

The Political Economy of the Asia Pacific

Huck-ju Kwon
Min Gyo Koo *Editors*

The Korean Government and Public Policies in a Development Nexus

Volume 1

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and Public Policies
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Foreword

A successful transition from a pre-modern, poor, and divided society to a modern, affluent, and integrated democracy is a very elusive goal that few countries so far from the non-Western world have achieved. Japan was the first, followed by the Asian Tigers such as Korea, Taiwan, and Singapore. Of developing countries today, China and Brazil are most determinedly implementing catch-up strategies with an impressive record of economic growth for the last two decades. For many developing countries, there must be a great deal of lessons to be gleaned from each of these successful stories.

This book is designed to look into the case of Korean development experience. Over the last five decades, Korea has successfully moved from a traditional labor-based economy to a knowledge-based one, while effectively consolidating democracy. The first-ever female President of the country took office in 2013 and Samsung competes with Apple all over the world. The welfare state in Korea has become more inclusive with a wide range of social protection programs such as public health care, pensions, and a variety of social services. The Korean experience is very much unique even among the successful transition cases to the extent that the country has achieved not only economic but also political and social development.

If one defines the development as structural transformation, the Korean case must stand out as an apt illustration. Certainly, there is a depth of the literature on the Korean development experience, but the analytical angle has been focused only on economic dimensions. A major value added of this book is that it pays particular attention to the Korean government and public policies and that it offers new insights on how the Korean government has worked effectively to drive the country forward.

The book is the first volume of a series on development and public policies that the Asia Development Institute (ADI) plans to publish for both academic and practitioner readers in the coming years. The ADI was established in 2004 with a vision to share the development experience and knowledge, and has conducted many research projects and provided high-quality trainings for policy practitioners from developing countries. The editors of this book, Dr. Huck-ju Kwon and Dr. Min Gyo Koo, also serve as ADI's Deputy Director and Research Director, respectively. Thanks to their efforts, the book benefits from the distinguished chapter writers and their in-depth research.

I anticipate that many students of development studies will read this book. One of the first cohorts of this book will be the foreign students at the Graduate School of Public Administration (GSPA), Seoul National University where the ADI is housed. In collaboration with the Korea International Cooperation Agencies, the GSPA launched a Global Master of Public Administration (GMPA) program in 2011 for future policy leaders from over 20 developing countries. A book to be widely read by future policymakers must be the one that all public policy scholars desire to write. I congratulate the authors of this book on their very stimulating and interesting contribution to our knowledge on economic and social development and am proud that the ADI plays a significant role in such a dissemination effort.

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Chapter 1

Introduction

The Role of Government in Korea's Economic and Social Transition

Huck-ju Kwon and Min Gyo Koo

The economic growth of the Republic of Korea (hereinafter Korea) remains one of the most remarkable development stories of our time. Its growth was achieved while rapidly reducing poverty and social inequality. How did Korea transform itself from a poor and war-torn society into a modern, industrial democracy in less than 60 years? Korea's metamorphosis is indeed a rare example of a successful transition from one of the world's poorest developing countries to a highly sophisticated industrial society—an experience which many developing countries are keen to emulate. This book is designed to recapture the Korean transition by analyzing the institutional foundation of its government and public policies. As will be discussed below, the government of Korea single-mindedly carried out public policies to stimulate economic growth, but the government and public policies have themselves been affected and changed by the process. The contention of this book is that the transition of Korean society and the evolution of the Korean government are the results of two-way interactions. In this context, the book aims to analyze the way in which the dynamics of public administration were shaped within the Korean government and the kinds of public policies and instruments that were adopted to encourage this economic and social development. This analysis will allow a more complete understanding of the economic and social transformation of Korea. Surprisingly, there is a paucity of research on this aspect—a gap which this book seeks to fill.

There exists a large body of literature that attempts to explain the underlying dynamics of Korea's developmental success over the last few decades. In this literature, there are two strands of research that have evolved around two major

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debates on economic development. The first strand centers around the role of the state and the market. In the early debate on economic development in East Asia—which includes Korea, Taiwan, Hong Kong, and Singapore—commentators such as Balassa argued that the economic success of the so-called Asian Tigers was market-driven, while the state only provided necessary infrastructure to enable industry to function efficiently with minimum interference (Balassa 1981).

