

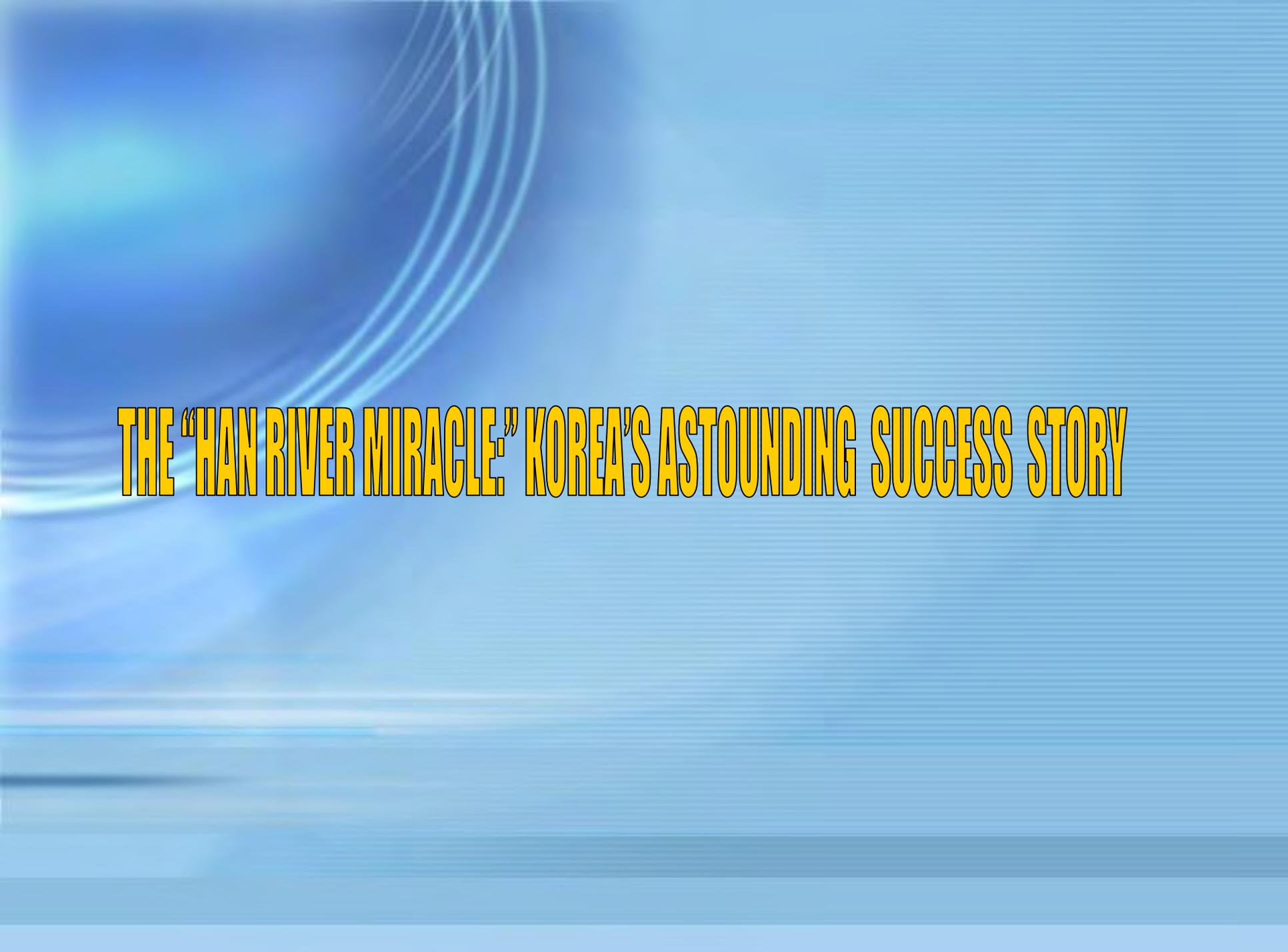
Contemporary South Korea: The Uniqueness of the “Han River Miracle”

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Korea's Economic Status: Take-aways

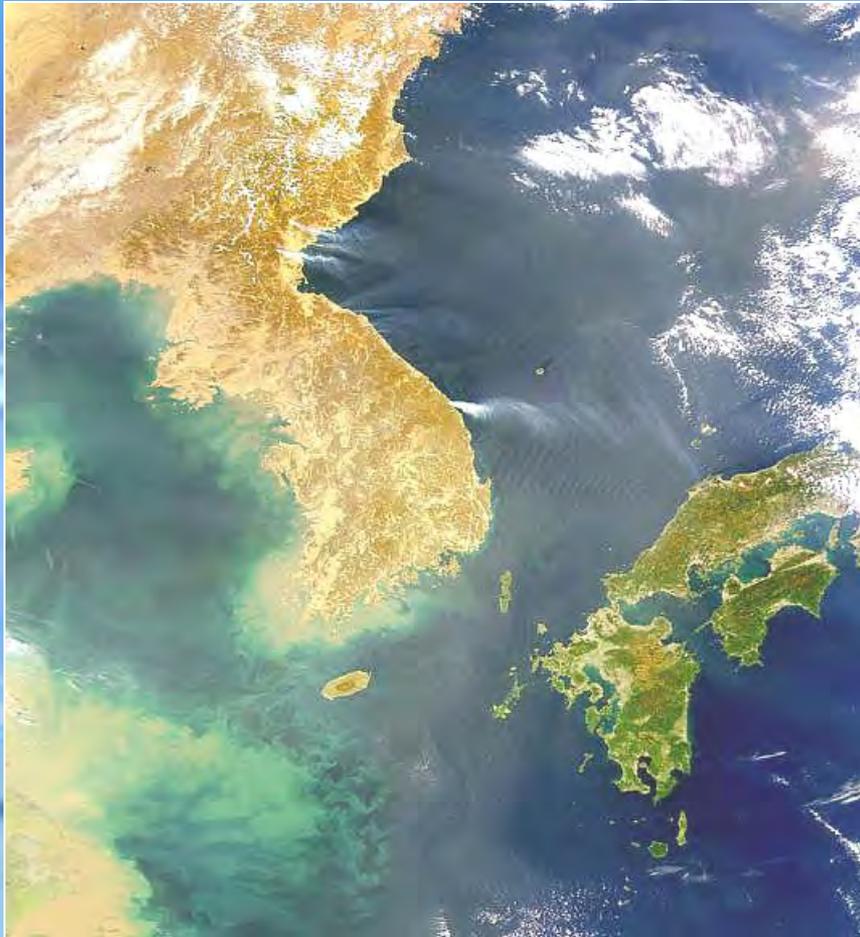
- Korea is an economic powerhouse, the world's 15th largest economy
- Korea achieved extraordinary economic success, going “from rags to riches” over only a few decades. This process took others two centuries.
- The U.S.-Korea alliance was key to Korea's economic success.
- Koreans achieved this extraordinary economic success through hard work, bold entrepreneurship and innovation. The “Han River Miracle” is a source of great national pride.
- Trouble on the Korean peninsula is likely to have a cataclysmic impact on the world economy.
- Korea's economic status has a significant impact on Korea's restrained and responsible behavior as a nation-state.

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THE "HAN RIVER MIRACLE:" KOREA'S ASTOUNDING SUCCESS STORY

INTRODUCTION

Basic Facts About South Korea



Area: 98,480 sq. km. (108th)
Land size – Virginia

Population - 48.7 million (26th)

Economy: 15th largest in the world

Legacy of the Cold War

Strong ties with the United States

Post-War Seoul



Refugees from the Korean War enter Seoul



Cheonggyecheon (청계천, now Downtown Seoul) in the late 1950s

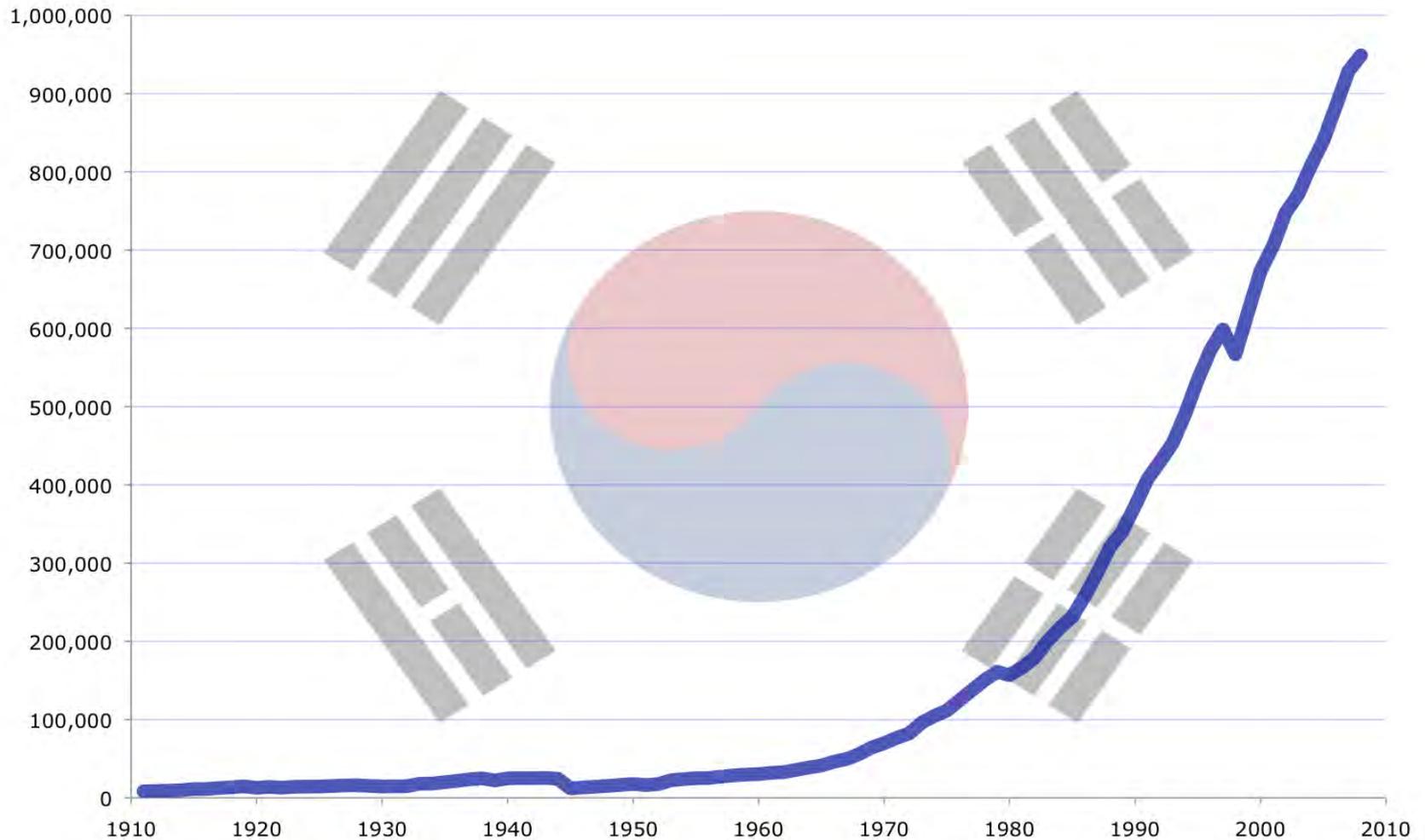
The “Han River” Miracle



Cheonggyecheon (청계천) today



The 63 Building, next to the Han River



The South Korean economy expanded from approximately 30 billion to almost 1 trillion dollars between 1960 and 2007

