a government organization to formulate plans based on the Industrial Development Committee Regulations (Presidential Decree No. 1349).

The purpose of the Industrial Development Committee was to: (1) survey and assess all human, material and capital resources in the country; (2) establish the optimal economic structure to solve all economic issues faced by the country; and (3) design economic policies seeking to maximize the utilization of all resources in the country. However, the Committee was of a temporary and arbitrary nature, differing from the official government organization, the Ministry of Reconstruction. The Committee formulated the three-year economic development plan with contributions from the economic officials of the Ministry of Reconstruction, and the plan was finalized in December 1959. However, this plan faced limitations in its implementation as the Committee lacked legal authority, as well as sufficient consultation and coordination with other government agencies.

The government that came into office through a military revolution was strongly committed to economic development and stressed pragmatism. It thereby organized a government agency that was empowered to pursue policies for urgently solving difficult livelihoods and establishing a self-sustaining economy. However, during the transition period before the EPB was officially established, this new government launched the Ministry of Development as a government organization to replace the Ministry of Reconstruction. This was carried out under the National Supreme Council Decree No.14 (May 26, 1961), which immediately put into effect the amendment of the 'Government Organization Act' after the May 16 Revolution in 1961. At the time, the Ministry of Development covered overall development planning. Then, after two months, pursuant to the amendment of the Government Organization Act, (Act No. 660, July 22, 1961), legal grounds were put in place for founding the EPB. It abolished the Ministry of Development, and instead added a budget function to the EPB's planning function and foreign capital inducement function. The fact that the foreign aid management function under the Ministry of Reconstruction was expanded to a full-scale capital inducement function is also noteworthy.

There is also a view that the EPB's establishment was a result of the coinciding interests of government economic officials and the new military government. Lee (1993) elaborated, "Korea was one of the poorest countries at the time of the May 16 Revolution and the industrial structure was abnormally leaning toward consumer goods. Collusive links between politics and business were intensifying, and the enormous amounts of assistance were being used up in unproductive ways, subsequently causing a vicious cycle

of underdevelopment. This was yet another challenge for the new government that needed to secure legitimacy. The military was the most modernized group at the time and had been determined to progress economic development from the mid 1950s, as to which it had also formed significant ties with government economic officials. The two powers showed firm commitment toward economic development, which later became the basis for the creation of the Economic Planning Board.”<sup>27</sup>

The main details of the enactment and amendment of the Government Organization Act related to the EPB are noted in <Table 2-2> below. As seen in the table, shortly after the May 16 Revolution, the Ministry of Development was newly established. Then, after about two months, the EPB was launched in the form of an organization with budget, foreign capital inducement and statistics functions, in addition to the Ministry of Development’s planning function. When the Government Organization Act was amended in December 1963, it included a measure that elevated the status of the EPB Minister to Deputy Prime Minister. Over the years, the EPB’s functions were partially modified pursuant to organization reshuffling in response to the changing environment, but the structure of the organization in December 1963 was largely maintained until the EPB was abolished in 1994.

**Table 2-2 |** Amendments of Government Organization Act Related to EPB

Date	Enactment/ Amendment	Details
July 17, 1948	Enactment	Rhee Syngman Administration
February 7, 1955	Entire Amendment	President, State Council, Ministry of Foreign Affairs, Ministry of Home Affairs, Ministry of Finance, Ministry of Justice, Ministry of National Defense, Ministry of Education, Ministry of Reconstruction, Ministry of Agriculture and Forestry, Ministry of Commerce and Industry, Ministry of Health and Social Affairs, Ministry of Transportation, Ministry of Communication.
April 19, 1960	April 19 Revolution	Era of Democratic Party
July 1, 1960	Entire Amendment	State Council, Ministry of Foreign Affairs, Ministry of Home Affairs, Ministry of Finance Reformed
May 16, 1961	May 16 Revolution	Era of Military Revolutionary Committee
May 26, 1961	Partial Amendment	State Council, Ministry of Reconstruction Reformed

27. Lee, Man-hee (1993), *Did the EPB Achieve a Miracle?: The Ideal and Reality of Korea’s Industrial Policy*, Haedoji Press.

Date	Enactment/ Amendment	Details
July 22, 1961	Partial Amendment	Economic Planning Board, National Construction Agency, Central Economic Committee, Ministry of Home Affairs, Foreign Capital Agency, Land Construction Agency, Ministry of Agriculture and Forestry Reshuffled
June 18, 1962	Partial Amendment	Economic Planning Board, Central Economic Committee, Ministry of Agriculture and Forestry, Ministry of Commerce and Industry, Ministry of Construction, Ministry of National Defense, Ministry of Agriculture and Forestry Reshuffled
December 14, 1963	Entire Amendment	Economic Planning Board, Ministry of Foreign Affairs, Ministry of Home Affairs, Ministry of Finance, Ministry of Justice, Ministry of National Defense, Ministry of Education, Ministry of Commerce and Industry, Ministry of Construction, Ministry of Health and Social Affairs, Ministry of Communication Reshuffled

Source: Ha, Tae-soo (2009), Analysis of Government Organization Act Amendment at Launch of Park Chung-hee Administration: Focusing on Historical Political and Economic Background of Establishing a Developed Nation, *Korean Journal of Public Administration*, 40 (1), pp.251~252.

### 3. Objectives and Roles of EPB

The establishment of the EPB meant that the government would play a leading role vis-à-vis the market system and primarily administer the country's economic development. The government influenced or intervened in private sector economic activities to a large extent, even while, in principle, depending on the market mechanism. The government was generally in a predominant position over the companies. This was, in large part, because Korea did not have any market dominant or influential businesses at the time. The government would at times directly participate as an investing entity, and the public corporation sector made up a large share of the economy like many socialist economic systems. Also, at the time of the EPB's establishment, Korea had a relatively large and well-educated workforce, and building on this, it began to carry out its export-oriented growth strategy by fostering the labor-intensive industry. In this process, it also actively engaged in raising domestic funds as well as attracting foreign capital. A great part of the induced foreign capital was used in SOC investments for roads, ports and railways, thus concentrating on establishing a basis for the industrial sector.



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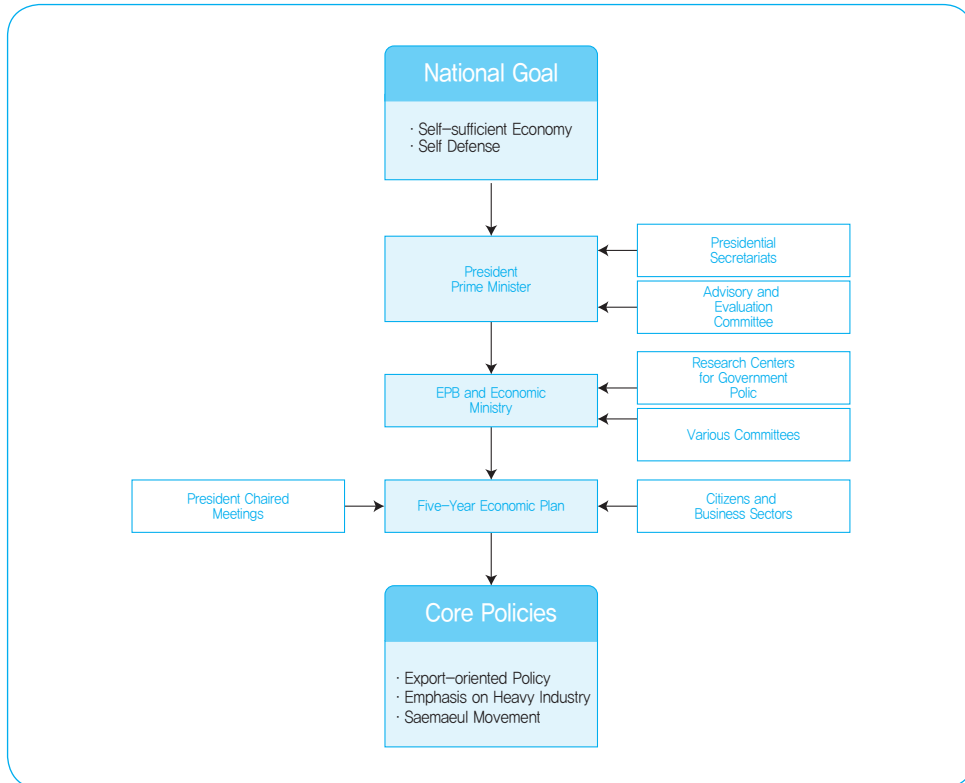
The objective of the EPB was to deliberate and execute investment priorities for economic development, coordinate conflicting views among ministries and oversee price stability and external economic policies. The EPB had been established with a budget allocating function in addition to its long-term economic development planning functions, and therefore its three major objectives naturally became (1) setting up short- to long-term economic development plans; (2) administering annual government budget allocation; and (3) attracting more foreign capital.<sup>28</sup>

[Figure 2-2] below provides a brief outline of the EPB's role in the 1970s when the Saemaedul Movement and measures to foster the heavy and chemical industry began to gain steam. As seen in the figure, the EPB formulated and implemented various economic policies, under the directions and supervision of the President and Prime Minister that were intended to support the national objective of a self-sustaining economy and self-reliant defense.

The terms self-sustaining economy and self-reliant defense were almost like a slogan that President Park Chung-hee stressed and frequently mentioned when addressing government officials or the general public. As evident from the statement announced by the revolutionary forces at the time of the May 16 Revolution, “urgently solving the economic distress of the Korean people struggling in despair and hunger, and reconstructing a self-sustaining economy” was the late President Park's top priority. He set a three-step objective that, “if the road to reunification lies on Korea's modernization, and the road to modernization lies on a self-sustaining economy, then a self-sustaining economy is the first step toward reunification,” and initiated the reconstruction of Korea's self-sustaining economy.

28. Hong et al., *op. cit.*, p.46, p.53.

**Figure 2-2 | National Economy Management Structure of Park Chung-hee Administration**



Source: Compiled by Cho Ije and Carter Eckert (2005), *Course of Korea's Modernization Miracle*, Monthly Chosun Press.

Another one of the country's key objectives was fostering a self-reliant defense. In the late 1960s and early 1970s, there were several movements in international politics: Taiwan lost its UN membership and its seat was replaced by China; the US-China and China-Japan détente; and the Nixon Doctrine (July 1969) that announced its plan to withdraw US troops from the Asian region. To this end, the late President Park emphasized strengthening military power and nurturing the defense industry. Korea's focus on measures for fostering the heavy and chemical industry in the 1970s was also closely related to actualizing a self-reliant defense, in addition to the aim of building a foundation for increasing exports.

More specifically, the EPB, supported by state-run research institutes like KDI and various committees, worked in cooperation with the private sector to set up the five-year economic development plan and several key economic policies. The President personally chaired the meeting on revising and supplementing the economic development plan. This reflects the

significance of formulating and implementing the five-year economic development plan.<sup>29</sup> The EPB maintained close cooperative ties with the Office of the President, and planned, coordinated and reviewed key policies through various coordinating bodies. There were some consultative bodies that consisted of working-level officials, but for important matters like the deliberation or finalization of economy-related laws and regulations, a consultative body joined by the ministers of related government ministries would play a central role in planning and coordinating across different ministries.

An interesting note is that the EPB's function and role could change according to the Deputy Prime Minister's characteristics or economic operation method. For instance, the late Deputy Prime Minister Chang Key-young, who was the first to serve the post, is well-known for his distinct work style. It is said that he would at times schedule a meeting with ministers from relevant ministries so that it would start near the end of office hours, and the meeting would run on until the attending ministers were persuaded to agree on the controversial issues at hand. There were times when the meeting would go on until midnight without stopping for dinner, and it was only the Deputy Prime Minister who would eat a light dinner before the meeting in case such a situation should occur. Nicknamed "bulldozer," Chang was a broad-minded and intelligent leader who solved major economic issues faced by the country at the time.

The late Prime Minister Nam Duck-woo, who was a professor of economics at a university before serving as the Minister of Finance, Deputy Prime Minister, and later Prime Minister, is a figure widely recognized for pushing forward economic policies during the development era. He served the longest term in office as Minister of Finance (four years and 11 months) and Deputy Prime Minister (four years and three months). He was at the forefront of economic development for nine years, from when he took the position of Finance Minister in October 1969 until he left his post as Deputy Prime Minister and EPB Minister in December 1978. In particular, he is often cited as having rescued the Korean economy from the brink of default by performing a decisive role in swiftly recovering from the oil shock in late 1974 and its first financial crisis in the mid-1970s.

Another notable figure is the late Deputy Prime Minister Shin Byong Hyun, who served two terms over a period of three years and seven months in the early 1980s. Having also held the posts of Minister of Commerce and Industry and BOK Governor, he placed economic stability and price stabilization policies among his top priorities, which he approached through monetary tightening and refraining from artificial economic stimulus policies despite criticism during the Chun Doo-hwan administration. It is widely viewed that, as a result, the economic side-effects of rapid development in the 1970s, deeply-rooted

29. See Chapter 4 of this report for more details on the process of formulating the five-year economic development plans and the details and performance of the major five-year development plans.

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inflationary structure, and inefficiency in the industrial sector were appropriately addressed and solved. He did not succumb to external pressure, but rather, adhered to his views and beliefs. In 1984, he even managed to cut the defense budget despite pressure from the military.

The EPB's role somewhat diminished following the introduction of policies to foster the heavy and chemical industry and stressed a self-reliant defense in the early 1970s. This was somewhat associated with the fact that more experts began to voice concerns about government-led economic operations beginning in the 1970s. Relatively younger officials within the EPB also viewed that the economy needed to be based on the market and an autonomous private sector in order to achieve sustainable economic development. This produced the policy principles of "harmonizing growth, stability and balance" in the Third Five-Year Economic Development Plan.

However, the late President Park, who sought to realize a self-sustaining economy and outperform North Korea through fast economic development, did not agree with such views and perceived them to be mere academic arguments. In particular, he was intent on gaining a self-reliant defense posture in the heavy and chemical industry and defense industry, which were sectors that North Korea was somewhat ahead in. With the late President Park's determination to nurture the heavy and chemical industry, the channel for economic policy decision making was divided into two: the Deputy Prime Minister, who was in charge of the economy, and the Second Senior Secretary to the President for Economic Affairs, who was in charge of fostering the heavy and chemical industry. The Deputy Prime Minister still held the ultimate authority with regards to overall economic affairs, but the EPB's role of spearheading economic policies was not as recognized as it was in the past.

However, EPB seemed to regain its previous position and role in the late 1970s. When the side-effects of fast growth and a subsequently overheated economy began to emerge in full-scale in beginning of 1979, the EPB perceived the need to improve the country's economic fundamentals through economic stabilization over the long term. In March 1979, the late President Park convened a policy consultative meeting of the Deputy Prime Minister, First Senior Secretary to the President for Economic Affairs, Bank of Korea Governor and KDI President, and accepted the EPB's view. As a result, the EPB announced the "Economic Stabilization Measures" on April 17, and the policies adopted addressed matters that had previously been avoided and considered "untouchable," such as reducing export subsidies, adjusting investments in the heavy and chemical industry and downsizing the rural area housing repair projects.

In such respects, the EPB's role underwent some changes depending on the period or the work-style of the Deputy Prime Minister, but it is deemed to have continuously maintained

its intrinsic goals and role of approaching different issues within the overall framework of the national economy.<sup>30</sup> In fact, in the development era, Korea's policy goals that were aimed at social equity, such as income distribution and industrial or regional balance, held relatively less significance compared to economic growth. At the time, "unbalanced growth" was the government's basic principle, and it did not have much room to deal with the various consequences of export-subsidizing policies such as inflationary pressures, monopolies or centralization of economic power. However, even as it mainly pursued growth-oriented policies, the EPB worked to consistently perform its intrinsic role with the overall national economy in mind, as is evident in its attempt to stabilize prices, promote fair competition among businesses, and adopt policies for balanced regional growth.

## 4. Comparison with Foreign Cases

Other countries aside from Korea also spared no efforts in seeking economic and social development through economic development planning, in narrow terms, or national planning, on a broader scope. Each country operated planning agencies according to their respective historical backgrounds and needs.

The origins of national planning can be found in war-time planning and the various subsequent industrial mobilization plans for national defense drawn by the US government during World War I, and the first five-year plan (1928~32) set up pursuant to the Constitution (provision on formulation of national economic plans) in the Soviet Union in 1918. Later, with the onset of the Great Depression in the 1930s, the National Planning Committee (NPC) was established as a federal planning organization by US President F.D. Roosevelt (Doosan Encyclopedia, 2013).

Founded in 1933, the NPC was renamed the National Resources Board in 1934 and given the mandate of devising plans related to public sector projects. Later in 1939, it was reorganized to perform an advisory role as the National Resources Planning Board until July 1943.

Meanwhile, European countries and states that gained independence sought to formulate national development plans after World War II. Starting with the Marshall Plan, which was the US aid plan for Europe, national planning schemes were crafted in European countries like France, the Netherlands and Norway. Also, numerous developing countries, as well as the South East Asian region, prepared national development plans that were, in a way, a symbol of their independence (Choi, 2006).

30. See Chapter 4 of this report for more details on the changes of the EPB's functions for each period.

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In terms of the economic aspects, there were also cases where newly independent countries would formulate economic development plans to escape a low growth trap or meet the conditions of aid-providing countries or international organizations, and therefore not all countries were successful in achieving a high economic growth.

Aside from Korea, another well-known case of high economic growth in Asia is Singapore. As a city state dependent on intermediary trade, it is easy to think that national planning would not be suitable for the country. However, Singapore proved to achieve high economic growth through state-led policies rather than a market economy. Like the EPB in Korea, the Economic Development Board (EDB) spearheaded economic development in Singapore (<http://www.edb.gov.sg/content/edb/en.html>). The EDB was established in 1961, and has since been performing the role of inducing investment, designing industrial development plans, fostering international professionals, and supporting technological innovation and development.

As for North Korea, an administrative organization similar to South Korea's EPB is the National Planning Commission (NPC). The NPC is a central administrative organization under the Cabinet that comprehensively prepares North Korea's overall economic plan based on the economic policy directions provided by the Workers' Party, and also directs and supervises each ministry in implementing the plan. The organization was first mandated with this role on September 9, 1949, the foundation day of the North Korean regime, and it continues to maintain this name today. However, the NPC cannot be considered a comprehensive national economic planning agency as economic policy matters are under the control of the Party, and it does not have the authority to get involved in economic policies regarding North Korea's key ministries such as the military and police (Encyclopedia of Korean Culture, 2013).

As shown in this section, the EPB differed from similar planning agencies in other countries in that it formulated and systematically implemented various economic development plans with more authority than other government ministries with the confidence and support of the President.

