

# **The Socio-Economic Transformation of South Korea: Can It Serve as a Model for Vietnam?**

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## **Contents**

- I. Introduction
- II. The Stagnation of International Trade in Vietnam Rapid Growth
- III. Post-Colonial Policies on International Trade until 1975
- IV. Remaining State Supervision after 1975 Political Economy
- V. Some Changes After Doi Moi
- VI. Can Korea Serve as a Model? or Should Vietnam Just Learn from It?

Si l'on quitte le domaine de l'économique, de la technique, pour celui des civilisations, si l'on rêve à ces insidieuses, presque invisibles fêlures qui, en un siècle ou deux, deviennent de profondes cassures au delà desquelles tout change de la vie et de la morale des hommes, si l'on rêve à ces prestigieuses révolutions intérieures, alors l'horizon, lent à se dégager, s'élargit et se complique avec plus d'intensité encore (Braudel 1969, 29).

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## I . Introduction

Cultural inheritance survives most times changes in economic and political structures, how drastic they might be. While political changes come often suddenly and present themselves as events to us, change of economic structures takes often decades. Although economics is represented nowadays to the public as the rapid movements on the stock exchanges all over the world, the real economy does not follow the same 'dynamics' of the global stock markets.<sup>1)</sup> Economic structures are changing at a slower pace than political partly because they are determined by and embedded in routines of human behavior which are rooted in a particular culture.

In search of socio-economic transformations, historical dimensions of a civilization should be studied in order to put everyday events and the socio-economic dynamics of the middle range periods in a right perspective. Or, more broadly speaking, the cultural inheritance has to be taken into account in order to establish a scientific base for the study of dynamics and stagnation in societies. The development of scenarios for the future developments can only be made when their composers have sufficient knowledge about the past. Unfortunately the past has been treated often as historical relics which might have exercised in the earlier days but are not valid any more in modern times. The negation of the inheritance of the past has led many scholars to make projections of future developments which did not materialize. So-called 'objective laws' have been constructed and applied on societies to explain their present state and predict their future. All those theories based on the assumption that mankind could transform their

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1) The difference between the two is already demonstrated by the fact that the average daily traded value on stock markets surpasses the total yearly value of international global trade.

societies to their own ideal failed painfully.<sup>2)</sup> Where does that leaves us in explaining changes in societies? Do we have to start from zero whenever we want to explain developments in a society and should every comparison from the start be doomed to failure? In that case the question posed in the title of this paper will get a negative answer and we can start to concentrate on other things. I would also deny the validity of the comparison made by one of the greatest Vietnamese historians and diplomats, Le Quy Don. He accredited by the Vietnamese court as a diplomat at the second half of the eighteenth century to the Chinese court. During his stay he met frequently with his Korean colleagues and received much information about the political system of Korea. In one of his books, Le Quy Don praised Korea because it had such a stable political system with a royal family that ruled the country already for over five centuries. He not only compared it with the chaos in his own country where a civil war was continuing for over a century, but also with China with its rather unstable system and its rapid succession of dynasties.

But in this paper, the question whether Korea can serve as a model for Vietnam will be approached from a different angle. Before the Korean rapid economic development in the past forty years will be looked at, there will be made a historical analysis on the question which role international trade, a vital issue in Korea's recent economic development, played in the Vietnamese economy and society.

The question whether there is a Korean model or not will be dealt with in

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2) Modernization theorists, communists, and dependentia theorists assumed all that men could, with some minor variations, change society in a by them wished and predicted direction. The longer they stayed in power to accomplish their program, the more dramatic the results. We only have to remember the Soviet Union under Stalin, China under Mao, the unbelievable statements of Andre Gunder Frank, Samir Amin and Immanuel Wallerstein in favor of the Pol Pot regime in 1983, or South Vietnam at the time Walt Rostow could use the country as a try-out for his 'stages of growth' theory.

the second part of the paper. Finally, the research will be directed to the question to what extent Vietnam can learn from Korea's experiences in the past and the present.