Economic Growth

BEFORE 1962

ECONOMIC
DEVELOPEMT
AFTER 1962

NOWADAYS

World's poorest
agrarian country

Fastest
development
in the World

Upper middle
income country;
fast
industrializing
country

Per Capita Income

Less than
\$100

About 10% growth
per annum

\$26,205

Korea's Economic Development

1945: Liberation after Japan surrendered

1948: Exports amounted to \$20 million

1950s: 1950~1953 Korean War

One of the poorest countries in the world

Infrastructure: completely destroyed by the war

Korea's per capita GDP (1953): \$67

(below countries such as Gabon, Ghana, or Congo)

1960s~1970s: A series of plans for economic development: government driven, export-oriented, industrialization; rapid expansion in light industries (1960s), development of heavy industry (1970s); the Korean *chaebol*

Korea's Economic Development(continued)

1980s~1990s: transformed from an exporter of textiles and shoes into a major global producer of automobiles, electronics, ships, steel (1980s), and, later high-tech products such as digital monitors, mobile phones, and semiconductors (1990s); host of the 24th Olympics (1988); joined OECD (1996); overcame Asian financial crisis (1997)

2000s: World leader in semiconductors, digital display (LCD), TVs, mobile phones (Samsung, LG), most wired country in the world, second highest broad band users worldwide, first or second largest shipbuilder, 5th largest car maker, co-host of the Soccer World Cup (2002) and G-20 Summit (2010)

Economic Status (2009)

ECONOMIC POSITION

GDP : 15th

Export : 12th

Import : 12th

Export :
\$363.5 billion
(2009)

Import :
\$323.1 billion
(2009)

MAJOR INDUSTRY

Shipbuilding

Dram

LCD

Mobile Phones

Steel

Automobiles

NO.1-2 BUILDER

NO.1 MAKER

NO.1 MAKER

2ND MAKER

6TH PRODUCER

5TH LARGEST

:The “Han River” Miracle: Distinctive Features

- The U.S.-ROK alliance: security and open markets
- President Park Chung-hee's legacy: was military dictatorship necessary?
- Transition from import substitution to an export oriented economy
- Five-year plans
- Government-business collusion and regional bias
- Focused leadership, bold entrepreneurship, available financing
- Korea's bureaucrats: a generally untainted meritocracy
- Korea's think-tanks: KDI, KIEP, KINU, IFANS etc.
- The competitive civil service examination
- Export targets as performance measurement mechanism
- Korean innovation beyond reverse engineering: from “hwacha” and “kobukson” to LG Chocolate, OLEV and ion-lithium batteries
- Accelerated growth accompanied by lax government regulation

The Darker Side to The Miracle



The Collapse of the Seongsu Bridge

- October 21, 1994, 32 deaths and 17 injuries
- Investigation found that the joints of the trusses were not welded to the full, the welding thickness was well under the 10mm requirement at 8mm, and the pins for steel bolts were poor
- Afterwards, the bridge was to be repaired but because of the weakness in the structure, it had to be completely rebuilt



Sampoong Major Events

- In 1987, an apartment building was changed into a department store by the chairman of the building. In make changes, support columns were cut to add escalators. When the original contractors refused to carry out these changes, they were fired.
- Initially built on unstable ground, and the substandard concrete was used to build it. Moreover, incorrect construction methods had been used out of haste and lower costs
- A construction company tasked to build a fifth floor was fired when it advised that the structure would not support another floor. Another company was hired.
- Air conditioning unit was installed, a load of 4 times the design limit.
- In April 1995, cracks appeared in the ceiling. The only response by management was to move merchandise and stores from the top floor to the basement.
- On the morning of June 29th, 1995, the fifth floor ceiling began to sink. As the mall was packed with customers, the management did not close the store or carry out repairs at the time. Store workers simply blocked access to the fifth floor. Executives had already left the mall as the cracks were beginning to appear earlier in the morning.



- 29 June 1995, 502 deaths and 937, injuries, the deadliest building collapse since the Circus Maximus in AD 140.
- USD \$216 million in property damages

Sinking of the MV Sewol



- 16 April 2014, ferry carrying mostly high school students on holiday capsized
- 303 dead, mostly high school students
- Causes include overloading and not properly securing cargo, the ship was carrying more than three times the limit
- To accommodate the overloading, the crew had dumped around $\frac{3}{4}$ of the ballast water used for stabilization
- Chonghaejin Marine, operator of the Sewol, spent just \$524 USD last year on safety training for its entire staff, despite South Korean rules on safety training and emergency protocol

Sewol Exposes Safety Shortcomings



- Sewol “passed” safety checks by the Oceans Ministry, Korean Shipping Association, and the Coast Guard
- Rules in place but weak system of regulation
- An emphasis on growth over safety is to blame for South Korea’s poor safety record. In the past year, leading companies such as Samsung and Hyundai have all reported accidents in domestic operations, although workplace safety issues are limited mostly to SMEs.
- Jun Hyung-Bae, professor of Law at Kangwon University: “Korean companies cut costs associated with production to remain more competitive. If they followed every safety regulation, they wouldn’t be able to compete.”

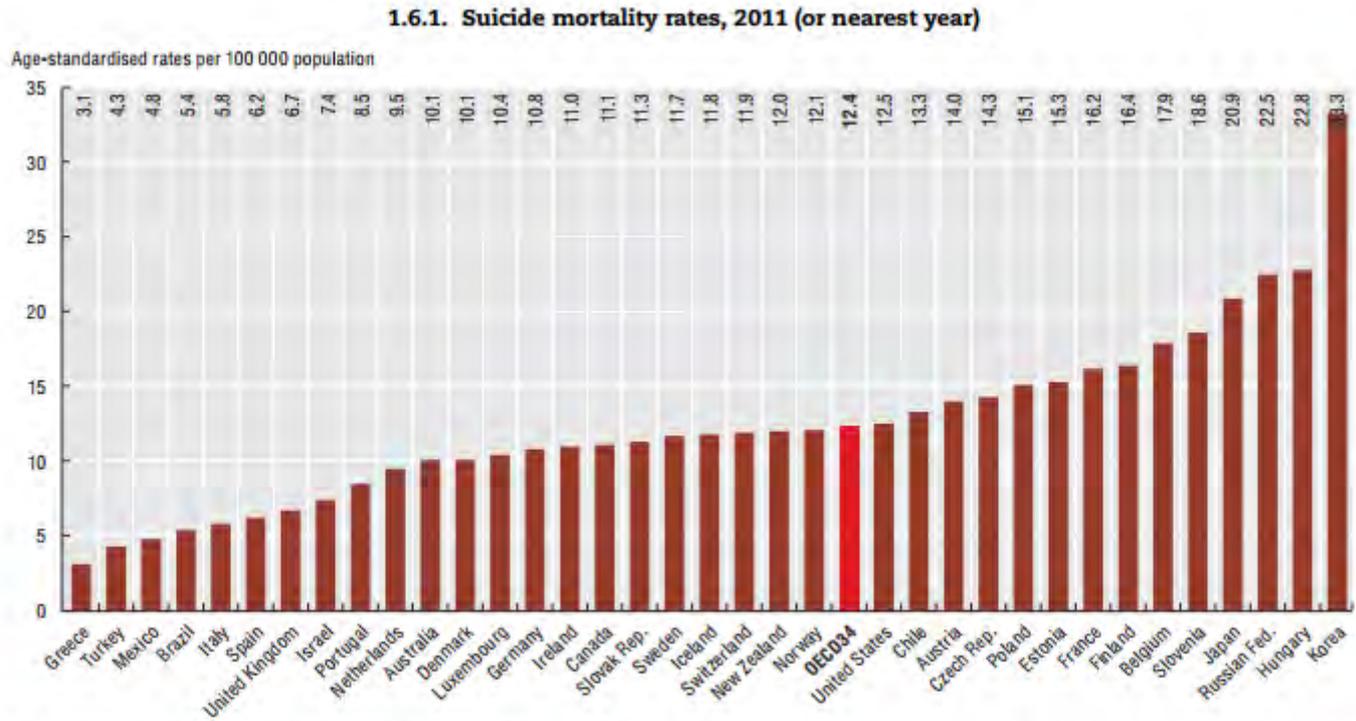
Post-Sewol: Grief, Guilt, and Outrage

A comment that typified the national mood, a man stated:
“I feel embarrassed as a Korean. We failed our children.”



South Korea: a façade of a modernized country?

“South Korea’s ferry tragedy touches on country’s suicide epidemic”



Source: OECD Health Statistics 2013, <http://dx.doi.org/10.1787/health-data-en>.

StatLink  <http://dx.doi.org/10.1787/888932916211>

- Kang Min-gyu, the vice-principal of the school that was aboard the Sewol committed suicide because he felt responsible
- South Korea has the highest suicide rate (24.7 out of 100,000 persons) of any OECD country

Industrial Safety and Health: An Improving Record

- Korea had an industrial fatality rate of 18.0 per 100,000 persons, the **highest rate of worker fatalities amongst OECD member states** (Korean Statistical Information Service, 2008)
- These numbers are improving: 2,422 Koreans died by industrial accidents in 2010, 1,929 in 2013
- Pedestrian fatalities made up 37 percent of all road deaths in Korea, almost the double of the OECD average of 18% and the **highest fatality rate in the OECD** (OECD, 2008)
- In 2014, South Korea's **road fatality rate ranked second highest amongst OECD** with 105 per 1 million people, an improvement from 119 in 2009 and 218 in 2000. The OECD average is 63.



