

# **Korean Economy: Past and Present**

Cho, Young-Jun  
Assistant Professor  
Division of Social Science,  
Graduate School of Korean Studies,  
The Academy of Korean Studies  
cho06@aks.ac.kr

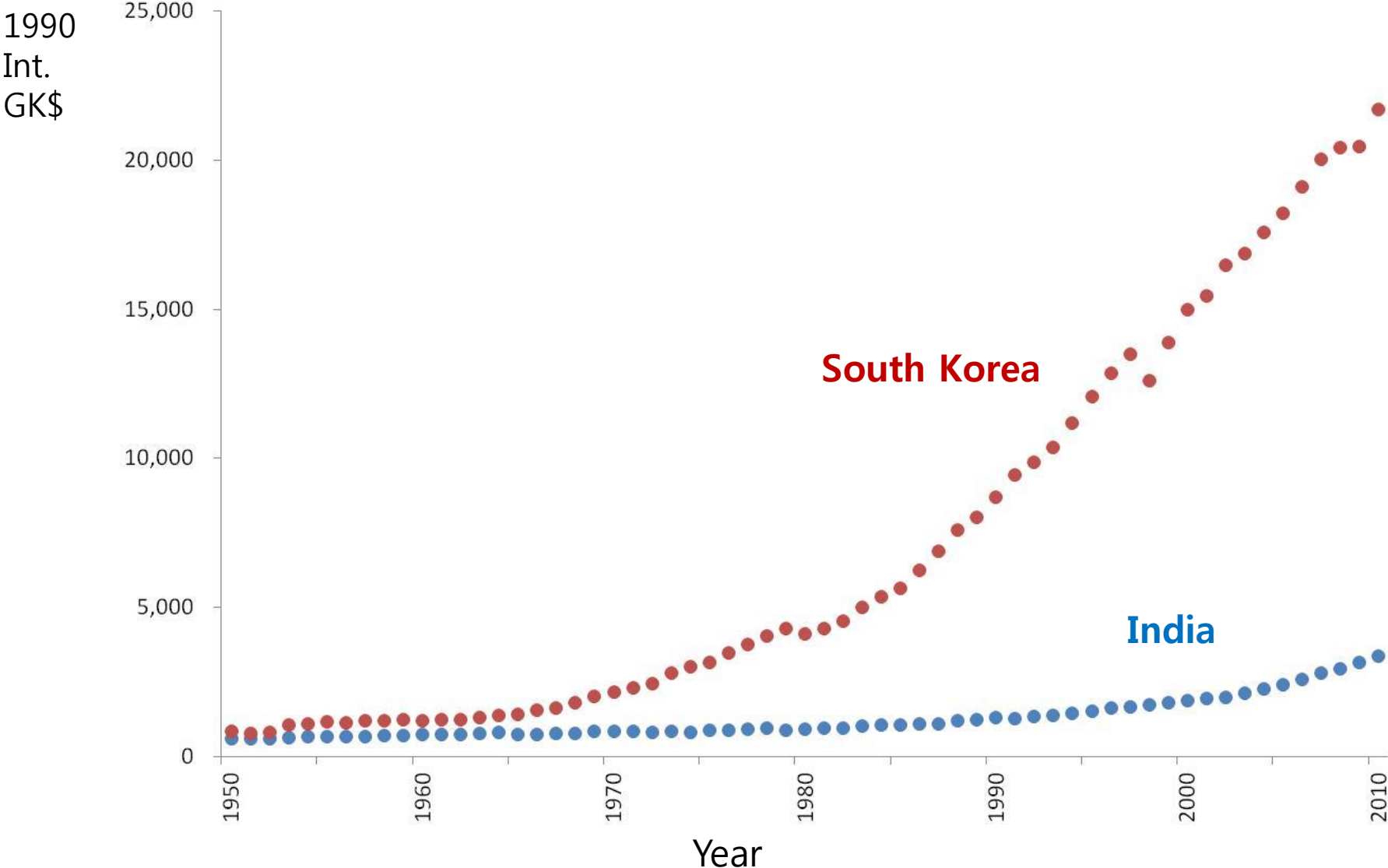
# Maddison Project

- Angus Maddison (1926-2010)
  - World-renowned British economist
- Time-series presentation of global economic statistics
  - Per-capita GDP
  - Adjusted in Geary-Khamis 1990 dollars
  - <http://www.ggdcc.net/maddison>

# Per-capital GDP of S. Korea vs. India

- South Korea: 1911-1940, 1950-2010
  - Colony of Japan from 1911 to 1940
  - Period of vacuum during WW II and around the Independence
- **India: 1884-2010**
  - British colonial rule allowed the country to secure long term statistics in comparison with other countries.
  - Because of its independence in 1947, it would be insignificant to compare with Korea after 1950.