This view was soon challenged by a second strand of research that emphasized the importance of the role of the state. In particular, Amsden maintained that the Korean state intervened in the market by getting relative prices “wrong” so that Korean exporters could have an advantageous position in the international market (Amsden 1989). Furthermore, Amsden pointed out, the strong discipline that the Korean state demanded of large conglomerates made state intervention unique. In other words, the state in Korea regulated social actors to do the job, rather than doing it on its own. For instance, the state enforced high performance standards on private firms, rewarding those that met its standards and sanctioning those that failed. Other scholars, such as Woo-Cummings, borrowed Chalmers Johnson’s famous notion of the developmental state to capture the characteristics of the state in Korea (Woo-Cummings 1999). The developmental state mobilized available resources for economic development, while other social priorities were continually considered as secondary to its economic purpose.

There is also a large body of studies by Korean scholars that looks into the role of the Korean state. The work of SaKong and Jones deals with government and business relations to focus attention on the role of entrepreneurship in the private sector (SaKong and Jones 1980), while Song highlights the role of the state in the rise of Korea’s economy (Song 1990). In a nutshell, the literature in this strand points out that the state in Korea intervened in the market in a particular way so that market actors did their job effectively for economic development. For instance, the Korean state did not produce automobiles through nationalized firms, which is a typical mode of state intervention, but nurtured and regulated private enterprises to produce automobiles. In order to capture these different modes of state intervention, Kwon contrasts the role of the state with the concepts of provider and regulator (Kwon 1997).

While the first strand of research was carried out to understand the nature of state-market relations in the process of Korea’s transition, the second strand has examined the political dynamics of this transition. In the latter case, specific attention has been paid to the characteristics of the Korean state as a driving force for development. According to Kohli, who points out the legacy of the colonial state (Kohli 2004), the cohesive-capitalist state—which was very effective in organizing social actors for economic development—had, in fact, been established under Japanese rule. While it is certainly true that the colonial state left its legacies immediately after liberation in 1945, it remains controversial whether or not these colonial legacies played a key role in Korea’s early industrialization from the mid-1960s to the 1970s.

One of the most important political events that shaped the characteristics and capability of the Korean state was the military coup d’état by Park Chung-hee in

1961. Following the coup, the military government made it clear that economic development was its top priority, and embarked on an ambitious economic development plan. After the first 2 years, when the Supreme Council of National Reconstruction—a sort of ruling military junta—governed the country, the new government was established in 1963 under a fresh constitution that established a strong presidency. Before the 1963 election, General Park justified his military coup and indicated his future policy direction (Park 1963, p. 177).

I want to emphasize and reemphasize that the key factor of the May 16th Military Revolution was in effect an industrial revolution in Korea. Since the primary objective of the revolution was to achieve a national renaissance, the revolution envisaged political, social, and cultural reform as well. My chief concern, however, was economic revolution.

In 1963, Park was elected president of the Third Republic. Although in theory the presidential system did not contradict the principle of democracy, opposition forces were ruthlessly oppressed, and—if necessary—were accused of being communist infiltrators. In 1972, Park amended the constitution again to enable himself to become president for life, with his regime subsequently turning into an outright authoritarian one. The ugly side of the Park government is one feature of the Korean state, but there is another feature as well. As already discussed, the policy regime of the Park government is characterized by the notion of the developmental state in which elite policymakers pursue economic development as an overarching goal, and an effective bureaucracy supports this goal (Kwon 2005). The Korean developmental state worked tirelessly since the mid-1960s for economic development. Aside from its harsh oppression of opposition groups, the state controlled capital flows and nurtured strategic industries for export. Korea's business conglomerates, commonly known as *chaebol*, were highly dependent on credit supplied by state-controlled banks and thus had to comply with the government's industrial policies and guidelines. Recent work by Kim and Vogel (2011) shows this two-sided nature of the developmental state. In the broad context of development, the hypothesis that authoritarian government is necessary for developing countries to achieve economic growth has been around for some time (Domínguez 2011). Although the Park government may have supported the developmental dictatorship hypothesis, it seems to miss the point. Many authoritarian governments have failed to take their countries forward and, instead, have often created political chaos and dismal economic conditions. The crux of the matter lies in how the government delivers policies to achieve economic and social growth.

