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ORIGINAL ARTICLE

State–business relations, foreign aid, and development: a comparative study of Ghana and South Korea

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Abstract This study examines aid, state–business relations, and development in Ghana and South Korea. In 1957, when Ghana achieved independence, Ghana and South Korea shared approximately similar levels of GDP per capita. However, while South Korea has successfully transformed itself from a major recipient to a donor country and enjoys advanced economic growth and a high standard of living, Ghana—despite visible growth in recent decades—remains a low-income and aid-dependent country. In this study, focusing on policies that guide state–business relations and their impact on economic development, we examine the extent to which foreign aid played a role in shaping state–business relations and building (or failing to build) public–private development partnerships in South Korea and Ghana. More specifically, we argue that fundamentally in South Korea, through enabling national development policies, state and business worked together to achieve economic development; for Ghana, the local business sector was inadequately integrated as an economic development partner with the state, which explains the less than outstanding performance of various state-led development projects in Ghana in much of the last 50 years. In addition, we argue that in the case of South Korea, aid was used effectively to support and build local business groups, while in Ghana aid has largely failed to boost the private sector, a key factor explaining the divergent paths of aid and development outcomes between the two countries.

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Introduction

This study examines aid, state–business relations, and development in Ghana and South Korea. In 1957, when Ghana achieved independence, Ghana and South Korea shared approximately similar levels of GDP per capita. However, while South Korea achieved accelerated economic development and consolidated its democracy in one generation, Ghana, like many other African countries, lags behind South Korea and other Asian countries whose level of economic development was similar to Ghana's in the 1960s. Thus, while South Korea has successfully transformed itself from a major recipient to a donor country and enjoys advanced economic growth and a high standard of living, Ghana—despite visible growth in recent decades—remains a low-income and aid-dependent country. In this study, we analyze economic and political divergences in Ghana and South Korea with a focus on policies that guide state–business relations and their impact on economic development. In particular, we examine the extent to which foreign aid played a role in shaping state–business relations and building (or failing to build) public–private development partnerships[1] in South Korea and Ghana.

More specifically, we argue that fundamentally in South Korea, through enabling national development policies, state and business worked together to achieve economic development; for Ghana, the local business sector was inadequately integrated as an economic development partner with the state, which explains the less than outstanding performance of various state-led development projects in Ghana in much of the last 50 years. In addition, we argue that in the case of South Korea, aid was used effectively to support and build local business groups, while in Ghana aid has largely failed to boost the private sector, a key factor explaining the divergent paths of aid and development outcomes between the two countries. As an analytical framework and methodology we adopt a historical institutional perspective and explain divergent paths of economic development and aid effectiveness based on in-depth analysis of the nature of the domestic political economies of Ghana and South Korea, with a special focus on state–business relations. Highlighting the political nature of development and foreign aid, we argue that sound political institutions (including effective leadership, sound bureaucracy, and developmental state) and donor intervention in aid management, as well as contextual factors (such as colonial legacy and regional conflict), play a central role in the emergence of state–business partnerships and effective use of aid for private sector and national development.

[1] Throughout this study, we use the term "partnership" interchangeably with "cooperation." During the 2011 Busan High-Level Forum on Aid Effectiveness, international society stressed the importance of "global development partnership" for aid effectiveness and adopted the concept of "inclusive development partnership," further highlighting openness, trust, and mutual respect and learning among various development stakeholders. ("The Busan Partnership Document," downloaded from http://www.oecd.org/dac/effectiveness/49650173.pdf). Recognizing such enhanced awareness of the importance of partnership among various actors for the achievement of development and aid effectiveness, in this study, we use state-business partnership mainly to explain divergent development and aid outcomes in Ghana and South Korea.

Nature of state–business relations in Ghana and South Korea

There have been various theoretical discussions on "development,"[2] including modernization theory, dependency theory, and more contemporary perspectives such as bureaucratic authoritarianism, and neoliberalism.[3] Above all, throughout the 1980s and the 1990s many developing countries, especially in Africa, adopted a neoclassical solution, the so-called "Washington Consensus," mainly through structural adjustment reform packages from the World Bank and the International Monetary Fund (IMF). However, the effectiveness of such neoliberal free market development strategy has been controversial at best, as many of the recipient countries experienced limited economic growth and deterioration in living standards over time. In particular, recognizing a weak private sector as one of the major obstacles to economic development, international donors have increasingly highlighted the importance of cooperation with and development of the local private sector for aid effectiveness and sustainable development of a partner country.[4] For instance, defining developmental states as those states that play a leading role in the economic and industrial transformation of their nations, Peter Evans deploys the concept of "embeddedness," which connects networks of states and private sectors with "autonomy," to explain the key characteristics of a developmental state.[5] Likewise, in her comparative study of four African countries: Ghana, Zambia, South Africa, and Mauritius, Antoinette Handley argues that the existence of "mutually constitutive interactions" between business and state is the key contributing factor for national development.[6] Indeed, the absence of a sound local private sector has been frequently pointed out as one of the fundamental causes of economic troubles in many African countries. In what follows, we further discuss state–business relations in Ghana and South Korea to show that in Ghana a constructive, development-oriented state–business relationship was largely absent, while in Korea, state and business worked together to achieve economic development.

Ghana

Pan-Africanist Kwame Nkrumah led Ghana to political independence in 1957, and led the country until 1966 when his regime was toppled by a military coup. Beginning with the first coup d'état in 1966, as shown in Table 1, Ghana experienced a turbulent political period with frequent military takeovers of government. Such political instability created a situation where ineffective governance and incoherent and unstable economic policies largely became recipes for chronic economic distress. By 1983, the Ghanaian economy had

[2] The term "development" itself is a very controversial concept. Today, a broader definition of development, which includes improvement in the social and political spheres in addition to economic growth, is typically used to measure the level of a country's development. For instance, the United Nations (UN) Human Development Index (HDI) includes life expectancy and education as well as gross national income to measure the level of a country's development.

[3] For further discussion on each of these development theories, see Chap. 1 of Handelman (2013) and Chap. 1 of Hayes (1996), among many.

[4] See for instance, OECD (2006) and (2004), among many.

[5] Evans (1995).

[6] Here, Handley (2008) highlighted the importance of the existence of a sound and independent private sector as a precondition for the emergence of mutually constitutive interactions between the state and business. However, she was rather silent on the issue of how a strong indigenous private sector could emerge in a developing country (like Ghana) in which traditionally, a sound and robust local entrepreneurial class was largely absent.