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## Chapter 3

### Implementation Strategy and System

1. EPB's Organization and Functions
2. Forming and Operating Coordinating Bodies

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# Implementation Strategy and System

## 1. EPB's Organization and Functions

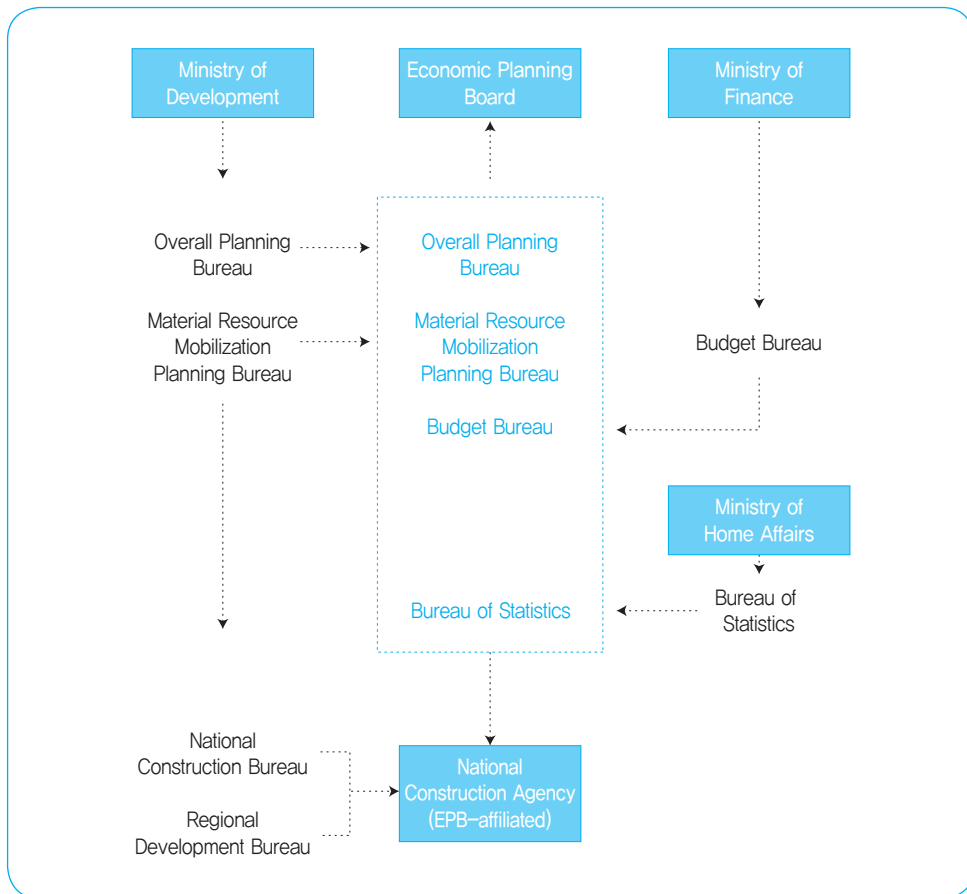
### 1.1. EPB's Organization Structure

As mentioned earlier, the establishment of the EPB was an expression of the military government's determination in 1961 to place a high priority on economic development and approach it through systematic planning and implementation. It can also be considered an attempt to move toward a mixed economic system that provided strong government-led planning under a liberal economic system.

Against this backdrop, the EPB was founded as an organization with four bureaus, 19 divisions and 228 staff upon consolidating the Overall Planning Bureau and Material Resource Mobilization Planning Bureau from the Ministry of Development, the Bureau of Statistics from the Ministry of Home Affairs, and the Budget Bureau from the Ministry of Finance. Furthermore, the EPB had two affiliated agencies: the Land Management Agency, for carrying out land-related affairs; and the Public Procurement Service, for administering the procurement and supply of domestic and foreign material resources. (refer to [Figure 3-1]) Also, when the EPB was first established, there was a Planning Controller under the EPB Minister, who performed the role of an advisor and chaired the "working-level meeting" attended by vice minister and director-general level officials from relevant ministries.



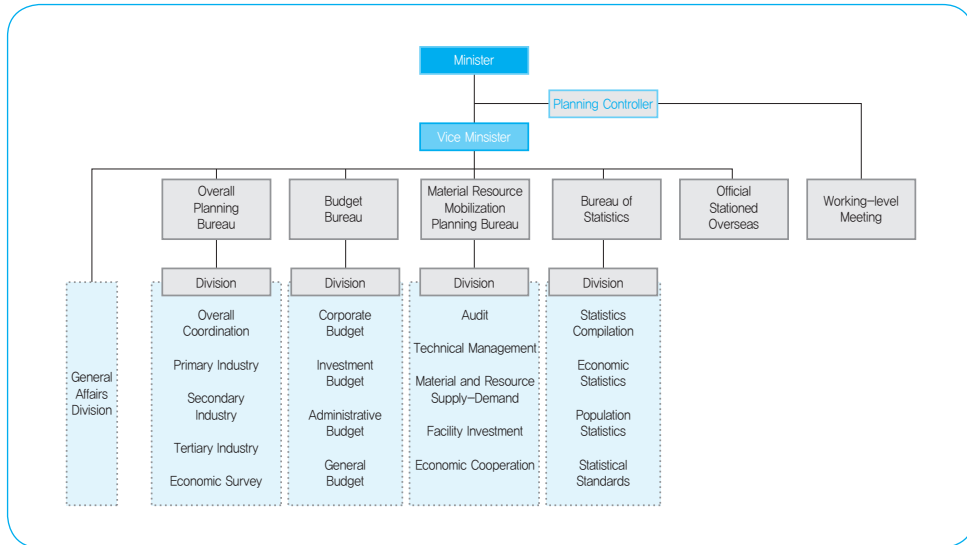
**Figure 3-1 |** Establishing Process of the EPB's Organization



Source: Choi, Dong-kyu (1991), *Government in the Growth Era*, Seoul: Maeil Business Newspaper.

After undergoing three rounds of reshuffling until December 1963, the EPB established the basic structure of its organization. In the first reshuffling, the Material Resource Mobilizing Planning Bureau was split into the Foreign Capital Inducement Bureau and the Coordination Bureau. In the second round of reshuffling in 1962, the Overall Planning Bureau was divided into four separate bureaus, the Foreign Capital Inducement Bureau was renamed the Economic Cooperation Bureau, and a Technology Management Bureau was set up to administer science and technology policies. The December 1963 reshuffling incorporated the change of the EPB Minister concurrently serving as Deputy Prime Minister, the Economic Planning Bureau carrying out all planning functions, and the Bureau of Statistics being separated into an external bureau, underscoring the independent nature of statistical affairs.

**Figure 3-2 | EPB's Organization Chart, Four Bureaus and 19 Divisions**  
(July 22, 1961, Ministerial Order No. 53)



Source: Economic Planning Board (1982), *Economic Policies of the Development Era: The Twenty Year History of the Economic Planning Board*, p.417.

**Table 3-1 | Changes of the EPB's Organization under the New Government in the Early 1960s**

July 22, 1961	October 2, 1961	June 29, 1962	December 16, 1963
Overall Planning Bureau	Overall Planning Bureau	Overall Planning Bureau, Primary Industry Bureau, Secondary Industry Bureau, Tertiary Industry Bureau	Economic Planning Bureau
Budget Bureau	Budget Bureau	Budget Bureau	Budget Bureau
Material Resource Mobilization Planning Bureau	Divided into Foreign Capital Inducement Bureau and Coordination Bureau	Changed to Economic Cooperation Bureau and Technology Management Bureau	Economic Cooperation Bureau, Technology Management Bureau
Bureau of Statistics	Bureau of Statistics	Bureau of Statistics	Separated into an External Bureau

Source: Economic Planning Board (1982), *Economic Policies of the Development Era: The Twenty Year History of the Economic Planning Board*, pp. 417~420.

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As seen in the organizational structure of the EPB in the early 1960s, when the agency was first founded, the focus was on supporting its roles related to planning, financial resource allocation, foreign capital inducement, and surveying statistics. In the 1960~1970s, the EPB's organization underwent 26 rounds of reshuffling. This was in order to appropriately respond to the changing environment. Despite such reshuffling, the EPB mostly maintained its intrinsic role of planning and coordinating major economic policies under the framework of the overall national economy.

## 1.2. EPB's Function

Pursuant to Article 1 (Function) of the EPB's founding organizational regulations, "The Economic Planning Board shall formulate the overall plans for the efficient management of the national economy, manage and coordinate its implementation, and oversee affairs related to economic coordination with foreign or international economic institutions stationed in the country." For this, four bureaus and 19 divisions were assigned their respective duties.

The EPB's functions stipulated in the organizational regulations can be summarized as planning, budget, resource procurement, coordination, external cooperation, research and statistics. As seen in the regulations, its first function is to formulate a comprehensive plan for the efficient management of the national economy. In short, the EPB was an organization specializing in economic planning. Its second function was to manage the implementation of plans and coordinate economy-related policies. The EPB did not merely craft the economic plans, but it also managed its implementation and performed the role of coordinating the economic policies that involved several different ministries. Furthermore, by overseeing budget allocation and execution, it effectively carried out its plan implementation and policy coordination functions. The EPB's fourth function was the procurement and distribution of resources necessary for economic development, along with external cooperation and coordination that induced and managed foreign capital. The fifth role was gathering together research and statistics on material necessary for economic development.

These functions included in the organizational regulations, as mentioned before, can be summarized into three key functions: planning, budget and cooperation in attracting foreign capital. From among these three, the EPB's prime function was planning. This includes not only the simple formulation of short- and long-term economic plans, but also developing policy measures to respond to the constantly arising economic issues. Therefore, performing its planning function naturally involved matters falling under the administration of other government ministries, which meant that consulting and coordinating with other ministries was essential. In other words, this planning function includes a coordinating function, while the budget function (mobilizing domestic capital) and the cooperation function (attracting foreign capital), acted as two important pillars that backed up this main function.

The EPB's functions were expanded to cover a broader role in comprehensive development planning just one year after its inception. Its economic cooperation function was reinforced to strengthen the role of the overall management of development resources, while also increasing its functions in formulating and coordinating overall science and technology development policies. The establishment of the EPB was not only a change in terms of the functions of the government's organization to solidify the development and administrative system, but it also prompted fast growth in terms of size. The Ministry of Reconstruction, which assumed the role of planning and aid management in 1955~1961, had consisted of only 62 officials in 1957, but the number of EPB staff had jumped sharply to 228 officials by July 1961.<sup>31</sup>

The table below provides details on the respective functions of each bureau under the Government Organization Act at the time of the EPB's establishment.<sup>32</sup> In particular, it is mentioned in Article 9 that the Planning Controller chaired the working-level meetings attended by the vice-ministers and director-general level officials from relevant ministries to undertake the role of planning and coordinating all major pending economic issues. However, after the EPB was elevated into a ministry headed by the Deputy Prime Minister in December 1963, the Planning Controller position was abolished. This was because the Deputy Prime Minister was able to coordinate key economic policies from a predominant position relative to other government ministries.

**Table 3-2 | EPB's Organizational Regulations upon Establishment**

	Major Details
Article 1 (Function)	The Economic Planning Board shall formulate the overall plans for the efficient management of the national economy, manage and coordinate its implementation, and oversee affairs related to economic coordination with foreign or international economic institutions stationed in the country
Article 3 (Organization)	The Economic Planning Board shall consist of a General Affairs Division, Overall Planning Bureau, Budget Bureau, Resource Material Mobilization Planning Bureau and Bureau of Statistics
Article 5 (Overall Planning Bureau)	① The Overall Planning Bureau shall consist of the Overall Coordination Division, Primary Industry Division, Secondary Industry Division, Tertiary Industry Division and Economic Survey Division ② The Overall Coordination Division shall oversee the formulation of long-term development plans and relevant coordination, coordinate related policies and conduct matters that do not fall under the affairs of other divisions in the bureau

31. Kang et al. (2008), *op. cit.*, p.59.

32. See Chapter 4 and Chapter 5 of this report for more details on the changes of the EPB's functions for each period.

	Major Details
Article 5 (Overall Planning Bureau)	<ul style="list-style-type: none"> <li>③ The Primary Industry Division shall formulate long-term plans related to the primary industry and coordinate relevant matters</li> <li>④ The Secondary Industry Division shall formulate long-term plans related to the secondary industrial sector including mining, manufacturing and construction, and coordinate relevant matters</li> <li>⑤ The Tertiary Industry Division shall formulate long-term plans related to the tertiary sector including electricity, transportation, communications and other services, and coordinate relevant matters</li> <li>⑥ The Economic Survey Division shall cover matters related to research, analysis and reading materials that help formulate economic policies, as well as instruct and foster government and private economic research institutions</li> </ul>
Article 6 (Budget Bureau)	<ul style="list-style-type: none"> <li>① The Budget Bureau shall consist of the General Budget Division, Administrative Budget Division, Investment Budget Division and Corporate Budget Division</li> <li>② The General Budget Division shall cover matters that oversee the overall allocation and execution of the budgets, allocation and execution of Finance Ministry, Former Imperial House, Special Accounting for Treatment of Attributed Property and Provincial Government Finances, as well as other matters that do not fall under other divisions in the bureau</li> <li>③ The Administrative Budget Division shall cover matters related to allocation and execution of the budgets for the Presidential Office, National Reconstruction Supreme Council, Supreme Court, Board of Audit, Inspection Committee, Cabinet Office, Ministry of Foreign Affairs, Ministry of Home Affairs (excluding civil engineering projects), Ministry of National Defense, Ministry of Justice, Ministry of Education, Ministry of Health and Social Affairs, Ministry of Public Information and Board of Atomic Energy</li> <li>④ The Investment Budget Division shall cover matters related to the allocation and execution of the budget of the Economic Planning Board, Ministry of Home Affairs (civil engineering projects), Ministry of Agriculture and Forestry, Ministry of Commerce and Industry, "Special Accounting for Farmland Reform Projects", Special Accounting for Economic Reconstruction, Special Accounting for Counterpart Fund and Special Accounting for National Construction Projects</li> <li>⑤ The Corporate Budget Division shall cover matters related to the allocation and execution of the budgets of special accounting for state monopolies, special accounting for transportation projects, special accounting for communications projects, special accounting for foreign capital, special accounting for national life insurance and post office annuity, special accounting for grain management and organizations funded by the government</li> </ul>

	Major Details
<p>Article 7 (Material Resource Mobilization Planning Bureau)</p>	<p>① The Material Resource Mobilization Planning Bureau shall consist of the Economic Cooperation Division, Facility Investment Division, Material and Resource Supply-Demand Division, Technical Management Division and Audit Division</p> <p>② The Economic Cooperation Division shall cover matters related to the research and coordination of economic cooperation with overseas or international institutions, and oversee attracting and introducing overseas resources for economic development, as well as annual material resource mobilization and other matters that do not fall under other divisions in the bureau</p> <p>③ The Facility Investment Division shall cover matters related to the formulation and management of executing the annual investment plans based on domestic and overseas available resources</p> <p>④ The Material and Resource Supply-Demand Division shall cover the formulation of the overall material and resource supply-demand plans, and the coordination of this plan with the trade plan and military supply promotion, as well as other matters related to price stability</p> <p>⑤ The Technical Management Division shall cover the formulation of the technology cooperation plan according to domestic and overseas available resources, and cover matters related to the technical review and research instruction for enhancing the management, coordination and productivity of the implementation of the plan</p> <p>⑥ The Audit Division shall identify the implementation progress of the implementation of the annual material resource mobilization plan, prepare and distribute related material and follow-up management of foreign capital</p>
<p>Article 8 (Bureau of Statistics)</p>	<p>① The Bureau of Statistics shall consist of the Statistical Standards Division, Population Statistics Division, Economic Statistics Division and Statistics Compilation Division</p> <p>② The Director-General shall be assigned finance and economy commissioner (Grade 2), and the Director shall be assigned finance and economy secretary</p> <p>③ The Statistical Standards Division shall cover the planning of various statistics and statistical schemes, review of research, setting and coordination of statistical standards, monthly statistics publications and other matters that do not fall under other divisions in the bureau</p> <p>④ The Population Statistics Division shall cover matters related to international research and vital statistics</p> <p>⑤ The Economic Statistics Division shall cover households, workforce, prices, resources and other matters related to economic statistics</p> <p>⑥ The Statistics Compilation Division shall cover matters related to compilation plans and facility compilations of various statistics</p>

	Major Details
Article 9	① The Economic Planning Board shall hold working-level meetings to analyze, coordinate and evaluate the affairs of each ministry relating to economic planning and operation ② The meeting in the previous paragraph shall consist of the vice minister and director-general of each economy-related ministry ③ The working-level meeting shall be chaired by the Planning Controller
Article 10	① The Economic Planning Board shall post an overseas official under the purpose of inducing capital and devising plans for the swift and effective operation measures, as well as strengthening overseas economic diplomacy

Source: Ministerial Order No.57, Economic Planning Board Organizational Regulations, July 22, 1961.

## 2. Forming and Operating Coordinating Bodies

At its initial stage, the EPB convened working-level meetings on either a regular or non-regular basis. The working-level meetings were held for the purpose of analyzing, coordinating and evaluating the work of each ministry with regards to economic planning and operations. As mentioned earlier, this group consisted of the Vice Minister and Director-General of economy-related ministries, and was chaired by the Planning Controller of the EPB.

In addition to the working-level meeting, numerous coordinating bodies and groups were organized and operated to reconcile the differing views among the ministries, after the EPB Minister became Deputy Prime Minister. These included the Economic Ministers' Meeting, which was chaired by the EPB Minister who also served as Deputy Prime Minister, as well as the Industrial Policy Deliberation Council. There was also a growing need for a body that could oversee the efficient coordination and implementation of the economic development policies of each ministry. As a result, the Economic Ministers' Meeting, Economic Vice Ministers' Meeting and Monthly Economic Trend Report Meeting were assembled and operated to perform a major role in the 1960~1970s.

### 2.1. Economic Ministers' Meeting and Economic Vice Ministers' Meeting

Organized by the EPB, the Economic Ministers' Meeting and the Economic Vice Ministers' Meetings were each actively held around 15~20 times a year, and served as the economic policy coordinating body that led discussions on the economic plans. The Economic Ministers' Meeting was chaired by the Minister of the EPB and attended by

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ministers from the Ministry of Finance, Ministry of Commerce and Industry, Ministry of Agriculture, and Ministry of Construction, and the Bank of Korea Governor, among others. Before an economic ministry submitted a matter to the Cabinet Meeting, the agenda needed to first be passed at the Economic Ministers' Meeting. Also, economy-related laws and regulations had to be deliberated and finalized at the Economic Ministers' Meeting, and the EPB was therefore able to perform a coordinating role in the course of enacting and amending these various laws and regulations. As an official venue to coordinate and determine the economic development plans and all economic policies, as well as engage in discussions to fine-tune the differing views between the relevant ministries, the meeting played a key role in the decision-making and implementation of economic policies.<sup>33</sup>

Box 3-1 | Reference: Green Room Meeting<sup>34</sup>

Aside from the official Economic Ministers' Meeting, there was also an Economic Ministers' Consultative Council dubbed the Green Room Meeting. It got its name from where it was held, which was the small conference room next to the office of the Deputy Prime Minister with green-colored chairs and carpet like the office of the British Prime Minister. Usually, a few ministers from relevant government agencies would gather to engage in discussions at the Green Room Meeting, and this was where key economic policies were primarily decided. As an informal meeting, the exchanged dialogue was not recorded, but the economic ministers were able to share information in more relaxed settings and it contributed greatly to coordinating the differing views between ministries. At times, the EPB Minister would convene the Green Room Meeting several times a week, and it became a meeting where the EPB Minister would lead discussions on formulating economic policies.

