

# **Economic Development Strategies in Korea, and Lessons for Developing Countries**

October 2011, Bolivia

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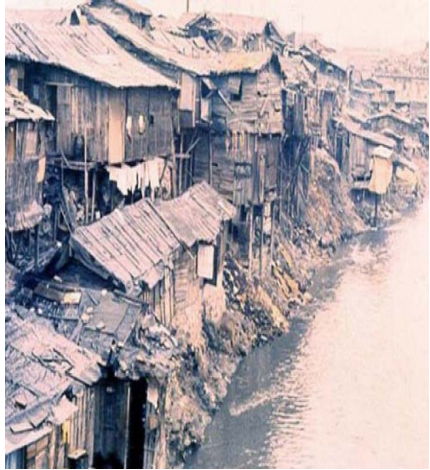
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- II. Economic Development Strategies in Korea**
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## I. Overview of Korean Economy

### 1. From a hopeless country to a modern industrial country



Chong-gye stream, Downtown Seoul (1950s)

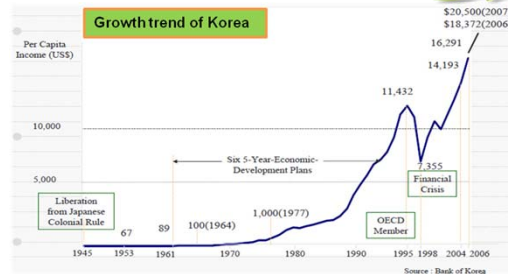


Chong-gye stream, Downtown Seoul (2000s)

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## 2. Economic Growth in Korea- Past and Present

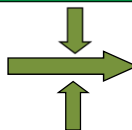


### Past-beginning stage

- Historical background
  - Colonial rule & Korean war
  - Everything was destroyed
  - Socio-political instability
- Extreme poverty
  - Heavily depending on foreign aids
  - No jobs for workers

\*Korea was viewed as a hopeless country

Unique Development Strategy



Strong Political Leadership

### Present-performance

- Per capita GDP: \$79('60) → \$11,432('95) → \$20,800('09), PPP \$ 30,200(2010)
- 12<sup>th</sup> purchasing power and 9<sup>th</sup> trade volume in the world
- Miracle in the economic growth over short period (60 years)

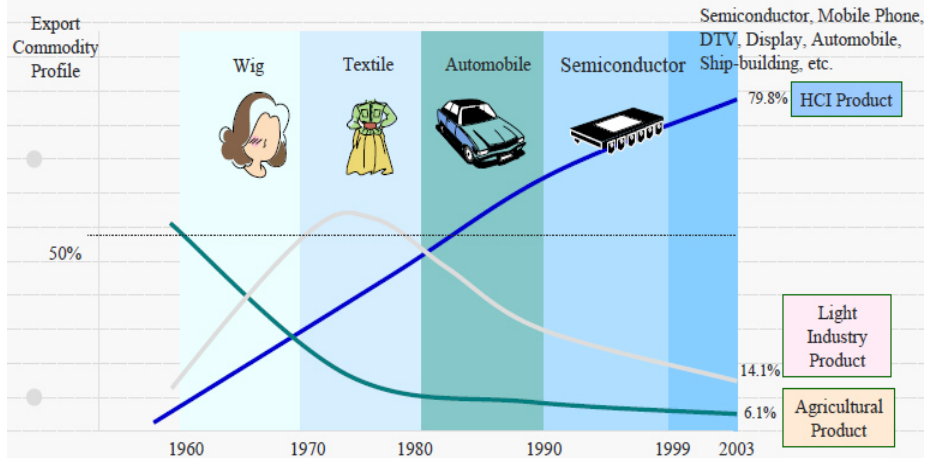
\*Donor country changed from recipient country

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### 3. Change to Advanced Industry

Changes in Export Commodity Profile



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## II. Economic Development Strategies in Korea

### 1. Basic Strategy for economic development

Goal

Sustainable Economic Growth

Strategies

Industrialization

Export Promotion

Foreign Capital

❖ *Economic growth was regarded as the key to national development*

*"Enlarge the Pie by economic growth, and Share the outcome"*

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## 2. First Five-Year Economic Development Plan (1962-1966)

- High Economic Growth. Remarkable Increases in export
- Export goods of light industry by labor intensive product

### Performance

	Planned	Actual
Economic growth rate (average %)	7.0	7.8
Export increase rate	28.0	38.6

