

## NOTES AND COMMENTS

# ROLE OF EDUCATION AND INDUSTRIAL POLICY IN THE REPUBLIC OF KOREA'S ECONOMIC DEVELOPMENT

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### ABSTRACT

*It is a popular belief that economic growth of the East Asian countries is a result of free market, but at the same time, there are scholars who argue that State always played a major role in the industrial development of the East-Asian countries. The Republic of Korea has been a perfect example of this, where the State helped, promoted, and controlled the activities of chaebols.<sup>1</sup> This paper brings out the role of education, especially the vocational education, and industrial policy in the development of a country. The paper is divided into three parts except the conclusion. The first part gives a brief description of the Republic of Korea's economic development during and after the Cold War. The second part looks at the role of the State in creating a productive and skilled labourforce. The third part of the paper discusses the economic reforms undertaken by the State and an education policy designed keeping in mind the skill requirements of industries. The paper concludes that the Republic of Korea's experience shows that, State intervention in the form of a coherent vocational education and industrial policy can bring any country on the path of economic development.*

**Keywords:** *The Republic of Korea, Industrial policy, Education, TVET, Training, Labour*

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1 Chaebols refers to family-owned businesses having subsidiaries across diverse industries. Some of the internationally recognized brands are Samsung and Hyundai.

## 1. Introduction

Industrial development and education, especially the vocational education, has a complementary relationship. On the one hand, industries need quality education that imparts skill<sup>2</sup> set needed by the population that fulfils the demand of the skilled labour force; on the other hand, people will join schools and training centres to learn skills only when they will find education and skill helpful in getting them better-paying jobs (Abhishek, 2017). Availability of decent jobs to absorb the supply of the trained people makes the education and training aspirational. The skills requirement changes in every phase of the economic development-- they get more complicated as an economy shifts from agrarian to manufacturing and then to services. The transition to services from manufacturing or from agriculture directly increases the intensity of higher skill requirements many folds than in comparison to transition from agriculture to manufacturing. In the process, many new sectors emerge whereas many old sectors either shrink or vanish. This emergence of new sectors and shrinkage or disappearance of old sectors have their own impact on the skill requirements. As a result, a broad-base of labour with the right mix of skills acts as a facilitator in the restructuring process (Ra, Chin & Liu, 2015).

The East Asian experience in using technical and vocational education and training (TVET) as an integral instrument in economic strategies at various levels of development demonstrates that, with the help of careful planning, VET can be harmonized with the economic policies. Republic of Korea's success story in changing itself from a predominantly agrarian economy to an industrial economy during the period 1962-1991 has been analyzed in a number of studies (Kim, 1991; Pranav & Katiyar, 2018). Initially, it was argued that Republic of Korea succeeded in making itself an ideal case of export-oriented growth because the country followed the principle of comparative advantage and free-market principles and reshaped it in the desired direction (Rodrik, Grossman & Norman, 1995). But, soon a plethora of literature emerged that argued the contrary and claimed that the dominance of industrial policy with a view to 'industrial upgrading' has been the most distinctive feature of Korean State intervention. Republic of Korea picked and chose sectors and industries to prioritize and provided them with massive support (Chang, 1993). The *chaebols* aligning themselves with the overall agenda of the government were given preferential treatments, either it is finance or import quotas for capital goods. On the other hand, those firms who took another way were penalized.

The State made intervention not only through the above-mentioned ways but also through education and skill policies. The education and skill policy remained closely related to the industrial policy and was accorded the greatest priority. The government tried compelling firms to contribute to training, but

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2 European Commission (2015) defines skill as "the ability to apply knowledge and use knowhow to complete tasks and solve problems."

with limited success. In the absence of the interest from the enterprises, the government took the leadership role in its own hand and up to the sixth Five-year Plan Period, the most Korean enterprises heavily relied on the government for high-quality manpower (Islam, 1994). The paper based on the literature survey highlights how the TVET played an important role not only in ensuring a workforce suitable for industrial development but also the labour welfare by keeping wages rising throughout the period. The paper limits itself up to the Sixth plan period, i.e. 1991. The first part of the paper gives a brief description of the Republic of Korea's economic history since the 1960s. The second part deals with the vocational training and highlights how the vocational training worked in tandem with the industrial policy.