## II. The Stagnation of International Trade in Vietnam

Slow progress has been made to link Vietnamese traders with international trading networks since the party congress decided in 1986 to open up the country. The state of the Vietnamese economy appears to be rather gloomy despite the rosy picture of its development presented by many analysts. Rhetoric, a rather good functioning public relations machinery and the belief in "the working of the market" made people think that the Vietnamese economy could develop successfully like that of the surrounding countries.<sup>3)</sup>

The crisis has also affected Vietnam. Foreign investment has slow down and in some sectors we witness a de-investment. As one of the reasons<sup>4)</sup> to

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3) We know by now that the successes of the economic development of South Korea, Thailand, Malaysia and Indonesia has been exaggerated. The negative effects of their development strategies are demonstrated during the present crisis. 'Market imperfections', often mentioned and blamed for the sharp economic decline, should be corrected. Apart from structural reforms prescribed by international monetary agencies, the countries in crisis could immediately turn to increase their exports to combat the effects of the crisis. Due to the sharp devaluations of local currencies prices of locally produced goods would be more competitive on the world market. This line of reasoning proved to be wrong in some cases. In Indonesia for example the shortage of short run credits due to the closure of many local banks forced many medium and small scale enterprises to close down. Raw materials and salaries could not be paid for. The wrong predictions of international monetary agencies on this matter are a clear example of their lack of fine tuning in the measures to be taken to combat the crisis and their incompetence to propose real solutions.

4) There are many other reasons which are not connected with the Asian crisis but typically connected with internal Vietnamese socio-economic and political structures which caused the slow-down in foreign investments in the country.

pull out of Vietnam investors mention the lack of competitiveness due to the strong over-valued đồng.<sup>5)</sup>

Implicitly most economists and investment experts suggest that with some technical measures and the use of certain economic instruments Vietnam could become more competitive and exports could increase sharply. The real question we have to pose is whether there exists a sufficient base in Vietnam to export themselves out of the economic decline or not. To answer this question, we first have to look for the historical development of Vietnam's international trade.

## **1. Early Development of International Trade in Vietnam**

In the early beginnings of Vietnamese foreign trade has been connected with and controlled by China. The development of Chinese overseas foreign trade began in the first and second century B.C. by establishing a port in present northern Vietnam. At that time this area had been occupied by China and was known as 'Chiao-chi'. At that time Chinese traders had been attracted not so much by Vietnam as a potential trading area because it did not produce substantial quantities of marketable products. It was just the geographical position of Vietnam which made it of interest for international trade.

With the growth of intra-Asian trade, the importance of Vietnam for the regional economies increased. It were mainly Chinese traders settled in Vietnam who took advantage of the development of the Vietnamese trade.

After the establishment of the power of the Yuan dynasty over the coastal areas of Southeast China in 1277, international trade from China to

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5) The đồng has been devalued by some 5% but this does not reflect any 'real' value because it has a by the central bank fixed rate to the American dollar just like the Chinese renminbi.

Southeast, South Asia and the West increased rapidly. In the development of the Chinese network of international trade with these areas, Vietnam played at that stage the role of a stepping stone.

But in the course of time, their activities were linked up with those of their countrymen who fled the south of China. Many Chinese immigrated from South China where the economic conditions were not as favorable as in Vietnam. Stiff taxation and restrictive policies on business activities imposed by the government, political instability in their homeland and frequently hitting calamities such as natural disasters, famine and epidemics were among the chief motives to migrate southwards to the north and center of Vietnam.

In the very beginning the Chinese were mainly engaged with the inter-regional trade within the country. With the development of the economy, the quantity of marketable goods increased and the need was felt to spread activities beyond the borders.

In the initial phase, Chinese traders enjoyed already special privileges granted to them by the central government. They received licences to move freely from region to region to trade. By decree, the central government prohibited Vietnamese traders to move beyond certain limits so they were confined to trade within their own region. The Vietnamese traders were not in the position to develop inter-regional trading networks. For that reason, their activities had to remain rather modest.

At the time Vietnam reached the stage in its economic development which allowed the country to engage itself in the international trade, only Chinese traders had the knowledge and the networks within the country and with the outside world to perform successfully in international trade. Another reason why Vietnamese traders could not turn to international trade was the governments' refusal to give them the necessary permission to be engaged in such activities. Only Chinese received licences for international trade and

some other foreigners coming from outside were allowed to trade but only directly with the state or in special places with their Chinese colleagues. These practices from the central government cut these Vietnamese who wanted to do business on an international scale off from international trade.