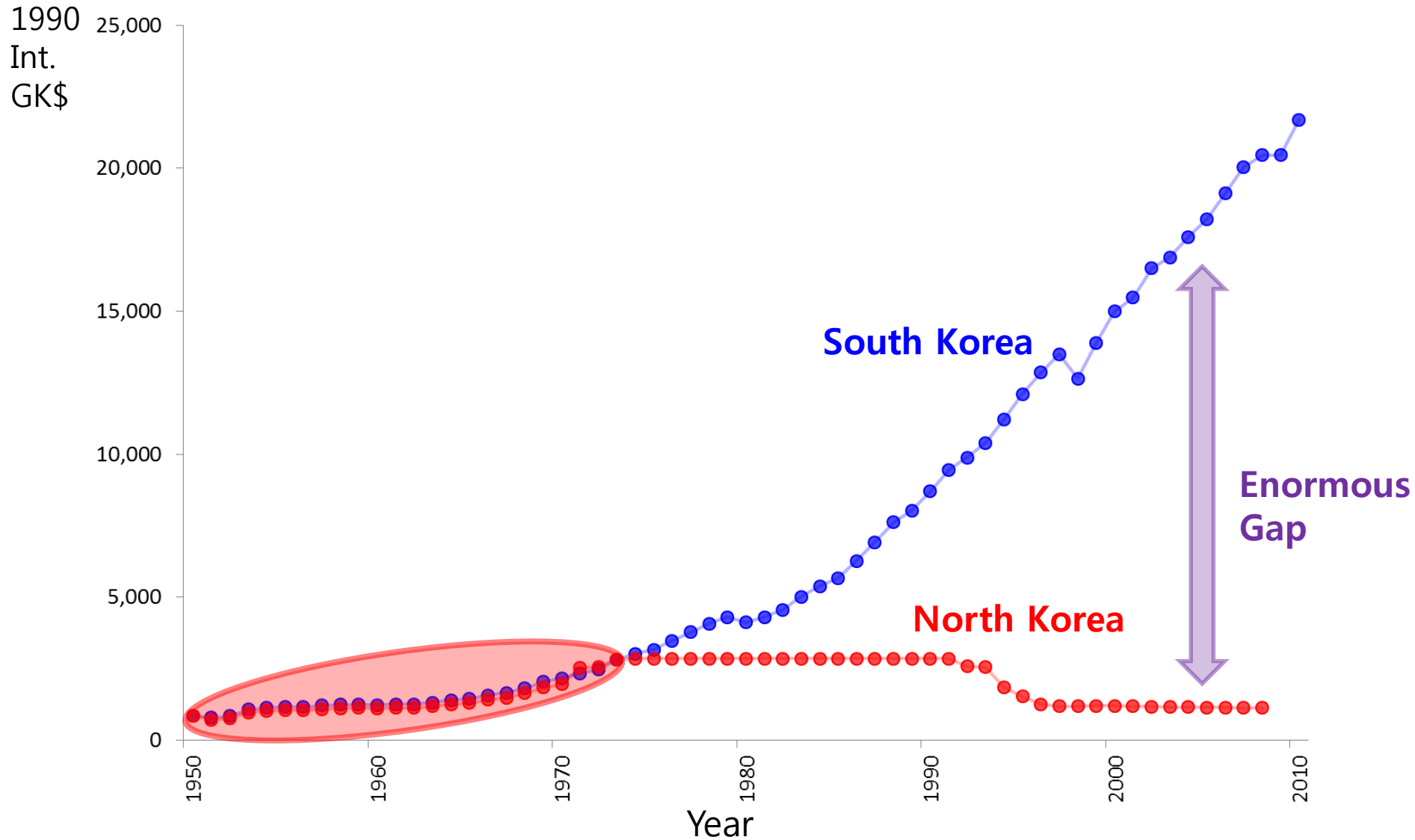
# Per-capita GDP of S. Korea vs. India



# Traditional Explanation for Development of S. Korean Economy

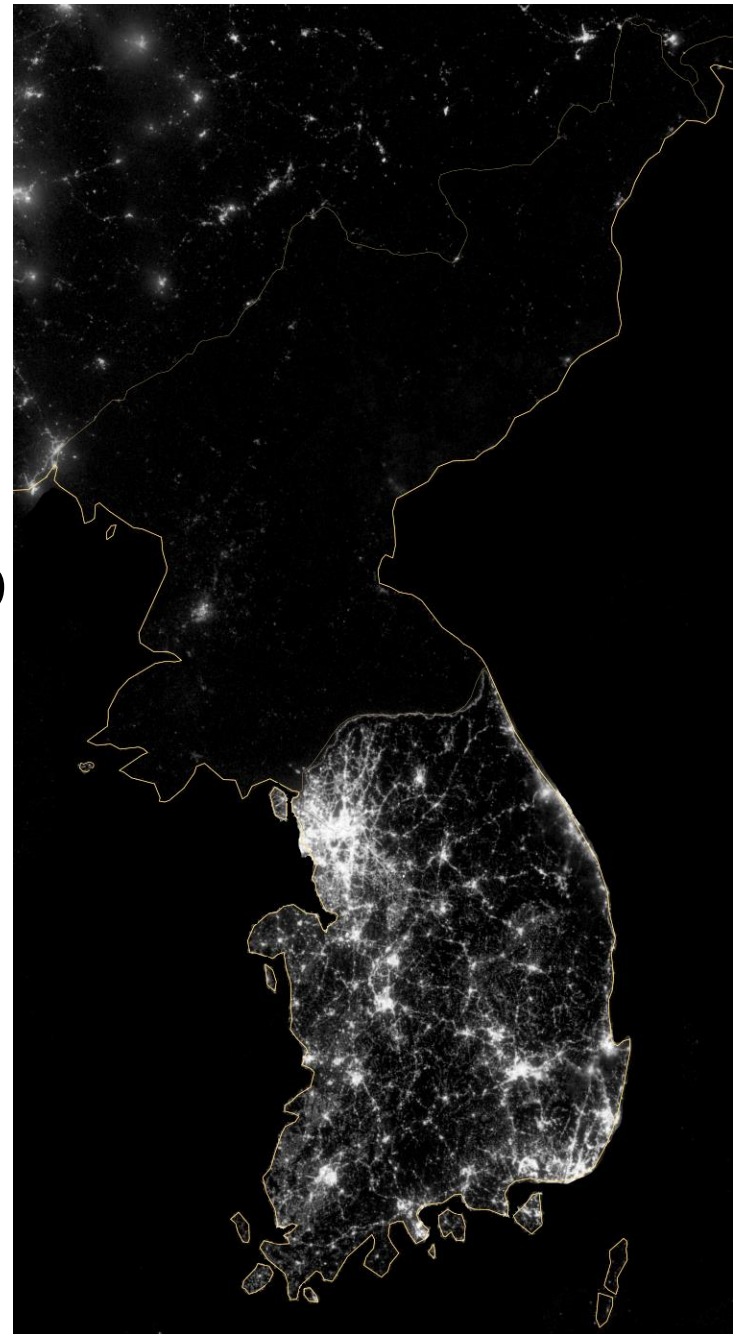
- Emphasis on geographical and ethnical characteristics
  - Geographical location
  - Ethnicity and traits of Koreans
  - Long tradition and culture
- Difficult to explain failure of N. Korean economy
  - Same geographical location with South Korea
  - Same ethnicity
  - Share 5,000 years of history and culture with South Korea

# North vs. South Korea, 1950-2010



# Stark Contrast

- Night view of the Korean Peninsula (NASA satellite photo 2012)



# Systemic Factor for Development of South Korean Economy

- Economic System
  - S. Korea: market-based, open economy
  - N. Korea: command-based, closed economy
- S. Korea chose market economy
  - Difference in economic system determines growth potential.