The Economic Vice Ministers' Meeting was a coordinating body chaired by the Vice Minister of the EPB and attended by the vice ministers of the related ministries for the purpose of reinforcing the economic policy coordination function on working-level terms. This meeting was used as a deliberation group, the prior stage to submitting various items to the Economic Ministers' Meeting. When enacting economy-related acts, the matter had to first be passed at the Economic Vice Ministers' Meeting before it was addressed at the Economic Ministers' Meeting. Thus, it dealt with the final working-level coordination of key policy matters, mainly economy-related laws. The chair of this meeting, the EPB Vice

33. Kim, ed. (1999), *op. cit.*, pp.79–80.

34. *Ibid*, p.82.



Minister, played an important role in coordinating the conflicting views of the participating economic ministries.<sup>35</sup>

As such, the Economic Ministers' Meeting was an institutional mechanism that made it possible for the Deputy Prime Minister to smoothly undertake the role of overall coordination of economy-related ministries. Until it was abolished in 1994, the Economic Ministers' Meeting remained as an effective channel for overseeing all policies and bringing together different ministries.

## 2.2. Monthly Economic Trend Report Meeting

Every month beginning in 1965, a meeting was held where the EPB minister would brief the President on economic trends at the EPB's main meeting hall. This meeting was also attended by the Prime Minister and other ministers, Bank of Korea governor, heads of relevant institutions, members of the Economy and Science Deliberation Council, President's special advisor, chairs of ruling party policy committee and other related standing committees of the National Assembly.<sup>36</sup>

The Monthly Economic Trend Report Meeting first functioned as a venue for providing economic information to the President. Through these meetings, the President was able to properly understand the problems at hand concerning the economy, and based upon this, he was able to guide ministry officials with a strong commitment for economic development.<sup>37</sup> This meeting was kept in place during the high growth period of the 1960~1970s, as well as during the Chun Doo-hwan administration in the 1980s.

The Monthly Economic Trend Report Meeting can largely be divided into four sections: 1) reports on the monthly economic trends and the activities of economic ministries; 2) special reports; 3) reports on successful cases of the Saemaeul Movement; and 4) President's instructions. As one of the major meetings attended by the President, it received rather significant media coverage. The key points of the President's instructions were often published on the first page of newspapers, and the highlights of the meeting were also frequently found published on the first or second pages.<sup>38</sup>

The Monthly Economic Trend Report Meeting contributed to the EPB's economic policy decisions and smooth coordination. Not only were all relevant parties gathered in a single place to share their views and swiftly reach a decision, but it also reduced friction that could

35. *Ibid*, pp. 78~80.

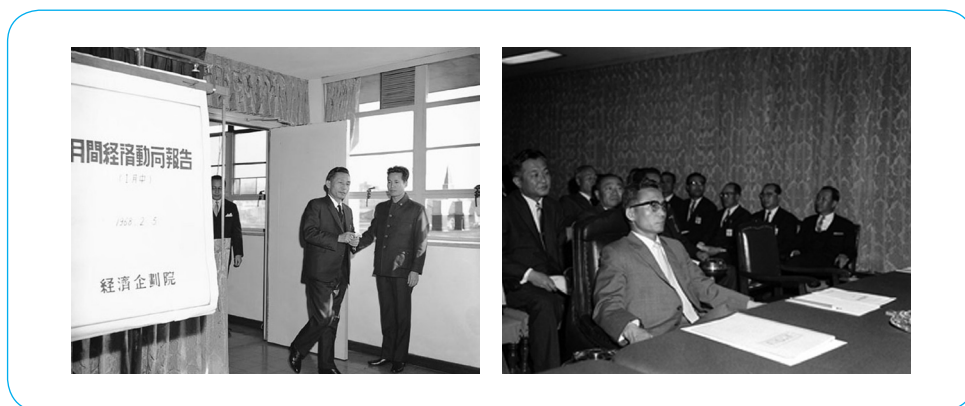
36. *Ibid*, p.83.

37. Kang et al. (2008), *op. cit.*,p.136.

38. *Ibid*, p.113.

occur in the implementation process. Furthermore, it was a chance to check on the progress of the implemented policies.<sup>39</sup>

**Figure 3-3 |** President Attending Monthly Economic Trend Report Meeting



Source: e- History Hall picture, National Archives of Korea's Presidential Records.

39. The Monthly Economic Trend Report Meeting, which was held in the beginning of the mid-1960s, is assessed to have contributed significantly to effectively carrying out major economic policies during the Park Chung-hee administration. See Section 4 of Chapter 4 of this report for more details.

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## Chapter 4

### Economic Planning Board: Details and Implementation

1. Formulating Economic Development Plan and Operating Economic Policy
2. Closely Linking Functions of Planning, Budget and Evaluation
3. Attracting and Efficiently Managing Foreign Capital
4. Operating Monthly Economic Trend Report Meeting
5. EPB's Evolving Functions in Response to Changing Conditions

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# Economic Planning Board: Details and Implementation

## 1. Formulating Economic Development Plan and Operating Economic Policy

### 1.1. Process of Formulating Economic Development Plan

The First Republic, the Rhee Syngman administration, also designed a number of plans that were referred to as economic plans, which was the United Nations Korean Reconstruction Agency (UNKRA)'s economy recovery plan for Korea (Nathan Report, March 1953). It was a proposal regarding assistance that was not officially adopted. There was also the assistance program for strengthening the Korean economy (Tasca Report, July 1953) that special representative to Korea, Dr. Henry J. Tasca, prepared and submitted to US President Dwight Eisenhower. These plans, however, were not comprehensive planning reports, but more of a reconstruction plan that relied heavily on foreign aid to restore the South Korean economy to the levels before the Korean War.

As mentioned previously, a three-year economic development plan was established, led by the Industrial Development Committee under the Ministry of Reconstruction in 1959. This was Korea's initial economic development plan designed at a government-level. The next administration, the Second Republic, built on this three-year economic development plan and formulated the Five-Year Economic Development Plan (1961~1965). This plan, however, was not carried out due to the May 16 Revolution that broke out in 1961. The military government that came to office created a new economic development plan with several purposes including reconstructing the economy, securing US resources, and gaining legitimacy.

During the rapid growth period in the 1960-1970s, a total of four economic development plans were formulated.<sup>40</sup> The characteristics and formulation process of each plan can be summarized as follows:<sup>41</sup>

The First Five-Year Economic Development Plan (1962~1966) was somewhat hastily prepared shortly after the military government came to power. The plan was put together by relatively inexperienced EPB officials through mutual consultation with concerned ministries based on the somewhat broad directives of the Supreme Council for National Reconstruction. There was also not enough relevant data. It needed to be prepared within a short period of time, and therefore, it was merely a modification of the five-year plan previously established by the former administration. The plan was devised under the premise that the US would continue to provide its assistance, and it created a basic model that included the economic growth rate, industrial production level and total investment volume, and went through the stage of selecting and coordinating the outcomes of separate projects.

Beginning from the Second Five-Year Economic Development Plan (1967~1971), the plan was more carefully prepared, usually starting more than one year before the point of implementation. Concerned ministries, economic research institutes, various business associations, and foreign aid missions or foreign experts were all part of the process. Relevant statistics data was carefully collected and processed, and at times, a dynamic input-output model or an econometric model was also utilized. The Second Five-Year Development Plan was similar to a resource management plan, underscoring a balance of resources for each sector and associating all investment projects with the overall economy.<sup>42</sup> Furthermore, industry committees organized under the EPB reviewed the feasibility and economic efficiency of each project proposal. A total of 43 sector plans were formulated to enhance the consistency and practicality of the plans, and investment business plans were set for each project so that investment priorities could be selected for each industrial sector.

From the Third Five-Year Economic Development Plan (1972~1976), guidelines for formulating plans were set out by the EPB, and based upon these guidelines, the relevant ministries prepared sectoral plans on their respective areas. When designing the Five-Year Economic Development Plan, a nationwide public policy forum was also held to put forth

40. The Seventh Five-Year Economic and Social Development Plan (1992~1996) was the last of its kind. Even the implementation of this plan was suspended when the Kim Young-sam administration took office in 1993, and a new plan was implemented under a different title of Five-Year Plan for the New Economy. After the EPB was abolished in 1994, the five-year economic development plans were not formulated for some time.

41. Choi, Hang-sun (2006), *Development Administration*, Shinwonmunhwasa, summarized from pp.249-255.

42. Ministry of Strategy and Finance, and Korea Development Institute (2011), *2010 Knowledge Sharing Program: The Formulation and Implementation of National Development Plan in Kuwait*, pp.246-247.

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possible alternatives for development policies and strategies. This process contributed to building a national consensus and winning public support for the government's economic policies, while also serving as vocational training for government officials of relevant ministries. In addition, it was possible to anticipate future government policies and enhanced the private sector's confidence in these policies. A substantially important part of the process of formulating and implementing the plan was that the government and the public reach a consensus and engage in communication and cooperation.<sup>43</sup>

When the Fourth Five-Year Economic Development Plan (1977~1981) was prepared, major sectors were selected in advance, as to which working groups were formed and operated for each sector, and much of the work on various economic analyses was undertaken by KDI. Starting from the Fourth Plan, an emphasis was placed on not only economic development, but also social development. A working-level group on health and social security was formed, and an Economic Policy Consultative Meeting was created to seek the counsel and comments of domestic experts from each sector. Private organizations and agencies directly took part for the first time, which was a milestone in that it enabled collecting the opinions of the private sector and building a national consensus in the course of preparing the plans.<sup>44</sup> Meanwhile, the 'long-term economic and social development outlook' that took place over a period of 15 years, from the period of the Fourth Plan until 1991, was deemed as an extension of the Fourth Plan. This outlook was put together under the advisory and active participation of academia, media and foreign experts, along with wide-ranging consultations with relevant government agencies including KDI.<sup>45</sup>

In short, preparations for the five-year economic development plans were carried out in three stages: a preparation stage; planning by sector; and gathering the separate plans and finalizing the development plan.

At the preparation stage, the EPB put together guidelines that took into account domestic and international conditions, key policy issues, overall policy direction and major goals. To this end, the EPB would organize an open discussion that invited representatives from the private sector, including experts, opinion leaders and leaders of economic groups. The EPB would also collaborate closely with other economic ministries and gain their counsel, which facilitated the participation of these relevant ministries in the process of preparing the plan. As such, for the purpose of forming a national consensus in the course of formulating the economic development plan, various consultative bodies, working-level groups, public forums and advisory meetings were put in place.

43. *Ibid.*, p.247.

44. Hong et al., *op. cit.*, pp.99-100.

45. Economic Planning Board (1994), *Economic Policies of the Liberalization Era: The Thirty Year History of the Economic Planning Board*, Miraesa, p.167.

The second stage would move on to setting up special working groups upon the guidance of the EPB, which the minister or vice-minister of the relevant government agency would oversee. An EPB official in charge of economic planning took part as an assistant administrator of these working groups and would coordinate and organize the work and gatherings of their group. Each working group also held public forums for preparing and coordinating the plans for each sector.

The final stage involved putting together and finalizing the plans for each sector, and to this end, the EPB formed the Working Group for Policy Coordination. It was chaired by the Vice Minister of the EPB, and attended by the head of the different working groups (the minister or vice minister of the relevant government agency). The Working Group for Policy Coordination would check and coordinate a balance for the goals of each sector with a long-term perspective in case conflict or inconsistency arose between the plans of different sectors. Also, at this stage, the EPB would take note of changes in domestic and international conditions and modify the macroeconomic plans with the support of KDI.<sup>46</sup> The plan that was drafted through these various advisory and official groups was then finalized at the Cabinet Council.

**Table 4-1 | Processes of Formulating Economic Plan**  
(Focused on Participating Groups and Participants)

	First Plan (1962~1966)	Second Plan (1967~1971)	Third Plan (1972~1976)	Fourth Plan (1977~1981)
Official Process	Supreme Council for National Reconstruction	Cabinet Council	Cabinet Council	Cabinet Council
		Joint Committee	Deliberation Council	Deliberation Council
	Economic Planning Board (Overall Planning Bureau)	Advisory Committee	Coordination Committee	
	Working-Level Committee (20 Pers.)	Sector Preparation Meetings (12)	Sector Meetings (14)	Working-Level Planning Groups (22)

46. Ministry of Strategy and Finance, and Korea Development Institute (2011), *2010 Knowledge Sharing Program: The Formulation and Implementation of National Development Plan in Kuwait*, pp.249-250.

	First Plan (1962~1966)	Second Plan (1967~1971)	Third Plan (1972~1976)	Fourth Plan (1977~1981)
Advisory Groups		USAID US, German Advisory Groups		Policy Consultation Meeting (KDI)
Others	Based on Five-Year Plan of Democratic Party Gov't	Active Participation of Foreign Experts	Plans formulated by each Ministry and Sector Partial Participation of Foreign Experts and Increased Participation of Domestic Experts	Less Participation of Foreign Experts and More Involvement of Domestic Experts

Source: Selected from Choi, Hang-sun (2006), Development Administration, Shinwonmunhwasa, p.254.

Under the same process as above, once the five-year plan was formulated, the EPB would finalize and announce the annual economic management plan around January of each year. This annual plan was significant in that it enabled an annual review of the economic plan for the five year period. Taking into account the changes in environment, the target rate for the macroeconomic indicators and economic policy tasks would also be revised. In preparing the annual plans, the ministries concerned, research institutes like KDI, and private experts took part as they did in the five-year economic plans. When the government released these annual plans at the start of each year, the private sector used them as useful sources of information to predict the government's economic policy directions over the coming year. The EPB would review the implementation of the annual plan every quarter and report the results to the President.

The annual planning system was originally introduced under the title, "Overall Resources Budget (ORB)" during the Second Five-Year Plan period. The ORB included the investment plans for both the public and private sector, and thereby detailed the allocation of the country's total available financial resources. But starting from the Third Five-Year Plan, the goal of formulating the plans were focused more on policy proposals than resource allocation, and the title of the ORB was renamed the Annual Economic Management Plan. Details on investment projects were left out of the annual plans.

As such, in the process of designing the five-year plan or annual plan, the EPB was able to devise important goals and set out guidelines for formulating plans to influence other ministries to a certain extent. The private sector also referred to the macroeconomic outlook or major policy tasks included in the government plan for investment decisions.



In particular, one of the notable aspects of Korea's formulation of short- to long-term planning was that the participation of government ministries, research institution fellows or various groups of the general public continued to grow. This, in part, increased specialized expertise when formulating the plans, and also in part, contributed to increasing the level of implementation after the plan was introduced. When there is larger participation by interest groups and a broader range of views taken into account, this naturally translates into higher public support for government plans.

## 1.2. Economic Development Plans for Managing Economic Policy

While the first and second economic development plans were more of an imperative plan based on investment business plans, the third plan provided policy planning, and was thus more of an indicative plan. This indicative nature was further strengthened in the following fourth plan, so that it presented the gross target and development strategy in a gross economic development plan, and sectoral plans were focused on establishing economic policy directions and guidelines to help achieve this target and development strategy. In addition to such changes, the third and fourth economic development plans illustrated a significant change in the principle and the basic goals of the plan.<sup>47</sup>

The basic goal and the policy-oriented objective of the first to fourth Five-Year Economic Development Plans can be summarized as set out in <Table 4-2> below. As seen in the table, the principle of the plan and basic goal changed over time. For the first plan, achieving a self-sustaining economy was the basic goal. In the second plan, modernization of the industrial structure and solidifying a self-sustaining economy was the basic goal, while the main focus was on increasing exports, with major policy objectives designated as building the chemicals, steel, and machine industry, attaining US\$700 million exports, and promoting import substitution. The third and fourth plans not only focused on growth, but also operated economic policies that set developing heavy and chemical industries, achieving balanced development, improving income distribution, enhancing living environment as main target goals under the principle of growth and equality.<sup>48</sup>

47. Kang et al. (2008), *op. cit.*, pp.83-84.

48. "Harmony of growth, stability and balance." This was the description of the conditions of the 1970s and the EPB's intended approach that was included in the Third Five-Year Economic Plan released in 1971. Its goal was achieving growth in stability, and improving national welfare by widely spreading the benefits of development among the entire nation including farmers, fishermen and the low-income class. Despite changes in the economic environment both at home and abroad, the Third Plan did not make large adjustments to the overall approach of the previous plan, but it did attempt a few improvements: (1) a rolling plan concept was introduced; and (2) social factors were included in the plan following the emergence of labor issues. The plan was also sought to be renamed as the Five-Year Economic and Social Development Plan. From this point on, there were views that the five-year plans should shift toward indicative planning. (Kim (1999), pp. 206-207).

**Table 4-2 | Goals and Policy Objectives for Five-Year Economic Plans (1962~1981)**

	Principle and Goal	Policy Objective
1 <sup>st</sup> Plan	<p>〈Goal〉 Establish a Foundation for Achieving a Self-sustaining Economy</p>	<ol style="list-style-type: none"> <li>1. Secure supply resources for energy such as electricity and coal</li> <li>2. Increase agricultural income by enhancing agricultural productivity and correct the structural imbalance in the national economy</li> <li>3. Expand key industries and meet the needs for SOC</li> <li>4. Utilize idle resources, especially increase employment and conserve/develop land</li> <li>5. Improve balance of payments, mainly through increased exports</li> <li>6. Promote technology</li> </ol>
2 <sup>nd</sup> Plan	<p>〈Goal〉 Modernize Industrial Structure and Solidify the Self-sustaining Economy</p>	<ol style="list-style-type: none"> <li>1. Gain self-sufficiency for food, conserve forests and develop fishing industry</li> <li>2. Establish chemicals, steel and machine industry</li> <li>3. Achieve US\$700 million in exports and promote import substitution</li> <li>4. Promote science technology and foster human resources</li> </ol>
3 <sup>rd</sup> Plan	<p>〈Principles〉 Harmonize Growth, Stability, and Balance Solidify Self-sustaining Economic Structure Balance Regional Development 〈Goals〉 Innovative Development of Rural Economy Dramatic Increase of Exports Establishment of Heavy and Chemical Industries</p>	<ol style="list-style-type: none"> <li>1. Gain self-sufficiency for staple grains, increase agricultural and fisheries income, land consolidation and promoting mechanization</li> <li>2. Improve environment of farming and fishing villages, expand electricity and road networks</li> <li>3. Achieve US\$ 3.5 billion in exports</li> <li>4. Establish heavy and chemical industry</li> <li>5. Upgrade science and technology and expand educational facilities</li> <li>6. Balance development of basic social facilities</li> <li>7. Efficient development of land resources and adequate dispersion of industrial facilities and population</li> <li>8. Expand housing and sanitary facilities, and enhance national welfare</li> </ol>
4 <sup>th</sup> Plan	<p>〈Principles〉 Growth, Equity, Efficiency 〈Goals〉 Fulfill Self-sustaining Growth Structure Pursue Social Development Innovate Technology and Enhance Efficiency</p>	<ol style="list-style-type: none"> <li>1. Gain self-sufficiency for investment resources</li> <li>2. Improve balance of payment</li> <li>3. Advance industrial structure</li> <li>4. Improve income distribution</li> <li>5. Improve living environment</li> <li>6. Increase investments in science and technology to 1% of the country's GDP by 1981</li> <li>7. Simplify and rationalize the economic operation system</li> </ol>

Source: Economic Planning Board (1962), *First Economic Development Five-Year Plan: 1962~1966*; Economic Planning Board (1966), *Second Economic Development Five-Year Plan: 1967~1971*; Economic Planning Board (1971), *Third Economic Development Five-Year Plan: 1972~1976*; Economic Planning Board (1979), *Fourth Economic Development Five-Year Plan: 1977~1981*.

