

Post-Han River Miracle South Korea: A Developmental Model?

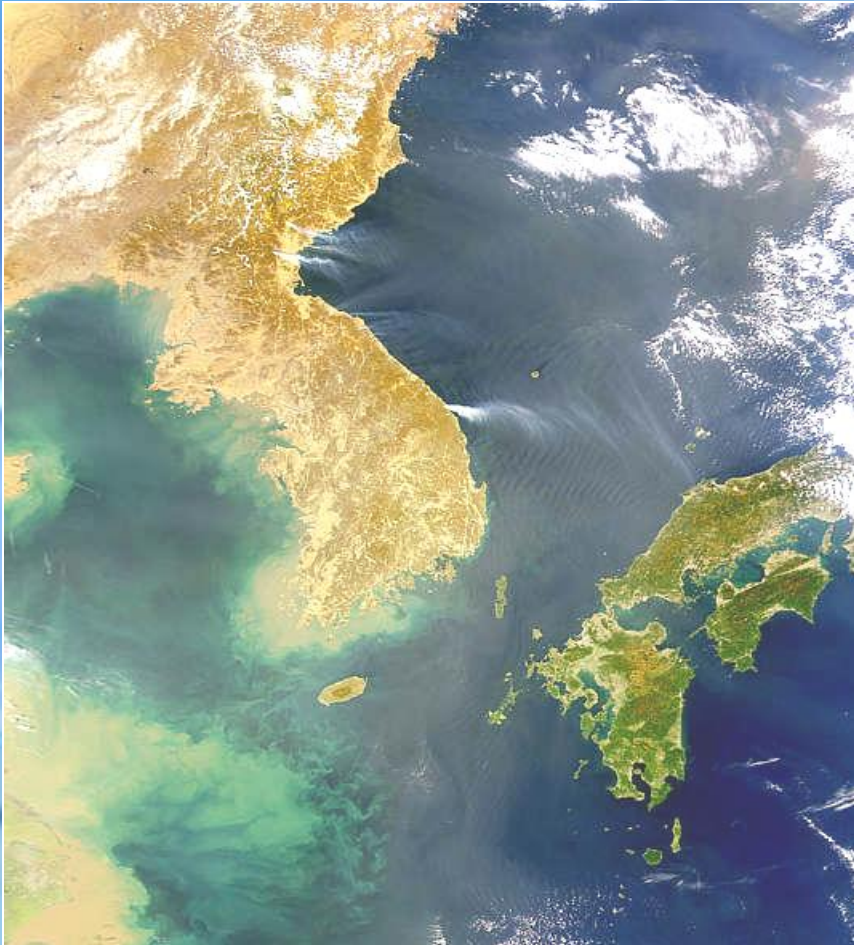
Greg Scarlatoiu

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South 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.

