

[Special Lecture, Yongnam University]

Transformation of the Korean Economy: Implications for Africa

14 April, 2016

Jin-sang LEE, Ph. D.(Economics)

Professor, Director, Center for International Development and Cooperation

Duksung Women's University , SEOUL, South Korea

E-mail: leejinsang88@gmail.com

Phone: +82-2-901-8767(Office)

+82-10-4722-3801(Mobile)

Contents

- I. Overview
- II. Transformation
- III. Role of the Government
- IV. Role of the Private Sector
- V. Social Factors in Development
- VI. Implications for Africa
- VII. Conclusion

I. Overview

(1) The Country

- ❖ Population: 51.3 million (2015) Pop. growth rate:1.24%(2015)
 - Area: 99,720 sq.km
 - Rank (IMF): 6th Trading country(\$904bil.,2015)
11th largest economy(\$1,393bil., 2015)
 - GDP per capita: \$27,340.(2015)
 - Human Development Index; 12-15th in recent years
- ❖ Economic Indicators:
 - GDP share: Agri.; 2.3%, Industry; 31.1%, Services; 66.6% (2013)
 - Labour share: Agri.; 4.0%, Industry; 17.6%, Services; 78.4%(2015)
 - Growth rate: 3.5% in 2014, 2.6% in 2015
 - Main industries: Shipbuilding, Automobile, Petrochemical,
Electronics, ICT

I. Overview

(2) Historical Review

- ◇ Kingdom over 1700years: Chosun Dynasty over 500 years till 1910
- ◇ 1909: Japanese occupation
- ◇ 1945: Liberation from the Japanese occupation
- ◇ 1950-53: The Korean War
- ◇ 1960s: Industrial Promotion; Outward looking
- ◇ 1970s: Big push; heavy and chemical industries
- ◇ 1980s: Structural adjustment & liberalization, the IT industries
- ◇ 1990s: financial crisis in 1997 (IMF Bail out policies)
 - 1998 ~ 2000: Economic reform
- ◇ 2000s: Slow growth, 2008: World Financial Crisis, Recovery
- ◇ 2016: Still Progressing

I. Overview

(3) Trade and the Balance of Payment

< Korea's Annual Trade Growth Trend between 2002-15(US\$ billion)>

Year	Export	Import	Balance
2000	172.2	160.5	+11.8
2004	254.2	224.5	+29.7
2008	363.5	323.1	+22.0
2012	547.9	519.6	+28.3
2014	572.7	525.5	+47.2
2015	526.9	436.5	+90.4

Source: Korea Statistics Office (2016)

- Between 2000 and 2015, the total amount of Korean export increased more than 3 times, while the growth of import was lower than export.

