Korea’s Economic Development and the Role of Private Sector

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South Korea: then and now

- Economic transformation of Korea since 1960s
  - Per capita GDP in 1961: $87
  - Per capita GDP in 2010: $20,591
  - $31,750 based on purchasing power parity
- World’s 15th largest economy in 2010
Outline of Korea’s Industrialization

- 1950s: Reconstruction
  - Aid-dependent underdeveloped economy
  - “Investment in human capital”
- 1960s: Outward-looking industrialization
- 1970s: Promotion of HCIs - “Big Push”
- 1980s: Structural Adjustment
Outline of Korea’s Industrialization

- 1950s: Reconstruction
- 1960s: Outward-looking industrialization
  - Began series of 5-year development plans
  - Against the trend of “inward-looking”
  - Promotion of export through financial incentives
  - Industrial policy with financial suppression
- 1970s: Promotion of HCIs
  - Unlimited supply of long-term policy loans
  - Through protection and risk-sharing
  - Emergence of “Chaebols”
  - Middle East construction boom
  - Resulted in various economic imbalances
- 1980s: Structural Adjustment
Outline of Korea’s Industrialization

- 1950s: Reconstruction
- 1960s: Outward-looking industrialization
- 1970s: Promotion of HCIs
- 1980s: Structural Adjustment
  - In 1980, Korea experienced negative growth.
  - Adjustment of over-investment in HCIs
  - Political liberalization and labor unrest

Theories and Interpretations

- What made S. Korea different?
  - Openness and outward-looking strategy
  - Political leadership and capable technocrats
  - Successful implementation of the plans
  - Credit rationing and financial repression

- Mostly policy-oriented institutional interpretation
  - Contribution of the private sector should be re-evaluated.
Private Sector’s Role in the 60s

- Government provided strong financial incentives.
- Amount of export was the **only** performance measure.
- Private companies did most of exports.
- Export drive transformed business culture from rent-seeking to productive entrepreneurship.
- Private companies aggressively opened new markets in hostile countries and remotest areas around the world.
- Major export items: textile, clothes, shoes, rubber product, plywood, radio, processed agricultural products, wig, minerals.

Private Sector’s Role in the 70s

- Private sector had been preparing for HCIs before the government.
- Private ownership of HCI
  - Contrast with other developing countries like Taiwan
  - Allocation of ownership according to proven records
  - Negative side-effects
- Oil crisis and Mid-Eastern construction boom
  - Coincided with the end of Vietnam War
First Generation Korean Entrepreneurs

- Who are they? Where are they from?
  - Many began business under Japanese rule.

- Accumulated wealth in the 50s
  - Acquired ‘enemy properties’
  - Military contracts: construction, food processing, logistics
  - Import quota: “three whites” (cotton, sugar, flour)
  - Rent-seeking business culture
First Generation Korean Entrepreneurs

- Unique business culture was formed.
  - Strong ego, rivalry and charisma
  - Aggressive risk-taking
  - More interested in expansion than profit
  - Strong adherence to ownership and managerial independence
  - Patriotism and public mindedness

Korea’s Top 10 Business Groups

- The rank reflects evolution of leading industries in Korea from light to heavy and chemical to high tech industries.
- Among the top 100 companies in 1965, only 13 remain in 2000.

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Summary

- Good policy and political leadership alone cannot explain Korean experience.
- Existence of innovative and aggressive entrepreneurs made difference.
  - In the export drive, private trading companies played major role.
  - In promoting HCIs, private ownership was allowed.
- Private sector influenced evolution of the development strategies and plans.

Summary

- Heavy handed industrial and banking policy with limited negative side-effects.
  - Government maintained transparency and predictability (relatively).
  - Government maintained openness and market friendly policies.
- Implication for developing countries:
  - Focus on developing private sector and entrepreneurship.
  - Utilize private sector’s incentives to achieve development policy goals.
Thank you!