The details of the operation and results of economic policies during the implementation of the plans from the first to fourth five-year economic development plans can be summarized as below:<sup>49</sup>

For the First Five-Year Economic Development Plan (1962~1966), as mentioned earlier, “removing the vicious socio-economic cycle and establishing self-sufficiency” was the basic objective. The First Plan set a highly ambitious growth rate target of 7.1 percent amid conditions of slowing economic growth. This shows the Korean government’s strong determination for economic development and implementing economic plans. However, less than one year after the plan was implemented, it had to be drastically modified. It took into consideration the economic uncertainty caused by a currency reform, and the economic conditions that had unexpectedly deteriorated because of a poor harvest caused by bad weather conditions. The target growth rate was lowered to 5 percent. In order to attract investment resources from abroad, the EPB amended the Foreign Capital Inducement Act in 1961, and endeavored to introduce commercial loans and long-term loans. When this resulted in a vicious spiral of inflation triggered by the side effects of rising currency liquidity and active economic development efforts, a Price Division was founded within the Overall Planning Bureau that began adopting comprehensive measures for prices. Upon implementing the plan, Korea’s growth rate recorded a higher-than-expected 8.5 percent, exceeding the target growth rate, from which policymakers and the public both gained more confidence in the future of the Korean economy and the implementation of the economic development plans.

When the Second Five-Year Economic Development Plan (1967~1971) was implemented, the Korean government was on the track of rapid growth. At this point in time, Korea-Japan relations were normalized and this led to a surge in commercial loans from Japanese companies, which tremendously boosted Korea’s industrialization. However, at the same time, there were also the side effects of foreign capital inflow and heated controversy arose over collusive links between politics and business. In response to the rising inflationary pressure, strong financial tightening was undertaken with the exception of prioritized investments. Korea founded the National Tax Service in 1966, and amended the Tax Act in 1967 and 1971 to reform all aspects of tax collection. As a result, the amount of collected taxes and public saving increased drastically. During this planning period, there was a sharp increase in imports of raw materials for exports and machinery facilities, and this caused concern over an intensified trade deficit. In other words, dependency on foreign capital and technology had grown. Nevertheless, during this period, the average annual growth rate once again exceeded its target, and the public developed greater confidence in the implementation of development plans and the potential of the Korean economy. This also resulted in expectations for Korea to join the ranks of newly industrialized countries.

49. Hong et al., *op. cit.*, pp.55-58.

The great achievement during the Third Five-Year Economic Development Plan (1972~1976) was the Gyeongbu (Seoul-Busan) Expressway and the completion of Pohang Iron and Steel Company. These two accomplishments that hold large symbolic meaning for the Korean economy were completed by concentrating Japanese reparation funds and finances into these projects. More than one million tons of steel was produced annually through the establishment of Pohang Iron and Steel Company, and this stimulated the development of the heavy and chemical industry. Furthermore, the opening of the Gyeongbu Expressway led to the gradual construction of expressways that connected the entire country. Logistics and transportation, which had previously focused on railroads, shifted to road transportation. Hereafter, anywhere in Korea was reachable within a day.

During this period, the Saemaedul Movement was particularly carried out in full-scale. It had initially started as a project centered on improving rural living conditions, but it gradually progressed into a movement to improve productivity in not only the rural sector but also the urban areas and factories. This Saemaedul Movement can be considered an attempt to seek balance between the industrial sector and regional development.

**Figure 4-1 |** Completion of Gyeongbu Expressway and Pohang Iron and Steel Plant



Source: JoongAng Daily Article, July 2, 2010; KyongbukIlbo Article, May 9, 2012.

Meanwhile, the side effects of high economic growth attained through debts and loans that had begun to emerge in the mid 1960s started to weigh down on the Korean economy. The situation deteriorated further with a global economic recession, and measures were taken to liquidate insolvent companies in 1972. When the global oil shock hit the country in 1974, it was unable to avoid a financial crisis. In response, the government announced the December 7 measures that sought to readjust oil product prices due to the weak won. Also, as a measure to overcome the financial crisis, the Korean government implemented a policy

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that allowed more foreign financial companies to do business in the country if they invested dollars in the local economy. Also during the period of the Third Plan, the average annual growth rate exceeded its initial target.

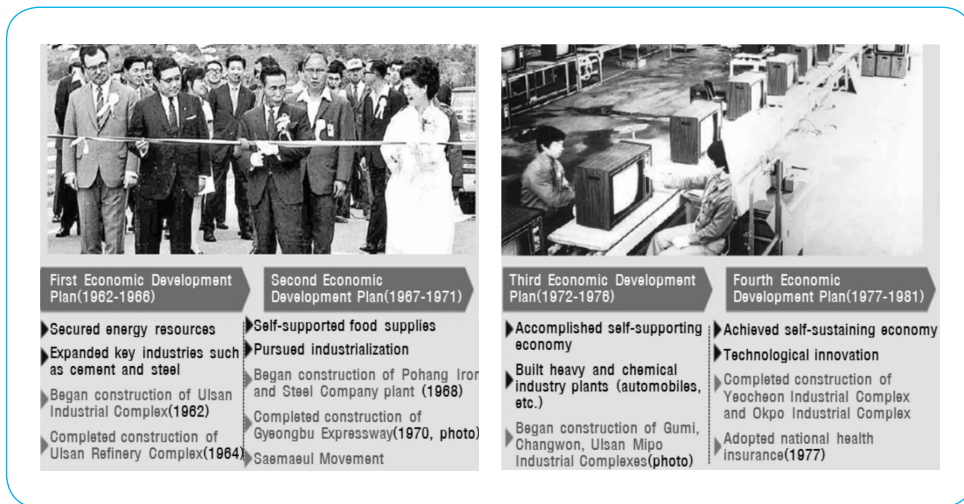
In the Fourth Five-Year Economic Development Plan (1977~1981), the concepts of social development and welfare were introduced. It stressed policy consideration on the social front such as education, as well as health and medical services. In economic terms, the heavy and chemical industry, which had been fostered by mobilizing massive amounts of funds over the years, began to fully take off. In particular, the Fourth Plan that was pursued under “actualizing a self-sustaining growth structure” was proposed as a measure to address the financial crisis that the country underwent in 1974, and its policy with regards to this was to foster the heavy and chemical industry. The ‘drive policy’ that fully focused on exports began to demonstrate tremendous results, also gaining a push from the recovery of the global economy. This led to heated and overlapping investments in the heavy and chemical industry, and to address such inefficiency, the government created the “Investment Assessment Bureau.”

In the construction sector, a Middle East Economic Cooperation Division was created within the EPB to support the advancements into oil-producing Middle Eastern countries that had earned enormous amounts of money during the first oil shock. This organization was later promoted to the Overseas Business Bureau. As the economy once again became overheated with the Middle East construction boom and favorable exports, large numbers of the population moved to the metropolitan area, which led to speculation in real estate. To solve this matter, the government announced the “Comprehensive Measure to Control Property Speculation and Stabilize Land Prices” in 1978. In the same year, the government also executed measures that liberalized imports to strengthen competitiveness through price stabilization and promoting competition.

The quantitative performance of operating economic development plans, thus the economic growth rate, in the high growth period often exceeded the plan’s target goals. The target growth rate for the original plan and supplementary plan of the First Plan were 7.1 percent and 5 percent, respectively, but it actually achieved a much higher 8.5 percent. The target for the Second Plan was higher than the previous plan at 7 percent, but it in fact reached 9.7 percent. The next Third Plan was set at 8.6 percent, again higher than the Second Plan, but it surpassed this target to mark a high growth rate of 10.1 percent. However, during the period of the Fourth Plan, the economic growth rate performance was at 5.6%, which was lower than the initial target of 9.2%. This was largely attributed to the political unrest caused by the assassination of President Park Chung-hee in 1979 and a sluggish global economy following a second round of oil shock. Meanwhile, as mentioned before, the industrial structure continued to be upgraded over time.

Overall, passing through the development era, the Korean economy was able to attain relatively favorable outcomes, not only because of the well-designed plan itself, but more so because of the thorough implementation and appraisal, and flexible adjustments in response to changing conditions.

**Figure 4-2 | Economic Development Plan and Socioeconomic Development in the High Growth Era**



Source: Donga Ilbo, January 12, 2012, Article.

## 2. Closely Linking Functions of Planning, Budget and Evaluation

Successful planning requires a close connection among the functions of budget, survey and research, as well as evaluation and monitoring.

For starters, one of EPB's distinct features is that it was empowered with budgetary authority, in addition to the responsibility of formulating economic development plans and economic policies. A plan without budget support easily becomes a "paper plan" that lacks the steam for implementation. Meanwhile, a budget without a plan easily lacks direction and wastes resources. If the government has separate budget and planning ministries that do not closely cooperate with each other, this could cause difficulties in securing a sufficient budget when implementing the economic development plan.

In 1962, as for the budget system, a national planning system and a performance-based budget system were introduced to efficiently support the economic development efforts. Furthermore, by newly adopting special accounting for economic development, the efficient implementation of the five-year economic development plans could be supported through means of managing the budget. In other words, the previous economic development project budgets were inefficiently managed in a fragmented way through general accounting and other kinds of special accounting, but this was integrated into special accounting for economic development to enhance the method of providing funds and to increase efficiency.<sup>50</sup>

Under this system, an economic plan would be drawn up and then reflected in the budget. When a report prepared by the Planning Division of the EPB indicated plans to pursue a certain project, the Budget Division would work to reflect this into the budget. At times when it was difficult to allocate a budget, there were also cases where the Budget Division would request that the project be downsized or discontinued.

Therefore, during the high growth era, the EPB was reorganized to closely link the planning and budget function through the Overall Planning Bureau, which covered the general planning functions, as well as the Budget Bureau, which was transferred from the Finance Ministry. The Overall Planning Bureau consisted of the Overall Coordination Division, Primary Industry Division, Secondary Industry Division, Tertiary Industry Division and Economic Survey Division, while the Budget Bureau was formed of the General Budget Division, Administrative Budget Division, Investment Budget Division and Corporate Budget Division.

To ensure a high quality of economic planning, it was crucial that credible information be accumulated and provided where necessary. The Overall Planning Bureau's Economic Survey Division surveyed and analyzed the domestic economic trends that could be incorporated when establishing economic policies. It also instructed and fostered government and private sector economic research institutes. The Bureau of Statistics consisted of four divisions of Statistical Standards, Population Statistics, Economic Statistics and Statistics Compilation Division, and it was given the mandate of planning, researching and providing various statistics. Meanwhile, the state-run Korea Development Institute contributed greatly as the EPB's think-tank.

50. Economic Planning Board (1982), *Economic Policies of the Development Era: The Twenty Year History of the Economic Planning Board*, pp. 50-51.

#### Box 4-1 | Reference: Korea Development Institute (KDI)

The Korea Development Institute (KDI) was established as a research institute under the EPB in 1971. Its initial funding was mostly provided by the United States Operation Missions (USOM), the Korean branch of USAID, and the government budget (Five-Year Economic Development Plan).<sup>51</sup>

KDI performed the role of proposing new policies and providing credible and professional views through intensive research and policy analysis. It also directed significant and timely influence on controversial political issues. By conducting analyses based on a strict and systematic methodology, along with its independent and balanced perspective on the government and society, KDI made important contributions by providing politically neutral policy ideas and proposals that could build a social consensus.

KDI was supervised by the EPB, which appointed the KDI president and approved its budget. The EPB, however, did not act unilaterally with regards to the research institution. This was partly attributed to the liberal and research-oriented atmosphere of the EPB, as well as the fact that President Park Chung-hee had a personal interest in KDI. This interest increased its pride and independence as a research organization. As in the case of KDI, the excellence and reputation of an organization is essentially determined by the quality of the policy research outcomes conducted by the state-run research institute. In this respect, the importance of recruiting top research experts could not be overemphasized.

Former Prime Minister Kim Man-je, who had also served as the 1<sup>st</sup> KDI president, said in an interview that, "Back then, the salary of a Seoul National University professor was KRW 10,000, but a KDI fellow would earn KRW 30,000." He added, "KDI offered tremendous benefits like covering all airfare and moving expenses, and even providing housing, for those returning to Korea after studying abroad." Since then, KDI has grown to rank 75<sup>th</sup> among the world's top think-tanks selected by the University of Pennsylvania. Quite remarkable is that it was the only economic research institute in the Asian region to be included among the top 75 think tanks.<sup>52</sup>

In light of the fact that evaluation and monitoring functions must ensure a fundamentally neutral and objective stance, they need to be separated from the agency that is formulating and implementing the plans. Yet, these functions are closely related with each other, and therefore it is necessary for the overseeing institutions to maintain a close relationship. In

51. Ministry of Strategy and Finance, and Korea Development Institute (2011), *2010 Knowledge Sharing Program: The Formulation and Implementation of National Development Plan in Kuwait*, p.251.

52. Korea Economic Daily, March 8, 2011, Article.



the case of Korea, after the evaluation analysis system was introduced in September 1961, the assessment and monitoring function of national plans were performed by the Planning and Coordination Office of the Prime Minister for around two decades until October 1981. The ‘Regulations on Government’s Planning and Assessment Analysis’ enacted in 1972 also contributed to promoting the assessment analysis system.<sup>53</sup>

In such ways, Korea was able to closely connect all functions from planning to evaluation during the period of high growth, primarily administered by the EPB, to enhance the effectiveness of policies. Former Prime Minister Nam Duck-woo, served as the Deputy Prime Minister and EPB Minister from 1974 to 1978, is viewed to have contributed greatly to Korea’s economic development. In retrospect of that period, he wrote the following.

#### Box 4-2 | Nam Duck-woo, Former Prime Minister

The late President Park Chung-hee created the EPB to pursue economic development policies and instructed the design of the ‘Five-Year Economic Development Plan.’ To draw actual benefits, he had the Deputy Prime Minister serve concurrently as the EPB Minister, and thereby empowered the EPB, and not the Finance Ministry, with budget allocation. In addition, an Assessment Analysis Office was established within the Prime Minister’s Office to report the quarterly progress and predicaments regarding the planned projects, and solutions were always devised for the problems. By chairing the Assessment Analysis Meeting, the President was able to fully overlook the implementation of economic plans. At the same time, this meant that each minister would not spare any efforts in his work as his ministry’s affairs would also be evaluated, and this kept government officials busy and working around the clock.<sup>54</sup>

53. Choi (2006), *op. cit.*, pp.242-243.

54. Nam, Duck-woo (2007), *Building on Korea’s Past Toward Its Future*, Samsung Economic Research Institute, p.196.

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### 3. Attracting and Efficiently Managing Foreign Capital

Like any other developing country, Korea severely lacked sufficient investments when it was formulating and implementing its economic development plans. Without enough accumulated domestic capital, the government endeavored to attract foreign capital for economic development and efficiently manage the funds raised.<sup>55</sup>

At the EPB's inception, an Economic Cooperation Division was set up under the Material Resource Mobilization Planning Bureau. This division was responsible for researching and coordinating economic cooperation with overseas or international institutions, inducing and drawing overseas resources for economic development, overseeing the annual material resources mobilization plan. Thus, it played a central role in the financing and management of foreign capital within the EPB.

Korea's foreign capital inducement and management experience during the high growth era, mainly administered by the EPB, can be summarized as below.<sup>56</sup>

The Korean government enacted the Foreign Capital Inducement Promotion Act in January 1960, before the full launch of the economic development plan, to grant tax exemptions and guarantee the remittance of the principal amount for foreign capital. However, to enable the effective implementation of the 1<sup>st</sup> Five-Year Economic Development Plan, the Foreign Capital Inducement Act was wholly amended in December 1961, and the government also released Measures for Managing Induced Foreign Capital on basic directions for the inflow of foreign capital. This measure encouraged foreign capital inducement regardless of its type or amount, and specified that the government would provide guarantees when necessary, thereby actively seeking to increase foreign capital in terms of its volume.

Affairs relating to foreign capital inducement were deliberated by the Foreign Capital Inducement Promotion Committee and executed by the EPB Minister, and an Economic

55. Foreign capital inducement was considered to be highly important and was reported at the Monthly Economic Trend Report Meeting chaired by the President. For instance, the meeting agenda for April 1972 was the framework of the Third Five-Year Economic Development Plan, actual condition of foreign capital inducement (details on foreign capital by country, type of finance and industry up until 1971), policy direction for foreign capital inducement (expanding public loans, increasing foreign investment and technology inducement), plans and progress on raising funds by type of finance (plans and current status of public and private loans, progress on foreign capital inducement in 1972), and measures to promote foreign investment (current status of foreign investment, proposals and measures to improve investment conditions). National Archives of Korea, Presidential Security Service, *Monthly Economic Trend Report Meeting audio recordings*, April 1972.

56. Ministry of Strategy and Finance and KDI School of Public Policy and Management (2013), *2012 Modularization of Korea's Development Experience: Foreign Capital in Economic Development: Korean Experiences and Policies*, pp. 28-47. See this report for more details on Korea's experience of attracting and managing foreign capital. It was prepared as a part of the Ministry of Finance and Strategy's Knowledge Sharing Program (KSP).

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Cooperation Bureau was set up within the EPB to oversee matters regarding foreign capital. The Foreign Capital Inducement Promotion Committee consisted of the EPB Minister, Minister of Foreign Affairs, Minister of Finance, Minister of Commerce and Industry, Minister of Agriculture and Forestry, Bank of Korea Governor, Korea Development Bank Governor, Nonghyup Bank Chairman, Korea Chamber of Commerce and Industry Chairman and two persons appointed by the President with extensive knowledge and experience in the industry and economy or law.

Meanwhile, as Korea faced difficulties in independently inducing foreign capital due to the weak international credit standings of its domestic companies and financial institutions, the government enacted the Foreign Loan Repayment Guarantee Act in July 1962 under the purpose of promoting foreign capital inducement and introduced the government guarantee system for loans. This Act stipulated that the government shall prepare annual plans for necessary government guarantees needed for foreign capital inducement each year under the economic development plan and submit them to the National Assembly for approval.

