

# **A Very Quick Look at the Economic Development of Korea**

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## Contents

**I. Introduction**

**II. What is Korea and Who is Korean?**

**III. Present and Past of Korea**

**IV. What Happened at the Early Days of Development?**

**V. Overcoming the Crises**

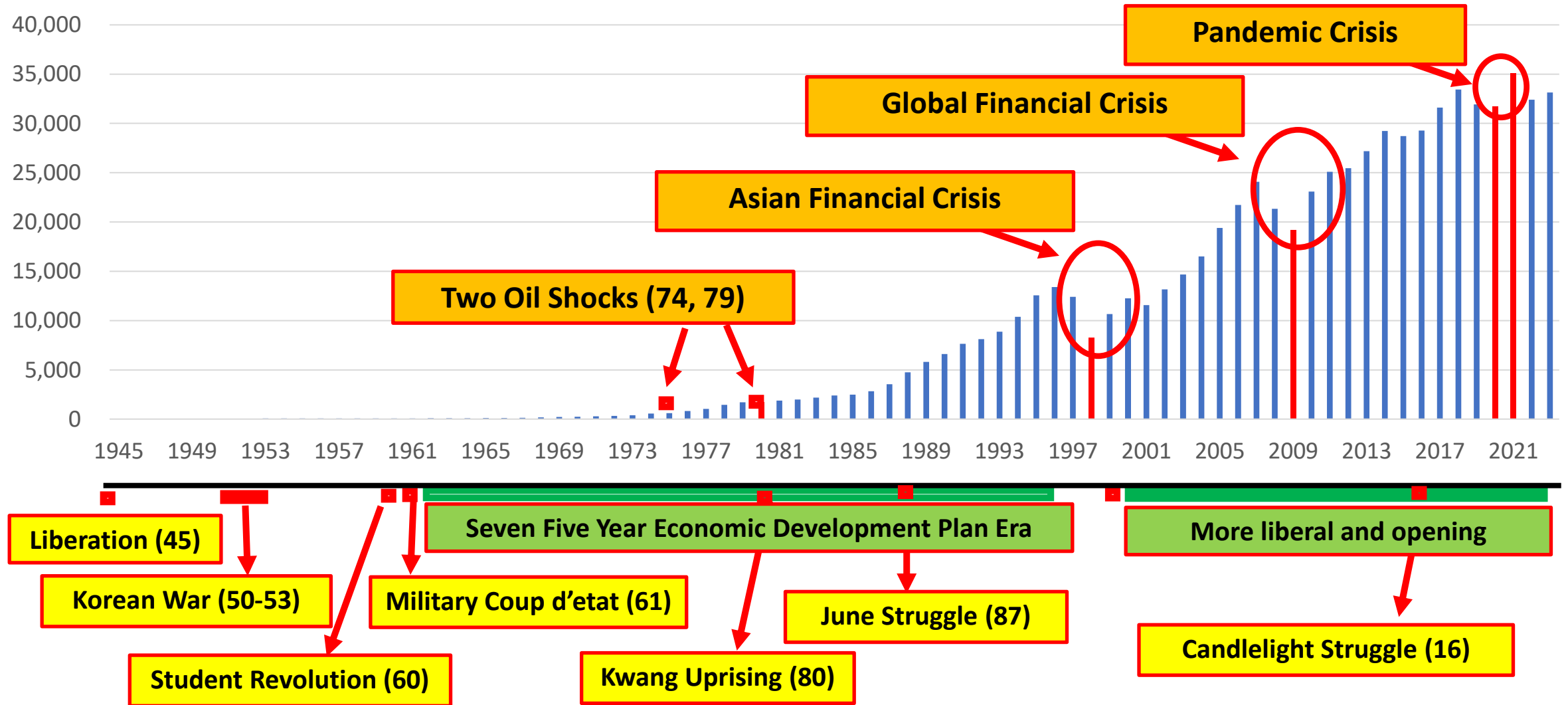
**VI. How Could It be Possible?**

**VII Conclusion**

# I. Introduction

- **Korea has developed from one of the lowest income countries to that of the high-income countries in past several decades, experiencing many stages of development.**
  - **1910-1945 : a colony of Japan**
  - **1948 : Establish a republic for the first time in history.**
  - **1950-1953: Civil war with North Korea with the sacrifice of more than a million people. Afterward, military confrontation.**
  - **1950-2020: Several chaotic political turmoil such as Student Revolution (1960), Military Coup (1961), Assassination of President (1979), Regional political disorder (1980, Bribery Conviction on presidents or their family (1994, 1997, 2000s), Candle revolution (2015) etc.**
  - **Two financial crises of Asian Financial Crisis of 1997-98 and Global Financial Crisis of 2008-09 and one pandemic crisis of 2020 and 2022.**

<Figure 1> Korea's GDP per Capita (Nominal, USD) and Some Political Events



- **Knowing Korea's development experience may help other countries to develop its economy. => at least some lessons.**

- **A Big Question: how did the Korean economy change or develop so quickly and so much for the past decades?**
- **Question 1: what is Korea and who is Korean?**
- **Question 2: how different the today's Korean economy and the early days on modern era are?**
- **Question 3: how can the economies of Korea be changed so much and so quickly?**
- **Most foreigners only see today's Korean economy, but they do not know the economy of the past.**

## II. What is Korea? and Who is Korean?



- Korea is located in the far east of the Asian continents: 13219 km (8214 miles).

<Figure 2> Geological Location of Korea



- **Geological location: Southern part of Korean peninsular at the east end of Asia between North 33~38 degree, East 123~131 degree. Land's size is 100.0 thousand km<sup>2</sup> of South Korea and 12.1 thousand km<sup>2</sup> of North Korea. (Namibia 825,615 thousand km<sup>2</sup>)**
  - 70% of land are hills and mountains while only 20% are arable area.
  - Mild weather area with four seasons: an annual average temperate is 10 ~ 16°C. While it is hot and humid in summer, it is cold and dry in the winter. More than 60% of rain comes in summer.

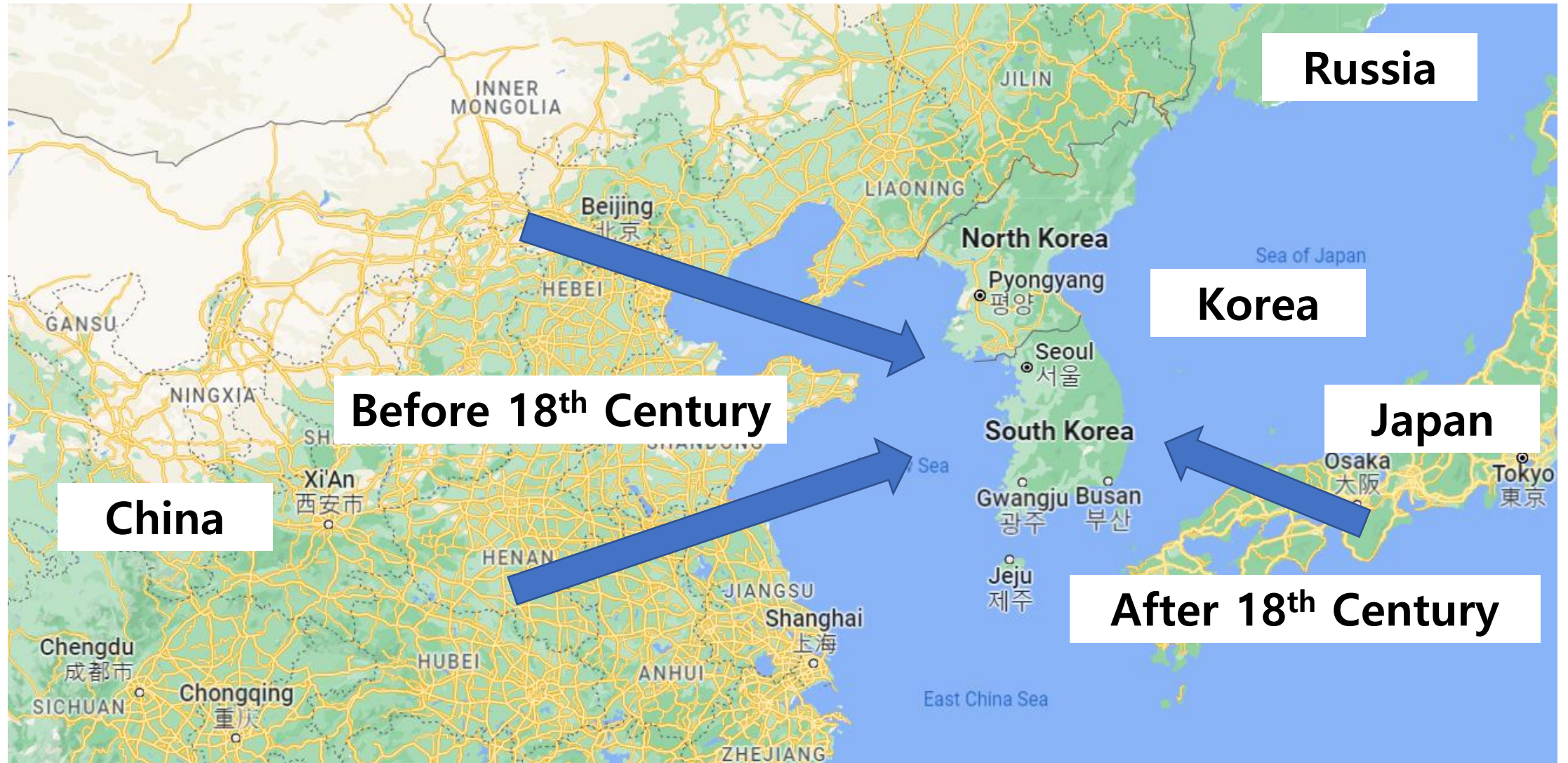
- 
- **This geological location and temperature made Korean people rely on rice production for thousand years.**

- **Geopolitical location: Southern part of Korean peninsular between China, Japan and Russia.**
  - **It made Korea's system and its culture be influenced by the two major forces including the way of economic development and modernization.**




- **The civilizations which Koreans have met in old days were transferred through China, while the modern ones were through Japan.**
  - **Korean in the 21<sup>st</sup> century understood two civilizations which were mixed.**
  - **One of the reasons why Korea experienced a hard time in 20<sup>th</sup> century was because Korea had meet modern western civilization in the very late days.**

### <Figure 3> Geopolitical Location of Korea



- **Before 18<sup>th</sup> Century: Korean got new thoughts and techniques through China.**
  - Buddhism, Confucianism, Kingdom system etc.
- **After 19<sup>th</sup> Century: Korean got new (western) thoughts and techniques through Japan.**
  - Many words representing western concept are from Japan: human right (인권), School (학교), Culture (문화), Japanese style school uniform (일본식 교복).
- **After WWII and Korean War: Influenced from US.**
  - Democracy, Market economy, Enterprise (기업) etc.

- **Modern days: Korea was a colony of Japan for 1910 to 1945 and afterwards, it has been a very strong alliance with US.**
    - Most countries in Asia and Africa were colonies of European countries during 18<sup>th</sup> to 20<sup>th</sup> centuries. Korea is very unique.
    - US army ruled Korea for three years before Korean government was established in 1948. US was deeply involved in Korean politics after engaging in the Korean War from 1950 to 1953.
    - The economic, political and social system and culture of Japan and US have been widely spread in Korea.
- 

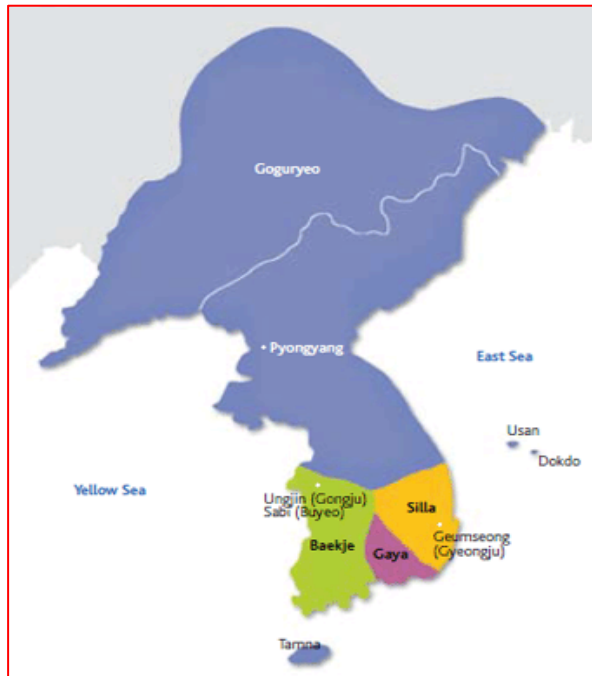
- **Management system of Japan and US one have been applied in Korea.**
  - Korea achieved economic development applying two different ones such as Japanese culture of deeply hierarchal order and emphasizing harmony of the organization and US' individualism and creativity.

- Korean stayed in Korean peninsular after unification in 7<sup>th</sup> century.

- Korean are very **homogeneous** people and sometime are **not harmonized with other people.**

<Figure 4> National Territories of Korea

5-6<sup>th</sup> Century



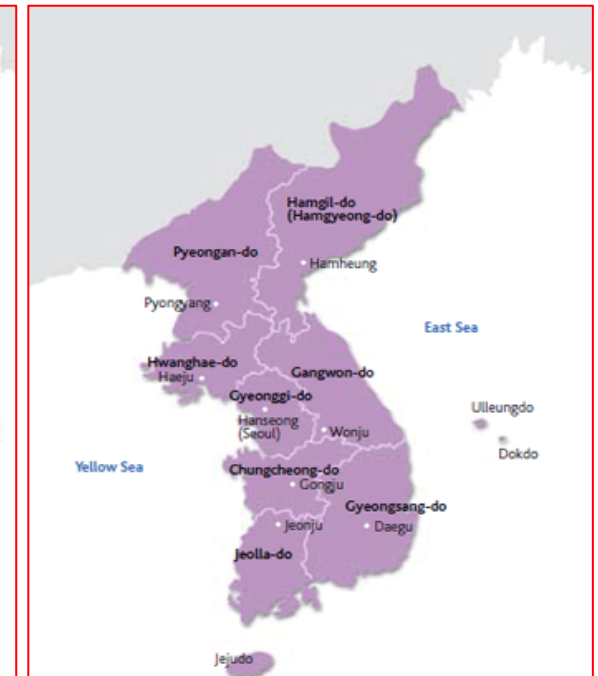
8<sup>th</sup> Century



11<sup>th</sup> Century



14<sup>th</sup> Century



- Korea has more than 2,000 years of history after establishing old kingdoms.

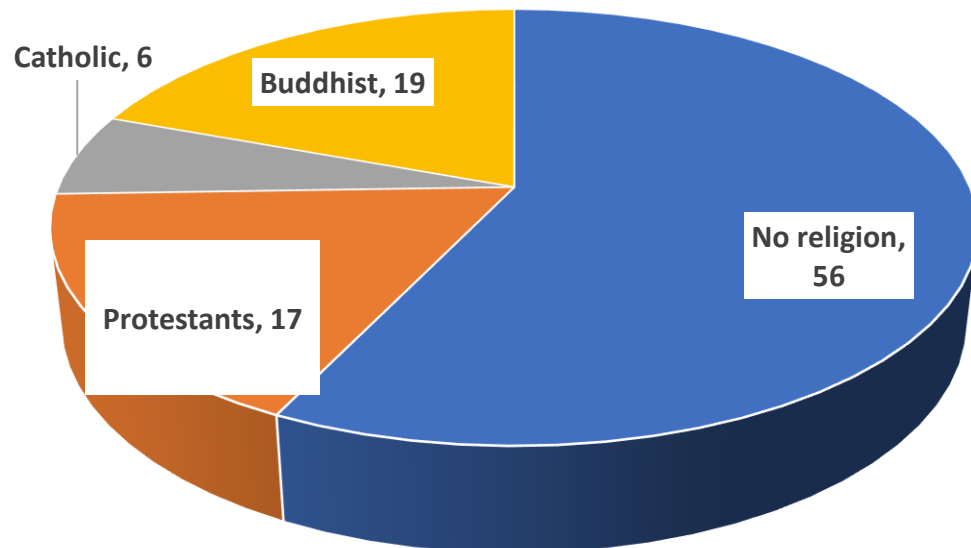




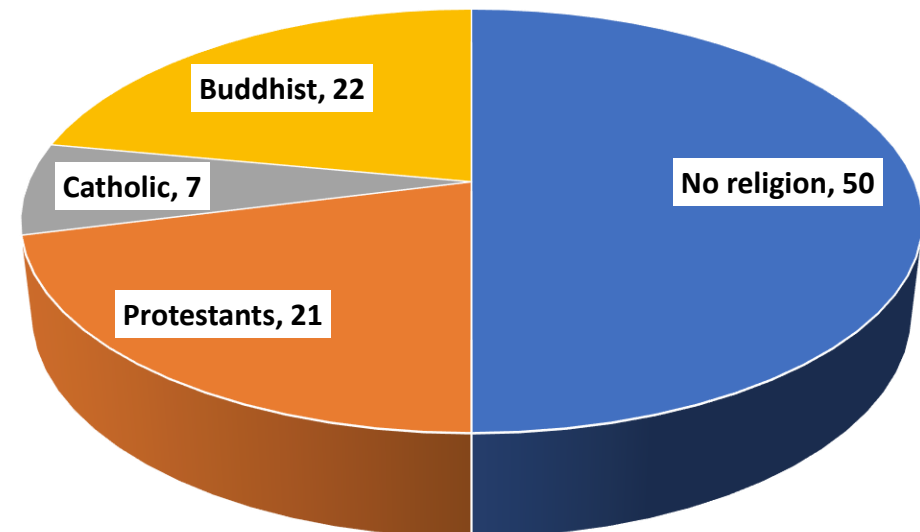
- Freedom of religion were guaranteed since late 19<sup>th</sup> century, and it was not an issue of social conflict in today.
  - Christian religion was introduced since late 19<sup>th</sup> century.
  - Confucianism was not a religion but a way of living.

<Figure 5> Religions of Korean

1984



2014

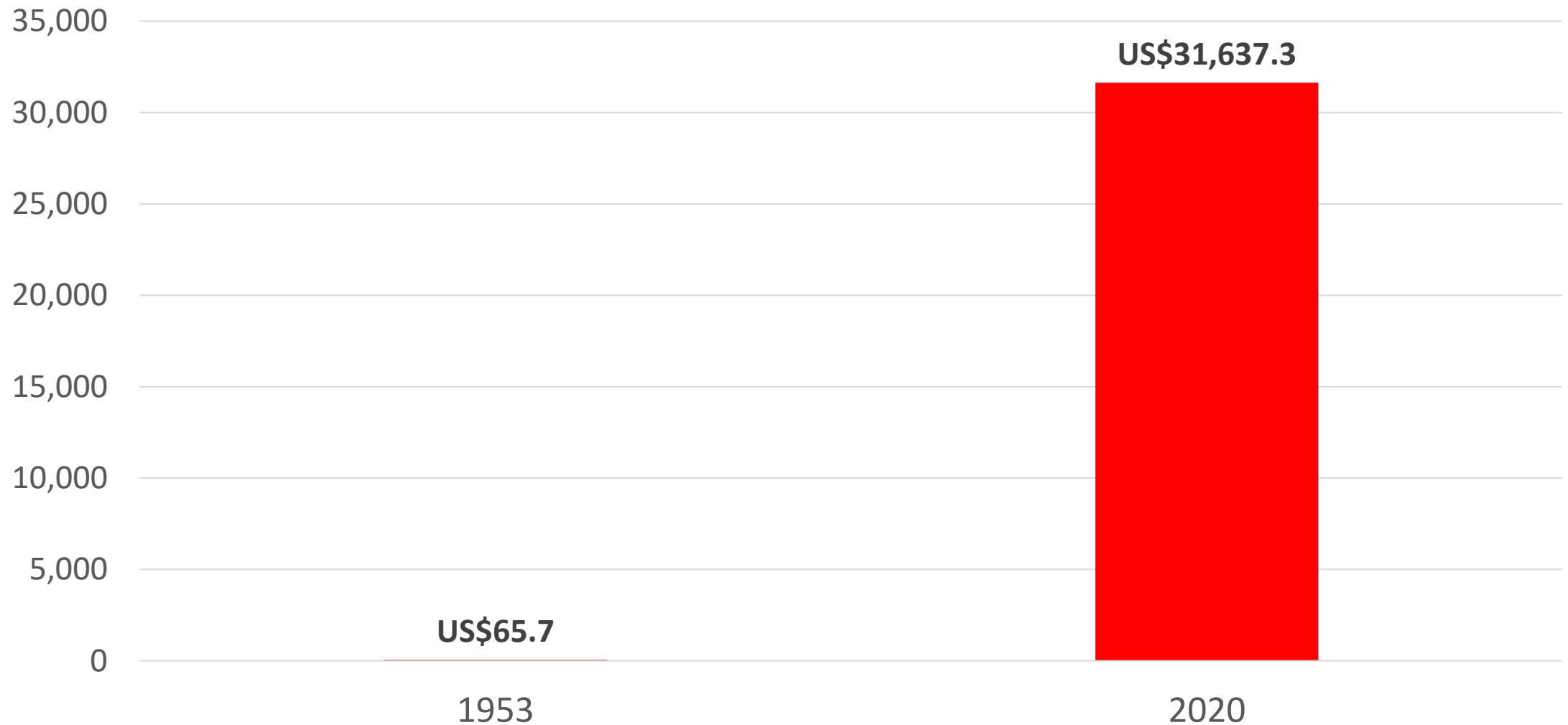


- **Conflict between two Koreas: After the Korea war between 1950 to 1953, still they are conflicting with each other.**
  - More than 1 mil people were sacrificed during Korean war.
  - Sometimes, North Korean special forces penetrated into the South Korea and were engaged in the guerilla battle. Naval battles occurred several times in early 2100s.