I. Overview

(4) Trade and the Balance of Payment

<Korea's 5 Major Export Commodities in 2010-15(US\$ billion)>

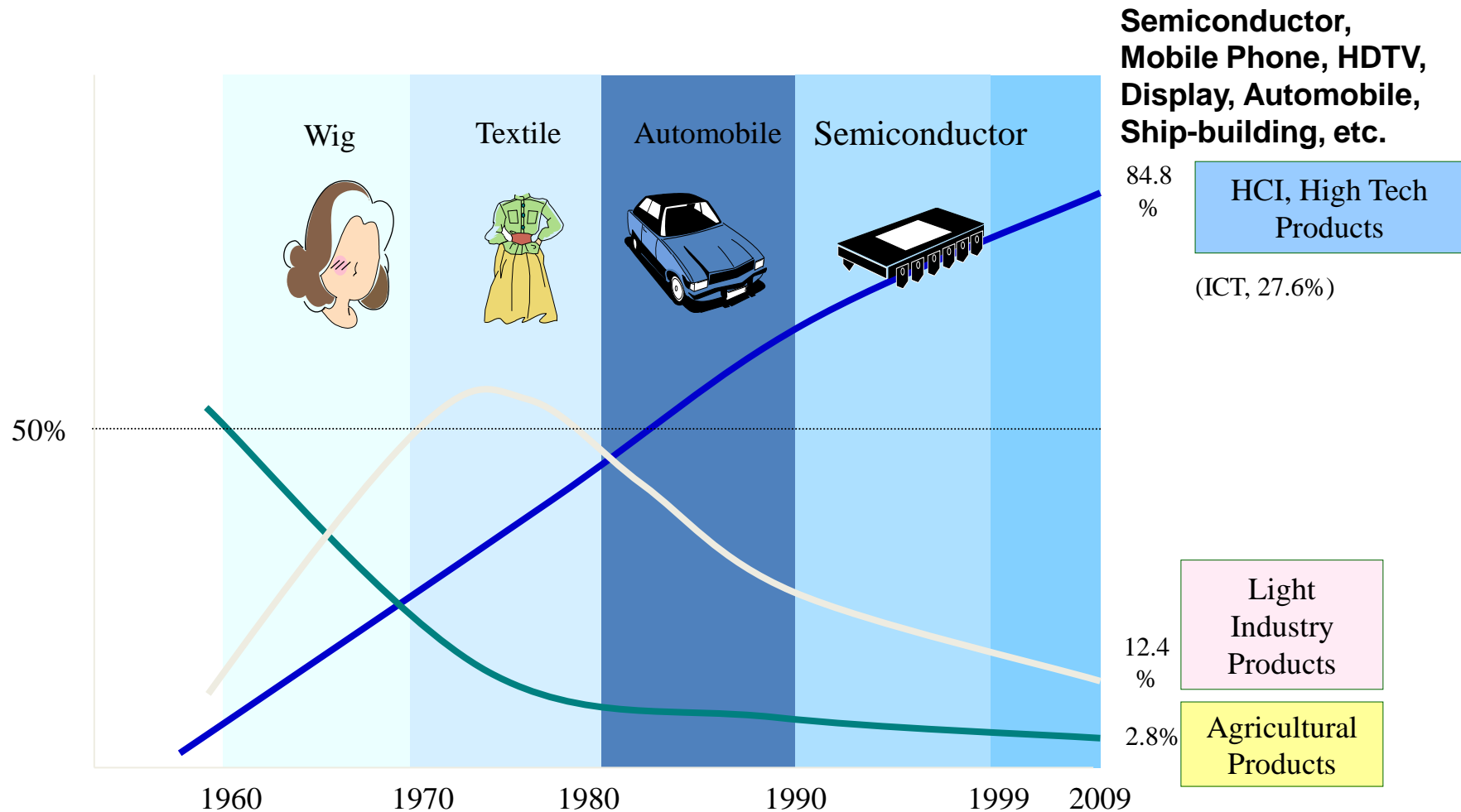
Year	Electronics goods & M. Phone	Automobile and parts	Computers and Machinery	Chemical products	Shipbuilding
2010	110.8	53.4	52.0	32.6	38.3
2014	138.2	73.3	63.0	52.4	46.7
2015	130.0	97.1	36.1	33.6	57.6

Source: Korea Statistics Office (2016)

- In 2014, major 5 commodities' export exceeded US\$365.2billion(63.8% of total export)
- In 2015, major 5 commodities export shared US\$354.4billion(67.2%) of total export)
- Korea promoted industries that can be competitive in the international market. (selective and concentration)