## **2. A brief history of the Republic of Korea's economic transition**

In 1948, when Republic of Korea was created as a result of the partition of the Korean peninsula— the Democratic People's Republic of Korea (DPRK) in the north and the Republic of Korea (ROK) in the south – it was one of the poorest states of the world. The little industrialization that happened during the Japanese colonial times was there in the Northern provinces. The DPRK inherited most of the industry, most of the mining, and more than 80% of the electric power generation whereas the Southern provinces that constituted the Republic of Korea were mostly agricultural, but the agricultural production was barely adequate to feed its rapidly growing population. In the years after the Korean War (1950-53) up to 1961, despite the country being one of the world's largest recipients of foreign aid per capita, because of the misallocation of aid funds, government corruption, an unrealistically high exchange rate, political volatility, and threat of war with North Korea, the Republic of Korea failed to have any significant growth. The situation continued until the first half of the 1960s, and in 1960, it remained so with a per capita income same as Haiti (Seth, 2017).

The economy was stagnating at the end of the 1950s, with all the possibilities of easy import substitution depleted. The country was marred with wrong policy choices giving rise to a number of inefficiencies during the period; the situation changed with a series of reforms that took place around the year 1965. The reforms included the introduction of a unified, realistic exchange rate regime that made export activities as profitable as they should be and allowed Korea to follow her comparative advantage in labour-intensive industries reaping the gains from foreign trade; trade liberalisation involving cuts in tariffs and the abolition of most quantitative restrictions that improved the efficiency of the economy by exerting competitive pressures on domestic producers; and a substantial increase in the real interest rates that enabled the economy to invest more by mobilizing more savings, on the one hand, and to use capital more efficiently by restoring the relative price of capital to near its 'realistic' level, on the other (Chang, 1993).

Inspired by the success of Japan, some East Asian countries from the 1950s and some from 1960s onwards, adopted a strong export-oriented policy and tried attracting foreign investment. Korea was one of them and emerged a sort of leader in both of them and soon became an example for the other developing nations. Just in ten years starting from 1960, Republic of Korea's GDP became more than 2.5 times and was around \$63.7 billion in 1970 (constant 2015 US\$). It kept rising with the same pace in the 1970s and by 1980 it was around \$154.6 billion. The Republic of Korea's GDP has kept on growing and by 2020 it was around \$1.63 trillion (constant 2015 US\$).<sup>3</sup>

Subsequently, the Republic of Korea successfully transformed itself from an agrarian to an industrialized country. In the year 1960 the value added by the agriculture, forestry and fishing in the GDP was 36.2 percent which came down to 14.1 percent in 1980 and in the next 20 years i.e., by 2000 it decreased to 3.9 percent. The sector added just 2.1 percent in 2015 (World Bank, 2018). The success continued uninterrupted up to the second half of the 1990s, before the East Asian Financial Crisis<sup>4</sup> which proved to be a short period of difficulties as the East Asian countries recovered very soon and the period of high growth continued.

The GDP growth rate increased rapidly in comparison to the population growth rate, the East Asian countries have been very successful in limiting their population growth. This also helped Republic of Korea in increasing its per capita GDP and achieving per capita GDP more than many European countries (Asian Development Bank, 2017).

## 2.1 Role of State

The Republic of Korea's success soon became a point of attraction for economists. The early interpretation of the Korean economic development was capitalized by free-marketers as a success of liberal policy and *laissez-faire*. The argument Ranis and Fei put forward was that,

“...stabilization plus dismantling of the various existing direct control measures on trade, interest rate, and foreign exchange.... created a more market-oriented economy most conducive to access for large numbers of domestic entrepreneurs seeking

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3 GDP (constant 2015 US\$) data (worldbank.org) retrieved on December 29, 2022.