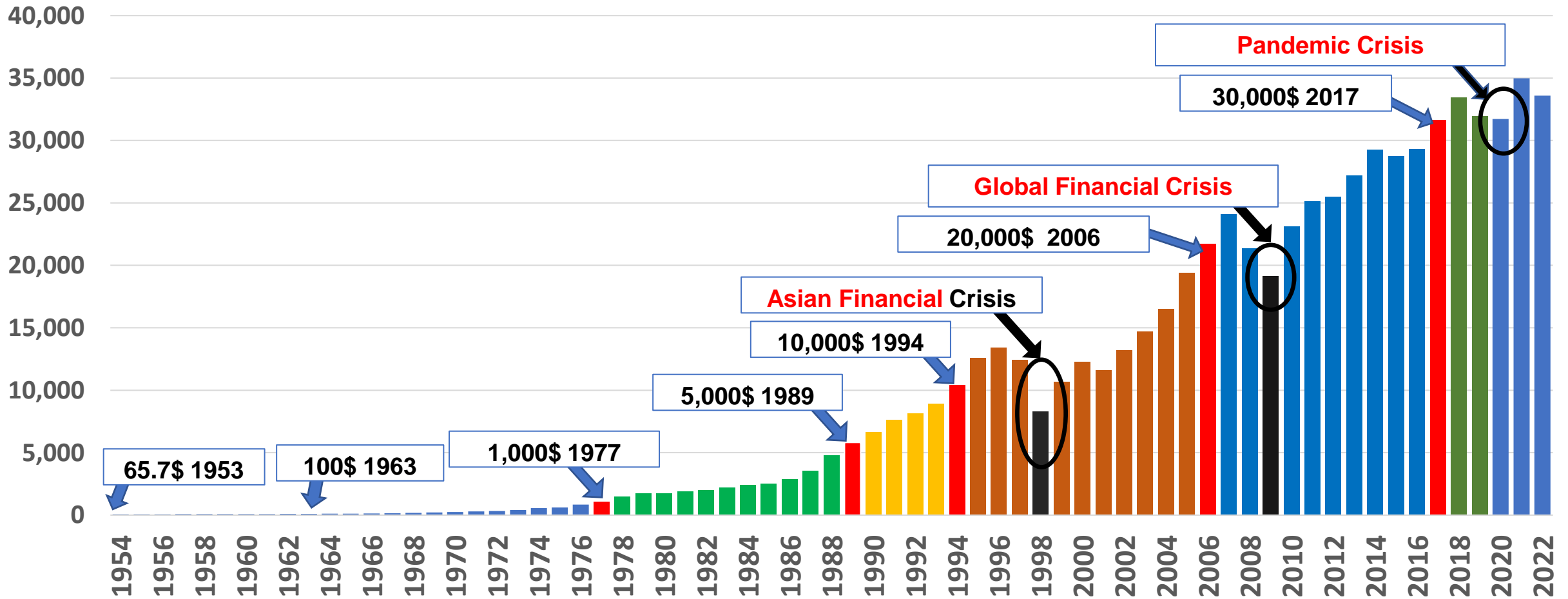
- **Instability of Korean peninsular discouraged the foreigner's investment in South Korea.**
  - South Korea has to maintain about 0.6 million solders for its national defense and young men in Korea must spend as long as two years as a solders either army, navy or air force.
  - Korean government spends about 2.7 percent of GDP as a defense expenditure.

### **III. Present and Past of Korea: How different are they?**

**<Figure 6> GDP per Capita (USD)**

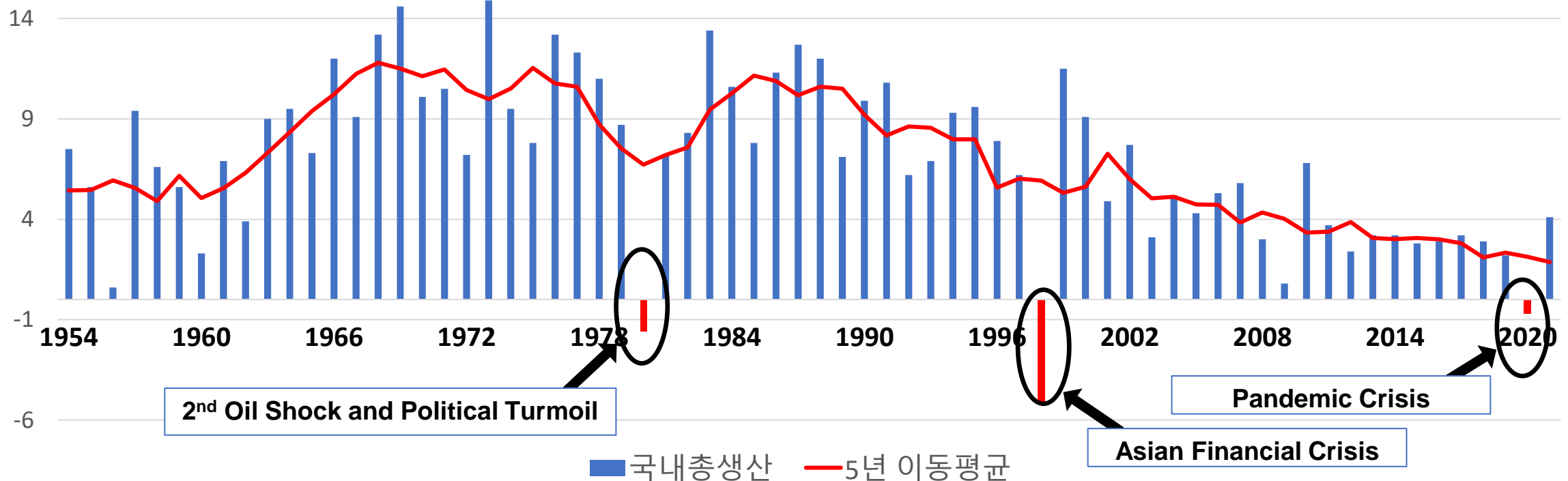
- GDP per capita of Korea has increased for the past 70 years very fast.

<Figure 7> GDP per Capita (USD)



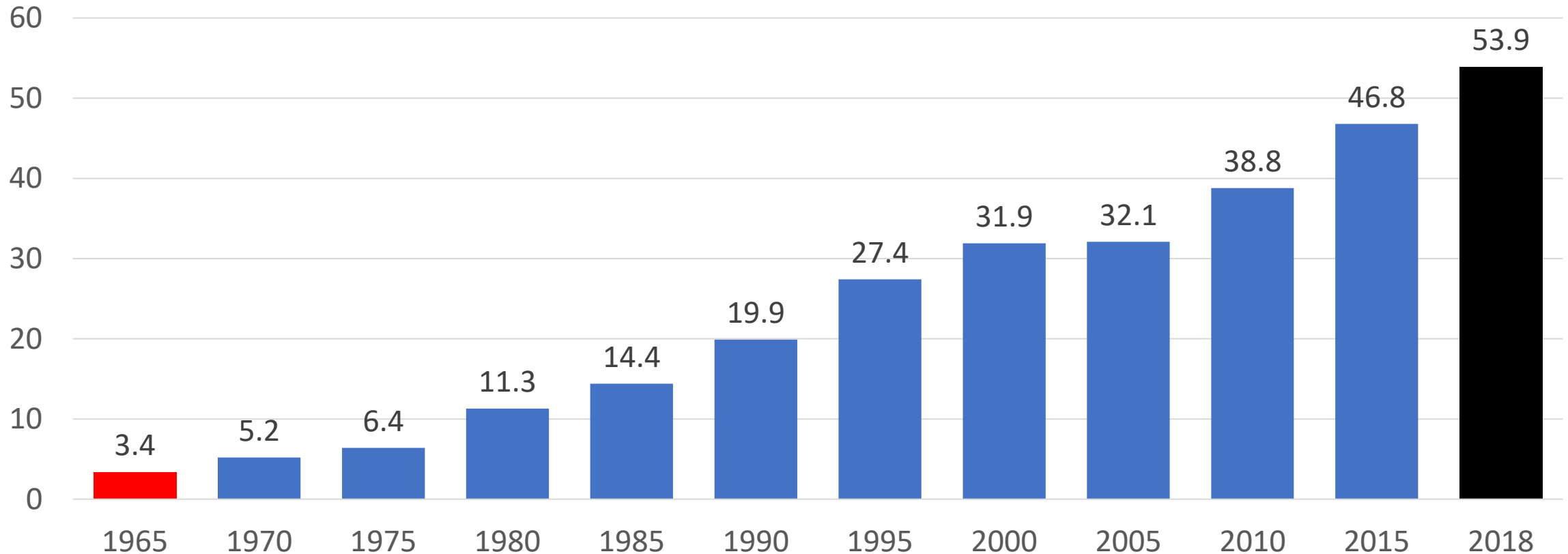
- GDP growth rate of Korea has increased from 1950 to late 1980s and then declined afterwards.

<Figure 8> GDP Growth(% , real value)



- Meat consumption per capita for Korean has increased very much.
  - In 1965, average Korean people ate only 3.4 kg of meat in a year, which was equivalent to 250g per month (simply two dishes).

<Figure 9> Meat consumption per capita (Kg)



- Housing of Korean has improved very much for the past years.

<Figure 10> Types of House in Korea

(a) Thatched house(초가집)



(b) Modern Apartment





- Korean successfully transformed from an authoritarian political system to a more democratic one.

## Authoritarian Political System



## More democratic society



▪ **Freedom is not free.**

Seoul on April 19<sup>th</sup>, 1960



Seoul Station on May 18<sup>th</sup>, 1980



Seoul City Hall, 2017

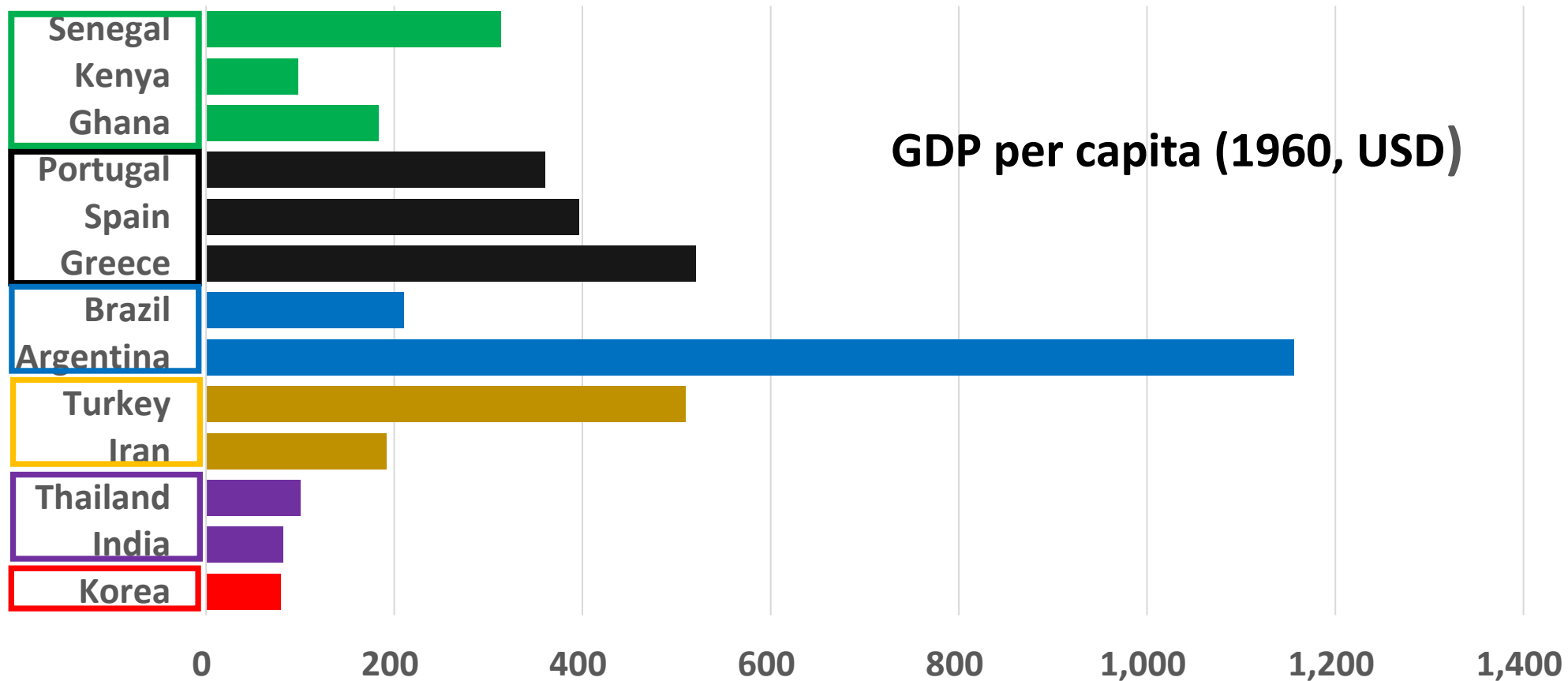


Seoul City Hall in June 1987



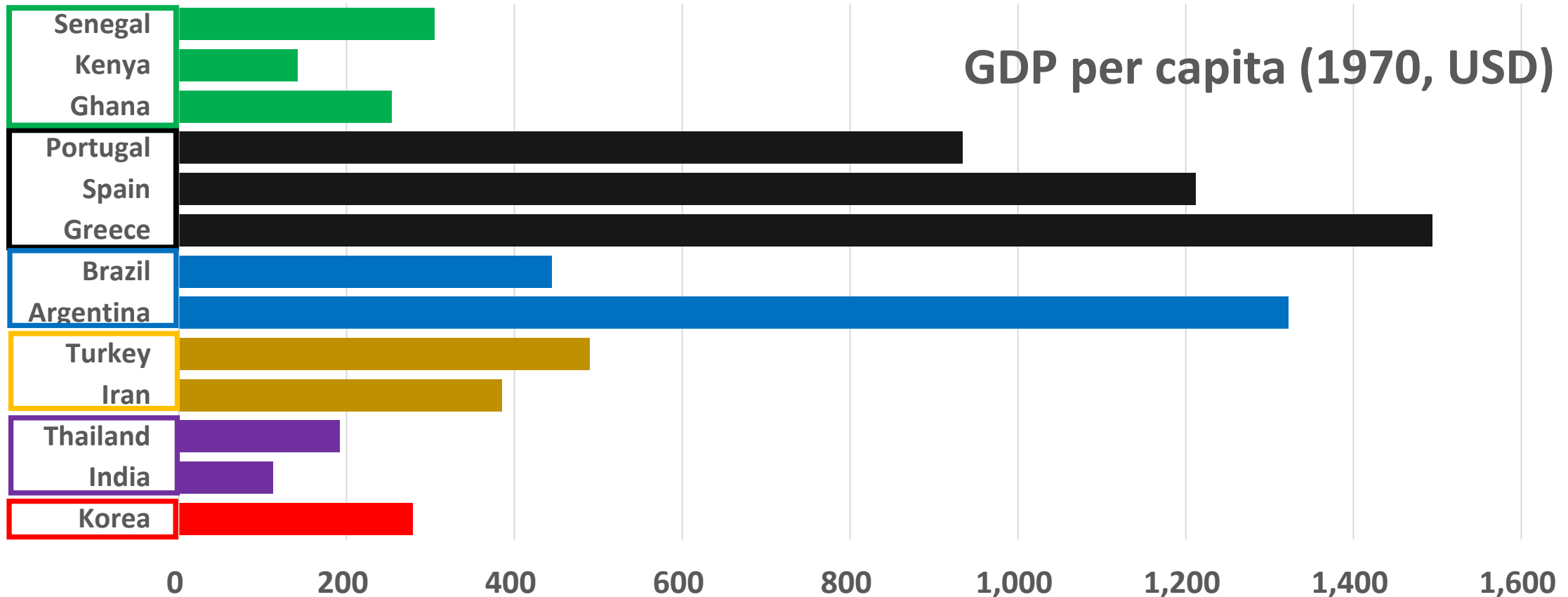
- GDP per capita of Korea was one of the lowest ones in the world in 1960.

<Figure 11> GDP Per Capita of Countries



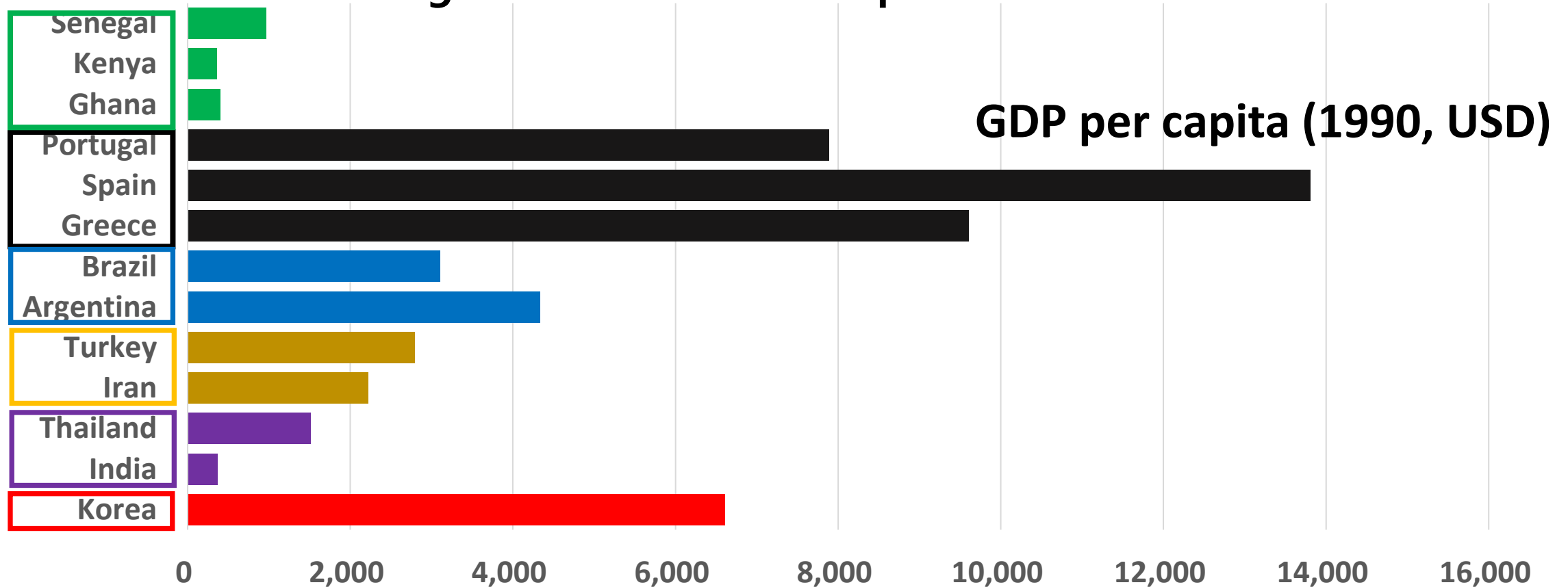
- GDP per capita of Korea passed those of some Asian and African countries.

<Figure 11> GDP Per Capita of Countries



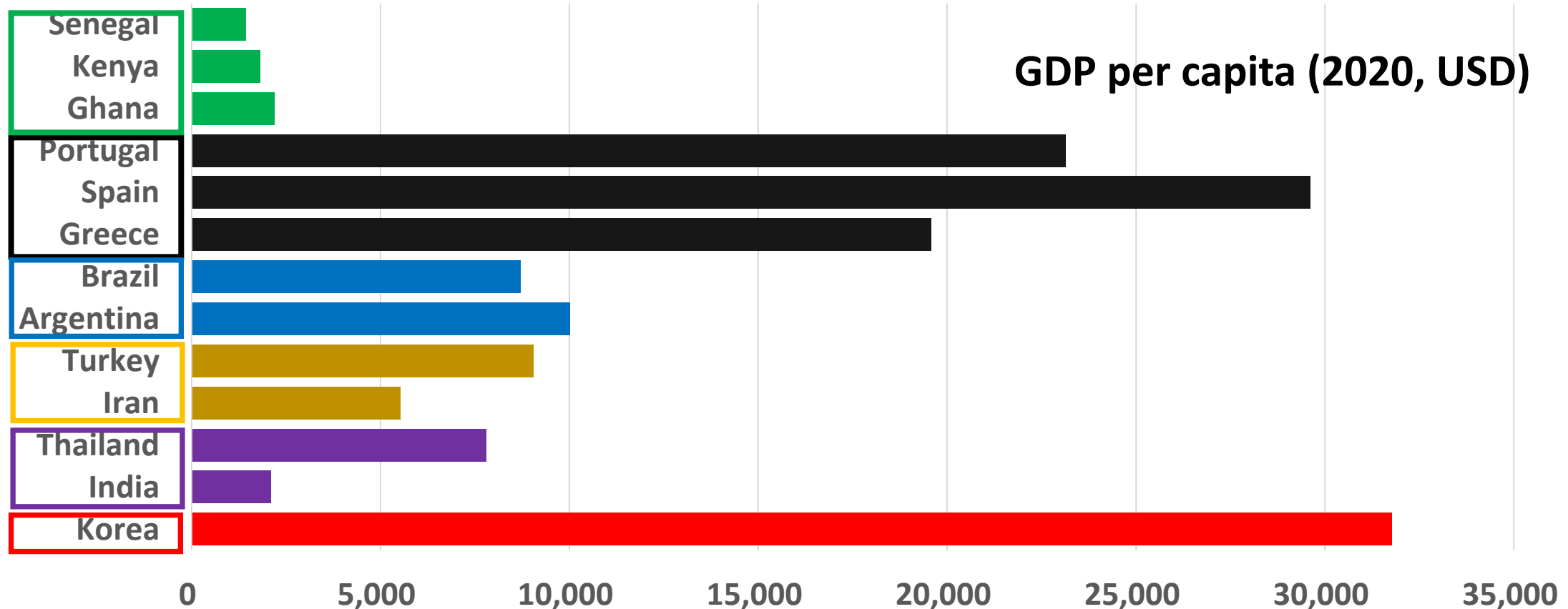
- GDP per capita of Korea became higher than most non-European countries.

