Introduction and Significance of Korean Economy

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Ⅰ. Introduction

Korea

1950-1953

- One of the poorest countries in the world
- GDP per capita: $67 in 1953

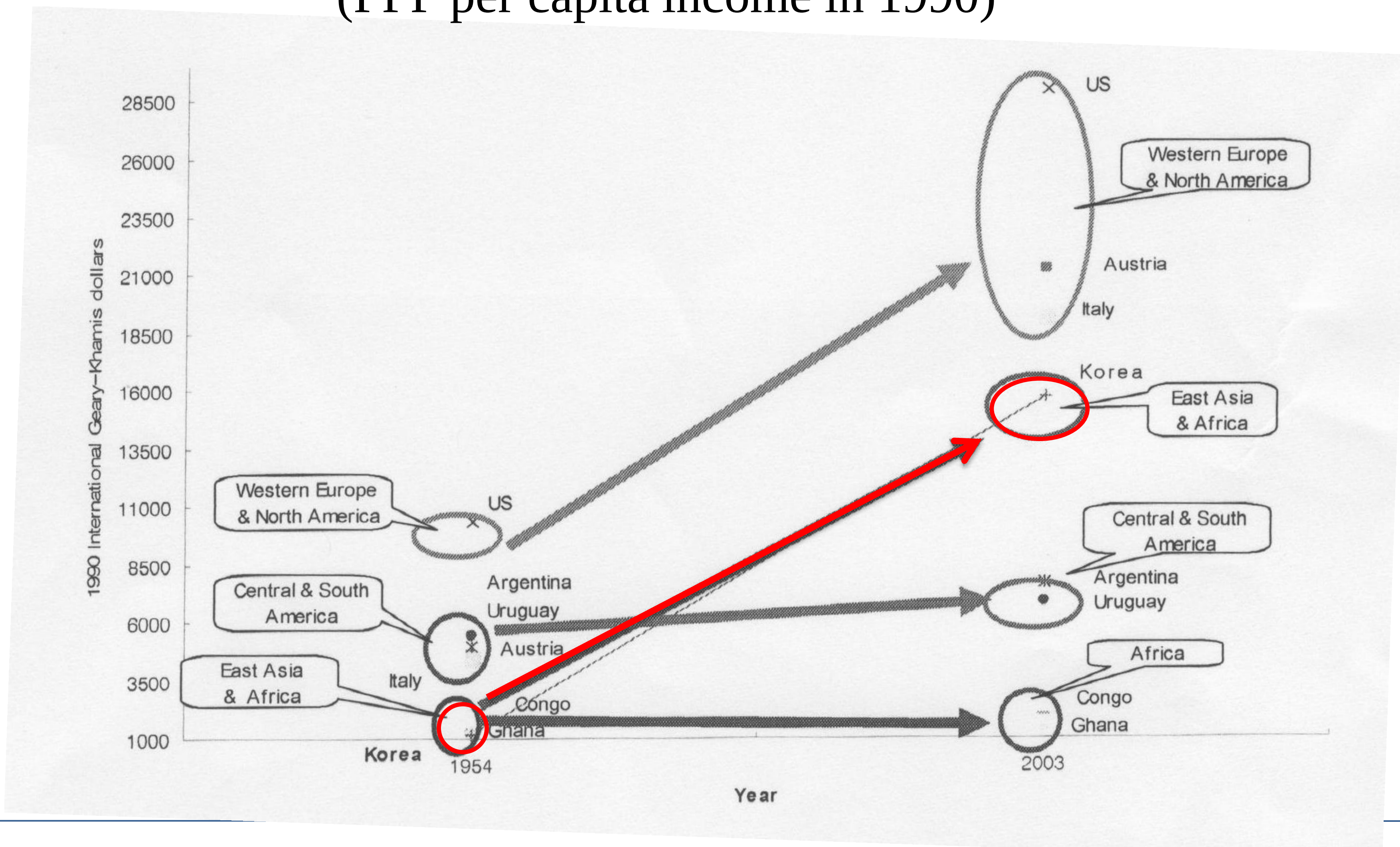
2010

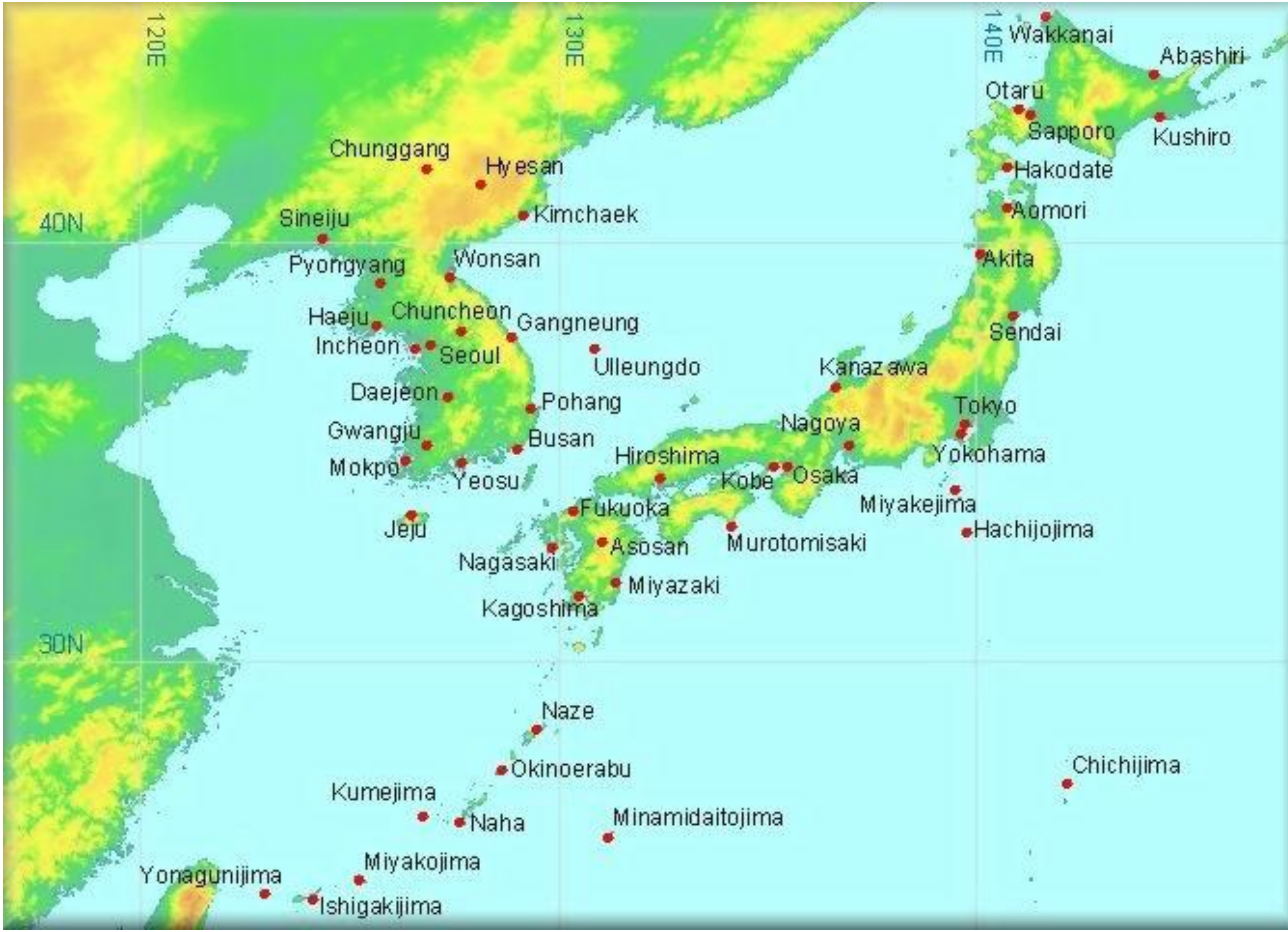
- The world's 14th largest economy
- GDP per capita: $20,757 (26th)
- Export: $466 billion (7th)

Ⅰ. Introduction

Per Capita Income From 1954 to 2003

(PPP per capita income in 1990)




120E
130E
140E
40N
30N
Wakkanai
Abashiri
Otaru
Sapporo
Kushiro
Hakodate
Aomori
Akita
Sendai
Chunggang
Hyesan
Kimchaek
Sineiju
Pyongyang
Wonsan
Haeju
Chuncheon
Gangneung
Incheon
Seoul
Ulleungdo
Daejeon
Pohang
Gwangju
Busan
Mokpo
Yeosu
Jeju
Kanazawa
Tokyo
Nagoya
Yokohama
Hiroshima
Kobe
Osaka
Miyakejima
Fukuoka
Hachijojima
Murotomisaki
Asosan
Nagasaki
Miyazaki
Kagoshima
Naze
Okinoerabu
Chichijima
Kumejima
Naha
Minamidaitojima
Miyakojima
Yonagunijima
Ishigakijima