# Is the growth of S. Korean economy a miracle?

- ‘Miracle’ of the Han River?
  - “Koreans in the South have worked their fingers to the bone to create the industrial country that we now see.” (Bruce Cumings)
- Economic miracle of East Asia
  - NICs (newly industrializing countries)
  - Four Asian tigers (or dragons)
  - Singapore, Hong Kong, Taiwan, and S. Korea

# Growth Phases of S. Korean Economy

- 1950s to early 1960s
  - Recovering from the war; Relied upon foreign aids
- Mid-1960s to 1970s
  - Rapid growth period
- 1980s ~
  - Current account surplus
  - Democratization
  - Overcoming of economic crises

# S. Korean Economy in 1950s

- Foreign aids
  - From the U.N., the U.S., etc.
- ISI (Import Substitution Industrialization)
  - “Three Whites”: flour milling, sugar making, cotton spinning & weaving
  - Traditional development model of developing countries

# Changes in 1960s

- Policy decisions
  - EOI: Export Oriented Industrialization
  - Development of heavy and chemical industries
- Start of rapid growth period
  - From 1963 to 1979
  - 8%+ growth per annum

# Growth Factors for S. Korean Economy



# Growth Factor 1: Trade

- Export-oriented industrialization
  - Different path from other underdeveloped countries
  - Decision led by government and conglomerates
- Enlarged Meeting for Export Promotion
  - Held monthly (1965-1979)
  - President Park Jeong-hee attended 147 times out of 152 meetings

# Growth Factor 1: Trade

- Free Export Zones
  - Masan (1970), Iri (1973)
  - Changed to Free Trade Zone in 2000
  - Today: Masan, Gunsan, Daebul, Donghae, Yulchon, Gimje, and Ulsan
    - Iksan Free Trade Zone (Iri) was abolished in 2010.

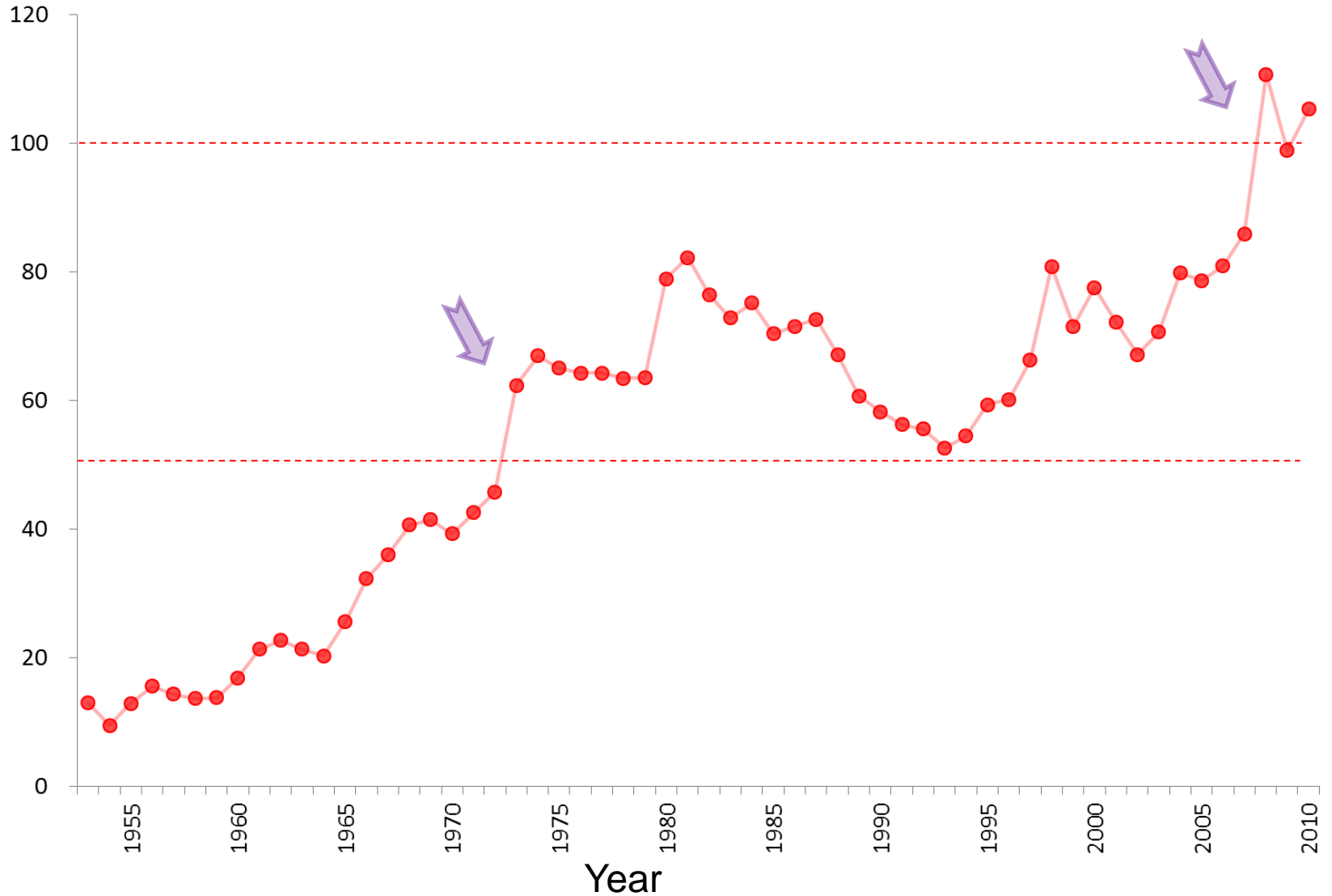
# New Records of Export

- Annual Export
    - \$100 million in 1964
    - \$1 billion in 1970
    - \$10 billion in 1977
    - \$100 billion in 1995
    - $\vdots$
    - \$500 billion in 2011
- (9<sup>th</sup> country in the world which reached the trade volume of \$1 trillion)