<Figure 11> GDP Per Capita of Countries



- In 2020, GDP per capita of Korea became higher than some western European countries.

<Figure 11> GDP Per Capita of Countries



- GDP of Korea ranked 10<sup>th</sup> in the world in 2020 (IMF data)

Rank	Country	GDP (millions of US\$ 기준)
	World Total	83,844,988
1	US	20,807,269
2	China	14,860,775
3	Japan	4,910,580
4	Germany	3,780,553
5	UK	2,638,296
6	India	2,592,583
7	France	2,551,451
8	Italy	1,848,222
9	Canada	1,600,264
10	Korea	1,586,786
11	Russia	1,464,078
12	Brazil	1,363,767

- GDP per capita of Korea ranked 24<sup>th</sup> in 2021, but it was ranked in 9<sup>th</sup> in country with the size of population is bigger than 10 millions.

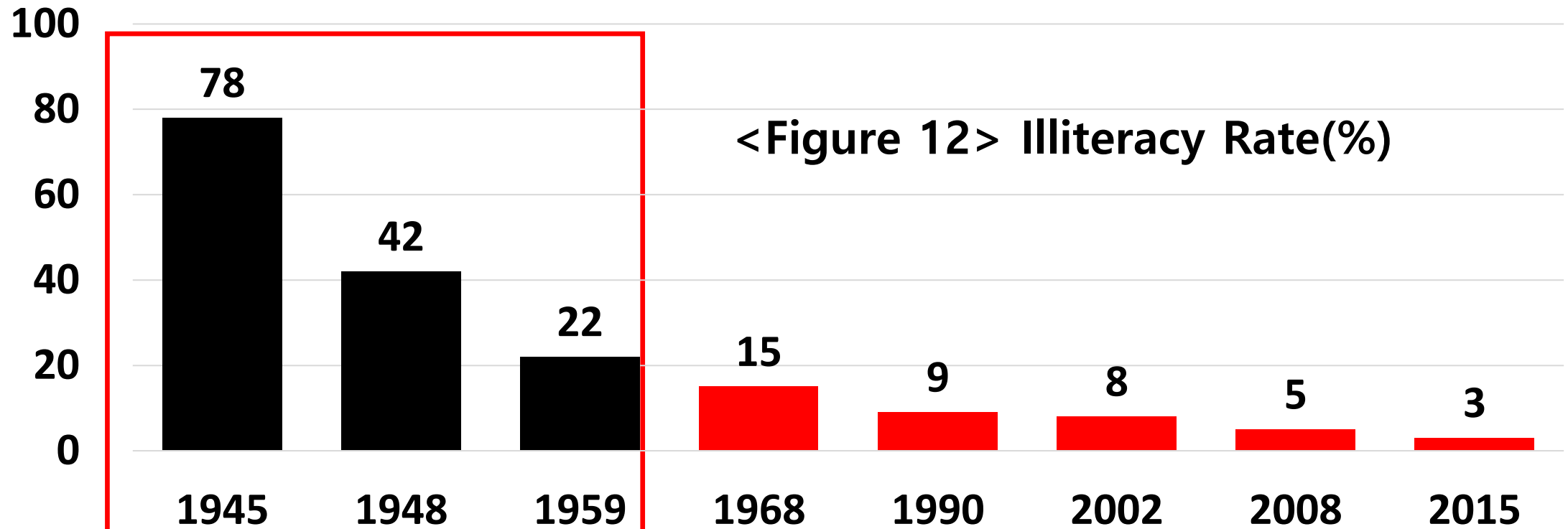
Rank	Country	GDP Per capita (US\$)	Rank	Country	GDP Per capita (US\$)
1	Luxembourg	135,682.8	17	Israel	51,430.1
-	Bermuda	110,869.5	18	Germany	50,801.8
2	Ireland	99,152.1	-	Hong Kong SAR, China	49,660.6
3	Switzerland	93,457.4	19	New Zealand	48,801.7
4	Norway	89,202.8	20	United Kingdom	47,334.4
5	Singapore	72,794.0	-	Macao SAR, China	45,421.6
6	United States	69,287.5	21	France	43,518.5
7	Iceland	68,383.8	-	Andorra	43,047.7
8	Denmark	67,803.0	22	Japan	39,285.2
9	Qatar	61,276.0	23	Italy	35,551.3
10	Sweden	60,239.0	24	Korea, Rep.	34,757.7
11	Australia	59,934.1	25	Malta	33,257.4
12	Netherlands	58,061.0	26	Brunei Darussalam	31,722.7
13	Finland	53,982.6	27	Cyprus	30,798.5
14	Austria	53,267.9	28	Spain	30,115.7
15	Canada	52,051.4	29	Slovenia	29,200.8
16	Belgium	51,767.8	30	Bahamas, The	28,239.4



## IV. What Happened at the Early Days of Development?

# 1. Before the Industrialization

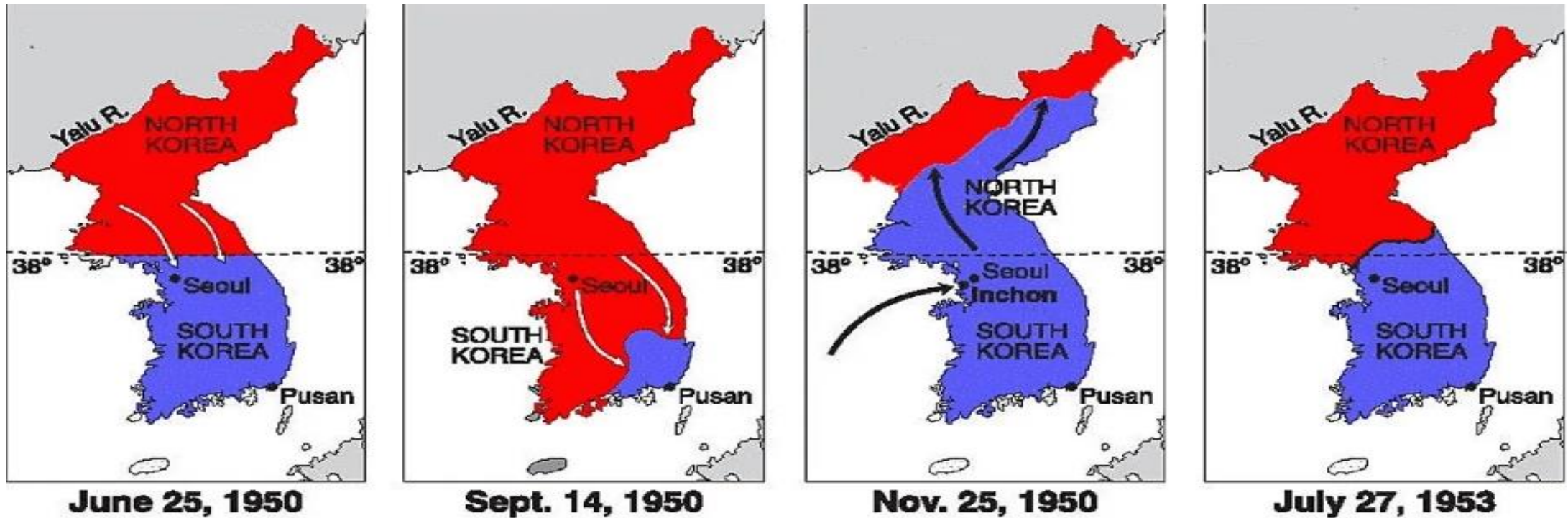
- Literacy rate of 1945 was only 22% in Korea. 78% of Korean people could not read and write.
- Illiteracy rate fell due to the education: Korean alphabet or hangul is one of the easiest letters to learn in the world. Korean study very hard. => Higher education gives higher income.



- Korean War from 1950 to 1953 destroyed all economic infrastructure and private capital.
  - Almost all area of Korean peninsular was a battle-field

### <Figure 13> Battle area of Korean War: 1950-1953

(<http://theme.archives.go.kr/next/movie/movieDtail.do?archiveEvtId=0052500915>)



Source: <https://asiansecurityblog.wordpress.com/2018/01/20/north-koreas-goals-are-limited-it-couldnt-absorb-s-korea-even-if-it-won-a-war/>

- **April 19 Revolution in 1960**
  - **Fraud of Presidential election on March 15 by majority party => Protest of students => Step down of President Lee Seungman.**
  - **Political Instability under Democratic party: more protest.**



## ■ Military coup-detat on May 16, 1961

- Major general (two star) PARK Jeonghee carried out a military coup-detat and succeeded in taking a power.
- Dissolution of the cabinet => Military officers ruled the country with 'Supreme Council for National Reconstruction(국가재건 최고회의)'.



## 2. Five-year economic development Plan

### ▪ Declaration of 5 Year Economic Development Plan by military government in 1962.

- Establishment of Economic Planning Board (경제기획원) in July 1961 => Later Ministry of Economy and Finance (기획재정부)
- January 3, 1962, 5 Year Economic Development Plan was announced which continued from 1962 to 1996 by 7<sup>th</sup> plan.

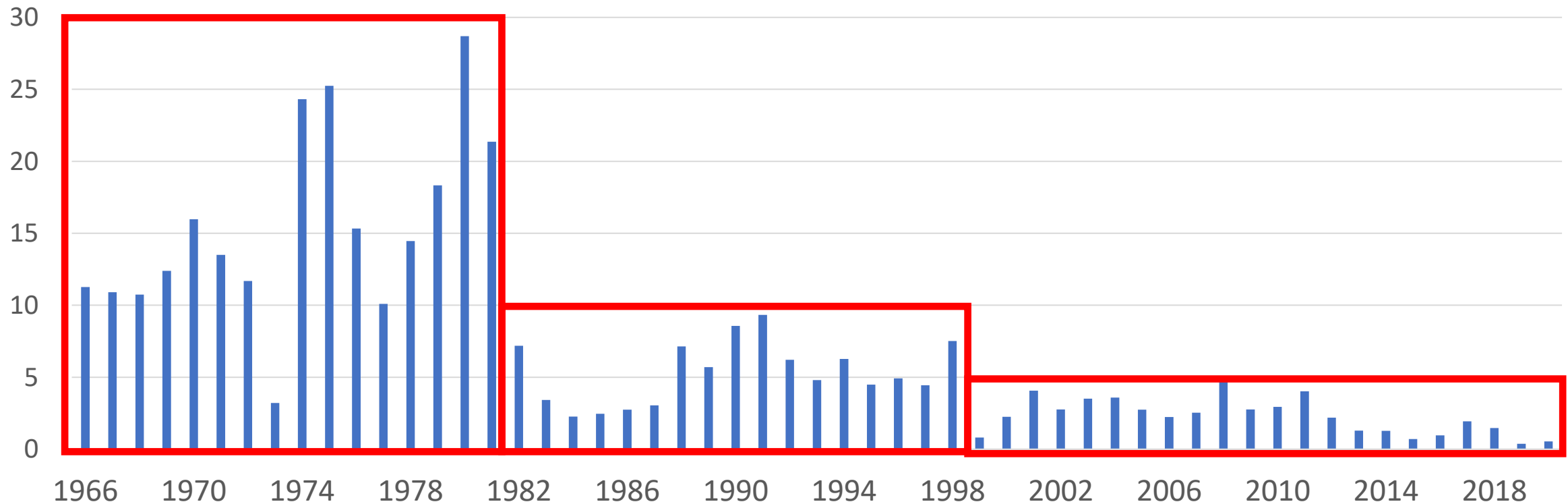


- **Major elements of 5 Year Economic Development Plan**
- **Goal: High growth rate: other indicators such as price stability or balance of payment equilibrium was less promoted.**

	GDP Growth rate		Export growth rate		Inflation rate
	Target(%)	Actual(%)	Target(%)	Actual(%)	
1st (1962-66)	7.1	7.8	28.0	38.6	19.7
2nd (1967-71)	7.0	9.6	17.1	33.8	15.0
3rd (1972-76)	8.6	9.2	22.7	32.7	15.9
4th (1977-81)	9.2	5.8	16.0	11.1	18.6
5th (1982-86)	7.6	9.8	11.4	10.5	3.6
6th(1987-91)	7.3	10.0	10.0	16.4	6.8
7th (1992-96)	7.5	7.9	-	-	-

- The inflation rates of Korea was very high by 1980.
- Generally, inflation rate is defined by the rate of growth of consumer price index.

<Figure 14> Rate of Growth of Consumer Price Index





- **Major policies of Korean government during the 5-year Economic Development Plan**
  - **1) Export driving policy and opening the economy: have Korea ever opened its economy and exported something to foreign countries?**
  - **2) Active Industrial policy: did any industry existed in South Korea before?**
  - **3) Improving economic infrastructure: how much economic infrastructure did Korea have after the Korean War?**

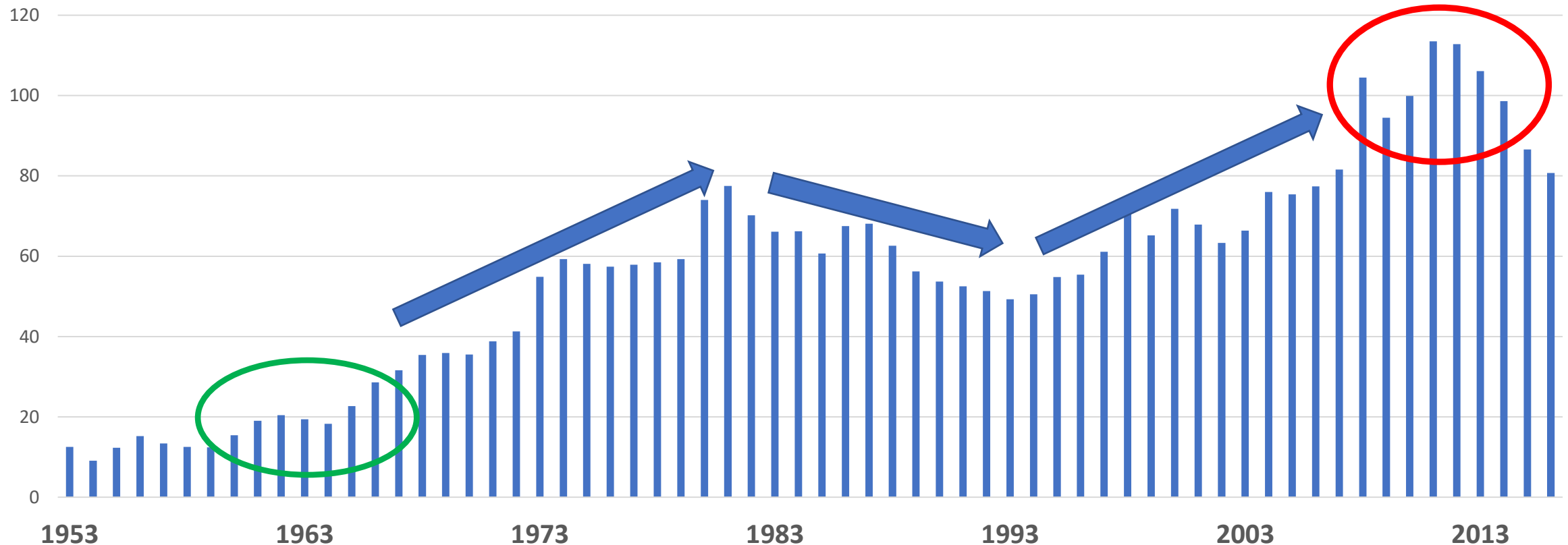
# 1) Export Driving Development Strategy (Or Model)

- **Export Driving (Export Oriented) Development Strategy**
  - **Definition: to open its domestic market and to promote the export to raise economic growth rate.**
  - **Government actively promote companies to export.**
  - **Small Asian countries: Korea, Taiwan, Singapore etc.**
  
- **Why they took this strategy or model**
  - **Lack of natural resource**
  - **Too small size to reach the economies of scale**
  - **Lack of technology**

- **Performance after countries took their own development strategies after 30 years of practice.**
  - **Counties taking Export-driving (Export-oriented) development strategy showed a better performance than those taking Import substitution development strategy: higher growth rate.**
  - **The GDP growth rates of Korea, Taiwan, Hongkong and Singapore were far higher than those of India, China and large countries of Latin America.**
  - **Japan and Germany, the lose in the WWII recovered very quickly by taking export-driving (Export Oriented) development strategy.**

- It made Korea to participate into GVC
- Economic openness ((export+import)/GDP ratio), % has increased and it further participated into GVC.

<Figure 15> Degree of Economic openness of Korea (%)



## 2) Industrial Policy in Korea

- Industrial policy in planned economy or communistic countries.
  - Government determines the amount of production, way of production and its distribution.
  - Production policy is an industrial policy itself.
- Industrial policy in free market economy:
  - Definition: official strategic effort **to encourage** the development and growth of all or part of the economy, **often focusing on all or part of the (mainly) manufacturing sector.**
  - Government do not determine the amount of production and employment and their prices directly.

- **Wig and textile were some of the major labor-intensive industries.**
  - Young ladies of late 10s and early 20s worked very hardly to make wigs and t-shirts to export.
  - The third largest item of exports in 1970 was wig taking 12 percent of total exports. The CEO of 'Seoul Trade' exporting wigs, paid the largest amount of income tax in Korea.

Korea in 1970s



China in 2010



- Textile and garment became the most important item of export since 1970.
- Today, ladies in Cambodia are working under the similar working condition of Korea's ladies before.

Korea in 1970s



Cambodia in 2019



- At the year of 1959: A company called Goldstar (금성사) was established to make a radio model A501 for the first time in Korea.
  - ✓ Major parts were imported from Japan and only a few parts were supplied from the domestic companies.
  - ✓ Now it is making one of the best home theater products.

## Goldstar A501 Radio





- **1966: Goldstar produced the Black-and-white Brown-tube TV of VD-191 for the first time.**
  - Major parts such as Brown-tube were made by Sanyo and Hitachi of Japan.
  - Mid-1970s, 80% of the parts were made by domestic companies.
  - Now, it is making the best flat panel TV in the world.
  - [https://news.lgdisplay.com/kr/2016/09/btp\\_2/](https://news.lgdisplay.com/kr/2016/09/btp_2/)

**Goldstar VD-191 TV  
(1966)**



**Goldstar CT-808 in 1977**



**2022**



- **Goldstar (금성사)** and its related chemical company called by **Lucky Chemical (럭키화학)** changed its name into **LG** in 1990s, which later became one of the largest home appliance (가전) companies in the world
  - Lucky Chemical used to produce the toothpaste, soap and some plastic products.
  - The name of Baseball team of LG is **LG Twin**.



- **Until 1960, Korea was not able to produce the car. Simply, there was an assembly factory for foreign automobile companies.**
  - **Sibal-taxi (시발택시) in 1950s: jeep style car converted from the US army's war vehicle was mainly used as a taxi.**
  - **Saenara car (새나라 자동차) in 1960s: Japanese Nissan car assembled in Korea.**



- Hyundai motor car company produced the first Korean car named by Pony in 1970. (But it was designed by Italian company and equipped with engine and transmission of Mitsubishi Automobile of Japan)
  - 6 Pony cars were exported to Equator in Latin America in 1976.
  - 160,000 Excels, a new version of Pony, were exported to US in 1986.



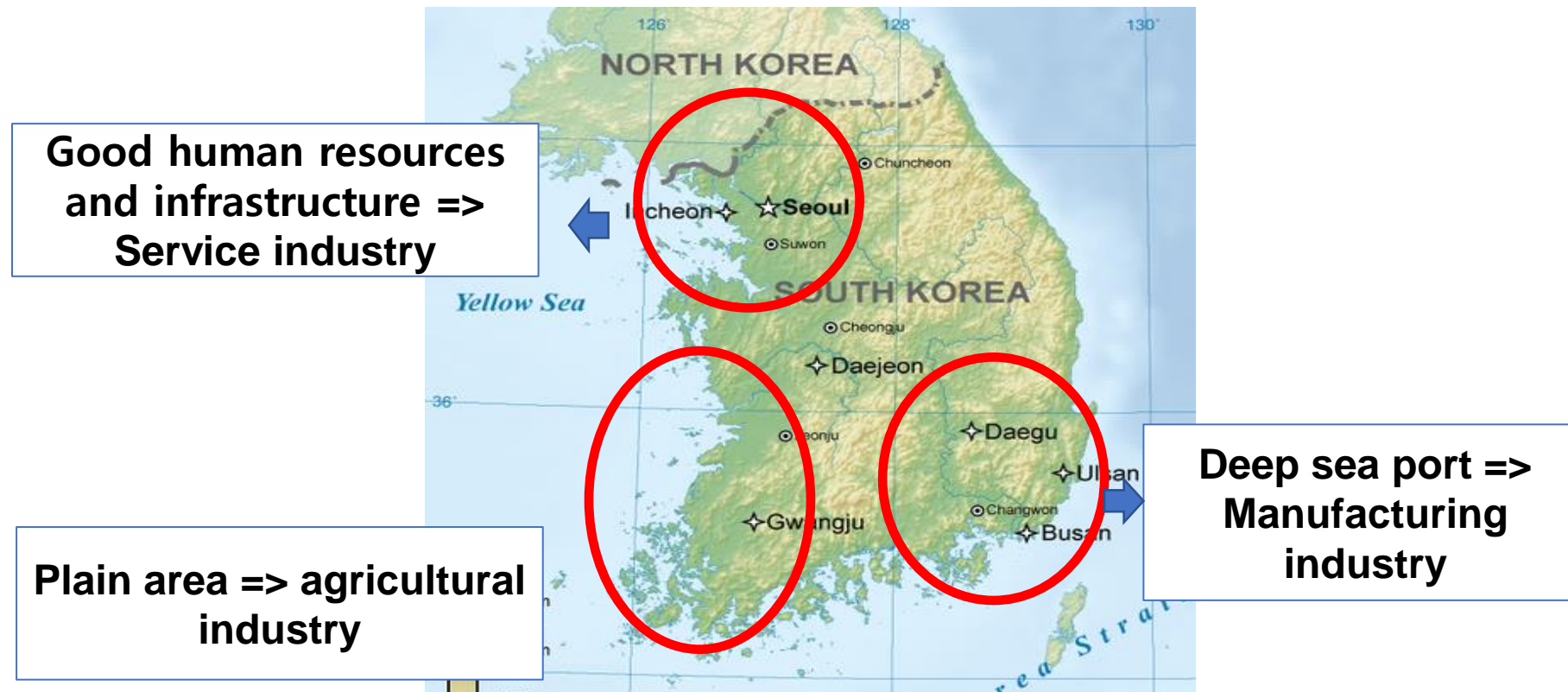
- Some well-known Hyundai car: Excel 1991
- Beating a Black men named as Rodney Glen King brought LA riot on March 1991, (<https://abc7.com/rodney-king-lapd-anniversary-george-holliday/10385652/> )



- Some well-known Hyundai car: Genesis 2021 (<https://www.campaignasia.com/article/how-hyundai-genesis-responded-when-tiger-woods-crashed-in-one-of-its-cars/468056>)



- Major industry zones were located in Metropolitan area and Southeast area
  - Metropolitan area: good human resources and infrastructure such as finance and government office
  - Southeast area: easy to approach the port.



