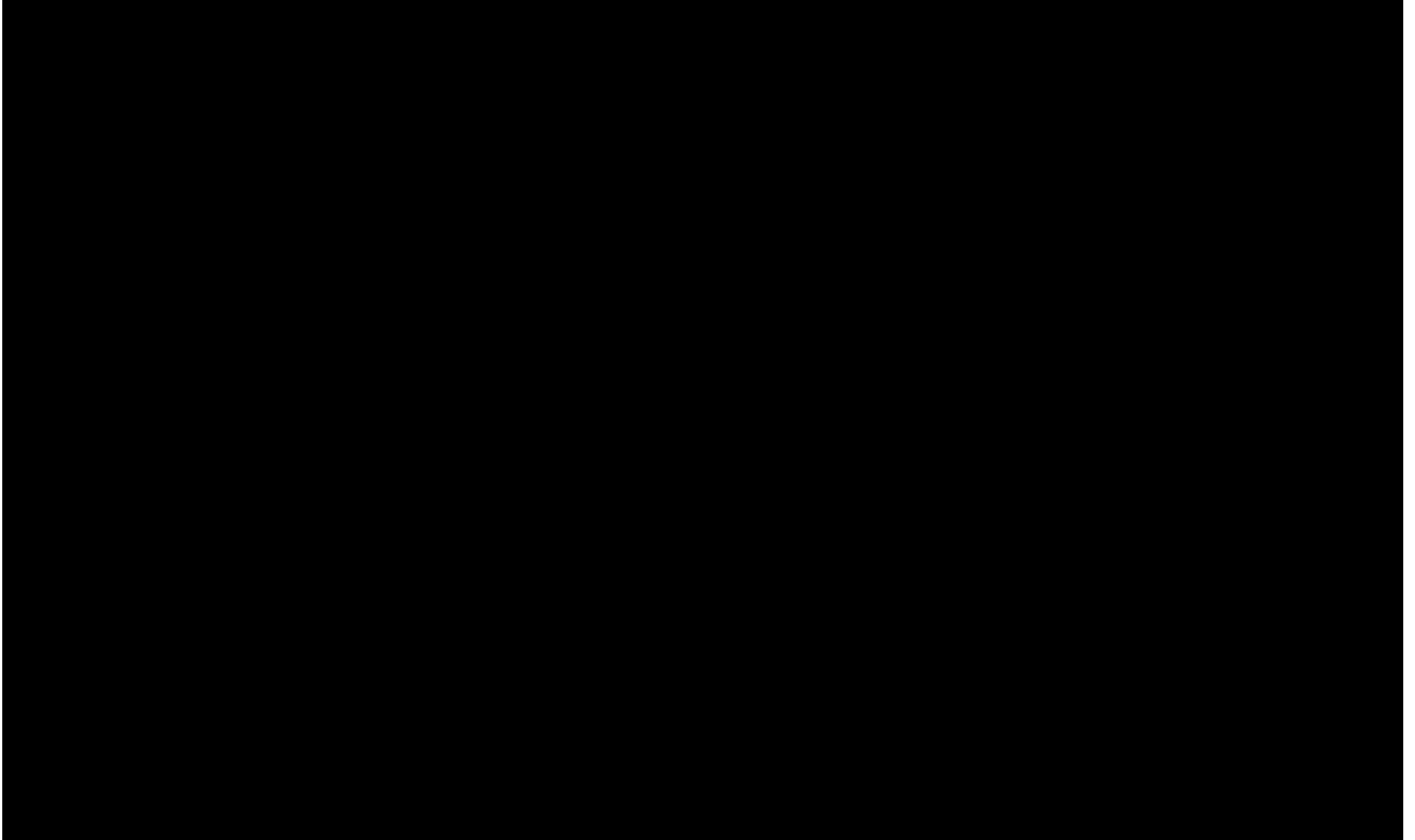


Korea's Fast Track Journey to Development

**Yoon Je Cho
Sogang University**

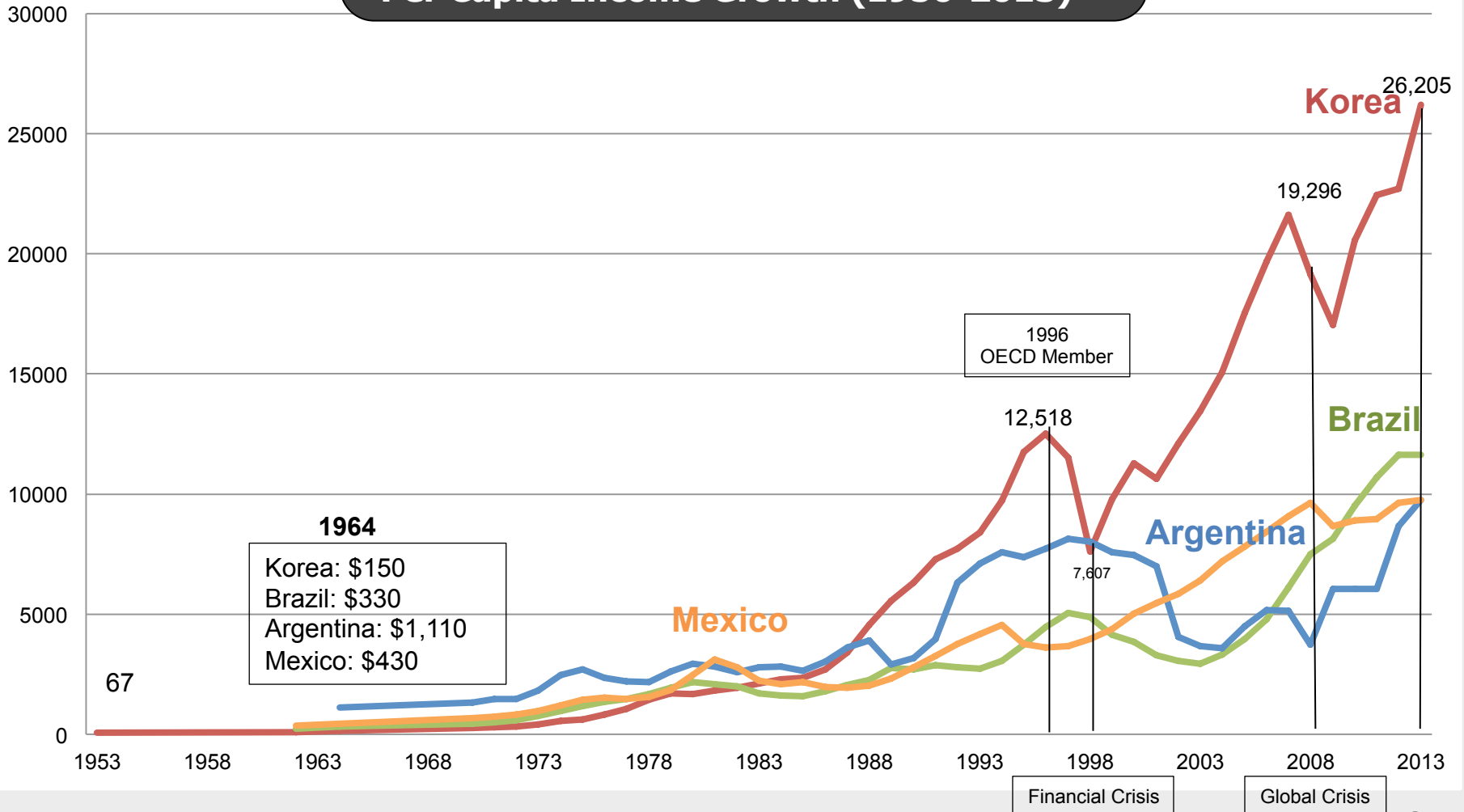
**"Korea Week"
Inter-American Development Bank
May 13-15, 2014**

Modernization: Past vs Present



Korea's Income Growth over the Last Half Century

Per Capita Income Growth (1950-2013)



What Made Korea Successful?

□ **Economic Development is an outcome of multiple factors:**

- Initial conditions
- International environment
- Domestic social environment and political leadership
- Policy framework and reforms
- Luck



Initial Conditions: Korea's economic take-Off in the 1960s

- High level of education
- Reasonably well developed infrastructure
- Institutions : long history of central government administration and bureaucratic system
- Low income inequality: Japanese occupation (1910-45); land reform (1949); and the Korean War (1950-53)

*No strong establishment groups or interest groups
→ Not strong resistance to economic reform;
→ Economic policies need not to focus on redistributive measures; **industrialization and growth** was the common goal*