# Trade Dependence

Trade Volume as % of GNI



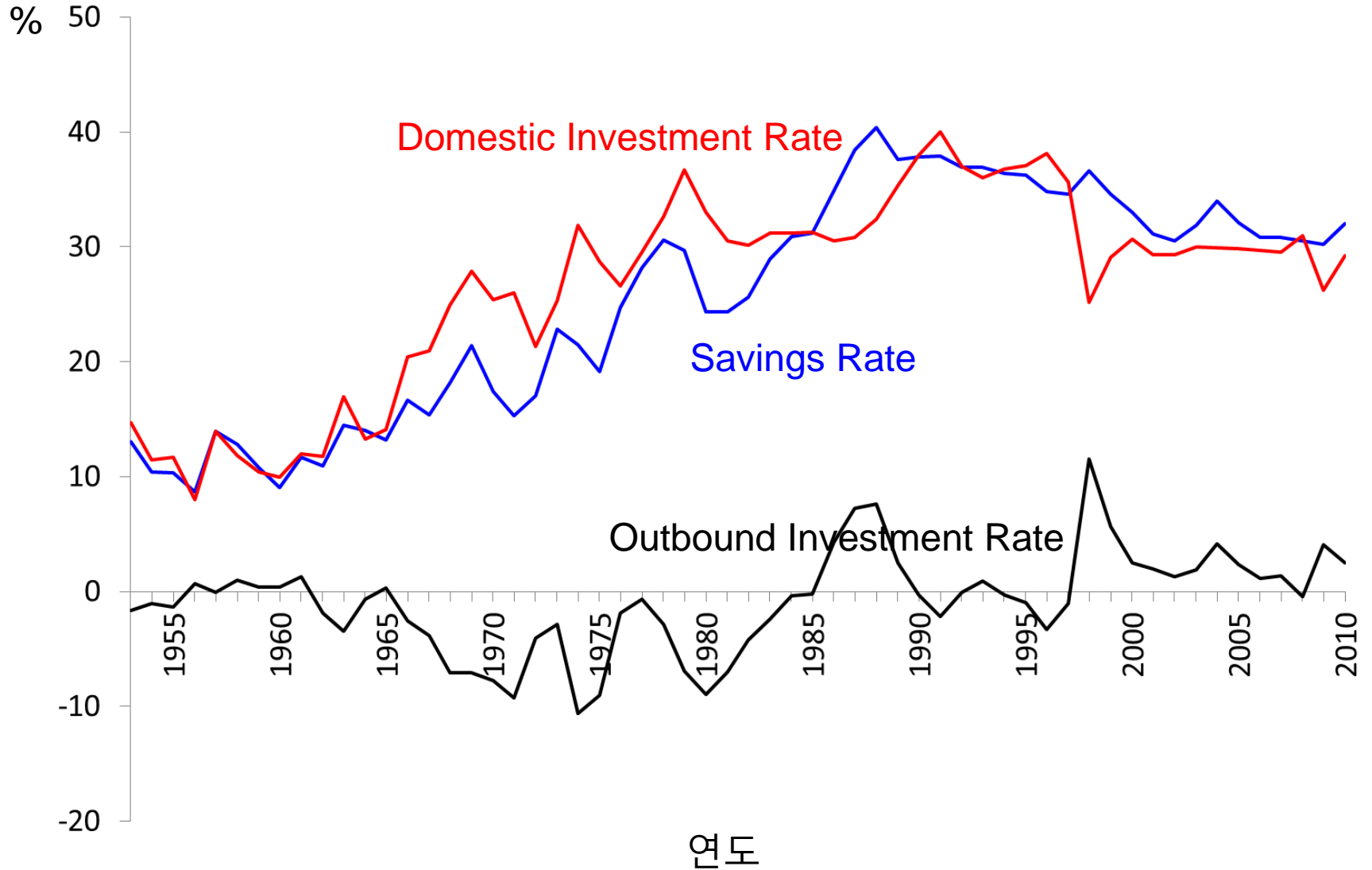
# Free Trade

- Multinational
  - General Agreement on Tariffs and Trade (GATT, 1967)
  - World Trade Organization (1994)
- Bilateral (Free Trade Agreement, i.e. FTA)
  - Effective with 15 economies
  - Chile (2004), Singapore (2006), European Free Trade Association (2006), Association of Southeast Asian Nations (2007), **India (2010)**, European Union (2011), Peru (2011), U.S. (2012), Turkey (2013), Australia (2014), Canada, China, New Zealand, and Vietnam (2015), Colombia (2016)

# Growth Factor 2: Investment

- High investment rate
  - Enabled by high savings rate
  - Mostly domestic savings (+ foreign aids/ loans)
- Outbound investment rate
  - Before 1985: primarily negative (-) rate
  - 1985 onwards: primarily positive (+) rate

# Savings and Investment Rates



# Growth Factor 3: Government

- Traditional developing country
  - Leadership of President Park Jung-hee?
  - Development dictatorship
  - Nationalism: ‘self-supporting economy’ and ‘modernization of our motherland’
- Government Roles
  - *Giheokcheo* (1948) → *Buheungbu* (1955) → Economic Planning Board (1961)
  - Enlarged Meeting for Export Promotion
  - Monthly Economic Trend Report Meeting (held 137 times from Jan. 1965 to Sep. 1979)

# 5-Year Economic Development Plan

- 1<sup>st</sup> Plan: 1962-66
- 2<sup>nd</sup> Plan: 1967-71
- 3<sup>rd</sup> Plan: 1972-76
- 4<sup>th</sup> Plan: 1977-81
- 5<sup>th</sup> Plan: 1982-86
- 6<sup>th</sup> Plan: 1987-91
- 7<sup>th</sup> Plan: 1992-96

# Saemaeul Movement

- Saemaeul Movement: 1970-
  - Funded 50% by government, 49% by farmers
  - Increase of farmers' income
  - Improvement of living environment in rural areas
- Green Revolution
  - High-yield, new variety 'tongil' rice