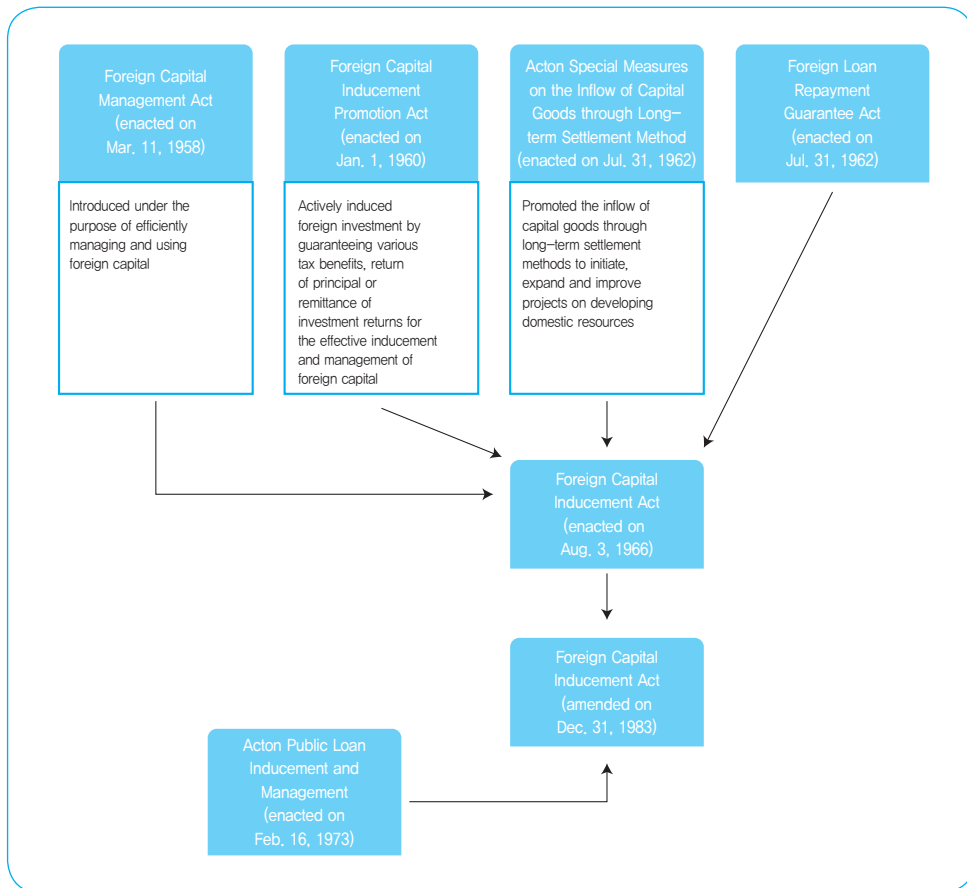
After Korea-Japan relations were normalized in June 1965, Korea received a total of US\$500 million in reparation funds from Japan, consisting of US\$300 million in grants and US\$200 million in public loans. For the efficient management of these funds, the Korean government enacted the “Operation and Management of Japanese Reparations Act” in February 1966. This Act prescribed that the amount in grants shall be used for promoting agricultural, forestry and fishery industries, importing raw materials and services, and other businesses that contribute to the economic development of the state. It also stipulated that the public loans shall be used for businesses that expand small and medium sized enterprises, mining industries, key industries, and social overhead capital.

A Reparation Funds Committee was established under the Prime Minister for the operation and management of the Japanese reparation funds, which was mandated with deliberating and resolving important matters relating to the businesses and business plans eligible for the funds, purchases made by the funds, and the inflow of funds. The capital goods purchased with the Japanese reparation funds during this period are viewed to have greatly contributed to the accumulation of capital in Korea’s early development stage. In particular, these funds contributed significantly to financing the construction of POSCO facilities.

Meanwhile, Korea sought to effectively regulate the inflow of foreign capital by consolidating the Foreign Capital Inducement Promotion Act, Foreign Loan Repayment Guarantee Act, and Act on Special Measures on the Inflow of Capital Goods through Long-term Settlement Method, into a single Foreign Capital Inducement Act in August 1966, as expected it increased commercial loans from Japan after bilateral ties were normalized.

In particular, the active inducement of foreign capital beginning in the 1960s contributed to easing financing difficulties of domestic companies, but it also triggered the problem of heavy dependence on debt financing. Therefore, the EPB enacted the Foreign Capital Inducement Act in August 1966. The EPB attempted to sharply reduce the permitted scopes of foreign inducement and greatly improve the environment for foreign direct investment through this Act.

**Figure 4-3 |** Process of Integrating Foreign Capital-related Laws and Regulations



Source: Ministry of Finance (1993), *Foreign Capital and the Korean Economic Development: A Thirty-Year History*, Korea Development Bank.

Foreign direct investment (FDI) held various benefits including foreign capital inducement, technology transfer from foreign companies, and job creation. Accordingly, the EPB introduced various incentive systems more actively to facilitate FDI. For instance,

the EPB designated a so-called Free Export Zone in June 1969, where foreign invested companies were provided with incentives such as limiting the activities of labor unions. Backed by such efforts, FDI began to slowly show an upward trend, but it did not lead to a drastic increase. This was partly due to the fact that Korea was a relatively less attractive investment destination, but it was also in part due to the fact that FDI sparked a fear of foreign domination to some Korean people.

**Table 4-3 | Economic Cooperation Trend**

	1962~1966	1967	1968	1969	1970	Total
Loans (US\$1 mil.)	325.0	229.6	338.6	547.8	493.9	1,934.9
FDI (US\$ 1 mil.)	26.2	7.7	19.2	12.7	65.2	131.1
Technology Transfer (case)	29	34	51	53	81	248

Source: Economic Planning Board (1971), *Economic White Paper*, p.17.

Meanwhile, restrictions on commercial loans continued. In other words, commercial loans were permitted for businesses that contributed to improving the balance of payment and social welfare, among others. In February 1973, the Act on Public Loan Inducement and Management was enacted to systematically manage the inducement of public loans. Its key points were that public loans were to be used in investments for farming and fishing villages and expanding social overhead capital. It also prescribed that public loans be granted tax benefits like exemption of income tax and corporate tax, and receive government payment guarantee. Thus, it strengthened the incentives for public loans.

When the country lacked financial resources for economic development in the early 1960s, Korea even stood with the principle, “the more the better,” when inducing foreign capital. It gradually began to control the inflow of cash or commodity loans, while actively inducing public loans and FDI. In the 1970s, two rounds of oil shocks triggered an increase in Korea’s foreign debt, and the burden of repaying foreign debt intensified. In the meantime, a construction market boom in the Middle East led more Korean construction companies to venture into this region, and there was a considerable amount of foreign currency inflow into Korea. This, in part, contributed to accumulating domestic industrial capital, but it also caused an increase in currency issuance and was a factor of inflation. In brief, the late 1970s can be summed up as a period when the EPB’s main task at hand was to keep inflation in check while solving the foreign debt issue and achieving sustainable growth.

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## 4. Operating Monthly Economic Trend Report Meeting

The reason for Korea's high economic performance within a relatively short period of time during the development era can be simply put as consistent implementation of policies. Even if a country sets out well-designed development strategies, it does not necessarily mean it will turn out to be successful. Former British Prime Minister Tony Blair once used the expression "Science of Delivery" when stressing the importance of policy implementation. This means that policies can produce better outcomes only when they are implemented with consistency, and World Bank President Jim Yong Kim also takes a similar stance.<sup>57</sup>

One of the representative coordinating bodies that enable effective and consistent policy implementation during the development era was the Monthly Economic Trend Report Meeting.

Whereas economic development plans formulated economic policies from a long-term perspective, the Monthly Economic Trend Report Meeting swiftly coordinated the short-term economic policies in a rapidly changing environment. This meeting was initiated by the early Supreme Council and Prime Minister of the military government. Before the meetings became a regular event, it was first held irregularly to report on the overall economic trends to the military government officials when they were not yet familiar with the economic issues at hand.

According to Kim (1999, pp. 83~85), "The Monthly Economic Trend Report Meeting was an invention created for military officials who lacked economic knowledge to learn and gain a better understanding of the economic situation. At this meeting, the monthly economic trends were reported and solutions were devised for any problems that were faced. This meeting was initiated immediately after the revolution, but the economic trend report fully gained steam under Deputy Prime Minister Chang Ki-Young."

President Park Chung-hee personally chaired the Monthly Economic Trend Report Meeting that was held every month for around two to three hours at the EPB building. At this meeting, the President, EPB Minister, other economic ministers and officials gathered together to discuss economic issues and trends. The President, economic ministers

57. Former British Prime Minister Tony Blair stressed that there needs to be a smart delivery of policy implementation especially in the social sector such as health care, education, and food security, based on excellent systems, careful planning, and clear leadership. Furthermore, World Bank President Jim Yong Kim also said the following in a speech in May 2013 (The Skoll World Forum 10th Anniversary Event). "Even when governments have robust development policies in place, results can be frustratingly inconsistent. ... We're at a loss to explain why a given development program succeeded brilliantly in one setting, while a similar strategy in a neighboring country cost more and delivered less. ... Investments in development don't bring the returns that policy makers want and that citizens expect. Many of us working in development have envied Unilever's ability to deliver its personal-care products reliably to the remotest African villages—where essential medicines and schoolbooks are often missing from the shelves. The hallmark of delivery excellence is consistency."

(Prime Minister and all Cabinet Ministers), and members of the Economy and Science Deliberation Council were always present. Other figures who also often attended were the BOK Governor, relevant financial institution heads, President's special advisor, ruling party policy committee chair and relevant standing committee chairs of the National Assembly. The President would ask questions and listen to the views of relevant ministers, officers and persons giving the report, and then deliver instructions whenever necessary.<sup>58</sup> A look at the records of the Monthly Economic Trend Report held during the period of the Third Five-Year Economic Development Plan (1972~1976) show that the meeting can largely be divided into reports on the monthly economic trends and economic ministries' activities, special reports, reports on successful cases of the Saemaoul Movement and the President's instructions.<sup>59</sup>

The members of the meeting were all those who were in charge of implementing the economic development plan. The President, economic ministers from the government, and members of the Economy and Science Deliberation Council from the advisory organization were all main players in designing, implementing and evaluating the economic plans. In addition, the ruling party and National Assembly members were in charge of deliberating various legislations on the budget plans. By gathering all the key officials of the economic development plan in a single place to share accurate and timely information and confirm respective stances facilitated the process of forming a consensus. This enabled economic policies to be smoothly coordinated and implemented.

If friction occurred between economic ministries at the Monthly Economic Trend Report Meeting, the late President Park would quietly listen to the grounds of the conflict and personally coordinate the differences and finalize the matter at that very place, which prevented losing time over such issues. The meeting held several benefits: First, it clearly delivered the thoughts of the top policymaker and signaled issues considered important. Second, the matters discussed at this meeting were covered in detail by the media, and it also had a direct impact on changing the behavior of private companies. In the early stage, exports were also handled at the EPB's monthly meetings, but were later transferred to the newly launched Export Promotion Meeting. Thus, at the early stage of economic development, when the greatest virtue was speed and efficiency, a highly efficient decision-making method was used.<sup>60</sup>

To give a concrete example, a number of corporate finance policies were efficiently reviewed and coordinated through the Monthly Economic Trend Report Meeting. Looking

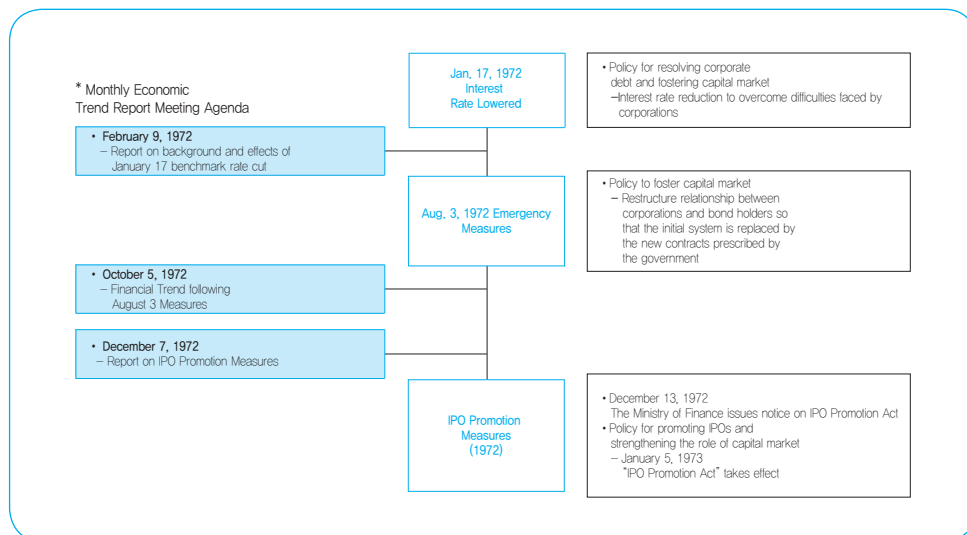
58. Kim, ed. (1999), *op. cit.*, p.83.

59. Kang et al. (2008), *op. cit.*, p.113.

60. Hong et al., *op. cit.*, p.46, p.60.

at [Figure 4-4] below, it is evident that this meeting coordinated the policy for two key issues in the Korean economy in 1972, which were easing the burden of corporate bonds and strengthening the capital market. It also closely examined the effects and challenges following the January 17 interest rate cut and August 3 emergency measures. This was incorporated into the Initial Public Offering (IPO) Promotion Measure, which underwent a preliminary review at the Monthly Economic Trend Report Meeting, and then was enacted as the IPO Promotion Act that took effect in January the following year.

**Figure 4-4 |** Cases of Adjusting Short-term Policies through Monthly Economic Trend Report Meetings



Source: Kang et al. (2008), pp. 125-133.

As seen in the table below, it is worthy to note that front-line officials like the county governor or Saemaoul Movement leader directly reported on the implementation of the Saemaoul Movement. This is significant in several aspects: First, the government ministers were able to receive a first-hand report on how certain policies were being implemented in the field. It also provided an opportunity for the central government to receive feedback on the in-field implementation of policies. Second, it enabled regions to benchmark each other by spreading the successful case of one region to another. Third, it also made it possible for the President to personally present solutions when there were problems in actually implementing the policies.

As such, the Monthly Economic Trend Report Meeting performed the function of a venue for resolving major national economic issues based on analyses of economic trends, and an



implementing body of the Saemaeul Movement. It was a highly important mechanism that enabled the consistency and effective delivery of policies. The EPB was able to carry out this key role because of the confidence and support it received from the President.

**Table 4-4 | Summary of Monthly Economic Trend Report Meetings for 1972  
(Newspaper Data Analysis)**

Published Date	Meeting Time	Report Details	Ministry
February 9	09:45~13:07 (including luncheon)	Economic Trends in January	EPB
		Briefing on Visit of IBRD, ADB, Japanese Economic Survey Team	EPB
		Background and Effects of January 17 Interest Rate Cut	BOK
		Successful Case Story of Farming Seaweed at Yeongmok Village in Seosan County, South Chungcheong Province	Fisheries Agency
March 6	09:45~13:07 (including luncheon)	Economic Trends in February	EPB
		Measures to Address Current Economic Situation	EPB
		Current Status of Measures to Foster Capital Market	Ministry of Finance
		Recent Trends in the Rural Economy	Ministry of Agriculture and Forestry
		Instructions on Measures to Implement Special Financing for Saemaeul Leaders	President
April 10	09:50~12:20	Economic Trends in March	EPB
		Measures for Promoting Foreign Investment	EPB
		Measures to Foster Oyster Production	-
		Report on Inspecting Saemaeul Movement Project in Jeolla Province	Ministry of Home Affairs

Published Date	Meeting Time	Report Details	Ministry
April 10	09:50~12:20	Instructions on Measures to Actively Support Saemaeul Projects on Afforestation <sup>61</sup>	President
May 12	-	Economic Trends in April	EPB
		1 <sup>st</sup> Expansion Plan for POSCO	POSCO CEO
June 5	09:40~14:20	Economic Trends in May	EPB
July 5	10:00~13:15	Economic Trends in June	EPB
		Instruction on Simplifying Foreign Investment Processes and Including Japanese in Foreign Language Education	President
August 7	09:57~12:30	Economic Trends in July	EPB
		Evaluation of IBRD Economic Consultative Group on Korean Economy	EPB
		Report on Current Status of Five-day Markets in Rural Areas and Improvement Measures	Ministry of Agriculture and Forestry
		Land Utilization Plan	-
		Instructions on Encouraging Government Officials to Report their Private Debt	President
September 7	09:25~13:10	Economic Trends in August	EPB
		Instructions Regarding Chuseok Price Inflation, Crack-down on Overdue Wages	President
October 5	10:03~14:00	Economic Trends in September	EPB
		Financial Trends Following August 3 Measures	-
		Instruction on Financing Domestic Demand with Idle Loans	President

61. The forest tree-planting project can be picked as one of the representative cases of successfully implementing government policy through the Monthly Economic Trend Report Meeting chaired by the President. Following the Korean War in 1950~1953, a considerable number of the population used trees as firewood for fuel, and as a result, a large area of Korea's forests was bald even until the early 1970s. In 1949, Korea designated every April 5 as 'tree-planting day' under a Presidential Decree, and it was agreed that on this day tree-planting efforts would be carried out nationwide. However, even until right before Park Chung-hee took office, there seemed to be little progress. During the late Park administration, tree-planting was encouraged in units of regional administrations across the country, and the state of progress was continuously reviewed. Police strictly cracked down on illegally cutting down of trees and imposed large penalties when caught. The government also recommended the use of coal as an alternative fuel. As a result, according to the data of the Korea Forest Service, the nationwide number of trees per unit area continued to increase every year. In 1960, there were 9 m<sup>3</sup> of trees per 1 hectare, but this figure rose to 22.2 and 103 in 1980 and 2008, respectively. For reference, the figure for US, Japan and China are 116, 171, and 67, respectively.

Published Date	Meeting Time	Report Details	Ministry
November 7	09:53~13:25	Economic Trends in October	EPB
		Comprehensive Economic Policy for 1973	EPB
		Aim to Achieve Total Exports of US\$10 billion in 1980 and per Capita Income of US\$1,000 in 1981	President
December 6	09:58~12:10	Economic Trends in November	EPB
		Measures to Rationalize Management of KEPCO	KEPCO CEO

Note: 1) Meeting times are according to records on the President's schedule.

2) The time for the report in May is unavailable, as the President did not attend the meeting.

Sources: National Archives of Korea, Presidential Secretariat, *President's schedule (daily record file)*, 1972; Major local daily newspapers (ChosunIlbo, JoongAngIlbo, Seoul Newspaper, KyunghyangShinmun, HankookIlbo, Donga Ilbo, Seoul Economic Newspaper, Korea Economic Daily, Maeil Business Newspaper).

Kang, Gwang-ha et al. (2008), *The Policy Decision Making System during the Rapid Economic Growth in Korea: Economic Planning Board and Inter-Ministerial Committees*, Korea Development Institute, p.119, recited.

## 5. EPB's Evolving Functions in Response to Changing Conditions

As of December 1963, the organization of the EPB included the Economic Planning Bureau, which formulated the economic development plan, the Budget Bureau, which was in charge of overseeing the financing and distribution of the domestic and capital funds, and the Economic Cooperation Bureau were all housed in a single institution. In this light, it was an economic planning agency that was empowered with a strong level of authority unlike in any other nation.

In the early stage of 1961, the government issued the "Temporary Measures for Adjusting Prices Act," and implemented policies on controlling prices of major items like grain, coal, briquettes and fertilizer. In order to hold the inflationary pressures in check following economic growth, the Price Division was created under the Economic Planning Bureau in August 1963 (later renamed Price Policy Division in December 1963). Then, as factors of inflation became a reality in November 1969, the division was promoted to Price Policy Bureau (director-general level organization), and thereby further reinforced price

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policies.<sup>62</sup> The Investment Promotion Bureau that had overseen the investment promotion function was abolished, whereas the functions of the Investment Assessment Bureau and Foreign Capital Management Bureau were enhanced to assess the economic feasibility or financing capacity of investment businesses and strictly monitor the follow-up of investment businesses.<sup>63</sup> By enacting the “Price Stability and Fair Trade Act” in 1975, it strengthened the institutional basis for stabilizing prices and solidifying competitive order. Beginning in 1978, the name of the annual plan was changed from the Overall Resource Budget to Annual Economic Management Plan, since it was no longer necessary for the government to include a comprehensive list of investment programs in the annual plan.