Initial Conditions Helped

Proportion of Growth Explained by Initial Conditions of 1960s

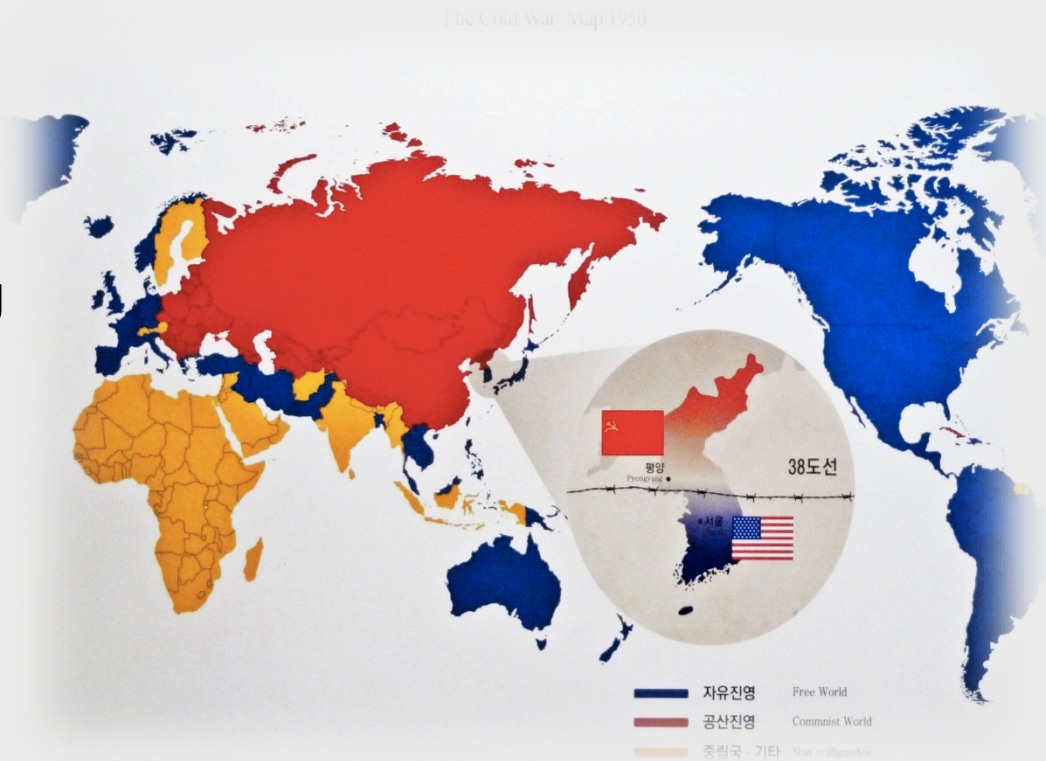
	Actual Growth (1960-85)	Predicted Growth	Proportion Explained (%)
South Korea	5.95	5.24	88
Taiwan	5.68	4.96	87
Argentina	0.48	1.58	329
Brazil	3.52	1.96	56
India	1.37	3.46	253
Kenya	0.96	1.46	152

Notes: Predicted growth rates are from regression

Source : Dani Rodrik, 'Getting Intervention Right', 1994

International Environment:

- At a strategic geographic location during the cold war era
- Large amount of US Aid and Grants in the early periods of development (1950s-60s)
- Special relations with the US and Japan
 - favored access to foreign capital and technology
- Post-war free trade movement under the GATT system