Table 1 Political and economic regimes of Ghana

Dates	Government	Type	Economic/political position
1957–1966	K. Nkrumah Convention People's Party	Civilian	Socialist with Eastern Bloc orientation; inward-looking; protectionist; high levels of public spending and establishment of state-owned enterprises
1966–1967	A. Afrifa/E. Kotoka National Liberation Council	Military	Renowned socialist orientation, austere, tentative steps toward liberalization; pro Western diplomacy
1969–1972	K. A. Busia Progress Party	Civilian	Market-oriented, stronger moves toward liberalization, attempted large currency devaluation
1972–1978	Gen. K. Acheampong National Redemption Council	Military	Inward-looking; protectionist; renowned devaluation policy of Busia government; socialist; economic independence; anti-Western orientation
1978–1979	Gen. F. W. K. Akuffo Supreme Military Council II	Military	Restoration of diplomatic relations with the West; inward-looking industrialization; protectionist; announced a power transfer to a democratically elected civilian government
1979	Fl. Lt. J. J. Rawlings Armed Forces Revolutionary Council	Military	Revolutionary government (ruled the country for about 4 months); Attempted to restore diplomatic relations with eastern bloc; partial economic reforms but government control over market generally was intensified
1979–1981	H. Limann	Civilian	No real change
1981–1992	Fl. Lt. J. J. Rawlings Provisional National Defence Council	Military	Initially, a tightening of controls but from April 1983, an outward-oriented Economic Recovery Program (ERP); establishment of Divestiture Implementation Committee in 1988 as an outgrowth and integral part of ERP; The Committee was in charge of overseeing and implementing the divestiture/privatization process
1993	Fl. Lt. J. J. Rawlings National Democratic Congress (NDC)	Civilian	Continuation of ERP, privatization and divestiture. No regular opposition in government/parliament
1997	Fl. Lt. J. J. Rawlings NDC	Civilian	Second election year in the 4th Republic; the minority parties participated in the election; continuation of market reform
2001	John Kuffuor NPP	Civilian	Multiparty democracy; continuation of market reform
2005	John Kuffuor NPP	Civilian	Multiparty democracy; continuation of market reform
2009	John Atta Mills	Civilian	Multiparty democracy; continuation of market reform

Source Fosu (2009) and authors

hit rock bottom, and the government, led by Jerry Rawlings, had little choice but to seek help from the international financial institutions (IFIs)—namely, the World Bank and the IMF. Since then, the country has implemented a series of economic reform measures in accordance with donors' advice and conditionality. Indeed, since the introduction of market reforms under the guidance of the IFIs, it appears that the Ghanaian economy has performed consistently better with a sound level of GDP growth rate. Again led by Jerry Rawlings, Ghana underwent constitutional and political transitions that culminated in the 1992 election, which resulted in the election of Rawlings as president for two terms. Since the 1992 transition, Ghana has been widely recognized as one of the liveliest democracies in Africa.

Clearly, while political and economic reforms in Ghana appear to be yielding positive results, various studies prefer to highlight the limitations of those reforms in fundamentally transforming the economic structure of and promoting sustainable development in the country. A careful examination of the data reveals that while some sectors of the economy show progress, overall change in the economic structure of the country remains minimal, as evidenced by the limited growth of the industrial sector. For example, after decades of economic reforms, the main change in the Ghanaian economic structure is an increase in the share of the service sector. According to Darko Kwabena Opoku, Ghana has been "increasingly turned … into a nation of shoppers and storekeepers with very little manufacturing or industrial activity."[7] The share of industry has remained more or less constant throughout the reform periods, accounting for 26.7 and 27.7 % of GDP in 1995 and 2008, respectively.[8] Over time, as the portion of mining and construction within the industrial sector has increased, the share of manufacturing has declined. Moreover, Ghana has failed to diversify its export base, and the country still relies heavily on primary commodities, including cocoa, timber, gold, and other minerals. In particular, despite decades of market reforms—one of the main aims of which was to provide improved incentives for the private sector to be a leading force for growth—a strong domestic entrepreneurial class has failed to emerge in Ghana, largely because patrimonialism continues to play a determinant role in shaping state–business relations. More importantly, we suggest that such clientelistic state–business relations—with a limited (if not destructive) state role in building strong, competitive local companies that add value to the manufacturing process—have been a continuing characteristic of state–business relations in the country in spite of the introduction of structural adjustment programs (SAPs) by several regimes on the advice of the IFIs. In other words, a development partnership between state and business for transformational economic development in Ghana remains weak.

In his seminal work on economic crises in Africa, Nicholas van de Walle argues that poor economic development outcomes across Africa are a combination of rent seeking, low state capacity, and the dominance of ideology over economic efficiency in the policy making process that largely explains the poor performance of African economies led by neopatrimonial regimes.[9] According to van de Walle, African neopatrimonial regimes are characterized by clientelism, access to state resources, the centralization of power, and hybrid regimes (meaning that neopatrimonial states coexist with the formal trappings of the modern state).[10] Power informalization and a blurring of the boundary between public and

[7] Opoku (2010, p. 6).

[8] Kelsall (2013, p. 90).

[9] Van de Walle (2001).

[10] Van de Walle (2001).

private spheres are other important characteristics of neopatrimonialism. From the early years of Nkrumah's government, Ghanaian politics has largely been neopatrimonial in nature. Against this backdrop, the absence of policy transparency led to a state-oriented patronage network and weakened state economic and political structures. Consequently, with formal access to state resources blocked, especially for non-party members, Ghanaian businesspeople generally resorted to informal personal ties in the network as an alternative route to state resources.

The origin of clientelistic state–business relations in contemporary Ghana goes back to the colonial era. Prior to colonization by the British, the territory of Ghana (then Gold Coast) was under the influence of the Asante Empire, which was built on a prosperous trade in gold, ivory, and enslaved persons.[11] However, with the growing influence of British imperial power in Ghana around the mid-1840s when Britain abolished the slave trade, cocoa emerged as the major export item of the region. In fact, unlike the gold and mining sectors that experienced the destruction of local businesses by foreign firms, the cocoa industry was developed primarily by local Ghanaians with little help from the colonial government or foreign investment, presenting an opportunity for the emergence of an indigenous capitalist class within the sector. However, the colonial state eventually nationalized the cocoa industry by establishing a monopolistic marketing board, and in 1939 the board fell under the direct control of the colonial government. For Handley, "This was the single most consequential act for business–government relations" in Ghana, signaling the substitution of political mechanisms (including patronage) for the market as the key channel for resource allocation.[12]

Indeed, the neglect of industrialization, overdependence on the cocoa crop, and the dominance of expatriates in sectors such as mining, banking, and foreign trade, characterized the Ghanaian economic structure during the colonial era. A colonial economy, marked by the exploitation of natural resources to the advantage of colonial powers, was established in Ghana, and more importantly, the colonial state played a leading role in building such an unequal colonial economic structure, relying heavily on exploitative, repressive, discriminatory, and authoritarian measures and policies. In particular, throughout the colonial era, the colonial state did little to develop or encourage an indigenous capitalist class; indeed, it discriminated against local Ghanaian entrepreneurs in favor of European, Indian, and Levantine firms. With this exclusion from various state-managed industrialization programs together with the nationalization of the cocoa industry, few local Ghanaian firms had survived by the end of the 1930s. More importantly, exclusion of local Ghanaian businesses from state-led economic development projects and government inattention to building a robust local private sector continued after Ghana gained political independence.

In March 1957, Ghana achieved independence from Britain, and until 1966 the country was led by Prime Minister Kwame Nkrumah. Representing a new brand of African nationalism, Kwame Nkrumah adopted an economic strategy of reduced economic dependence, accelerated industrialization, and an expanded state role in economic development. More specifically, Nkrumah's administration actively supported a strategy of

[11] In the eighteenth century, the Asante Empire built a powerful, centralized state in the region. However, over time, the empire had become too large and suffered from a weak structure, namely limited capability in controlling provincial regions. Such a fragile state structure in conjunction with the incompetence of the Asante kings and the advancement of the British led to the collapse of the empire. After its defeat in the Yaa Asantewaa War in 1900, the Asante kingdom was decimated.