Studies focusing on the relationship between the Korean state and market have contributed to an understanding of the country's rapid transition from a poor economy to an industrialized one, while other studies, focusing on Korean politics, have provided a better perception of the political nature of the state. Nevertheless, it is fair to say that these studies fall short of providing an insight into how the Korean government was organized in practice to deliver public policies and services. It is partly because the studies have focused on macro-level variables, such as the state and the market, that they have not provided adequate explanations for institutions and public policies at the mezzo-level. In short, they have not given a

clearer understanding of how the Korean state has delivered economic and social benefits at the ground level.

The aim of this book is to unpack the Korean government and its public policies by looking into the government's inner workings. The authors' contention is that this knowledge can be readily used by policymakers and development practitioners elsewhere in the world. The book is structured in two parts, each with three chapters. Part I deals with government and coordination for development, and sets out to examine the way in which different ministries and agencies were organized and coordinated with each other on economic development, especially through effective presidential leadership as well as bureaucratic initiative.

Chapter 2 by Yong-duck Jung analyzes the institutional characteristics of the presidential executive leadership. As previous studies emphasize, the role of President Park in the pursuit of economic development was crucial, but he was only part of the institutional configuration of—in Jung's term—an “institutional presidency.” This chapter examines how executive leadership has been practiced in terms of political accountability, democratic representativeness, and political capability. Jung divides the institutional presidency into three components: the president, the presidential secretariat (PS), and central agencies (CAs) of the government. The PS comprises staff in the presidential office who provides the president with policy advice. The CAs are ministries, agencies and offices that perform functions essential to coordination throughout the government. In the pre-Park era, as well as in the early years of the Third Republic, which was formed in December 1962 under Park's leadership, the PS and CAs were neither strong nor fully established. As a result, the president had to resort to his personal charisma and leadership capacity in order to reconstruct his war-torn country. Once the Park government was consolidated in the mid-1960s, the institutional presidency began to evolve.

The changes and continuities in the institutional presidency can be divided into three periods. The first period was from the late 1940s to the early 1960s, when institutionalization of the presidential secretariat was weak. In the second period, from the late 1960s to the late 1980s, the core executive was developed and acquired greater power. In the third period, from the late 1980s to the present, the institutional presidency began to pose a dilemma, and there has been a strong call for reducing the power of the institutional presidency as well as the continual need for executive leadership for effective policymaking and implementation. During the period of Korea's transition, Jung argues that the institutional presidency was able to stand above other government structures, thus maintaining the common interests of government ministries and consistency in public policies.

Chapter 3 by Byung-Sun Choi analyzes one of the most important CAs during the developmental period, namely, the Economic Planning Board (EPB). Created in 1961, the EPB had the authority to determine long-term economic development planning while maintaining coordination and consistency across government agencies. Choi claims that the successful economic development of Korea would have been impossible without the EPB. He also argues that effective and competent economic policymaking and coordination are more important than economic development plans themselves because unanticipated bottlenecks, obstacles,

problems, or new investment opportunities need to be addressed properly and wisely once the initial stage for economic growth is set.

For Choi, the factor that made the EPB so unique and special in performing its mission was not simply the putting together of planning and budgeting functions in one organization, but the exploitation of its institutional autonomy that led it to possess a broader and longer-term perspective, and enjoy a higher degree of flexibility in making economic policy choices. This turned out to be instrumental in steering the course of economic development in the direction deemed most desirable, in the face of turns and twists of economic and political developments both within and outside Korea. Most notably, Choi maintains, the EPB had to strenuously earn the support of the president for its activities in a never-ending policy competition among related ministries through the adroit and strategic management of its political mandate, and through an extraordinary effort to build up its own unique organizational capacity and competence. Even though the president and core executive agencies set up overall policy, and maintained consistency within the government, it was the line ministries that carried out public policies in their respective fields. For this reason, it is crucial to organize line ministries in a way that enables them to do their job effectively. The role of the state in economic development and transition has been discussed extensively in the literature mentioned above. However, the organizational dimension of this process has not been adequately studied. Existing scholarship has made large assumptions about the organizational nature of the Korean government, thus providing an incomplete picture of the depth and breadth of the government's organizational landscape.