# Growth Factor 4: Demographics

- Demographical change
  - Increase of working-age population
- Change in jobs
  - From agriculture to non-agriculture
  - Rural to urban migration
  - Mechanized agriculture
  - Formation of middle class → Demand for democratization



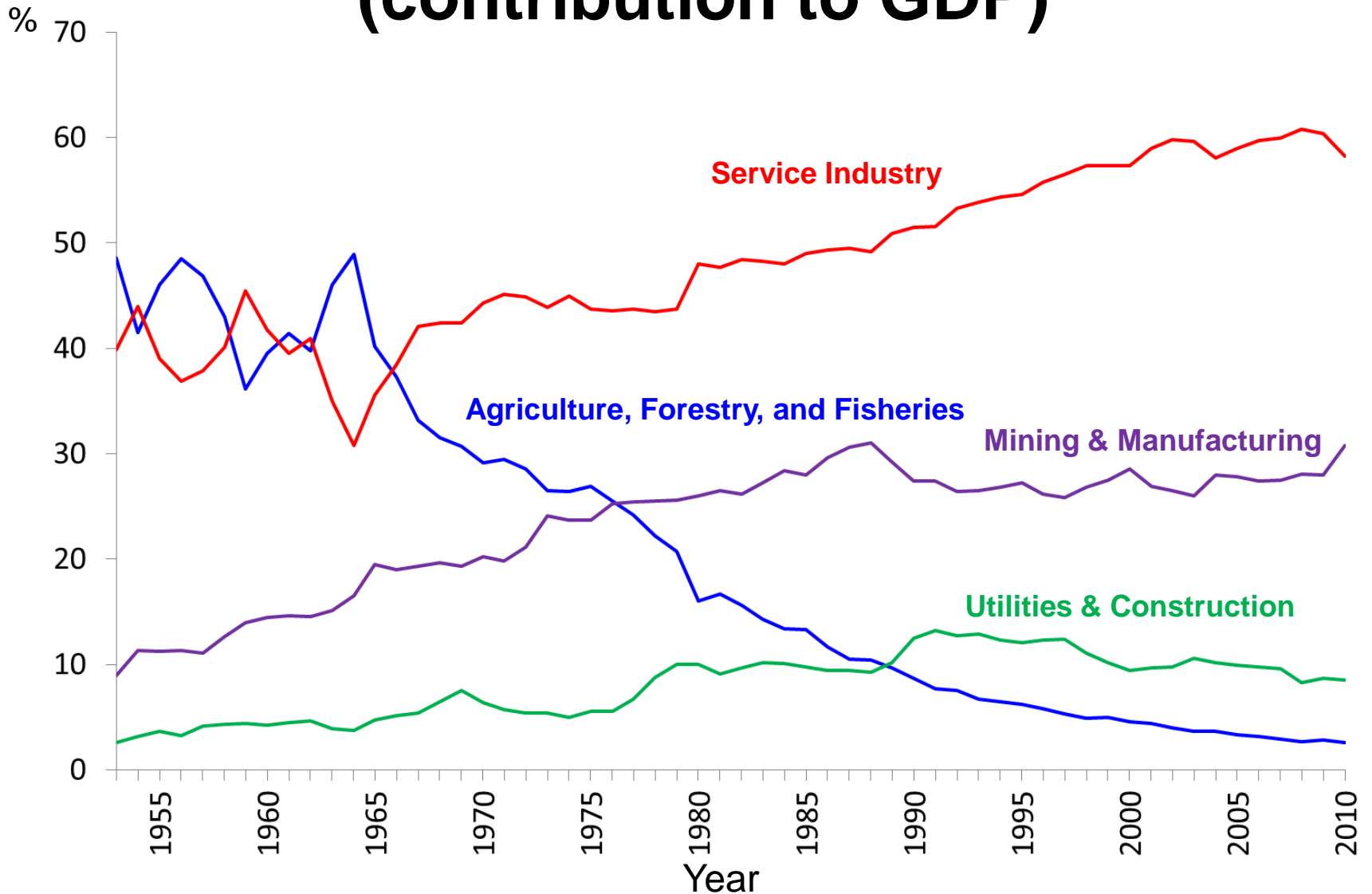
# Human Capital

- Revolution in education: Made elementary school education mandatory
  - Lee Seung-man administration: “Education is the foundation of the nation.”
- Low illiteracy rate
  - 77.8% right after the Independence in 1945
  - Today 1.7% (technically 0%)
- Strong desire for education
  - University enrollment rate: 70-80%
  - Disrespect for vocational education

# **Outcome of Rapid Economic Growth**

- 1) Change in industrial structure
- 2) Competitiveness in major industries
- 3) Democratization after industrialization

