Economic Development in Republic of Korea (South Korea)
經濟發展：大韓民國

MIM 513: Pacific Rim Economies, Trade, and Financial Markets
Hiro Ito
Fall 2012

What We Will Do Today, October 29, 2012

12:30 – 1:40
- Korean experience

1:50 – 2:35
- Presentation 7: The “IMF Crisis”

2:50 – 3:35
- Presentation 8: Korean IT Policy

3:45 – 4:35
- Korea and Taiwan
The Korean miracle – The “Miracle on the Han”

» Before the 1960s, GDP per capita was comparable with levels in the poorer countries of Africa and Asia

» Today, its GDP per capita (in PPP) is one of the top 30 countries, roughly 20 times North Korea’s, and its GDP (in PPP) is ranked as the 12th in the world (as of 2011)

» The average GDP growth rate b/w 1961 and 1979 was 8.3%

» High growth continued until 1996 (the average GDP growth rate b/w 1981 and 1996 was also 8.3%)
Brief history of South Korea

» 1945 – End of Japanese colonization (since 1910)
» 1945-48 – U.S. occupation
» 1950-53 – Korean War
» 1961 – Military coup by General Park Chunghee
» 1962 – First five-year plan (continues to 2001)
» 1965 – Normalization of relations with Japan
» 1979 – Assassination of Pres. Park
» 1980 – Military coup by General Chun Doo Hwan, minus GDP growth, Kwangju massacre, Rescue package from the IMF
» 1987 – Declaration of democratization, Roh Tae Woo, popularly elected for the 1st time in 3 decades

» 1988 – Seoul Olympics
» 1992 – normalization of relations w/ People’s Republic of China, “China boom”
» 1996 – Become an OECD member
» 1997-98 – “IMF crisis,” Rescue package from the IMF
» 2001 – liberalization of importation of Japanese culture
» 2001-03 – “credit card bubble”
» 2008 – Global financial crisis hit hard the economy; receive rescue funds from the U.S. and Japan
“In order to ensure efforts to improve the living conditions of the people in Asia, even undemocratic emergency measures may be necessary .... The people of Asia today fear starvation and poverty more than the oppressive duties thrust on them by totalitarianism”

“In human life, economics precedes politics or culture”

Park Chunghee

Similarities and Differences with Japan

» Colonial experience – Colonizer vs. Colony
» Industrial vs. agricultural as of 1945
» Existence of external threat
» Authoritarian regime vs. democracy
» Explicit vs. implicit government interventions
» Five-year economic planning: rigidly binding or soft-binding?
» Macroeconomic management: saving, current account, public finance, inflation
» Reliance on foreign capital/aid
Similarities and Differences with Japan

» Growth with economic equity and recent rise in income gap
» High emphasis on (primary and secondary) education
» Openness toward foreign knowledge/technology
» Chaebol (財閥, 재벌) vs. Keiretsu (系列)
  - Chaebol’s economic and political roles
  - The extent of government control
  - Role of the press
  - Debt-based vs. equity-based financial relationships
  - Behavior of risk taking, moral hazard
» Low fertility rate
» Low women participation rate
» Rising labor cost; “sandwich economy”?
Capital flows: Korea, China, and Japan

Korea’s K-flows

Japan’s K-flows

China’s K-flows

Higher and more volatile inflation in Korea

Korea, Rep. — Japan
Economic policy stance and presidents

**Lee Chung Hee** (1961 – 79)
- Authoritarian, central planning, directly controlled Chaebols

**Chun Doo Hwan** (1980 – 87)
- Gradual trade liberalization, and some setbacks which led to expansion of Chaebols
- Received IMF bailouts twice, 1981 and 1983

**Roh Tae Woo** (1988 – 93), first popularly elected pres. in three decades
- Attempted to weaken Chaebols but only to make them become confrontational
- Gradually started to liberalize financial markets

**Kim Young Sam** (1993 – 98), first civilian president
- Fight corruptions and attempt to dismantle Chaebols
- Achieves Korea's entry to the OECD, implements a series of financial liberalization policies, and experiences the Asian crisis