4 The East Asian crisis started in July 1997 with the collapse of Thailand's currency. Soon it spread to other East and South-East Asian countries who saw their currencies slumping, stock market devalued, asset price touching ground and private debt rising. Other than Thailand, Indonesia and South Korea were the countries most affected. Brunei, Hong Kong, Laos, Malaysia, the Philippines, Singapore, Taiwan, and Vietnam were the other countries affected significantly. China and Japan also suffered but less significantly.

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efficient utilization of the economy's relatively abundant resources via embodiment in labour-intensive industrial exports" (Ranis & Fei, 1975).

But soon, a number of literatures emerged that challenged this interpretation. Notably, Amsden(1989) termed Korea as a 'developmental State' and defined it as, "A disciplined (or developmental) State which refers to one that advances capital rather than accumulating it, or at least does not allow its own enrichment to derail the development effort, as in Korea" (Amsden, 1989).

It was argued that contrary to the given interpretation, the Republic of Korea changed its policy for import-substitution and opted for free trade-tariffs. It was because the trade tariffs were quite high and bureaucracy retained the power to impose 'emergency tariffs' without changing relevant laws although the power was to be used only for items with 'excessively' fast import growth. For example, in 1982, 93 percent of the total imports (in value terms) were subject to one or more of such restrictions. Along with the tariffs, prohibitive inland taxes were often used virtually to ban the import of luxury consumer items which were subject only to non-prohibitive tariffs. The intervention never stopped with import restriction but accompanied by extensive State support. Even the foreign exchange was rationed (Chang, 1993).

Since then, a list of literature (Lee, 1978; Park, 1999, Patterson & Choi, 2018) emerged which pointed out the role of the State and the international scenario in the development of Korea. During the Cold War (1945-91), all the countries aligned with the United States enjoyed special assistance. The Republic of Korea was one of those countries that enjoyed special favours from Americans, and undoubtedly, these favours played an important role in the Republic of Korea's economic development. In 1961, John F. Kennedy became the President of the United States. He appointed Walt Whitman Rostow, a professor of economic history at Massachusetts as deputy to his national security assistant McGeorge Bundy. Within the weeks of the appointment, Rostow and his associate Robert Komer took a close look at the Republic of Korea and found that "in spite of its truncated and isolated condition, it had strong human resource and was an ideal place to develop light industries" (Cumings, 2006).

The Korean government of that time reciprocated positively. Within Korea, in 1961 the Park Chung-hee regime created an Economic Planning Board (EPB) staffed by technocrats to direct economic growth. The First Five-Year Development Plan that was launched in 1962 called for a 7.1 percent of economic growth rate for 1962-1966, by encouraging the development of light industries for export. Although many of the economists thought this target to be unrealistic, the target was exceeded with the economic growth rate averaging 8.9 percent. The US support continued throughout the 1960s, the amount of aid came down, but the technical support was continued, and the US remained the largest market for the Korean exports. During the 1960s, both the US and the

Republic of Korea's government focused on economic development and creation of light industries, and this is from where the industrialization of the Republic of Korea started. Then in the 1970s, there were changes in the direction of economic development—a shift to heavy industry and the production of capital goods, accompanied by more restrictive policies on direct foreign investment. During the decade 1972-1982, steel production increased fourteen times. In the 1980s, the Republic of Korea became the world's second-largest shipbuilder (Seth, 2017).

Today the Republic of Korea is a successful example of disciplining not only the labour but also capital (Amsden, 1989). Since 1961, the Republic of Korea's government worked closely with selected business entrepreneurs. These entrepreneurs got favourable treatment from the government -- exemption from import duties on capital goods and special rates for utilities and the state-owned rail system -- and created a large family-owned conglomerates known as *chaeböls*. It was not crony-capitalism as first, these *chaeböls* were to work in tandem with the government's development goals and second, firms were to receive support, not on the basis of their connections but performance. The *chaeböls* were to be constantly monitored by the State whether they were using the support efficiently or not. They had to prove their efficiency not just in domestic but also in the international market (Seth, 2017).