### Strategies

- People's Consensus on National Development Plan
- Government-led economy based on strong leadership
- Industrialization, Export promotion, and Foreign capital utilization

## 3. Second Five-Year Economic Development Plan (1967-1971)

- Rapid economic growth, but Inflation was up
- Sustainable increases in export

### Performance

	Planned	Actual
Economic growth rate(%)	7.0	9.7
Inflation		14.0
Export increase rate	17.1	33.8

### Strategies

- Consistent strategies : Industrialization, Export promotion, and Foreign capital
- Flexible adaptation to the domestic and global economic situation

**(Example) Monthly Meetings for Economic Development (1962-1971)**

	<b>Economic Trend Meeting</b>	<b>Export Promotion Meeting</b>
<b>Objectives</b>	<ul style="list-style-type: none"> <li>• Counseling economic trend</li> </ul>	<ul style="list-style-type: none"> <li>• Promoting export</li> </ul>
<b>Participants</b>	<ul style="list-style-type: none"> <li>• President- presided</li> <li>• Related ministers</li> <li>• Parliaments of the ruling Party</li> <li>• People in institutes and universities</li> </ul>	<ul style="list-style-type: none"> <li>• President-presided</li> <li>• Related ministers</li> <li>• Parliaments of the ruling party</li> <li>• CEOs of private companies</li> <li>• People in media, regional leaders</li> </ul>
<b>Characteristics</b>	<ul style="list-style-type: none"> <li>• Flexible adaptation to the domestic and world economic conditions</li> </ul>	<ul style="list-style-type: none"> <li>• Intensive discussions and tackles for promoting export</li> </ul>

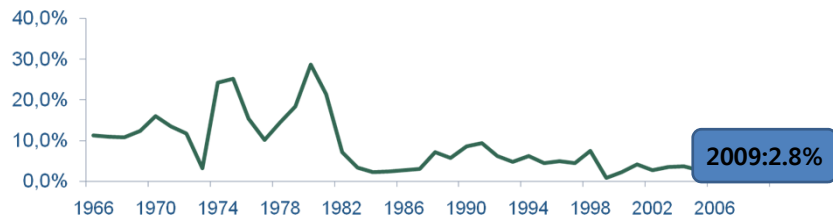
**4. Challenges derived from rapid economic growth(1970s- 1980s)**

<b>Challenges</b>	<ul style="list-style-type: none"> <li>• Social instability, inequality of income distribution</li> <li>• Private companies mostly depended on government, as a result, weak financial structure of private companies</li> </ul>
<b>Strategies</b>	<ul style="list-style-type: none"> <li>• Focused on easing income inequality, increased the public expenditure for social programs such as pension, health care</li> <li>• Re-adjusted financial structure of private companies and liquidated insolvent enterprises</li> </ul>

## 5. Economic policy to prevent inflation

•Korea made a great deal of effort for curbing inflation caused by rapid economic growth

- Restrained government borrowing
- Tightened budgetary expenditure
- Strictly controlled the public wage and public utility
- Expanded import of food

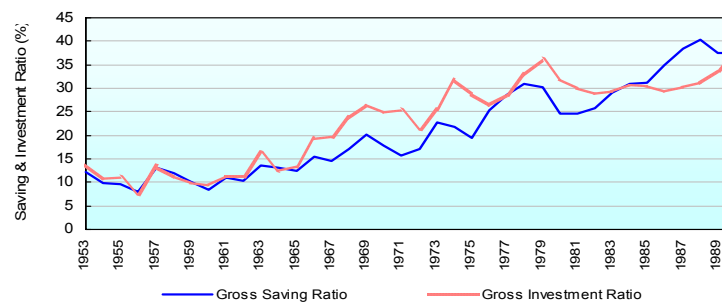


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## 6. Financing the capitals necessary for investment

Trend of investment ratio & domestic saving ratio (1953-1990)



- For long period since 1960s, saving ratio had been less than investment ratio.
- The gap was occupied with foreign savings, mainly foreign loans
- Since 1985, saving ratio had been higher than investment ratio, thanks to the increase of tax revenue

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## 7. Fostering Technology man-power by training and education

### 7.1 Beginning-1970s-1980s

#### Engineering schools

- Best facilities, good faculties were recruited
- Poly-tech colleges by each province (about 20 poly-techs)
- All the expenses were supported by the government

#### Korea Institute of Science and Technology (KIST)

- Special incentives by excellent salary, high-class house
- Invite prestigious scientists from overseas
- Budgetary support by special funding (ex: compensation for Vietnam war)

