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Economic Development in the Postcolonial and Postwar era in East Asia: A Comparison of
Taiwan and South Korea

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Introduction

As the world continues through the twenty-first century, global inequality remains one of the most relevant issues for international society and individual governments to tackle.

Especially as concerns about climate change and national security increase, the need for economic development remains as dire as ever. And yet, many countries throughout the world have failed in their efforts to develop their economies, though not for a lack of trying. Entire continents like Africa, South America, and much of South and East Asia seem to perpetually be stuck in middle-income, unable to move into the upper echelon of developed countries. There are, however, a few notable exceptions to that trend. Known as the Asian Tigers, South Korea, Taiwan, Hong Kong, and Singapore began the twentieth century as impoverished backwaters and ended it ranking among the world's most prosperous nations, with all four today leading the world in many economic measures. Even now, these four countries remain some of the only global exceptions compared to all of the countries that have been left behind in poverty. Singapore and Hong Kong, while very impressive themselves, are also tiny city-states, so their development is less applicable to other countries. South Korea and Taiwan, then, may serve as a potential model for other countries to follow if they also wish to successfully modernize and develop.

Much literature already exists not only on the topic of modernization, industrialization, and development, but also specifically on Eastern Asian countries that have been successful in managing it. Different authors have contributed to this extensive scholarship through different modalities of research; historical analysis, colonial studies, policy, trade, government structure, institutions, industry, and more.. However, extensive the literature is in some aspects of this comparison, there are other areas where the existing research remains much more scant. For

example, it was not until earlier this year that a paper was published that comprehensively compared Suwon and Hsinchu, the centers of Samsung and TSMC which are the largest companies in South Korea and Taiwan, their status as industrial and technological hubs, and their relationship with each country's government and the companies that dominate them. Since this thesis also wishes to analyze both of those cities and companies, the lack of research in that area certainly made it more difficult to draw conclusions.

Both Taiwan and South Korea share some broadly similar patterns when it comes to their history and paths to modernization. Both countries were satellite states or provinces of Imperial China up until the turn of the twentieth century, at which point they were annexed by Imperial Japan as a part of its new colonial empire.¹ Both experienced devastation as a result of wars and upheaval, as well as a change in demographics and government thanks to civil conflict and the Cold War.² Both countries then were close allies and partners of the United States and still are to this day, receiving favorable trade deals when compared to other countries.³ In both countries, the United States encouraged and allowed protectionist measures that brought their manufacturing up to a level where they could compete internationally.⁴ However, there are also plenty of differences between South Korea and Taiwan. For example, Taiwan has a much more varied cultural and ethnic background in contrast to South Korea where one single ethnic group makes up the vast majority of the population.⁵ South Korea more closely mimicked the Japanese model of corporate-government structure in comparison to Taiwan where companies were more

¹ Tom Coyner, "A tale of two ex-colonies: Korea and Taiwan," Asia Times (2020).
<https://asiatimes.com/2020/03/a-tale-of-two-colonies-korea-and-taiwan/>

² Ibid.

³ Ibid.

⁴ Ibid.

⁵ Ibid.

encouraged to compete like in Western countries.⁶ These differences are marked and their effects can be seen to some degree in the result of how both countries are today.

The difference between the Taiwanese and the South Korean approach to development could perhaps be defined as direct as opposed to indirect state involvement in the economy. This itself is somewhat of a misnomer, however, since even though the South Korean government may have been less direct in its handling of the economy, it still had a very firm hand and played a large role in deciding the direction of development and guiding the economy towards its goals.⁷ Taking this caveat into consideration, one could also view the two competing models by the influence they apparently took. The South Korean government seems to have been inspired by the Japanese government and its development and industry-building, taking similar steps by building up giant conglomerates as a way to rapidly grow a new industry and allow companies to grow without domestic competition so that they can compete internationally and bring the entire country forward into modernity.⁸ The Taiwanese government followed similar steps, especially in the earlier years, but due to its own situation and considerations, chose instead to invest more directly through state-owned enterprises and other direct investment into industries and fields.⁹ While the result ended up being largely similar in terms of creating a similar level of development, South Korea still has to reckon with its giant corporations while Taiwan has a much more varied and diverse field of competition.

In the 1950s, South Korea and Taiwan were similarly poor, underdeveloped, and unrespected compared to much of the rest of the world.¹⁰ Both countries successfully brought themselves up from this state to a drastically different one where they now rank among the

⁶ Coyner, "Tale."

⁷ Alice H. Amsden, *Asia's Next Giant: South Korea and Late Industrialization*, (New York: Oxford University Press, 1992), 141.

⁸ Ibid.

⁹ Ibid.

¹⁰ Coyner, "Tale."

wealthiest and most prosperous countries in the world.¹¹ It can be easy to lump together the experiences and the methods of both countries because of their shared similarity in culture, geography, political situation, and more, but doing so is a major disservice to the actual differences that did exist and the benefit that finding them and comparing them could do. It may be true that the so-called miracle of East Asian development is irreplicable in anywhere else in the world due to the perfect storm of events and circumstances that occurred in order to allow it, but by closely comparing what each country was able to achieve and how they did so should still yield potential avenues that other countries and others who wish to promote development can take.

The main goal of this thesis is to find these differences and similarities, attempting to take a magnifying glass to at least some aspects of a nation's development. Since there are still so many countries in the world that are impoverished or underdeveloped, and that are struggling to improve their standards of living, grow industry, or grow their economy, any guidance that those countries could find from the success of others could prove useful in order to raise the world's standard of living and bring everyone closer to global equality and equal prosperity. Because of this, this thesis does not seek to pass judgment in order to criticize the failures of one country or the other, but rather to find what solutions work best for these issues that so many other countries have to contend with. However, judging by the outcomes, Taiwan appears to have produced more favorable and effective developmental progress. This thesis seeks to understand why Taiwan produced more favorable outcomes, and how. In the following section, the thesis provides a literature review, followed by a methodology, a historical overview, a case study, an analysis and discussion, and a conclusion.

¹¹ Coyner, "Tale."

Literature Review

There are several authors who have previously dived specifically into the topic of post-war industrialization and modernization vis-a-vis Taiwan and South Korea.. Perhaps most famously, Alice Amsden suggested that the South Korean government succeeded in its development goals by instead “getting the prices wrong.”¹² This is in contrast to the standard wisdom preached by free-market supporters like Milton Friedman. Free trade advocates believe that the invisible hand of the market gets prices right, leading to efficiency and optimal societal outcomes.¹³ However, Amsden argues that, while such practices are beneficial to advanced economies that are capable of competing on the global market, they can be detrimental to those that instead are developing later.¹⁴ Those countries, such as South Korea and Taiwan, need to ignore the international free market and instead impose protectionist trade measures to nurture local producers.¹⁵ Amsden’s work was revolutionary for her time and proved to be a major influence on future literature and academia.¹⁶ She points out that the role of the government had often been neglected when analyzing developmental states in East Asia, and how in some ways said national governments may have had more influence than the markets in development, or at least played a vital role.¹⁷

Amsden’s other relevant work, *The Rise of “The Rest”*, expands her thesis to a full set of twelve countries - including both Taiwan and South Korea - that underwent industrialization after World War II, considerably later than all other industrialized countries.¹⁸ Notably, Taiwan

¹² Alice H. Amsden, *Asia's Next Giant: South Korea and Late Industrialization*, (New York: Oxford University Press, 1992), 141.

¹³ Ibid.

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ George Aseniero, “South Korean and Taiwanese Development: The Transnational Context,” Review, *Fernand Braudel Center*, 17 no. 3 (1994): 275-336. <http://www.jstor.org/stable/40241294>.

¹⁷ Amsden, “*The Rest*.”

¹⁸ Alice H. Amsden, *The Rise of “the Rest”: Challenges to the West from Late-industrializing Economies*, (New York: Oxford University Press, 2003).

and Korea are the only two countries from Amsden's twelve that managed to successfully become high-income nations, with every other only reaching middle income.¹⁹ In the case of late-developing countries specifically, Amsden's argument follows her previous literature and emphasizes the importance of government intervention in the market.²⁰ Furthermore, Amsden highlights countries that industrialized after the West have had to deal with competition from the West. In other words, if a country wants to be able to produce industrialized goods, it needs to compete with the countries that are already the best at producing them. In order to do so, Amsden contends, requires those countries to use protectionist measures instead of import substitution, also known as Export-Oriented Industrialization (EOI).²¹

David Kang references Amsden's work alongside Robert Wade, who wrote a similar book detailing how East Asian governments led their development. Kang has a different take, however, that "the focus on states versus markets is becoming stale and that much of the scholarly interest lies in the politics behind the economics."²² Instead of focusing on whether the state or the market had more impact, given difficulties in measuring such comparisons, Kang argues that analyzing the actual policies implemented by governments is most important.²³ Furthermore, he adds that considering the historical context of both South Korea and Taiwan is paramount for understanding their growth.²⁴ Kang argues that each country can not be looked at simply on its own the degree to which each relies on support of the United States and the overarching international world order.²⁵ South Korea and Taiwan would not have been able to implement the protectionist and anti-free trade policies they utilized if it were not for the implicit

¹⁹ Amsden, "The Rest."

