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# Korea's Economic Development: Major Policy Implications for Others

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# I. Korea's economic miracle

- A typical developing nation until the early 1960s
- The emergence of a strong leadership committed to the nation's economic growth and development
- The adoption of an outward-looking development strategy and its pragmatic implementation
- A “basket case” turned into a “miracle economy”

## II. Downsides of the government-led growth-first development strategy

- Chronic inflation and a serious misallocation of resources
- The underdevelopment of the financial sector and banks' heavy non-performing asset problem
- Over-extended conglomerates with weak financial structures
- Insufficient policy attention paid to the labor market and labor-management relations

### III. The short-lived new national agenda of the early 1980s and the rapidly changing economic environment

- Price stability as the top national economic policy priority
- More reliance on private initiatives and trade liberalization
- An abrupt “democratization” and inappropriate public and private responses to the accelerating globalization trend
- Confrontational labor-management relations tolerated
- The wrongly-sequenced capital account liberalization in the absence of a sound supervisory/regulatory financial infrastructure
- Delayed corporate restructuring efforts designed to face steeper global competition

## IV. Korea's currency crisis and its consequences

- Causes of the currency crisis of 1997-98
- The IMF emergency rescue loan and its conditionalities
- Dramatic financial and corporate sector reform measures implemented
- The fast economic recovery and its spill-overs

## V. The current Korean economy seen from a cyclical perspective (Tables 1 & 2)

- Lingering consumer debt overhang
- Stagnant housing construction activities and slowing plant and equipment investments
- Sub-optimal short-term growth prospects

## VI. Major policy implications and lessons

- A nation's growth potential itself can be enhanced with the right policies and institutions which would help augment inputs, as well as improve the total factor productivity.
- The ability to adapt to the changed economic environment, both domestic and international, is the key to a nation's economic success. There is no fixed model for economic success across countries over time. However, no model will succeed without establishing a “business friendly environment”, especially in the age of globalization.

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- Globalization brings both opportunities and challenges. Unless those challenges are properly faced, the benefits of globalization can be wasted. A well-sequenced implementation financial market liberalization program is especially important for taking advantage of the financial globalization.
- Gradualism is often used as an excuse for keeping the *status quo*. Therefore, a well-sequenced liberalization program publicly announced in advance could be utilized.

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- The establishment of a cooperative labor-management relationship is crucial for the market-based economies to function properly. Rather than waiting until the labor management problem worsens, collective bargaining capabilities of both employers and workers should be promoted, along with an appropriate social safety net.
- The financial globalization in particular calls for neighboring economies to have closer regional cooperative mechanisms to supplement the currently existing global financial architecture.

< Table 1 >  
**Growth Rates**  
 (%)

	01	02	03	04	05 <sup>p</sup>	06. 1/4 <sup>p</sup>	2/4 <sup>p</sup>	3/4 <sup>p</sup>
GDP	3.8	7.0	3.1	4.7	4.0	6.1	5.3	4.6
Private Consumption	4.9	7.9	△1.2	△0.3	3.2	4.8	4.4	3.9
Facility	△9.0	7.5	△1.2	3.8	5.1	6.9	7.4	9.6
Construction	6.0	5.3	7.9	1.1	0.4	1.2	△3.9	△1.3
Total Export	△2.7	13.3	15.6	19.6	8.5	11.5	15.9	12.2
Total Import	△4.2	15.2	10.1	13.9	6.9	12.3	13.6	11.5

< Table 2 >  
**GDP Composition**  
 (%)

	01	02	03	04	05 <sup>p</sup>	06. 1/4 <sup>p</sup>	3/4 <sup>p</sup>
GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Private Consumption	55.2	55.7	53.7	51.5	52.6	57.0	53.1
Facility	11.0	10.4	9.6	9.2	8.9	9.2	9.2
Construction	17.0	17.0	18.8	18.8	18.8	14.7	19.6
Total Export	37.8	35.3	37.9	44.0	42.5	44.6	43.3
Total Import	35.5	33.9	35.6	39.7	40.0	44.4	41.7