I. Overview

(5) Sectoral and Industrial Transformation

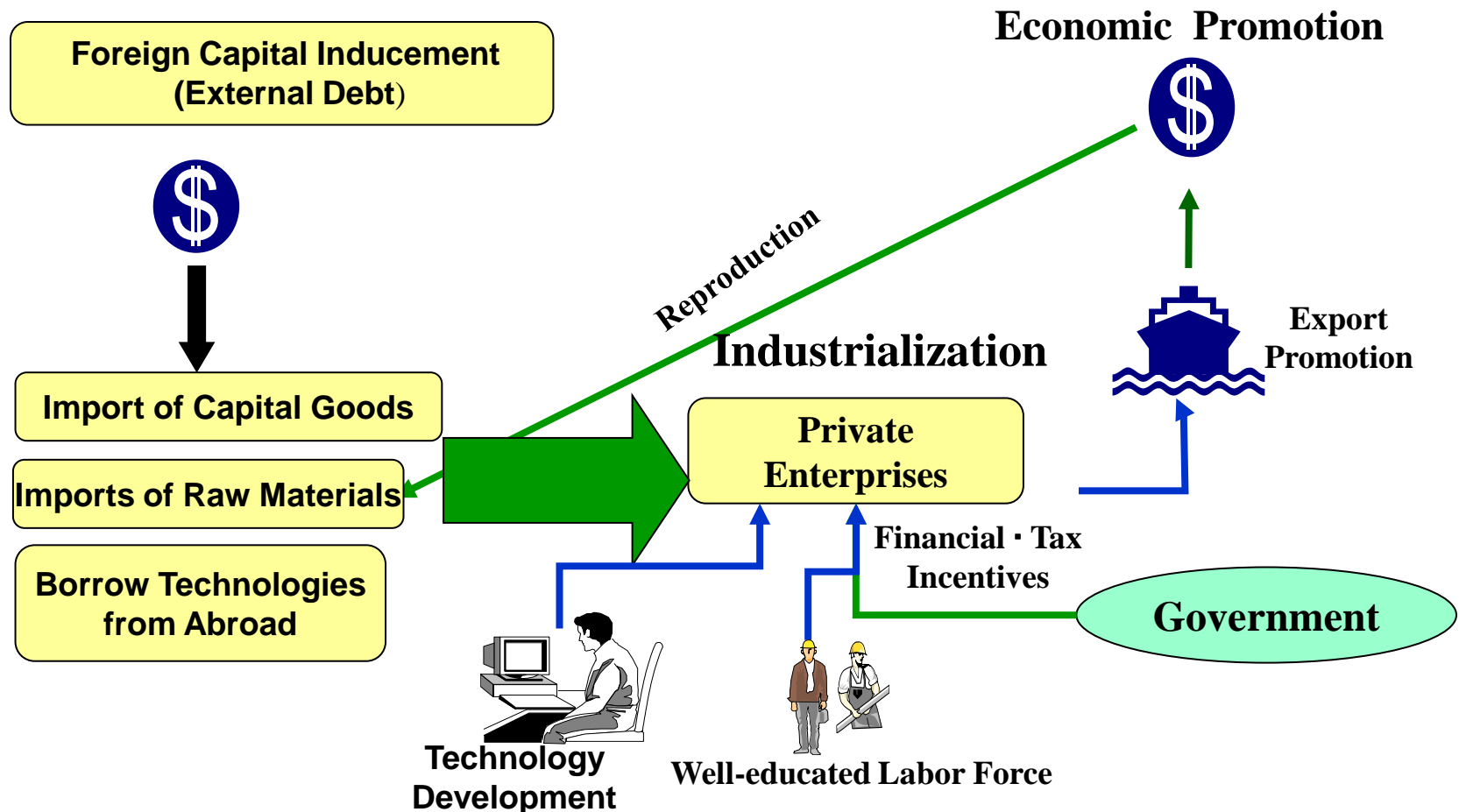


Source: MOSF, 2009

Copyright 2016@Lee, Jinsang

I. Overview

(6) Flow Chart of Industrial Strategies



II. Transformation

(1) 1960s : Outward-looking Industrialization

- ◇ Strong government in 1961: Late President Park Chung Hee
- ◇ Top priorities: Eliminate poverty and industrial promotion
- ◇ Began 5-year economic development plans
- ◇ Outward-looking economic policies; export-oriented
 - Korea had abundant cheap labor, few natural resources, small domestic market
 - Promotion of exports: government subsidies and incentives
 - Light industries: low level technology, maximize job creation
- ◇ Determine target industries for promotion: export and domestic markets
- ◇ Provision of capital for target industries
 - Attract foreign investment; Shopping list on hands; Government guaranteed; Keeping the ownership
 - Soft loans for target industries