#### Universities

- Strengthening the science & technology education in the universities
- Fellowship for studying science in the advanced countries

### 7.2 Now-2000s

	Government	University & Institute	Private company
<b>Investment for Science &amp; Technology</b>	<ul style="list-style-type: none"> <li>• Intensive budgeting for R&amp;D</li> <li>• Annual average 15,0 % increase (total budget 5.0%)</li> </ul>	<ul style="list-style-type: none"> <li>• Science education in Universities</li> <li>• Many public research institutes (ex: electronic, chemical, bio)</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthening R&amp;D department</li> <li>• Recruit good engineers (ex: Samsung)</li> </ul>

## 8. Sustainable Tax Reform

### Tax system

- Reform of tax system by unifying similar tax
- Increase of tax revenue necessary for public investment  
<ex: increase of petroleum tax>

### Administration

- Establishment of "National Tax Administration"
- Information network system for taxation
- Anti-corruption for tax administration

### Tax credits

- Tax credit & exemption for technology industry
- Allowance of special depreciation

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## 9. Public investment policy

### Objective

-To stimulate economic growth and establish infrastructure for industrial activities

### Sectors

- Invested first for infrastructures such as roads, ports, energy in 1960-1970s
- Invested later for social sector in 1980s

### Financing

- Grant from donors → foreign loans & foreign direct investment → domestic revenue by tax increase → public private partnership

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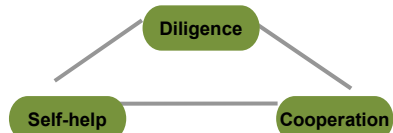
## 10. New Community (Se-maul) Movement (1960s-1970s)

### Background

- As industrialization, there was big gap between urban and rural areas in economic development
  - In order to reduce the gap, new community movement had been occurred
- ❖ This movement was based on self-activity of community members, not on government control



### Philosophy of community movement



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## III. Summary of Economic Development Strategies in Korea

### 1. Korean Economy and Neo- Liberalism Economy

#### Korean economy in 60-70s

- Strong leadership, authorized
- Government-led, intervention
- Setting up target industry to be promoted
- Gradual liberalization & open-market

Mixed economy

#### Neo-liberalism economy

- Democracy, decentralization
- Market-economy, no intervention
- Equal condition to all the industries
- Broad liberalization & open-market

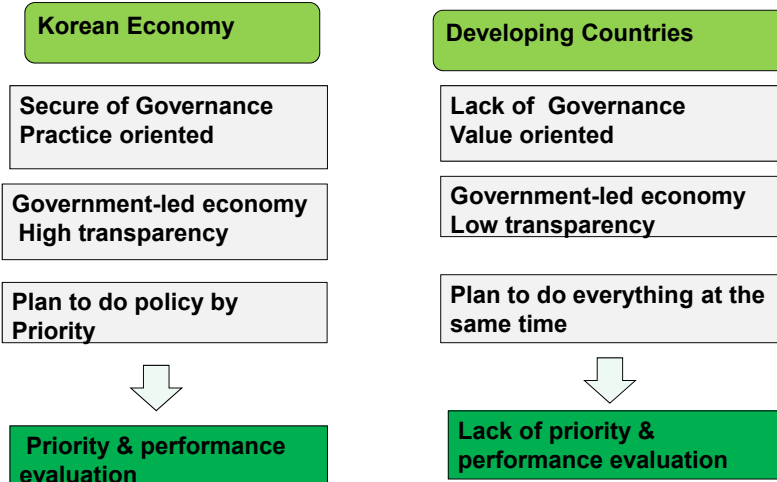
All market economy

❖ Korea experienced different economy from neo-liberalism

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## 2. Korean Economy and Developing Country's Economy



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## 3. Major Economic Development Strategies in Korea(1960s-1970s)

### 3.1 Government- led economy

- Government initiated economic policy to early take-off by strong leadership
- Government intervention, to some extent
- Selection & concentration in resource allocation

### 3.2 Export promotion toward global market

- Insufficient natural resource and limitation of domestic market
- Developed from light & labor intensive industry to advanced capital industry
- Import raw and intermediate materials → assembly and processing → export final goods

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### 3.3 Setting up target industries to be promoted

- Pick up bright industries in the future, and promote them to have competitiveness
- Support incentive with tax credit and prime interest rate
- Risk and achievement at the same time, a lot controversy

### 3.4 Technology innovation by education and training

- Knowledge and technology is a key factor for economic development
- Importance of human capital through education and training
- Intensive support by government for fostering technical man-power