Curbing Occupational Accidents: Still A Work in Progress

- Occupational Health and Safety Act of December 1981, aggressive prevention activities of industrial projects and the reorganizing the administrative systems
 - But due to the increase of machinery used and the scale of industrial projects, and the lack of experts specializing in accident prevention, more accident occurred
- Occupational injuries peaked in 1984 at 157,800, lowering work morale and increasing production costs
- Establishment of Korea Occupational Safety and Health Agency Act (KOSHA) in 1987
 - Work by KOSHA includes research, distribution of accident prevention techniques, training, and inspections
 - Significant year to year progress: rate of injury and illness from 2.66% (1987) to 0.65% (2011)
- **Yet still, 6 people die and 250 suffer injuries at work each day. In 2011, 54.777 million work days lost to injuries, approximately 17.5 billion USD in losses**

Figure 3-1 | Industrial Accident Rate by Year and the Distribution of Industrial Accident Compensation Insurance (1964~2011)



Source: Yearly Analysis on Industrial Accidents, MOEL

Corporate Korea: The Confucian Legacy

- Five basic human relationships: ruler to ruled; father to son; husband to wife; elder brother to younger brother; friend to friend
- Unequal heirship in favor of the eldest son
- Seniority and personnel management
- “Authority” ensures “harmony”
- Obedience, uniformity and sense of belonging



A Confucian ritual ceremony in Jeju, South Korea

The Confucian Legacy (cont.)

- Traditional family management and exclusionism
- Kinship: schools and birthplaces
- Post-1997 changes in corporate and political culture: diminished *chaebol* influence, younger top managers, women and foreign corporate executives



Under President Kim Dae-Jung's administration (1998-2003), political participation of women increased substantially and welfare policies for women were expanded



The Controversial Japanese Legacy: Business Conglomerates and Bureaucrats

- The legacy of the **keiretsu** and **zaibatsu**: How different is the **chaebol**?
- **Keiretsu**: a set of Japanese companies with interlocking business relationships and shareholdings
- **Zaibatsu**: large Japanese family-controlled vertical monopolies, prevalent before Japan's surrender; partially dissolved by General Douglas MacArthur, many of them later reintegrated through share purchases
- **Chaebol**: a powerful South Korean global multinational conglomerate (in Korean, the meaning of the word is "business family"): Samsung, LG, Hyundai
- Korea's bureaucracy may trace its roots, to a certain extent, to the Japanese occupation period

The Controversial Japanese Legacy: The Korea-Japan Normalization Treaty (1965)

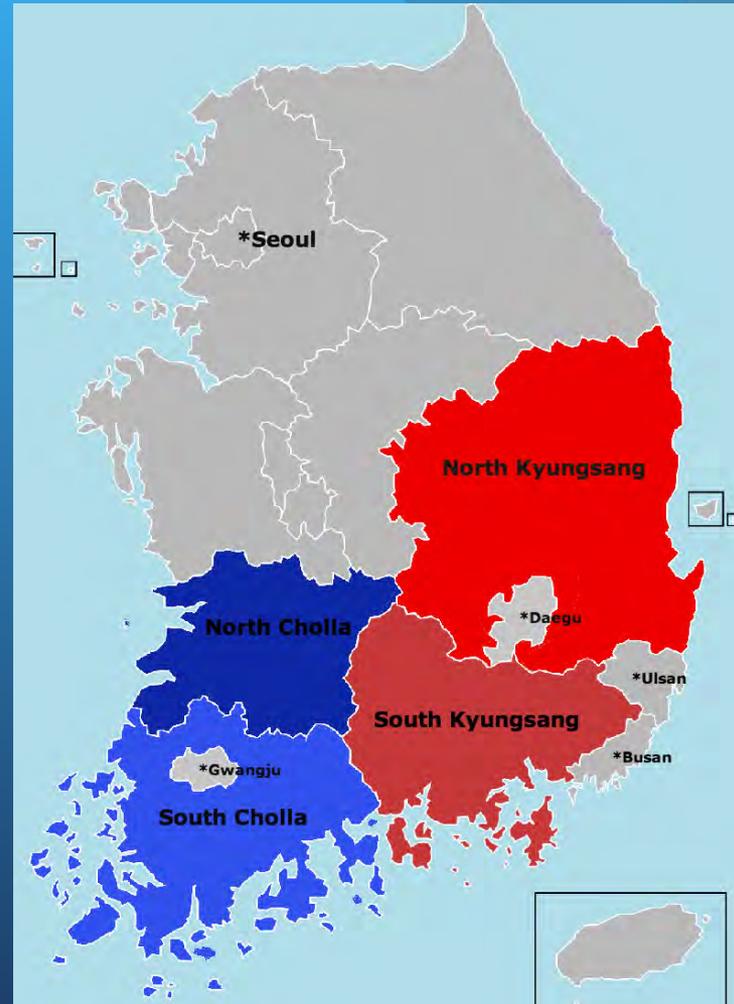
- Seoul demanded \$364 million for Koreans who died, were injured, or used as laborers during Japan's 35-year occupation
- \$800 million was received in a combination of grants and low-interest loans, as reparations from Japan
- Japanese advisors ("weekend travelers") were hired as consultants
- ROK President Park Chung-hee agreed that South Korean citizens would give up their right to make individual claims against the Japanese government
- During the Park administration, KRW 2.56 billion (\$251 million) was paid to those who had lost family members, and KRW 6.6 billion to owners of destroyed property
- The remaining money was earmarked for nation-building construction projects: Pohang Iron & Steel (later POSCO), the Kyungbuk Expressway (from Seoul to Busan)
- Over 2,000 families, including those of "comfort women," have filed suit against the South Korean government for unfair distribution of the compensation money
- Does the Normalization Treaty preclude DPRK compensation claims?

The Controversial Japanese Legacy: Do Koreans Owe Japan a Debt of Gratitude?

- Japanese funding was received as compensation for despicable crimes perpetrated against Koreans during the Japanese occupation period
- JVs with Japanese companies, resulting in technology transfers and sometimes reverse engineering, were mutually beneficial business relationships, and not charitable enterprises
- Japanese advisors were remunerated for their services
- Infrastructure built during the Japanese occupation period, including railways, mines and factories, was meant to serve the interests of the Japanese Empire, and not the “enlightenment” of Koreans
- While Korea doesn't owe Japan a debt of gratitude for its economic development, Korea-Japan business ties are deep

Sources of Perceived Inequality in Contemporary South Korea

- Disparity in living standards between urban and rural areas; gap narrowed through Saemaul Movement in the 1970s
- Discrimination on both the community and individual level against the people of North and South Cholla Province (the “TK Mafia”)
- Government control of the financial system created substantial disparities between the chaebol (access to credit at low rates until the late 1980s) and capital-starved SMEs
- South Korea’s andro-centrism and the gender gap



Factors Mitigating Perceived Inequality

- Liberalization of the labor union movement post-1987
- Education significantly impacts social mobility; elitism as a side-effect (Korea Military Academy, SKY universities)
- The competitive government examination (a distinctive feature of the Han River Miracle)
- Affirmative action programs, dealing with gender disparities (since 2006); still, employment-to-population ratio 52.6% (women ages 15-64) vs. 73.9% (men ages 15-64); average earnings only 60%
- Programs dealing with the delayed development of Cholla
- Social welfare is widely accepted, both sides of the political spectrum running in favor of these programs



A labor union demonstration in Myongdong

Problems in the ROK Military

- Required 21 month military service, negative perception toward service
- “When Korea was on high alert, service was a national commitment. Now the economy has become the highest priority. Young people think two years in the army is a waste”
- Bullying and suicides have highlighted military news in the past year
 - In June, a draftee killed five and wounded five. In July, two soldiers committed suicide due to bullying



Business Culture: Fundamental Things to Remember

- Formal introduction: remember names and titles
- Business cards
- Ensure everything you say in English is understood
- Do not push too hard: be patient, gentle and firm
- Modesty goes a long way
- “Kibun,” “punuigi” and “chaemyon”: mood, atmosphere and saving face
- Human relationships are important: try to personalize all business relationships and get to know your counterpart
- Entertainment is important
- Be aware of what is happening in Korea and of Korea’s newly acquired status as a “middle power”; develop appreciation for Korea’s food, culture, customs and language

Business Culture: First Meetings

- Introduction by a third party is ideal
- Handshakes are fairly common, with/without bowing
- Business cards essential: hierarchical relationship established
- Use both hands to hand it out, or support right elbow with left
- Read carefully, treat with respect
- DO NOT write on the business card, or put away without reading

Business Culture: Business Meetings

- Make an appointment a few weeks in advance
- Best time to schedule: mid-morning (10 am-12 pm) or mid-afternoon (2pm-4pm)
- Be punctual; call if you're running late
- Counterpart may be a little late, due to busy schedule or traffic
- Appointments may be canceled in the last minute; no need to worry, unless it happens again; that may be a sign they are not interested in the respective business endeavor
- Gift giving is common, and meant to build relationships and acquire favors; gifts of equal value must be exchanged; accepted with both hands
- Sending written materials (marketing materials, proposals) ahead of time enhances communication

Business Culture: Contracts

- Seen as a starting point, rather than the final goal of a business agreement
- Seen as the parameter within which the relationship will take shape
- Flexibility appreciated, adjustments often made while work progresses
- Even while aware of the legally binding character of contracts, the relationship between two entities/persons may be seen as more important
- Awareness of relationship vs. binding contract essential in avoiding misunderstandings

Business Culture: Names

- Make sure to know the title
- Address by title and last name
- If not known, use Mr./Ms. (although it may be seen as inappropriate, if used in the wrong context)
- The Korean counterpart may ask to call him/her by an English name
- Call them what they want you to call them, but remember the full Korean name; it may be difficult for others to understand who they are

Business Culture: Etiquette

- Modesty important: don't oversell yourself/your company
- Modesty important: in interviews, Koreans may understate their capabilities
- To show respect, some Koreans don't make eye contact; that is changing
- Be patient: decision-making is collective and hierarchical, and it may take time
- Criticism in private, rather than public setting, even if Korean colleagues do it publicly; remember "saving face" is important
- Avoid public confrontation