²⁰ Ibid.

²¹ Ibid.

²² David C. Kang, "South Korean and Taiwanese Development and the New Institutional Economics," *International Organization* 49, no. 3 (1995): 555. doi:10.1017/S0020818300033385

²³ Ibid.

²⁴ Ibid.

²⁵ Ibid.

and explicit allowance granted by the United States.²⁶ Because the United States viewed Soviet and communist influence as a much larger threat than a lack of free trade and therefore wanted to shore up its alliances with any country that chose to align itself with it, the US was willing to grant some leeway to countries such as Taiwan and South Korea when it came to fair practices and free trade.²⁷

One of the most influential works on industrial policy analysis in East Asia is *MITI and the Japanese Miracle* by Chalmers Johnson. In the book, Johnson thoroughly explains the role of the Japanese Ministry of International Trade and Industry (MITI) and its massive importance in Japan's postwar era economic development and industrialization.²⁸ Even though Japan is not the topic of study for this thesis, its development is still crucial in understanding both Taiwan and South Korea's development. Not only were both countries direct colonies of Japan that therefore experienced direct economic administration by Japan, but they both looked to Japan as an important example in how they themselves should modernize, following in the footsteps of another successful example in the region.²⁹ Both countries used similar policies, and so did most other developing countries in East Asia.³⁰ Chalmers Johnson's work is a landmark and important book because it was one of the first in the field to properly analyze the role of the state in Japanese, and therefore Asian, development. His book is referenced by many, and the ideas brought forth have been an influence on this paper.

In general, the literature around East Asian development seems to have a tendency to get bogged down in certain types of details, such as the exact type of structure used in creating an

²⁶ Kang, "Development," 555.

²⁷ Ibid.

²⁸ Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975*, (Stanford: Stanford University Press 1982).

²⁹ Yeonkyung Lee, "Taipei and Seoul's Modern Urbanization under Japanese Colonial Rule: A Comparative Study from the Present-Day Context," *Sustainability* 12, no. 11 (2020): 4772. <https://doi.org/10.3390/su12114772>

³⁰ Ibid.

industrial center, the exact ideology that a government has in mind when implementing reforms, or other details that can obscure the bigger picture. One major work that was extremely helpful in developing this thesis was a 2017 analysis by Dwight Perkins and John Tang, where the authors gave a much more big-picture overview of the development of Japan, Korea, and Taiwan.³¹ In doing so, they allow the reader to more easily understand the similarities and differences between each country and the trajectories they took. Beyond simply being an overview of ideology or policy, the study also uses several empirical measures in order to compare each country and show change over time in aspects such as wages, industry share as a percentage of the economy, and more. This holistic, clear, and narrative analysis of the three countries is useful both in general but also specifically in writing this thesis.

The main issue with the Perkins and Tang paper in regards to this thesis is that not only was it published in recent years but it also covered almost exactly the same area that this thesis was also intending to. Originally this thesis was meant to also be a simple analysis of the development of both South Korea and Taiwan, covering mostly the decades from the 1960s to the 1980s, and analyzing in order to compare the differences between the two. However, since the Perkins and Tang paper already did essentially the exact same thing, this thesis had to be expanded in scope even further. Subsequently, the thesis was modified in order to take a more evaluative approach to the analysis. Rather than simply comparing and contrasting, the thesis now sought to decide which of the two did a more effective job at development, and whether one or the other was a better model for other developing countries to follow. To the extent that is known by the author, there is no other paper that has already done this exact same task. In other words, the new research that is contributed by this thesis and the important takeaways will be the

³¹ Dwight H. Perkins and John P. Tang, "East Asian Industrial Pioneers: Japan, Korea, and Taiwan," *Oxford Academic* (2017). <https://doi.org/10.1093/acprof:oso/9780198753643.003.0008>

mix of a holistic view of development between South Korea and Taiwan as well as evaluative judgment on which one was the superior system. If it turns out that neither system was superior, or that there is no way to tell by the methodology used, then that as well can be analyzed.

Methodology

Few countries have managed to not only overcome the hurdle of development from poor to middle-income but beyond into the high-income range. Of those exceptions, the four Asian Tigers are among the most famous: Hong Kong, Singapore, South Korea, and Taiwan. Hong Kong and Singapore had development at a pace and to a degree no less miraculous than the others, but also are city-states, with development as such only entailing the development of a single city. Of course, both Taiwan and South Korea have economies based mostly around their respective capital cities. However, both those countries still have much more to them than a single urban center. They also leapfrogged development, transforming from backwater, impoverished, and rural places to modern, rich, successful, and geopolitically important states in a matter of mere decades. Both countries were additionally governed by military dictatorships following a civil war and Japanese occupation until liberalizing and democratizing at the end of the twentieth century.³² Despite these remarkable similarities between both countries, they still have plenty of differences separating them, and this paper seeks to find out why they exist and what important effects they have had on development in both countries.

It should be the goal of every underdeveloped country in the world to improve its development in order to create a higher standard of living for its citizens. While the governments of most countries try to help their people, most are also not successful. The fact that most countries get caught in the so-called middle-income trap³³ instead of fully developing into

³² Perkins and Tang, "Pioneers."

³³ Indermit S. Gill and Homi Kharas, "The Middle-Income Trap Turns Ten," (World Bank 2015).
<http://documents.worldbank.org/curated/en/291521468179640202/The-middle-income-trap-turns-ten>

developed economies already makes those few countries that did manage to surpass that phase of development worth studying. Since South Korea and Taiwan both did so at around the same time and in the same region of the world, they most often get lumped together as one statistic.

However, there are several key differences between these countries, most notably the policies made when industrializing, the demographic makeup of each country, and the method of governance during the postwar era. It is the goal of this paper to discern the importance of each of these factors, their significance in creating both countries in the modern era, and which factors led to better outcomes in each country in order to understand development and apply lessons learned to currently developing countries. In the modern era, there are many countries in Southeast Asia that are reaching or have reached middle-income status but have not managed yet to push beyond that into high-income status. Is there anything that can be learned from South Korea and Taiwan's examples?

In order to carry out this task, a large part of the research conducted herein is of a qualitative nature. This is due to the fact that not every aspect of development is measurable in a quantifiable way, and therefore must be analyzed in a manner that allows for understanding, and not just number crunching. There are, however, important quantitative factors that should also be taken into account, and those are mostly economic indicators of development. There are some ways to measure development using figures that measure a country's output, wages earned by people within a country, and statistics about other socioeconomic factors such as childbirth and education. These are all important measures that should be taken into consideration when evaluating how developed a country is, and give insight into the exact figures showing what life is like for the residents of that country.

Economic prosperity and development is not necessarily a simple, black-and-white figure that shows in detail what a country's economy and quality of life are like. Luckily, however, there are several existing tools that can be used to measure development. Not all tools list Taiwan, since it is not officially recognized as an independent country by the United Nations, and as such, some alternate tools need to be used.³⁴ Therefore, in order to substitute for such a comprehensive indicator of development, several other social and economic factors will need to be considered. For the purposes of this paper, the indicators studied are fertility rate, urbanization rate, real Gross Domestic Product (GDP) growth, PPP-adjusted GDP per capita, and the Corruption Perceptions Index. These different measures will be looked at during various snapshot points within both South Korea and Taiwan's history, in order to analyze the shift that both countries made in transitioning from undeveloped to developing to developed economies.

There are good reasons to use each of these specific indicators. GDP is, by nature of comprising every measured economic activity within a country, indicative of the total economy of a country. Total GDP is more important than GDP growth over time since it shows a more relative measure when dealing with growth over a longer time period. When measuring economic growth, the size of the economy is naturally an important measure to focus on. For similar reasons, GDP per capita is used, since this way population size can be accounted for more accurately. Real GDP per capita indicates, in contrast to regular GDP—which is simply the sum of all purchases within a country—the total economic activity within a country adjusted for that country's cost of living and inflation, then divided by the amount of people within that country. Real GDP is just that first amount. This measure is important because some countries may have lower total economic output, making them smaller players on the global stage, but

³⁴ UNDP (United Nations Development Programme), "Human Development Report 2021-22," (UNDP 2022). <http://report.hdr.undp.org>

compared to the cost of goods within their country actually have relatively high output, meaning that people within that country can still experience economic development and prosperity. In the current day, China has a lower GDP than the USA, but higher real GDP. The urbanization rate is an important indicator, because, generally speaking, urban societies correlate with industrialization, which is an important factor in economic development, especially in the case of both South Korea and Taiwan. In order for a country to be industrialized, it requires a more densely packed population because factories and modern production can only be done in cities. There will absolutely be change to observe between the past and now, because both countries are also especially urbanized countries today, a strong contrast with how they stood decades ago.