❖ *Can we apply above strategies to Bolivia ?*

## III.V. Lessons for Developing Countries

### 1. Lessons from Korea

1. Government -led economy

2. Selection & concentration in resource allocation

3. Upgrade technology and skill

4. Improvement of infrastructure

5. Borrowing what Korea didn't have

### Implications for developing countries


• Government-led economy is affordable at the beginning stage

• Select & concentrate in resource allocation

• Increase public investment for technologies and skills

• Improve infrastructure, especially transportations and energy


• Borrow what you don't have, and wisely use them




**2. Weakness from Korea**

**Implications for developing countries**

1. Excessive intervention to private sectors	• Too much intervention by government causes weakness of private sector
2. Instable relation between labor and company	• Labors' welfare should be protected, but excessive demand of labors should be restrained
3. Weakness of market for small & medium industry	• Big company (Public enterprise) would weaken domestic markets for SMI
4. Too much tax exemptions	• Reduce tax exemption, and levy tax with fairness

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**3. Lessons for Bolivian Economy**

**3.1 Basic economic policy**

	Korea (1970s-80s)	Bolivia (2000s)
<b>Resources</b>	Insufficient	Sufficient
<b>Economic Policy</b>	Government-led Mixed economy	State-led Plural economy
<b>Oriented value</b>	Growth Individual benefit	Redistribution Community benefit
<b>Industrial strategy</b>	Labor intensive → Capital intensive → Technology intensive	Extractive industry → Plan to industrialize
<b>Technology</b>	Fostering technology and skill	Lack of technology and skill

**Government-led economic policy is similar, but technology is big different**

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### 3.2 Major economic indicators: IMF

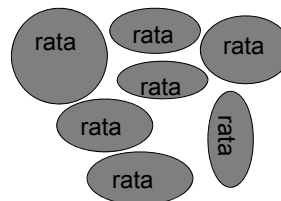
	unit	Korea(2010)	Bolivia(2010)
Economic growth rate	%	6.1	4.2
Per capita income( PPP)	USD	30,200	4,700
Inflation	%	3.0	7.2
Export	billion USD	466.3	6.9
Import	billion USD	417.9	5.3
Public debt	% of GDP	35.2	39.4
International reserve	billion USD	298.8	9.7

**Korea's trade volume is much bigger than Bolivia's, since Korea's economy is global oriented**

### 3.3 La Historia del Gato Blanco y el Gato Negro

◆ Ya sea Blanco o Negro el mejor gato es el que atrapa los ratones de la mejor forma posible

- Ex-Líder Chino, Deng Xiaoping-



**Cual es en realidad el mejor gato?**

### 3.4 Challenges of Bolivian economy

- ◆ **Instable social safety network**
  - Instable health care in regional areas, shortage of drinking water system
- ◆ **Heavy reliance on extractive industry from hydrocarbon and minerals**
  - Vulnerable to price change in external market, shortage of refinery system
- ◆ **Low level of technology and skill**
  - Low productivity in manufacturing industry, shortage of job opportunity
- ◆ **Bottle-neck in transportation**
- ◆ **Uncertain climate for foreign and private investment**

**Critical Challenge : Shortage of Capital and Technology**

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### 3.5. How to finance capitals necessary for investment ?

- ◆ **Reform tax system to increase domestic revenue**
  - Broaden tax bases, especially non-hydrocarbon tax base
  - Improve tax administration by tax information system
- ◆ **Mobilize external capitals and use them wisely**
  - Induce foreign loans with favorable terms and effectively use them
  - Expand grant by international assistance programs
- ◆ **Utilize international reserve to some extent**
  - Keeping sound international reserve is necessary, but use it for public investment to some extent(ex: LNG plant import without stimulating inflation )

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### 3.6. How to develop technology ?

◆ Foster technical man-power by training and education

- Establish training center, engineering high school or vocational school
- Expand technical training programs by grant
- Strengthen technology education in the university

◆ Enhance technology cooperation with advanced countries

- Utilize Foreign Direct Investment to get technology as well as capital
- Enhance to induce technology by concession from advanced countries

<Examples of training program> :food processing, timber processing, jewelry and optical processing, sewing and fabric, graphic design, computer, hotel service, nurse, car fixing, etc

### 3.7. New industrial development Model for Bolivia

- ◆ Bolivia depends on heavy industry, it needs to develop small & medium industry together with the green growth

New industrial development model