Business Culture: Business Relationships

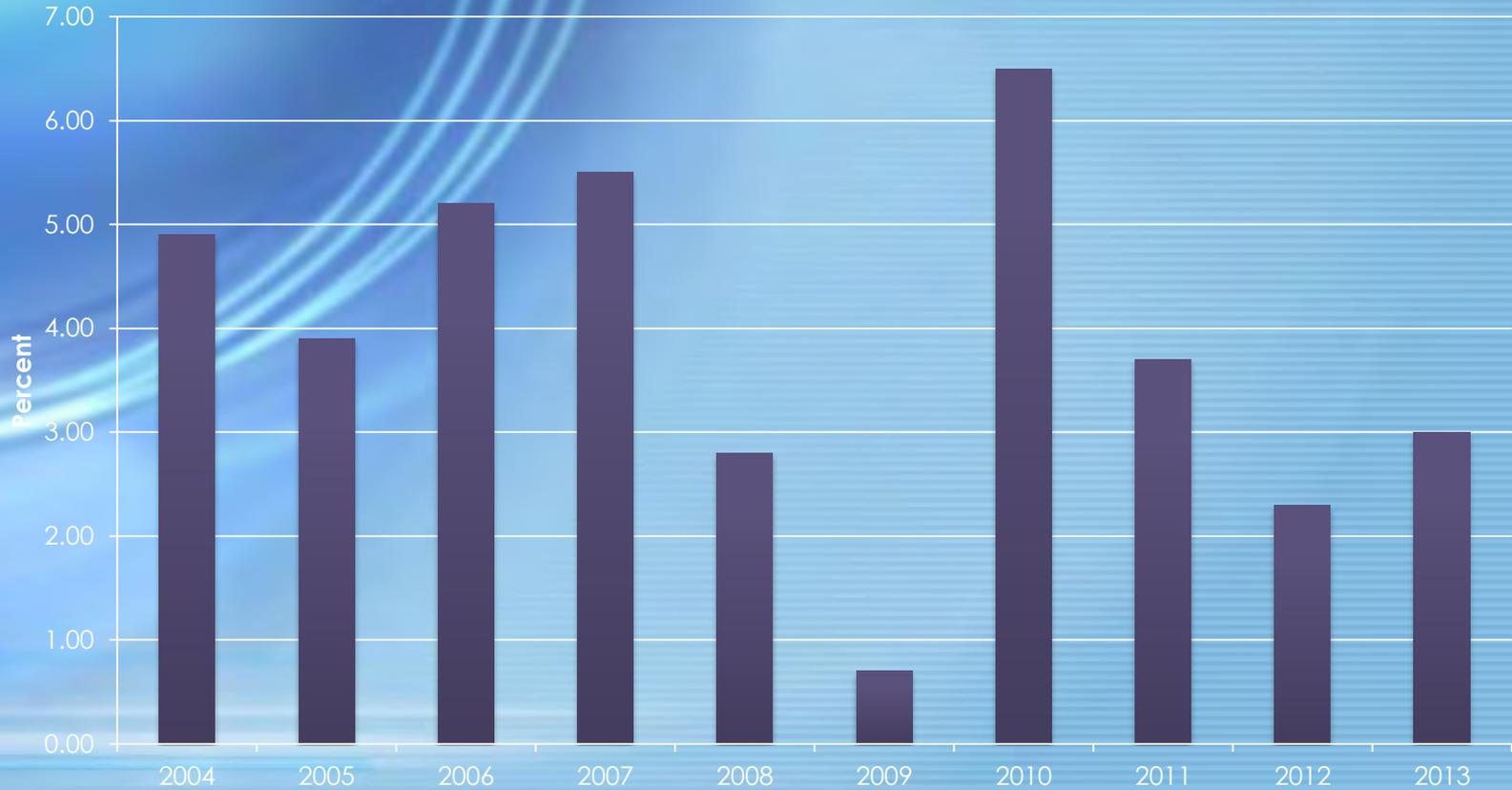
- Once you have established contact, nurture it
- Gifts may be given on Chuseok (Thanksgiving), the Lunar New Year, or Christmas
- If not based in Korea, do pay a visit to your counterpart whenever in country
- Display long-term commitment to the relationship and market: Koreans will initially suspect you are there to make a quick buck
- Korean business people try hard to get to know their foreign counterparts; willingness to participate is important
- Senior-junior (*sunbae-hubae*) relationship very important; mutual “I owe you” always there; critical in understanding the workplace dynamics

The background is a light blue gradient with several white, curved, glowing lines that sweep across the upper left portion of the frame, creating a sense of motion and technology.