The Corruptions Perceptions Index by Transparency International is a more recent source, so it is only applicable to the last few decades, but it is a good indicator of the development of a country's social and political environment since a transparent and democratic society correlates with high development.³⁵ The Corruption Perceptions Index is compiled by the international nonprofit Transparency International, which aims to compile a database of how citizens of every country in the world view corruption in their own country.³⁶ Because corruption has a different meaning to different cultures and peoples, and because corruption takes vastly different forms depending on what part of the world it takes place in, the Index takes into account the public's perception of corruption rather than attempting to make a more empirical measure.³⁷ What this means is that the Corruption Perceptions Index is less of a number showing the exact amount of corruption in a country, and more of a number showing how corrupt people feel the country is, which may not be directly correlated to the actual levels of corruption. For

³⁵ "Transparency International," Home - Transparency.org, Accessed December 14, 2022.
<https://www.transparency.org/>

³⁶ Ibid.

³⁷ Ibid.

this reason, this thesis uses it more as a stand-in for general confidence in a country's government and bureaucracy. This is a more subjective measure and more difficult to draw conclusions from, so it will therefore be used less in this thesis.

Beyond simply measuring numbers, however, it is important to take into account other factors in the histories of both countries. In less quantitative terms, they have unique cultural and demographic characteristics that must be acknowledged in order to properly understand their trajectories of development. The same applies to their colonial histories and the wars that both underwent while becoming the nations that they are today. This paper does not seek to solely be an economic analysis, but rather take a more holistic approach and work out how to compare outcomes between two entire countries, which is not something that can be achieved by only looking at the numbers.

Historical Overview

Though both South Korea and Taiwan remained impoverished until they pushed industrial policy in the postwar era, the origins of their industrialization go back to the Japanese colonial era when both countries were subjugated by the Japanese Empire.³⁸ After the Second World War, both countries were liberated from Japanese oppression, but the effects of colonization remained. From then on out, both countries also became American allies and enjoyed great benefits from their formative political positions. This, along with their policies implemented, promoted development and brought them out of poverty, something few other countries have managed to do in modern times.³⁹ How did both countries create such a drastic

³⁸ Aseniero, "Transnational Context," 275.

³⁹ Asian Development Bank and Kokusai Kyōryoku Ginkō, *Connecting East Asia: A New Framework for Infrastructure*, (N.p.: Asian Development Bank 2005).

difference in such a short amount of time? The historical overview that follows will give a timeline of important factors contributing to the change.

It should be noted that currency devaluation and all of the other economic changes that took place in both countries beginning in the 1950s were not natural occurrences. Both governments made extensive use of intervention, protectionism, and market meddling in order to rig their systems and create favorable conditions for industrialization and economic development.⁴⁰ One of the classic arguments in favor of market economies is that the invisible hand of the market is able to get prices right- setting an equilibrium price and amount that satisfies consumer demand and producer capacity. However, the prices being set by both Taiwan and South Korea were not right, or at least not in that sense. By creating an unfair environment where local companies and producers had an advantage over foreign ones, the Korean government was able to promote industrialization to a much larger extent. Taiwan made similar moves as well,⁴¹ and both countries can be seen as examples of how government intervention and protectionism are ways to create development.

Both Korea and Taiwan were colonies of the Japanese Empire. Under Japan, both colonies were dominated and repressed by extractive colonial institutions that took from the colonies more than built them up, in the same pattern that colonies all over the world were run by their colonial overlords.⁴² After the war, both countries were left with mostly only colonial infrastructure designed to benefit the Japanese empire. In Taiwan, the island's economy was mainly producing sugarcane, while Korea relied mostly on light industry and manufacturing.⁴³

⁴⁰ Aseniero, "Transnational Context," 275.

⁴¹ Perkins and Tang, "Pioneers."

⁴² Bruce Cumings, "The origins and development of the Northeast Asian political economy: industrial sectors, product cycles, and political consequences," *International Organization* 38, no. 1 (1984): 1-40. 10.1017/S0020818300004264

⁴³ Jaedo Choi and Andrei Levchenko, "When industrial policy worked: The case of South Korea," *CEPR* (2021). <https://cepr.org/voxeu/columns/when-industrial-policy-worked-case-south-korea>.

Subsequently, the Republic of China lost the Chinese Civil War, forcing the Kuomintang to retreat to Taiwan and form a government in exile.⁴⁴ Taiwan's population grew exponentially over the course of several years as millions of Nationalists fled from mainland China to avoid the Communist regime.⁴⁵ In contrast, South Korea had its own devastating civil war, resulting in a north-south split that left both halves of the country devastated.⁴⁶ What little infrastructure had been built by the Japanese occupation was largely destroyed by the war or left in the North.⁴⁷ Additionally, both countries relied almost entirely on US aid and imports in order to function.⁴⁸ The end result was that, going into the late 1950s, both countries had much to do in order to improve standard of living, grow their economies, and generally modernize.

One key factor in the modernization of both Taiwan and South Korea is the effect of land reforms on the economy of both countries. The United States occupied or heavily influenced both South Korea and Taiwan immediately after World War II and into the next decade, and in both cases encouraged drastic land reform as a method of pacifying the local population and giving their new governments legitimacy.⁴⁹ Both the governments of South Korea and Taiwan had to demonstrate, relative to their communist counterparts in the People's Republic of China and Democratic People's Republic of Korea, that they too could be egalitarian and promote positive change for the people.⁵⁰ In both countries, they therefore implemented extreme levels of land reform rarely seen in non-communist countries to this day.⁵¹ In both South Korea and Taiwan, the population was very rural. 50% of the population of Taiwan and 80% of the

⁴⁴ Coyner, "Tale."

⁴⁵ Ibid.

⁴⁶ Ibid.

⁴⁷ Cumings, "Origins."

⁴⁸ Tom Coyner, "A tale of two ex-colonies: Korea and Taiwan," *Asia Times* (2020).

<https://asiatimes.com/2020/03/a-tale-of-two-colonies-korea-and-taiwan/>

⁴⁹ Talan B. Iscan, "Redistributive Land Reform and Structural Change in Japan, South Korea, and Taiwan," *American Journal of Agricultural Economics* 100, no. 3 (January 2018): 732. 10.1093/ajae/aax093

⁵⁰ Ibid.

⁵¹ Ibid.

population of South Korea lived in agricultural areas and participated in agriculture as their main economic activity at the end of World War II.⁵² However, this land ownership was extremely unequal. The large majority of rural land was owned by a small minority of the population.⁵³ Many South Koreans and Taiwanese were living and working on land owned by wealthy landlords.⁵⁴ In response, both new governments enacted reforms to redistribute land from those few landowners to the entire population, and the number of renting citizens decreased to nearly zero.⁵⁵ While this level of land redistribution did not have very much impact on incomes within those countries, it did have a drastic effect on efficiency and economic freedom.⁵⁶ Because property and therefore capital was split into smaller pieces and owned by many people who then had freedom to do with it as they pleased, economic activity involving land was allowed to become much more efficient and the economy saw huge strides towards modernization as a direct result.⁵⁷ This was one of the policies that was nearly identical between both South Korea and Taiwan.

In 1950, both South Korea and Taiwan were impoverished and lacked key developmental indicators that show high levels of development. South Korea had a 21.35% urbanization rate, while Taiwan had a 26.84% rate.⁵⁸ Both countries were below global average at that time, indicating a rural and agrarian society. In contrast, both countries had higher-than-global-average birth rates, with Taiwan at 45.27 births per 1000 people, and South Korea at 40.03 births.⁵⁹ High

⁵² Iscan, "Land Reform," 733.

⁵³ Ibid.

⁵⁴ Ibid.

⁵⁵ Ibid.

⁵⁶ Ibid, 734.

⁵⁷ Ibid.

⁵⁸ Our World in Data, "Urban Population (%) Long-Run to 2016," 2022, <https://ourworldindata.org/grapher/urbanization-last-500-years>.

