TRENDS AND PROSPECTS OF KOREAN ECONOMIC DEVELOPMENT: FROM AN INTELLECTUAL POINTS OF VIEW

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On this article, I will share you the key factors of Korean Economic development dynamics and its challenges. In order to elaborate these grand issues, I get an opportunity to discuss with Professor Innwon Park from Korea University. I hope you will enjoy it and for sure you will have better understanding about the Korean economic development success and the deriving wheels as well. Thank you very much for Staying with me.

I think it will be better for you to have background information about the professor. Don’t worry I will introduce you to him in a very short brief. Innwon Park is a Professor of International Economics in the Division of International Studies at Korea University. He received his B.A. and M.A. in Economics from Korea University and his Ph.D. in Economics from the University of Pennsylvania, U.S.A. And he worked as an Assistant Professor in the Department of Economics at the National University of Singapore from 1993-1998.

He has published books and journal papers on international trade issues and regional economic cooperation in East Asia including "Best Practices of Regional Trade Agreement (Review of World Economics, 2011), “Regional Trade Agreements in East Asia: Will They Be Sustainable?” (Asian Economic Journal, 2009), and “Proliferating Regional Trade Arrangements: Why and Whither? (The World Economy, 2008).

Having a short introduction about the professor, let’s see the trend and prospects of Korean Economic Development dynamics. Like many of Korean professors, he started his speech by tracing some historical trends of the Korean economy. He mentioned the 1961 military coup d’état as a turning point for the Economy. During this reference time in Korean history, the per capita income of Koreans was not more than 92 US dollars.

The Military regime then introduced its First Five Year Development Plan in 1962. During this time, Korea did not have accumulated capital and advanced technology as well. The only thing that the nation had was its labor force, professor said. As a result, this plan focused primarily on utilizing this human resource and the development efforts focused on labor intensive schemes. Thus, government promoted
light industries where their main focus was international trade, at least to neighboring countries. Agricultural industries were among the prime focuses of the then government.

In 1965, Korea normalized its relationship with Japan. As a result, the nation received a lot of compensation money (for Korea was colonized by Japan from 1910 to 1945). And the Government of Korea effectively used that money to build large infrastructure facilities such as the building of Seoul-Pusan highway. This highway connected the two largest cities of South Korea at that time. That is, the government utilized this money to speed up its development efforts.

The Korean Developmental state gained a lot of economic successes during the last ten years which enabled the nation to join the Newly Industrializing Economy in 1970—Korea became a member of the Newly Industrializing Economy. Consequently, the country changed its focus from lights labor intensive industries to heavy capital intensive industries. And hence, the **Second Phase of Development Policy** which focused on heavy and chemical industries launched in 1972. The shift in its focus was due to in the one hand it already created favorable condition to migrate from light to heavy industries; and on the other hand, members of the Newly Industrializing Economy were obliged to do so. In any case, Korea migrated to heavy industries and was successful likewise.

**Professor Innwon Park** stressed that these development successes so far triggered issues of democratization, privatization and liberalization. These issues became the prime agendas of that time (late 1980s) for Korea’s economy was a sort of developmental state economy where government plays the major roles in most of economic sectors. Consequently, the **Fourth Phase of Development Policy which focused on Democratization, Privatization and liberalization** launched in 1987.

Moreover, Korea realized the importance of regional cooperation to ensure rapid and sustainable economic development. It underlined that cooperation and regional economic integration is the only way to maintain its development efforts. As a result, it created good regional cooperation with its neighboring and other south East Asian countries. This in turn helped Korea to further boost its economy.

According to the professor, the main reason for the introduction of this **Fourth Development Policy** was because of the inefficiency and ineffectiveness of the government. As a result, participation of the private sector to the development efforts increased while the involvement of the government reduced.

Korea kept its development pace and joined Organization for Economic Co-operation and Development (OECD) in 1995. Imagine, Korea one of the poorest countries in the world in 1961 became one of the strongest economies in 1995 just after only 34 years. Similarly, it joined the **G-20** in 1999 just after four
years. Korea escaped from the middle-income trap where World Bank categorized the nation as high-income country in 2002.

The GDP per capita income of Korea reached 20,000 USD in 2007. Miraculous! Despite of the fact that the entire world experienced global financial crises in 2008, Korea resisted and continued its development pace though it was affected by the situation.

Korean economy still keeps growing. In 2012 Korea become a member of the 20-50 Club. The 20-50 Club currently is a group of seven countries with a population of more than 50 million and their GDP Per Capita income exceeds 20,000 US Dollars. They are Japan (1987), United States of America (1988) France and Italy (1990), Germany (1991), United Kingdom (1996) and the Republic of Korea (2012). Economically, these are the most powerful nations of the world today.