KOREA'S ECONOMY TODAY: RECENT STATISTICAL DATA

Real GDP Growth

Year Over Year

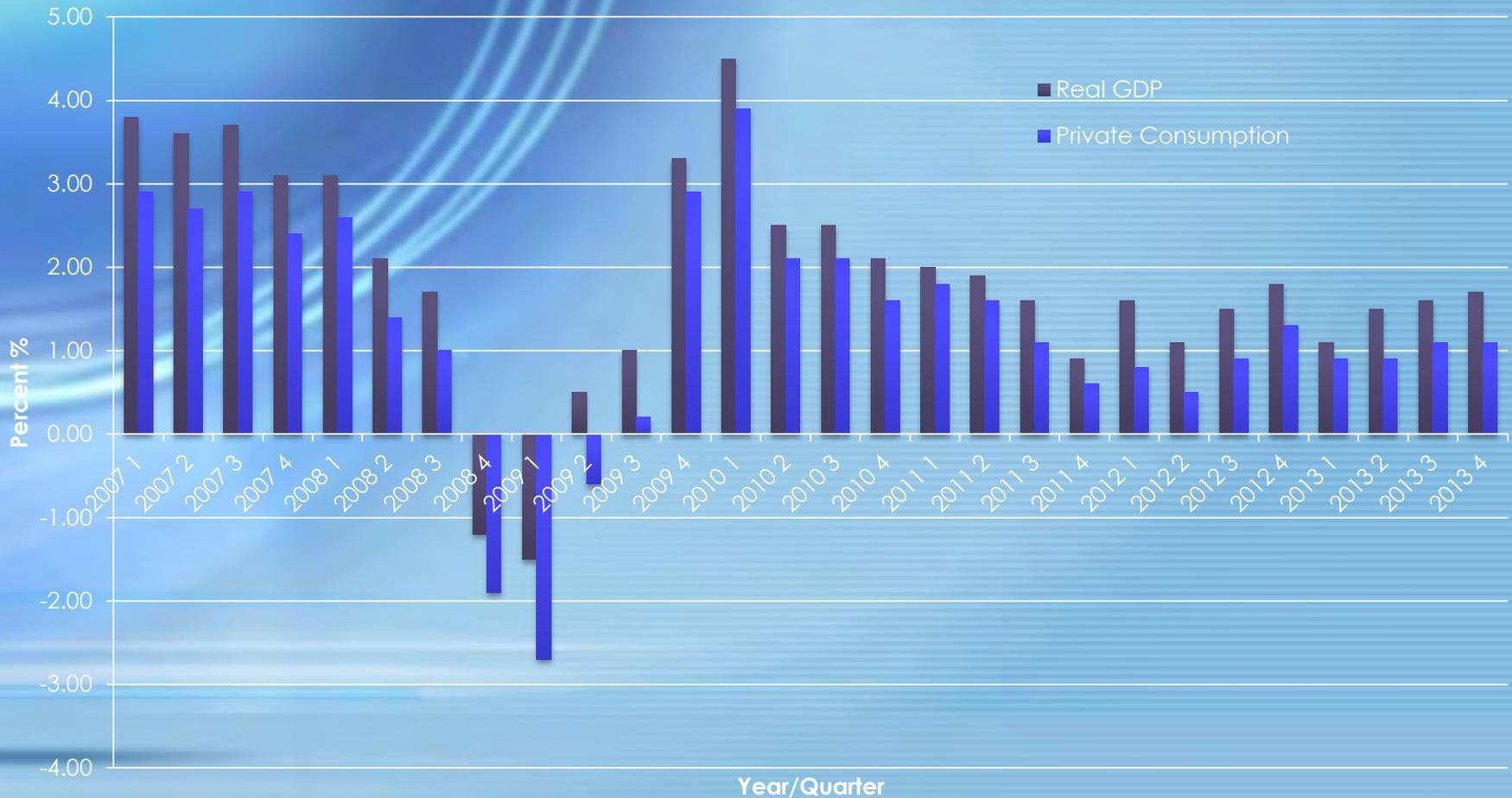


Source: Bank of Korea



Real GDP Growth

At 2005 Chained Prices — Quarter over Quarter, Seasonally Adjusted

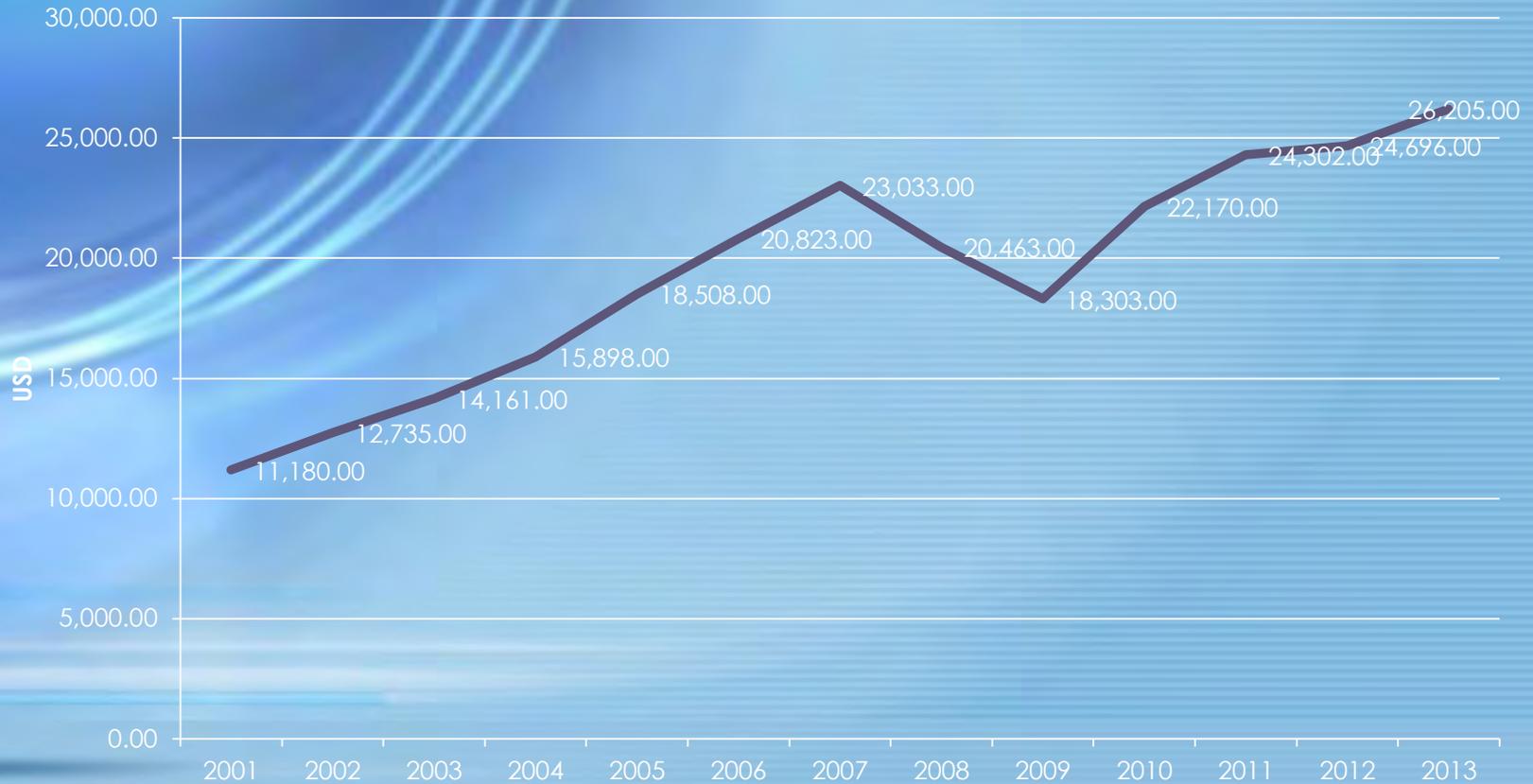


Source: Bank of Korea



Per Capita Gross National Income

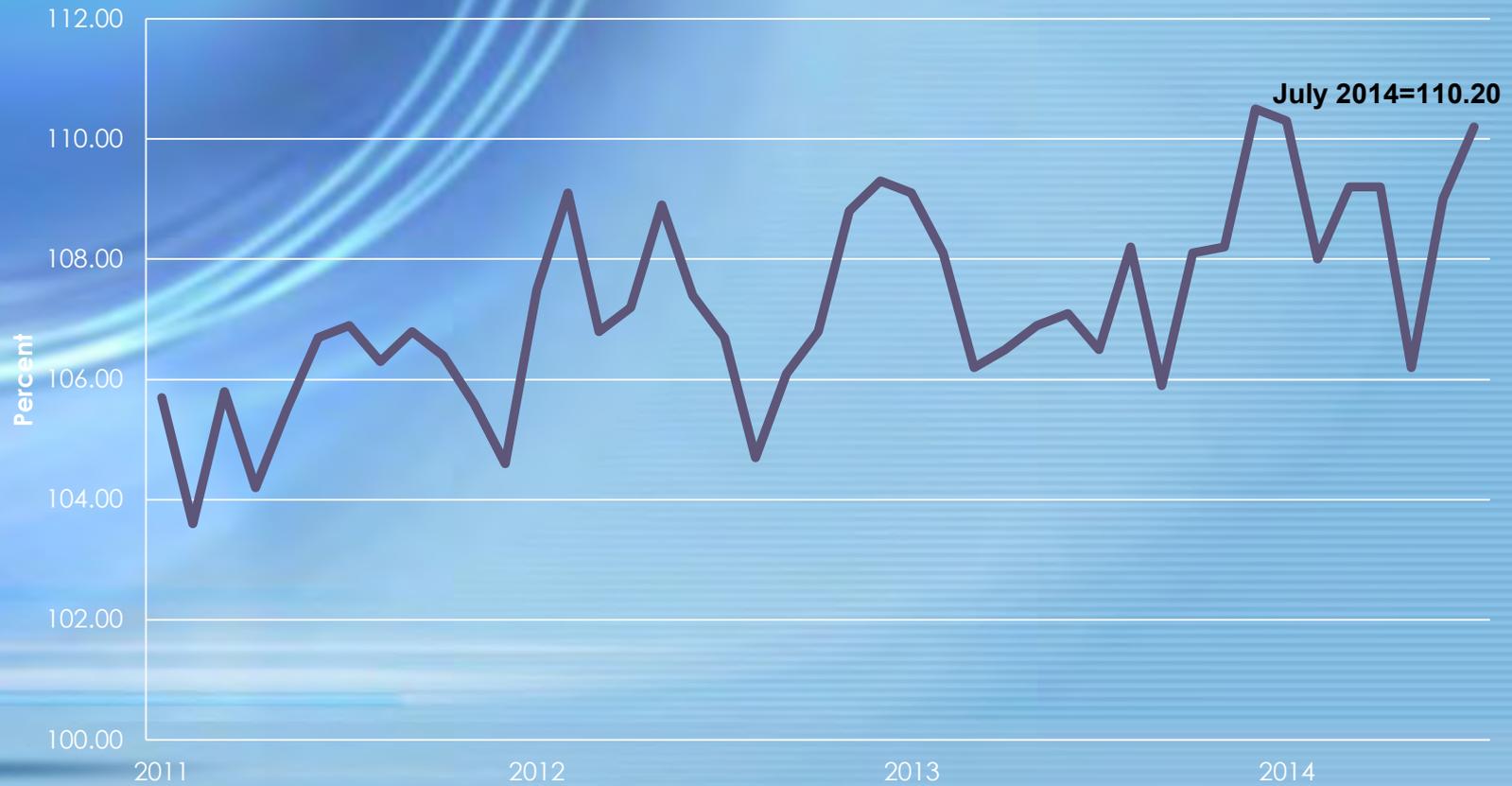
At Current Prices



Source: Bank of Korea

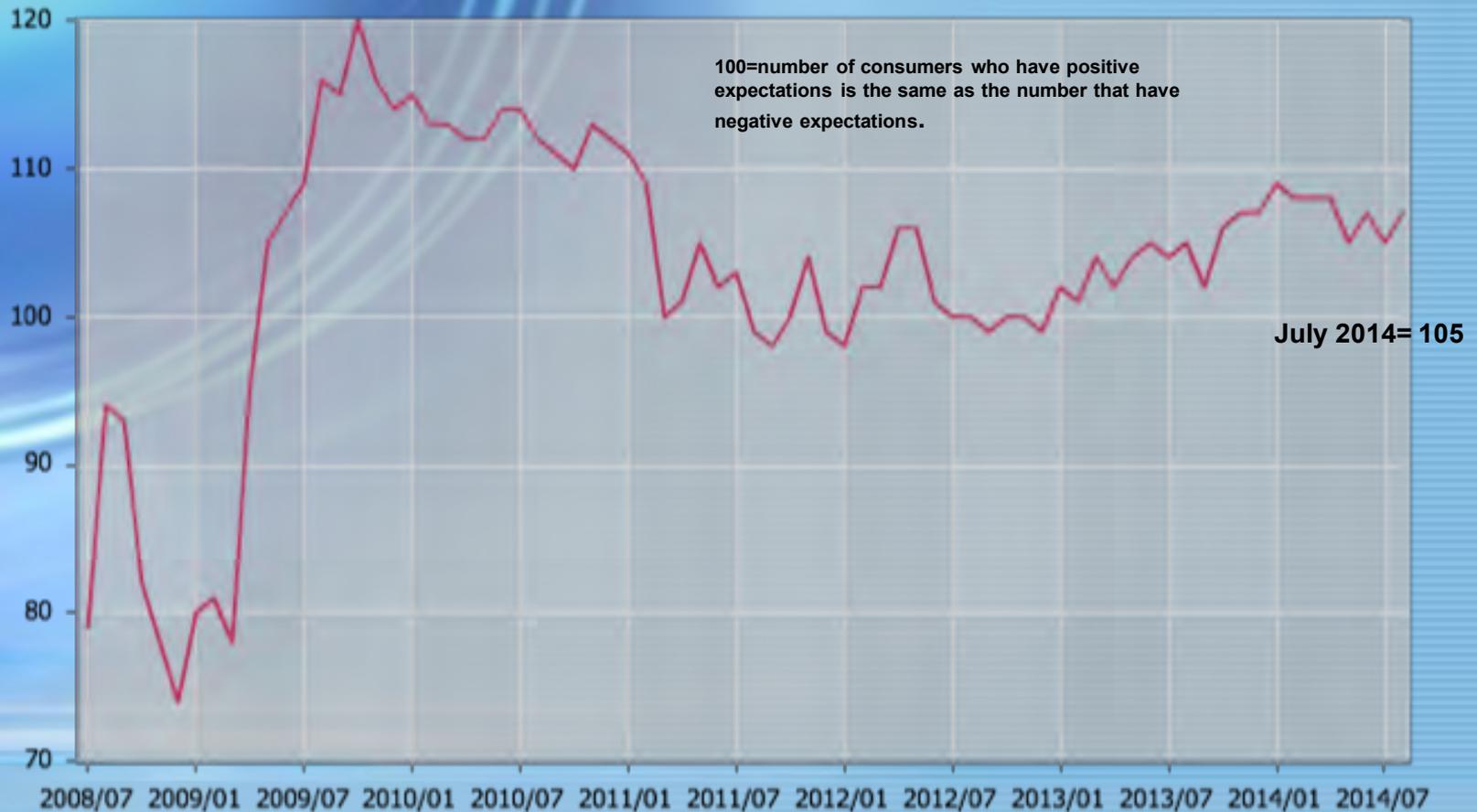


Industrial Production Index



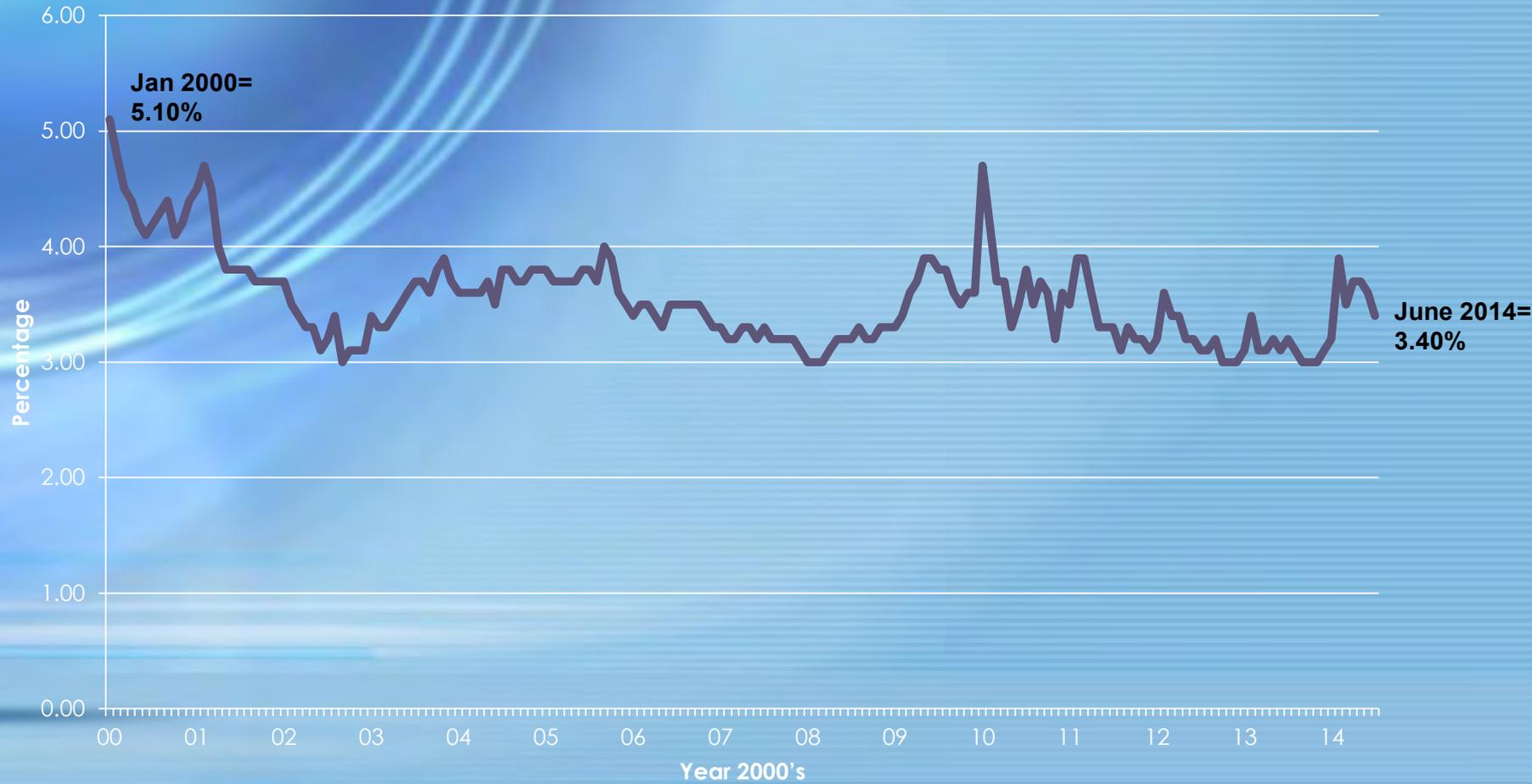
Consumer Sentiment

Monthly Consumer Expectation Index



Unemployment Rate

Seasonally Adjusted



Stock Market

Korea Composite Stock Price Index (KOSPI) -
Index of Monthly Average

1980.01.04=100



Source: Bank of Korea



Interest Rates

Index of Monthly Average, Yield of 3-Year Corporate Bonds, AA-

Percent
Per
Annum



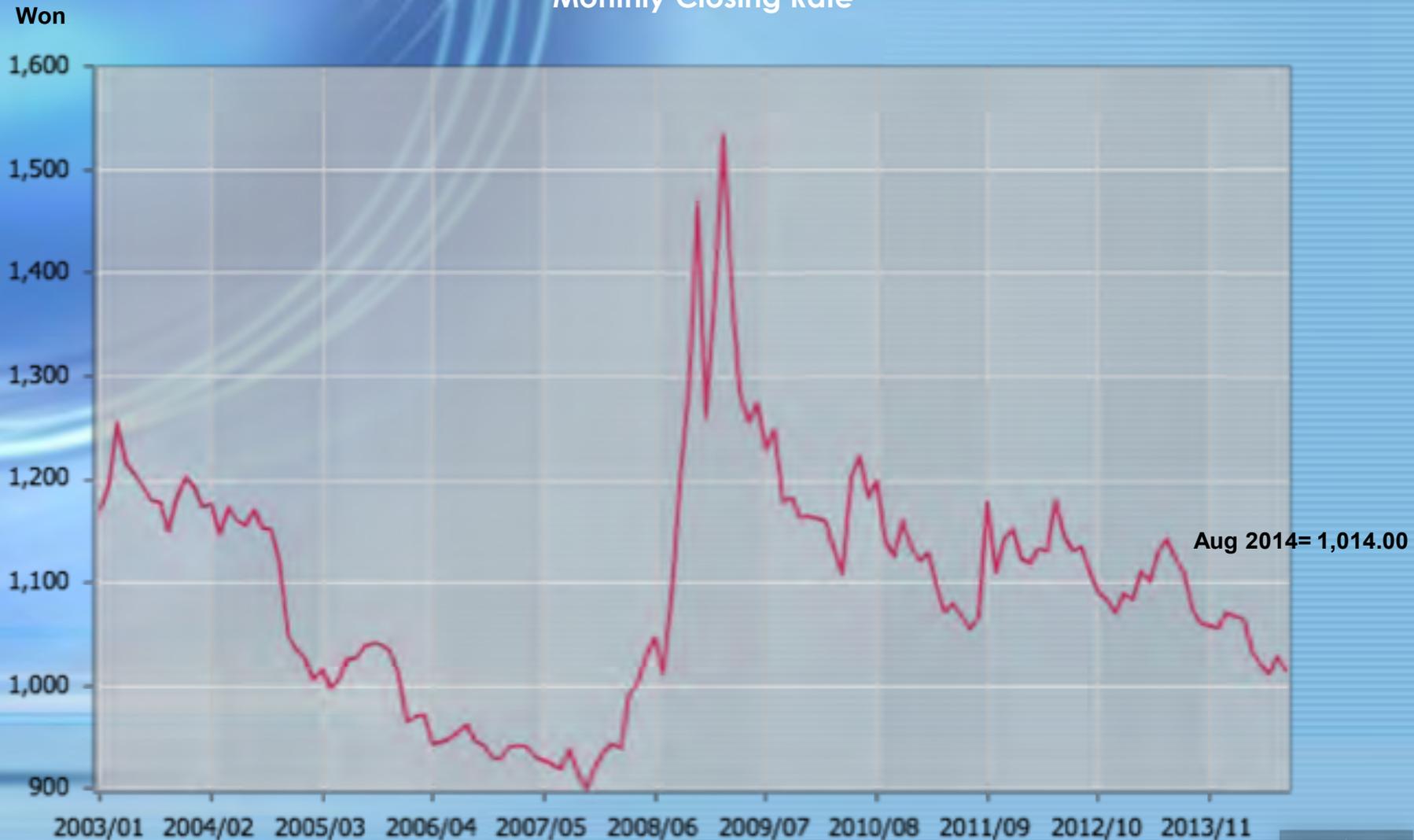
March 2014=
3.303

Source: Bank of Korea



Won/Dollar Exchange Rate

Monthly Closing Rate

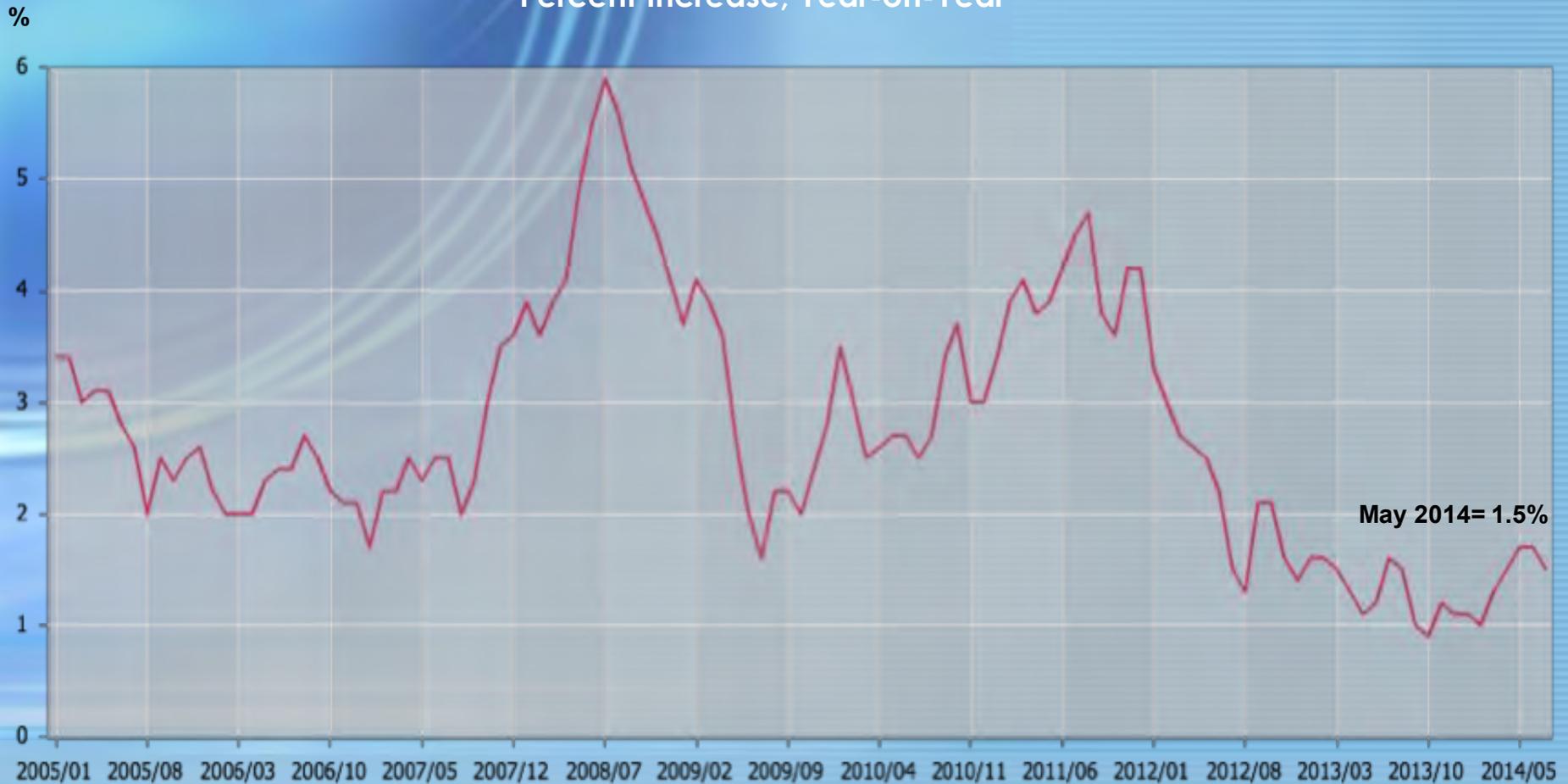


Source: Bank of Korea



Consumer Prices

Percent Increase, Year-on-Year

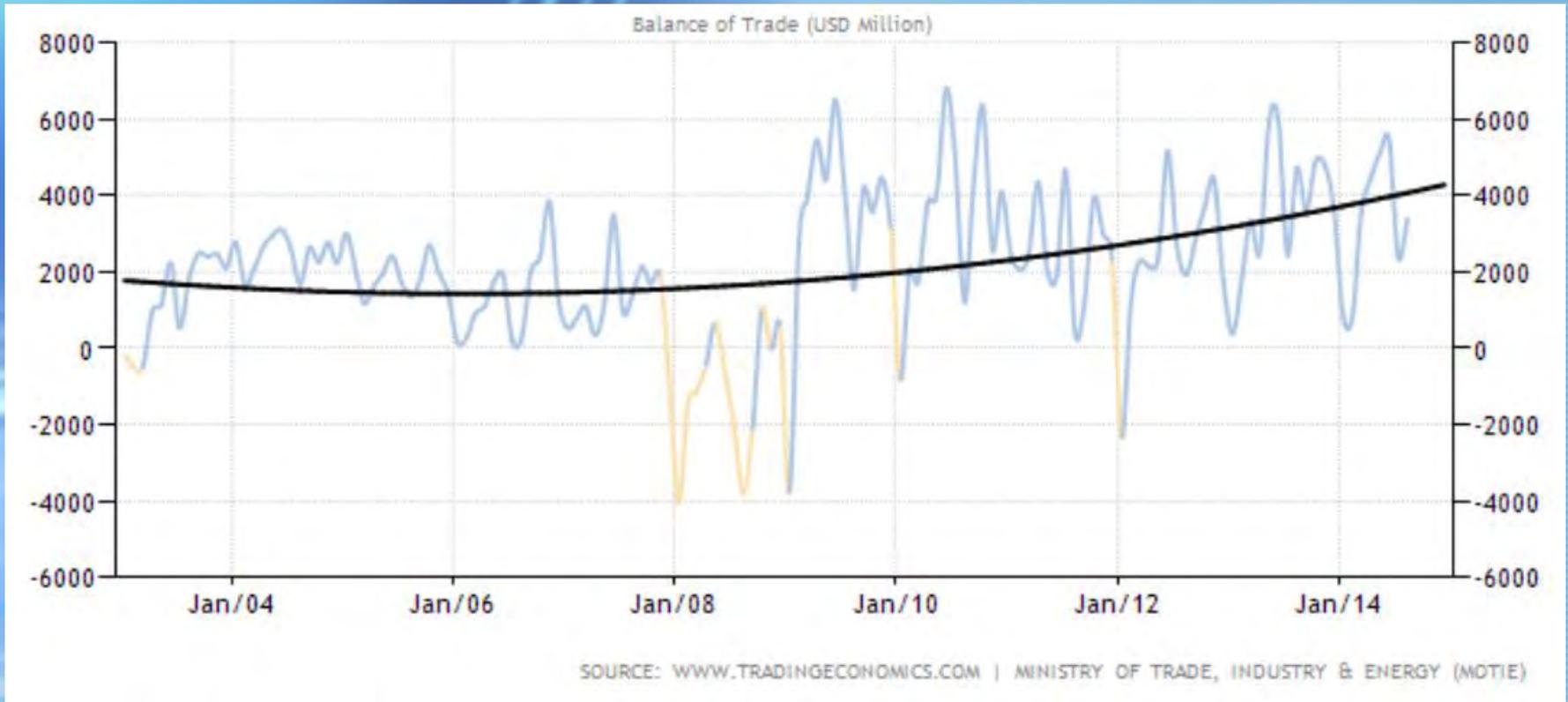