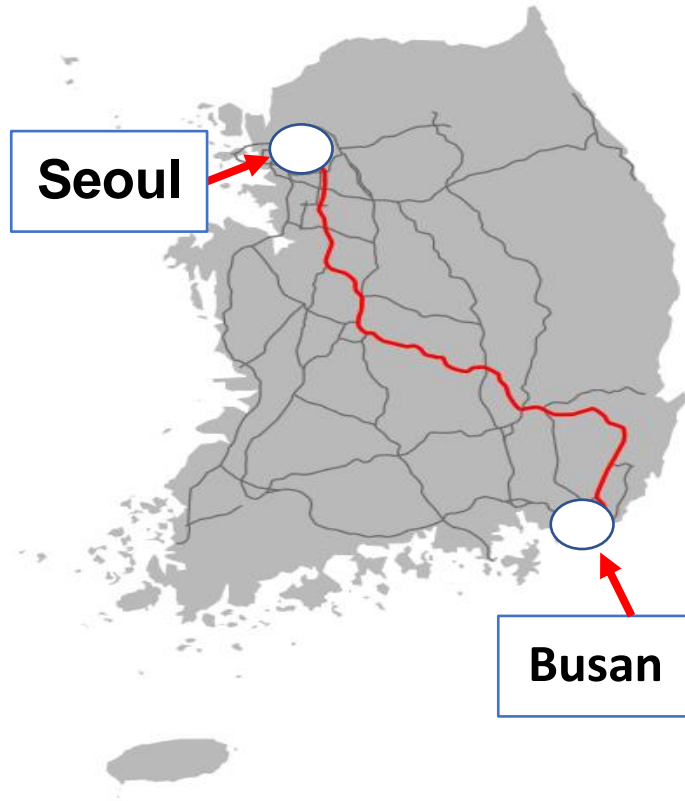
## ▪ Roles of Major Players in Korea's Industrial Policy under the Five-year development plan

<b>Government</b>	<ul style="list-style-type: none"><li>• <b>Selecting industry.</b></li><li>• <b>Design several special industrial zone across the country.</b></li></ul>
<b>Companies</b>	<ul style="list-style-type: none"><li>• <b>Applying for the selected industry</b></li><li>• <b>If qualified, receive the assistance from the government.</b></li></ul>
<b>Financial Institutions</b>	<ul style="list-style-type: none"><li>• <b>Providing the financial resource to the company by the guidance of the government.</b></li></ul>
<b>People</b>	<ul style="list-style-type: none"><li>• <b>Working very hard.</b></li><li>• <b>Improving their productivity.</b></li></ul>



### 3) Building Infrastructure

- Construction of Gyeongbu Expressway (경부고속도로)
  - 416.1km highway connecting Seoul with Busan.
  - It is always congested with the cars.

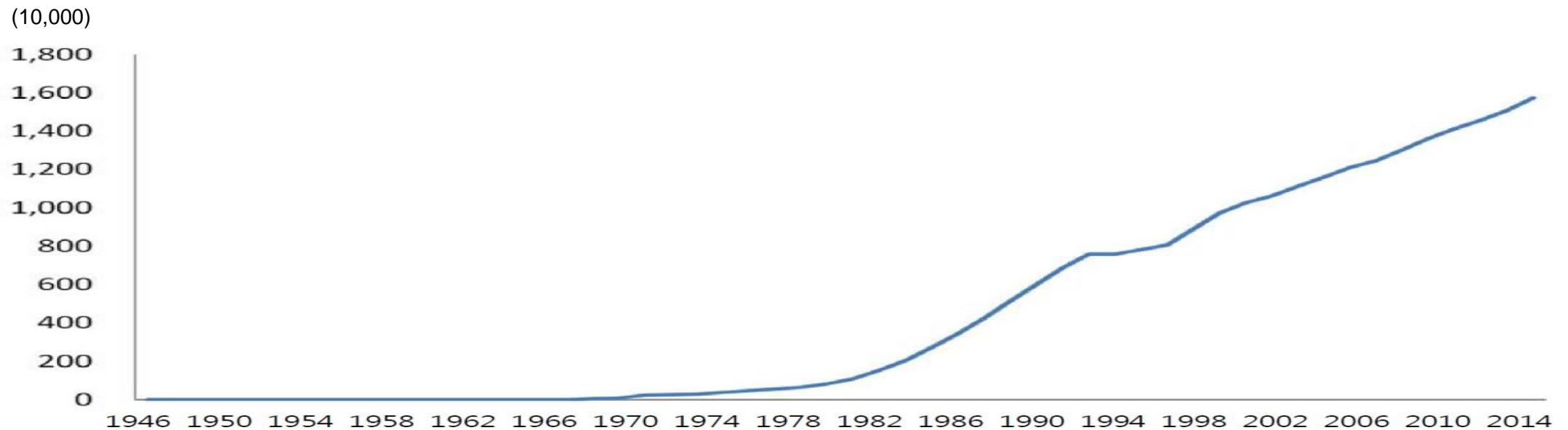


- Two lanes at each way at first and later extended to four lane, total 8 lanes.
  - Construction period : from February 1, 1968 to July 7, 1970: two years and five months.
  - <https://ko.wikipedia.org/wiki/%EA%B2%BD%EB%B6%80%EA%B3%A0%EC%86%8D%EB%8F%84%EB%A1%9C>



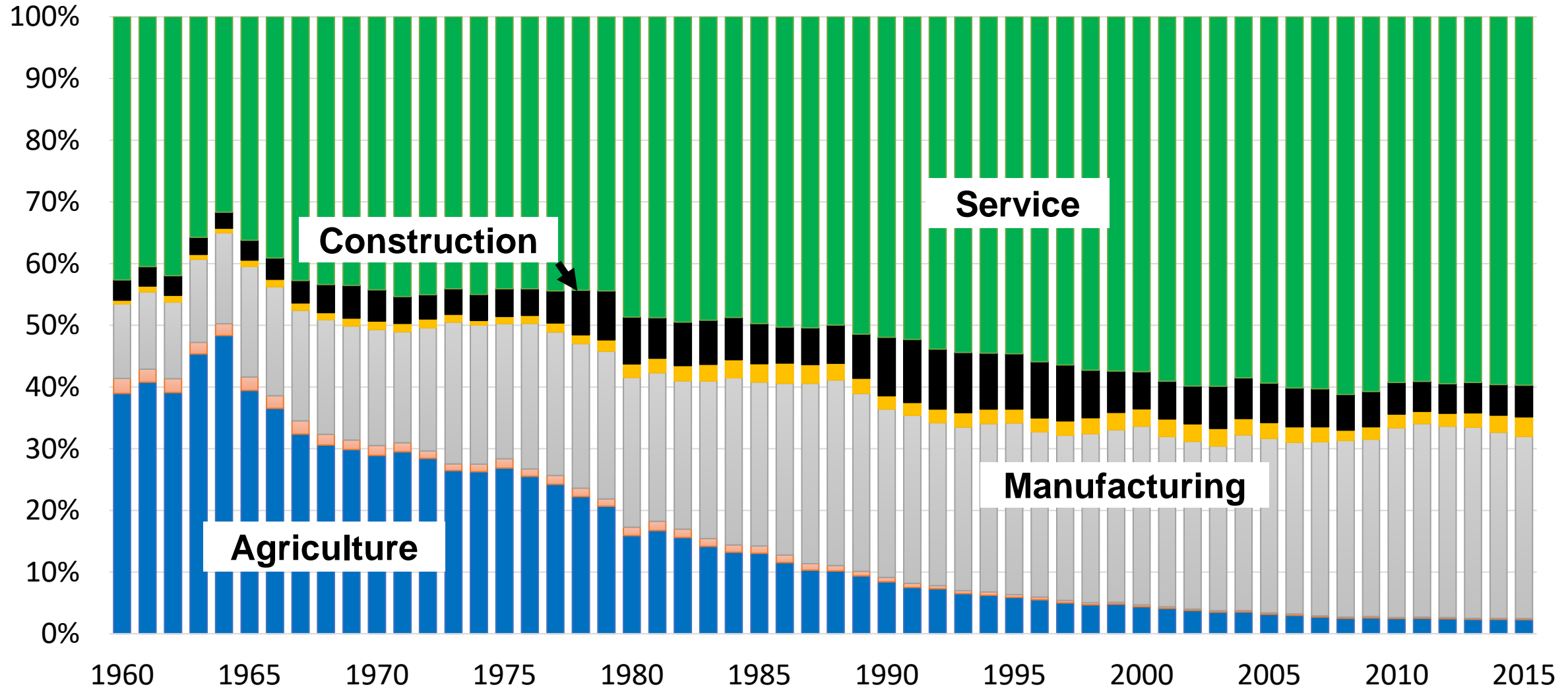
- **In 1969, was it necessary for Korea to build Gyeongbu Expressway? Or could it pass the feasibility test?**
  - **To succeed in 5 Year Development Plan: export driving policy**
  - **Connecting Seoul and Busan largest port in Korea**
  - **But the number of automobile was too small (only 50,000 in 1965).**

**<Figure 16> Number of Passenger Cars (10,000cars)**

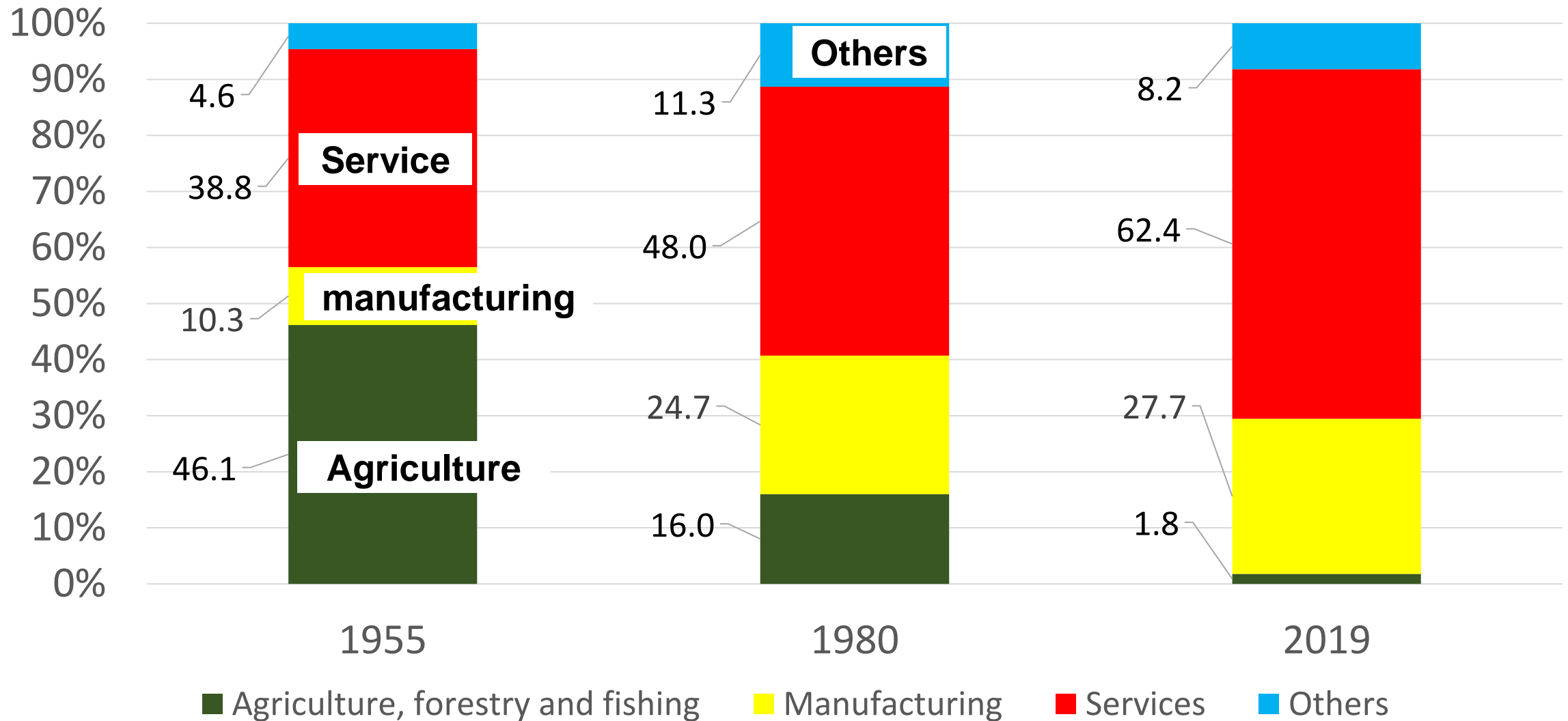


출처: 통계청, 「장래인구추계」, 2011.  
 국토교통부, 「자동차등록현황」, 1966년~2014년.  
 통계청, 한국통계연감, 1946년~1961년.

<Figure 17> Industrial Structure (%)

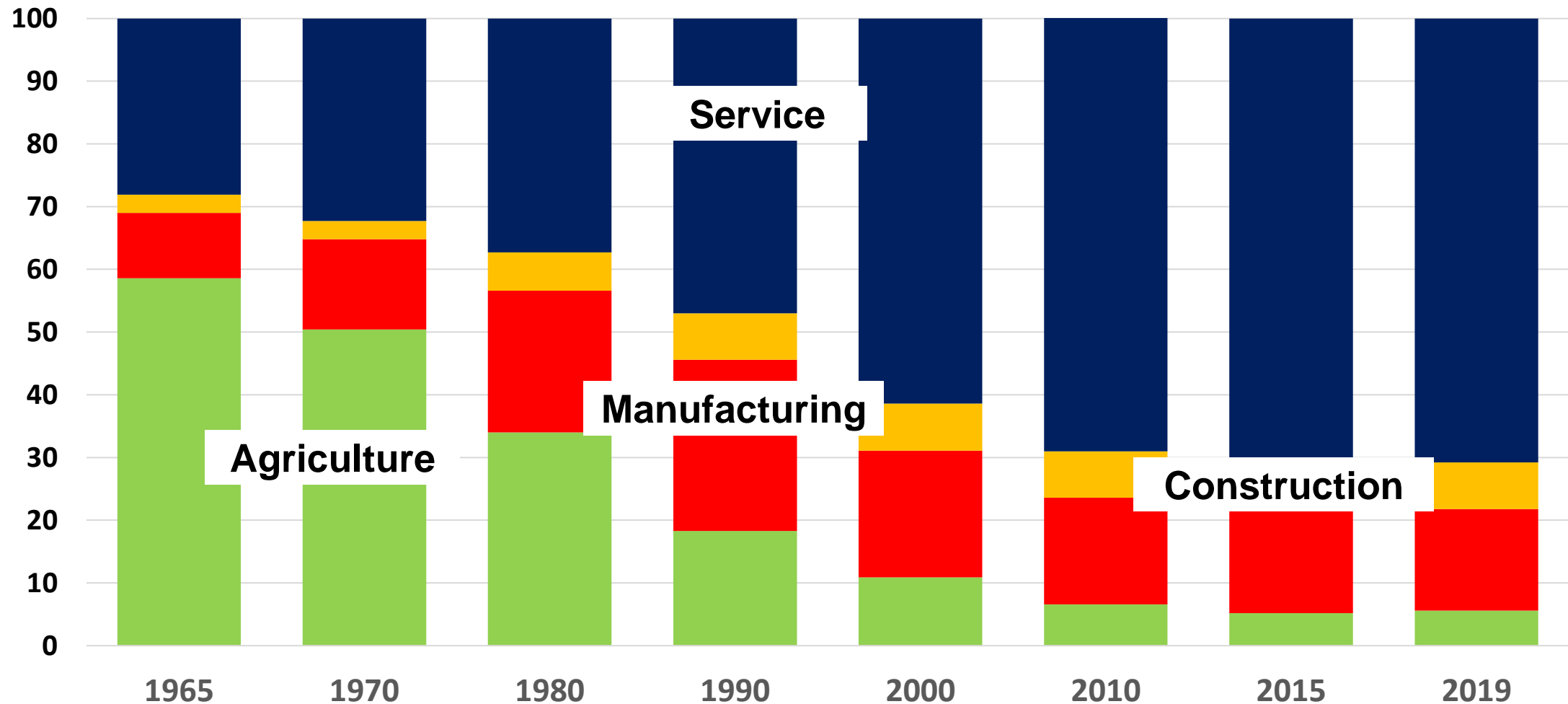


<Figure 18> Production by Industry(%)



- People changed their jobs from farmer to the worker in the factory and office.

<Figure 19> Employment by Industry



## Production of Manufacturing Industry by Sector (%)

	1960	1980	2000	2018
<b>Manufacturing</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>1. Food, beverages and tobacco</b>	<b>36.5</b>	<b>10.7</b>	<b>6.1</b>	<b>4.4</b>
<b>2. Textiles, leather and fur products</b>	<b>25.2</b>	<b>23.2</b>	<b>7.9</b>	<b>4.1</b>
<b>3. Wood, paper, printing and reproduction</b>	<b>9.2</b>	<b>4.8</b>	<b>4.2</b>	<b>2.7</b>
<b>4. Petroleum, coal and chemicals</b>	<b>9.7</b>	<b>3.4</b>	<b>2.5</b>	<b>2.9</b>
<b>5. Non-metallic mineral products</b>	<b>4.9</b>	<b>6.4</b>	<b>4.0</b>	<b>2.6</b>
<b>6. Metal products</b>	<b>13.0</b>	<b>10.3</b>	<b>13.3</b>	<b>13.5</b>
<b>7. General machinery</b>		<b>4.5</b>	<b>8.1</b>	<b>9.0</b>
<b>8. Electric machinery</b>		<b>10.6</b>	<b>24.9</b>	<b>31.8</b>
<b>9. Precision instrument</b>		<b>1.7</b>	<b>1.4</b>	<b>2.1</b>
<b>10. Transport equipment</b>		<b>5.3</b>	<b>13.1</b>	<b>11.8</b>
<b>11. Furniture and other manufacturing</b>	<b>1.5</b>	<b>2.6</b>	<b>1.8</b>	<b>1.5</b>

## V. Overcoming the Crises



▪ Bankruptcies of major companies in Korea : 1996

Rank	1996	2020	Rank	1996	2020	Rank	1996	2020
1	현대	삼성	11	금호	신세계	21	동양	에쓰-오일
2	삼성	현대자동차	12	두산	케이티	22	한솔	현대백화점
3	엘지	에스케이	13	대림	씨제이	23	동부	카카오
4	대우	엘지	14	한보	한진	24	고합	한국투자금융
5	선경	롯데	15	동아건설	두산	25	해태	교보생명보험
6	쌍용	포스코	16	한라	엘에스	26	삼미	효성
7	한진	한화	17	효성	부영	27	한일	하림
8	기아	지에스	18	동국제강	대림	28	극동건설	영풍
9	한화	현대중공업	19	진로	미래에셋	29	뉴코아	대우조선해양
10	롯데	농협	20	코오롱	금호아시아나	30	벽산	케이티앤지

- Major indicator to check the occurrence of banking crisis: amount of bank non-performing loans and capital
  - Simple rule: non-performing loan > capital => Bank cannot pay the principal and interest.
  - How about the ratio of NPL over bank capital at the end of 1997.

