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Searching for New Perspectives on Contemporary History of Korea: Rethinking  
Decolonization, Military Occupations, and the Ideas for a Democratic Korea

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## Conference Proceeding

## The Crisis of the Divided Economy and the Creation of a National Economy: Korea in the late 1940s

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This paper analyzes how the Korean economy, under U.S. military rule, sought to establish an independent economy capable of countering socialist North Korea, which had severed its division of labor with the Japanese Empire. The analysis is conducted from the perspective of economic systems theory. Additionally, it employs a comparative approach with Japan, the former colonial power, to offer nuanced insights into Korea's post-liberation economic restructuring.

The analysis delves into Korea's distinctive post-liberation economic restructuring, juxtaposing it with Japan, the erstwhile colonial power. The U.S. policy during this period was that of an occupation that sought to disarm the Japanese military; consequently, it lacked a comprehensive long-term economic program and instead implemented provisional measures.

However, the initial liberalization of the market resulted in economic chaos. The dissolution of the interregional division of labor within the former empire, in conjunction with the division of the Korean Peninsula, engendered challenges related to dependence on capital goods and raw materials from external sources.

In response to these developments, the U.S. Military Government acknowledged the imperative for post-war control, a move precipitated by the challenges posed by inflation and severe shortages of essential goods. Consequently, the Central Economic Committee, which had been established within the Military Government, resumed the centralized management of the Korean economy.

Economic operations were maintained through resource procurement by GARIOA, albeit with great difficulty. As economic activities gradually began to recover, certain achievements were made by the spring of 1948.

However, the ongoing crisis of the divided economy was further exacerbated by North Korea's decision to impose a power cutoff in response to the unilateral elections. In response, the United States allocated ECA aid, initially established for the European Recovery Program (the Marshall Plan), to the recently established Republic of Korea. The objective of this allocation was to reduce imports and promote exports by developing industries such as coal, railways, fertilizers, textiles, steel, and cement. This phenomenon can be characterized as import-substitution industrialization.

However, the domestic economic situation was dire, with most government-affiliated enterprises operating at a loss, private companies unable to escape their small-scale nature, and the country experiencing rapid inflation on a macroeconomic level. Prior to the implementation of a comprehensive reconstruction strategy, it was imperative to restore the fundamental economic functions of the entities in question and to pursue economic stabilization. In this context, the term "economic stabilization" did not denote the implementation of conventional inflation control policies. Instead, it served as a harbinger of a transition toward a market economy, akin to Japan's "Dodge Line" policy. Consequently, the Five-year economic and industrial plan implemented with ECA assistance can be regarded as a pioneering program that laid the foundation for surmounting the crisis of the divided economy and achieving self-reliance.

Chaisung LIM is a professor affiliated with the College of Economics at Rikkyo University in Japan. He received a Ph.D. from the University of Tokyo in 2002. His publications (in Japanese) include *A Wartime Economy and Railroad Management* (University of Tokyo Press, 2005), *High Growth as History* (co-edited, Kyoto University Academic Press, 2019), *Eating and Drinking Korea* (University of Nagoya Press, 2019), *South Manchuria Railway in East Asia: Frontier of the Railroad Empire* (University of Nagoya Press, 2021), *Corporate Types and Industrial Development* (co-edited, Kyoto University Academic Press, 2022), *Health in Korea* (Nagoya University Press, 2024), and *Empire and Private Railways* (Kyoto University Academic Press, 2025). His current research examines the economic development, infrastructure development, labor hygiene and health, and food issues in East Asia.