# Outcome of rapid growth 1: Change in industrial structure (contribution to GDP)



# **Outcome of Rapid Growth 2:**

## **Global competitiveness in key industries**

- Shipbuilding
- Automobiles
- Steel
- Oil Refinery
- Electronics
- Construction

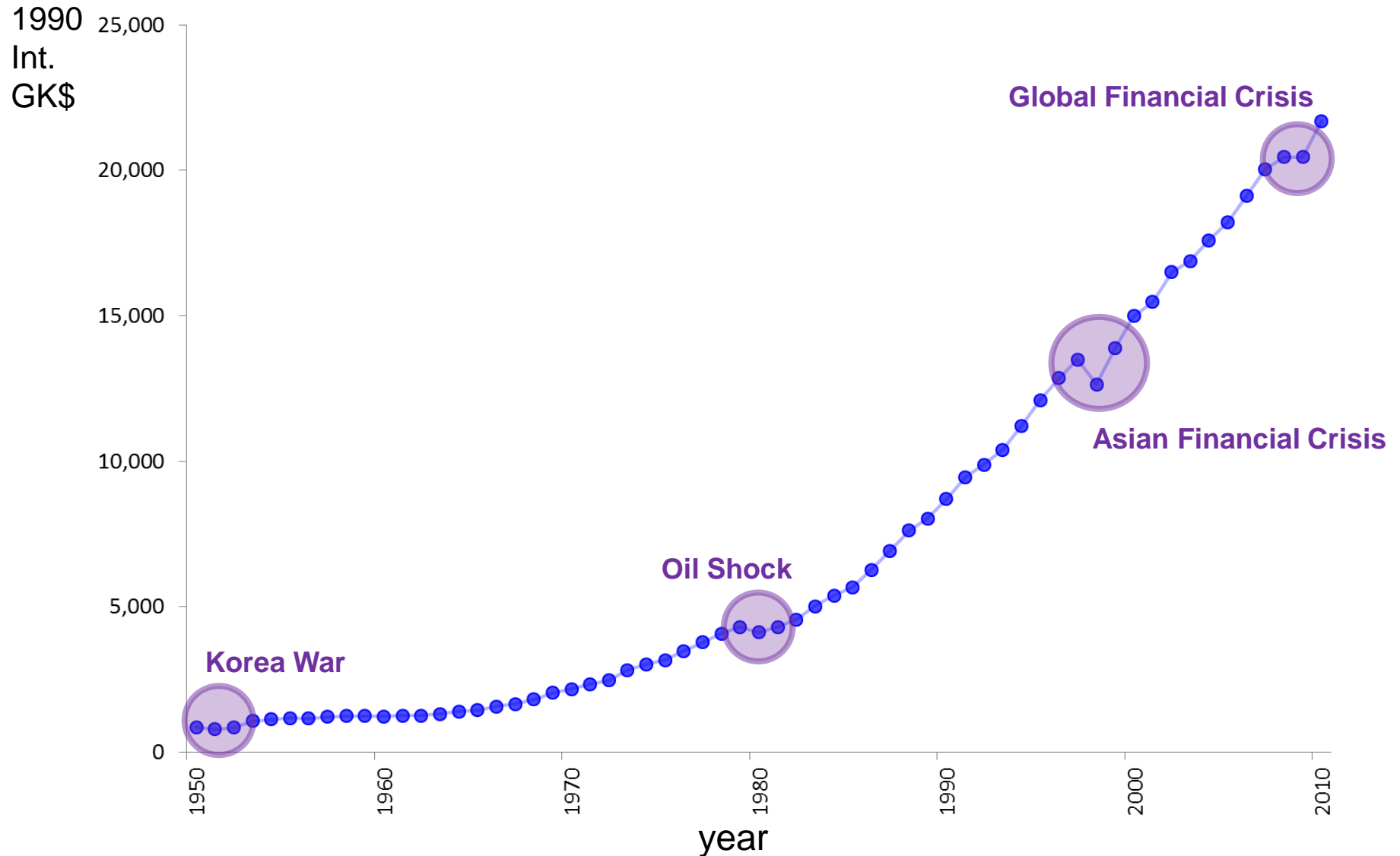
# **Outcome of Rapid Growth 3: Democratization after Industrialization**

- Achieved industrialization and democratization both
  - Continued growth and development for sixty years
  - Achieved democratization following industrialization
  - Introduced direct election of president in 1987

# Economic Crises Overcome

- Did South Korea suffer economic crises from rapid growth period until today?
  - Most crises were born outside of Korea.
- How did it overcome them?

# Crises suffered in growth process



# Asian Financial Crisis of 1997












Currency	Exchange rate (per US\$1) <sup>[47]</sup>		Change
	June 1997	July 1998	
Thai baht	24.5	41	▼ 40.2%
Indonesian rupiah	2,380	14,150	▼ 83.2%
Philippine peso	26.3	42	▼ 37.4%
Malaysian ringgit	2.5	4.1	▼ 39.0%
South Korean won	850	1,290	▼ 34.1%

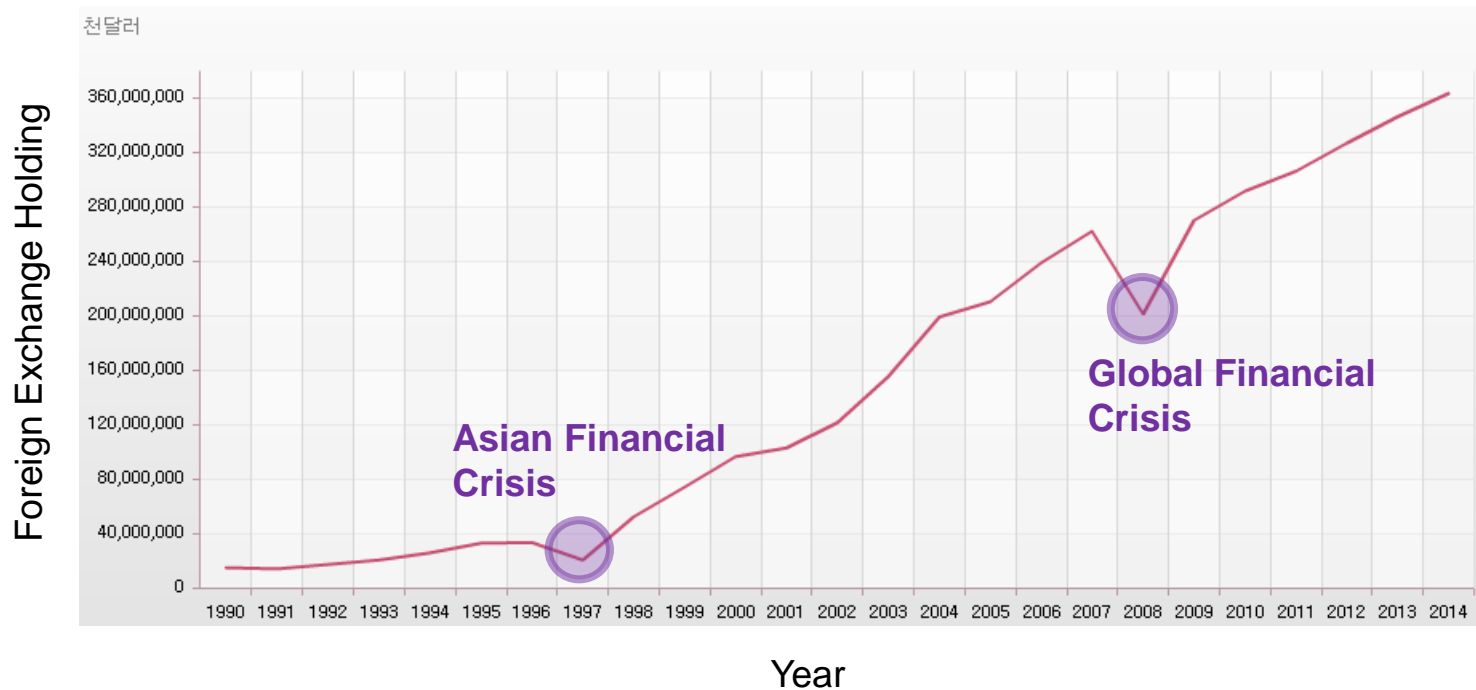
Country	GNP (US\$1 billion) <sup>[47]</sup>		Change
	June 1997	July 1998	
Thailand	170	102	▼ 40.0%
Indonesia	205	34	▼ 83.4%
Philippines	75	47	▼ 37.3%
Malaysia	90	55	▼ 38.9%
South Korea	430	283	▼ 34.2%