At that stage a clear economic segregation between Vietnamese and Chinese took place in Vietnam: the Vietnamese could not put their money in international trade and were confined to invest in land while the Chinese in Vietnam were not allowed to buy land as an investment and had to turn to (international) trade as the only asset to put their money into.<sup>6)</sup>

## **2. Imposed Inflexibilities**

In the eighteenth century, it seemed the Vietnamese authorities in the north and the south relaxed their policies on trade. Bad economic conditions in the first half of the century forced them to change stiff taxation regulations and lift some of the restrictions on trading activities.

But the more liberal policies were not only temporarily introduced to cope with a serious economic decline. During the second half of the eighteenth century, the economic improved a bit and in reaction to that the authorities reversed their cautiously introduced liberalization on the economic activities of their subjects. The newly introduced restrictions actually bared the Vietnamese from most of the inter-regional and all international trading activities.

The Chinese continued to specialize in those economic activities which the Vietnamese had been prohibited to engage in.<sup>7)</sup> They could enlarge their

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6) It is a myth that the Vietnamese merely wanted to invest in land and that the Chinese in Vietnam engaged themselves freely in trade. It was not an arbitrary decision on both sides which caused this kind of economic segregation but forced upon them by the Vietnamese authorities.

economic base in the country by the (unintended) help of the central government.

Under the Nguyễn dynasty, the government continued its policies on international trade. But there was an important shift in the composition of the (Chinese) international trade of Vietnam in the nineteenth century. Until the 1850s, agricultural products and specially rice had been a subsistence crop with small or nonexistent surpluses. We witness many failed attempts in the first half of the nineteenth century to start rice export. The rising demand at home and the fear of famine (and riots or even upheavals resulting from that) forced the central government to issue decrees which prohibited the export on rice. Infringements of the decrees led to severe punishments.

These policies were not unique for Vietnam. At the same time, the Burmese and Siamese governments pursued similar policies concerning the ban on the export of rice. All this changed when Western powers entered mainland Southeast Asia and turned rice in the major export product of the region during the second half of the nineteenth century.

### **3. French Colonialism and International Trade**

In the 1850s, French started to occupy the six southern provinces of Vietnam which they called Cochin China. In 1859, Saigon was seized and by 1867 the whole of the underpopulated lower Mekong River basin was

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7) Beside international trade Chinese played a dominant role in the growing mining activities in the northern part of the country. Most of the mining concessions were granted to Chinese entrepreneurs. Minorities of the region and state ran mining companies were often closed down shortly after opening due to a lack of technical and management skills and insufficient capital input. The Chinese were faced with those problems to a lesser extent and the south of China provided a near by easy accessible consumers' market for their products.



under French influence. Saigon started to be the administrative centre and the main trading post for the French.

During the same period, a similar process took place in Burma where the British occupied the Irrawaddy delta and opened up Rangoon for British trade. Siam was also forced to allow the British commercial interest to operate in the country after the signing of the Browning treaty although the country never came under formal colonial rule as in the case of Burma and Vietnam.

With the 'opening up' of these countries, rice became within a few years their main export product. The implications for the peasants in these countries was far-reaching: they changed from subsistence farming into producers for the international market and most of them were forced to move from densely populated areas in order to settle on relatively empty 'frontier land'. A complete new infrastructure had to be built to protect their settlements and land from flooding and to make it accessible for transportation of the rice to the nearest harbour. They often had to start with clearing swamps or other kinds of wastelands which in the best scenario gave them a first reasonable harvest after three or four years. And last but not least the peasants moving to these frontier areas were directly subjugated to the interests from concessionaries, merchants and in the case of Vietnam and Burma indigenous elites who collaborated with the colonizers. Heavy taxation forced small farmers to comply with the wishes from their new masters: to grow certain crops for the (world) market and to extend the area under cultivation continuously.