⁵⁹ Our World in Data, "International Historical Statistics (Births per 1,000)," *Global Change Data Lab*, 2022, Global Change Data Lab, <https://ourworldindata.org/grapher/birth-rate-the-number-of-births-per-1000-people-in-the-population>.

birth rates do not necessarily cause high or low economic growth or development, but a low birth rate is shown to correlate with higher levels of development.⁶⁰ On the other hand, a higher birth rate and higher population growth rate can contribute to economic growth.⁶¹ In 1953, the earliest year during which data for both countries was available, real GDP per capita was extremely low in both countries. South Korea produced \$1,111.56 per person, while Taiwan produced \$1,923.30.⁶² To compare both data points to another example, the United States had a real GDP per capita of \$17,586.41 in 1953.⁶³ Obviously, the United States is an extreme example on the other end of prosperity, but the level to which the two countries were underperforming cannot be understated. Low GDP per capita shows that on average, the country's workforce was participating in economic activities that were less effective, less efficient, and produced less lucrative goods and services.⁶⁴ Their total real GDP shows similar results, with Taiwan at 10.89 billion international dollars, and South Korea at 20.91 billion international dollars.⁶⁵ South Korea had a much larger population than Taiwan at this time, which is why it had a higher total GDP but lower GDP per capita. There is no data on real GDP growth in the year 1950, so it cannot yet be analyzed.

Both South Korea and Taiwan had overvalued currencies in the postwar era that made them less able to export goods. This is because, when a currency is more expensive relative to others, goods produced in that country are relatively expensive on the global market. On the other hand, imported goods will be relatively cheaper for that country to buy.⁶⁶ Because both

⁶⁰ Perkins and Tang, "Pioneers."

⁶¹ Ibid.

⁶² Our World in Data, "GDP per Capita (Output, Multiple Price Benchmarks)," 2022, <https://ourworldindata.org/grapher/real-gdp-per-capita-pennwt?tab=chart>.

⁶³ Ibid.

⁶⁴ Ibid.

⁶⁵ Our World in Data, "Gross Domestic Product, Constant Prices - Percent Change," *Global Change Data Lab*, November 4, 2022, Global Change Data Lab, <https://ourworldindata.org/grapher/real-gdp-growth>.

⁶⁶ Richard N. Cooper, *Currency Devaluation in Developing Countries* (N.p.: International Finance Section, Princeton University 1971), 5.

countries were import-dominated economies, overvalued currencies were useful for the time being.⁶⁷ However, this meant that both countries were also kept as underdeveloped economies built around agriculture and light industry, rather than advanced industry or service sectors.⁶⁸ Both governments sought to change this status, and, therefore, both decided to change their currencies' evaluation. Currency devaluation is a relatively controversial monetary policy, and is something that generally will spark outrage within a country, and as such is done on a relatively rare basis.⁶⁹ However, both South Korea and Taiwan believed that it was a necessary step to change their terms of trade.⁷⁰ Terms of trade refers to the balance of trade between imports and exports, and with both South Korea and Taiwan relying on imports, they both wished to switch to export-based economies. Part of this process is known as import substitution, or the idea that imported industrialized goods should be phased out in favor of domestic industrialized goods in order to develop an economy (Cooper 1971).⁷¹ However, both South Korea and Taiwan made further moves and economic plans under the umbrella of EOI, which seeks to promote international competitiveness in domestic firms.⁷² This was part of what made these countries successful where others in places such as Latin America failed. In 1958, Taiwan implemented its Foreign Exchange Reform, deciding to devalue the New Taiwanese Dollar and to unify Taiwanese exchange rates.⁷³ In similar moves, the South Korean government devalued the Korean Won starting in the 1950s.⁷⁴ The degree to which both currencies were devalued was staggering. According to Perkins and Tang, "The NT\$ lost half of its value relative to the US

⁶⁷ Cooper, *Devaluation*.

⁶⁸ Ibid.

⁶⁹ Ibid.

⁷⁰ Perkins and Tang, "Pioneers."

⁷¹ Ibid.

⁷² Ibid.

⁷³ Ohno and Oqubay, *Catch-up*.

⁷⁴ Kenichi Ohno and Arkebe Oqubay, eds., *How Nations Learn: Technological Learning, Industrial Policy, and Catch-up* (N.p.: Oxford University Press 2019).

dollar, and the Korean won lost two-thirds of its value relative to the US dollar.”⁷⁵ Not only did both exchange rates plummet so precipitously, but they both maintained those low prices beyond the 1960s and into the 1970s.⁷⁶ The significance of this move lies in the fact that it made domestically-produced goods extremely cheap compared to foreign goods.⁷⁷ Not only did this help price out competitors within South Korea and Taiwan, but it also meant that both countries became competitors themselves on a global scale, driving more and more exports rather than imports of industrialized goods.

South Korea and Taiwan both turned to other industrial policy tools as well in the 1950s and onward, choosing to use government influence over the economy along with protectionist measures backed by US support in order to grow their industrial sectors and economies.⁷⁸ The next major policy implemented by the Taiwanese government was the Programme for Economic and Financial Reform and the important Statute for Encouraging Investment, which began in 1950 and was not repealed until 1990, when it was replaced by a different set of statutes.⁷⁹ This 19-point plan was a comprehensive guide for how the Taiwanese government would set in place industrial development, by promoting domestic investment and growth while hindering foreign competition, and leveraging foreign investment and United States support.⁸⁰ In South Korea, similar moves were made by the government to promote domestic growth and exports in order to build up national industrialization.⁸¹ In both cases, both governments deliberately avoided taking part in fully free trade, and instead played highly protectionist roles, making it difficult for foreign countries to invest in them.⁸² This trait, along with the way that both countries devalued

⁷⁵ Perkins and Tang, “Pioneers.”

⁷⁶ Ibid.

⁷⁷ Ibid.

⁷⁸ Ohno and Oqubay, *Catch-up*.

⁷⁹ Ibid.

⁸⁰ Ibid.

⁸¹ Perkins and Tang, “Pioneers.”

⁸² Ibid.

their currencies to increase competitiveness, were the main methods that they had in common with each other.⁸³ This made their development into the 1960s look remarkably similar, until they began to diverge later on into the twentieth century.

While both South Korea and Taiwan utilized fairly similar methods at the start of their journeys into development, there were key differences in policy and actions that became more and more pronounced as the decades progressed. One of the most important differences that arose between the two countries was in government. South Korea had a tumultuous postwar political history, with multiple governments and forms of government arising and taking power within the country.⁸⁴ The Korean War in the 1950s obviously had a major effect on governance, leaving the country split in two halves and still in a frozen conflict.⁸⁵ The South had a military dictatorship supported by the United States, but was still pressured by the same to move towards democracy.⁸⁶ Taiwan, on the other hand, maintained a stable government throughout the same period of time. While the Taiwanese government had to deal with millions of Chinese citizens emigrating from the Chinese mainland and relocating its entire government to a new seat of power, they were able to do so during a relatively peaceful period.⁸⁷ Their choices of policy and methods only continued to diverge from this point.

As previously mentioned, both the governments of South Korea and Taiwan wished to transform their economies using Export-Oriented Industrialization, in contrast to simple import substitution. Both countries had few natural resources and tiny industrial bases and had to rely on imports bought by American support, and both wanted to improve their situations.⁸⁸ In the 1970s, both countries chose to move from labor-intensive industries such as textiles and garments to

⁸³ Ibid.

⁸⁴ Coyner, "Tale."

⁸⁵ Ibid.

⁸⁶ Ibid.

⁸⁷ Ibid.

⁸⁸ Perkins and Tang, "Pioneers."

heavier industries.⁸⁹ South Korea implemented its Heavy and Chemical Industry Drive in the 1970s while Taiwan implemented a similar Ten Major Development Projects.⁹⁰ In South Korea, this Heavy and Chemical Industry Drive was spearheaded by president Park.⁹¹ Mr. Park empowered an internal development committee, tasking it with developing several areas of industry within South Korea such as shipbuilding, machinery, chemical production, and more.⁹² This committee then turned to various companies such as Daewoo, Hyundai, and Samsung, and tasked them each with developing one of these industries.⁹³ This meant that each industry had one major conglomerate supported by the government, that had near monopoly power over that specific industry. The South Korean government did this in the hopes that creating such powerful conglomerates would propel Korean industry forward and allow it to compete with international producers.⁹⁴ Such a tactic, both the creation of a powerful development committee and the empowerment of large companies, is similar to how Japan and its Ministry of International Trade and Industry created a similar system in order to grow Japanese industry.⁹⁵ The South Korean government accomplished these goals by highly incentivizing these firms through subsidies, bailouts, negative-interest rate loans, and more.⁹⁶ The government even established a development bank purely for the purpose of allowing companies to take on normally-risky loans without the risk.⁹⁷ South Korean leaders seemed to believe that Japan had done the right thing and had the right method of reaching modern development.

⁸⁹ Ibid.

⁹⁰ Aseniero, "Transnational Context," 275.

⁹¹ Perkins and Tang, "Pioneers."

⁹² Perkins and Tang, "Pioneers."

⁹³ Ibid.

⁹⁴ Ibid.

⁹⁵ Amsden, *Late Industrialization*.

⁹⁶ Ibid.

⁹⁷ Ibid.