[12] Handley (2008, p. 147).

state-led industrialization based on import substitution, structural change, and a less open economy.[13] Distrusting market efficiency and a private enterprise solution in allocating resources, Nkrumah adopted socialism as a national ideology on the assumption that state-led rapid industrialization was the key to ending the poverty trap and achieving economic independence.[14] In particular, to achieve swift industrialization, the government directly participated in the production system by creating numerous state-owned enterprises (SOEs) instead of nationalizing or working together with the existing local private companies in Ghana. For instance, proposing that self-sustaining growth could be achieved only through centralized planning, in 1962 the Nkrumah government adopted a 7-year development plan.[15] However, although the plan set development aims, including major increases in the level of investment, accelerated industrialization, and the modernization of agriculture, the plan was never fully and effectively implemented and the participation of local entrepreneurs was very limited. For Tony Killick, the main reasons for non-implementation of the plan were largely political, namely insufficient political will and the absence of a centralized resource management leadership.[16] As Handley wrote, "Kwame Nkrumah and the CCP institutionalized the dominance of the political sphere over the economic, consolidating a neopatrimonial fusion of economic and political elites."[17] In other words, patronage became the dominant rule affecting government investment decisions:

> New projects appeared which had never been envisaged in the Plan but were now being pushed by contractors willing to pay commissions to the persons who accepted them… New enterprises were distributed among party functionaries as private fiefs, enabling them to give patronage to relatives, friends, and supporters.[18]

Furthermore, it seems that Nkrumah and CPP favored international and foreign-owned businesses[19] over the indigenous private sector (at least in its initial period) and suppressed the latter as a way to consolidate the state's political power. Simply speaking, a new independent Ghanaian government failed to reform the clientelistic state–business relations of the colonial era and build a sound indigenous local private sector; instead, the neo-patrimonial system was further consolidated under Nkrumah's rule, encompassing not only the public sector but also the private sector. As Handley notes, "Over time, neopatrimonial modes of behavior became an attractive and even necessary part of operations not only for those working in the state, but for private businesses too."[20]

As shown in Table 1, Ghana has experienced a turbulent political history (at least prior to democratic transition in 1992) since the fall of the Nkrumah government in 1966, and

[13] Given Cold War conditions and criticism from Western countries, the Nkrumah government in its early period was careful in adopting a socialist economic policies. However, after the 1960s, as its political stance was successfully consolidated, the Nkrumah government actively adopted a socialist economic strategy and officially supported the Soviet Union and the Eastern communist bloc.

[14] Indeed, government intervention in the economy was a generally accepted principle at the time.

[15] For more specific information on the plan, see chapter 6 of Killick (2010).

[16] According to Killick (2010), the plan was largely silent on the subject of coordination and received little recognition in the government budget.

[17] Handley (2008, p. 139).

[18] Killick (2010, pp. 151–152).

[19] For instance, according to Handley (2008, p. 154), Syrian and Lebanese retailers flourished in the late 1960s and the Nkrumah government provided grants and interest-free loans to even those expatriate mining companies that were not making much profit.

[20] Handley (2008, p. 156).

economic policies too have shifted drastically. In terms of national economic strategy, Ghanaian politics was largely divided between two camps—those who supported a socialist model of state-led industrialization versus those who supported market liberalization. One thing is clear: regardless of their proposed economic strategy, both civilian and military regimes in Ghana put political ideology or interests before economic efficiency in producing economic policy, and as a result, failed to reform the Ghanaian economy and achieve sustainable development. In such a chaotic political environment, the indigenous private sector continued to be excluded from various state-led development projects, and patronage was further consolidated as a key mechanism dominating relations between state and business. As Opoku wrote, "The most successful entrepreneurs [in Ghana] have almost invariably been insiders [meaning those who had connections and clientelistic relations with patrons of the ruling regime]; outsiders perish."[21] Such an unstable political atmosphere also made Ghanaian entrepreneurs avoid long-term investments; as a result, much of the private investment has been focused in capital-intensive extractive sectors that have little impact on the industrial development of the country.[22] More importantly, despite their official support for private sector development, international donors in Ghana equally failed to help boost the growth of the indigenous private sector and strengthen a development partnership between state and business. We will take up this point further in the next section.

South Korea

Given the impact of colonial rule and devastating wars, some scholars have described South Korea's economic growth over the past 60 years as miraculous. This conclusion is based on the verifiable role the government played in enabling within one generation the development of a state–business alliance that propelled South Korea's fast economic development. As Gary Gereffi writes, the role of business is critical in achieving growth "not so much in formulating development strategies, but even more importantly, in implementing them."[23] In South Korea, especially during the rule of Park Chung Hee, a strong development partnership was established between state and chaebols, family-owned South Korean big business groups. Through a series of 5-year economic development plans, the state provided a blueprint for national development and enabled the chaebols to successfully implement the development programs. As Yoon Tae Kim writes, "The growth of chaebol in South Korea was not necessarily based on economic success or competitiveness of these private companies but was largely the product of very intentional and active governmental decision and support."[24] The origin of a state-led development model based on an alliance between state and business can be traced back to the era of Japanese occupation.

Unlike Ghana, South Korea (and actually Korea as a whole) has a long history as a unified nation-state that goes back to the Goryeo period (918–1392). However, it was primarily the Japanese who introduced the modern state to Korea and replaced the

21 Opoku (2010, p. 4).

22 Kelsall (2013, p. 4).

23 Gereffi (1990, p. 97).

24 Kim (2012, p. 18).

traditional monarchical state with a modern, cabinet-style government.[25] In fact, Japanese intentions with regard to Korea were fundamentally different from those of the British in Ghana. Like the British in Ghana, Japanese rule in Korea was highly repressive and authoritarian. Yet, while the British adopted indirect rule and were rather inattentive to the "modernization" of Ghanaian society and maintained a policy of segregation, the Japanese directly ruled Korea—the Japanese governor-general, usually a military officer, headed the colonial state and held almost absolute power and authority—and tried to build a little Tokyo in Seoul, implementing a series of modernization projects based on Japan's own domestic experiences.[26] Using its own model of catching up as a blueprint, Japan introduced the state-led development model of state—big business alliance and the suppression of labor in Korea. With an invitation around the 1920s mainly to Japanese big businesses or *zaibatsu* to carry out development projects, the Japanese colonial government began industrialization of Korea in full force. In turn, the colonial state provided these Japanese firms with all kinds of support, including cheap land, subsidies, and a suppressed and disciplined labor force.[27] As Kohli opines, the legacy of a state-directed economy with its state-capital alliance as the heart of the industrial transformation strategy in South Korea emerged during the Japanese occupation period.