May 2014= 1.5%

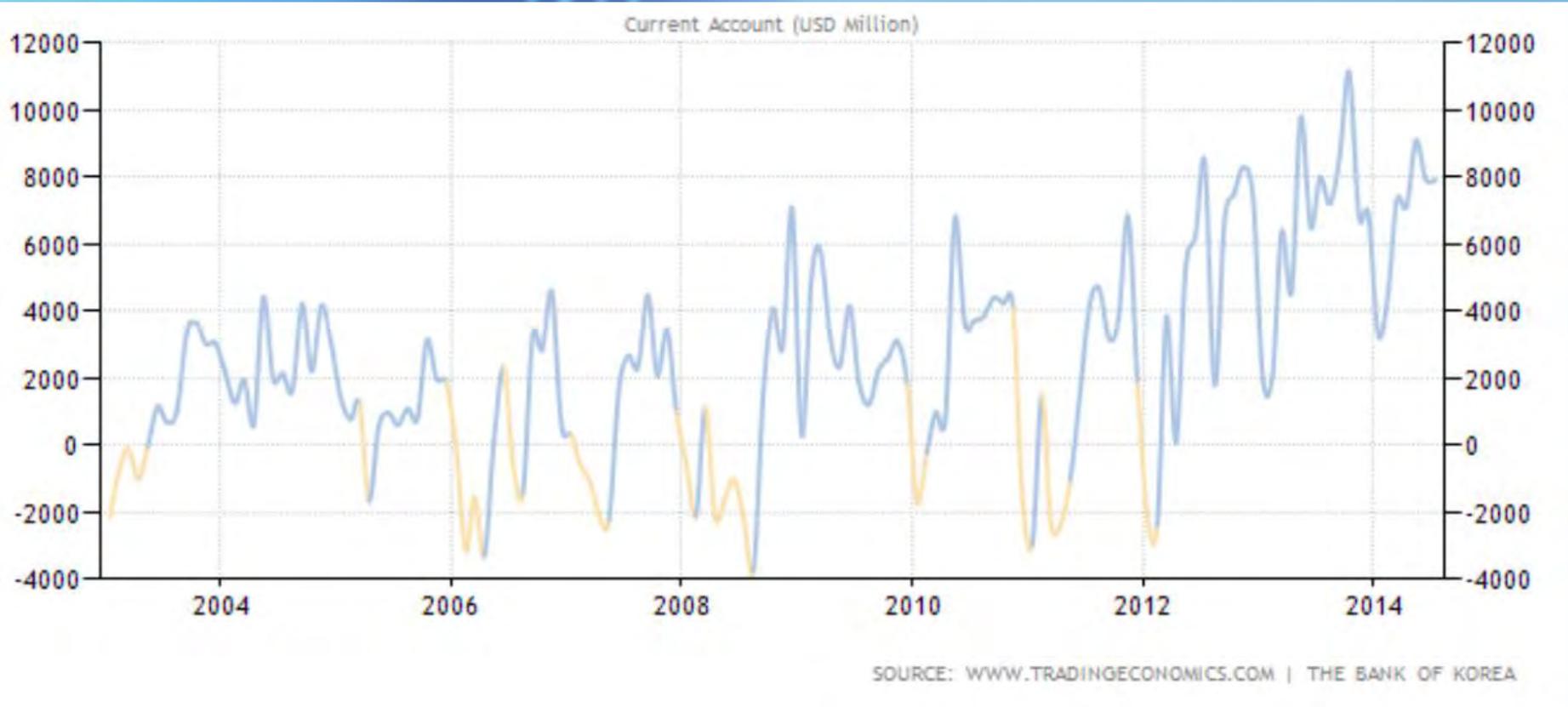
Source: Bank of Korea



Trade Balance

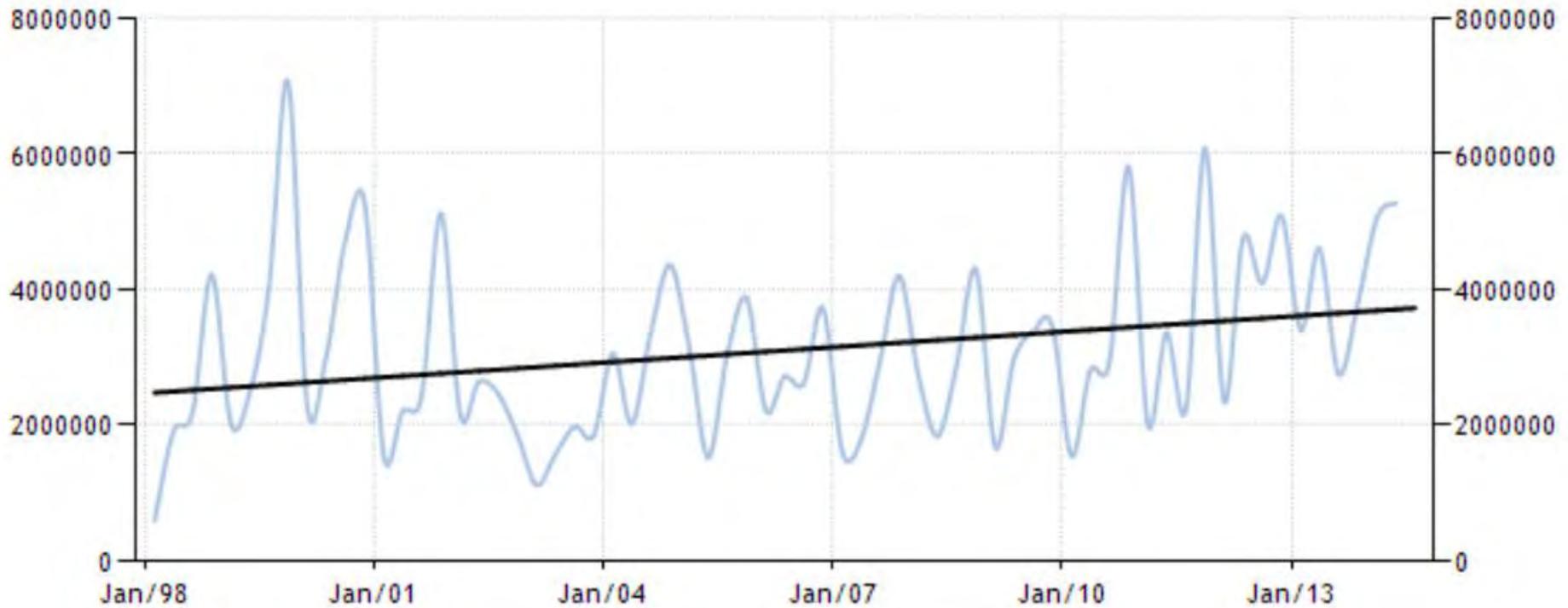


Current Account



Foreign Direct Investment into South Korea

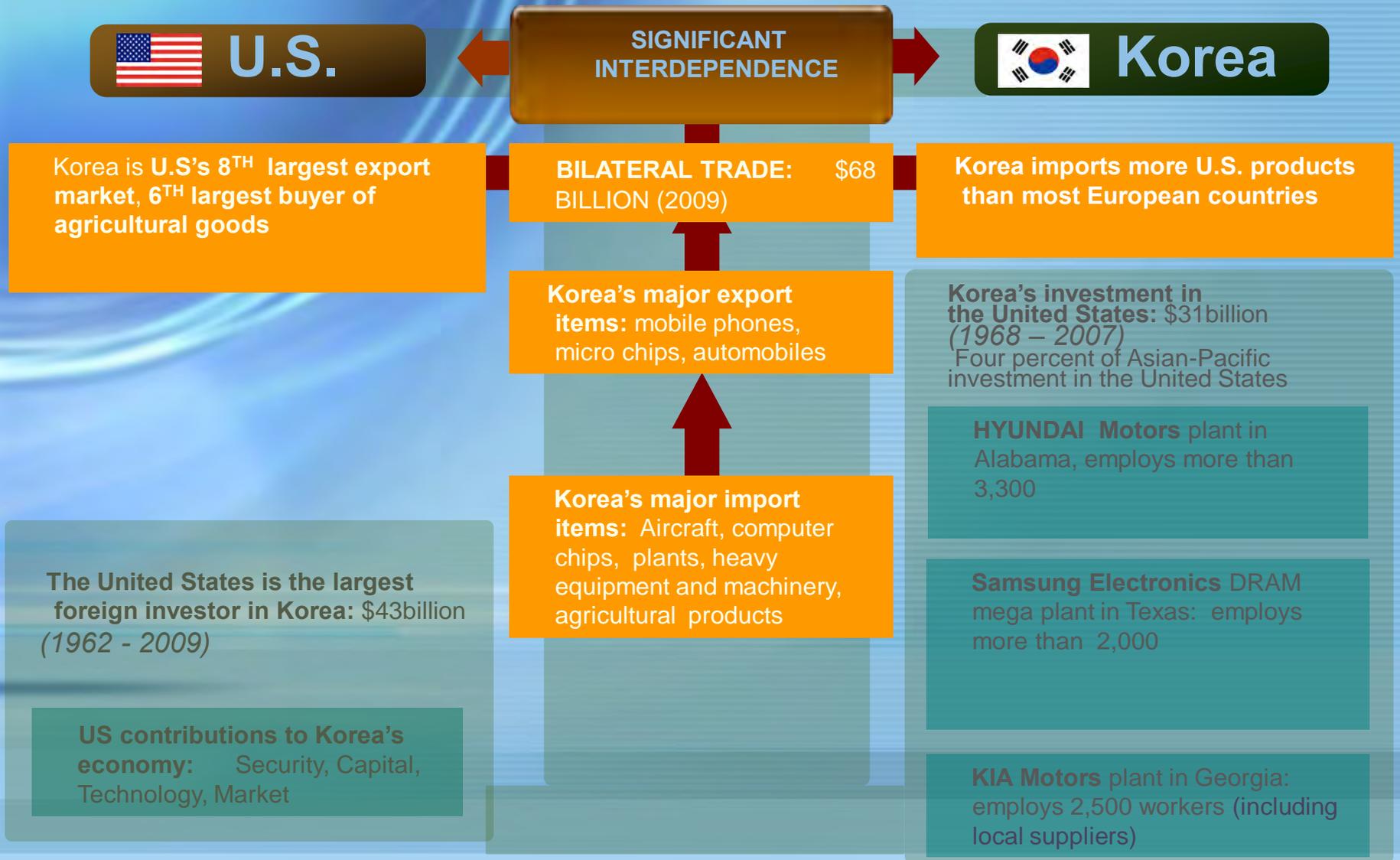
USD Thousands



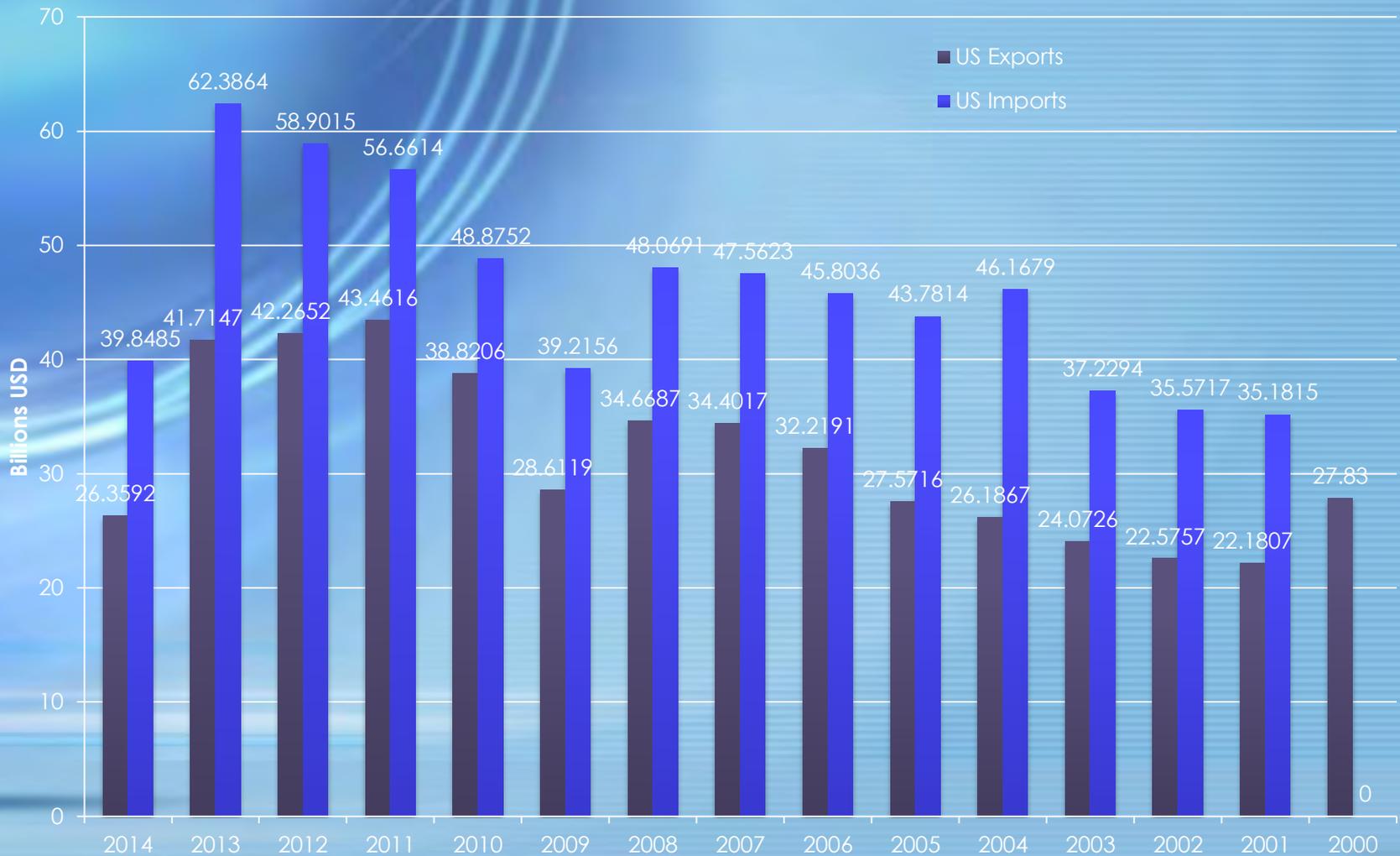
SOURCE: WWW.TRADINGECONOMICS.COM | MINISTRY OF KNOWLEDGE ECONOMY

U.S.-Korea Economic Relations

A. Economic Ties Between Korea and U.S.



U.S.–South Korea Trade



Source: U.S. Census Bureau



The Korea-U.S. Free Trade Agreement (KORUS FTA)

A. Implications for the Korean Economy

1

The Korea-US Free Trade Agreement

The World's 3rd Largest Economic Arrangement
after EU, NAFTA (entered into force in March 2012)

New Momentum for Economic Growth

- Secure greater access to the world's largest market
- Increase FDI into Korea
- Increase employment

Enhanced Benefits for Consumers

- Lower prices for imported goods
- Intensify price competition in domestic goods market
- Wider selection of goods
- Access to differentiated services

A. Implications for the Korean Economy Continued...

2

Enhanced Growth Potential through **The Korea-US Free Trade Agreement**