Bank	NPL/Total Loan (%)	NPL /Bank Capital(%)
1. Choheung (조흥)	7.0	166.6
2. Sangeup (상업)	4.8	103.8
3. Hanil (한일)	3.6	86.0
4. Cheil (제일)	11.4	164.9
5. Seoul (서울)	10.4	200.0
6. Korea Exchange (외환)	5.7	126.4
Average	6.8	139.9

- Small banks covering the nation : Some banks were OK

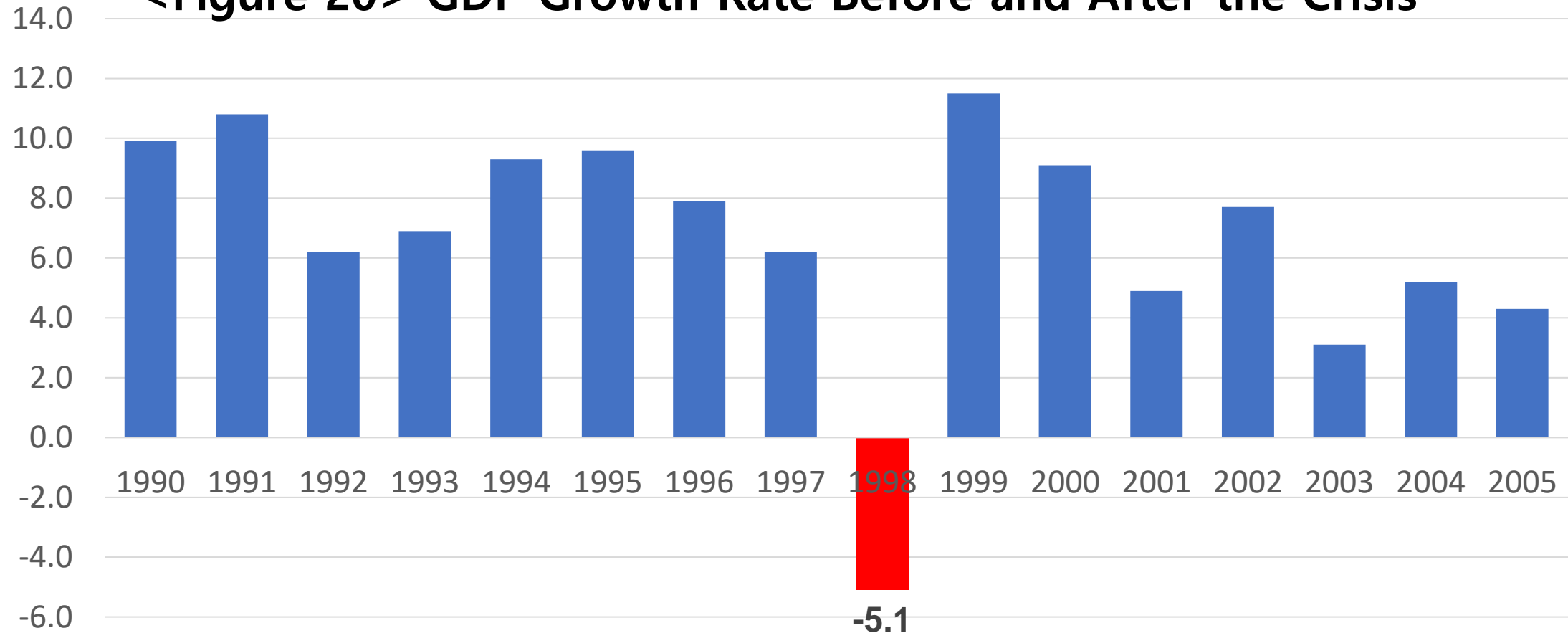
Bank	NPL/Total Loan (%)	NPL/Bank Capital(%)
7. 국민 (KB)	3.2	46.2
8. 주택 (Korea Housing)	2.0	46.3
9. 신한 (Shinhan)	4.1	60.2
10. 한미 (Hanmi)	3.4	71.4
11. 하나 (Hana)	2.4	63.0
12. 보람 (Boram)	3.2	63.2
13. 평화 (Pyinghwa)	4.5	103.6
14. 동화 (Dongwha)	7.9	165.4
15. 동남 (Dongnam)	5.7	139.1
16. 대동 (Daedong)	9.6	335.1
Average	5.5	107.5

- Local banks? Most of them were insolvent

Bank	NPL/Total Loan (%)	NPL /Bank Capital(%)
Daegu (대구)	8.4	91.8
Busan (부산)	8.4	134.2
Chungcheong (충청)	12.5	184
Kwangju (광주)	8.1	98.9
Cheju (제주)	21.4	223
Kyunggi (경기)	9.7	171.4
Chennbuk (전북)	14.9	121.5
Kwangwon (강원)	18.3	401.2
Kyungnam (경남)	7.3	88.3
Cheongbuk (충북)	11.3	219.2
Average	10.1	136.0

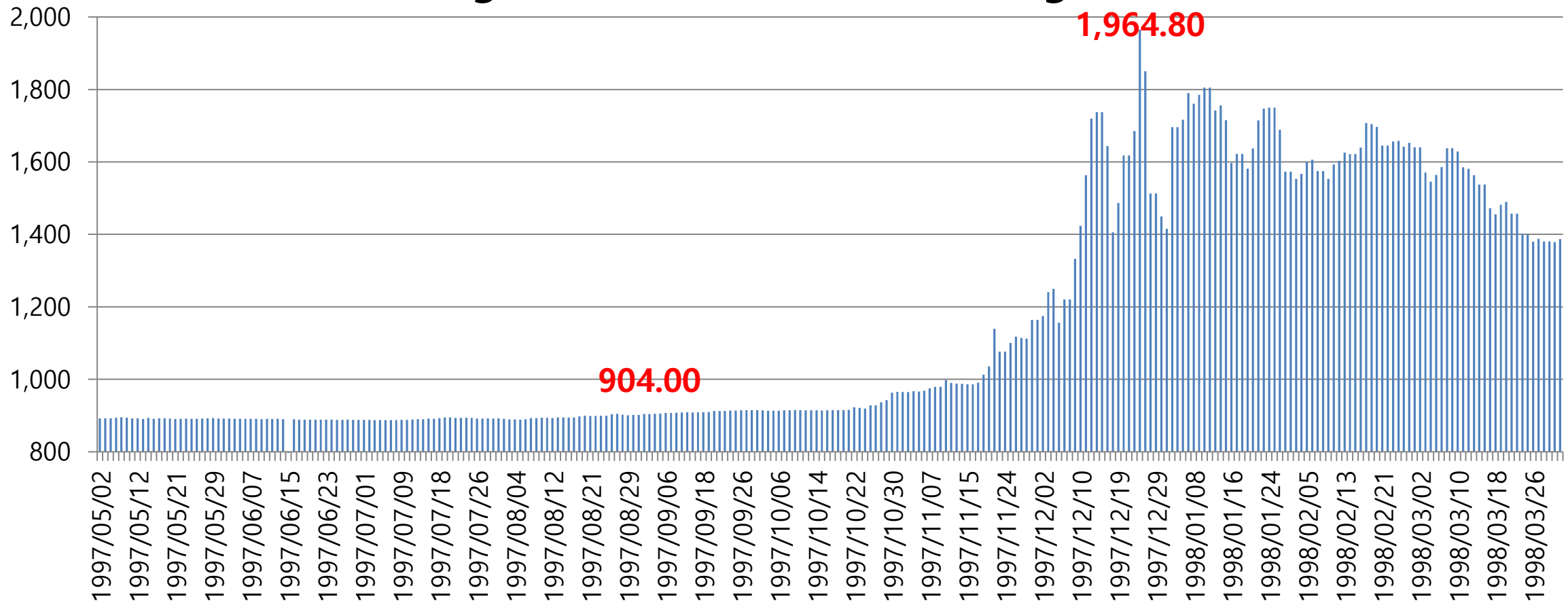
- Effect of banking crisis on Korean economy
  - GDP growth rate? The lowest one in history -5.1%.

<Figure 20> GDP Growth Rate Before and After the Crisis



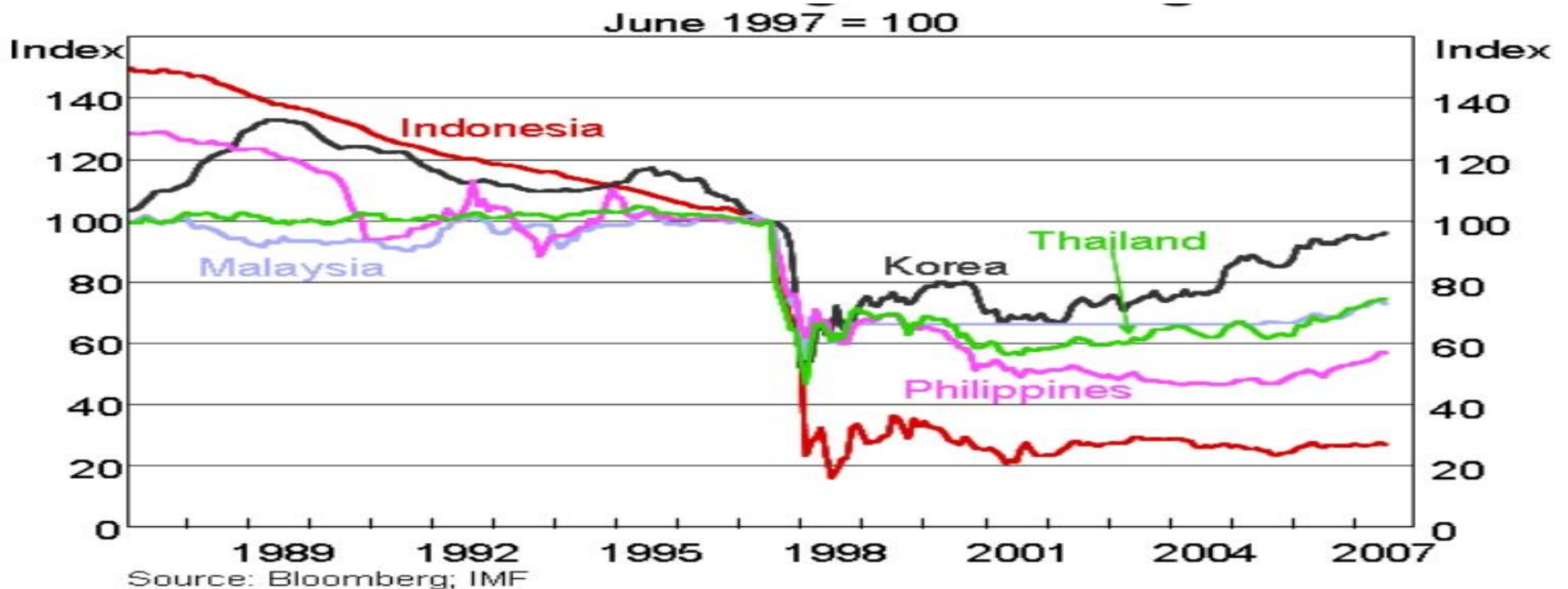
- At the end of 1997, the foreign exchange rate of won against US dollar rapidly rose or depreciated and the foreign exchange reserve of the Bank of Korea fell very rapidly.

<Figure 21> Won/USD exchange rate

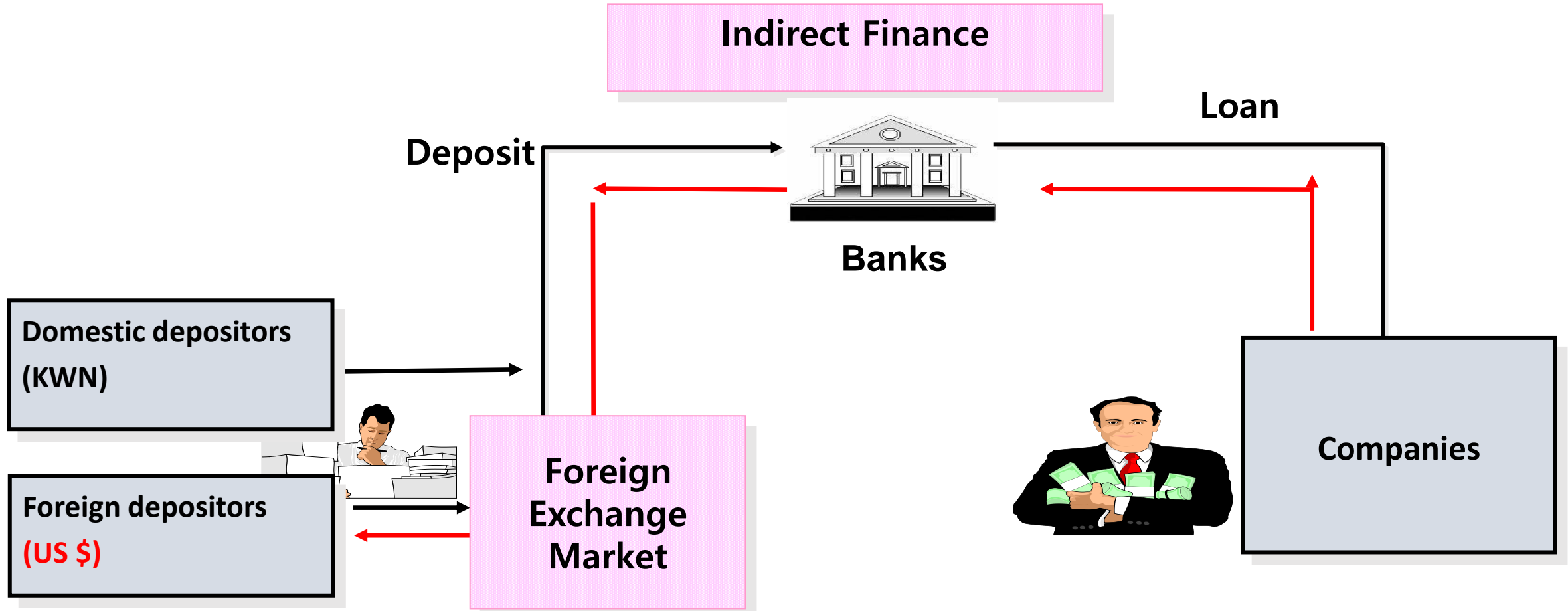


- During Asian Financial crisis, Won of Korea, Baht of Thailand, Rupee of Indonesia, Peso of Philippines and Ringgit of Malaysia moved together in 1997 and 1998.

<Figure 22> Exchange Rate Before and After the Crisis



- **Deposit withdrawal theory:** It explains the non-performing loans of the bank, deposit withdrawal and currency crisis.





- Restructuring of the economy: end of 5 year developed plan and adopting a more market friendly economic system.
- Restructuring of the insolvent financial institutions: closure, merge and acquisition were done and as a result, the number of financial institutions decreased quite substantially. Securities company became more important.

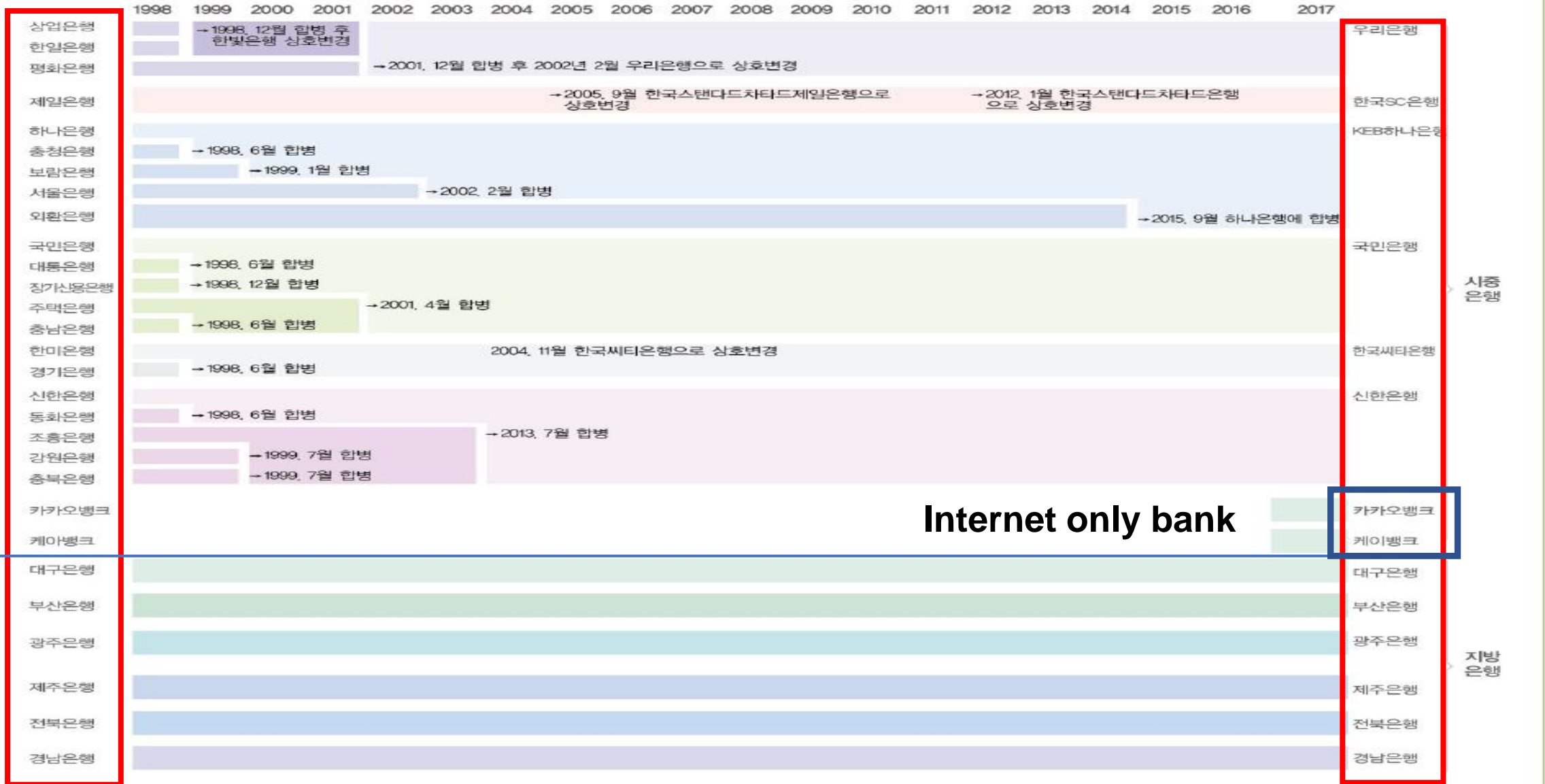
	1997	1999	2010
Bank (은행)	33	24	18
Merchant Bank (종합금융회사)	30	12	1
Securities Company(증권회사)	36	30	50
Asset Management Company (자산운용회사)	31	25	80
Life Insurance Company (생명보험회사)	31	-	22
Non-Life Insurance Company (손해보험회사)	14	-	16
Mutual Bank (상호저축은행)	231	208	106
Credit Unio (신용협동조합)	1,666	1,566	962

- Efficiency improvement by reducing of the number of employee

			1997	1998	Difference	(%)
Bank (은행)	Employee	Management	501	345	-156	-31.1
		Staffs	114,118	75,259	-38,859	-34.1
	Branches	Domestic	5,987	5,056	-931	-15.6
		Oversea	190	127	-63	-33.2
Merchant Bank (종합금융회사)	Employee		1,922	1,628	-294	-15.3
Securities Company(증권회사)	Employee	Management	362	271	-91	-25.1
		Staffs	26,870	22,084	-4,786	-17.8
	Branches	Domestic	1260	1108	-152	-12.1
		Oversea	89	41	-48	-53.9
AMC (자산운용사)	Employee		6,230	5,004	-1,226	-19.7

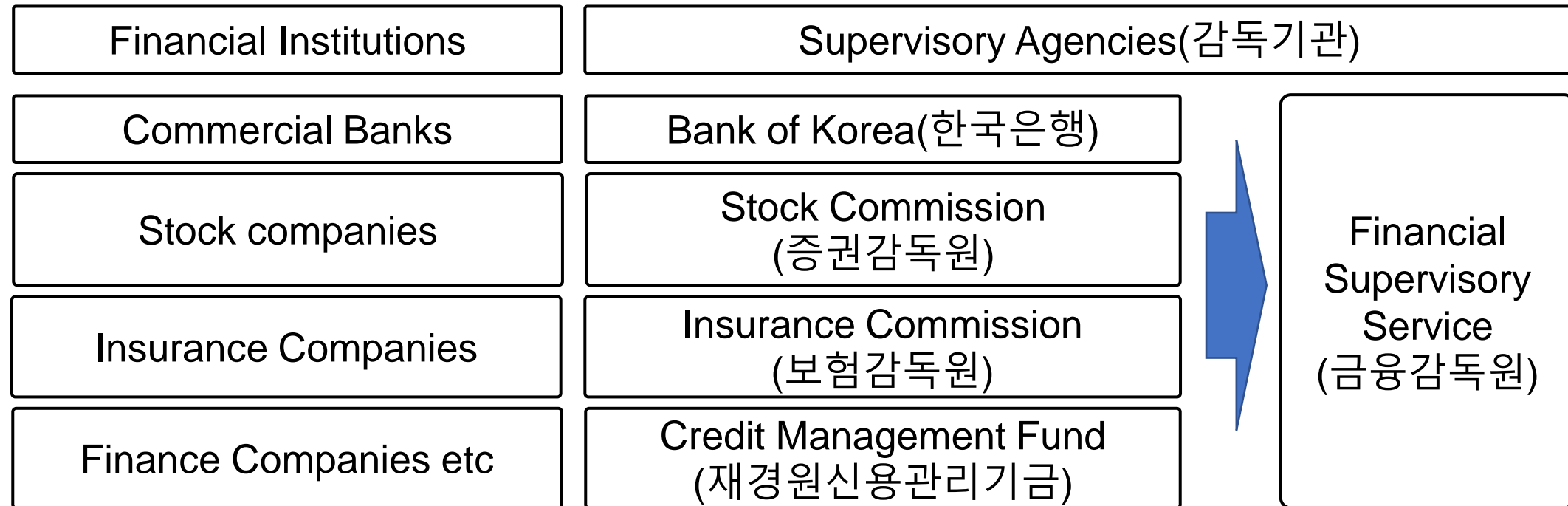
그림 III - 1

외환위기 이후 일반은행 변천 추이



Internet only bank

- **Design new financial supervisory system and transparent regulatory system.**
  - **An establishment of Integrated Financial Supervisory System.**
  - **During 2008-2009 of global financial crisis, major Korean financial institutions did not suffer seriously.**



- **Restructuring in the industrial sectors**
  - **No more five-year economic development plan. => No more direct industrial policy.**
  - **More liberalization on the business activity.**
  - **Taking indirect ways of assisting the business sectors.**