Not surprisingly, rice became the major export crop from Burma, Siam and Cochin China within a decade. During the first half of the nineteenth century the demand for rice was growing fast but the rulers in mainland Southeast Asia opposed export of this crop. Changes in the ruling elites made it possible to start with cash cropping. Within forty years, the rice

export from these three countries grew with over 500% to over four million tons a year of which Burma's share in the total rice export fluctuated between some 57 and 64%, Siam's between 18 and 23% and Vietnam's between 19 and 22%(Owen 1971, 87). According to Owen over two-thirds of the total export value of mainland Southeast Asia came from rice and over 50% of the crop was sold abroad(Owen 1971, 92).<sup>8)</sup>

But there are some differences between the three countries when we look at the groups involved in the international rice trade. While the British in Burma managed to dominate the manufacturing process (rice milling) and the trading companies because they were the only one with enough capital at their disposal to finance the steam-powered rice mills, it were Chinese entrepreneurs in Siam and Cochin China who could provide the capital for building warehouses, milling, transportation, insurances, advancing credit to cultivators, and who could rely on the already existing networks. French companies never succeeded to play a predominant role in the rice trade.<sup>9)</sup> Also the brokers who had to take care of purchase, the storage and the transportation were almost exclusively Chinese.<sup>10)</sup> It were also mostly Chinese in Cochin China who provided short term credits to cultivators to tie them up in their network.

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8) Both figures seem to be overestimated. For Burma and Vietnam the income of opium trade was never clearly mentioned in the trade statistics although they represented a fairly big share of the total export income. And the export of rice from Indochina never rose over the 50% of the total production. This might have been the case in some year4s for Cochin China only.

9) The dominant position of the Chinese (traditionally Hakkas and Hokkiens) in rice milling in Cochin China is best demonstrated when we look at the ownership of large rice mills: in 1914 all the rice mills with a capacity of over 300 ton per day were owned by Chinese. This figure is illustrative for the whole of Vietnam because the export of rice from Vietnam comes for over 95% from Cochin China. Due to the regional scarcity of rice, the colonial government restricted and even prohibited the export of rice from Annam and Tonkin for some years notwithstanding the complaints from French traders in Indochina.

10) The rice traders needed a secure supply to the mills and arranged a network of brokers because the peasants could not guarantee regular deliveries in time.

These sectors of international trade from Indochina where the Chinese were not engaged in were mostly dominated by Frenchmen. The colonial administration with its monopolistic economic policies did not allow the Vietnamese to play a role in commercial exchanges with the outside world.

Therefore, we can conclude that there was great continuity in governmental attitudes of successive pre-colonial and colonial governments concerning Vietnamese participation in international trade. In such circumstances a Vietnamese business community focused on international trade was slow to emerge, and slower to develop.

### **III. Post-Colonial Policies on International Trade until 1975**

During the Japanese occupation of Indochina Vietnamese entrepreneurs could not be engaged in international trade because the economy of Vietnam was completely directed toward the Japanese needs as far as international contacts were concerned and there were no Vietnamese companies who could in one or another way fit in. Japan used the country first of all for its military purposes.<sup>11)</sup> In the economic sense, it would play an important role in the Greater East Asia Co-Prosperity Sphere. Japan plundered not only raw materials such as coal and rubber but took also large quantities of rice. Japan “granted” Vietnam an important place in their food-procurement policy. With the exception of 1944 when transport of rice from Southeast Asia became difficult and Korea became again the main “supplier” of rice for Japan, the Japanese exported during the war most of their rice from

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11) The north of Vietnam was an important supply route for their armies in the South of China, an area where they faced continuous resistance.

Vietnam.<sup>12)</sup>

The ten years after 1945 Vietnam had to fight an anti-colonial war which absorbed all energy of the country and its people and did not leave much room for fresh economic initiatives. With the temporarily division of Vietnam, the two different parts 'chose' to some extent very different directions.

In the South, the United States was not only militarily but also economically deeply involved in the reshaping of that part of Vietnam. Although a 'master plan'<sup>13)</sup> had been presented to turn the South in stages into a full-fledged highly developed capitalist society, the reality left no room but for negative conclusions after a quarter century American involvement. The 'society at war' had been turned from one of the largest rice exporters in the world into a country which depended for its food on (American) imports.