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

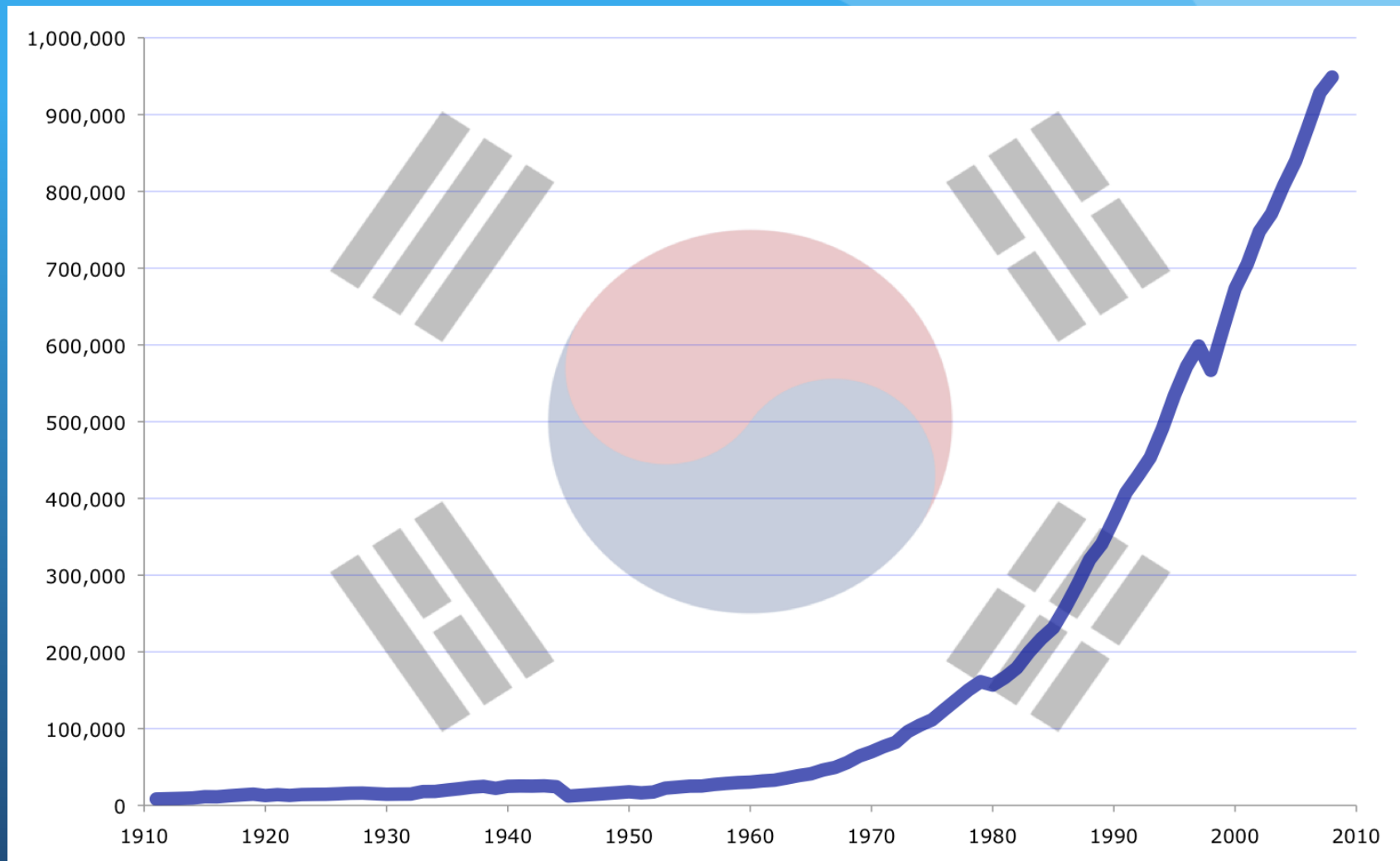
The “Han River” Miracle



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

: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





- 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

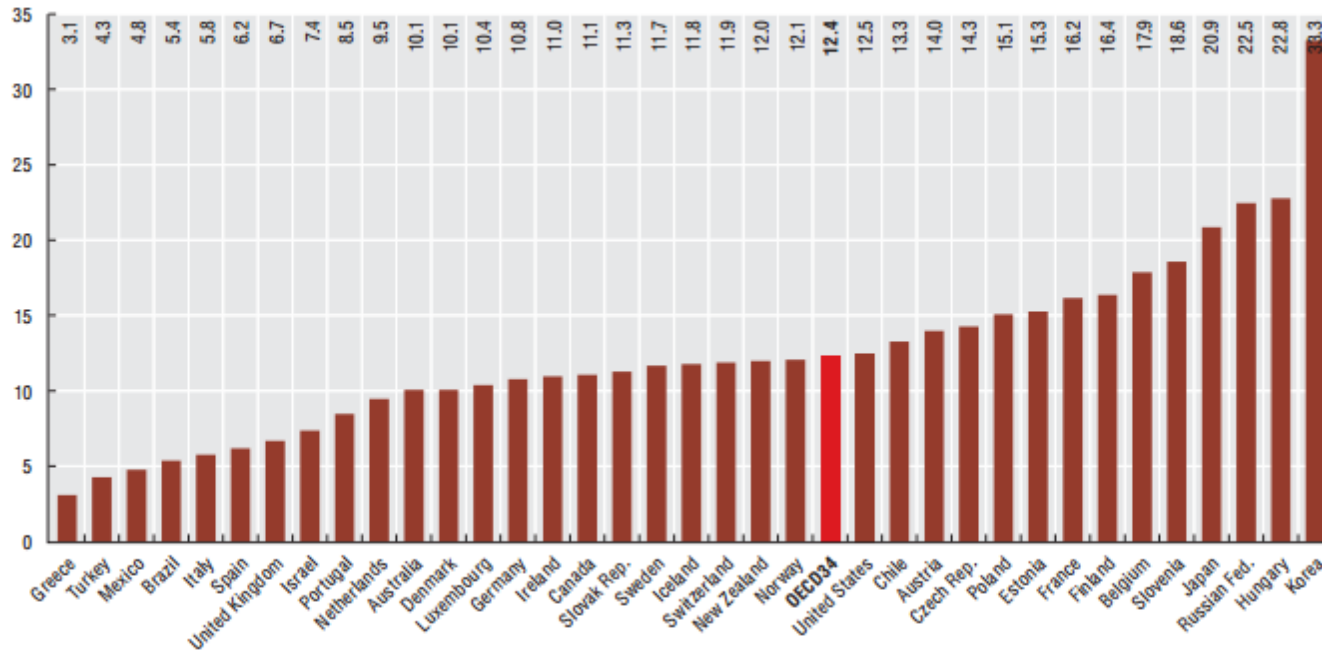


- Sewol “passed” safety checks by the Oceans Ministry, Korean Shipping Association, and the Coast Guard
- Rules in place but weak system of regulation
- An emphasis on growth over safety is to blame for South Korea's poor safety record. In the past year, leading companies such as Samsung and Hyundai 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.”


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

1.6.1. Suicide mortality rates, 2011 (or nearest year)

Age-standardised rates per 100 000 population



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.