As in Ghana, under Japanese rule, indigenous Korean businesspeople were largely excluded from various state-led industrialization and development projects; most were relatively small-scale household industries. However, though indigenous businesses were limited in number and scale compared to Japanese companies, Kohli argues that Korean participation in state-led industrialization at the time was not insignificant.[28] For instance, of the 230 factories that employed more than 50 workers in 1930, about 49 were Korean-owned.[29] Indeed, the Japanese colonial state provided credit, subsidies, and other public support for those Korean firms willing to cooperate with Japanese rule.[30] Yet, while the idea of a state–business alliance emerged from the Japanese colonial presence in Korea, we highlight that it would be misleading to conclude that South Korean chaebols are the product of the Japanese occupation era. In fact, most modern Korean chaebols were created during the Syngman Rhee period (1948–1960), the first republic of South Korea; as of 1995, 21 of the 30 top chaebols were established during the Rhee period.[31] In this context, we largely agree with A. Kohli's argument that "a war-destroyed economy with an

[25] For more about state transformation during the Japanese occupation period, see Chap. 1 of Kohli (2004). With its successful modernization reform through the 1868 Meiji Restoration, Japan joined the imperialist powers and began to expand its influence to other Asian countries, Korea in particular. After its victory in Sino-Japanese War (1895), it emerged as the sole imperialist power with full influence over the Korean peninsula. Japan officially colonized Korea in 1910, and its rule continued till the Japanese defeat in World War II in 1945.

[26] Of course such modernization efforts by the Japanese were aimed at the expansion of Japanese power rather than for the benefit of the Korean people; indeed, adopting a policy of assimilation, Japan attempted to turn Koreans into Japanese and remove the former from the human race for good. Having said that, it is also the case that compared to the British rule in Ghana, the Japanese colonial era left many important legacies for swift modernization and industrialization of South Korea after independence.

[27] Industrialization of Korea during the colonial period seemed to be quite significant, with the average annual rate of growth in industry during the 1920s over 8 % (Kohli 2004, p. 50).

[28] Kohli (2004, p. 50).

[29] Kohli (2004, p. 50).

[30] The number of wealthy Korean entrepreneurs grew significantly during the Japanese occupation era: For instance, major chaebols of modern Korea, such as Samsung, Hyundai, and LG, were established in this period.

[31] Kim (2012, p. 133).

experience of rapid industrialization behind it [South Korea] is quite different from a tradition-bound, stagnating, agrarian economy [Ghana]. In South Korea, the institutions and practices of industrialization—the knowledge and ideas associated with industrialization—continue to live on."[32]

With Japan's defeat in World War II, in 1945, Korea at last gained independence, and in 1948, the Republic of Korea (South Korea) was established after 3 years of U.S. trusteeship (1945–1948). Supported by the U.S., Rhee was elected as the first president of South Korea and led the country till 1960, when he was pressured to step down by massive student movements.[33] Indeed, various studies on the South Korean political economy describe the nature of the state during the Rhee era as predatory and exploitative, with widespread government corruption and rent-seeking activities. Some studies point out that the Rhee government was preoccupied with regime survival and little concern was given to the issue of long-term national development.[34] While recognizing the general weakness in state capacity and the absence of effective development leadership during the Rhee period, it is important to note that unlike Ghanaian governments, the Rhee administration played a critical role in the creation and expansion of the indigenous private sector and accepted the local capitalist class as an important political ally.[35] First, the Rhee government sold industrial assets left behind by the Japanese to selected local companies for less than market price. Between 1948 and 1957, more than 2,000 former Japanese-owned companies were sold (basically, distributed) to local business groups.[36] Also, the government distributed aid goods (mostly from the U.S.) to local business groups and, again under highly favorable terms, to the private sector.[37] In addition, a number of local Korean firms made major profits by taking over various government contracts and receiving preferential loans and import licenses. Clientelism, corruption, and other kinds of rent-seeking activities were at the heart of state–business relations at the time. Yet, it seems evident that the Rhee government made active and intentional efforts to create and expand South Korean private sector. In fact, throughout the Rhee era, the state's heavy-handed power over business groups was quite evident. For example, in order for the private sector to be "selected," building political connections with government officials, and with members of the ruling Freedom Party more specifically, rather than market competitiveness or efficient management, was vital.[38] Indeed, the supremacy of state power over business continued through to the Park era (1962–1979) but with an important change in scope and depth.

[32] Kohli (2004, pp. 48–49).

[33] On April 19, 1960, a nationwide student movements broke out opposing the rigged election held on March 15 of that year. The Rhee government was succeeded by the Second Republic (which adopted the parliamentary system), and Jang Myun was elected prime minister. However, the republic was soon toppled by a military coup led by Park Chung Hee on May 16, 1961.

[34] See for instance, Kim (2012) and Kohli (2004).

[35] The background of major entrepreneurs during the Rhee era is diverse, including those who had connections with Japanese companies during the colonial period. It is worth noting that most of these new entrepreneurs did not evolve out of the traditional landlord class. In fact, the successful land reform (which began under the U.S. trusteeship) critically weakened the traditional landlord class in South Korea.

[36] Kim (2005, p. 6).

[37] Based on these aid goods, the flour, sugar, and textile (mainly cotton) industries (the so-called "three white industries") emerged as the major industrial sectors of South Korea in the 1950s and 1960s. Further discussion on the role of foreign aid in boosting the South Korean private sector will be provided in the next section.

[38] Daedong, Joongang, Hyundai, Daelim, and Geumdong were five major construction companies during the Rhee era, and they were also five loyal followers of Rhee's Freedom Party (Kim 2012, p. 83).

During the Rhee government, while the state–business alliance was largely limited to rent-seeking activities, the Park era was characterized by a developmental coalition between state and business.

Drawing on rich literature on the nature of the developmental state during the Park era, we offer a brief review of the nature of state–business relations during the period. On assuming power through a military coup, President Park arrested owners of 13 major chaebols on charges of corruption and illegal accumulation of wealth. However, not long after this hardline approach against corruption, President Park drastically changed his regime's approach toward the chaebols and entered into a strategic alliance with large firms to achieve his ambitious goal of national economic development. Specifically, the Park government pressured and encouraged the local private sector to take part in various national development projects as implementing agencies for national development plans. Retaining tight control over national resources, including foreign aid and financial capital, the Park government provided all kinds of support and credits to those local companies carrying out state-designed development programs,[39] and in return, these chaebols had to meet certain economic performance criteria (e.g., export targets) set by the government. It is also important to note that while the state had overwhelming power over the private sector during the Park era, through various channels South Korean business groups actively (and quite often successfully) influenced the economic policy making process.[40] Such active networking and communication/interaction between state and business certainly contributed to the effective implementation of economic policies.

The chaebols' contribution to economic growth and the overall strength of the Korean economy grew rapidly,[41] and a series of market liberalization policies adopted by the Chun Doo Hwan government (1980–1987) further expanded chaebol power.[42] Indeed, after the Chun era, the change in state–business relations from dominance to cooperation became quite evident. The growth of the economic power of chaebols together with the Chun government's adoption of the ideas of neoclassical economy, market liberalization, and democratization (which began in 1987) played a role in producing this change in state–business relations in South Korea. At some point and with their increasing contribution to GDP, the chaebols seemingly became too big to be controlled by the state. With the outbreak of the Asian financial crisis in 1997 and the fall of the South Korean economy,[43] some scholars were quick to analyze the financial crisis as a failure of Korea's state-led economic development model. However, it seems clear that state–business development partnerships and the growth of an indigenous private sector contributed significantly to

[39] In fact, many chaebols participated in Park's heavy and chemical industrialization (which began in 1972) not voluntarily but forced by the government.