II. Transformation

(2) 1960s: Policies and Education

- ❖ Establishment of special purpose financial institutions
 - Korea Development Bank, Korea Export and Import Bank, SME Bank, Agricultural Bank, Korea Foreign Exchange Bank, etc.
 - Government control over the financial sector
- ❖ Provision of social overhead capital: Infrastructure
- ❖ Human Resource Development:
 - Higher education; priorities on subjects such as engineering, science and technology; textile, chemical, computer, architecture, mechanical, shipbuilding, electronics, electrical engineering, etc.
 - Top students go on law and medicine; economics and management
 - Secondary education: technical high schools; skills
 - TVET and two year colleges

II. Transformation

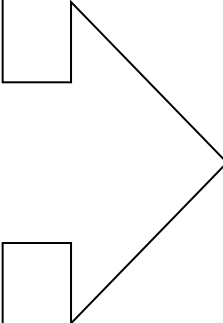
(3) 1970s : Big Push for HCIs

- ❖ To promote the Heavy and Chemical Industries from the late 1960s
- ❖ Partnership between the government and enterprises
 - Target industries were supported by the government
 - Favorable interest rates available for investment
 - Large scale manufactory plants: steel, automobile, shipbuilding, etc.; Created demand for SME products
- ❖ Target industries: Industrial basis for subsistence & sovereignty
 - National drive for thrifty and savings for investment
- ❖ Created large conglomerate, Chaebol, and expanded businesses
 - 30 Chaebols share 80% of the Korean GDP in 2012
(Samsung: 23%, Hyundai:12%)
- ❖ Target industries: selective and focused

II. Transformation

(4) 1970s: Target Industries

- Mobilize Financial Resources (soft loans)
- Government determined target industries
- Many Chaebols were created (preferred large)
- Accelerate competition in the international market (monopoly and oligopoly)

- 
- **Iron and steel (SOE)**
 - **Electronics**
 - **Petro-chemical**
 - **Automobile**
 - **Ship-building**
 - **Machineries**

- ❖ Debate: Only selected industries were supported and neglecting SMEs; many SMEs are benders (eg. the automobile industry)
 - some policies on SMEs; soft loans etc.
- ❖ Iron& steel industry: basic need for industrialization

II. Transformation

(5) 1980s : New Step for Further Development

- ◇ Imbalanced growth : Focused on few industries by Chaebol
- ◇ Regional Imbalance: Developed and less-developed
- ◇ Structural imbalance: “Chaebol problems” Too big to fail
- ◇ Over capacities in the HCLs: Chaebols were competing each other; Why not me attitude
- ◇ Moved into high tech industries: IT industries like Samsung, LG, Daewoo
 - Big step toward to advanced technologies
 - Risk taking behavior; chairman has power to take action though top managers were against; that is a positive side of business
- ◇ Relaxed labor policies: Trade Union movement in 1988
 - Increased wage rate in Korea: Investment to China and East Asia (market expansion and international division of labour)
- ❖ Government induced oligopoly with Chaebol

II. Transformation

(6) 1990s-2000s: Emergence

- ◆ Globalization: WTO, FTAs, and integrated to the world economy
- ◆ The Asian Financial Crisis in 1997: Some failed like 'DAEWOO' – 'Too big to fail' (?)
 - Opportunities for the Korean industries to increase competitiveness
- ◆ New economy with science and technology progress: IT, BT, NT
- ◆ Dynamic and innovative economy: adapt the changes in world business environment
- ◆ Science, technology and innovation: required rich in human capital
 - R&D activities: in terms of 4.3% of GDP(2015, 1st in the world in % of GDP)
- ◆ E-government system: increased efficiency of the country
 - Possible with the development of the ICT industries