The Cold War Map in 1950s

Social Environment & Political Leadership

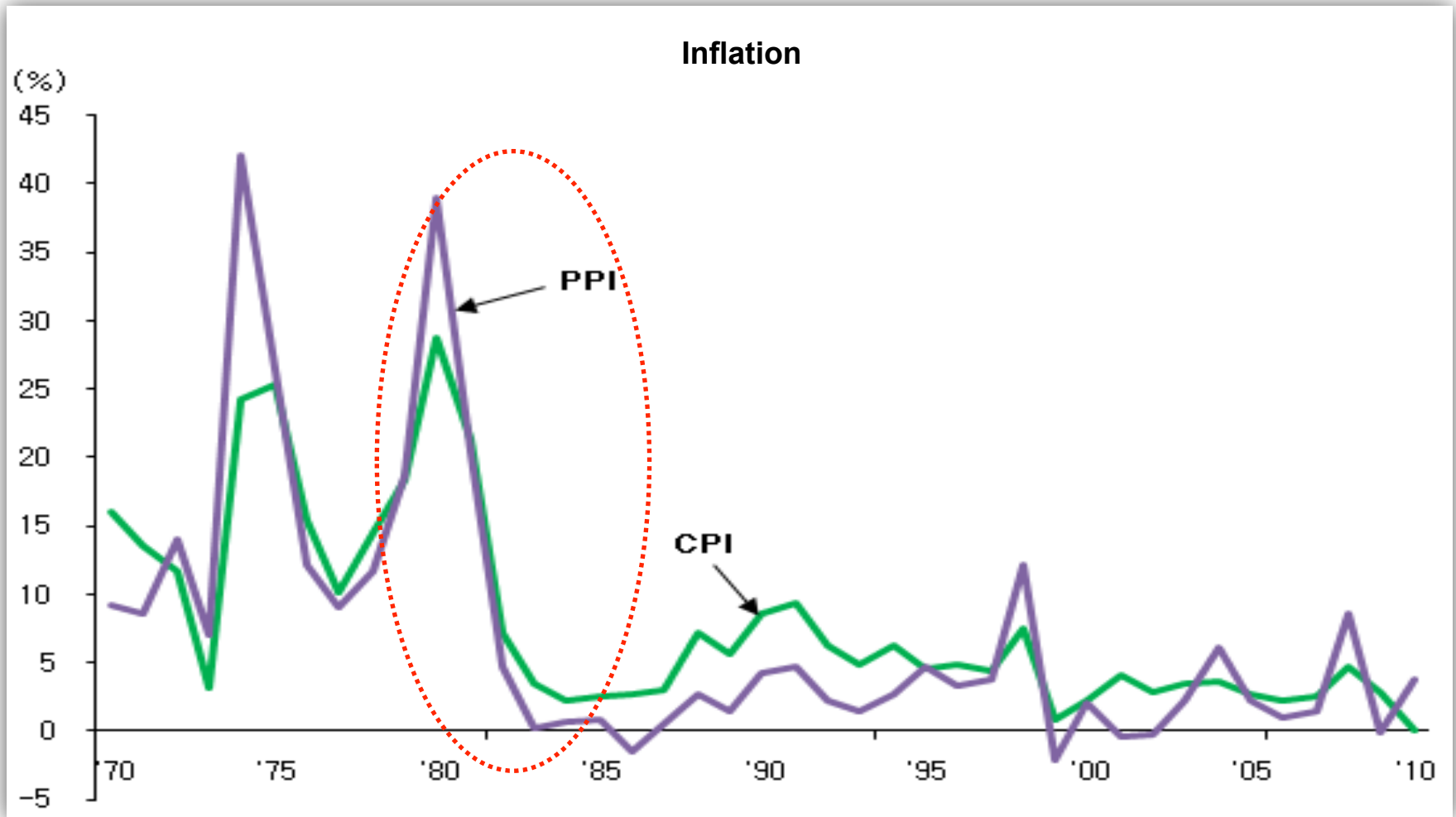
- Korean Families' Emphasis on Children Education
→ World's Highest College Enrolment Rate
- Security Threat and Confrontation with North Korea
→ Made People United for Survival and Growth
- Collapse of Classes and Equal Income Distribution
→ Less Resistance to Reforms and Hard Work for Individual's Success
- Military Discipline of Korean Workers
- Right Vision, Effective Leadership, and Strong Institutions

Policy Framework and Reforms

□ *Three Big Reforms:*

- (1) Policy and Institutional Reforms to Promote Export and Investment (1958-66)→ led to the Economic take off in the 1960s
- (2) Stabilization, Trade Liberalization and Structural Adjustment in the 1980s→ led to sustainable growth
- (3) Comprehensive Financial and Corporate Restructuring ; Complete Liberalization and Opening of Financial Markets after 1997 Crisis→ led to competitive and innovative market

Korea's Inflation



Past vs Present

The same place, 60 years apart



Gangnam circa 1950s



Gangnam 2010

Challenges Ahead

- Ageing (the fastest ageing country)
- Heavy economic concentration by Chaebols and growing income inequality
- Strengthening of social safety net and fiscal soundness
- Maintaining competitiveness under rapid rise of China and other EMEs (sandwiched economy?)
- Declining dynamism and stagnant corporate investment
- North Korea and future unification

Assessment and Lessons

No single factor can explain Korea's economic success

- Flexibility and pragmatism in economic policies
- Effective government leadership combined with private sector dynamism
- Export orientation and openness which reduced the risk of government failure
- Macroeconomic stability since 1980s helped sustainable growth
- Building strong export industries which helped to overcome debt crises
- High investment in R&D and technology innovation