Ⅱ. Conditions of the Korean Economy

Unfavorable Conditions Become an Opportunity

- Independence from Japanese colonial rule in 1945
- Establishment of Korean government in 1948
- The Korean War (1950-1953)
- After the War, 1.5 million civilians had been killed, and the infrastructure had been destroyed
  - The ambitious economic development plans since 1961

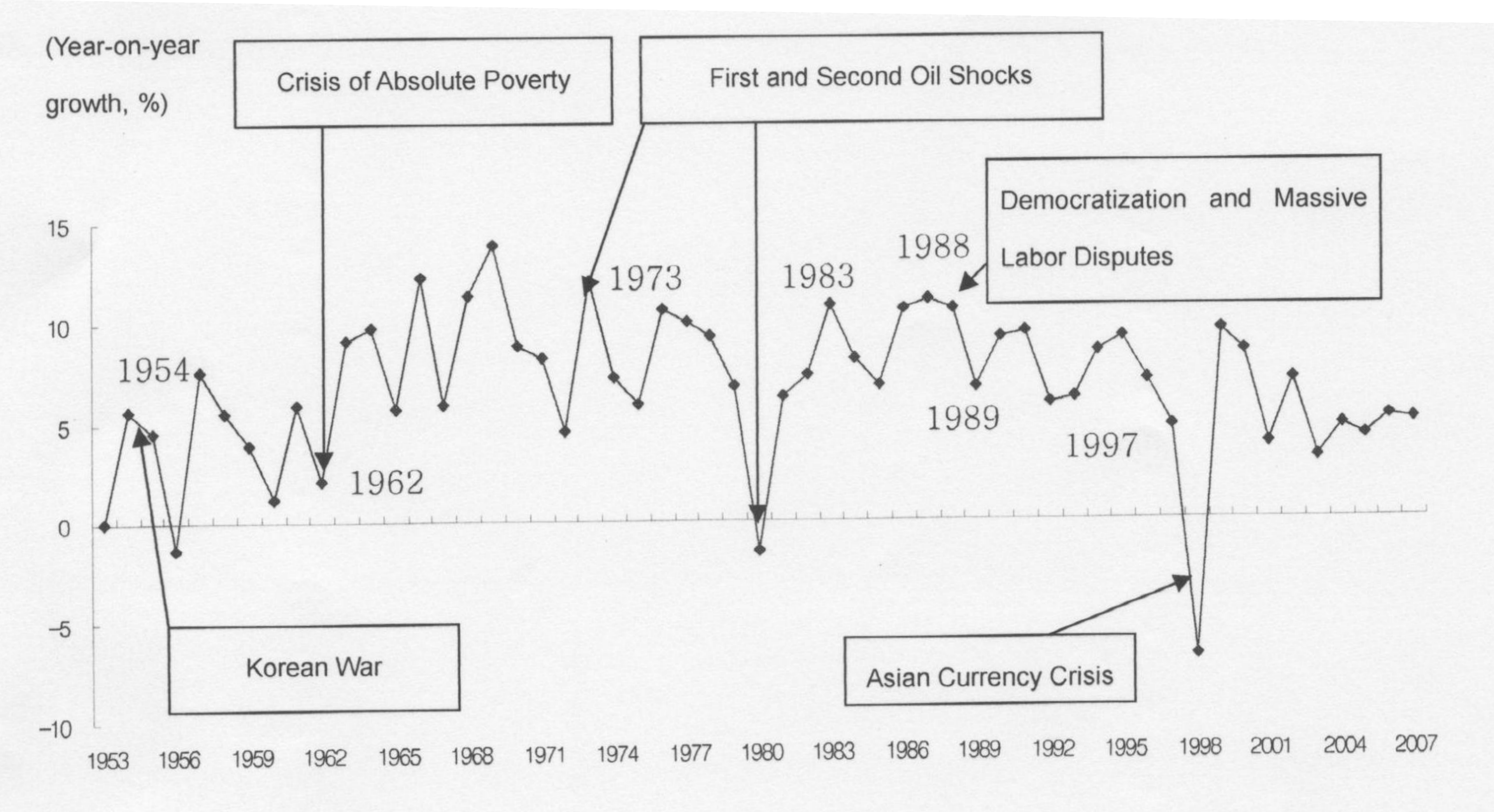
- Constant competition against North Korea, Japan, and China
  - "Ideological conflicts with North Korea"
  - "Catch up with Japan through imitation and learning"
  - "Alertness about the Chinese and Soviet Union's Communism"

Economy's robust growth

Q) Conditions of successful economic development?