II. Transformation

(7) Korea Now: Creative Economy

- ❖ Korea is facing: slow growth(due to the world economy?), increasing unemployment (young people and aged, modern technology required less people), aging society (improved quality of life), fierce competition(newly emerging economies), technology leadership (harder at high level of technology)
- ❖ Need to find new growth momentum
 - Pursue a creative economy: government policies for new ways of business, S&T education, linkage of culture to economic activities (Korean Wave, K-pop), business incubating centers for start ups, encouraging engineering and science, sustainable development
- ❖ **Korea is still on the move.**

II. Transformation

(8) Short Comings of Development(1970-2000)

**Financial suppression
due to prolonged
government intervention**

**Over-investment in
HCIs by
Chaebols**

**High inflation and
large fiscal deficits**

- **Inefficient resource allocation (excessive investment in the same areas among Chaebol)**
- **Macroeconomic instability with external shocks**
- **Less favorable policies for SMEs**

- **1970s: Heavy foreign debt until the early 1980s**
- **1980-90: Strong trade union movement, and increase in wage rate**
- **1990-2000s: More diversified economy, but only a few industries are dominating and polarized (portfolio investment?)**

III. Role of the Public Sector

(1) Overview

- ❖ Political stability, North Korea, surrounded by super powers
- ❖ The Government policies and implementation
 - Good governance; strong government
 - Effective long-term vision and good management
 - Development of SOEs
 - Efficient and effective policy implementation
- ❖ Focusing on HRD
 - Education, TVET, Entrepreneurship
- ❖ Conducive business environment
 - Social Infrastructure
 - Confucianism values: seniority, scholarly, organizational structure
- ❖ International relations and external policies
 - USA, Japan (geographical location), European countries

III. Role of the Public Sector

(2) The Government in the 1950s

- ❖ Ministry of Rehabilitation (1955-61)
 - Strong foreign intervention and need for immediate rehabilitation and reconstruction.
 - The idea of development planning was criticized on account of resource and capacity constraints.
 - The Ministry was entrusted with planning economic stabilization, rehabilitation and reconstruction program.
 - Budget function was carried out by the Ministry of Finance
- ❖ During this period five year plan was prepared by foreign consultant but was not implemented...lack of political support.
 - Economic programs of the ministry lacked long-term development objectives.
 - Fiscal deficit: foreign aid filled the gap

III. Role of the Public Sector

(3) The Government in the 1960s- after

- ❖ The Economic Planning Board (EPB, between 1961-1993)
 - Reorientation of national priorities: political stability and economic development.
- ❖ Supreme Council for National Reconstruction was established which exercised legislative, executive and judicial powers and tight control...strong leadership with commitment to modernization and economic development.
- ❖ EPB (Super Ministry); Deputy Prime Minister
 - Planning, resource mobilization, budgeting, statistics, policy advice and coordination function of economic development council
 - Economic cooperation and technology management were added

III. Role of the Public Sector

(4) EPB Leadership (a)

- ❖ Visionary, strong-willed and innovative political leadership
 - Engineered a futuristic development vision and always looked for quality and excellence.
 - Pragmatic and focused political commitment.
 - Delivered what was promised.
- ❖ EPB assumed leadership
 - High profile office and status
 - Focused but coordinated planning, budgeting, resource mobilization, R&D and national statistics.
- ❖ Highly motivated and talented policy makers, technocrats and professionals
 - Best people were brought in government bureaucracy and provided with further development opportunities.
 - National R&D capacity developed inviting non-resident Koreans with special package of incentives.

III. Role of the Public Sector

(5) EPB Leadership (b)

- ❖ Strategic national development framework
 - National identity and pride
 - Strategic planning agency and development plans
 - Consensus building among key stakeholders
 - Centralized economic planning and implementation
 - Savings and investment
- ❖ Five year Economic Development Plans, and Science and Technology Development Plan
- ❖ Inter-ministry, thematic or sectoral group meetings
- ❖ Emphasis national budget with national development plan.
- ❖ The President presided the monthly economic meeting and export promotion meeting (Nov. 30, 1964 Export Day; export exceeded US\$ 100 mil.)