As a result, the EPB became responsible for three key functions of planning, budget and performance evaluation, as well as additional functions of managing prices and fair trade. The deliberation system run under the EPB was more efficient than the previous system that existed under the Prime Minister’s Office.

In the 1960s, the EPB played a leading role in overall economic policies, but in the 1970s, the role of the EPB underwent some change. The Deputy Prime Minister was in charge of the overall management of the economy, but another official, the Second Senior Secretary to the President for Economic Affairs, administered some affairs such as those related to the heavy and chemical industry.

In the changing domestic and international economic environment of the late 1970s and early 1980s, the policy principles and ways of operating the economy underwent significant changes. This had a huge impact on the policy decision-making system set up under a government-led strategy focused on growth. At the same time, it also had a big influence on the organization and functions of the EPB.

Entering 1981, the EPB’s organization and functions came to differ greatly from when it was initially established. The focus was on growth with stability than just growth, and furthermore, the organization and functions were adjusted to concentrate on solidifying an economic system that could operate under the autonomous coordination of a market mechanism rather than government-led and goal-oriented industrial policies.

Below is a passage from an interview with Dr. Oh, Jong Nam, former Commissioner of the National Statistical Office.<sup>64</sup>

62. Economic Planning Board (1982), *Economic Policies of the Development Era: The Twenty Year History of the Economic Planning Board*, p.16, p.19.

63. The Investment Promotion Bureau was abolished and the affairs that the bureau had administered were transferred to the Foreign Capital Management Bureau (Ministry of Government Administration and Home Affairs (1998), pp.503-504).

64. Oh, Jong-Nam, Record of interview with former Commissioner of the National Statistical Office on modularization of Korea’s development experience, November 29, 2013.

**Box 4-3 | Oh, Jong Nam, Former Commissioner  
of the National Statistical Office**

From the late 1970s, there was an overall transition in Korea's economic development strategy administered by the EPB. In particular, several issues surfaced out of the course of fostering the heavy and chemical industry (e.g. increase of facilities that exceeded the supply of workforce, technology and demand) in the 1970s and the side effects gradually grew, while the second oil shock spurred inflationary pressure. To this end, the EPB focused on stable growth rather than government-led quantitative growth and concentrated on drawing a blueprint for enhancing the economy's efficiency. Such policies continued until the 1980s. Thus, it sought to seek policies that could fully encourage autonomy and innovation in the private sector by adopting price stabilizing policies as well as economic operation methods led by the private sector (omitted).

President Park Chung-hee supported the EPB's stabilization policies and had it adopted as the policy implementation stance, enabling Korea's economy to make a policy shift toward pursuing stable growth oriented around the private sector.

The Five-Year Plans that were prepared in the early 1980s were renamed 'economic and social advancement' plans rather than 'economic development' plans, highlighting an emphasis on social development in addition to the economy. These plans also differed from the prior ones in that they underscored 'advancement,' which means qualitative and structural improvement, rather than 'development,' which indicates simply quantitative growth. Whereas initial plans had built on development strategies that set and attained concrete goals under government support and protection, the development strategy for the Fifth Five-Year Economic and Social Development Plan was changed to present ways to fully utilize the creative efforts of the private sector.<sup>65</sup> As the nature of the economic plan was changed into an indicative plan, the role of private companies in the policy making process became ever more important.

Even after the 1980s, the EPB continued to be reshuffled. For starters, the position of Director-General for Economic Education was introduced under the Assistant Minister in October 1982. Secondly, the Foreign Economy Coordination Office was created under the purpose of overseeing foreign economic cooperation affairs in March 1986. Thirdly, the fair trade-related affairs were transferred from the EPB to the Fair Trade Commission.

As such, one of the most important aspects found in the process of the EPB's organizational changes after the 1980s was that its initial function of planning and coordination were being

<sup>65</sup> Economic Planning Board (1981), p.15.

expanded to include implementation. Naturally, this was accompanied by an increase in the size of the organization.

**Table 4-5 | Changes of the EPB's Organization in 1963~1981**

	Assistant Minister				Total	Note
December 16, 1963	2	1	4	20	228 <sup>1)</sup>	Assistant Minister for Planning, Assistant Minister for Operation, Planning and Management Office, Economic Planning Bureau, Budget Bureau, Economic Cooperation Bureau, Technology Management Bureau
January 16, 1973	2	1	6	25	360	Assistant Minister for Planning, Assistant Minister for Operation, Planning and Management Office, Economic Planning Bureau, Budget Bureau, Price Policy Bureau, Economic Cooperation Bureau, Investment Promotion Bureau, Foreign Capital Management Bureau
June 26, 1979	2	2	5	26	545	Assistant Minister for Planning, Assistant Minister for Economic Cooperation, Budget Office, Price Management Office, Economic Planning Bureau, Policy Coordination Bureau, Investment Assessment Bureau, Economic Cooperation Bureau, Foreign Capital Management Bureau
April 3, 1981	2	2	6	35	636	Assistant Minister for Planning, Assistant Minister for Economic Cooperation, Budget Office, Fair Trade Office, Economic Planning Bureau, Policy Coordination Bureau, Price Policy Bureau, Investment Assessment Bureau, Economic Cooperation Bureau, Foreign Capital Management Bureau
November 2, 1981	1	2	4	31	572	Assistant Minister for Planning, Budget Office, Fair Trade Office, Economic Planning Bureau, Price Policy Bureau, Investment Assessment Bureau, Assessment and Analysis Bureau

Note: 1) The figure recorded in December 1963 is from the total number of staff in July 1961.

Source: Ministry of Government Administration and Home Affairs (1998), *History of Changes in Government Organization in the Republic of Korea*, pp.456-509.

Kang, Gwang-ha et al. (2008), *The Policy Decision Making System during the Rapid Economic Growth in Korea: Economic Planning Board and Inter-Ministerial Committees*, Korea Development Institute, p.222, recited.

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The policy decision-making process underwent substantial changes beginning in the 1980s, and this also had an impact on the EPB.

First, there was a change in the economic operation method. This can be attributed to several factors. One was that there was a growing inconsistency in the Korean economy, such as the chronic inflation structure that stemmed from a government-led economy. It was also in part due to the fact that the country's high growth had created a bigger economy and the private sector was more capable of raising capital. Furthermore, under the influence of new liberalism, the government had no choice but to gradually reduce its role pursuant to the spread of liberalization and openness around the globe. In this light, as the economic operation method had shifted from a government-led economy to one led by the private sector, the participation of the private sector was crucial to achieve the targets of government policies, and thus it became difficult for the government to singlehandedly decide and pursue policies.

Secondly, the society was shifting toward a diversified society with the growth of economic size and political democratization. The administration could easily dominate the policy decision-making system when there was a strong national agenda and the market economy was not developed. However, it gradually became difficult to select a national agenda that could gain a nationwide consensus as the economy grew larger.

As the society became more diversified, interest groups were more active in voicing their opinions, and to this end, it became more important to accommodate the interests of each economic entity in the process of formulating and implementing the economic policies. Moreover, under the policy decision-making system where the government was in a predominant position over the private sector, the EPB's status was more pronounced by such factors as the President's confidence in the organization, the EPB Minister concurrently serving as Deputy Prime Minister, the formulation of the economic development plans, and the authority to allocate domestic and foreign financial resources. But some of these conditions began to dwindle, especially from the 1980s.

In line with this changing environment, the EPB's status and role also needed to be modified. Of course, there had been, as mentioned before, views within the EPB itself that the government's policy principles in the course of implementing the economic development plan needed to be adjusted from the early development era. These views included the stance that the focus should gradually be placed more on economic stability and market autonomy. In this milieu, changes in the external conditions also called for the EPB to assume a modified role, to better accommodate varied interests of society.





2013 Modularization of Korea's Development Experience  
Operation of the Economic Planning Board in the Era  
of High Economic Growth in Korea

## Chapter 5

### Analysis of EPB's Success Factors

1. Analysis of Success Factors
2. Shortcomings and Areas for Improvement
3. Comparison with Foreign Cases

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# Analysis of EPB's Success Factors

## 1. Analysis of Success Factors

### 1.1. Framework of Analysis

The late President Park Chung-hee is said to have often mentioned that “an order accounts for five percent, and the other 95 percent is all about supervision.” In a recent media interview, KDI President Kim Joon-kyung commented, “I fully agree with former President Park Chung-hee’s words that ‘five percent is policy and the remaining 95 percent should be focused on implementation.’”<sup>66</sup> The implementation of policies is crucial and cannot be underestimated.

It would probably be foolish to believe that policies will be automatically programmed to implement themselves once they are devised. In the 1960s, the widely accepted belief in the US was that policies were everything, and that all problems were solved once policies were formulated and laws enacted. Yet, although the Johnson administration of the US made numerous attempts at legislation to construct a Great Society, most of these efforts failed. Many newly independent developing countries design economic development plans, but extremely few have succeeded in this regard. This is evidence that policies do not necessarily equal effective results.

From early on, there were many discussions focusing on the importance of policy implementation in development administration and policy study sectors. Regarding policy implementation, several academic scholars including Pressman and Wildavsky<sup>67</sup> (1973), Van

66. Maeil Business Newspaper, June 7, 2013, Article.

67. Pressman, Jeffrey L., and Aaron Wildavsky (1973), *Implementation*, Berkeley: University of California Press, p.13.

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Meter and Van Horn (1975)<sup>68</sup> and Jones (1977)<sup>69</sup> have offered their respective definitions. In the initial stage, policy implementation was understood as a unilateral process pointed towards translating policies into concrete project plans and then actualizing these plans. However, Nakamura and Smallwood (1980)<sup>70</sup> proposed that in the policy process, forming, implementing and evaluating policies did not flow in a unilateral direction but formed a circulatory relationship. The most important relationship in the policy process would be policy formulation and policy implementation. McLaughlin (1976)<sup>71</sup> argued that policy formulation and implementation need to be mutually adapted, and Lindblom (1980)<sup>72</sup> asserted that there is a difference in the extent of policy implementation, but policies continue to be modified.

68. Van Meter, Donald S., and Carl E. Van Horn, The Policy Implementation Process: A Conceptual Framework, *Administration and Society*, February 1975, p.447.

69. Jones, Charles O., *An Introduction to the Study of Public Policy*, second edition, North Scituate: Duxbury Press, 1977, pp.139-140.

70. Nakamura, Robert T. & Frank Smallwood (1980), *The Politics of Policy Implementation*, New York: St. Martin's Press, p.1.

71. McLaughlin, Milbery (1976), Implementation as Mutual Adaptation: Change in Classroom Organization, in Walter Williams & Richard Elmore(eds.), *Social Program Implementation*, New York: Academic Press, pp.167-168.

72. Lindblom, Charles (1980), *The Policy-Making Process*, second edition, Englewood Cliffs: Prentice-Hall, p.65.

**Table 5-1 | Factors that Influence Policy Implementation**

	Smith	Edwards and Sharkansy	Larson	Mazmanian and Sabatier
Policy Variable	<ul style="list-style-type: none"> <li>• Policy type</li> <li>• Policy model</li> </ul>	<ul style="list-style-type: none"> <li>• Policy goal                             <ul style="list-style-type: none"> <li>- Clarity</li> <li>- Consistency</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Vague and unrealistic goals</li> </ul>	<ul style="list-style-type: none"> <li>• Clear policy objectives</li> <li>• Adequate causal theory</li> </ul>
Implementation Variable	<ul style="list-style-type: none"> <li>• Implementing organization                             <ul style="list-style-type: none"> <li>- Size of staff</li> <li>- Competency</li> <li>- Duty</li> <li>- Leadership</li> <li>- Structure</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Resources                             <ul style="list-style-type: none"> <li>- Staff</li> <li>- Authority</li> <li>- Infrastructure, information</li> </ul> </li> <li>• Disposition of implementers                             <ul style="list-style-type: none"> <li>- Bypassing channels, incentives</li> </ul> </li> <li>• Bureaucratic structure                             <ul style="list-style-type: none"> <li>- Follow-up</li> <li>- Standard operation procedures</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Poor implementation procedures</li> <li>• Intergovernmental complexity</li> </ul>	<ul style="list-style-type: none"> <li>• Financial resources</li> <li>• Commitment and leadership skill of implementing officials</li> <li>• Formal access by outsiders</li> <li>• Decision rules of implementing agencies</li> <li>• Integration within and among implementing agencies</li> </ul>
Environment Variable	<ul style="list-style-type: none"> <li>• Environmental factors</li> <li>• Level of policy support</li> <li>• Policy source</li> </ul>	<ul style="list-style-type: none"> <li>• Effective communication                             <ul style="list-style-type: none"> <li>- Transmission</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Forces in the economic environment</li> </ul>	<ul style="list-style-type: none"> <li>• Socioeconomic conditions</li> <li>• Attitude and resources of constituency groups</li> <li>• Public support</li> <li>• Support from legislators</li> </ul>

This naturally leads to the question of what factors influence successful policy implementation. For starters, Smith (1973) put forth that the factors influencing policy implementation were ideal policies (policy form, type, level of support, scope of grounds, image), policy target (target group, leadership, past experiences), implementing organization (structure and staff, leadership, mandated role and capacity), and environmental factors.<sup>73</sup> Edwards and Sharkansy (1978) and Edwards (1980) pointed toward communication, resources and bureaucratic structure as major factors and explained the mutual relationship

73. Smith, Thomas B., *Policy Implementation Process*, *Policy Sciences*, June 1973, pp.202-204.

between the factors and the policies facing numerous problems in their implementation.<sup>74</sup> Larson (1980) picked out four major factors that impact policy implementation from the perspective of factors that failed. These factors are ‘vague or unrealistic target,’ ‘poor implementation procedures,’ ‘inter-governmental complexity,’ and ‘forces in economic environment.’<sup>75</sup> Mazmanian and Sabatier (1983) presented ‘tractability of the problem,’ ‘ability of statute to structure implementation,’ and ‘non-statutory variables affecting implementation,’ as factors that influenced the implementation process and elaborated on these aspects in more detail.<sup>76</sup> These views on the factors that influence policy implementation can be drawn up as <Table 5-1> above.

These studies provide useful implications in examining the factors that were pivotal in the EPB successfully implementing economic policies during the Korea’s high growth era. However, the studies strictly differentiated policy variables and implementation variables in order to explain the conditions for the successful implementation of certain policies. This paper, on the other hand, focuses on addressing the operation of a certain institution rather than a certain policy. Thus, as this paper seeks to identify the success factors for policies that were planned and coordinated through the EPB, it is not appropriate to strictly divide between policy variables and implementation variables. Therefore, this study will analyze the factors that impacted policy implementation largely by the internal and external factors of the implementation system.

## 1.2. Internal Factors

### 1.2.1. Clear Policy Goal

A national consensus for escaping poverty had been formed in the early 1960s. Under such circumstances, the government that came to power through the May 16 Military Revolution presented a national goal that set economic development as its top priority.<sup>77</sup> On the political front, the year 1961 was a period that required economic development to secure the legitimacy of the new government.

74. Edwards III, George C. & Ira Sharkansky (1978), *The Policy Predicament: Making and Implementing Public Policy*, San Francisco: Freeman, pp.292-321; Edwards III, George C. (1980), *Implementing Public Policy*, Washington D. C.: Congressional Quarterly Press, pp.17-46.

75. Larson, James S (1980), *Why Government Programs Fail: Improving Policy Implementation*, New York: Praeger, pp.2-7.

76. Mazmanian, Daniel A. & Paul A. Sabatier (1983), *Implementation and Public Policy*, Glenview: Scott, pp.20-35.

77. As mentioned earlier, Korea attempted to manage a mixed economy by running a strong government-led planning mechanism under a free economic system. Government intervention and support performed a considerable role instead of the market, which is the natural coordinating mechanism of capitalism. Also, the fact that the Korean economy was relatively small-scale and less complex, at least in some parts, would have acted as a factor for increasing the possibility of succeeding in the economic development strategies.

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Economic development, which had been put forth as a central part of the military government's initial pledge, remained an important goal, and the nation's top policymaker clearly delivered this initiative to the leadership of the government as well as the working-level government officials. To achieve these plans, the 'end-means chain' was tightly maintained for the economic development plan's objectives, major targets, and the political means. The policy decision making process was highly non-political and post-political, and technical rationality was widely applied to the decision making procedures.

The late President Park Chung-hee's commitment to economic development and his administrative philosophy quickly spread among the EPB officials, as well as other government bureaucrats. In his address at the National Assembly, the President tended to repeatedly emphasize his focus on the three major targets of economic development, which were increased production, exports and construction. For example, according to a study<sup>78</sup> that analyzed the content of his major speeches between 1964 and 1967, 25,800 out of 52,000 words were those such as economic development, modernization, reform and change.

As such, the late President Park repeatedly expressed his interest in economic development through his speeches, which meant that government officials hurriedly worked to achieve those policy objectives. At the start of the year, the President would visit ministers and provincial governors to review and coordinate the previous year's performance and plans for the year ahead. He also encouraged a performance-based development administration among the government officials, stressing the achievement of targets and attaining results. From a policy variable approach, successful implementation was achieved through clearly presented policy goals, reasonably associated objectives, and concrete policy means.

### **1.2.2. Implementation Method and Organization**

In the 1960s, none of the existing government agencies were appropriate for administering economic development. This gave rise to the suggestion of building on an existing agency or establishing a new one. The government opted to create the EPB as an organization responsible for economic development. Thus, the EPB was founded as an institution to lead the key national goal of economic development in accordance with the President's views. Moreover, the EPB's existence itself contributed greatly to successfully implementing Korea's economic development policies in the high growth era.

The EPB held sufficient legal, human and material resources and means, not to mention information and informal authority. Pursuant to the Government Organization Act, the EPB

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78. Hwang, In-jung (1985), *Administration and Economic Development (enlarged edition)*, Seoul National University Press.

was empowered with the authority for budget planning and foreign capital management, which enabled it to secure and manage resources. Therefore, it possessed the power to procure resources needed for achieving the policy goals. Furthermore, with the Deputy Prime Minister as its head, the EPB solidified its position as a super ministry. It hired talented individuals for its work or also utilized think-tanks like KDI.

The late President Park and his administration firmly believed that elite bureaucrats, more than any political instrument, were the most important foundation in more swiftly and effectively pursuing economic development plans. In this light, the government sought drastic reforms in several aspects concerning recruitment, training, and promotions.

From 1963, the higher civil service examination was transformed from a simple qualification exam to a civil service examination. The number of candidates recruited also sharply increased, leading to the assimilation of university graduates into the bureaucratic system. In particular, from among the successful candidates, a small number of top-performing elites from Korea's most prestigious university, Seoul National University, or other world-renowned universities chose to go to the EPB. As a result, the EPB officials had relatively similar values, and the organization was able to become a reform-leading group determined to modernize the country. This open competitive examination system was also held for the recruitment of working-level government officials of Grade 7 or below, and therefore the bright university workforce was encouraged to join the bureaucratic system, and these young people became the driving force that managed the government-led economic system in the 1960s and 1970s. This measure to enhance the capacity of the bureaucratic system was not only applied to recruitments, but also widely covered education and training. An average of around 3,000 officials took part in the high-ranking government official training program run by the Central Officials Training Institute for two decades between 1961 and 1980.<sup>79</sup>

Meanwhile, in the 1970s, there was also the heightened recognition of the need for a research institution that could help the formulation of the five-year economic development plan and policy making through realistically and systematically researching policy tasks related to the overall national economy. Against this backdrop, as mentioned earlier, the specialized research institute KDI was established under the EPB in March 1971. It had a high level of expertise and autonomy, and this combined with the capacity of the highly capable workforce at the EPB, created a greater synergy effect.