The internal rice trade remained largely in the hands of the Chinese networks but most of the peasants had been uprooted by the American policies which created cities over-populated with peasants driven from their land.<sup>14)</sup> During the American presence international trade declined and the

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12) Another reason for the change in trading pattern was that the Japanese took so much rice from the North of Vietnam in 1943 that it caused one of the gravest famines in the twentieth century. About two million Vietnamese out of a total population of eight million in the northern Tonkin delta died from starvation. For figures of the Japanese rice imports from Asian countries during the war, see Yukichika Tabuchi(1992, 99).

13) The American economist W. Rostow presented the first draft of his Stages of Economic Growth in the mid 1950s. According to Rostow's model so-called underdeveloped countries could develop in five stages to highly industrialized states. The main background for his model can be easily found in the subtitle of the first presentation of Rostow's model: An Anti-Communist Manifesto. Under the administrations of Kennedy and Johnson, Rostow became the chief American adviser on the development of the South Vietnamese economy.

14) The policy to create 'strategic hamlets' and to force peasants either to move into them or to create a new life in cities in order to control the population was most devastating for the economy of the south of Vietnam.

Vietnamese were more 'educated' to become wheeler-dealers than to engage in international trade.

In the northern part of the country, international trade became an almost complete state monopoly. In 1956, the government of the Democratic Republic of Vietnam started to establish joint State-private import and export companies which handled in 1958, 99% of the total trade value. These joint State-private trading companies were set up on a sectoral base. Most of the exports went to socialist countries, part of it as a payment for aid and on a non-commercial base. Although the socialist countries remained the main trading partners, exchanges with non-socialist countries expanded but never reached more than 30% of the total value. It consisted mainly of mining products (mostly coal), agricultural, forestry and fishery products. International trade from the DRV suffered greatly when the war dragged along and no expertise and skills in international trade had been developed among individual Vietnamese.

#### **IV. Remaining State Supervision after 1975**

Not surprisingly Vietnam had to rely after the war ended in 1975 on the two traditional actors in international trade: the State and the Chinese. As far as the trade in agricultural products was concerned, they continued their more or less symbiotic relationship: the State who (had to) allow the Chinese to trade internationally through their still existing networks within the country as well as abroad, and the Chinese business elite who (had to) comply to certain regulations and restrictions imposed on them by the State.

For a large part, the network of rice trade within the country as well as the export remained in the hands of Chinese businessmen although the government tried to break the power of Chinese traders. But their

management skills and their superiority in handling commercial dealings made the Chinese indispensable for the government. They were the only available group to help the government in its attempts to regulate the rice trade.

The position granted to Chinese traders in a united Vietnam might be surprising when we look at the relationship of the Vietnamese government with China during the first 15 years after the re-unification. But looking back to the history of Vietnam might give us a clue.

Next to the Chinese, the Vietnamese government was hopeless tied with the COMECON. The membership of COMECON seemed to be helpful for Vietnam in the period just after the war. Vietnam did not the aid from Western countries it expected.<sup>15)</sup> The economy of Vietnam had been tied up with the COMECON for over a decade and that left its marks on the Vietnamese practices of international trade. The COMECON granted Vietnam long-term development loans at low interest rates. But most of the development went on the conditions set by the COMECON. That meant for the development of international trade that most of Vietnam's trade did not take place under free market conditions. The lack on capital and hard currency forced the Vietnamese government to comply to special arrangements made within the COMECON. Most of the trade between Vietnam and other COMECON-countries consisted of barter. Vietnam exchanged agricultural products such as rubber and tropical fruits for machinery, chemicals and fertilizers.

Outside the COMECON, Vietnam traded during the first decade after the

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15) Specially the total boycott from the United States came as a surprise for the Vietnamese government. The Vietnamese had expected at least to cash the three billion US dollars promised to them by the American government in January 1973 after the signing of the Paris Peace Accords. Only some European countries like Sweden and the Netherlands provided substantial development aid. But during the first decade after the war, Vietnam has not been a particular attractive trading partner for Western business.

war mainly with Japan, India, Australia and some European countries.<sup>16)</sup> The international trade remained almost exclusively in the hands of the state and Chinese business networks. Vietnamese citizens looking for opportunities to engage on a private base in international trade found themselves so much restricted by the state that their attempts have to fail.