IV. Role of the Private Sector

(1) Business Activities and Ethics

- ❖ Cooperation with the Government
 - Government instruction, completely resulted oriented treatment, leader-follower model, selected industries
 - Many entrepreneurs were encouraged to do business
- ❖ External factors: Foreign aid, the war reparations from Japan
- ❖ Capital investment: finance, technology- not considering appropriate technologies
- ❖ The separation between control and cash-flow rights can distort incentives
- ❖ The dispersed ownership also has agency costs but the market for corporate control would discipline the controller (or the management).
- ❖ Concentrated ownership => Internalizing costs

IV. Role of the Private Sector

(2) Emergence: 1960s-1970s

- ❖ 1960s: Priorities on economic growth
 - Foreign capital and technology Inducement
 - Cheap labor cost; easy to start both domestic and foreign
- ❖ 1970s: Sustained high economic growth and moved to more capital intensive industries
 - Subsidy to export industries (EXIM Bank)
 - Middle-East construction boom in the 1970s afterward
 - Large Investment in the heavy and chemical industries
- ❖ Building and promotion of prestige projects to engender hope and pride among people often against
 - Seoul-Busan Expressway: SOE
 - POSCO: iron and steel; SOE
 - Promotion of heavy and chemical industries: public and private
 - Promotion of defense industries: SOE
 - Self sufficiency in main staple food i.e. rice.

IV. Role of the Private Sector

(3) Maturity: 1980s-1990s

- ❖ 1980s: Growth of the Domestic Market
 - Low wage, low exchange rate, low commodity prices
 - Government policy to promote the start-ups of technology based firms
 - Growth of venture capital
 - Matured Chaebol (large conglomerates)
- ❖ 1990's : R&D activities, Matured Economy
 - Deregulation: Reduce government intervention
 - Overseas market expansion and Foreign Direct Investment
 - Emergence of new generation with creative ideas
 - Start-ups after involuntary retirement due to restructuring and downsizing boom
 - Chaebol to the Korean economy became more important
 - In 1997, the Korea economy was hit by the Asian financial crisis and received IMF loans : Gold Collection Campaign (227 tons) 2.1billion USD was raised

IV. Role of the Private Sector

(4) Advancement: 2000- after

- ❖ Year 2000 after; aggressive manner both at internal and external fronts.
- ❖ On the domestic front Tax administration was streamlined, strong incentives given for saving
- ❖ Foreign capital was mobilized for strategic development project and special institution were created for mobilizing foreign resources
- ❖ Capacity of national R&D system strengthened by the public and private sectors: Private companies spend to sustain their businesses
- ❖ Samsung (Competes with Apple), Semiconductors, Hyundai (No.5 car maker), LG, Nuclear Energy , etc. competing with world top companies

V. Social Factors in Development

(1) Society

- ❖ Korea has one ethnic group: homogeneous, single language
- ❖ Social values and cohesion, civil servants, equal opportunity and democratic progress
- ❖ “Can Do Spirit”: motivation, self-esteem
- ❖ Patriotism: country first, ideology, national state
- ❖ “Confucius Culture”: kinship, social network,
- ❖ Conducive business environment: respect business activities
- ❖ Capacity building: use of resources especially labour
- ❖ Gender development: contribution of women in development in
Korea has been great

V. Social Factors in Development

(2) Education and TVET

- ❖ Education system
 - Cultural background, Motivation (“A dragon rises from the ditch.”)
 - Engineering, science & technology
- ❖ TVET
 - Support program, Increasing demand for skilled workers
 - Effective technical and vocational training system
- ❖ Entrepreneurship development: how to earn money
 - Collude with the government: induced crony capitalism
- ❖ Social infrastructure, health care, welfare, etc.