In developing countries like Korea, the bureaucrats have an imperative role to play in national development. In the science of public administration, it is conventionally assumed that the administrative bureaucrat maintains political neutrality and avoids situations where

79. Choi, Dong-kyu (1991), *Government in the Growth Era*, Seoul: Maeil Business Newspaper, p.130.

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the official may implement policies for his/her own interests. Like the way economics assumes that human beings are rational, it is assumed that administrative bureaucrats are free from abuse of authority and corruption. However, this is in fact not a realistic assumption. The EPB's duties did not involve any licensing or public relations, and budgeting matters also only addressed other government officials. Therefore, given the distinct nature of its work, the EPB was relatively freer from corruption.

The abuse of authority among the bureaucrats of newly independent countries tends to be diverse according to the respective stages of political development. Eisenstadt (1959) explained this in the form of service-oriented bureaucracy, over-bureaucratization and de-bureaucratization.<sup>80</sup> The EPB can be considered to fall under the category of service-oriented bureaucracy. This is because it maintained an appropriate level of autonomy in terms of its connections outside the organization, while also being externally controlled.

The EPB's leadership remained relatively stable, and the size of the organization was appropriate for carrying out its role. The government officials working at the EPB possessed expertise and dedication, and the agency was free from the influence of other interest groups. Their organizational culture was flexible as opposed to a top-down approach, and open rather than closed. In institutional terms, the laws and relevant regulations that were applied to the EPB were minimized, and amid the constantly changing policy environment of the 1960~1970s, EPB officials were not tied up by the strict regulations and had room to fully exhibit their creativity and flexibility.

In order to quickly create visible results in economic growth for the public, it is ever more important to encourage efficient implementation rather than rationality or logics to enhance quantitative performance. This meant encouraging all officials to break away from their usual 'process-oriented' ways to becoming more 'result-oriented.'<sup>81</sup> Under this kind of administrative atmosphere, EPB officials were able to conduct work centered on performance outcomes.

During the 18 years the late President Park was in office, from 1961 to 1979, more than 15 economy-related ministry ministers were former EPB officials. This not only elevated the status of the institution, but also rapidly spread the EPB's planning concept to other sectors, and had a significant influence on effectively coordinating policies.<sup>82</sup> In order to

80. Over-bureaucratization is a state where officials seek their own interests and aim for quantitatively upgrading the organization instead of service-oriented goals, whereas de-bureaucratization is a state where officials are swayed by relevant parties of interest to lose autonomy and fail to achieve the targeted goal (Eisenstadt, 1959).

81. Chung, Chung-Kil (1986), *The Ideology of Economic Development and Its Impact on Policy Process*, *Korean Journal of Policy Studies* (1), pp.28-46.

82. Hwang(1985), *op. cit.*, pp.49-51; Choi (1991), *op. cit.*, p.59-73.



achieve the targeted goals, the overall settings were focused on utilizing practical policy means without ideological stereotypes.

Even if the Presidential Secretariat, Prime Minister's Office, and relevant ministries held different views with regards to the means of implementing the policies, these parties usually formed a cooperative relationship with the common goal of economic development. The EPB was able to maintain a stable and collaborative relationship with other ministries from a higher position because of its budgetary authority. The few differing views that did arise were swiftly and efficiently coordinated through the various coordinating bodies. The final solutions for these matters were resolved by who would be able to better deliver technological and economic rationality to persuade the President. The ministries were also given clear roles, as to which there were actually few matters that overlapped or caused disputes. This active cooperation between the various ministries in implementing the economic policies administered by the EPB was largely attributed to the leadership of the late President Park.

Policymakers recognized the importance of such policies and encouraged active participation. Whenever formulating economic development plans, reviewing the progress of major policies or seeking ways of improvement, they actively incorporated the opinions of experts and front-line officials.

#### Box 5-1 | The Late President Park Stressed Teamwork between Ministries<sup>83</sup>

On October 4<sup>th</sup>, President Park Chung-hee mentioned that the reason he recently replaced the economic ministers was to smoothly and progressively push forward all economic plans from the current stage, and he also instructed the Cabinet that ministers should concentrate on building close teamwork. Presenting Certificates of Appointment to six newly appointed ministers, President Park said, "When economic policies are uncoordinated, it is difficult to gain public support, and without public support, it is difficult to effectively implement economic policies. Therefore, the Cabinet must create a newly reformed atmosphere so that the Korean people can trust and cooperate with the government's economic policies."

In particular, at the early stage of economic development, foreign experts from USAID and the Advisory Delegation of the German Government were stationed in the country and worked together with domestic economic policy experts over a period of one year and

83. Maeil Business Newspaper October 4, 1967, Article.

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six months to create economic development plans after seven meetings of the Economic Planning Advisory Committee and 31 meetings of the Joint Committee on Plan Preparation.

In short, the distinguishing characteristic of the high growth period of Korea's economic development was that it was government-led, yet not an outcome achieved by the government alone. It is noteworthy that the government led the formulation of effective development strategies, while the private sector showed strong economic determination to improve living standards and escape from poverty accumulated during the period after liberation and the Korean War. Even up to the early 1960s, Korea's circumstances called for the government to perform a more active role, but as the industrial structure continued to be upgraded during the development era, the private sector gradually assumed a larger role in each sector of the economy, including the manufacturing industry.

### 1.3. External Factors

#### 1.3.1. Political and Economic Conditions

In 1945, Korea was liberated from Japanese colonial rule, and it established an independent government in 1948, but there was still a sharp conflict between the leftists and the rightists. The times that include the Korean War from 1950 to 1953, the April 19 Revolution in 1960, and the social chaos following the uprising, is often referred to as the period of political confusion in Korea's modern history. The military government that came to power placed anti-communism as its national policy priority, and focused efforts on economic development. Underlying this was not only the purpose of a social consensus, but also political intentions of securing legitimacy for the new government.

In the early 1960s, after Japanese colonization, three years of a devastating war, and a period of political uncertainty, Korea was in a state of absolute poverty and inflation. Faced with such circumstances, the new government had no other option but to emphasize the economy, and the EPB was established and empowered as the control tower for pursuing economic development and actively fulfilled its role.

Korean leadership remained relatively stable without change of power from 1961 to 1979, and this enabled national goals to be pursued with consistency. The EPB designed the five-year economic development plans and effectively put in place economic policies to reap visible results, which won wide political support.

#### 1.3.2. Sociocultural Aspects

Han (2007) explained that the social changes that occurred in the 1950s contributed greatly to pursuing an all-out economic development strategy after the 1960s. Some aspects

picked as being particularly important were (1) land reform; (2) mandatory education and an overwhelming fervor for education; and (3) influence of war and the expansion of the military organization.<sup>84</sup> Lee (1968) noted that, “After the decade of the 1950s and entering the early 1960s, our military had become a large yet well-integrated organization that exercised tremendous political influence, and in particular, the high-ranking group of generals could take pride in being the most modern group in Korean society, at least in terms of its administrative perspective and capacity,”<sup>85</sup> and positively assessed the development of the military.

According to research conducted by Adelman and Morris (1967), Korea’s per capita income in 1961 was stumped at 60<sup>th</sup> place from among 74 countries, but ranked 14<sup>th</sup> in terms of the composite indicators of social and cultural development.<sup>86</sup> In other words, it is evident that Korea already had in place the minimum social and cultural base for economic development in the 1960s.

For underdeveloped countries seeking government-led economic development, there is a high risk of corruption among bureaucrats. This matter of corruption, which is easily found in the process of modernization, does not simply waste national wealth. It disorients the organization’s goals, weakens leadership and lowers the legitimacy and efficiency of the administrative system, becoming deeply rooted in different parts of the organization. It becomes the source of a political crisis that brings about setbacks in the modernization of newly established countries.<sup>87</sup>

Of course, it is difficult to assert that the Korean political circle or bureaucrats were completely free from corruption. But, at least the late President Park himself is thought to have set an example of a frugal and non-corrupt life.<sup>88</sup> Moreover, multiple inspection agencies continuously checked on the high-ranking government officials and heads of public corporations.<sup>89</sup> There is also the view that active criticism and monitoring of the government by educated intellectuals and journalists also contributed to preventing corruption among the bureaucracy.

84. Han, Young-hwan (2007), *Development Administration*, Asia Munhwasa, p.219.

85. Lee, Han-bin (1968), *Social Change and Administration*, Seoul: Parkyoungsa, pp.203-212.

86. Adelman, Irma and C. T. Morris (1967), *Society, Politics, and Economic Development: A Quantitative Approach*, Baltimore: Johns Hopkins University Press, pp.151-170.

87. Han (2007), *op. cit.*, p.111.

88. Dr. Ezra F. Vogel, Professor of the Social Sciences Emeritus at Harvard University, had been critical about the late President Park’s military regime. However, when he met with the late President Roh Moo-hyun when President Roh was in office, he is known to have said that had there not been Park Chung-hee, there would be no Korea as we know it today. Park was dedicated, he did not misappropriate, and he was diligent; he was a leader who spent his life working for his country. [http://koreastory.kr/bbs/board.php?bo\\_table=true&wr\\_id=64](http://koreastory.kr/bbs/board.php?bo_table=true&wr_id=64).

89. See record of interview with former KDI President Song, Hee-yhon on modularization of Korea’s development experience, (November 28-29, 2013).

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### 1.3.3. External Support

In the research where Adelman and Morris (1967) disclosed the reason behind the different levels of economic development achievement among the 74 developing countries,<sup>90</sup> it is indicated that around 60 percent of the many political and social variables behind the difference was the level of the political leader's determination for development. Mazmanian and Sabatier (1983, pp.30~31) refers to institutions that control the legal and financial resources of the implementing institution, like the President or the Parliament, as the controlling institution, and note that the support of these institutions impart a large influence on the implementation of policies.

In the case of Korea, the late President Park was deeply determined to realize economic development, and held particular affection for the EPB. Support from the President, Prime Minister and ruling party strongly propelled the EPB's implementation capacity. Its policies mostly received wide coverage and support from the media, as well as great public interest and public support. There was some political opposition amid restrictions on the political freedom and the freedom of expression. However, at least on the economic front, a large share of the nation supported and held confidence in the government-led economic performance.

#### Box 5-2 | Reference: Interview with Former Deputy Prime Minister/ EPB Minister Choi Gak-kyu<sup>91</sup>

At the time, the EPB held only the planning and monitoring functions and lacked any practical implementation functions for projects. The only implementation functions it possessed were budget allocation and foreign capital authorization. The integrated coordination of economic policies would also be almost meaningless without an influential Deputy Prime Minister. In a situation where each ministry had the authority to implement their own policies and channels were open to report to the President, there were limits to controlling all economic ministries with simply the Deputy Prime Minister system.

90. Adelman, Irma and C. T. Morris (1967), *Society, Politics, and Economic Development: A Quantitative Approach*, Baltimore: Johns Hopkins University Press, p.246.

91. Hong et al., *op. cit.*, p.86.

For starters, there is a fundamental limit to precisely implementing very detailed and strict economic plans under a free economic market system. Furthermore, with each independent ministry given its respective role, there cannot but be limits to coordinating overall economic policies with merely the budget authority and a Deputy Prime Minister. Despite these actual predicaments, Korea's system found its place because its top policymaker, President Park Chung-hee, fully supported the EPB with the firm determination that the country would, "in terms of the economy, seek consolidated operation through the EPB." This is precisely why the EPB was able to overcome several limitations and predicaments to become a symbol of Korea's economic development at home and abroad.

The reason that the EPB was able to receive widespread support was mainly because it showed close and swift responsiveness and follow-up measures for economic issues that were critical to businesses and the general public. For instance, in 1972, the EPB handled the issue of corporate debt among businesses. At the Monthly Economic Trend Report Meeting, it closely examined the actual effects of the series of financial conditions improvement measures and possible improvements for the effective implementation of relevant policies. These timely efforts solved the predicaments of businessmen and enabled them to focus on their management. In addition, the EPB would focus on policies for the agricultural, forestry and fishery industries and the Saemaoul Movement, and provide support so that these policies could be implemented without any obstacles. As a result, it contributed to the modernization of rural areas and received extensive support from the people.

## 2. Shortcomings and Areas for Improvement

In terms of the national plan, problems may arise when a super ministry takes the lead.<sup>92</sup> Installing a Deputy Prime Minister system may hinder the autonomous and responsible policy implementation and execution of authority by ministers, who are key figures in a horizontal organization under a presidential system where all administrative affairs are run by each respective ministry with the President at the center. It may weaken a sense of responsibility, and there is also the possibility that the Prime Minister may execute authority over all general state affairs. Furthermore, the diversified administrative levels may hinder communication between the President and each ministry.

An organization that is operated for a long period of time faces the risk of becoming too large. The EPB was no exception. When it was first established on July 22, 1961, it was

92. Bae, Heung-soo (1989), *Study on Korea's Economic Planning Agency: Economic Planning Board*, Yonsei University Master's Thesis, pp.72-81.

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an organization with four bureaus, 19 divisions and 228 staff. However, by June 1, 1989, it had grown to employ one assistant minister, four bureaus, four offices, 34 divisions, 37 directors (13 Grade 2 officers, 25 Grade 4 officers) at the headquarters and also held the Survey Statistics Bureau and Public Procurement Service as its outside bureau and agency. The total number of staff at the headquarters alone was 637 (Survey Statistics Bureau had 981 members, Fair Trade Commission had 11 members, thus a total 1,629 staff), and it had become a massive organization.<sup>93</sup> There were, of course, positive aspects like the fact that administrative affairs were more specialized, but internal consolidation was lost, as the organization had become too segregated and large compared to its workload.

At its inception, the EPB had concentrated on economic planning. The initial plans prepared by the EPB were not based on indicative planning that promoted the market function, but were in fact intended to first attain sustainable growth and then realize a welfare society. They were, therefore, somewhat rigidly implemented. Of course, at the time of EPB's operation, given various factors such as weak private capital, difficulties in efficient resource mobilization and distribution, and class conflicts, implementing economic plans under the leadership of a national planning agency was a viable means.

However, as a country's stage of development advances, the government-led administration or social changes need to gradually shift to become participation-oriented. As seen in the case of the EPB, at the initial stage of economic development, it may be desirable for a certain ministry to take the lead to achieve targeted policies. However, as the nation develops, it becomes more desirable, in terms of policy effectiveness and democracy, to increase the participation of each ministry, business and party of interest in the process of planning or setting national goals. At the time of high economic growth, the EPB was mainly an institution that planned and instructed. However, in the period of democracy and advancement with a mature civil society and a developed market, it would be advisable to operate policies under cooperative governance.

During the mid 1980s, the social and political policy environment in Korea became more complex. In such circumstances, it is better for each ministry to handle their respective affairs under their own discretion rather than the central planning agency attempting to control all matters. However, the EPB was too eager to get involved in matters that fell under the mandate of other ministries, which sparked friction. This was one of the reasons behind the abolishment of the EPB. In a complex policy environment, a super ministry like the EPB should refrain from excessively controlling or getting involved in the affairs of relevant ministries, and there should be measures to increase the discretionary power of each separate ministry.

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<sup>93</sup>. *Ibid*, p.64.

### 3. Comparison with Foreign Cases

Countries with organizations similar to Korea's EPB include Japan, Taiwan, India, Singapore and France. Among others, Korea's EPB differs with the organizations in Japan and Taiwan in the fact that it performed a larger role with the budget allocation authority. India had its Planning Commission, but it did not have the regulatory authority to keep other economic ministries in check. Singapore had the Economic Development Board as an organization under the central government ministry, and France operated Le Commissariat Général du Plan, which was a research-type institution, not an administrative organization.

Japan's national planning organizations consisted of the Economic Planning Agency (EPA), which led the actual plan formulation, and the Economic Deliberation Council. The EPA was established in July 1955, and devised the five-year plans primarily to advance its postwar economy. The EPA was the comprehensive coordination agency for Japan's national economic policy, which formulated and implemented long-term economic plans, prepared the basic guidelines for overall economic operation and annual economic plans, and coordinated the cooperation of economy-related planning among the ministries.

The distinguishing characteristic of Japan's planning system was that the Economic Deliberation Council, an advisory agency, was in charge of the national planning, and political influence was removed by excluding the participation of both ruling and opposition party members. Furthermore, Japan's economic plans did not have a particularly binding force in either the public or private sector in terms of its implementation.<sup>94</sup>

Japan's EPA did lead the economic plans, but other government ministries were not particularly enthusiastic or obliged to achieve the set goals,<sup>95</sup> and it had an even weaker binding force on the private sector. The function of economic planning was mostly focused on the exchange of information and reviewing economic policies, and in terms of the distribution of investment and resources, thus the implementation, the plan was more intended to function as an "announcement effect." In other words, once the plan was announced, households or corporations would consume or invest to meet the directions indicated in the plan.<sup>96</sup>

Taiwan's leading agency was the Council for Economic Planning and Development (CEPD), which was mainly mandated with devising mid- to long-term economic development plans from a macroeconomic approach. To this end, it surveyed and researched

94. *Ibid.*, pp.35-36.

95. Budgeting was dealt by the Ministry of Finance, and external transactions and industrial programming was handled by the Ministry of Trade and Industry. Shinohara, Mryohei, Toru Yanagihara, and Kwang Suk Kim [1983], *The Japanese and Korean Experiences in Managing Development*. p. 25.

96. Choi (2006), *op. cit.*, pp.245-246.

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the economic environment and conditions, evaluated the projects of public corporations, and coordinated policy conflicts that arose between economic ministries.

Unlike Korea's EPB, it was not a government ministry related to policy implementation but an advisory agency of Taiwan's Executive Council. Therefore, its binding force or influence was not as significant as its counterpart in Korea. However, the role of the Industrial Development Bureau (IDB) of the Ministry of Economic Affairs was different. Taiwan's IDB has been a key organization that implements nearly all industrial policies related to economic development. Based on the economic plans devised by the Council for Economic Planning and Development, the IDB would create more concrete and detailed action plans by industrial sector, and determine the necessary fiscal plan, tax system, import regulation categories and import authorized items.

Taiwan's agency exercised enormous authority related to the industry and businesses, and took responsibility for all processes involving the planning and implementation of industrial policies and provided comprehensive management. In particular, Taiwan's economy was highly dependent on trade, and therefore trade policy was one of the central roles of the organization, and it enabled the creation of various policy means and control over businesses.

The officials of Taiwan's agency, like in Korea, were mostly those with a good educational background and it was customary for it to be headed by a well-informed economic official with an extensive career in several administrative ministries or public corporations. Taiwan's Ministry of Economic Affairs or CEPD<sup>97</sup> were not as overbearing on enterprises as Korea's Ministry of Commerce and Industry, and it did not have as strong an influence. Therefore, its market intervention was very limited.