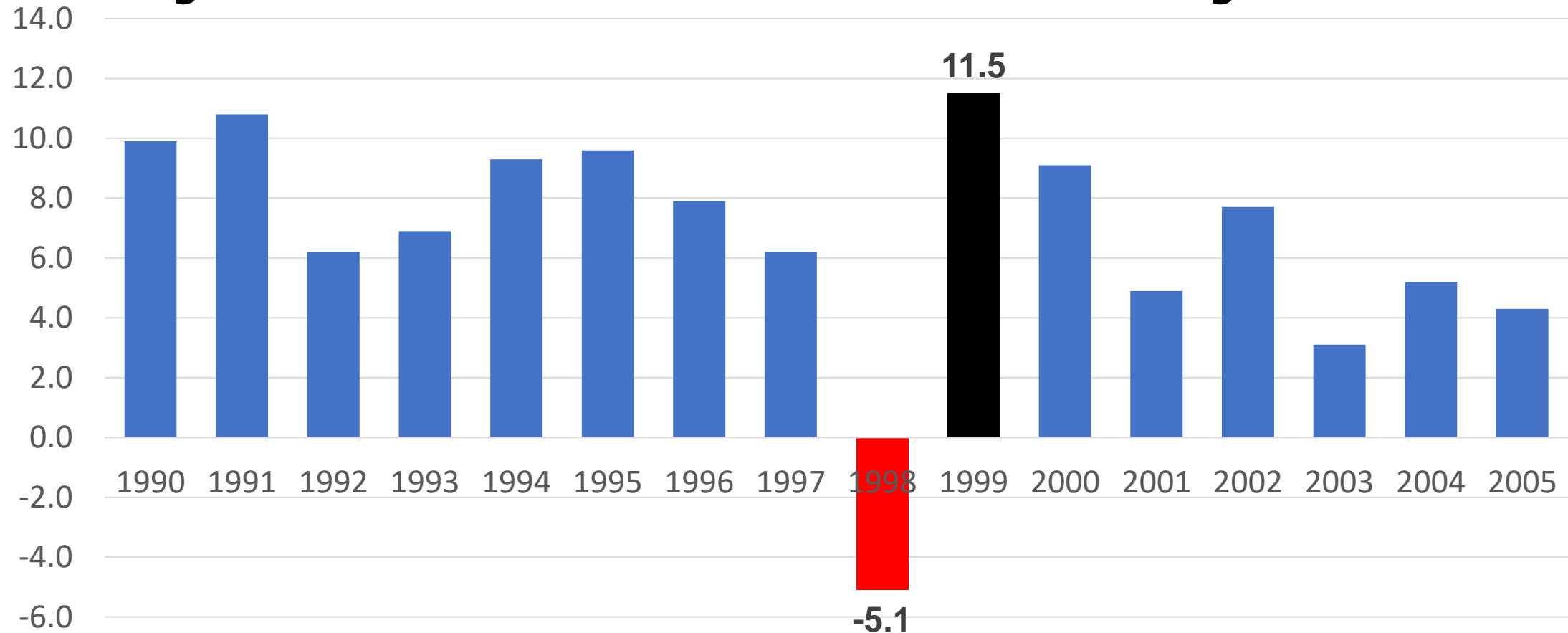
- **Restructuring in the industrial sectors**
  - **1) Enhanced transparency : Adoption of international accounting principle such as IFRS.**
  - **2) Strengthened accountability : Strengthening the legal liability of controlling owners and allowing voting rights to institutional investors.**
  - **3) Resolution of cross-guarantees : reduction of the privilege of large company by resolution of existing cross guarantees, and prohibition new cross guarantees between subsidiaries**
  - **4) Improved financial structure : Making large companies to rely less on bank loan.**
  - **5) Streamlined business activities: Improvement of M&As procedures, liberalization of foreign ownership of real estate, and full liberalization of M&As**

## ▪ Labor sector restructuring

- **Conventional lifetime employment System was questioned: once you joined into a company after graduating a high school or university, you would stay until the time of your retirement. => Korean labor market was too rigid:**
- **The concept of lifetime workplace or permanent job began to disappear.**
- **Introduction of Tripartite Committee: A committee among labor union, business and government were born and Tripartite Accord (3자 협약) were reached to share the difficulty caused by crisis.**

- In 1998, the GDP growth rate recorded the lowest one of -5.1% by it rebounded to 11.5 percent at the next year.

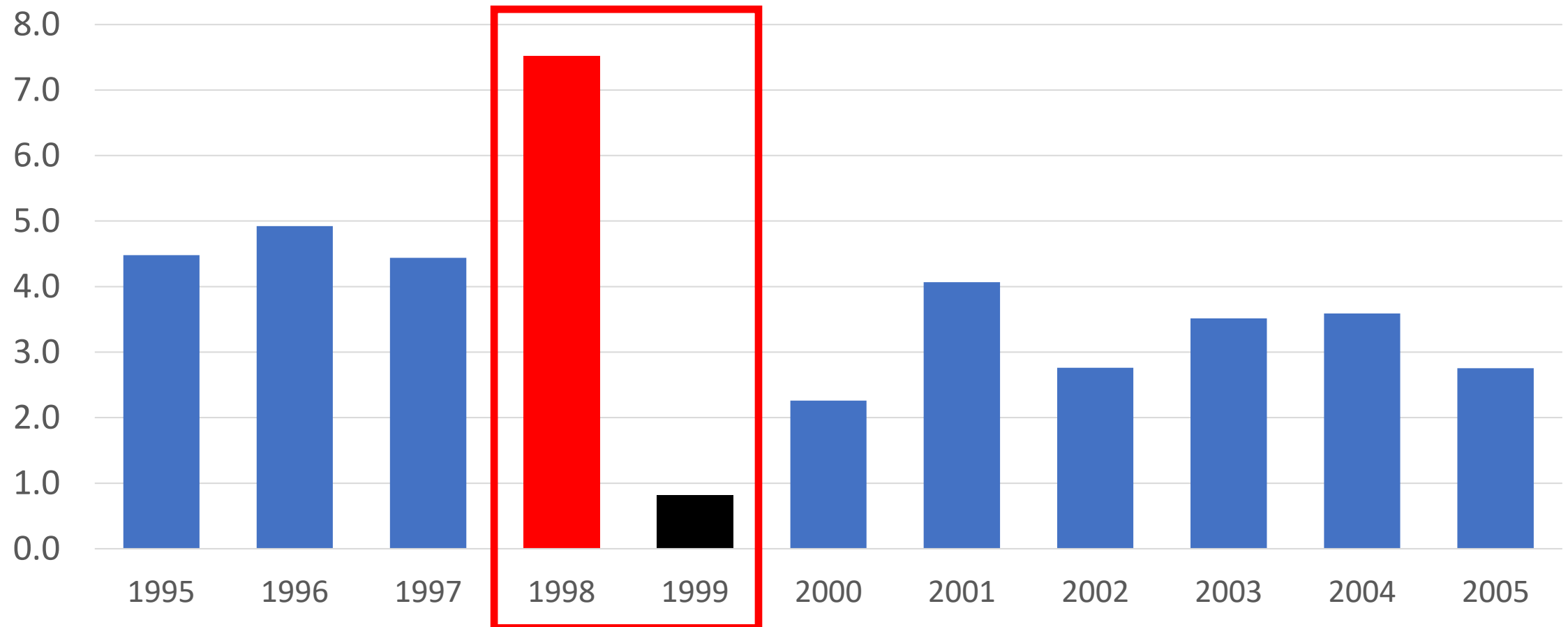
<Figure 23> The GDP Growth Rate of Korea during 1997-98 Crisis





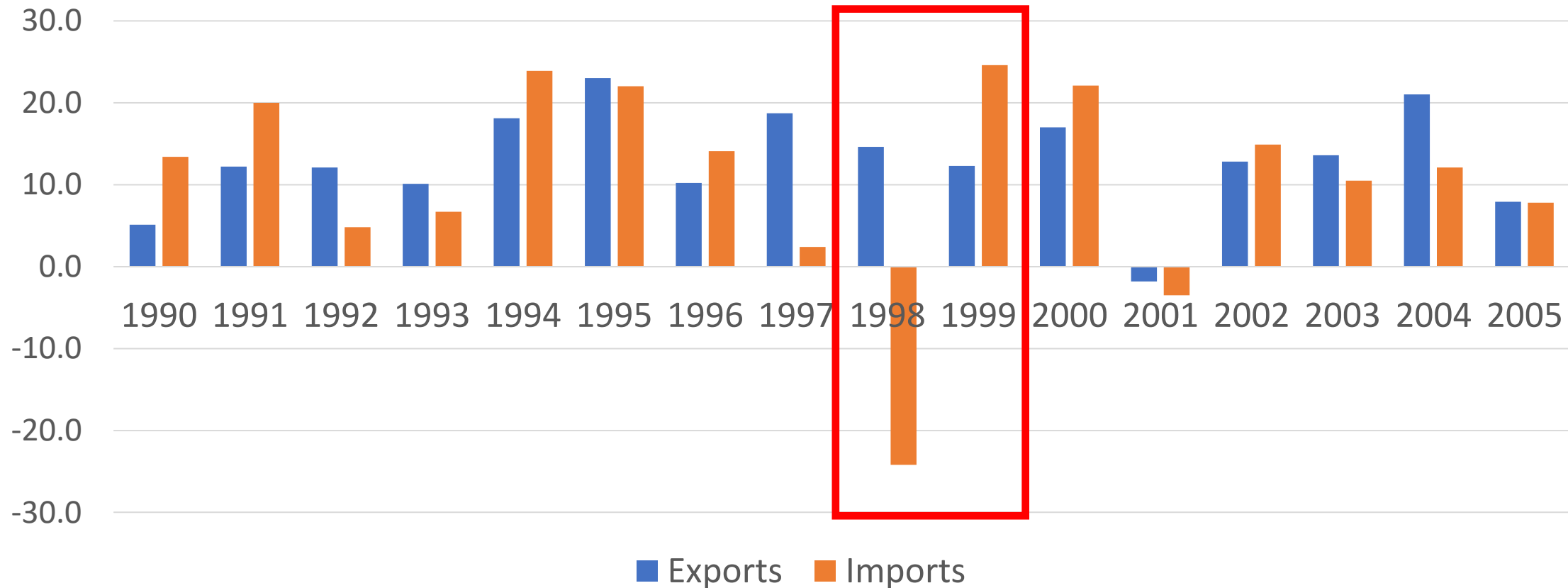
- price became stabilized after 1999.

<Figure 24> Inflation rate of Korea during 1997-98 Crisis



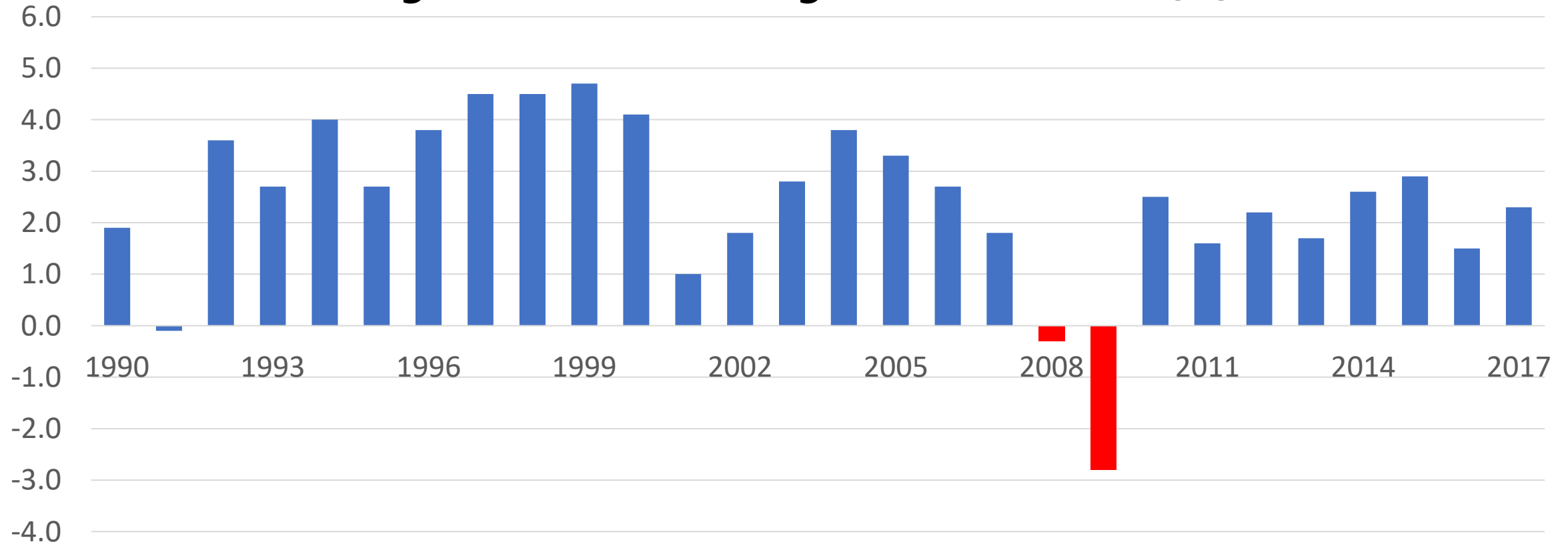
- Export and import soon recovered just one year later.

Figure 25 Export and import growth rates (%)



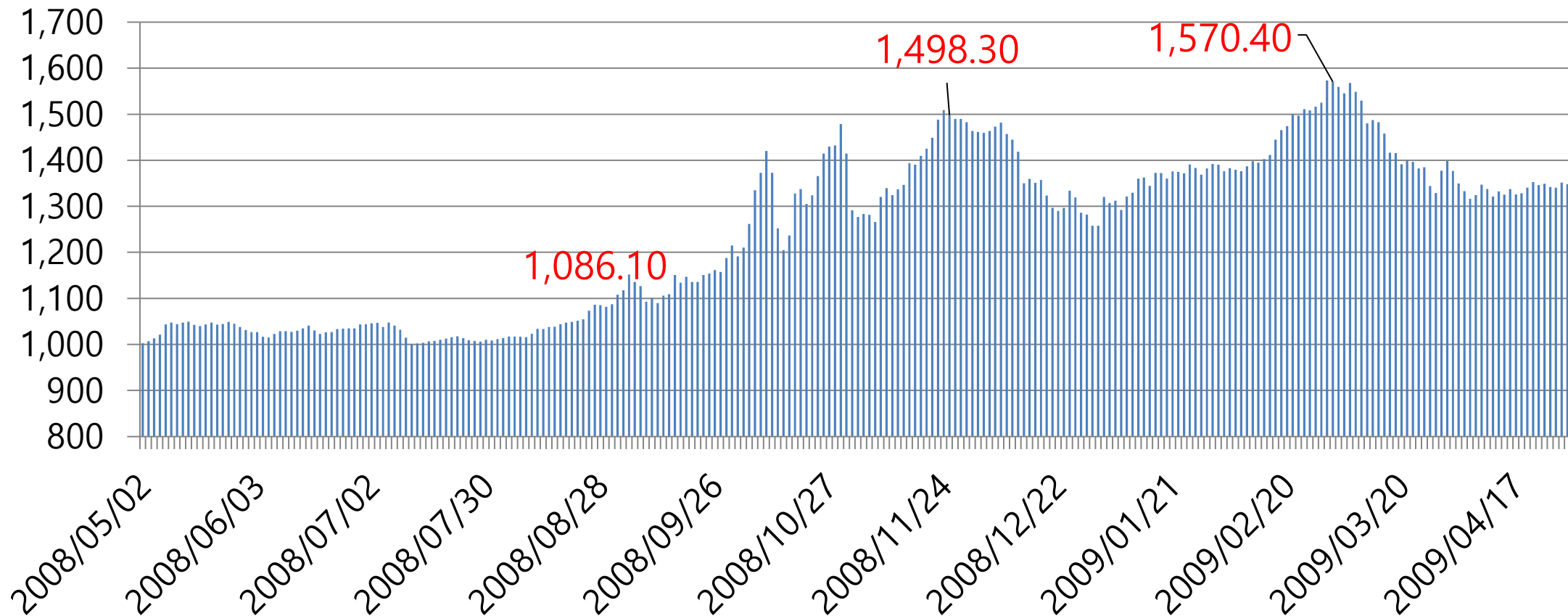
- **The Global Financial Crisis occurred in September 2008, caused by the real estate market and financial derivatives market of US. . The GDP growth rates of US during 2008 and 2009 rapidly fell.**

**<Figure 26> The GDP growth rate of US(%)**



- **The Global Financial Crisis: Impact on Korean economy: foreign exchange rate of Korea increased very quickly and largely.**

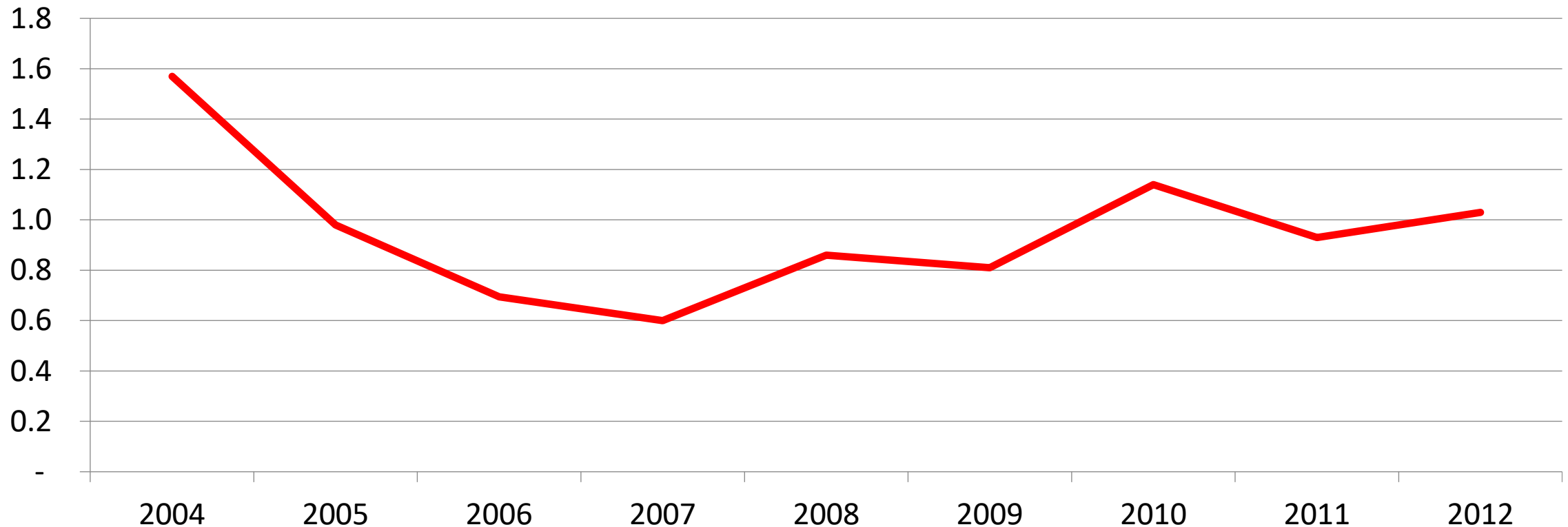
**<Figure 27> Foreign Exchange Rate of Won (won/USD)**



- **Why the banking crisis of US rose the foreign exchange rate of Korean won?**
  - **US financial institutions made large amount of investment in Korea. When they were in trouble, they liked to utilize those money. So, they withdrew their money from Korea. => Capital outflow occurred.**
  - **US investors did not have much confidence on Korean economy. Why? Korea experienced crisis before. They thought that US market was more stable that of Korea.**
  - **Particularly, if the commercial banks of Korea were in bad condition, Korea might have a banking crisis again.**
  - **If the bank of Korea did not have enough foreign exchange reserve, then it might bring a currency crisis again.**

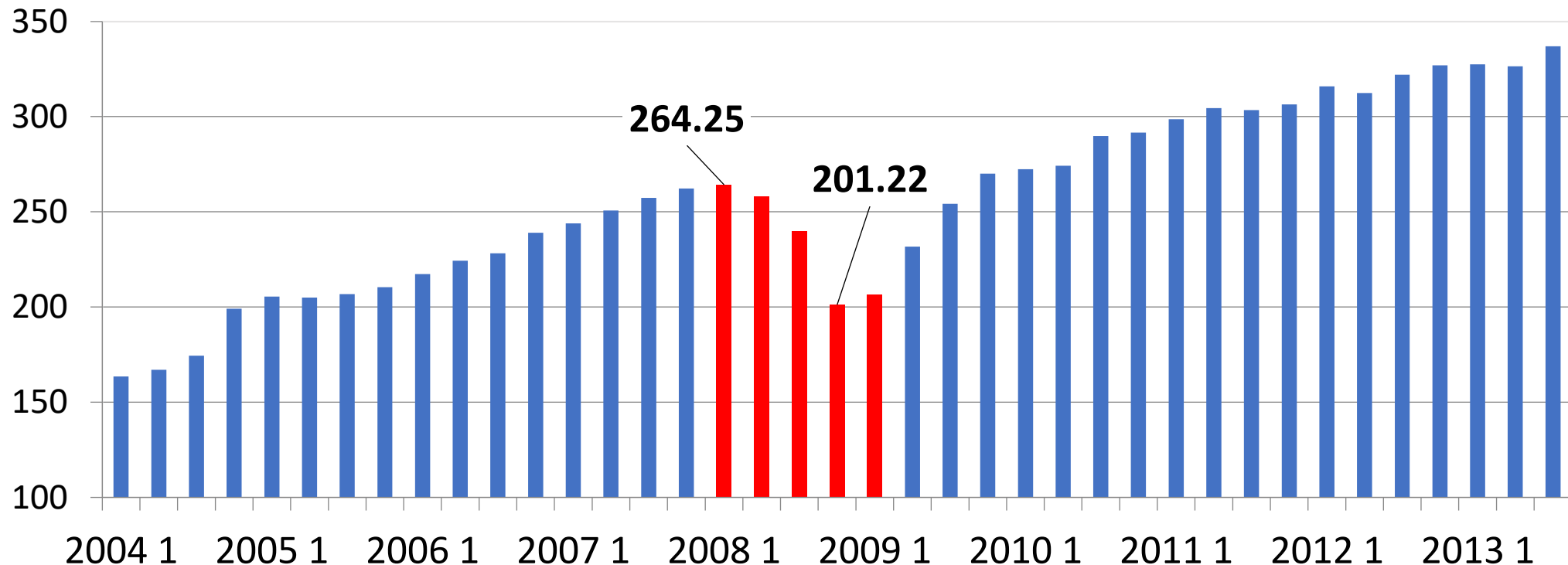
- How was the soundness of Korean commercial banks? The NPL (Non-performing loan ratio) was less than 1 percent. Not much problem in Korean financial market and industry.