[40] For instance, President Park himself hosted regular meetings with chaebols in Blue House, such as monthly economy meetings and export-promotion meetings. In addition, the Park government organized joint policy meetings in which members of the relevant government economic ministries and industrial business organizations participated. In these meetings, government officials and business people exchanged opinions and made suggestions on various economic policies.

[41] As of 2002, the top five chaebols accounted for 34.6 % of GDP (in terms of assets), with Samsung (the top chaebol) making up 10.5 % (Fair Trade Commission database at http://www.ftc.go.kr/).

[42] For instance as a result of the privatization policy of the Chun government, major chaebols acquired numerous SOEs. In addition the Chun government's financial liberalization policy allowed chaebols to advance into the financial sector and become owners of various banks and investment companies.

[43] The crisis actually turned out to be a short-term economic shock rather than a sign of a long-term economic stagnation; South Korea paid back (in full) loans from the IMF within three years and its economy recovered quickly.

transform South Korea's economy from primitive to advanced within a generation. And more importantly, the government policies and the state–business strategies adopted by the state arguably accounted for strong economic growth at home and paved the way for competitive Korean business groups in global markets. While aid contributed to the growth of Korean private sector, in Ghana despite decades of aid inflows and emphasis on private sector development, enforceable legislation that would enable the local private sector as a key implementing partner of national development programs that would in turn lead to industrial transformation of the country remains unrealized. In what follows, these points will be further elaborated.

Foreign aid and private sector development in Ghana and South Korea

Despite active international efforts to enhance "aid effectiveness," the impact of foreign aid on the economic growth of a recipient country is highly controversial at best.[44] In particular, by the early 1990s, donors increasingly recognized that despite the introduction of structural adjustment policies or SAPs, the limited contribution of private sector to national development was one of the main obstacles to sustainable development in many recipient countries. In this section, based on an understanding of the nature of state–business relations in Ghana and South Korea, we discuss the impact of foreign aid on development of the local business sector in these countries.

Ghana

Official Development Assistance (ODA) to Ghana began to rise rapidly after the late 1970s (as shown in Fig. 1), and today Ghana is one of the largest aid recipients—2013 OECD Development Assistance Committee (DAC) statistics ranked Ghana as the eighth-largest ODA recipient in Africa: ODA to Ghana rose from US$40.9 million in 1973 to US$190.81 million in 1980, US$715.53 million in 1989, US$1,418.69 million in 2004, and US$1,800.03 million (a record high) in 2011. As seen in Fig. 1, aid to Ghana has been predominantly provided through multilateral channels, namely the IFIs. Since the inception of SAPs designed by the IMF in "collaboration" with state officials, assistance from the IFIs has risen markedly; it was only after the mid-2000s that aid from bilateral donors increased considerably vis-à-vis multilateral aid.[45]

Assessments of the impact of foreign aid on Ghanaian economic reform have been mixed. While some (including the World Bank and the IMF) have recognized a significant and positive role of aid in Ghana, others have been less enthusiastic.[46] One thing is clear: unlike South Korea, where foreign aid was successfully used for sustainable development of the country,[47] aid in Ghana has exacerbated the problem of external debt and aid

[44] See for instance, Sachs (2005) and Burnside and Dollar (2000, pp. 847–868) for a positive view of aid's effect on recipient countries' economic growth; for the contrasting view, refer to Easterly (2003) and Economides et al. (2008, pp. 463–488).

[45] The rising proportion of bilateral aid largely reflects an increase in bilateral grants after Ghana's adoption of enhanced debt relief under the HIPC Initiative of the World Bank and IMF in 2001.

[46] For positive assessments of Ghanaian reform, see, for instance, Tsikata (2001) and Callaghy (1990); for less enthusiastic views, see, for instance, Killick (1991, 2010), Konado-Agyemang and Takyi (2001), and Akonor (2006).

[47] Kim (2011, pp. 260–286).

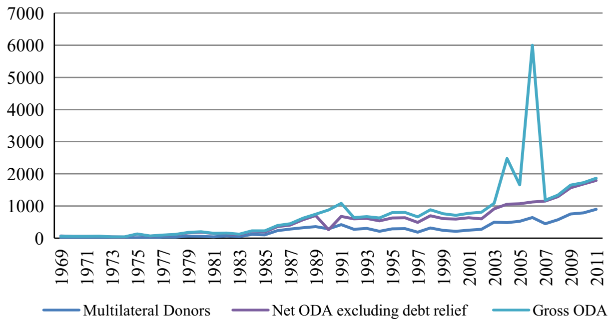

Fig. 1 ODA to Ghana, 1969–2011 (USD million in current prices). *Source* OECD QWIDS database

dependency. Furthermore, in spite of economic reforms, the Ghanaian economy still has many problems, including slow industrial growth and heavy reliance on the export of primary commodities. In particular, "the missing middle," the lack of a sizeable, robust middle stratum of indigenous manufacturers and industrialists,[48] is one of the outcomes of Ghana's economic reform. Along with other goals of SAPs—reduction in government spending, currency devaluation, removal of price controls, privatization, efficient distribution of resources, and export promotion[49]—donors tend to highlight increased participation of the private sector as an essential part of Ghana's economic reform. Equally, largely in response to donor pressure, the Ghanaian governments have emphasized its determination to make the private sector the engine of growth in the economy.[50] In spite of the emphasis by donors and the government of Ghana on the growth of the private sector, the question is what explains the absence of a substantial, competitive local business sector as a major force in the industrial transformation of Ghana?

Most of all, we point out that the lack of genuine governmental and political will to support the growth of local business lies at the heart of the weakness of the local private sector in Ghana. In the absence of a robust capitalist class, in Ghana, as in most of other newly independent African countries, the state easily gained dominance over business and has been the major locus of resources and benefits. However, unlike South Korea, in which the state from the very beginning made an alliance with local businesspeople and actively supported the growth of domestic firms, in Ghana, as Opoku points out, the state "developed an ethos of obstruction rather than assistance to capitalist entrepreneurship."[51] Indeed, it seems that political leaders of Ghana have been very suspicious of and even hostile to local business groups. For instance, recognizing the indigenous private sector as potential political enemy, the Nkrumah government decided not to foster but to squash it.[52] Even J. J. Rawlings, a widely recognized reformer, at one time had a negative view of businesspeople, criticizing them as the main culprit of national economic hardship.[53] With

[48] Handley (2008, p. 173).

[49] For further information on economic reform in Ghana, see Konado-Agyemang and Takyi (2001, pp. 17–40).

[50] To achieve this goal, the government of Ghana proclaimed a continual focus on four main areas, namely, (i) reforming the public sector, (ii) improving the enabling environment for the private sector, (iii) streamlining regulations and building capacity in the financial sector; and (iv) improving the country's infrastructure. AfDB/OECD, "Ghana," *African Economic Outlook 2005–2006*, pp. 289–290.

[51] Opoku (2010, p. 23).

[52] Handley (2008, p. 151).

[53] Opoku (2010, Chap. 2).

low institutionalized governmental support for (if not suppression of) local business, a patrimonial state–business relationship in Ghana emerged as a consolidated feature of the country's political economy. Furthermore, the inflow of large-scale structural adjustment loans since 1983 and the subsequent adoption of a series of donor-guided reform measures failed to accelerate the growth of the local private sector and a development partnership between state and business in Ghana.