One of the main reasons for the continuing control of international trade relations from Vietnam by the state can be found in the tradition. Vietnamese did not allow Vietnamese to engage in activities with foreigners because the successive governments liked to control the activities of their subjects. Vested elites derived their (economic) power from agriculture, specially from the possession of land. The power constellation within the state could be seriously undermined by a group which could enrich themselves through non-agricultural activities and get economic power far beyond that of the ruling elite. In the long run, such a development could endanger the political power of the ruling elite. After the war, it turned out that the Communist Party continued the traditional practices of former elites as far as international trade is concerned.

## **V. Some Changes After Doi Moi**

The Sixth Party Congress of the Vietnamese Communist Party, held in November 1986, took a number of decisions to break the deadlock situation of the country's economy. Until that date, the old leadership which made the revolution had stucked to its power. At the Congress, stagnation in the while

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16) Even in trade with Western countries the Vietnamese tried to engage in barter trade. For example one of the biggest contracts was signed in the early 1980s with the Belgian Farmers Association to barter anthracite from the northern Hong Gai mines for Belgian locomotives.

society has been directly linked with their presence. A political report stated that “the delay in correctly effecting a transition in the nucleus of leadership was a direct cause of the inadequacy of party leadership in recent years in meeting the requirements of the new situation.”<sup>17)</sup> Ever since Vietnam witness a continuing struggle between reformists and orthodox politicians about the socio-economic course of the country. This struggle combined with the Vietnamese attitude that there should be reached a consensus among the ruling elites, makes the reforms which has been introduced since 1986 half-hearted.<sup>18)</sup>

Despite the ambiguity of the measures taken by the Vietnamese government since they adopted Doi Moi(Renovation) as their new reform policy, Vietnam has to some extent been integrated in the global economy during the past thirteen years. The best indicators for the advancement of this process has been the rapid increase in the volume of its international trade and the success of Vietnam to attract substantial amounts of external resources, especially foreign direct investment.

The opening up of the country’s economy provided for the first time some opportunities for Vietnamese to engage in international trade. The data on Vietnam’s international trade show a tremendous growth over the period 1985-1995 at an annual average of 222.3 per cent. Although this cannot be totally attributed to Vietnamese citizens who got opportunities to start international trading firms, they certainly contributed to it.

At the same time, Vietnamese as well as foreigners became aware that the knowledge gap of potential traders was enormous. The often had no idea

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17) Political report of the Central Committee to the Sixth National Congress, p. 42, quoted by Porter(1993, 109).

18) A good example is the Plenum which convened in January 1999. Agreement on a number of issues could not be reached and they decided therefore not to take any decision on problems that need to be solved. There was one exception: they all agreed to combat corruption with more rigor, a decision already made several times during the past years.



how the global trading system functions and they lack still management experience.

Another factor which prevented many potential international traders was the traditional mentality of local and regional elites. Party cadres often killed initiatives by their bureaucratic interventions.

## **VI. Can Korea Serve as a Model? or Should Vietnam Just Learn from It?**

Until recent events in South Korea, that country was a focus for many Vietnamese whenever they discussed the economic development of their country. Korea was considered as a model according to which many Vietnamese hoped they could built up a prosperous economy.<sup>19)</sup>

For many reasons, South Korea has never been a model and cannot serve as a model for other (Asian) countries who wish to develop their economy. The conditions under which South Korea has been allowed by the United States to develop are directly related to the political setting of the Cold War. We must be aware that South Korea functioned in the first stage of its economic development as a frontier in America's Cold War strategy. South Korea benefitted from the large amounts of aid, military as well as civil, and it benefitted from the Vietnam War as Japan benefitted from the Korean War for its economic recovery.<sup>20)</sup> All the favorable conditions and privileges

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19) The model function of South Korea's economic development lost its attractiveness for many people in Asia and the rest of the world after the present crisis.