<Figure 28> Non-performing Loan Ratio of Banks in Korea (%)



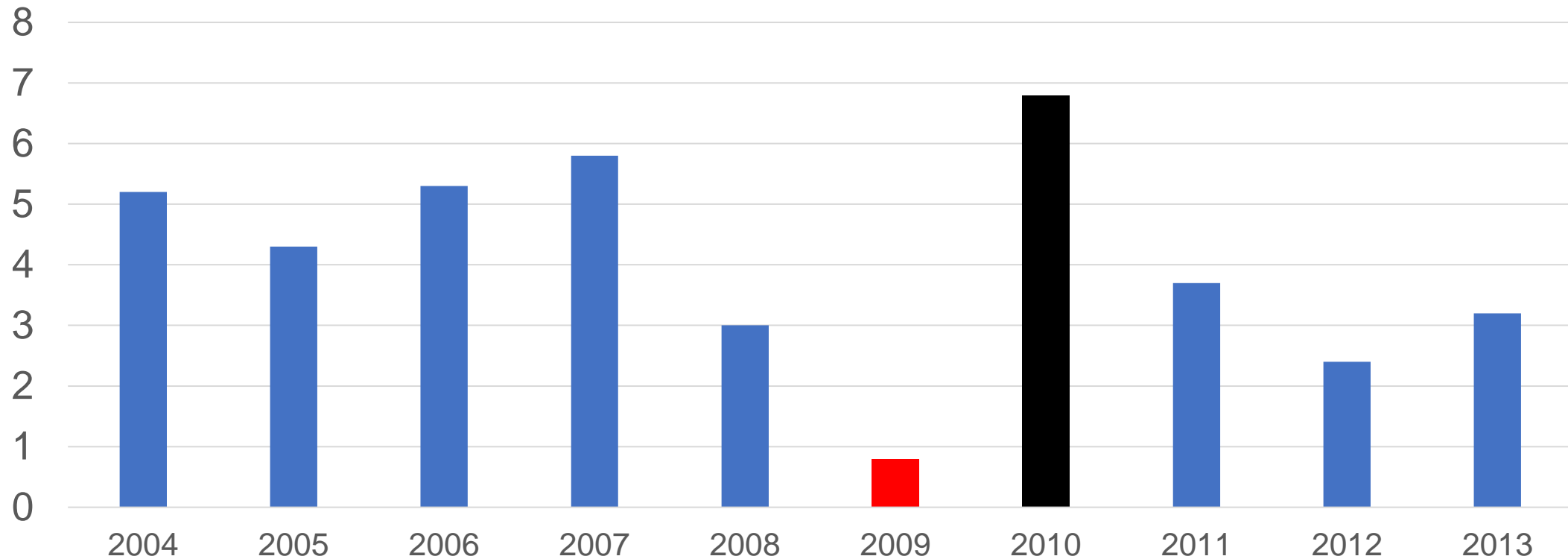
- How about the foreign exchange reserves of the Bank of Korea? It had 260 billion USD, the largest amount of reserve ever at that time. With currency swap agreement, Korea was able to get large amount of USD from the FRB.

<Figure 29> Foreign Exchange Reserves of the Bank of Korea (USD billion)



- So, GDP growth rate could reach to the trend line right just one year later after the crisis.

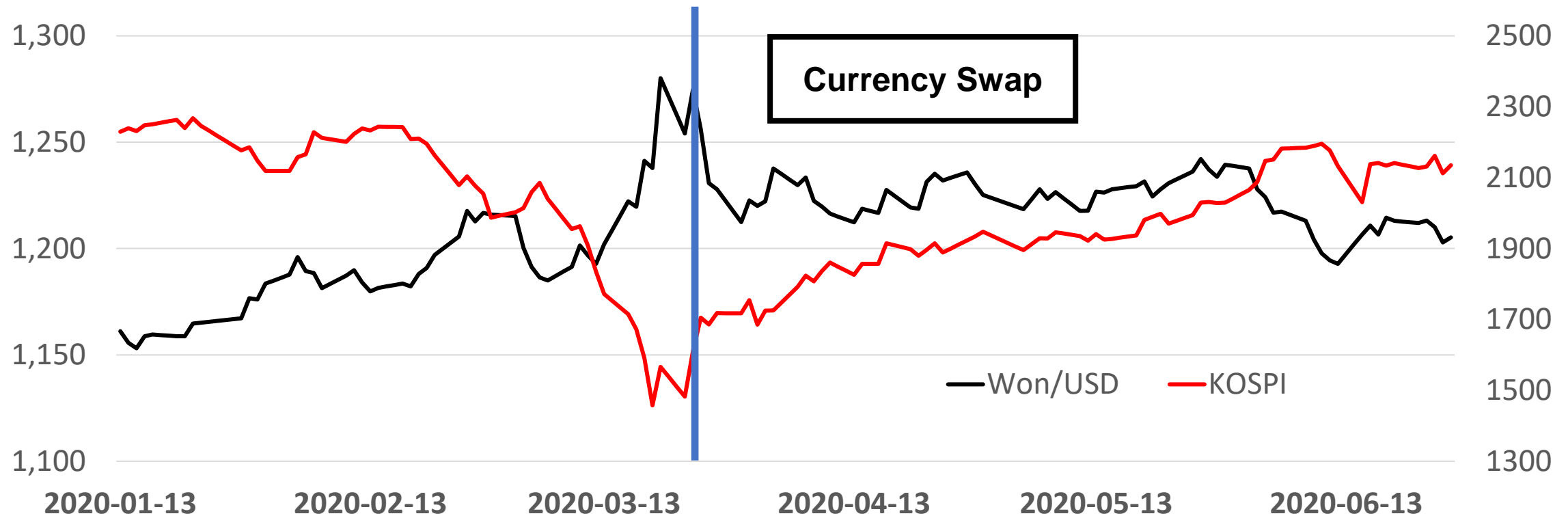
<Figure 30> Global Financial Crisis and GDP Growth Rate of Korea (%)





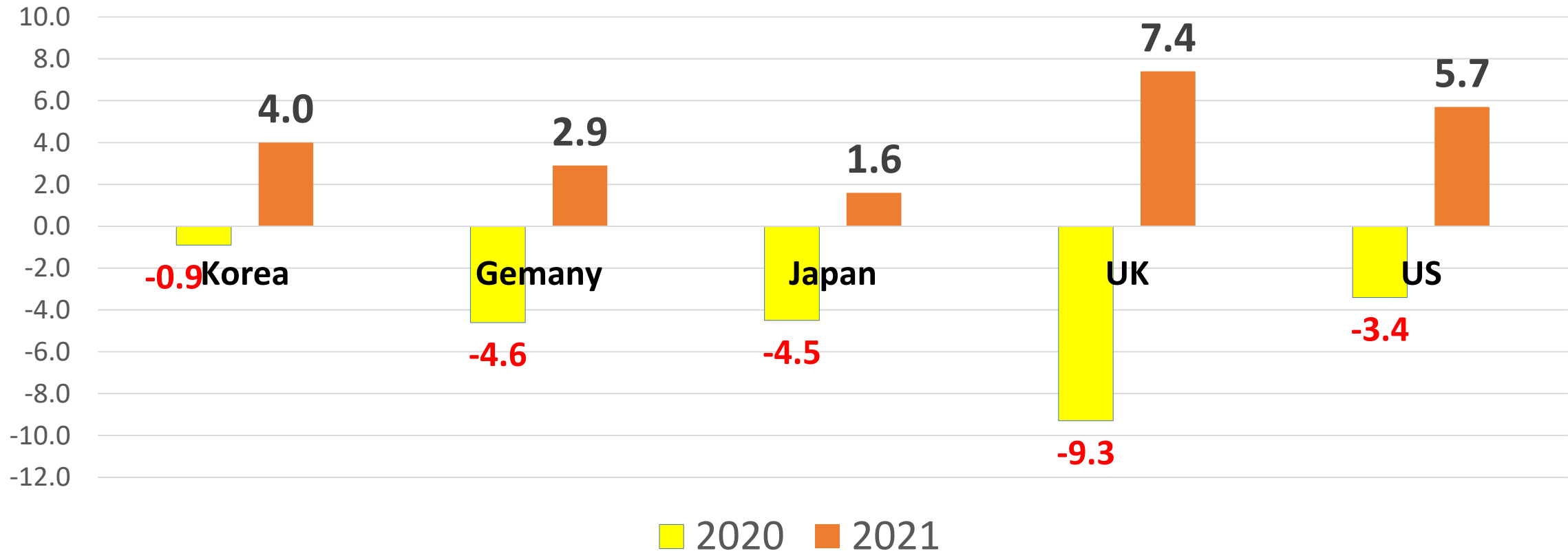
- **Pandemic Crisis of 2020: at the end of March 2020, Korea's foreign exchange rate became stabilized after the currency swap agreement with US FRB.**

<Figure 31> Korea' FER (left axis) and KOSPI (right axis)



- During the pandemic crisis, its growth rate is relatively high than other advanced countries.

<Figure 32> GDP Growth Rates of Major High-income Countries during Pandemic Crisis Period of 2020 and 2021 (%)



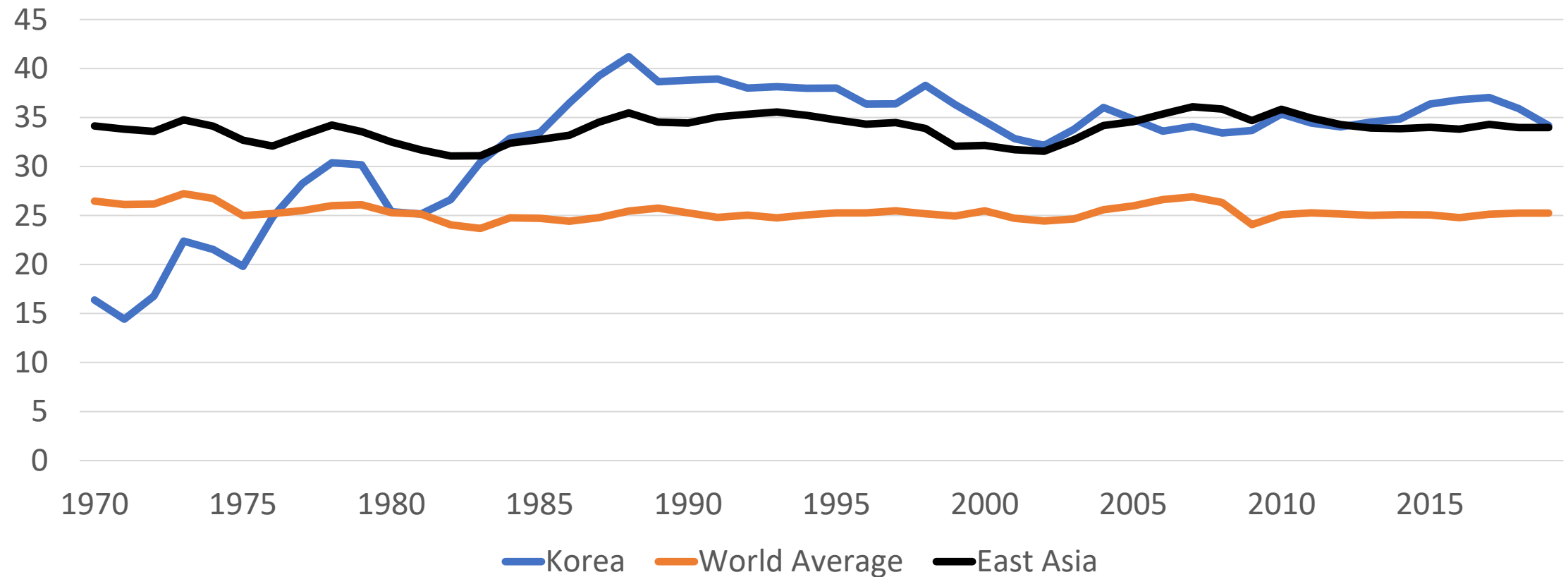
## VI. How could it be possible?

- **How could it be possible?**
- **How does the Korea have succeeded in upgrading its industrial structure for these years?**
- **More active participation with local neighboring countries such as China and ASEAN.**
- **Good government policy? It is true but not enough.**
  - **Without the cooperation with private sector, it could not be possible.**
  - **After the crisis of 1997-98, the government policy became less important.**

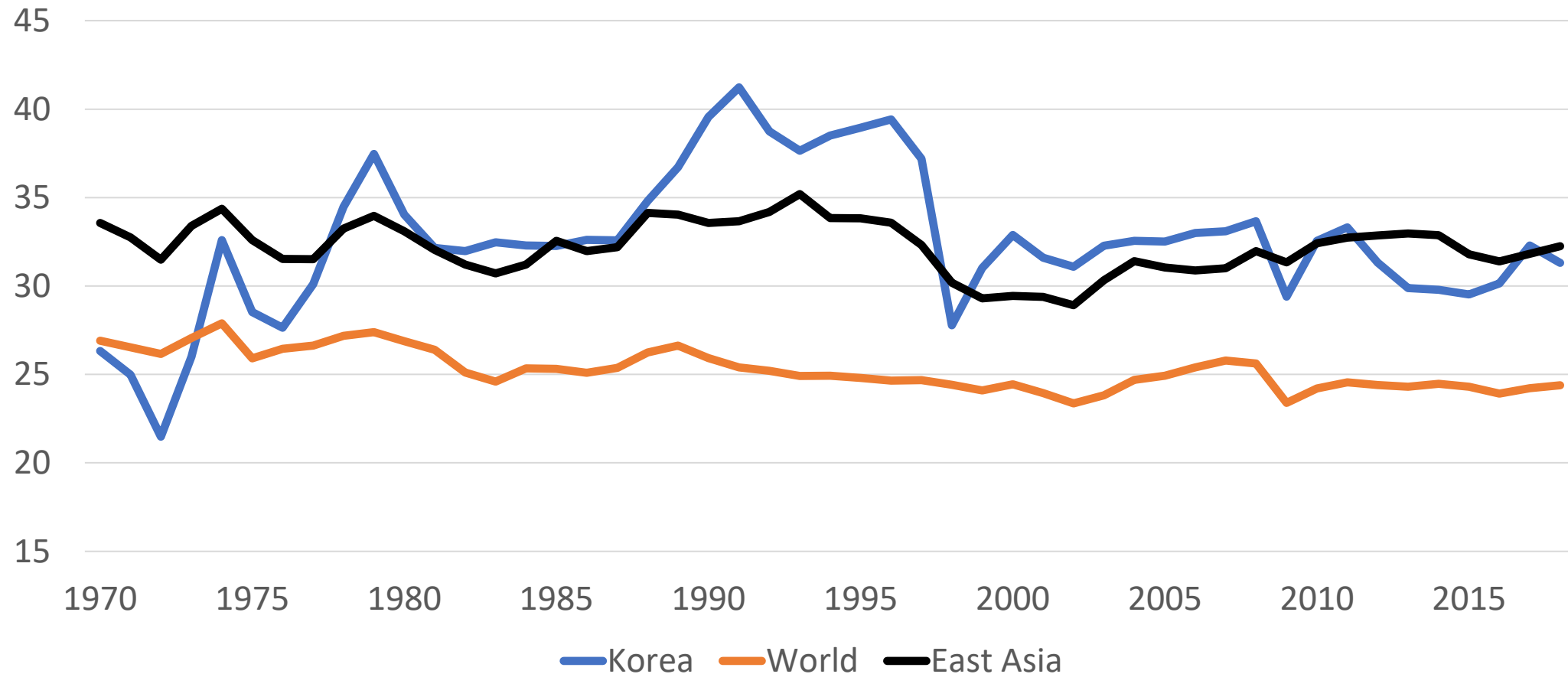
- **To tell the truth, we do not know the exact answer. But we may guess them based upon the economic theories applying the production function.**
- **Production Function: Mathematical equation representing the relationship between input and output: output is determined by the amounts of inputs such as labor (L), capital (K), technology (TE), LA (Land) Raw Materials (RW), others (culture and social system or tradition, OTH).**

$$Y = F(L, K, LA, Rw, TE, OTH)$$

- **Korea's savings ratio has been higher than that of world average for long time. But savings ratios of Korea and East Asia are not much different.**

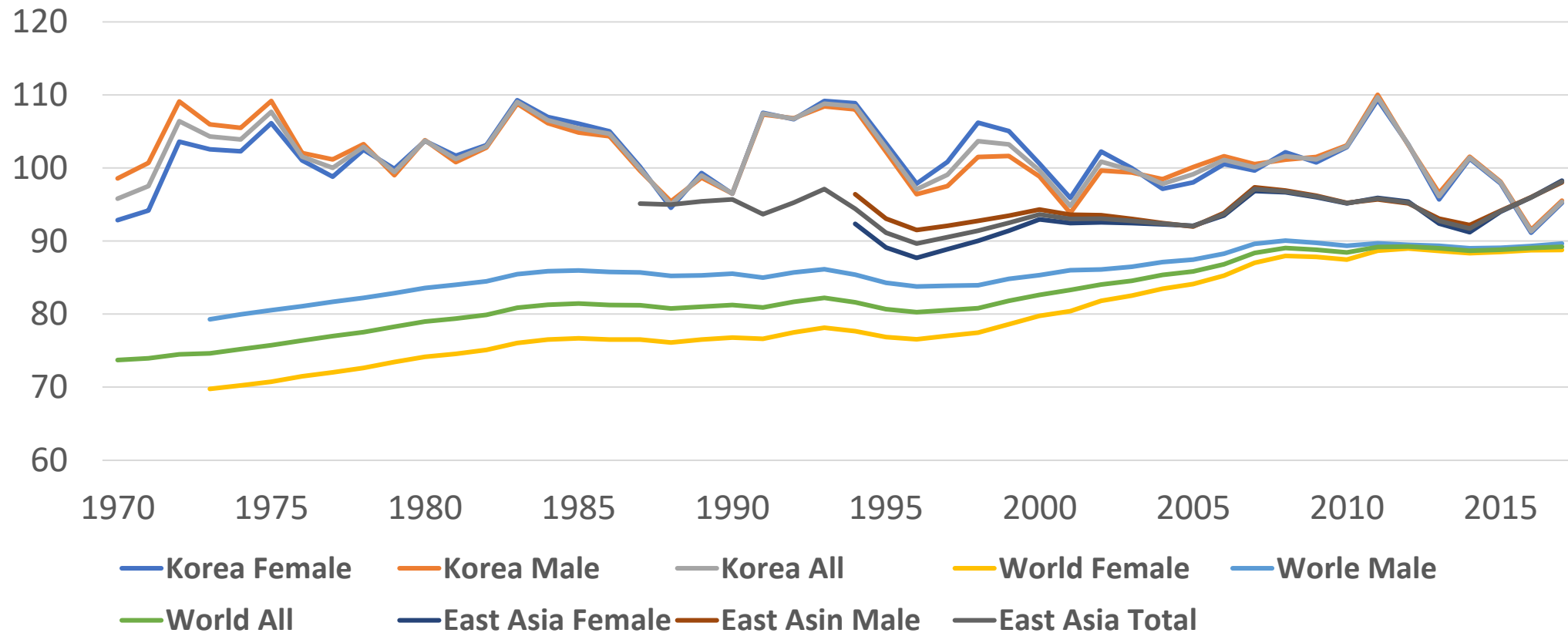


- Investment ratios of Korea, East Asia and the world average.
  - Those of Korea and East Asia are very close but higher than world average.



- Ratio of elementary school graduates of Korea 1) passed the average ratio of the world in 1960s and 2) its difference by gender has been very small and smaller than that of East Asia.

