

Wontack Hong

Catch up and Crisis in Korea

Cheltenham: Edward Elgar Publishing, 2002

Reviewed by
Charles Harvie*

There is considerable literature on the Korean economy in the wake of the financial and economic crisis of 1997-1998, mostly focusing upon the key factors contributing to it. This book, based upon papers written by the author on the Korean economy over a period of 20-30 years, is very much in this genre. It consists of a primarily historical study of Korea's economic and political economy framework, with contemporary developments, specifically since the financial crisis of 1997-1998, confined to chapters 8 and 9. Hence, like much of the existing literature on the Korean economy, the focus is placed upon the country's pre-crisis development, with the author giving particular emphasis to the importance of trade to economic growth. A comparison is also made between the development strategies of Korea and Taiwan and the contrasting role and importance of large conglomerates and small and medium enterprises. The role and importance of credit allocation, and the general role of the government in the development process in Korea are also given emphasis.

The book consists of nine chapters. Chapter 1 highlights the key factors in the economic catch up process of Korea. The promotion, in particular, of labour intensive infant manufacturing activities as a key vehicle for economic catch up is outlined. Focusing early on in the development process upon an

* Economics Discipline, School of Economics and Information Systems, Faculty of Commerce, University of Wollongong Wollongong, NSW, Australia 2522, Fax.: 61+ 2 42 213725, E-mail.: charvie@uow.edu.au

outward looking export oriented growth strategy, emphasising labour intensive production, rather than one emphasising import substitution, also proved to be the correct one. The crucial role of the government in this process is also given emphasis.

Chapter 2 focuses upon the positive aspects of export oriented growth. In doing so it discusses comparative advantage and the promotion of infant industries, the advantages of export oriented growth in general and then Korea's experience with this strategy, the role of market signals versus government intervention, the importance of import liberalisation and open competition, and some of the key elements of the Korean economy and society that contributed to the initial success of the export oriented growth strategy.

Chapter 3 focuses upon the institutionalisation of an export-oriented regime, contrasting the experiences of Korea and Taiwan. Specifically, the chapter briefly: highlights initial conditions in these two countries prior to their commencement of export-oriented growth in the 1960s; the necessity for export promotion and its beginnings in these two countries are compared and contrasted as well as its institutionalisation; the style of government intervention in their respective markets is also compared as well as that of their financial systems; and, finally, a comparison of their respective growth performances is presented.

Chapter 4 focuses upon the changing trade pattern of Korea during the early phase of its economic catch up. In doing so it investigates, using a conventional two-factor Heckscher-Ohlin framework, the shifts in factor intensities of Korea's exports as well as those of competitive import replacements during the period 1960-1985. The capital intensity for both are found to have increased over the period 1966-1985. The chapter also examines changes in the trade pattern of other East Asian countries during the period 1961-1991. The final section presents the trade pattern prospects for Korea in the twenty first century taking account of previous trends.

Chapter 5 investigates the engine of export-oriented growth in Taiwan and Korea using a small firm versus large firm nexus. Fundamental differences

in approach and government policy towards the growth of small (Taiwan) and large (Korea) firms are highlighted, as well as some of the key factors contributing to this different approach. Efficiency implications arising from a small versus large firm approach to economic development are discussed. Finally, a comparison of the export product mix of Taiwan and Korea is discussed, as is the desirability, and possibility, of changing the size composition of firms in these economies.

The issue of income and wealth distribution in Korea arising from the adoption of its export oriented growth and development strategy is discussed in Chapter 6. Key factors that have contributed to influencing this distribution include: the increasing concentration of economic power in the hands of the largest conglomerates; the adoption of subsidised credit rationing during the period of economic development that favoured the large conglomerates; the tax and public expenditure system; and the political economy of distribution policies. A major conclusion that the author derives from this chapter is that although export oriented growth itself does not cause income distribution to become more unequal, export orientation alone has not been enough to result in a more equitable distribution of income and wealth.

Chapter 7 consists of a comparison and review of the catch up experiences of the East Asian NICs (Korea, Taiwan, Hong Kong, and Singapore). The varying roles of government and market intervention are discussed. The *laissez faire* approach of Hong Kong is contrasted with the more interventionist stance of the Korean, Taiwanese and Singaporean governments. The price mechanism, however, remained important for all these countries as a means of resource allocation, although Korea has been willing to go against this in the form of credit rationing and tax concessions bestowed on selected firms and industries where considered appropriate. Intervention in the banking sector in both Korea and Taiwan is a notable example of an industry that has had extensive government involvement. The Japanese experience with catch up is also considered in this chapter. This country's experience with FDI flows to the NICs during the period of

the 1980s and 1990s is now being replicated, more recently, by labour intensive manufacturers in Korea and Taiwan investing in low cost labour destinations elsewhere in East Asia.

Chapter 8 focuses upon the legacy of one of Korea's key development policies, its credit rationing system. The author contends in this chapter that the system of allocating credits on the basis of a firm's export performance, maintained during the 1960s and 1970s, compensated at this time for the backwardness of Korea's financial system. In addition, he argues that since the early 1980s credits were allocated less and less in proportion to a firm's export performance while the financial sector remained backward. This, subsequently, contributed to the financial crisis of 1997. The author also very briefly touches upon the restructuring of the banking sector in the wake of the financial crisis.

In the final chapter the author discusses the political economy of the Korean model. In doing so he summarises the relevant parts of the previous chapters, and then considers its prospects in the wake of the financial crisis of 1997. He reviews the institutional arrangements that contributed to the economy's downfall in the late 1990s, and key developments that resulted in the request for IMF financial assistance in November 1997. The author concludes the chapter by providing some optimistic remarks on the prospects for the Korean economic and political model in the foreseeable future.

Contributions to the literature on the Korean economy, such as this one, are best judged by their ability to either add further insight to the existing debate on pre crisis problems and weaknesses, or to provide an account and analysis of the post crisis policy framework and subsequent developments. On both of these counts the book falls short. For scholars of the pre crisis Korean economic and political economy model the book provides some interesting insights, although much of the content has been discussed in other texts and to a much greater depth. Scholars of Korea's contemporary economic and political model, particularly in the wake of the financial crisis, will also find this book lacking. Apart from the brief discussion of post crisis developments contained in chapters 8 and 9, very little is said about the

dramatic economic, political and social changes that have occurred since the traumatic experiences of the late 1990s. In my opinion, this lack of discussion is the primary deficiency of the book.