## 2.2 Issue of labour

The leaders of the Republic of Korea were convinced that disciplining capital is necessary but not sufficient for the growth. They need to look at labour also. Koreans were early to realize the worth of industrial harmony and promoting worker-owner solidarity, and having a workforce suitable for the phase of industrialization the country is going through. Korea did not have a minimum wage until 1988 when it was introduced in manufacturing industries and then gradually extended to other sectors by 1990. Another point to be noted here is that, the purpose of the wage that was legislated was to protect the very low-paid workers. It was a general minimum wage without any variation between industries and was around 40 percent of the average wage (Khan, 1994). But it was not that labour was a neglected issue for the Korean government. Giving the slogan of “treat employees like family,” President Park wanted,

“close labour-management cooperation, with the company president making an utmost effort to improve pay and welfare, and the later [workers] fulfilling their duties with a sense of responsibility and sincerity, doing factory work like their own personal work..... In such cooperation, productivity will be high, thanks to the family-like atmosphere..... Thereby complete harmony between employees and employers would be made possible.....” (Cumings, 2005).

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Although a worker-owner solidarity of the kind envisaged by Park was never achieved, yet emphasis on education and well-functioning TVET system made workers better skilled and productive, and suitable for the requirements of industrial development. Focus on skill formation have been doubly beneficial for Korea, on the one hand it made sure that firms always have a workforce suitable for their requirements and on the other it made sure that workers get a wage higher enough so that they do not feel exploited. Azizur Rahman Khan (1994) notes that, “the twin elements behind the success story are the rapid and steady rise in real wages and a rise in labour productivity at a rate higher than that in real wage.”

Today, technical and vocational education training in Korea have widely been credited for effectively supporting the rapid economic growth in the last 40 years (UNESCO, 2018). The reason why the Korean government focused on the skill formation is that they learned a very important lesson right in the beginning of their transition that human resource is necessary to bring foreign investment. The development strategy of the country was based on two premises, first, the core areas to be developed were identified and second, the trained workforce required for them were accessed; when the government found it insufficient it started training involving the employers also along with the government (Ra & Shim, 2009). It is a fact that the Republic of Korea enjoyed many benefits which were not available to other countries, but it will not be wrong to argue that Korea emerged a winner because of its strong human capital, an advantage Republic of Korea maintained for several decades as it was the compulsory school system – first of elementary level in the 1950s and 60s, later including middle and higher level also – which made Korean workforce better suited to industrial tasks than the population of many other countries. The education provided the supporting ecosystem required for economic development. The Confucian cultural tradition’s belief in education system helped in creating a well-educated workforce (Yusuf, 2015). The US decided to locate industries and develop the Republic, in return it offered the US firms not just cheap but more productive labour. In the early 1960s, the labour cost saving of the US firms moving to Korea was a factor of 25 – “since workers were paid one-tenth of the American wages but were 2.5 times as productive” (Cumings, 2005). The Workforce was completely suitable for the time. The lesson that a successful transition needs a suitable workforce, Republic of Korea learned in its very early periods when it felt shortage of skilled manpower in the 1960s and in the early 70s, and the government had to come into action and undertake measures for compelling the enterprises to contribute to training. Since then, throughout the process of transition Republic of Korea’s government ensured that there is a workforce suitable for the jobs that are going to be created.

### **3. Economic reforms and vocational training**

Republic of Korea's success in the 1960s was a classic case of what Michel Porter calls as the factor-driven stage of economic development (Porter, 1990). During the first two Five-Year Plans (1961-1971), investment came to Korea because of its abundant supply of semi-skilled labour ready to work on a lower wage. It was the education system and people's strong desire to have at least a primary education that helped Korea to be fully prepared for the opportunities of that time. At that time vocational education was not much needed and so was not widespread. But, as we have noted above, Korean policy makers were early to realize the role of vocational training and compelled the firms to participate in the process of skill formation. They analyzed both demands and accordingly planned for ensuring the required supply. The Korean skill development system was created in such a manner that it was flexible also in nature. The foresight played an important role during what we call in Michel Porter's conception "investment-driven stage". Porter defines this stage as a stage in which "national competitive advantage is based on the willingness and ability of a nation and its firms to invest aggressively" (Porter, 1990). Korea entered this phase in the 1970s and then rapidly moving passed it during 1990s. In terms of plan period, Korea entered in investment-driven stage during the third Five-Year Plan period and passed with the end of the sixth Five-Year Plan period.