Despite the reputation of Ghana as a "donors' darling," a closer analysis of the course of reform reveals that the process has been far from smooth; throughout Rawlings' Provisional National Defense Council (PNDC) era (1981–1992), the Ghanaian government from time to time had to step back from economic reform, due mainly to a volatile political environment caused by anti-reform forces, including urban workers and civil servants.[54] In particular, the process of privatization of inefficient SOEs in Ghana has been slow and has largely failed to achieve the goal of transforming the Ghanaian economy into a fully functioning market economy. Rather, such donor-pressured privatization has largely failed to contribute to the empowerment of local business groups or to reform state-dominated, patrimonial state–business relations in Ghana,[55] and resulted in deepening foreign ownership of assets in the Ghanaian economy.

As in many other African countries, the Ghanaian economy was dominated by public enterprises, but over time, most of these SOEs suffered from poor financial performance caused mainly by lack of managerial and technical competence, overstretched bureaucracies, conflicting and poorly defined social and commercial objectives, poor incentives, abuse of monopoly power, corruption and political interference, and indebtedness. Thus, from the very beginning of the economic reform programme (ERP) in 1983, donors pressured for privatization of inefficient SOEs as a crucial part of the reform package for Ghana; yet, it was only in 1987 that the SOE Reform Programme (SOERP) was launched under the auspices of the State Enterprises Commission (SEC) and the Divestiture Implementation Committee (DIC) was established. Despite seemingly impressive records of divestiture (or transfer of ownership of assets or management of enterprises to the private sector), with over 212 divestiture transactions of SOEs by 1998, compared to other areas of economic reform, the speed and level of privatization in Ghana appears to be rather slow and limited. The end of the 1990s confined most divestitures to unattractive and moribund SOEs. This indicates that there was strong resistance by the ruling elites to privatization of SOEs. It is also important to note that despite such slow progress in privatization and reform in general—throughout the Rawlings period, there were frequent stoppages in the implementation of SAPs due mainly to rising domestic protests—aid continued to flow, resulting in the problem of moral hazard.

Undoubtedly, privatization of public enterprises in Ghana to some extent contributed to fiscal stability, improved efficiency, stabilization of the macro economy, and increased labor productivity. Yet, the whole process of privatization seems to have had little impact on the growth of local business groups, as their participation was relatively limited and focused only on small-scale enterprises. For example, the total purchases of SOEs by indigenous Ghanaians did not exceed 10 %, and as noted above, the result has been a wholesale transfer of most privatized assets to foreign ownership.[56] In fact, unlike the South Korean government, which strictly excluded foreign firms and investors from the process of

[54] Akonor (2006, p. 48).

[55] For historical information on privatization of Ghana's SOEs, we primarily rely on Appiah-Kubi (2001).

[56] See Ayee (2004).

privatization of public enterprises, purchasers of Ghanaian SOEs included both foreign and domestic private sectors and investors. In addition, whereas the South Korean government provided all kinds of support, including cheap loans, subsidies, and tax favors, to those local companies and investors that were selected by the government as the purchasers of public firms, the government of Ghana opened bidding to both domestic and foreign investors with no special treatment for the former. Obviously, with limited resources, particularly working capital, most Ghanaian firms and investors were no match for powerful, large foreign companies, resulting in the dominance of foreign capital and firms over local Ghanaian enterprises. In addition, enhanced competition as a result of market liberalization and privatization further exacerbated business conditions for many local Ghanaian enterprises whose market competitiveness in most cases was highly constrained compared to that of foreign companies. There has been a growing suspicion—often with strong evidence, as in the case of ATS Motors[57]—that privatization has been exploited as a source of political patronage and used to reward the regime's friends and political insiders.

It is clear that foreign aid and economic reform programs, especially SAPs to some extent, intensified the neopatrimonial nature of the Ghanaian state. To enforce a series of unpopular reform measures, including a massive devaluation of the cedi and drastic cutbacks in public spending, the Rawlings government had little choice but to consolidate its alliance with its clients and rely heavily on authoritarian measures to suppress demonstrators. Although the Rawlings administration was relatively successful in maintaining political power, the regime's survival was possible only through "intimidation, coercion, and co-optation."[58] Moreover, throughout the reform era, the Ghanaian state continued to heavily and inefficiently intervene in the economy while overseeing the whole reform process; this has led A. Handley to conclude that "some 15 years after the start of the economic reform program, far from the state's involvement in the economy decreasing, the reverse had occurred."[59] Indeed, with the introduction of foreign aid, especially SAPs, centralized decision-making was further consolidated in Ghana. Such consolidation resulted in a high level of donor intervention in the economic policy making process, and like the government of Ghana, donors made little effort to increase the participation of civil society, and more specifically the business sector, in the policy making process. Under a political system in which the policy making process is largely top–down with limited communication and constructive discussion between state and business on economic policy, patronage has continued to be the key method for businesses to gain access to various state resources and governmental support.

Unlike the case of South Korea, where state–business partnership resulted in fast-paced economic development and an expanded middle class that demanded political liberalization, it would be hasty to conclude that democratization in Ghana would automatically lead to the emergence of a development partnership between state and business. At last in 1992, Ghana, mainly pressured by donors, began democratization: the ruling PNDC military regime renamed itself National Democratic Congress (NDC) and adopted a liberal democratic constitution and a multiparty system. Through a democratic election (at least officially),[60] in November 1992, Rawlings' NDC came to power, and since then Ghana's

57 For more about this case, see Appiah-Kubi (2001, pp. 223–224).

58 Akonor (2006, p. 48).

59 Handley (2008, p. 199).

60 Many question the fairness of this election. For instance, according to Gyimah-Boadi and Theo (2013), the government agency in charge of democratic transition was largely made up of supporters of Rawlings, and the ruling PNDC government adopted a series of policies to obstruct the active participation of the

democratization appears to have been successfully consolidated—in 2008 John Evans Atta Mills, the opposition party leader, was elected president—with enhanced visibility of civil society and media. According to Freedom House, foreign aid played a crucial role in consolidating democracy in Ghana.[61] For instance, via so-called “democracy aid,” U.S. Agency for International Development (USAID), Danish International Development Agency (DANIDA), and the UK provided US$9 million, US$3 million, and $US8 million, respectively, to the Electoral Commission of Ghana for the purposes of technical assistance, training of government officials, and education of the electorate.[62] Despite such donor efforts, however, there are still many obstacles to the realization of consolidated democracy in Ghana: lack of government accountability and transparency, concentration of power within the circle of the ruling party and the president, weak rule of law, a high level of regional inequality, widespread poverty, a high unemployment rate, and low-intensity ethnic and regional conflict. Importantly, there are no clear signs of the emergence of a state–business development partnership in Ghana. In fact, according to Opoku, with the introduction of democracy, “competitive two-party clientelism” emerged in Ghana, which suggests the intensification of cronystic relations between state and business as a result of the closeness of recent electoral contests. In other words, with little change in the patrimonial nature of the state and in the absence of effective leadership and bureaucracy, it would be unrealistic to expect that democratization by itself would automatically produce development partnerships between state and business in Ghana.