In contrast with the South Korean method, Taiwan had a somewhat different technique to enter different heavy industries. Before its Ten Major Development Projects were enacted in the 1970s, Taiwan had various small factories and producers, in some industries numbering in the thousands.⁹⁸ While at a glance this method may seem drastically different from what was employed in South Korea, and it did have some key effects, many of these factories were still interlinked with each other in ways that somewhat mimicked the mega conglomerates of South Korea. However, the Taiwanese government here took a different path. Rather than granting private companies near-impunity from any punishment or consequences and giving them leeway and encouragement to take over industries, the Taiwanese government chose to expand state-owned enterprises, creating a system more similar to that used in mainland China.⁹⁹ Nearly all Taiwanese investment therefore went directly into firms owned and operated by the state or divisions within the state.¹⁰⁰ South Korea, on the other hand, chose to delegate its development to completely private companies that simply followed the guidance of the government, not always its direct orders.¹⁰¹ Both countries were successful in transitioning their economies away from labor-intensive industries during the 70s, but they did so to somewhat different degrees and in different ways. For example, South Korea was able to move from car part manufacturing to creating entire cars with their companies such as Hyundai and Kia.¹⁰² On the other hand, while Taiwan became a major car part manufacturer, Taiwanese companies were never able to successfully enter the international market for full cars.¹⁰³ That said, both countries found their heavy industry drives in the 1970s to be quite successful, which was one of the major steps that brought them towards modernization.

⁹⁸ Perkins and Tang, "Pioneers."

⁹⁹ Perkins and Tang, "Pioneers."

¹⁰⁰ Ibid.

¹⁰¹ Ibid.

¹⁰² Ibid.

¹⁰³ Ibid.

This brings both countries to the year 1980, when the different economic and standard of living measures will be taken a look at once again. At this point in time, both South Korea and Taiwan can be seen to be undergoing a major transformation by all of the measurements made. For example, South Korea's urbanization rate had shot up to 56.72%, an increase of over two times. Taiwan also had reached a 48.72% urbanization rate in the same amount of time, a slightly less drastic but nonetheless stunning and impressive change.¹⁰⁴ While urbanization can come about as a result of many different factors, it is easy to point out that there is a likely correlation between the increases in industrialization and urbanization.¹⁰⁵ In order to grow a nation's industrial capacity, people obviously have to work in factories and in more densely populated areas.¹⁰⁶ Therefore, more industrialized countries tend to also be more urbanized.¹⁰⁷ For this reason, the urbanization rate is considered in this thesis as a way to see how industrialized the two countries were at different points. By 1980, Taiwan's birth rate had fallen to only 23.41 births per 1000 people, or less than half what it had been in 1950.¹⁰⁸ South Korea's birth rate stood at a similar 22.24%, also around half of what it was three decades prior.¹⁰⁹ Once again, birth rates are not necessarily caused by the level of development, but nearly every developed country in the world has a low birth rate and development is strongly correlated with falling birth rates.¹¹⁰ In 1980, the real GDP per capita of Taiwan had risen to \$11,882.54, an astounding fivefold increase in just 30 years.¹¹¹ South Korea in the same time reached \$5,414.49, which is still a massive improvement over its levels in the 1950s but obviously much less impressive

¹⁰⁴ Our World in Data, "Urbanization."

¹⁰⁵ Ibid.

¹⁰⁶ Perkins and Tang, "Pioneers."

¹⁰⁷ Ibid.

¹⁰⁸ Our World in Data, "Births."

¹⁰⁹ Ibid.

¹¹⁰ Ibid.

¹¹¹ Our World in Data, "GDP Per Capita."

when compared to South Korea.¹¹² Finally, GDP growth can be a somewhat fickle number to measure, because GDP can easily swing one way or the other from year to year, so looking at a single year only may not be the most effective way to compare the two countries.¹¹³ In order to avoid this issue, an average of five years of GDP growth is taken into account, in this case from 1980 to 1984. During these five years, Taiwan's real GDP growth rate was 7.8%, while South Korea's was 7.6%.¹¹⁴ Interestingly, 1980 was a negative growth year for South Korea after which it bounced back and overtook Taiwan's pace, leaving them with very similar averages.¹¹⁵ In this case, the difference in real GDP growth seems rather too close to definitively call one system more effective than the other. This is a trend that appears to hold true throughout the rest of recorded real GDP growth between the two countries, since both have had a similar level of growth throughout the entire last several decades.¹¹⁶

If the 1960s had been defined by labor-intensive industries and the 1970s by heavy industries in South Korea and Taiwan, the 1980s is when both countries began to make the move towards higher technology.¹¹⁷ This was done for a variety of reasons in both countries. Perhaps the most obvious one for South Korea was how President Park was assassinated in 1979, leading to a new regime.¹¹⁸ The new Chun government did not govern in the same way or with the same priorities as the Park regime had.¹¹⁹ Furthermore, both countries were experiencing high levels of opposition to the extensive use of protectionist industrial policy that favored large private or state-owned firms.¹²⁰ Taiwan had different, if no less important political issues of its own. The

¹¹² Our World in Data, "GDP Per Capita."

¹¹³ Ibid.

¹¹⁴ Our World in Data, "Real GDP."

¹¹⁵ Ibid.

¹¹⁶ Ibid.

¹¹⁷ Perkins and Tang, "Pioneers."

¹¹⁸ Coyner, "Tale."

¹¹⁹ Perkins and Tang, "Pioneers."

¹²⁰ Perkins and Tang, "Pioneers."

Taiwanese government found itself losing ground internationally to the mainland People's Republic of China, which had begun to normalize relations with the rest of the world and swing its weight to push other countries to recognize it officially as China.¹²¹ Taiwan ended up losing its United Nations Security Council seat to the People's Republic, and found itself losing allies at least officially.¹²² Both governments took this time to shore up their domestic affairs, choosing to at least make some efforts to reign in the extremes of their policies from the decades prior.¹²³ Additionally, real wages were rapidly increasing in both South Korea and Taiwan¹²⁴, so their manufacturing industries were starting to see lesser and lesser competitiveness on the world scale. Because their products were no longer significantly cheaper to make compared to others in the international market, both countries had to turn to other methods to make their economies more developed and competitive.¹²⁵ Both countries once again took this in different ways, however.

In South Korea, the main economic driver and the most important factor of the economy was the huge conglomerates that the government coaxed into existence, also known as *chaebol*. These *chaebol* originally began as regular-sized companies that were encouraged by the government to take over entire sectors regardless of whether or not they created a monopoly or originally operated at a loss.¹²⁶ What this meant was that, in the beginning, *chaebol* were completely reliant on the government.¹²⁷ Because they needed the extremely generous loans and support provided by the development committee, they never would have been able to grow to the point where they became so massive. However, by the time of the 1980s, South Korea's *chaebol*

¹²¹ Coyner, "Tale."

¹²² Ibid.

¹²³ Perkins and Tang, "Pioneers."

¹²⁴ Ibid.

¹²⁵ Perkins and Tang, "Pioneers."

¹²⁶ Amsden, *Late Industrialization*.

¹²⁷ Ibid.

were large enough and powerful enough to be able to stand on their own, and used their massive wealth and influence to flip the tables on the government, implementing tools such as bribery and buyouts to be the more influential ones.¹²⁸ That said, South Korea was not able to move so much away from heavy industry as Taiwan did.¹²⁹ Even in the 1980s, the large majority of Korean exports still consisted of heavy industries such as cars or machinery, and the same holds true until today.¹³⁰ The South Korean government never made a concerted effort to move towards information technology or other advanced economic activities in the way that Taiwan did.¹³¹ This certainly had some effects on South Korean development and the way it exists today, which will be discussed later on in this thesis.

On the other hand, the Taiwanese government was not satisfied with leaving the Taiwanese economy as purely a machinery-producing powerhouse, and so resolved to move forward by continuing development into more advanced activities.¹³² The government shifted its incentives packages and state-owned enterprises towards information technology, beginning by implementing such high technologies within the government.¹³³ There were more and more computers, the internet, and more being used by the Taiwanese government earlier than in many other countries.¹³⁴ Most new direct investment by the government was made into these high-tech fields and it seems to have paid off. Many of the same incentives were used previously by the Taiwanese government in the 1960s and 1970s with other industries, and they once again were successful in driving the country's economy forward and on to higher levels of development.¹³⁵

As to why the Taiwanese government was so keen on driving forward its modernization, the

¹²⁸ Perkins and Tang, "Pioneers."

¹²⁹ Ibid.

¹³⁰ Ibid.

¹³¹ Ibid.

¹³² Ibid.

¹³³ Ibid.

¹³⁴ Ibid.