During this period the Korean industrial structure changed rapidly. The employment share of primary activities (agriculture, forestry, and fishing, mining) fell from 63.1 percent in 1963 to 18.3 percent in 1990. The employment share of manufacturing that was just 8.7 percent in 1963 reduced to 27.3 percent in 1990. This happened because of the continuous restructuring – from light labour-intensive industries in the 1960s to heavy and chemical industries in 1970s and 1980s. The remarkable feature of the Korean growth story is that it never created neither a widespread unemployment nor the shortage of skilled labour. This was achieved because of the well-functioning TVET system that was in coherence with economic development. It ensured that there was neither undersupply nor oversupply of skilled labour.

#### **3.1 Development of the TVET system during the 1960s to 1980s**

In the 1960s when the transition started industries needed workers with general ability, literacy, and adaptability to the factory rules. These traits do not require any special training, the formal education system was enough to provide the same. Already in 1949, the Basic Education Law had been passed and in 1962 the elementary and middle school education was made mandatory. So, the need for having a vocational training system was not felt immediately. But the need was realized soon, and in 1967 it was the government that took the initiative and Vocational Training Law was enacted; a year later in 1968, the Central Vocational Training Institution was established with the assistance of



the United Nations Development Programme (UNDP) and International Labour Organization (ILO). The Act of 1967 helped in increasing the skilled workforce with two-pronged strategy— through public vocational system and in-plant training system. As in the initial period the private sector was not interested, so government took responsibility for providing vocational training. Although it was very clear that the government was envisaging an important role of the private sector in this regard as it also provided subsidies to private enterprises to cover part of the expenses for training their own manpower within firms. It was meant to promote in-service training. Subsidy worked, and the number of private firms conducting in-plant vocational training increased from 20 in 1968 to 50 in 1970— 2.5 times in just two years. But it seems that the numbers grew not because the enterprises wanted to undertake in-service training but because of the subsidy received from the government. When the subsidy was suspended in 1971, in-plant training programmes suddenly fell (Bai & Cho, 1994).

The importance of training was actually understood during the third Five-Year Plan period of 1972-77. During the period, strategic industry changed from a labour-intensive and export-oriented one to a technology-intensive one.<sup>5</sup> Size of the companies also grew. These large firms were in heavy and chemical industries (Chung, 2013). The National Technical Qualification Act came in 1973 with an intent to manage skill qualifications which were handled by individual government departments (KRIVET, 2013). A workforce shortage was clearly visible and responding to this situation the government in the mid-1970s introduced compulsory workers training and a training levy system. The system required that the firms employing persons above a certain number will have to conduct either training or will have to pay a levy. The threshold number fixed were 300, and it required the firms employing persons more than that will have to train at least 15 percent of their full-time workers. In case the firms failed to meet the requirement, there were fines. Because firms were reluctant to do so and after the reluctance continued for some period, they showed stiff resistance; but the government was determined. The money was used to support various training projects. The size of enterprises required to provide workers training changed several times, from firms with 500 workers in 1975 to those with 300 workers in 1977, 200 workers in 1989, 150 workers in 1992, to 1,000 workers in 1995. The ratio was also relaxed (Ra, Chin & Liu, 2015). In 1973, National Technical Certification Law was also enacted, this was based on the German dual system model. The German dual system combines both theoretical as well practical elements-- a person attends vocational schools once or twice a week or several weeks where they get theoretical knowledge while rest of the time they work and acquire practical knowledge.<sup>6</sup>

5 In 1970s, Korea identified iron and steel, non-ferrous metals, machinery, shipbuilding, electronics, and chemicals as the six strategic industries.