Legal and Institutional Advancement

- Facilitate cross-border exchange of production elements such as capital and human resources
- Improve corporate management environment
- Establish foundation for domestic enterprises to enter overseas markets

A. Implications for the Korean Economy Continued...

4

**The Korea-US Free Trade Agreement
Reinforces the U.S.-ROK Alliance**

Enhances Stability & Prosperity in Northeast Asia

B. Implications for the US Economy

The Korea-US Free Trade Agreement

- 1 The Largest Trade Agreement After NAFTA**
- 2 Increase Bilateral Trade Volume**
 - ➔ Reclaim Lost Market Share in Korea**
- 3 Gateway to Other East Asian Markets**
- 4 Strengthens US-ROK Alliance**

B. Implications for the US Economy Continued...

- **Better Access to the Korean Market for Agriculture, Electronics, Automobiles**
 - * Elimination of 95% of Tariffs on Industrial and Consumer Goods Within 3 Years
- **Strengthened Investor Protection**
- **Enhanced Access to Korea's Service Market**
- **Better Protection of Intellectual Property Rights in Korea**

The 2010s: Opportunities for Korea

- Korea's role as a "middle power" bridging the gap between developed and developing nations
- Political leadership and development
- The Low Carbon, Green Growth (LCGG) vision
- Korea as a responsible exporter of peaceful nuclear technology (\$20 billion UAE deal)
- Korea as a provider of international security, humanitarian and development assistance
- Does the "Korean Wave" have a future?

The 2010s: Future Challenges

- Export dependency and vulnerability to external shocks (the need to create domestic demand-LCGG)
- Energy dependence and vulnerability to high oil prices (the need to develop alternative and clean energy sources)
- Vulnerability to exchange rates fluctuations (despite the sizeable current foreign currency reserve-about \$300 billion)
- The need to hedge against disruptions affecting the supply chain of critical minerals
- Competition with both Japanese quality (currently successful) and Chinese prices
- The confrontational character of labor relations
- The aging population: until recently the youngest OECD nation; “aging” society in 2000, “aged” by 2018, and “super-aged” by 2026
- The environment
- Shifting family and corporate relationships and values
- North Korea