¹³⁵ Ibid.

answer could lie in how isolated the nation was becoming.¹³⁶ Taiwan more and more was realizing that it needed to safeguard itself from foreign threats and that it could very well stand alone in the face of a new rising power in the Peoples' Republic of China.¹³⁷ Such a motivation was a strong driving force that compelled Taiwan to not settle. The Taiwanese government also remained stable and consistent throughout this entire period and process, with the Kuomintang party remaining in power through the decades.¹³⁸ This stability and security of the government allowed it to feel more sure of itself.

By the end of the twentieth century, both South Korea and Taiwan had reached a state where they could be considered developed countries, and they continued to grow in wealth, economic size and power, and continued to reach the upper echelon of industrialized, modernized, and developed countries. At this point, the different paths they had taken along with their unique histories had given them substantially different results, but how can they be evaluated? To answer this question, we now take a look at the modern day state of both countries.

Case Study: Where They Are Today

The same metrics used during the historical overview will be compared in South Korea and Taiwan in the present day. Furthermore, the companies Samsung and TSMC, as well as their respective home base cities of Suwon and Hsinchu, will be compared to form a more comprehensive case study for analysis. GDP growth data from a spread of five years will be used to smooth out any outlier years, and all data will be from before 2020 to account for the large distorting effect of the Covid-19 pandemic on nearly every aspect of a country's livelihood and economy. In the year 2019, both Taiwan and South Korea remained neck-and-neck in terms of

¹³⁶ Perkins and Tang, "Pioneers."

¹³⁷ Ibid.

¹³⁸ Ibid.

their urbanization rates. In Taiwan, 77.34% of the population lived in urban areas, while in South Korea a slightly larger 81.56% did.¹³⁹ By these metrics both countries are extremely urbanized countries, especially compared to the global average of only 54.38% in 2019.¹⁴⁰ While there are urbanized countries that are less developed, the stark contrast between the proportion of Taiwanese and Koreans living in cities compared to the start of their journeys of development speaks to how much the countries have changed in such a short period of time.¹⁴¹ Both South Korea and Taiwan have fertility rates that have also continued to collapse up to the modern day.¹⁴² In 2019, Taiwan had a fertility rate of only 7.93 births per 1000 people, while South Korea's was a tiny 5.92 births.¹⁴³ This is a shockingly low figure, with both countries placing near the bottom as far as fertility rates around the world go.¹⁴⁴ The global average fertility rate is 17.77 births per 1000 people, a much higher figure.¹⁴⁵ In 2019 the real GDP per capita of both countries remained at a similar gap as it had all throughout the previous half century. Taiwan stood at \$46,761.25, while South Korea was at \$42,219.47.¹⁴⁶ This difference is hardly a massive one, but it is quite fascinating that it is roughly the same gap of \$4,000 that existed at both previous points in time between the two countries. There are some potential reasons as to why this is the case. South Korea's real GDP growth from 2015 to 2019 was 2.8%, while Taiwan's was 2.56%.¹⁴⁷ South Korea seems to have a larger GDP growth rate over time, since it also had the higher rate in the 1980s when last measured in this thesis.

¹³⁹ Our World in Data, "Urbanization."

¹⁴⁰ Ibid.

¹⁴¹ Ibid.

¹⁴² Our World in Data, "Births."

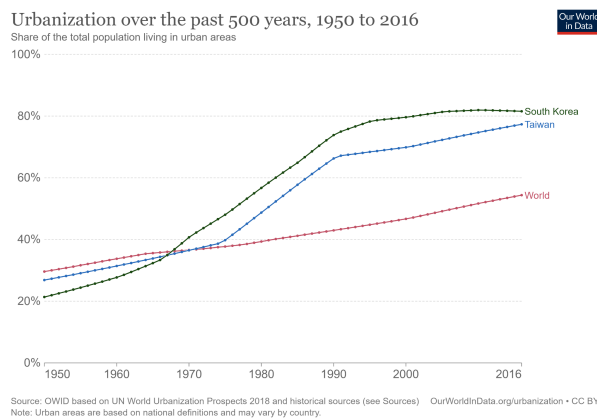
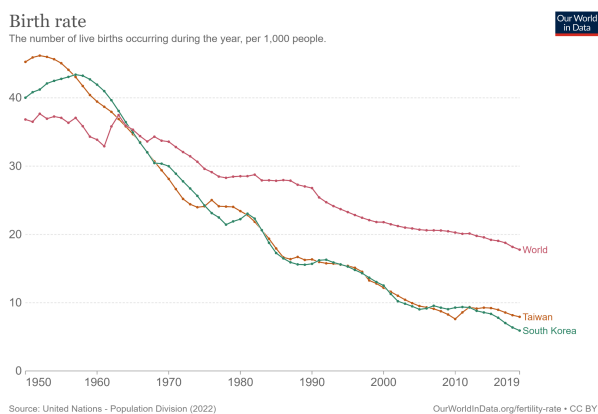
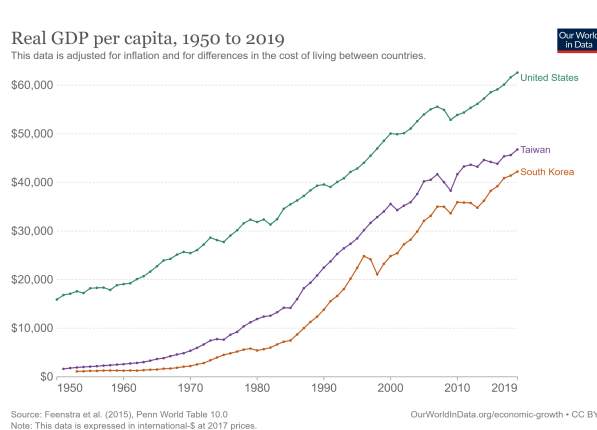
¹⁴³ Ibid.

¹⁴⁴ Ibid.

¹⁴⁵ Ibid.

¹⁴⁶ Our World in Data, "GDP Per Capita."

¹⁴⁷ Our World in Data, "Real GDP."



These graphs show the Real GDP growth, real GDP per capita, birth rate, and urbanization rate of South Korea and Taiwan over time.¹⁴⁸

¹⁴⁸ Our World in Data.

South Korea and Taiwan both have a single massive conglomerate that makes up a very large proportion of the national economy. Samsung and Taiwan Semiconductor Manufacturing Company both are major global competitors in the field of chip manufacturing, and both are sources of national pride and major players in each country's economy. Both companies and their home cities can therefore be used as a comparison point between the two countries and their economic and industrial policy. Wong and Lee in their recent paper on the industrial districts of Hsinchu and Suwon provide a very clear analysis of the comparison between the two countries, cities, and companies.¹⁴⁹ The main purpose of studying the two industrial regions is to compare the way in which both countries encourage investment, development, industry, and growth in different ways. Both cities are centers of learning, technological advancement, science, research, and more, leading to increased and more efficient development.¹⁵⁰ However, their differences can be explained more broadly by the differences in governance and policy between Taiwan and South Korea. Both cities have a relatively similar population size of around one million people, they have similar GDP, a similar number of companies, and a similar number of granted patents per year. Therefore, any differences between the cities and the companies will be on different grounds.

Suwon as a city is nearly entirely dominated by Samsung. The city represents the large majority of Samsung subsidiaries and their homes, and is populated by a large proportion of Samsung's workforce. This means that Suwon as an industrial center is very highly concentrated. It is easy for workers and producers to collaborate with each other within the city itself, but there is much less connection between Suwon and other cities. In contrast, Hsinchu as a city represents

¹⁴⁹ C.Y. Wong and K. Lee, "Evolution of innovation systems of two industrial districts in East Asia: transformation and upgrade from a peripheral system and the role of the core firms, Samsung and TSMC." *J Evol Econ* 32 (2022):955-990. <https://doi.org/10.1007/s00191-021-00755-2>.

¹⁵⁰ Wong and Lee, "Evolution," 957.

a much less concentrated industrial center. There exists much less of a closed loop of connection and rather the center of a web of connections to other parts of the country and other companies.¹⁵¹ In this way, knowledge, techniques, technology, and collaboration can spread more easily from company to company and city to city.

Part of the way in which both cities are different is the way in which they came to be. Suwon became the center of Samsung's research and development after Samsung, expanding into the new fields of electronics and chipmaking, chose to headquarter those divisions of the company in Suwon.¹⁵² Hsinchu, on the other hand, was the result of direct government involvement in the designation of the city as an industrial center. Because of the incentives given to companies in Hsinchu, they were able to succeed and grow in the city and the area around it. This explains why Suwon is much more concentrated, because it exists simply by the nature of a giant company basing its operations there, while Hsinchu is more connected because it exists as a result of the government encouraging firms to move their operations to the city. This is important because it reflects a similar pattern seen in general throughout the development of South Korea and Taiwan. South Korea generally chose to develop by delegating to private businesses and firms, while Taiwan developed more through direct state involvement.