Professor Innwon Park associated this miraculous success to a number of factors. He emphasized that stable macroeconomic management is at the heart of Korean economic success. Under this factor, he mentioned that Government’s outward-looking economic policy played crucial role in ensuring and sustaining Korean Economic Growth. From the beginning, the government gave special attention to international market by formulating export-oriented economic growth.

Moreover, market-driven economic system helped Korean economy to grow faster and faster. This in turn, according to the professor, enabled Korea to ensure stable and predictable business environment. Likewise saving culture of Koreans is among the prominent driving wheels of the economy. He emphasized that it is this culture that enabled both the Government and development ventures to invest on various development sectors. Without this culture, investment would be limited, the professor added. Government’s effective family planning was also among these stable macroeconomic policies that fuel up the growth pace of Korean economy.

Likewise, Korean Government paid special attention to Education. Education has been one of the most focus areas of government policies. Korea has been paying more attention to the accumulation of human Capital. There would not be successful economic development without creating literate society. And education is the centerpiece of advanced economy, professor pointed out. Thus, education is the second factor to the miraculous Korean economic development, according to him.

The third wheel of Korean economic success is adequate accumulation of physical capital. He further emphasized that high domestic saving and investment is the central element here. And most importantly, the stable macroeconomic management also created favorable condition for foreign direct investment (FDI). Thus, FDI also played a vital role for Korean economic achievement, professor stressed.
Foreign Aid and Loan, particularly in the aftermath of the Korean War was very crucial to ensure rapid economic growth. But professor emphasized that foreign aid and loan per se could never be a guarantee for successful economy. He explained that there are countries that receive a lot of Foreign Aid and Loan but still fail to succeed. The rationale behind this aid and loan, according to the professor, is the commitment of Korean Government to effectively and efficiently utilize it. Thus, the opportunity of Foreign Aid and loan and the effective utilization by the government speed up Korean Economy.

The existence of **Stable and Development-oriented Government** is the fourth factor. Government’s support to targeted and selected industries plays a pivotal role to boost the economy. Moreover, low deposit rates and ceiling on borrowing rates helped investors to increase their profits and retained earnings. The policy of protection of domestic import substitute industries, particularly at the initial steps empowered domestic investors. And the government also subsidized declining industries in order to recover from failure.

**Public investment in applied research** has been one of the most crucial factors for the success, professor pointed out. He explained that Korean researchers have been doing their best to help the economy. He further noted that helping Korea by conducting feasible research is at the heart of Korean intellectuals. Thus, Korean economy has been helping by up-to-date researches. Moreover, Government paid special attention to applied research, he added.

The most important thing that professor Innwon Park stated is that the **work ethics and discipline of Koreans**. Even he glorified that Korean work value and ethics is the most remarkable secret of Korea Miraculous economic success. Most Korean work more than 10 hours a day and they compromise hard work with nothing. He noticed that even family members cannot complain for elapsing their private time. For your wonder, professor stated that Korean family members forced each other to work hard than passing their time together. Do you know why, this is their Core value-Sometimes called Asian Value.

Korea has been experiencing miraculous economic achievements. But the focus of Korean economy should be shifted from growth to distribution, professor argued. Korea is one of the biggest economies in the world. It is the 13th largest economy. Thus, focus on economic growth which he called as “quantity” is a sort of ridiculous. The fair agenda, rather, should be the issue of economic democratization which he called it as “quality”.

He further pointed out that we already achieved the growth targets. But we need to **narrow the gap between the ‘haves’ and the ‘have nots’-the rich and the poor**. The country is the home of both the
poor and the rich and there is no rational reason to keep this gap. So, the prime agenda should be ensuring economic welfare for all Koreans.

Thus, the current problem is economic inequality, not economic growth. Therefore, the agenda should be addressing the real problem. Otherwise Korean economy will no longer be fair. Without ensuring welfare or otherwise he called it 'economic democratization', it would be impossible to attain better quality of life, he focused.

Professor also mentioned several challenges to the Korean economy. The uncertainty that is caused by the global turbulence is the prime challenge he noted. This in turn comprises of sovereign debt problem in Europe, fiscal deficit in US and Japan, territorial dispute in Asia (the territorial dispute between China and Japan on one hand and the territorial dispute between Japan and Korea on the other side), and appreciation of the Korean won which in turn triggers decreasing export demands and results in recession.

The Korean inflation is also another bottleneck for the economy. The sky rocketing prices in raw materials, food and energy may become a hurdle to the economy. Furthermore, household debt and stagnant housing market, prolonged sluggish consumption and investment demand is another challenge. Business growth dominated by large firms and hollowing-out, deterioration of small and medium-sized enterprises and delayed restructuring, youth unemployment and aging population, increasing social conflicts (equality versus growth)-the issue of economic democratization- are the major challenges of Korean economy today.

Though professor pointed out that Korean economy is facing several challenges, it still keeps growing even at the time of Global crisis. He predicted that nation’s GDP growth rate for this year (2012) will be 2.5% which is, in fact, lower than that of last year (3.3%)