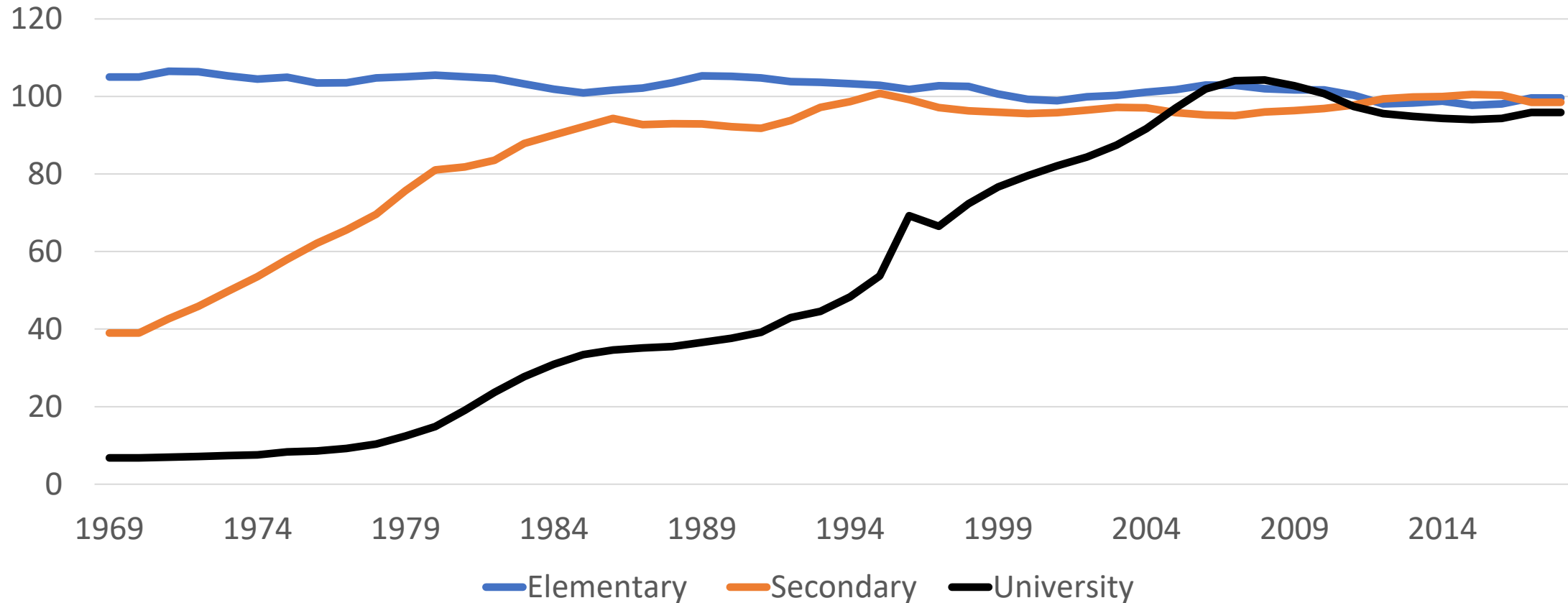
Ratio of Elementary School Graduates (%)





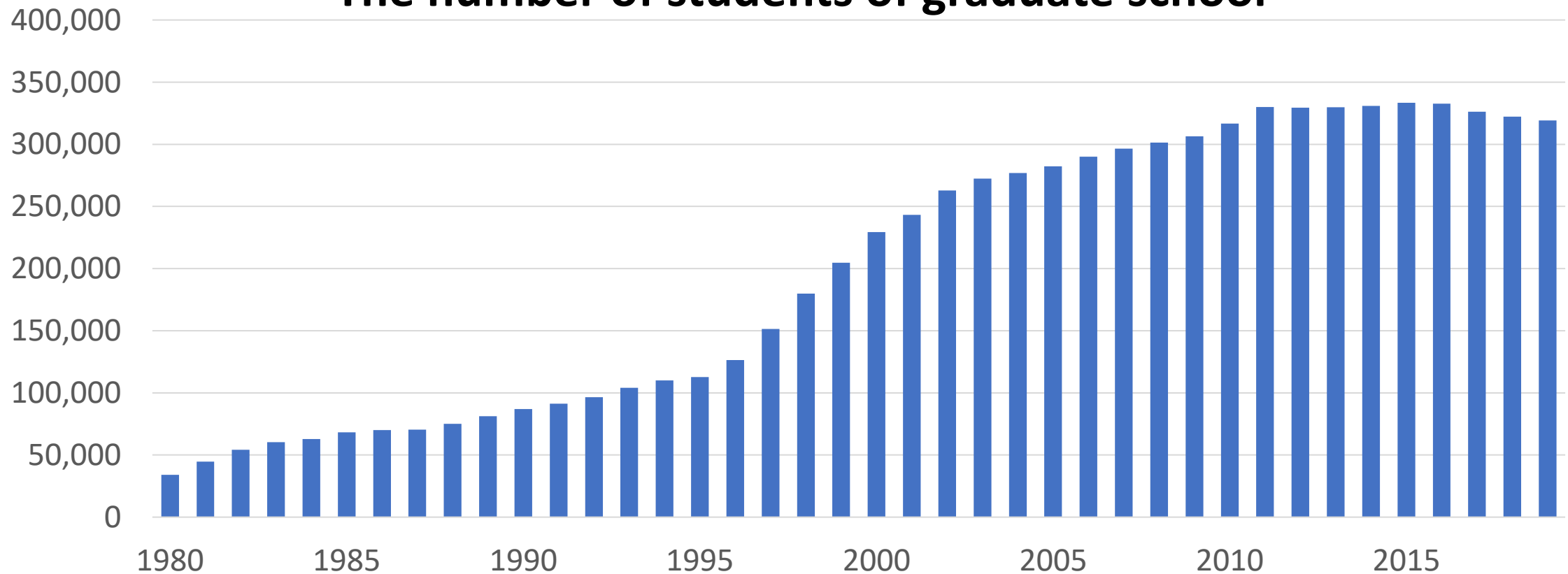
- Education level of Korea has risen for years and finally, the attendance ratios of all education levels are the same in 2010.

### The Attendance Ratios by Schools (%)



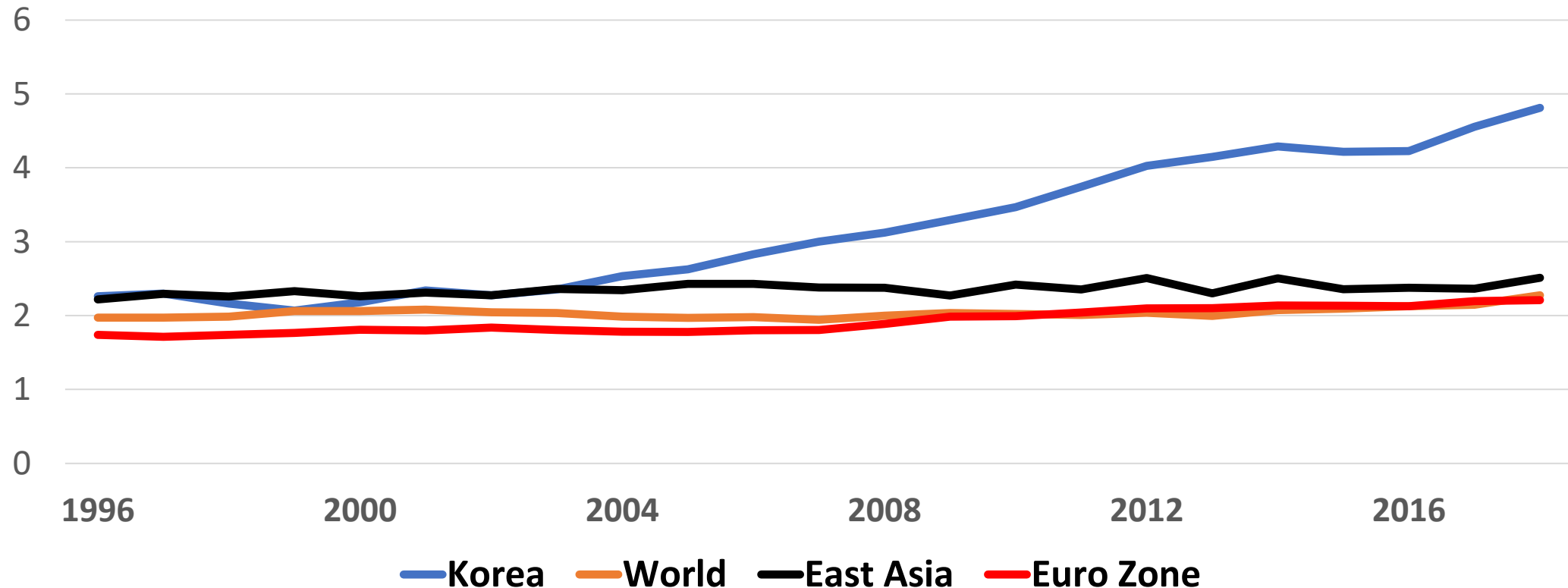
- **Postgraduate school education and research and development:**  
Postgraduate school is an education institution and research institution.
- **Since the end of 1990s, the number of students of the postgraduate school rose substantially: R&D became more important.**

### The number of students of graduate school



- The amount of R&D expenditure of Korea has increased for years. Its ratio over GDP is one of the highest ones in the world.
- **From The Fast Follower to The First Mover.**

### R&D expenditure over GDP (%)



- **Education fervor in 1950s.**
  - **Even during the Korean War, Korean teachers opened their schools and taught their children.**
  - **Even without building, they had a class under the school tent or in the open ground.**



- News paper articles at the New York Times August 2, 2014 (<https://www.koreaexpose.com/an-assault-upon-our-children-south-koreas-education-system-hurts-students/>)
  - Boys and girls in Korea are hurt by the private teachers under the surveillance of the parents.: Korea's education is the Child Abuse.



**An Assault Upon Our Children: South Korea's Education System Hurts Students**

- **Great achievements in World Skills Competition**
- **World Skills Competition (국제기능올림픽) has been held to show the skills of workers of the world since the first one in Madrid, Spain in since 1950 for 45 times.**

- Korean workers participated in it in 1967, taking 6 medal (Gold 2, Silver 2, Bronze 1, Special medal 1)  
<http://m.mt.co.kr/renew/view.html?no=2015081510341625705>
  - The team of 1967 made a city parade in Seoul. There were the national hero. since 1950

Kimpo airport



Kwangwamoon Car Parade



- In the competition of 1977, Korea earned 21 medal of gold 12, silver 4, bronze 5, recording the best country. Since then, Korea took the best country title for 19 times by 2015.





- **Three presidents of Korea are graduates of technical high schools. Two of them did not have regular college degrees.**

**1998-2003**



**2003-2008**



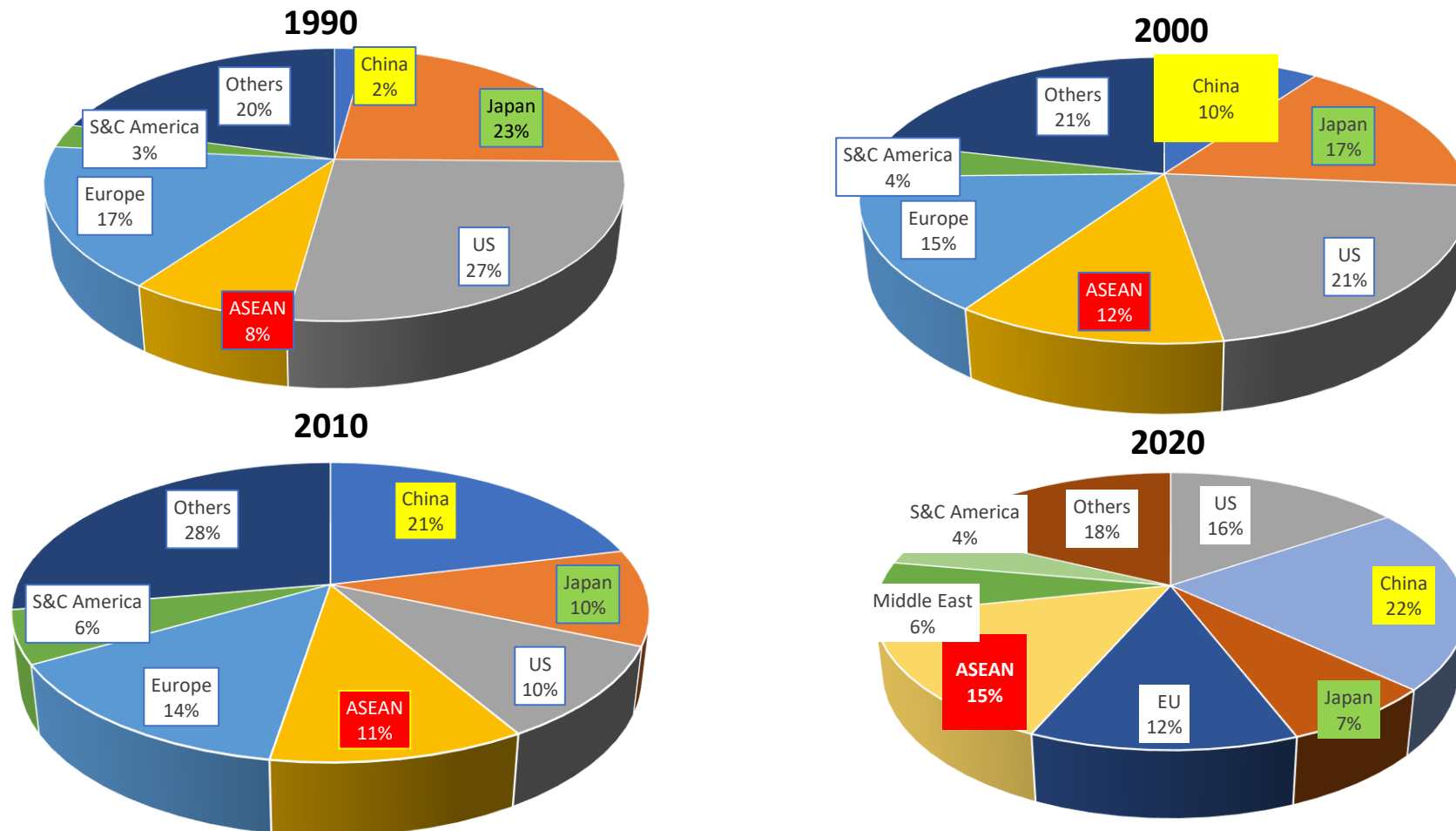
**2008-2013**



- **Good restructuring policy after the Asian Financial crisis.**
- **Not only financial restructuring policy but economic restructuring policy was done. => Already explained.**
- **From the fast follower to the First Mover. => Already explained.**

- More active participation into global value chain. => Cooperation with China and ASEAN.

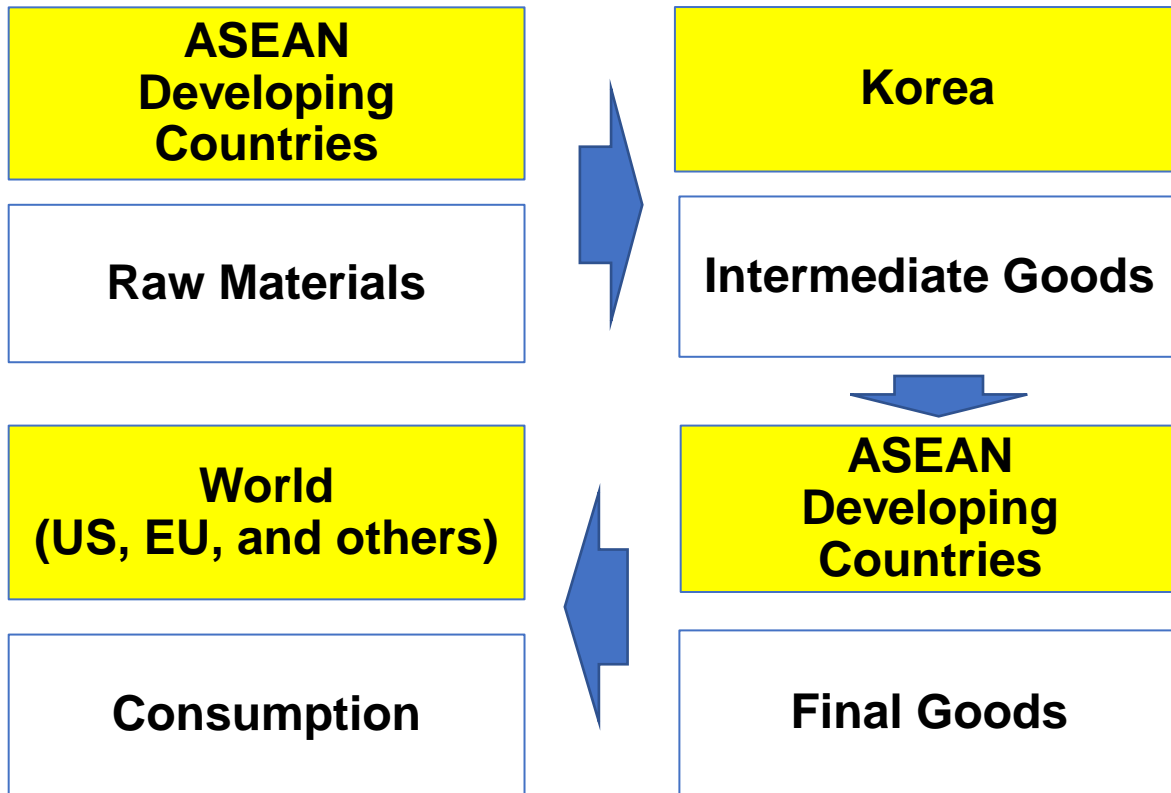
### Trade Ratios by Region and Country



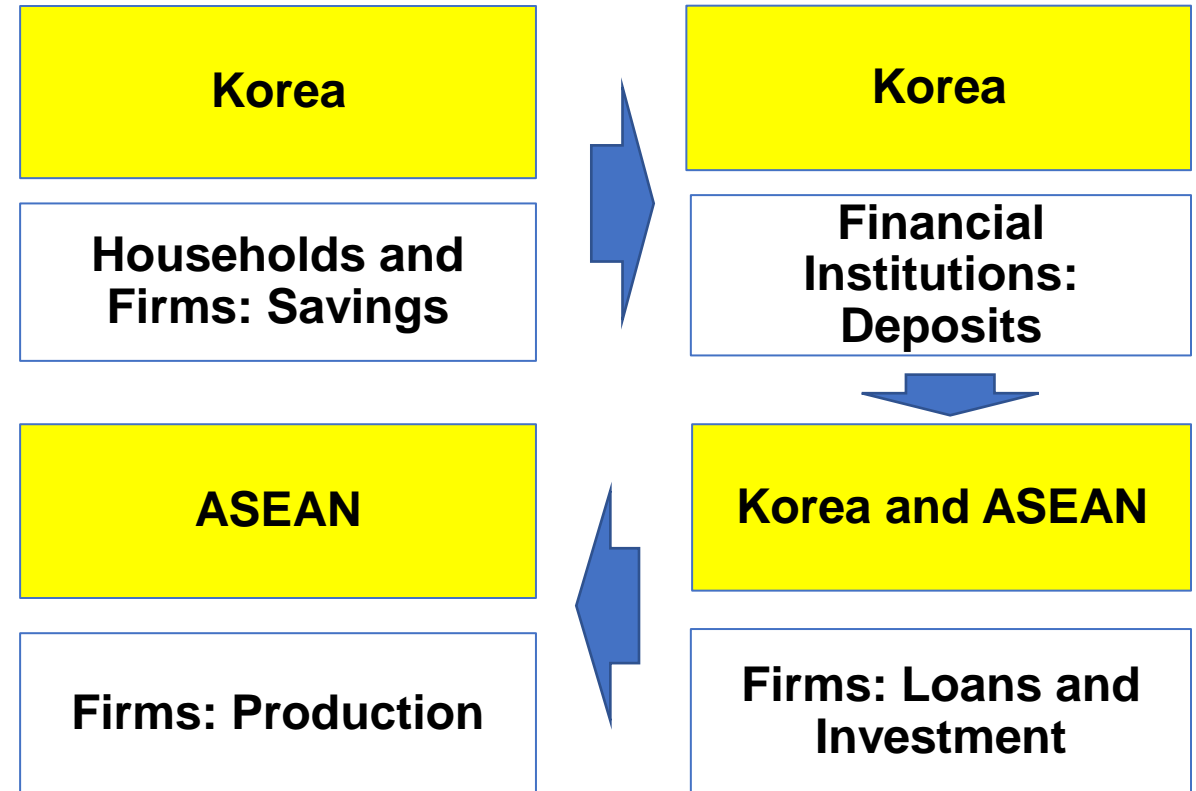
- **Recently, Korean companies relocated their production factories from China to ASEAN countries.**
  - **The wage of Chinese workers rose very much**
  - **Chinese government policy to promote Chinese company.**
  - **Political and economical conflict between US and China**
  - **Chinese government policy to punish Korean companies: Chinese government banned its people from visiting Korea: the number of Chinese tourists fell from 8.1 million in 2016 to 4,2 million in 2017 caused by installing THAAD (Terminal High Altitude Area Defense) system in Korea.**

- Establishment of value chain and financial flow between Korea and ASEAN

Value Chain between ASEAN and Korea



Financial Flow between ASEAN and Korea



- **Gold-collecting Campaign of 1998: We may use gold as a foreign exchange like US dollar.**
- **Gold has been an international currency for a long times. It can be converted into US Dollar immediately.**
- **The first campaign: Head quarter of Korean woman's association (새마을부녀회) made a special gold collecting event on December 10, 1997.**
  - **Korean woman's association had branches all around the Korea.**
  - **At the first meeting, about 350 participated and collected the 130. million won (about 100,000 USD)**

- **KBS and Korea Housing Bank (Now KB) began the national gold collection campaign from January 5 to 31, 1998: People brought their gold to the bank and bank purchased it at the market price. These gold can be exchanged into the dollar in the national gold market which raise the dollar supply in Korea.**
  - **Anyone could bring their gold to Korea Housing Bank and bank purchase it at the current price of gold.**
  - **It became a national campaign: very large number of people sold their gold the bank: sometimes, people had to wait for one hour to sell their gold.**
  
- **MBC (from January 12) and SBS (from January 13) participated into the campaigns with NH bank, Korea Exchange Bank, KB bank and MG Sammauel cooperations.)**

- 3.49 million people participated for two months and 213 tons of gold was collected.
  - At the time, the population of Korea was 46 million and the number of households was 14 million. 1 out of 5 household did it.
  - Taking of the low-income family which did not have gold, more than half of the households did it.

Name of Bank	Buy	Donation	Total (ton)	Period
Korea Housing	136.301	0.106	136.407	1.5~31/2. 5~21
KB	19.957	0.02	19.977	1.13~2. 24
Korea Exchange	4.357	0.0052	4.342	1.12~2.21
Korea Industrial	1.999	0.0023	2.001	1.15~ 2. 14
NH	50.383	0.0480	50.431	1.12~2.21/2. 16~3.14 /3. 16~4. 30
<b>Total</b>	<b>212.988</b>	<b>0.185</b>	<b>213.173</b>	



## Gold price in London Market (price per ons)

1997				1998			
Sep	Oct	Nov	Dec	Jan, 31	Feb 13	Feb-2	March-5
325\$	332\$	317\$	290\$	305\$	299\$	297\$	294\$

- Since then, most Korean did not carry the gold as before.
  - By tradition, it had been a custom to give a small gold ring when a baby became 100<sup>th</sup> days and 1<sup>st</sup> birthday. Afterwards, most people did not do it.

## VII. Conclusion

- **People:**
  - **Hard working and studying.**
  - **High saving rates.**
  
- **Companies:**
  - **Good entrepreneurship.**
  - **Appropriate strategies for their business.**
  
- **Government:**
  - **Success of 5-year developed plans in 1960-90s.**
  - **Appropriate restructuring of economy during the crisis => more market-oriented regime after 2000s.**