Ⅱ. Conditions of the Korean Economy

Figure 2. Major Transition Points and Growth Trends in the Korean Economy



Ⅱ. Conditions of the Korean Economy

Economic System: Creating a Free Market

- South Korea: open, market economy
  North Korea: closed socialist economy (self-sufficiency)

- South Korea: the government played mostly a supporting role, serving as a partner for private companies in the 1960s (?)

  - transit towards a private sector-led economic system from a government-led one was swift.

- India and Brazil: attempted industrialization through state-run enterprises

Ⅲ. Policy Choices of Korea

Five-year Economic Development Plans (1962-1997)

- The economic focus shifted from a "domestically-oriented economy" to an "export-driven economy"
- Various systems and institutions for industrialization
  - establishment of Economic Planning Board
  - downward denomination of the won
  - establishment of special purpose banks (EXIM bank)
  - reform of the foreign currency management system
  - adoption of export promotion policies
  - emphasis on expanding SOC(Social Overhead Capital)
- A focus on quantity over quality resulted in an imbalance
  - between export and domestic demand; between large and small companies, between regions; and between income classes

Ⅲ. Policy Choices of Korea

Fostering Heavy and Chemical Industries and Large Chaebuls

- The first oil shock in the early 1970’s
  - Korea realized that light industrial goods would not guarantee sustained prosperity, then set out to nurture the heavy and chemical industries.
  - sett up Heavy & Chemical Industry Promotion Council
  - raised capital and resources at home and abroad
  - constructed industrial bases for key strategic sectors
  - built more SOC to support heavy and chemical industries
  - Companies brought in production facilities and technology from Japan.

Heavy & Chemical Industry	1970	1980
Ratio out of total manufacturing	39.2%	53.6%
Ratio out of total export	12.8%	41.5%

Ⅲ. Policy Choices of Korea

IT Industry

- In 1983 Korea entered the IT industry by entering the DRAM memory chip market (Samsung Electronics Co.).
- From 1998, Korea outpaced Japan, the frontrunner of the semi-conductor industry and rose to the top of the DRAM market.

Success in the DRAM industry led to a successful entry into TFT-LCD, CDMA mobile phone tech. in the 1990s
The launch of DMB broadcasting in 2005, and the introduction of portable internet services in 2006

1960s light industry → 1970s heavy& chemical industry → 1980s assembly& processing industry → 1990s IT industry

4.4% (1996) → 16.9% (2007)

Ⅲ. Policy Choices of Korea

Opening the Market

- From the 1980s, the external environment deteriorated rapidly
- Leading countries experienced an economic downturn.
  - impose protective measures
  - demanding that developing countries like Korea open markets.

Korea finally adopted an open-door policy, which liberalized the movement of imports and capital

goods → capital movements → foreign exchange & capital transactions (to join OECD, 1993) → almost every sector opened (after IMF bailout)

Ⅲ. Policy Choices of Korea

Opening the Market

- Korea's entry into the global open market system has improved its competitiveness despite of trials and errors.

the currency crisis
in late 1997

the world's 14th largest economy

- Korea's export-oriented strategy and its opening of the domestic market
  - helped spur competition Korean and foreign companies.
  - improved the long-term competitiveness.

Status	Area
Open	Goods and financial sectors
Call for wider opening	Law, energy, and professional services

Ⅲ. Policy Choices of Korea

Strengthening the Welfare System

- To strengthen the welfare system in the late 1980s, Korean government launched various measures including:

  - National Health Insurance System was launched nationwide.
    - ✓Initially introduced companies with more than 500 employees in 1977 and finally it expanded to all citizens in 1989.

  - National Pension System was gradually introduced since 1988.

Ⅲ. Policy Choices of Korea

Reforms in the Financial System

- The Korean economy was hit by the 1997 Asian currency crisis
  - Korean government failed to carry out critical prudential supervision in financial sector and well-planned foreign exchange policies.

- However, Korea was able to use the crisis as an opportunity to push for market-centered financial reforms.
  - It tried to transform its financial sector.
  - The Capital Market Consolidation Law was adopted in 2007, and implemented measures to develop the capital market and foster the financial industry as a new growth engine.

Ⅲ. Policy Choices of Korea

Reforms in the Financial System

- However, the current market-centered financial system is still not competitive in international market.