**Kim Dae Jung** (1998 – 2003), former death row inmate, Nobel peace prize winner
- Pushed economic structural reforms and emphasizes IT-based industrial policy

**Roh Moo-hyeon** (2003 – 08)

**Lee Myung-bak** (2008 – 13)
GDP growth rates, China, Japan, Korea, and the U.S., 1991–2004

Brief history of Taiwan

» 1945 – End of Japanese rule
» **1948-49** – The Nationalists (KMT, Guo Min Tang, 国民黨) Flee to Taiwan
» 1949-50 – hyperinflation
» 1953 – Agricultural reform/land reform
» 1950s – ISI, US starts pressuring Taiwan to become economically independent (i.e., less reliant on aid)
» **1958-59** – Abandonment of ISI
  > Exchange rates unified (NT$) and fixed exchange rate adopted
» 1965 – US economic aid end
» 1960s-73 – Export-oriented industrial policy
Brief history of Taiwan

» 1971 – Withdrawal from the UN
» 1972 – End of normal relations with Japan, Nixon’s visit to PRC
» 1975 – Chiang Kai-shek（蒋介石）dies (Mao Ze Dong（毛沢東）dies in 1976)
» 1979 – U.S. normalize relations with PRC and abandons normal relations with ROC
» 1987 – End of martial law

» 1988 – Jiang Jing Guo（蒋經国）dies, Li Deng Hui（李登輝）becomes President, liberalization of press
» 1991 – First general election
» 1995 – First presidential election
» 2000 – KMT loses the general election, Democratic Progressive Party (DPP：民進黨) becomes the ruling party, Chen Shui Bien（陳水扁）becomes the first non-KMT president
» 2004 – Pres. Chen relected
» 2005 – Mr. Lian（連戰）, Pres. of KMT, visited China
» 2008 – Mr. Ma Yin-Jeou（馬英九）, Pres. of KMT, became the President
Similarities b/w Korea and Taiwan

» Neighboring a communist nation
» Political and geopolitical complexity + Long period of political restriction
» Fuzzy relationship with the U.S. (recently for Korea, historically for Taiwan)
» Complex relationship with Japan (historically for Korea; recently for Japan?)
» Complex relationship with China
» High growth with economic equity
» Productivity improvement in the agricultural sector occurred as a result of land reform, yielding excess labor that can be absorbed by the manufacturing sector
Similarities b/w Korea and Taiwan

» Early abandonment of ISI
  > Small domestic market
  > Little natural resources
  > Reduction in U.S. aid
» Higher dependency on exports than Japan
» Follow industrialization process; industries for which Japanese labor becomes expensive tend to migrate to Korea or Taiwan
» Traditionally, imports from Japan and exports to the U.S.
» Currently, China is the largest trading partner for both
» Current account surplus against the U.S.
» Protectionist policy in the agricultural sector

Differences b/w Korea and Taiwan

» Ethnic homogenuity vs. Ethnic rifts
» Government’s initiatives in industrial policy and its relations with the private sector
» Corporate finance: more dependency on bank lending in Korea than in Taiwan
  > Despite different paths of financial development, both lagged in developing and applying appropriate risk management
» Corporate finance: more reliance on capital markets in Taiwan
» Public fin. institutions did not play an important role in Taiwan
Differences b/w Korea and Taiwan

» Chaebol-oriented vs. SMEs-oriented
» More stable macroeconomic management in Taiwan (e.g. inflation, public finance)
» Taiwan: Much less reliance on foreign K
» Taiwan: More favorable S-I balance
» Korea: More active in financial liberalization in the 1990s (esp. FDI)
» More active labor unions in Korea
» Chaebols vs. mobs
» “Hollowing out” of industries to China

Characteristics of Taiwan’s miracle

» IP in heavy industries in the early ’70s
  > Steel, petrochemical, shipbuilding
  > 1975 – semiconductor project
» Not so much public financing involved except for above
» SMEs as major players
  > Horizontal relationship b/w corporations unlike vertical relationships in Korea or Japan
  > Fluid labor markets, open to foreign knowledge
» Firms are not so reliant on bank lending as in Korea or Japan
  > Low debt ratio.
  > However, risk analysis isn’t not well-established.