South Korea

As seen in Fig. 2, before the mid-1970s (specifically, 1975), official development assistance per capita for South Korea was higher than for Ghana. However, as reflected in negative ODA per capita for South Korea after the mid-1980s, South Korea repaid the money borrowed from donors, and by the mid-1990s graduated from the list of recipient countries (which is why data for South Korea’s ODA per capita does not exist after 1998). Unlike Ghana, where aid did not begin to flow in at full scale until decades after independence, South Korea depended heavily on aid from the very beginning. After gaining independence from Japan in 1945, South Korea was under a U.S. trusteeship for about 3 years. This trusteeship at the end of the Second World War led to the inflow of a large amount of foreign assistance for Korea. Between 1945 and 1990, South Korea received a total of US$10,550.1 million in ODA.[63]

For South Korea, unlike Ghana, where throughout the recipient period multilateral donors, largely the IFIs, have played a significant role in providing foreign aid and imposed large-scale SAPs as aid conditionality, bilateral aid (mostly from the U.S. and Japan) was

Footnote 60 continued
opposition party in the election. For instance, the ruling government dominated media coverage throughout the election period.

[61] Freedom House (2012).

[62] Gyimah-Boadi and Theo (2013, pp. 256–280).

[63] This figure, however, excludes military assistance to South Korea. If we include the value of military assistance, the total amount of aid to South Korea increases drastically. For instance, according to Mason et al. (1980, p. 165), between 1946 and 1976 the United States alone supplied US$12.6 billion in economic and military assistance to South Korea, and international institutions and Japan provided an additional US$1.9 billion and US$1 billion, respectively, making South Korea one of the top recipients (especially in terms of per capita assistance) throughout the period of the 1950s to 1970s.

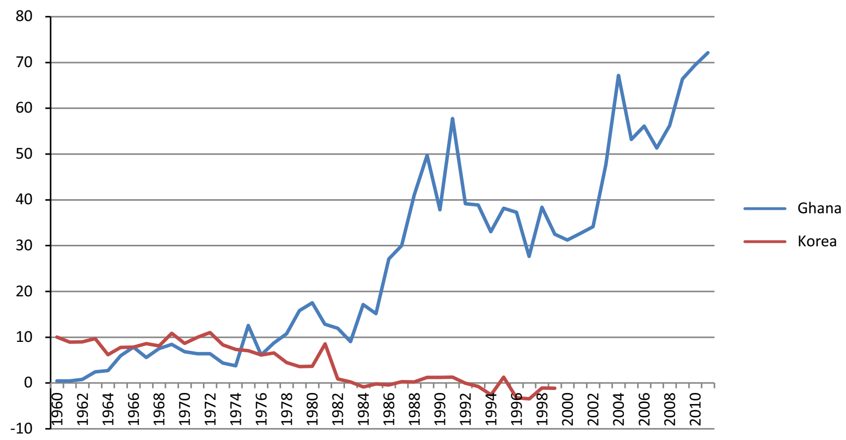

Fig. 2 ODA per capita of Ghana and South Korea, 1960–2010 (Unit: USD in current prices). *Source* Data extracted from OECD.Stat (Aid [ODA] disbursements to countries and regions [DAC2a] dataset)

the dominant form of ODA, accounting for 92.4 % of total ODA to South Korea.[64] Thus, in South Korea, IFIs only imposed full-scale structural adjustment conditionalities as a result of the 1997–1998 Asian financial crisis.[65] Recognizing such differences in aid interventions between Ghana and South Korea, in this section, we show that foreign aid played a positive role in developing the local private sector in South Korea. In particular, we argue that the existence of a state–business alliance is a significant factor in explaining the effective use of aid for private sector development in South Korea.

Throughout the Rhee era (1948–1960), South Korea depended heavily on U.S. aid and the United States was the leading (and almost the only!) donor to South Korea. It is worth noting that most U.S. aid to Korea in this period was provided in grants: between 1945 and 1960, U.S. aid to South Korea amounted to US$2,517 million and almost 98 % was grant-in-aid.[66] The United States obviously exerted a strong influence in management of foreign aid in South Korea, yet it would be erroneous to downplay the role of the Rhee government in foreign aid management.[67] In particular, it was the South Korean government, not the U.S. government, that established the legal parameters with enforcement as to how aid would be delivered and disbursed. In addition, the Rhee government was quite successful in centralizing the process of aid delivery to institutionalizing the system of governmental direct distribution of foreign aid goods to customers, namely indigenous private firms. As previously noted, through the purchase of U.S. aid goods (and the takeover of companies formerly owned by the Japanese) from the government, various South Korean local companies made a huge profit.

[64] Korea International Cooperation Agency (2004, p. 74).

[65] Indeed Park Chung Hee made a determination not to rely on the IFIs for the fund, fearing heavy intervention by the latter on domestic affairs and the policy making process.

[66] Korea International Cooperation Agency (2004, p. 75).

[67] Factors such as the existence of the leading donor, the United States, and Korea's geopolitical importance for the U.S., as well as a historical legacy of a centralized and modern state, contributed to the Rhee government's relative ownership in aid management. For more historical discussions of aid management in South Korea, see Kim (2011).

Throughout the Rhee period, U.S. aid was provided mainly in the form of consumer goods and farm surpluses (namely, PL 480). The government sold these consumer goods to the private sector and utilized the fund mainly for fiscal payment and infrastructure building (including electricity). Farm surpluses such as raw cotton, raw sugar, and wheat were largely distributed to local Korean enterprises. Above all, the government provided all kinds of preferential treatment to local companies in the process of aid delivery. For instance, the aid goods were sold at an official exchange rate that was much lower than the market exchange rate, and for those firms with limited financial resources, the government provided cheap loans; aid goods were often simply distributed to local companies free of charge. As mentioned, during the Rhee administration, the "three white industries"—flour, sugar, and textiles—were fast-tracked for development based on U.S. PL 480. As of 1955, three of the top 10 South Korean companies (including Samsung) were engaged in the three white industries, and this number increased to five by 1965.[68] This suggests that foreign aid directly supported the growth of local companies in South Korea.

We stress that aid in South Korea indirectly contributed to the growth of local private sector by subsidizing various state-led development projects in which local business groups participated as key actors and partners in the implementation of national development plans. South Korean local businesses helped in carrying out large-scale national development programs with all kinds of governmental support, including domestic market protection, which benefitted these local firms with huge profits that provided them with a competitive edge in global markets. This type of state–business alliance for national development existed even during the Rhee era. Specifically, following the end of the Korean War in 1953, the Rhee government announced speedy war recovery and reconstruction as an urgent national goal and asked local Korean companies to undertake a series of reconstruction projects, guaranteeing these firms various kinds of governmental support. Consequently, a number of South Korean construction companies (including Hyundai) grew rapidly in the postwar period, and the government depended heavily on foreign aid for carrying out these reconstruction projects. However, while there was strong state–business collaboration in this period, the nature of state–business relations during the Rhee administration was fundamentally clientelistic with widespread corruption. More specifically, the government of South Korea at the time largely lacked effective leadership with a long-term national development plan or vision. Yet, it is important to note that the indigenous private sector was growing fast, thanks mainly to governmental support, and aid successfully served to bring about the development of the local private sector. It is only against this backdrop that the succeeding Park government could effectively embark on a series of economic development programs.