# Implications of Asian Financial Crisis

- Corporate Restructuring
  - Improvement of corporate governance system
- Reshaping of financial market
  - Arrival of foreign financial institutions
- Increase of foreign exchange holding

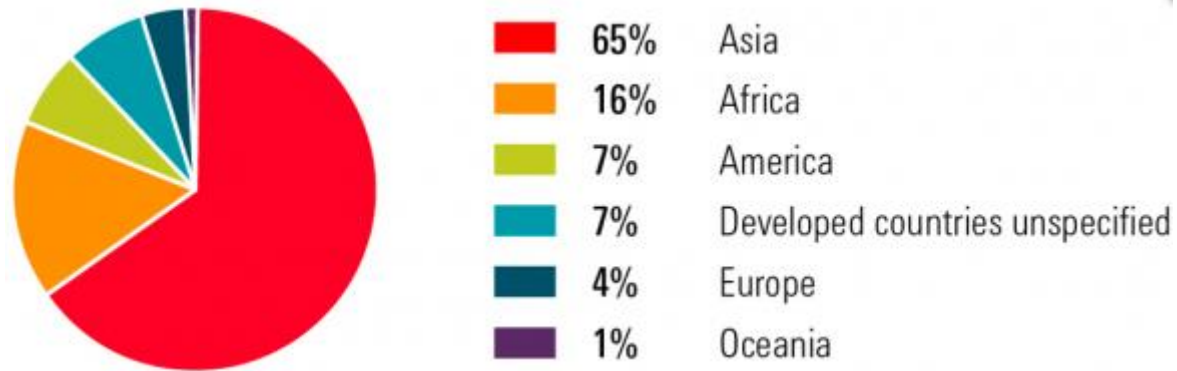
Rank ↕	Country ↕	Foreign exchange reserves (Millions of US\$) ↕	Figures as of ↕
1	 China <sup>[4]</sup>	3,200,000	March 2016 <sup>[1]</sup>
2	 Japan	1,248,107	Jan 2016 <sup>[2]</sup>
-	 ASEAN	754,287	~2016 (sum of references listed here)
-	 Europe (Eurozone)	720,159	Jan 2016 <sup>[3]</sup>
3	 Switzerland	604,911	Jan 2016 <sup>[4]</sup>
4	 Saudi Arabia	602,032	Jan 2016 <sup>[5][6][7]</sup>
5	 Republic of China (Taiwan)	425,978	Jan 2016 <sup>[5][8][9]</sup>
6	 Russia	386,900	Mar 18, 2016 <sup>[10][11][12]</sup>
7	 South Korea	365,760	Feb 2016 <sup>[5][13][14]</sup>



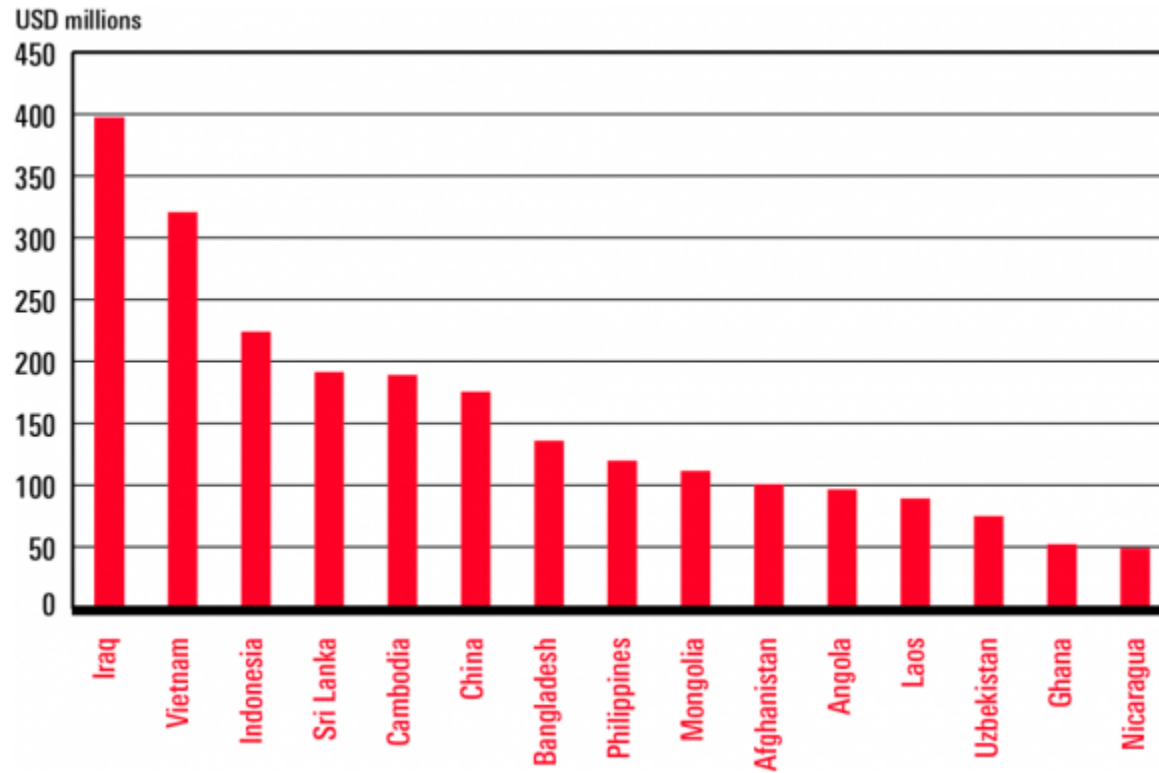
# Path Towards a Developed Nation?