The same patterns can be seen as well through the origins of both Samsung and TSMC. Samsung was originally a private food merchandising company operating in southern Korea that took advantage of the devastation after the Korean War to expand its operations to a huge variety of different fields. Then, in 1969, the Samsung Group launched Samsung Electronics, which it chose to base in the city of Suwon.¹⁵³ Notably, this was during the era of the 1960s when, as

¹⁵¹ Wong and Lee, "Evolution."

¹⁵² Wong and Lee, "Evolution."

¹⁵³ "[전자산업 50년, 새로운 50년](16) 삼성전자의 태동, 외국기술과의 합작," (Electronic Times Internet 2008). <https://www.etnews.com/200804270009>

previously discussed, the government was most encouraging the rise of *chaebol* and allowing them to grow nearly-unchecked. They were aided by foreign investment through Japanese companies as well as direct and indirect government support via subsidies, loans, and other incentives. Through all of these, the purely private enterprise was able to grow to dominate the country's electronics market despite originally struggling against even domestic competition.¹⁵⁴ In the present day, Samsung Group and all its subsidiaries make up nearly one fifth of the South Korean economy, with Samsung Electronics being one of the most important pieces of the conglomerate.

In contrast, TSMC has its origins not in private enterprise but in a state-owned enterprise. TSMC was founded originally as a collaboration between the Taiwanese government and the American electronics company Philips in 1987.¹⁵⁵ Though since then ownership has gone completely private, with TSMC becoming the first Taiwanese company traded on the New York Stock Exchange and now being mostly owned by foreign investors.¹⁵⁶ However, its origins as direct state investment into a new and emerging field once more show how the Taiwanese government used a very different approach to development when compared to the South Korean one.

The final element of the case study revolves around the Corruption Perceptions Index. As previously discussed, the Index is a tool that allows one to take at a glance a measure of how corrupt a country's populace views its own public sector to be. While this is not a direct equivalent to exactly how corrupt the country may actually be, it still is useful to show a country's image among its citizenry and the level of confidence that its people place in the

¹⁵⁴ Electronic Times Internet.

¹⁵⁵ "History and Milestones of TSMC," AnySilicon, accessed December 13, 2022. <https://any silicon.com/history-and-milestones-of-tsmc>

¹⁵⁶ "History and Milestones of TSMC," AnySilicon.

government. According to the Corruption Perceptions Index and the analysis by Transparency International, South Korea had a corruption score of 59 out of 100, placing it at 39th place in the world.¹⁵⁷ In the Corruption Perceptions Index, a higher score indicates a country that is perceived as cleaner and less corrupt, and a higher placing indicates that a country is perceived as less corrupt than other countries. Taiwan in 2019 placed 28th with a score of 65 out of 100.¹⁵⁸ Both of these placements are roughly average for democracies, placing both countries below most Western European countries but above Latin American, African, or Southeast Asian ones. Both scores are relatively similar, but there is enough of a difference that South Korea is several places below Taiwan. Notably, this is one of the only measures that shows such a large difference between the two countries.

Analysis and Discussion

While there are undoubtedly many different ways in which one could compare any two countries, especially ones that underwent such apparently similar changes as Taiwan and South Korea did, there are certain measures that seem to show important differences between them. Perhaps one of the more interesting findings from this research is that the more objective measures, or at least the ones that can be measured more empirically, show much less difference between the two countries than might be imagined by the differences in more qualitative measures and the differences in method that each country used. With that being said, however, there still seem to be measurable differences between the outcomes of South Korea and Taiwan. Taiwan began its development with a slightly higher real GDP per capita than South Korea, and maintained this lead while even growing it throughout the following decades. South Korea's real GDP per capita has yet to ever pass Taiwan's in any year measured. Of course, this means that

¹⁵⁷ "Transparency International," Transparency International.

¹⁵⁸ "Transparency International," Transparency International.

Taiwan had some level of advantage going into the 1950s compared to South Korea, but the fact that Taiwan managed to grow its lead seems to show that it was not simply a starting position advantage that allowed the country to be richer per person. On the other hand, South Korea has a larger population and therefore a larger gross GDP, meaning that it is by nature more difficult to have a higher GDP per capita. Taiwan does seem to have the clear advantage in this measure, however, showing perhaps some more success than what has been found in South Korea.

What the research in this thesis has brought to light is that the measures chosen were perhaps not the most illuminating ones to fully understand the differences between Taiwan and South Korea and how they developed. Instead of only measuring GDP per capita, for example, it could be more useful to know how happy the population is, how high economic freedom is, and more. As a result, it is a little difficult to draw full conclusions from what research was conducted. The main findings shown by this thesis, in contrast, are the benefits of the similarities between the two countries. Both Taiwan and South Korea used similar ideas when deciding to industrialize, and in both cases it seemed to work quite well. In both countries, the governments made use of extensive industrial policy, protectionist trade measures, government investment in industry, and more. The results of all those policies and actions can clearly be seen. Of course, correlation does not necessarily imply causation, but both countries carrying out such similar reforms in similar situations and having similar results cannot be ignored.

The area of the case study that provides the most interesting avenue for analysis is the one in which the most difference was shown between South Korea and Taiwan, or the Corruption Perceptions Index. Given that the two countries had such different results in the perception of their corruption, with Taiwan having a much better image within the eyes of its people, as well as maintaining a healthy lead in terms of birth rate and real GDP per capita while nearly keeping

pace with South Korea in its real GDP growth per year, the results seem to show that Taiwan has had better outcomes of industrialization than its counterpart. Though there are many possible reasons for the differences between the results of the two countries, we can turn to the historical background and the facts that we do know in order to look for possible solutions and lessons to be taken from them.

In order to explain the continued discrepancy between the real GDP per capita of Taiwan and South Korea, one possible explanation lies in the latter half of their industrialization trajectories. As mentioned in the historical background, Taiwan moved on from heavy industry in the 1980s, making it no longer their main economic area of focus. Rising wages and improving technology meant that Taiwanese firms were less competitive globally than they had been previously, so the government took this as an opportunity to continue to modernize its economy. The Taiwanese government rapidly embraced information technology and other high tech industries, doing so at a much faster rate than South Korea did. The effects of this may be one of the reasons for the relative wealth of Taiwanese people over South Koreans, and can be explained by the reason for which countries industrialize in the first place. When a country mostly produces goods or services that are less sophisticated and therefore cheaper, when it sells those goods and services internationally, it makes less money than a country which is able to produce more expensive goods or services. Furthermore, a country that can produce more sophisticated goods domestically will save money on having to import them from other countries. Countries and economies that industrialize, therefore, are able to increase the returns that they receive from their produced goods and services by creating ones that cost more and provide larger amounts of income for the country and its inhabitants.

Earlier on in their histories, South Korea was more successful than Taiwan in producing more advanced goods. Taiwan was able to become a car part manufacturer, but failed in creating any semblance of a completed automobile industry. In contrast, South Korea, just like Japan before it, successfully created a thriving auto industry and now is a major exporter of finished cars to the rest of the world. Taiwan still only manufactures the base parts of cars rather than the completed product. However, as Taiwan moved on from heavy industry and manufacturing into higher technology and information technology, South Korea was left more behind as the country continued to focus on heavy industry. Heavy industry is much more sophisticated than the previous exports of South Korea, but less so than information technology, so South Korea was left behind in overall development.

On the issue of corruption, there obviously exist many possible answers. Corruption is an inherently complex and inherently systemic problem, and a country's perception of corruption does not even necessarily line up with the actual amount of corruption it has. With all of the above said, however, one potential reason does appear within the historical background. The way that Taiwan and South Korea entered new industries was relatively similar, in that they both tended to empower a single firm more than others to grow that industry regardless of fair competition or a lack of it. However, the South Korean development committee chose private corporations to do this task and incentivized them by having them meet targets in order to receive subsidies. To this day, Taiwan has a very high percentage of its economy in the public sector comprising state-owned firms, and it peaked at a shockingly high 60.9% of assets being owned by the state in 1986, though only 23.3% of products were owned by the state at its peak.¹⁵⁹ Similar figures are difficult to find for South Korea but they are certainly lower.¹⁶⁰ In

¹⁵⁹ Ming-sho Ho, "Manufacturing Loyalty: The Political Mobilization of Labor in Taiwan, 1950—1986," *Modern China* 36, no. 6 (November 2010): 559-588. <http://dx.doi.org/10.1177/0097700410379551>.

¹⁶⁰ Wong and Lee, "Evolution."

essence, the state directly controls a much larger portion of the economy in Taiwan than in South Korea. Of course, this is a large oversimplification of the relationship between the state and the economy in both countries, but it is still an important factor to consider.