Chapter 4 by Tobin Im approaches this topic from the perspective of classical organization theory and sheds new light on the distinctive aspects of Korea's government as a collection of various organizations. Im points out that in existing scholarship, the nature of organizations in the Korean government has been obscured by a misplaced emphasis on organizational principles developed and tailor-made for Western governments. Currently, there exists a large gap between what students of public administration learn about the Western principles of organizational management and how the Korean bureaucracy has actually operated in the past and is currently operating. As such, this chapter raises fundamental questions about the universal applicability and validity of Western organization theory. Im does not deny the fact that Western theories and principles of public organizations have had a positive impact on Korea's public administration and organization. Nevertheless, what is fundamentally more important for him is that the Korean government has evolved along historical pathways that are embedded in Korea's native principles of efficiency and competitiveness.

While Part I examines how the Korean government has evolved in the process of economic and social development, Part II explores prominent public policies that the Korean government implemented during its developmental period. **Chapter 5**, on "Governing the Developmental Welfare State: From Regulation to Provision" by Huck-ju Kwon, analyzes social policy in Korea with a special focus on the mode of state intervention. Kwon argues that social protection was only a subordinate part of the overall policy paradigm for economic development. He characterizes

the way social policies and institutions were arranged as the developmental welfare state. In explaining its mode of intervention, Kwon contrasts the role of the state as regulator with that of the state as provider. Within the mode of regulator in the delivery of social policy, the state issues regulations under which other social actors deliver social protection. By contrast, in the mode of provider the state actually delivers social services and benefits which are then paid for through state expenditure. Kwon shows the different attributes of the two modes of state intervention, but his main point is that the policy regime of regulator has allowed the Korean state to mobilize limited resources for economic development, while putting the responsibility of social protection on families, employers, and civil organizations.

An important question that arises from this analysis is how Korean society managed to keep social inequality at a minimum during its period of rapid economic growth. According to Kwon, the Korean government was able to set up this policy regime and implement social policies because there were multifunctional institutions that indirectly served to implement them. For instance, land reform—which was carried out in the late 1940s and early 1950s—was an effective social policy, helping transform indigent peasants to self-owning farmers and assuring them of a basic livelihood on small but adequate agricultural land. Local health centers which were established across rural areas were able to provide the poor with essential health care with minimal facilities. Interestingly, these local health centers were operated by young trainee doctors who worked there in lieu of military service. Among other examples that Kwon puts forward is the *saemaul undong* (or New Village Movement) of the 1970s, a sort of self-help voluntary community movement which was implemented nationwide. It mobilized human and economic resources for rural communities, and improved the infrastructure of agricultural and rural industries.

In 2011, Korea became the ninth country to join the “one-trillion-dollar trading club,” departing from the ranks of newly emerging countries to join the ranks of trade giants. After reaching the \$100 million mark in 1964, Korea’s exports grew more than 5,000 times in 47 years, making it the seventh-largest exporting country in the world. In [Chap. 6](#), Min Gyo Koo attempts to link past policy trajectories to present public policy by analyzing Korea’s trade policy transformation from mercantilism to liberalism. As Koo points out, Korea’s economic development model has been characterized as export-oriented industrialization (EOI), or a mercantilist policy centered on export promotion and import protection. For the past two decades, however, Korea’s trade policy has undergone fundamental change, as illustrated by its active pursuit of free trade agreements. This is particularly important because, in an era of globalization and democratization, Korea’s EOI can no longer be replicated in other parts of the world. At the same time, however, the centrality of the Korean state in the process of trade liberalization should be recognized.

The significance of Korea’s trade policy transformation is threefold. First, it constitutes a notable policy shift from developmental mercantilism to liberalism. Second, it has been shaped by a top-down political initiative rather than a bottom-up demand from business groups and the general public. And third, despite Korea’s liberal but state-centric nature, its partisan politics has led its trade policy to be closely embedded in the country’s social fabric, both competitive and noncompetitive. As such, Koo argues that Korea’s new trade policy adopts

“developmental liberalism” as opposed to “developmental mercantilism,” that is, greater trade openness in favor of internationally competitive sectors and generous side payments to those who might be hurt by trade liberalization. Institutionally, the Office of the Minister for Trade (OMT) has played a vital role in this dramatic change. As a champion of liberal economic ideas, the OMT is relatively insulated from pressure from special interest groups. As Koo indicates, the institutional design and operation of the OMT in trade issue areas resembles the EPB in broader economic policy during the 1960s–1980s.