As indicated in the cases of Japan, Korea and Taiwan, elite specialists were widely positioned at important posts in the economic ministries. They performed the function of fine-tuning and coordinating the overall economic policies to meet the national goals. The economic planning agency in each country carried out the role of devising and implementing economic policies, and was used as a channel for economic development. Although there is a difference in the extent of authority, another distinct feature is that these agencies held more authority than other ministries with regards to economic policies.

According to Stephan Haggard who once analyzed Korea's economic plans, the EPB is an agency that held stronger status and authority than the ones in Japan and Taiwan, and this was possible because the EPB was in a position that was superior to other ministries as it oversaw functions related to exercising authority for budget allocation and monitoring

97. In January 2014, CEPD was merged with Research, Development and Evaluation Commission to form the National Development Council, by further assuming research and evaluation functions.



of economic policy implementation and planning coordination. Meanwhile, there are also views that the most crucial factor that enabled the EPB's pivotal role in economic development and industrial policies was that the President ensured its independence from other political parties and ministries.<sup>98</sup>

India also created a coordinating agency named the Planning Commission, but it did not hold the institutional authority to control other economic ministries. Most notably, the issuance of the permit for private company investments by the Ministry of Industry and the permit for private company imports by the Ministry of Commerce were not coordinated with the economic development plan. Thus, although India attempted to industrialize the heavy and chemical industry between 1955 and 1964, it was unable to achieve its overall economic development objective because it failed to secure resource distribution and selectivity (Evans, 1995, pp. 69~70; Chibber, 2002, pp. 960~971).<sup>99</sup>

The Economic Development Board (EDB) is one of the 10 institutions under the Ministry of Trade and Industry, and played a pivotal role in developing and solidifying Singapore's reputation as a global hub for investment and business. The EDB quickly adapted to market principles and evolved accordingly, while its consistent policies and transparent and corruption-free administration and incentive policies propelled the development further. Its main functions involved not only simple investment inducement, but also the formulation of Singapore's overall industrial development plans, fostering an international professional workforce, technological innovation, support of technological development and provision of incentives for foreign investment companies.

98. Seo, Sang-min [2007], *Study on Functions and Changed Roles of Chinese Developmental State and State Planning Commission (SPC)*, Korea University Ph.D. Dissertation, pp.27~30.

99. Ha, Tae-soo [2009], *Analysis of Government Organization Act Amendment at Launch of Park Chung-hee Administration: Focusing on Historical Political and Economic Background of Establishing a Developed Nation*, Korean Journal of Public Administration, 40(1), p. 261.

**Table 5-2 | Singapore EDB's Organization and Role**

<b>Industrial Development</b>	<b>Covered Mainly Chemical, Biotechnology, Aviation, and Electronics Industry.</b>
Service Development	Covered affairs related to logistics, communication, regional headquarters, education and medical services
Corporate Development	Covered affairs related to finance, technology, productivity, human resource management and business management
Economic Resource Development	Formulated optimized plans for utilizing and distributing economic resources such as manpower, land, electricity and gas
International Business Development	Developed and evaluated business opportunities in the nearby and South East Asian region, and introduced new business partners
Strategic Business	Conducted projects requiring specialized strategies and support

Source: <http://www.cid.harvard.edu/caer2/htm/content/papers/paper72/paper72.html>.

France established its planning agency in 1946 to overcome the economic crisis that broke out due to the Great Depression and WWII. The planning agency coordinated the investment plans prepared and submitted independently by each government ministry and designed a single government plan. Its key functions involved the establishment of short-term and long-term economic planning, cooperation with planning-related organizations, and the instruction and evaluations of plans and planning coordination among the ministries.<sup>100</sup>

As illustrated earlier, there are similar overseas cases of economic planning agencies like the one in Korea. However, there were not many cases where economic development was achieved through a government-led development approach under an economic planning agency with an overall authority like the EPB.

100. Bae (1989), *op. cit.*, pp.39-40.

2013 Modularization of Korea's Development Experience  
Operation of the Economic Planning Board in the Era  
of High Economic Growth in Korea

## Chapter 6

### Conclusion and Policy Implications

1. Lessons from Operating EPB
2. Replicability of EPB Model in Developing Countries
3. Policy Considerations for Prospective Partners

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# Conclusion and Policy Implications

## 1. Lessons from Operating EPB

### 1.1. Institutional Aspect

In order for economic planning at a national level to succeed, budgetary support is very instrumental. The most decisive feature of Korea's EPB is that it not only held the authority to design economic development plans and devise various economic policies, but was also empowered with budgetary authority. When the planning ministry and budget ministry are separated within a government and cooperation is not facilitated, national economic plans could lead to paper plans. In the high growth era, Korea was able to effectively push through with its economic development policies by ensuring the implementation of the plan through the EPB, which was armed with both planning and budgetary functions.

The EPB was equipped with sufficient resources and means including legal, human and material resources, as well as information and informal authority. Pursuant to the Government Organization Act, the EPB possessed the authority to allocate the budget to procure and manage resources, as well as manage foreign capital. It was thus empowered to procure resources needed for achieving the policy goals. Furthermore, with the Deputy Prime Minister heading the EPB, it solidified its status as a super ministry. A developing country at the early stage of development may consider an organization like the EPB that covers budget allocation and foreign capital management so as to efficiently consolidate and manage limited foreign capital.

Credible information and timely and accurate research outcomes are pivotal in a good economic plan. The EPB was comprised of divisions that performed the function of surveying and analyzing domestic economic trends relevant to formulating economic

policies, as well as the function of planning, surveying and providing various statistics. It also enhanced the quality of its economic planning by fully utilizing the think-tank KDI. Many of KDI's research fellows were economists educated in advanced economies such as the US, and their extensive expertise and autonomy, together with the dedicated EPB officials, created a synergy effect.

Also highly important is a smart policy coordination mechanism. In Korea's case, the EPB's working-level meetings and various coordinating bodies and meetings acted as forums to adjust the different opinions among relevant ministries in coordinating matters related to economic development plans and economic and financial policies. For starters, there were meetings like the Economic Ministers' Discussions and Industrial Policy Deliberation Meeting chaired by the EPB Minister who also served as the Deputy Prime Minister. Meanwhile, the Economic Ministers' Meeting and Economic Vice Ministers' Meeting made it possible to officially coordinate differing views relating to the relevant plans and policies through discussions. Most notable was the highly effective Monthly Economic Trend Report Meeting, attended by the President, EPB Minister and other high-ranking officials and policymakers to monitor and revise the progress of key policies and economic trends on a monthly basis.

Whereas numerous coordinating bodies were organized and operated, the laws and regulations applied to the EPB were reduced to the minimum.<sup>101</sup> As a result, EPB's officials were given a good environment to better exhibit their creativity and flexibility without being tied down by strict regulations in the constantly changing policy environment of the 1960-1970s. It needs to be noted that at the early stage of development administration, excessively complex and detailed laws and regulations may at times limit the flexibility of policies.

## 1.2. Behavioral and Cultural Aspects

Korea in the rapid growth period is a successful example where economic development policies were implemented using a very centralized method with the EPB positioned as the core organization with the full delegation of authority from the country's leader. For effective economic development implementation, the top policymaker's strong will for economic development, along with absolute trust in the organization in charge of the economic planning is important. The late President Park Chung-hee's belief and interest towards economic development was addressed repeatedly through diverse channels such

101. There were only six acts in the 1960-1970s: Budget and Accounting Act (enacted 1961), Enterprise Budget and Accounting Act (enacted 1961), Government Invested Enterprise Budget and Accounting Act (enacted 1962), Statistics Act (enacted 1962), Korea Development Institute Act (enacted 1970), and Price Stability and Fair Trade Act (enacted 1975).

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as his National Assembly address, and government officials proceeded exactly according to these orders to achieve the policy goals, administered by the EPB. It is important to bear in mind for developing countries in their initial stage of national development that communicating the top policymaker's strong determination for economic development and providing undivided support to the agency implementing economic development is most important.

The government officials and employees in charge of economic planning are just as important as the top policymaker. The government officials working at the EPB, by and large, possessed expertise and tended to devote themselves to the state. They were relatively free from pressure and conflicts of interest from political parties or other government departments. Their organizational culture was flexible as opposed to a top-down approach, and open rather than closed. Such employment structure and organizational culture contributed greatly to the EPB playing a part in Korea's economic development process as the unique economic planning agency. The people and organizational culture are also important factors. Positioning government officials hired through a just and fair process in the economic planning agency and at the same time implementing an independent and open organizational culture would be most ideal.

From a long-term perspective, a national form of consent is important for the success of an economic plan or development administration. In the case of Korea, it addressed the top policymaker's strong commitment toward economic development and provided a clear government policy vision to the general public through the EPB. As a result, a common consensus was formed and trust from private sectors was also obtained as political support was gained.

As mentioned before, in the course of formulating the economic development plan, examining the progress of major policies, and seeking ways of improvement, Korea worked to reflect the diverse views of domestic and international experts and the voices on site in implementing economic development plans, inspecting the progress of major policies, or seeking ways of improvement. For developing countries with a limited professional pool and experience in development, utilizing Korea's KDI expert group, Ministry of Strategy and Finance's KSP (Knowledge Sharing Program), and KOICA's development countries support programs, may be useful. The Korean Ministry of Strategy and Finance and KDI are always prepared to provide support.

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### 1.3. Operational Problems

Korea's EPB went through some notable changes after the rapid growth period, namely, from the 1980s on. It not only covered its original function of planning and coordination, but also occasionally got involved in the affairs of other ministries, and its organization size was also expanded. These were some of the problems that came to light from maintaining the EPB as a super ministry for a long period of time. Such problems were one of the main reasons behind the EPB's abolishment in 1994.

Reflecting on Korea's experience, it would be desirable for developing countries to enforce management of economic policy through participative administration or cooperative governance as the policy environment becomes more complex and diverse, and moves onto a higher level of development. In the initial stage of national development, it might be more beneficial from a performance-based perspective for a specific ministry to initiate economic development under the delegation from the top policymaker. However, as the development progresses, allowing flexibility within each ministry and increasing participation from businesses and other parties of interest would be more effective in achieving the goals of economic policy.

## 2. Replicability of EPB Model in Developing Countries

What was Korea's driving force that assembled the nation's energy to achieve remarkable economic development in the 1960~1970s? The most important factor would have been President Park Chung-hee's strong leadership, the strong determination known to characterize the Korean people and their dedicated efforts, and the efficient system that backed up such efforts. Also, as mentioned before, factors such as the aspect that Korea's democracy was at a relatively early stage, and its economic situation was comparatively less complex, are also noteworthy.

In the post World War II era, numerous underdeveloped economies endeavored for economic development following World War II, but very few countries succeeded. Most of these countries faced the same challenge of few resources and inefficient investment in their initial stages of development. Korea, however, fully mobilized its scarce resources and concentrated investments efficiently on sectors that were sure to succeed. As a result, it has become an exemplary case in economic development.

It appears to be acknowledged by many scholars that the economic planning agency in Korea played an important part in leaping over the hurdles toward development after colonial rule and the Korean War. It ideally utilized the country's potential when the only available financial resource was foreign aid. Therefore, it is viewed that other developing

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countries would also be able to reach their economic development targets by referring to the lessons<sup>102</sup> gained from Korea's EPB and operating their own similar agency.

For such developing countries to succeed in attaining their economic development goals, it is crucial that an economic planning agency like the EPB play a central role. In such a case, it would be desirable for this agency to possess the budget planning function and policy coordinating function among the ministries, in addition to its planning function. Moreover, it is best to enable these government officials to perform their jobs without pressure from certain interest groups or political circles.

Also, the success of such an agency depends on recruiting relatively highly trained and dedicated government officials. To this end, one possibility to consider may be adopting a dualistic recruiting system, under which the high-ranking elite government officials who serve in the agency or perform key duties related to economic development would be recruited separately. Korea's past experience indicates that it is most efficient to set up a follow-up system within an agency that performs all three planning, budget and performance evaluation functions. Another possibility to consider is the establishment of a specialized research institute on national policy like Korea's KDI. This type of research institute can effectively bridge the gap between the government and general public and it is ideal as well as necessary when the government devises long-term development plans, analyzes strategies, coordinates policies, evaluates and assesses the reform implementation process, and carries out campaigns to inform the people of such policies.<sup>103</sup> However, it must be noted that Korea's rapid economic development performance cannot be perfectly explained by the sole establishment and operation of an agency like the EPB.

The establishment and operation of an economic planning agency itself may be a necessary condition for the economic development of a developing country, but it is not a

102. It is true that Korea encountered some side-effects in the course of implementing economic development. For instance, the selective industrial policies raised issues of unfair practices among chaebol, collusive links between politics and business and insolvent financial institutions. As is frequently pointed out, this led to hindering the efficiency of the economy as a whole, and Korea's economy was highly vulnerable to shocks like the time of the Asian Financial Crisis in the late 1990s. Therefore, when referring to the Korean economic development experience, it is important to learn from such problems and engage in efforts to minimize and prevent similar side-effects.

103. Ministry of Strategy and Finance, and Korea Development Institute (2011), *2010 Knowledge Sharing Program: The Formulation and Implementation of National Development Plan in Kuwait*, p.230.



sufficient condition.<sup>104</sup> Korea's accomplishment can also largely be attributed to the notable leadership of the country's top policymaker to concentrate the nation's energy in a single direction, as well as the determination and sacrifice of the people who put their trust in the country's leader and government. In light of this, the EPB's operation model might be applied to other developing countries, but strong leadership, political and administrative integrity, and the participation and cooperation of the public would all be essential for achieving a significant outcome.

### 3. Policy Considerations for Prospective Partners

This section presents several points that domestic and international consultants may particularly take into consideration when sharing the experience of operating the EPB with prospective partners as follows:

For starters, it is imperative not to consider planning to be everything. At the initial stage of economic development, underdeveloped countries lacking resources must concentrate all efforts on efficient investments, and therefore economic planning may be a desirable option. A country with a market economy, however, cannot continue to adhere to national economic planning under the purpose of economic development. Once it has reached a certain stage of development, the government must perform an indicative role and leave the rest to the market.

When introducing the functions and roles of Korea's EPB to other developing economies, it is necessary to also inform them of the adverse effects of planning and provide advice that enables them to depend more on a market economy than planning when reaching an appropriate development stage. In particular, it is important to note that countries that do not have a democratic political system in place can easily be tempted to persist with planning to legitimize a long-term regime under the premise of economic development

There is also the need to underscore that an agency like the EPB must be operated under a fair government personnel system. Government officials play an important role in developing

104. With regards to this, Justin Lin, a renowned Chinese economist who served as World Bank Chief Economist and Senior Vice President, emphasized the need for developing countries to implement a comparative advantage defying (CAD) strategy. In order to implement a CAD strategy, a developing country government has to protect numerous non-viable enterprises. The government must resort to granting market monopoly, suppressing interest rates, currency appreciation and controlling raw material prices for these enterprises. It needs to allocate these resources directly to these enterprises through administrative channels, including national planning in the socialist countries and credit-rationing, investment and entry licensing in non-socialist developing countries. (Lin, Justin Yifu, *Economic Development and Transition*, Cambridge University Press, 2009, pp.30-31).

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countries where the private sector still needs to accumulate more capacity.<sup>105</sup> Even if the top policymaker and government are firmly committed to economic development and there is a certain amount of available resources, the country cannot succeed in economic development if the government officials responsible for actually implementing the economic policies are incapable or unethical. As mentioned earlier, it is important to note that a large share of top-performing candidates tended to prefer the EPB, and played a key role in the process of economic development.

**Box 6-1 | Reference: Interview with Former KDI President  
Song Hee-yhon<sup>106</sup>**

First of all, a common consensus for the need of economic development should be formed and development strategies should fit the unique situation faced by each country. It is most important for the top policymaker to recognize the need for economic development and to repeatedly define his/her strong will towards economic development.

In the case of Korea, it is necessary to mention the importance of the role of late President Park Chung-hee. In its rapid growth period, Korea lacked natural resources and adopted an 'unbalanced development strategy', which prioritized the development of manufacturing as opposed to agriculture. Accordingly, the plan was ultimately successful at the price of the sacrifices endured by areas which lacked development (i.e., agriculture). Developing countries need to take into account such development strategies and modify and apply these strategies to suit the economic circumstances of their home country.

Issues on corruption must also be addressed. It is crucial that the political circle maintain its integrity. In the case of Korea, it should be mentioned that during the presidency of the late President Park, the top policymaker and the public sectors maintained a relative high level of integrity. For example, in Korea, the head of a public corporation was checked for integrity by three to four national intelligence agencies.

105. Korea is fundamentally rooted in Confucian tradition. Some characteristics of Confucian culture include educational fervor, loyalty, self-control, diligence and hard work, and a self-sacrificing spirit for one's organization or country. Many of the highly capable workforce who were well educated during Korea's rapid growth period went on to become dedicated officials in the public sector and contributed to increased productivity.

106. Song, Hee-yhon, Record of interview with former KDI President on modularization of Korea's development experience, November 28-29, 2013.

The importance of continuously cultivating excellent talent also needs to be emphasized. It is important for the government to recruit and utilize professionals, such as KDI's experts who played a big role in Korea's past economic development period. It is only then that developing countries will be equipped with the ability to closely analyze the reasoning by organizations such as the World Bank that provide loans.

Such experts should not accommodate to political arguments, but at the same time, they should not attempt to provide policy solutions based on pure economic arguments. In other words, they must play the balancing role to ensure that policy decisions of the top policymaker or government official bodies stays on the right track. Yet, at times, the experts also need to possess the ability to debate with other groups of experts that put forth only pure economic arguments when evaluating different kinds of project feasibility (e.g., World Bank).

There is a need to stress that even if a country has a strong leader or competent government officials, it cannot achieve economic development without the dedicated efforts and voluntary cooperation of the nation's people.<sup>107</sup> There were several issues concerning environmental and labor rights sectors during Korea's high growth era, but most Koreans actively cooperated with the government under the sentiment of creating conditions for everyone to "live well," even if it came with a certain amount of sacrifice. As the country was confronted with a communist regime in the North, South Koreans widely viewed that economic development was necessary to outperform their northern neighbors. Prospective partners should be informed of the importance of continuously conducting economic education and promotional activities so that the nation's people become aware of the need for the government's policies and voluntarily cooperate.

Finally, there is a point to take into consideration if the prospective partner seeking to replicate Korea's economic development experience is a socialist economy. Under a socialist system, the supply and demand are all strictly planned and controlled. Korea, however, is fundamentally a market economy system and therefore the planning and controlling is limited. Even during the high growth period in which economic planning was actively carried out, Korea followed free market principles and used the planning function mostly for solving the problems on the supply side. There was, of course, a price freeze on essential

107. In case a prospective partner is politically a somewhat developed democracy, it is difficult to anticipate the leadership type of the late President Park Chung-hee during the development era of Korea, who can be considered a rather unique case. In economic development, not only the size of the workforce, but also the high quality of the mobilized human resources plays a large role. Korea is a case that holds favorable conditions for economic development as there was a large pool of talented individuals who were relatively diligent and trained as a result of their strong enthusiasm for education, which is thought to partly come from the influence of a Confucian culture.

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items at the early stage of economic development, and price stabilization policies were initiated pursuant to the “Price Stability and Fair Trade Act” until the late 1970s, but it is important to note that the economic system was, in principle, operated under the framework of a market mechanism.

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