- Organization for Economic Cooperation and Development (OECD, 1996)
- Development Assistance Committee (DAC, 2009)
  - from a recipient to a donor
- Korea International Cooperation Agency (KOICA, 1991)
- Group of 20 (G20)
  - G20 Summit 2010 was held in Seoul

# Korean ODA by region (2010)



# Top Recipient Countries (sum 2000-2009)



# Challenges

- Division with North Korea
  - National defense (nuclear threat, localized provocations, national defense expense, etc.)
  - Reunification (feasibility, expense, etc.)
- Demographical changes
  - Low birth rate and aging
  - Shrinking labor pool and increasing expense of supporting elderly population
  - Increasingly multicultural society (Moving from ethnically homogenous society)

# Challenges

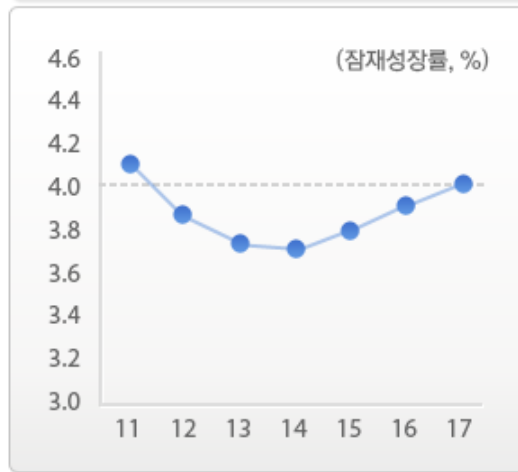
- Social Cohesion
  - Bipolarization (imbalance in income distribution)
  - Social conflicts (conservative vs. progressive, between regions...)
  - Growth first before distribution vs. distribution first before growth
- Social safety net
  - Provision of welfare (universal vs. selective)
  - How to find sources of funding and collect tax

# 3-Year Plan for Economic Innovation: 2014-2017

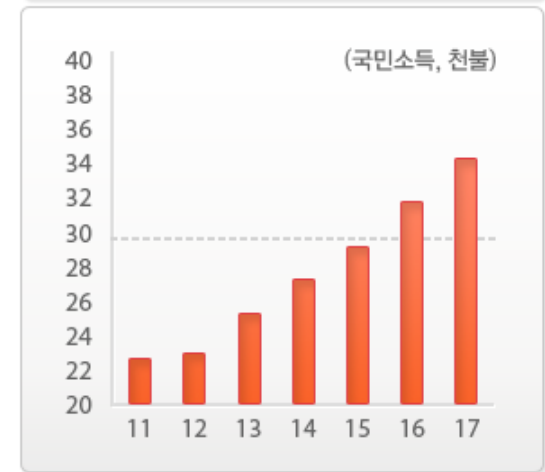
70% employment rate



4% growth rate



\$40k per-capita GDP



(<http://www.economy.go.kr>)



# \*Korea- India CEPA (2010.1.)

- **Comprehensive Economic Partnership Agreement**
  - A similar characteristics with FTA
  - Two heads of the states, "special strategic partnership"
- The first FTA signed with a new merging power

# Korea-India Trade

- The years signed (Jan. – Nov. 2010)
  - Korea → India : Big increase in petrochemical synthetic materials (214.4%), shipbuilding (151.5%), auto parts (43.1%), synthetic resin (42.3%)
  - India → Korea : Big increase in aluminum (505.1%), iron (264.0%), ferro alloy (163.8%), cotton yarn (81.7%), naphthalene (45.5%)
- 5 years now after FTA (as of 2015)
  - Trade from Korea to India takes up about 3.4% of the total Indian revenue
  - Trade from India to Korea accounts for a mere 1% of the total Korean revenue
  - Trade volume is at low level when potential cooperation is considered between the two countries

# \*Development of Auto Industry

- Automotive industry is at the center of machinery industry
  - In 1962, Korea started to produce automobiles in SKD (semi-knockdown) manner.
  - Several manufacturers competed in the late 1960s
  - Specialization (localization), integration (among subsidiaries)
- The country declared heavy chemical industrialization in 1973
  - 1974: long term promotion plan for auto industry
  - Plan for small size cars: Hyundai, GMK, Kia

# Measures to Justify Auto Industry

- JEON, Doo-hwan government's drive to grow auto industry
  - Restructuring auto industry
- Government's strengthened policy financing system
  - Government allocates financial resources.
  - 1970: 44% → 1985: 71% (highest)
- Specialization of major car makers
  - Hyundai Motor: monopolized production of sedans (Saehan Auto merged)
  - Kia Motors: manufacture trucks with less than 5 tons (sedans banned from production)
  - Asea and Donga manufacture buses and trucks

# Restructuring Outcome

- In 1985, Hyundai Motor completed plants to manufacture annual 300,000 cars of one single model.
  - Daewoo & Kia set up mass manufacturing system.
- In 1986, Hyundai Motor exported its model 'Pony Excel' to the world's largest market, the U.S.
- 1995, the country ranked as the 5<sup>th</sup> automobile producer.

# Present of Korea's Auto Industry

Asan



Czech Republic



Turkey

Russia

**Hyundai Motors**

Rank ↕	Country/Region ↕	2013 [2] ↕
—	World	87,663,968
1	China	22,116,825
—	European Union	16,183,846
2	United States	11,066,432
3	Japan	9,630,181
4	Germany <sup>[21]</sup>	5,718,222
5	South Korea	4,521,429
6	India	3,880,938
7	Brazil	3,712,380
8	Mexico	3,052,395
9	Thailand	2,457,057
10	Canada	2,379,806