Chapter 7, dealing with “Educational Policy, Development of Education, and Economic Growth in Korea” by Shin-Bok Kim, examines the rapid expansion of education in the early stages of economic takeoff, with a well-educated workforce on relatively low wages contributing to this takeoff. How was Korea, once one of the poorest countries, able to expand its education so rapidly? Kim explains that the role of the Korean state in education during the period of development was minimal in terms of financial commitment. Public expenditure shared only a small portion of the entire education spending. Parents took on a large part of the cost of education for their children, and their financial responsibility relieved the government of a considerable, and recurrent, burden. Also, private institutions in tertiary education provided most of the educational places for students (more than 75 %) compared to public universities. In education, the state played the role of regulator, working—as in social policy—with other actors. The downside of Korea’s education policy was that educational conditions, such as facilities, the number of students per class, and the ratio of students to teachers, were relatively poor.

Despite these conditions, Korean society has been altogether successful in educating its children and accumulating human capital. Kim summarizes the significant characteristics of Korean education. First, Confucian ethics played a vital role in recognizing the importance of education and respecting teachers and scholars. Second, educational achievement was considered important in life, and not only for productive enhancement in personal development. Third, educational success led to upward mobility and to privileged positions in society.

In this book, the authors attempt to unravel the inner workings of the government and public policy to explain the transition of Korean society from one of the poorest to one of the more sophisticated industrial democracies. The development discourse of the last five decades has made clear that one size does not fit all. One cannot simply import the experience of Korea’s transformation to one’s own country. This book shows that it is necessary to maintain consistency and coherence in government and public policy in order to achieve economic and social transformation.

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Part I
Government and Coordination for
Development

Chapter 2

Institutional Presidency and National Development

Yong-duck Jung

2.1 Introduction

As early as the late seventeenth century, Locke (1689) advocated political pluralism by rejecting any absolute, unified, and uncontrolled state power. Unlike Hobbes (1651), another English philosopher of the time, who argued that vesting absolute power in the government would be necessary to avoid an anarchic “war of all against all,” Locke contended that the state should rest on consent and that governing authorities should never have absolute or monistic power. This stance of political pluralism was not something that the Korean people were familiar with when they started rebuilding a new nation state in the late 1940s.

Since the second half of the nineteenth century, Korea has followed a version of “modernization from above” and has thereby been similar to the “late industrializing countries” such as Germany and Japan. Since then, the country’s modernization process has been initiated mainly by political and bureaucratic elites, with the strong influence of foreign powers, but without any consensus building from the common people (Jung 2005). Thus, a strong bureaucratic state was first institutionalized, which then initiated state-led industrialization while marginalizing democratic institutions. It was in the latter years of the twentieth century that such “limping” or “unbalanced” modernization began to turn for the better amid booming industrialization and the development of civil society. Since the foundation of the Republic of Korea—for the first time in its history— in 1948, the

An earlier version of this chapter, entitled “The Evolution of Institutional Presidency in Korea, 1948–2011,” was presented by the author at an inaugural convention of the Association for the Study of Political Society on November 27–28, 2010, at Waseda University, Tokyo, and published in the *Japanese Review of Political Society*, 1(1), 27–44, 2012.

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country achieved state building (1940s–1950s), industrialization (1960s–1980s), and democratization (1990s–2000s). In the process of its development in such a relatively short period of time, the state administration has played a leading role and, by its nature, the president’s executive leadership has been one of the most important factors.