20) Beside of the delivery of some goods, South Korea received over three billion US dollar for the stationing of the South Korean 'Tiger Brigade' in South Vietnam. For a parallel to the role of the Korean War in the early post-war recovery of Japan and that of the Vietnam war to South Korea, see B. Cummings, 'The origins and Development of the North Asian Political Economy: Industrial sectors, product cycles, and political consequences.' in *International Organization* 38(1).

granted to South Korea to develop in order to contrast its splendid economic performance with the dreadful economic stagnation in communist North Korea will never be granted to other countries because there is no political and ideological need for it.

But there is an other aspect in the development of South Korea which is of interest when we study its economic progress. Confucian oriented societies are always portrayed as having a strong contempt for trade. Traders are considered to possess a lower status in society than peasants. That has been suggested to be one of the reasons why Vietnamese would have been less eager to engage in trading activities in general, and why international trade has not been popular among Vietnamese.

Historical evidence from Korea shows that we have to question this particular influence of Confucianism. Of all Asian societies, the Korean had been deepest influenced by Confucian thought. Confucianism plays a predominant role in Korean culture and society until the present day. Nevertheless Korean international trading companies have developed over centuries with success and played an important role in the economic development of South Korea after its establishment in 1948. According to Ennin's *Travels in T'ang China*, merchants of the Near East did not go over land to the Far East. According to Ennin "[they] went no farther east or north than Yangchou, and at this point Koreans took over for the last leg of the trade to eastern-most corners of the known world(Reischauer 1955, 276)." From Ennin's report we can read: "it seems that commerce between East China, Korea, and Japan was for the most part in the hands of men from Silla(Reischauer 1955, 276)." Communities of Korean traders on the Chinese coast, according to Ennin, even enjoyed extraterritorial privileges(Reischauer 1955, 284).

Koreans remained active in international trade and some of them have been even partners in trading business with the Japanese during the colonial

period which lasted until 1945.

In contrast with the French who succeeded to keep Vietnamese out of international trade, Korean traders strengthened their international trade activities despite the fact that the Japanese were also monopolistic in their policies with regard to their colonial possessions.<sup>21)</sup> The Korean War has certainly caused havoc on the peninsula and destroyed most of the infrastructure. But it has not altered the great intellectual potential and the abilities which had been partly developed before the war and received good chances after the phase of recovery of the country.

The recovery phase of South Korea has been presented to other countries as a successful model of development. Beside the special circumstances which has been mentioned above, South Korea's recovery has been enabled by a special type of political regime. The system set up by Park Chung Hee in 1961 produced incentives to the economic development which has been unique. The state itself has been transformed in that period into a machinery which was completely development oriented. It had the means, the organization and the capacity to achieve the new goals. All forces and energy in society were directed to the clear-cut priorities set by the government. When we compare that development with the present situation in Vietnam, we have to come to the conclusion that none of the conditions are present. The central government has only on paper the power to start a process similar to the one Park Chung Hee set in motion. In reality, the directives of the central government are not well received and followed by the provinces and local authorities.<sup>22)</sup>

A second condition which has not been met in Vietnam is a set of

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21) For a good description of the growth of capitalism and the dynamics of the Korean inner circle of dependent capitalists, see D.I McNamara.

22) The centuries old Vietnamese verb "The laws of the king have to give way to the customs of the village" is still valid in Vietnam at the end of the twentieth century.

comprehensive and realistic ideas to develop the country. The policies are ambiguous and infighting within the Party and the government is one of the reasons of the present poor socio-economic performance. While South Korea has liberalized its economy with great care and is still resisting some (possible negative) aspects of it, the Vietnamese government has accepted most of the policies dictated by the International Monetary Fund without realizing the dramatic consequences.<sup>23)</sup>

Maybe we have to draw the conclusion that South Korea is much more faithful to Adam Smith than the Vietnamese government, when we take his definition of political economy as a guidelines: “To establish the harmony between the pursuit of personal interest and achieving public good.”

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23) The half-hearted reform policies have caused even a lot of distress, as has been demonstrated by an extensive survey of the World Bank, conducted nine years after the introduction of Doi Moi.

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