South Korea does have a slightly different ownership scheme in order to ensure state involvement in the economy. While the Taiwanese government does so by directly owning many firms, the South Korean government instead buys up a large amount of ownership in order to own large stakes in private firms. According to data, South Korea has an abnormally high level of State ownership of private firms, whereas Taiwan has an abnormally low amount (Carney et al. 2021). Throughout the process of industrialization and development the South Korean government acted in a very authoritarian manner to carry out its goals. Even though the large majority of industrializing firms in South Korea were privately owned, they were still completely beholden to the whims of the central planning committee. This committee, put in place by President Park, would pick and choose which firms were allowed to succeed, force them to enter new industries, and compel them to meet the demands of development through strict punishment and lavish rewards. However, the key difference in ownership still exists between the countries, as well as the degree to which monopolization was allowed. In South Korea, these companies were vertically integrated, allowing each firm to take over entire industries from the bottom up. On the other hand, Taiwan had some large state-owned companies but even they were much less integrated in the same manner and dominated industries to a much lesser extent.

Conclusion

South Korea and Taiwan had many differences in their paths to development, but also many similarities. Though both countries may have chosen more or less direct state involvement and had somewhat different outcomes in terms of their manufacturing ability and real GDP per capita, they demonstrated a broadly similar ability to bring their countries into the modern era in a drastically improved economic position than they had been mere decades before. In order to explain the differences in outcomes, there are several possible answers. For the sake of this thesis, potential answers using the research and analysis conducted will be put forward. Much of the following could be construed as speculation, but is the best deduction that can be made from the available data.

In regards to the issue of difference in real GDP per capita, the outcome can be explained by the trajectory of development that each country followed, which was in no small part shaped by the exact policy differences between the countries. For South Korea, the large *chaebol* model created massive vertical firms that were able to create entire products from scratch within one efficient company. Thanks to this model, South Korean companies were able to compete very well in industries such as car manufacturing and other heavy industries where Taiwanese companies were less successful. On the other hand, this success may have bred complacency. Because South Korean firms were so successful and became so rich and powerful, they had little reason to change the status quo. These conglomerates had enough money and power that the government had issues keeping them in check, and the government instead had to turn to making sure the new industrial economy was well-established and that workers were well-off, rather than pushing the country and economy in a new direction. Taiwan, on the other hand, had much less incentive to let things be. The country had proven less effective in being an exporter of

completed products, and it did not have single firms dominating markets in at all the same way as South Korea, and many of its larger ones were state owned and easier to control. There were therefore fewer obstacles standing in the way of the government and making further moves to develop the economy.

This situation is illustrated partially by the case study on Samsung and TSMC and their home bases of Suwon and Hsinchu, where the South Korean company mostly only benefits itself and its subsidiaries with little benefit extending to the rest of the country, while the Taiwanese company exists in a much more dynamic and interconnected web throughout other firms and the rest of the country. Samsung's progress is Samsung's progress, while TSMC's progress is shared much more with the rest of Taiwan. Firms in South Korea are very good at creating their products and growing themselves, while firms in Taiwan are somewhat better at growing the economy as a whole, not just themselves.

Another further consideration for why Taiwan moved faster and more effectively to higher technology is the relationship between each country and their respective communist counterparts. In the early 1990s, when information technology was beginning to become the most important new avenue for industrialization, South Korea was proving itself victorious. North Korea, until this point considered the richer and more successful of the two, suffered after the fall of the Soviet Union, leading to a yearslong famine that killed millions. Its economy collapsed and never truly recovered. South Korea, on the other hand, was finally showing that it could become a developed nation, competing with others in the international market. South Korea suddenly found itself much safer and much more at ease than it had been previously. Taiwan was facing new challenges, however. After Deng Xiaoping took China in a new direction of development and industrialization similar to Taiwan's previous and current one, as well as

integrating the business world of China with that of Taiwan, Taiwan suddenly found its position much more precarious. This could have served as an impetus for the tiny island nation to further improve its economy in much more drastic ways than South Korea did.

As previously explained, a more developed economy results in a wealthier nation. When more expensive goods are made in a country and sold for more money internationally, the country ends up with more money than if it sold cheaper, less sophisticated goods. By this measure it is no surprise that Taiwan, the first of the two to move on to information technology over only heavy industry, would end up being the richer country. Of course, there could be many other factors that explain the discrepancy between the two countries, but of all the details presented in the thesis this one seems the most likely explanation. South Korea can hardly be described as having failed at entering the high tech market. Samsung and LG are both massive forces to be reckoned with that export to the whole rest of the world and contribute large portions of the South Korean economy. However, South Korea still relies heavily on heavy industry as its most important export sector, and to a much higher extent than Taiwan does in the modern day.

The conclusions of this analysis can seem somewhat counterintuitive or paradoxical. South Korea was so successful in industrializing that it was too successful to continue industrializing to the same degree? Industrialization, modernization, and development are complex and multifaceted issues that have no simple explanation. For this reason, this thesis does not seek to lay out the ultimate answer, but rather one piece of the puzzle. There are clear differences between the outcomes of Taiwan and South Korea, and they can very well be partially explained by the differences in policy that both countries used. Taiwan is richer per person than South Korea, and Taiwan industrialized using different tactics than South Korea. Those policy differences must explain at least some of the difference in outcome.

The other issue presented by the case study, or that of corruption, can also be explained to some degree by the alternate models of South Korea and Taiwan. The South Korean model started with a draconian government lording over private firms, but in doing so created much harder to manage firms. Whether or not these giant private entities cause more or less corruption, they dominate sectors and are low in transparency. When people see a lack of transparency, they perceive a higher level of corruption. When society seems to rest so much in private hands rather than public, there seems to also be more corruption. In contrast, the Taiwanese model, while it has a much higher amount of private ownership at this point in time, did not create such large monopolistic or oligopolistic firms, and the government has much less issue reining in major economic players in the country.

Both Taiwan and South Korea democratized at around the same point in time, during the 1990s. They both decided of their own accord to be democratic countries, with South Korea's being the result of turbulence and unrest while Taiwan's was a decision by the central government to make a move away from autocracy. In both cases, the government moving to democracy meant that their citizens would come to expect a larger degree of transparency and accountability. In South Korea, the government gives the appearance of being accountable to the companies. In Taiwan, that appearance does not exist to the same extent, and this is all due to the differences in how they decided to modernize their countries. Democracy is key to prosperity, whether one argues that prosperity breeds democracy or the reverse. Regardless, there is a strong correlation between democratic rule and high levels of prosperity. As such, there is also a possible correlation between Taiwan's higher perceived level of democracy and its higher level of prosperity.

The area of study in this thesis is one that could use much further research. As laid out previously, there exists much literature on South Korean development, with books as famous as Amsden's still maintaining their influence on political economy scholarship today. However, there is little that compares each of Taiwan and South Korea to each other on a more than surface level. Perhaps it is most important to merely find out how to industrialize a country. However, several countries have managed to do that, and the fact that the Asian miracle has not been replicated since could mean that it was a one-time occurrence. Instead, it could be of benefit to study more closely the differences between the two countries and the actual policies that they put forward, comparing more in-depth their specific reasons, actions, and outcomes. If more data was available comparing the two countries, more analysis could also be done to better compare the two. For example, there is very little available data on state ownership in South Korea. If that data and others were more easily available, especially in English, it would be much easier to conduct meaningful research and analysis to better understand economic development.

To further the research of this thesis, the main potential road that could be taken to benefit the goals of the thesis would be to include more countries and more case studies in the study. Though this thesis took a deep dive on just two countries, there have been several other countries that successfully modernized in the late twentieth century and onwards. In Asia alone, Hong Kong and Singapore could be of interest to study, and there are also select countries in Europe and the Americas. By including more countries as data points, a study could prove correlation and be able to better imply causation between these different types of policies and their outcomes. As interesting as it is to compare two countries on their outcomes, it is difficult to prove correlation when there are only two data points to base it on.

In order to more empirically and mathematically prove the efficacy of policies, there could also be statistical regression analysis conducted on policies and their direct outcomes. In a similar manner to what was done in this thesis, one could insert several data points and compare their outcomes on another data point, such as the real GDP per capita of each country. Doing so would mathematically and statistically prove correlation, and the author could isolate certain variables to see if they are the reason for differences in outcome. Once again, while the research conducted in this thesis is of interest in value, if the goal is to illuminate the road that other countries and planners can follow then there is much more research to be done.

It is vital that everyone in every country in the world is able to achieve prosperity, and one of the first steps of accomplishing that goal is to bring every country to the highest level of development. Unfortunately, many countries seem stuck forever in low levels of development, unable to breach the barrier. However, countries like Taiwan and South Korea seem to have an answer. Though one may have been more effective than the other, they both were able to drag their populations out of poverty and drastically improve the lives of the average citizen in each country. If any other country can manage a similar feat, the benefits to humanity would be incredible. The benefits if every country could manage it would be immeasurable. For this reason we must continue to learn and understand success, in order to learn for the future how to create even more of it.

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