In general, the country’s executive leadership is supported by the constitution and other ordinances. It is also supported by diversely institutionalized core executive apparatuses, including the presidential secretariat (PS) and the central agencies (CA).¹ Through these staff organizations, the chief executive intervenes in the activities of various levels of administrative apparatuses within the executive branch. In Western industrialized countries, the core executive apparatuses had become more positively institutionalized after the mid-twentieth century, when the state’s growth made it difficult to steer and coordinate the differentiated administrative apparatuses (Rose 1984; Dunleavy and Rhodes 1990; Burke 1992; Peters et al. 2000). Although Korea’s First Republic was launched in 1948, the country was—in practice—a type of Asiatic administrative state, with executive predominance as well as concentration of power within the executive branch from the very beginning (Jung and Kim 2007). In this context, it is important to illuminate how Korea’s executive leadership has been institutionalized since its foundation.

The institutionalization of the executive leadership is related to public values such as political responsiveness and administrative competence. In a democratic society, for example, the president’s executive leadership should be practiced for political accountability and democratic representativeness (Finer 1941; Kaufman 1956; Rockman 1984; Aberbach 1990; Moe 1993). It is supported by laws, but should also be constrained by them. It is expected that the presidential executive leadership also be practiced without undermining the bureaucracy’s neutral competence, which may “entail the application of bureaucratic expertise in an objective manner to obtain the best outcomes possible” (Kaufman 1956; Hecl 1975; Dickinson 1997; Meier 1997; Goodsell 2004), and contribute to long-term national interests by enhancing the state’s autonomy and “plan rationality” (Johnson 1982).

This chapter intends to analyze the changes in, and continuity of, the institutional characteristics of the presidential executive leadership in Korea during the past six decades. It will also discuss how executive leadership has been practiced, reflecting public values such as political accountability, democratic representativeness and responsiveness, the neutral competence of administrative bureaucracy, policy capabilities, and so on.

¹ Central agencies are generally defined as the “departments, agencies, and offices [that] perform the functions [which are] essential to the co-ordination and control of bureaucracy throughout government” (Campbell and Szablowski 1979, 2). In this article, central agencies and the presidential secretariat are differentiated from each other. They have evolved separately as core executive apparatuses to support the presidential leadership in Korea (Jung et al. 2011).

2.2 Institutional Arrangements for Executive Leadership

Korea has maintained a presidential executive system for more than 60 years, with the only exception being a short-lived parliamentary government from 1960 to 1961. The Constitution of the United States (US), which has maintained a presidential system from the start, declares that only the president is bestowed with executive authority. Unlike the US constitution, the Constitution of the Republic of Korea mentions specifically the power of the president and policy apparatuses over the executive branch (Jung et al. 2011). Based on this constitutional foundation, the Korean government has institutionalized a set of complex core executive apparatuses to support the president's executive leadership.

This complex institutionalization has been caused partly by the nation's unique political executive system. The Korean government has maintained a presidential system with some parliamentary executive factors, though it is different from the dual executive system in France. The prime minister is appointed by the president, who is directly elected by the people, and "assists the president and receives the president's orders to supervise each executive ministry" (The Constitution, Article 86). Though the prime minister needs the confirmation of the national assembly to take office, he or she is—in reality—appointed chiefly in accordance with the president's will. Therefore, the prime minister maintains a position as a member of the president's staff. This dualism makes Korea's core executive apparatuses affiliated not only with the president, but also with the prime minister. The apparatuses include the PS, the prime minister's office (PM's office), and the CAs—all of which are in charge of the core executive or administrative functions headed by the chief executive (Jung et al. 2011).

2.2.1 *The Presidential Secretariat: de facto "inner cabinet"?*

The PS is the central staff organization of the chief executive in any presidential system, but differs greatly according to country and period (Jung et al. 2010). In Korea, the degree of differentiation of the PS had been low from the commencement of the Syngman Rhee administration (1948–1960) to the end of the first term of Chung-hee Park (1963–1967) (Fig. 2.1). During this period, the PS took care merely of the PS's internal administrative affairs, protocol, public relations, and so forth.

It was at the beginning of President Park's second term in 1968 that the PS began to be greatly differentiated functionally and was expanded in size by the creation of various sub-organizations for different public policy areas. Most secretarial positions were upgraded to senior secretarial positions, to be on par with ministers or vice ministers. This change occurred with the launching of the second 5-Year Economic Development Plan (1967–1971). During the period from 1968 to 1971, the office of the senior secretary for economic affairs, for example, was differentiated into three senior secretary offices which were separately in charge of the general economy, transportation, health and welfare, liquidation of insolvent