V. Social Factors in Development

(3) General Issues

- ❖ National pride: induced and emerged through education and public
- ❖ Social inclusion: shape the one's role/function
- ❖ Improve reproductive health condition, and lower infant and child mortality (lower population growth)
- ❖ Human capital: economic growth, poverty reduction, environmental protection, security, social justice, and sustainability
- ❖ Cope with rapidly changing socio-political and economic factors
- ❖ Reduce poverty: increasing income is the best way
- ❖ Educational achievements within the family and across generation

VI. Implications for Africa

(1) Theories Behind

- ❖ The Market: Traditional Cobb-Douglas production function
 - Land, Labor, Capital, Enterprise, Technology, and many factors
 - Technological capability through R&D investment
- ❖ The Public Sector
 - Adam Smith in 18th Century: National security, law and order, the provision of public goods
 - Macroeconomic policies: 4 objectives: economic growth, balance of payment, full employment, low inflation
 - Government expenditure:
 - Human capital formation: education, health, welfare etc.
 - Diffusion of technology and protection of patent rights
- ❖ The Private Sector
 - Good governance and management skills
 - Innovative capacity through entrepreneurship
 - Stability of the economy
 - Adaptive capacity of technology and management techniques

VI. Implications for Africa

(2) Role of Stake Holders

- ❖ The Government:
 - Good governance system; stability, efficiency, forward looking
 - Visionary policies; Business friendly environment; infant industry argument, catch-up hypothesis
 - Human capital; education and training
 - Sound economic policies and implementation
- ❖ Industries (Private and Public)
 - Priority industries with R&D, marketing, and views on global business
 - Utilization of factors of production; resources from the theory
 - Absorptive Capacity: technology, management
- ❖ Society: national unity and social attitude

VI. Implications for Africa

(3) Current Situation in Many African Countries

- ❖ The Government:
 - Lack of political will and stability; too few state men/women
 - Unrealistic vision; use only for sustain power
 - Lack of capacity to implement policies, but corruption
 - Limited opportunities for the provision of public goods, human resource development,
- ❖ Industries (Private and Public)
 - Low level of technology and management skills
 - Business-politics linkages
 - Lack of absorptive capacity for technology, management
 - Resource oriented business activities, lack of openness
- ❖ Social factors: motivation, family values, society etc.

VI. Implications for Africa

(4) The Government

- ❖ National Economic Plan: achievable, practical, scientific, acceptable (bottom up approach)
 - macroeconomic policies
- ❖ Sustainable development: inclusive, long-term vision oriented
- ❖ Education and training: quality of education, TVET, ordinary citizens
- ❖ Engineering, science and technology: for sustainability
- ❖ National R&D system: necessary for transformation and innovation
- ❖ Build Industry-University-Government Cooperation network
- ❖ Good governance
- ❖ Environmental protection; regulations

VI. Implications for Africa

(5) The Private Sector and Society

- ❖ Build up industrial capacity:
 - Selection of industries
 - Factor endowment
 - Marketability, read customers
- ❖ Promote entrepreneurship: management skills, confidence
 - Partnership with foreign companies
- ❖ Conducive business environment: Dissemination of best practices: encourage new business opportunities
- ❖ Business align with government policies: cooperation

- ❖ Change attitude of citizens: global, think big, aim high
- ❖ Patriotism: self-esteem, nationalistic and open minded
- ❖ Social cohesion: Vision and strategies with forward looking
- ❖ Saemaul Undong Spirit:

VII. Conclusion

African and Korean Partnership: Complementarity

❖ The Public Sector: Sharing

- Macroeconomic policies, monetary and fiscal policies, industrial policies, governance, provision of SOCs, transformation

❖ The Private Sector: Cooperation

- Entrepreneurship, TVET, Human Resource Development
- Direct investment; industrial zones, technology transfer, sharing management know-how

❖ Social Factors: Partnership

- Education and training; exchange programs
- Partnership in human capital, health care system
- Changes and improvement of social values

Q & A

Thank you!