

## Book Reviews

Jong-Won Lee

### *Success and Failure of the Korean Economy and Its Prospects: Lessons from a Development State*

East-West Research Institute, 2004

**Reviewed by**  
Sung-Tae Ro\*

The Korean economy has grown at an average annual rate of over 8% for almost four decades until 1997, when it was hit by the financial crisis. Per capita income of Korea increased more than one hundred times during the period to reach 10,000 US dollars. For some time the success story was admired and called an economic miracle which, argued many experts, might be matched only by China in the future. In 1996, Korea was accepted as a member of OECD.

However, the growth path was not smooth: there were ups and downs. Some problems and side effects had made their appearances during the process. Finally, with the advent of the crisis, the economy was diagnosed as to have serious structural problems and a dramatic surgery was recommended by the IMF.

In the beginning of the 1960s, Korea was a poor country with almost no natural resources. It was continuously threatened by the North Korea, with military spending a big burden to the economy. Quite naturally, a number of questions arise. What factors have made it possible for the economy to grow so fast and so long? How unique is the economic growth process in terms of development economics? Can it be a good model to be followed

---

\* Business School, Myongji University, Korea, E-mail.: [sungtro@mju.ac.kr](mailto:sungtro@mju.ac.kr)

by developing countries? What were the main causes of Korea's failure in 1997? Were the following restrictive macro policies and reform plans relevant? What are the prospects for the Korean economy?

These are the major questions to be answered by the book *Success and Failure of The Korean Economy and Its Prospects: Lessons from a Development State* authored by Professor Jong Won Lee of Sungkyunkwan University in Seoul, Korea. He argues in the book that the existing economic theories have difficulty in explaining development patterns of different areas and different times. Economic development is not a linear process but one "to be realized in diverse forms and orders, depending on the characteristics of cultural values that are formed based on some economic environments, institutional habitats and customs." To analyze the issues in a more systematic and comprehensive perspective, Professor Lee develops his own theory of economic development stage, which is an extension of the conventional model to incorporate the ideas of neo-Marxian economics and those of Max Weber, which emphasized the the cultural aspects of the countries.

The new model was then employed in the book to explain the differences of the economic development process both in the East and the West. As for Korea, a new terminology was coined to express the characteristics of the development process, namely 'centralized management economic system (CMES)'. It was introduced to underline the fact that managerial control power of the government and bureaucrats had played a much more important role in economic development rather than the legal ownership of production means, which was considered as the major determinants by the Marxian economists.

The findings of the new model contradicts Paul Krugman who emphasized that the growth in Asian countries were mostly attributed to labor and capital input. As far as Korea is concerned, technology contributed significantly to the economic growth. The book also shows that although CMES enabled the country to achieve unprecedented high economic growth, it also gave birth to structural problems which led to the financial crisis.

Professor Lee's model is still at an early stage of development and needs more sophistication in the future. It is still not clear whether the model exceeds others in explaining differences of economic development in various regions. However, his attempt to integrate the cultural aspects in analyzing the development process deserves appreciation for its freshness and novelty.

In addition to the new model, the book provides a comprehensive guide to the Korean economy, as it is abundant with valuable information based on studies of various specific sectors of the economy. It should serve as a good reference for the readers who have anxiously awaited a comprehensive analysis of the Korean economy.