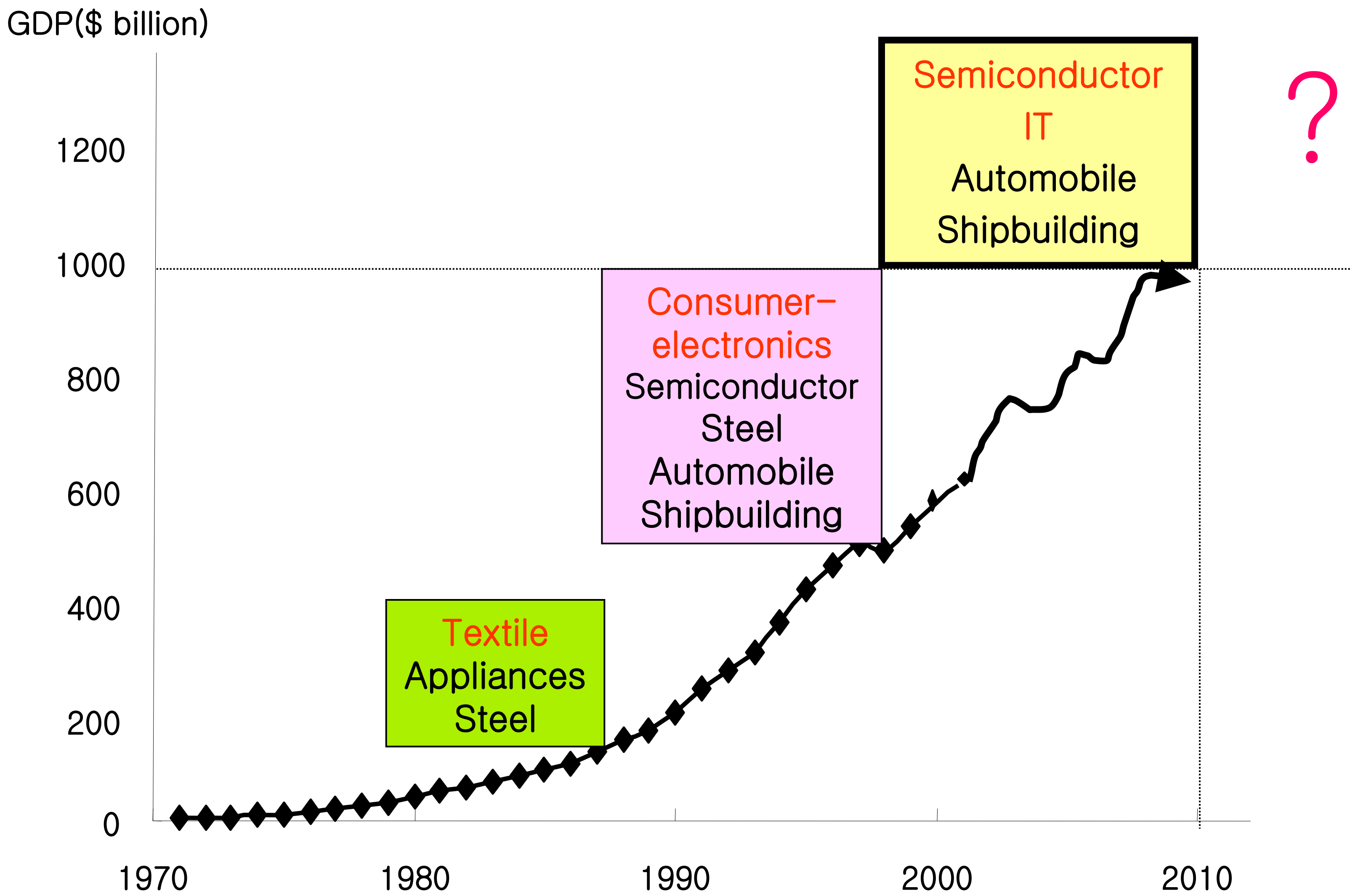
- There are no domestic investment banks that can compete against global investment banks.

- There still exist restrictions on the entry into financial industry and on the development of financial products.

Ⅳ. Implication and Suggestions

- Today, the Korean economy is in transition to becoming an advanced economy.
- The industrial strategies of the past, namely "imitation and learning" from leading countries, will not be effective.
- Korean industry portfolio has not yet reached the level of diversification found in the leading countries.
- The Korean economy should increase R&D investment and enhance efficiency rather than simply increase labor and capital input.

Changes in Growth Engine



Ⅳ. Implication and Suggestions

- The government can relax regulations, and create new market opportunities to foster promising next generation growth engines like finance, biotechnology, and energy.

- Inducement of inbound foreign investments and encouragement of outbound FDIs will also be necessary.

- A balance among economic growth, wealth distribution, and a sound budget system is required.

Q&A