6 Dual vocational training system ([make-it-in-germany.com](http://make-it-in-germany.com))

As we have noted, at that time the firms were not interested and as a result the government started compelling in-plant training. It enacted the Special Measures Law for Vocational Training in 1974. The law required private enterprises to train at least 15 percent of their workers every year. As a result of all these efforts, companies conducting in-house vocational training increased tremendously. In 1974, there were only 30 firms conducting in-house training and two years later in 1976, the number increased almost sixteen times -- 476 firms were providing in-house training. The number of trainees also increased from 12,000 in 1974 to 96,800 in 1976. Before the starting of the Fourth Five-year Plan as part of preparation in 1976 Basic Vocational Training Act was enacted. This Act combined the Vocational Training Act of 1967 and the Vocational Training Special Measure Act of 1974. In 1976, the Vocational Training Promotion Fund Act was enacted under which the government levy from those firms were collected from those companies where in-house training were not provided (Abhijeet, 2020). Although more than 60 percent of the companies conducted in-house vocational training, however those with weak capacity, preferred to pay the levy rather than conduct training. Another point that needs to be noted here is the number of firms that provided in-house training and its relation with the business cycle. It has been often in correlation with the business cycle and the number of trainees per year also kept varying. This mandatory in-house vocational training was replaced in the mid-1990s, by the inclusion of vocational training as part of the skills development programme of employment insurance (Ra, Chin & Liu, 2015).

Taking another important step in the direction of vocational training, the Basic Law for Vocational Training was enacted in 1976. The new law unified both the Vocational Training Law and the Special Measures Law for Vocational Training. Under the new law, firms engaged in manufacturing, construction, mining, warehousing, communication, transportation, and utility above a certain size was to give basic skill training to their employees. Since 1976, the in-plant vocational training become the principal type of skill training. The mandatory numbers called training coefficient in Korea were to be determined by the Ministry of Labour (Bai & Cho, 1994). As we have noted, employers were not willing and soon, they found an escape route– they started giving poor quality training. So, the system was changed and now instead of a number of person to train they were told to spend a certain percentage of wage bills on the training. In 1977, the firms were given offer to providing either in-plant training or the payment of levy. This offer got a different response from different industries– the firms who were in light-industries preferred paying levy, whereas the heavy industries were relatively more willing for in-plant training (Bai & Cho, 1994).

Along with the above steps, a number of institutions was also established during the period. During the decade of 1970s, the central vocational training centre was established in 1972. The centre played an important role in nurturing

training teachers. Kum-Oh Technical High School was one of the most prominent technical schools established by the government. It was a “centre of excellence”—one of the best in entire Asia in 1970s. In the next decade, i.e., in the 1980s, the Korea Vocational Training and Management (currently, Human Resources Development Service of Korea) was established in 1982 to integrate public vocational training facilities which used to be run individually, and the Vocational Training Centre for Women and Vocational Training Centre for People with Disabilities in Ilsan were established to provide more opportunities of vocational training for those who are socially disadvantaged (Ra, 2013).

Skill development has been consistent in the Republic of Korea’s policy for economic development, even after transforming itself from a developing country in the 1960s to a developed one in the 1990s, its efforts for skill development has not decreased. After the financial crisis of 1997, focus has been shifted to using skill development for poverty and inequality reduction. The programmes have even targeted the disadvantaged groups like the unemployed, employees of small and medium enterprises, women, etc. (Ra & Shim, 2009).

#### 4. Conclusion

Republic of Korea’s experience shows that it was not the *lassiez-faire* that drove the country’s economic development process, rather a coherent educational and industrial policy that helped in bringing this miraculous transformation which is often referred to as the ‘Miracle on hanging river’. It also shows that disciplining the capital is necessary, but it is also important to work on improving the skill component of the workforce for increasing their productivity which leads to an increase in the nation’s productivity, which is just a cumulative productivity of every worker. The TVET system has been a propelling factor in the Republic of Korea’s developmental story—it provides other developing countries with information on managing the vocational education and making an industrial policy that complements it.

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