There is no doubt that Park Chung Hee was an authoritarian leader and harshly suppressed democratic movements by force. That said, during the Park era, South Korea experienced intensive economic growth, and it was the high period of South Korea's developmental state. In addition, we highlight that the Park government's successful implementation of various economic development plans was only possible because of the establishment of a strong development partnership between state and business.[69] Understanding that the growth of local businesses was the key to the increase of national power, the Park government approved the concentration of the economic power of selected local business groups and actively supported the expansion of these firms with the sale of public

[68] Kim (2005, p. 7).

[69] That said, it is important to note that such state-led economic development largely excluded the labor sector, which was harshly repressed.

enterprises to these big businesses at cheap prices. For instance, Daewoo emerged as a major chaebol during the Park era by annexing 14 public enterprises in the heavy-chemical industrial sector, and it received a variety of governmental assistance, including cheap loans and governmental protection of its market monopoly. Under strong (and authoritarian) political leadership, chaebols largely shared the primary national goal of economic development, which is expressed in the following widely known statement by Jeong Joo Young, the creator of Hyundai Group: "Our success is the key to national development, and national development, in turn, is critical for us to be successful."

In particular, the Park government actively used and managed foreign aid to achieve and support various government-led economic development plans. With a sharp reduction in U.S. aid in the late 1950s, the Park government normalized diplomatic relationship with Japan—despite strong domestic protests—and invited assistance from the latter. By the mid-1970s, Japan had replaced the United States as the leading donor in South Korea, and more importantly, most aid from Japan came in the form of loans rather than grants. It was the Economic Planning Board (EPB), the super-agency of South Korea's developmental state, that headed management of foreign assistance (along with other foreign resources) during the Park period. The EPB was a key government agency, with substantial political power and independence, and it played a leading role in driving South Korea's economic development. The fact that the EPB was in charge of managing foreign assistance suggests that the Park government was well aware of the critical importance of foreign public loans in successful implementation of its economic development plans. With the establishment of an aid management agency under EPB, which was relatively free of corruption and independent from external pressure, the Park government could minimize aid waste and effectively use foreign assistance to support various state-led economic development projects.

More specifically, public loans were used to support Park's 5-year economic development plans. For instance, during the period 1962–1966, South Korea recorded a 15.1 % investment rate on average, and more than half (8.8 %) of this came from foreign savings; foreign assistance accounted for 7.3 % of total foreign savings at the time.[70] Public loans were also used to support Park's heavy and chemical industrialization efforts, which began in full scale in 1972. Between 1972 and 1981, $US960 million was devoted to heavy and chemical industries, and $US580 million, or 60 % of the total, came from foreign public loans.[71] As widely documented, successful implementation of a series of national development programs critically contributed to bringing industrial transformation and economic development to South Korea. Importantly, it was South Korean local private sector that successfully implemented these national development programs (often pressured by the government). As heavy and chemical industrialization began in 1972, numerous South Korean big business groups transformed into multinational companies in various sectors, including shipbuilding, automobile manufacturing, petrochemistry, semiconductor, steel, and electronics. By providing financial support for various state-led and -devised development projects, foreign aid played a role in achieving fast national development as well as supporting the growth of the local private sector.

Over time, in South Korea, the proportion of foreign aid (loans) among the various types of foreign resources began to decrease, thanks mainly to the nation's economic success, and by the early 1980s, loans from financial institutions and banks emerged as the major sources of foreign resources in the country—suggesting that by this time, private

[70] Government of the Republic of Korea (1966, p. 16).

[71] Chung (2007, pp. 331–332).

international investors had begun to perceive the South Korean economy as a sound and advanced capitalist economy in which they were willing to invest. Specifically, as discussed, state–business relations changed from state dominance to cooperation, especially after the 1980s with the adoption of neoclassical market liberalization and democratization and the growth of chaebols. Indeed, despite heavy criticism of chaebols for their imprudent expansion and corruptive state–business relations, which was pinpointed as one of the main causes of the downfall of the South Korean economy in the late 1990s, the growth and economic concentration of chaebols seem to be continuing. It is also true that these chaebols played a significant role in achieving national economic development, and more importantly, the successful industrial transformation of South Korea. In sum, the South Korean case demonstrates that the establishment of a state–business alliance or development partnership is essential for effective usage of aid for private sector development. More importantly, it shows that strong political leadership and will together with effective governmental policy and support is essential for the development of a local private sector and for state–business partnership.

Conclusion

In this study, we have examined the different approaches policy makers took in Ghana and South Korea for shepherding their states toward economic development. We focused our analysis on policies that guided state–business relations and on their impact on economic development. We also examined how foreign aid helped to shape state–business relations and the effect of state–business collaboration and partnership on effective planning and implementation of national development plans in South Korea and Ghana. The evidence points to two main conclusions.

First, national economic development requires effective institution building, or at least, a legislative framework that clearly points to the national goal to be achieved and the strategies for achieving, in this case, the goal of economic development. While Ghana and South Korea both adopted 5-year economic development plans within approximately the same time period to industrialize their countries, after 50+ years, Ghana remains a less developed country and South Korea is an industrialized country with high per capita income. South Korea's success is attributed to the effective use of legislation to direct economic development. The government of Korea under various regimes collaborated with the private business sector as the key actors with the responsibility to actually implement national development plans. In contrast to South Korea, Ghana under several regimes has had a number of development plans but without the kind of strategic focus of the Korean regimes on using the private sector to help implement national development plans. Rather, the Ghanaian economy has been dominated by public enterprises, with the attendant problems of cronyism, neopatrimonial outcomes, lack of transparency and accountability, and poor implementation of national economic development plans.

Secondly, Ghana and South Korea, former colonial territories under different imperial powers, have benefitted from external support in their post-independence economic development efforts. For South Korea, external aid came mostly in the form of grants-in-aid rather than loans; for Ghana, external aid was mostly loans, which trapped the country into a debt crisis. Similarly, while South Korea enjoyed a focused interaction with Japanese and American bilateral aid donors, aid to Ghana came mostly from multilateral, faceless IFIs, with a single-focused solution to all economic development problems—a free market economy. But the differences go deeper than that. While South Korean governments used legislation and policies to direct and guide external aid toward private businesses for the purpose of economic development, most of the loans received as aid by Ghanaian regimes were utilized as rents by public officials and to service the interest on existing loans. And more significantly, while South Korea used legislation and policies to ensure that its economic development plans privileged domestic business elites and companies, most of the externally imposed adjustments on Ghana resulted in foreign-owned companies acquiring more assets from the sale of SOEs, leaving domestic businesses almost on the margin of industrial economic development in Ghana.

In the end, economic development plans and industrialization policies can result in economic development and enhanced living standards for states and their citizens. However, we contend that such policies require strong leadership; an effective institutional framework that guides the implementation of government policies; a state–business relationship that aims to achieve specified goals, as the case of South Korea demonstrates; and an uncompromising leadership that works to transform the external-domestic contexts of economic relationships to the benefits of its people and businesses. While South Korea is our model case, Ghana may yet celebrate the milestone of positive state–business cooperation for economic development in the twenty first century.

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