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

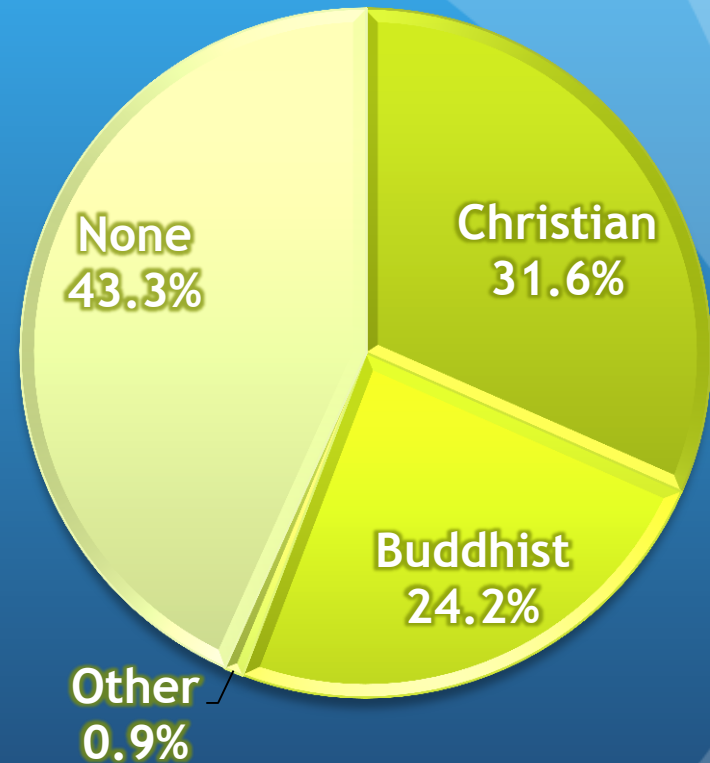


Under President Kim Dae-Jung's administration (1998-2003), political participation of women increased substantially and welfare policies for women were expanded



Religion in South Korea

- Plurality does not identify with any religion
- The most popular religion is Christianity (24% Protestant, 7.6% Catholic)
- Other religions include indigenous Korean shamanism such as Muism (*Mugyo*) and Sinism (*Shingyo*)
- A small percentage identify Confucianism as their religion, although most associate it with ethics and culture rather than religion



Source: CIA World Fact Book (2010)



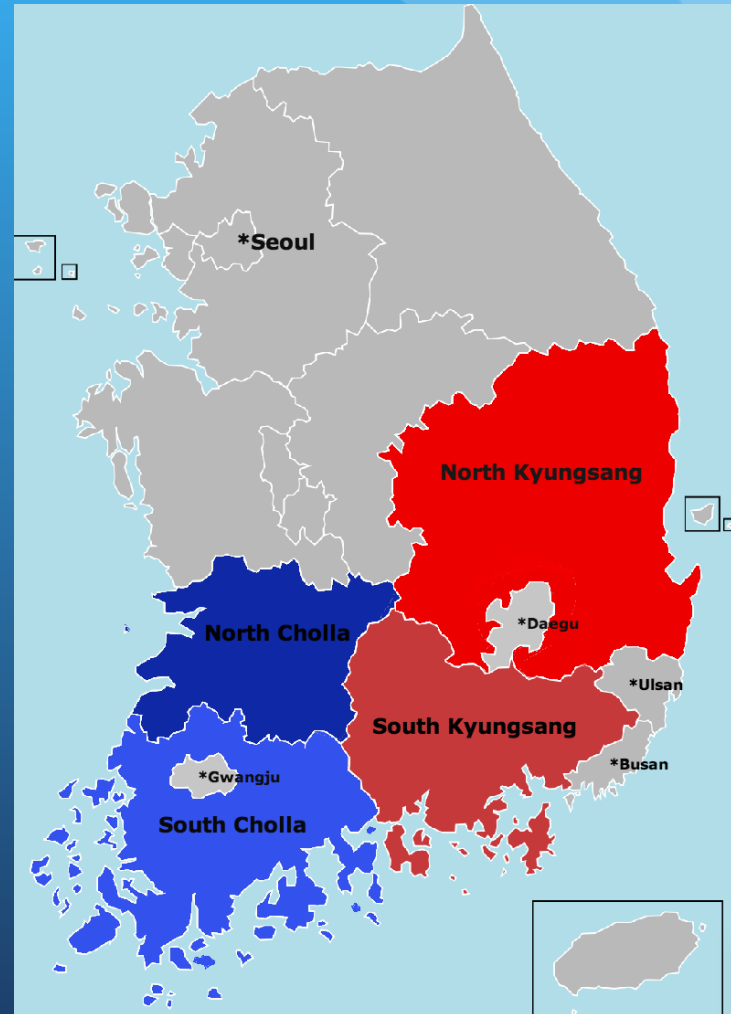
History of Religion in South Korea



- Buddhism came to Korea in the era between the 4th to 7th century
- Catholic missionaries arrived in the late 18th century, followed by Protestant missionaries 100 years later in the 19th century
- Despite early persecution, Christianity began to take strong root during Japanese colonial rule due to the waning influence of Buddhism and Confucianism as well as the involvement of many Christians in independence movements
- Some say Christianity's more recent growth is associated with the country's economic growth, as success is seen to connote God's blessing (i.e. the Protestant work ethic)

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



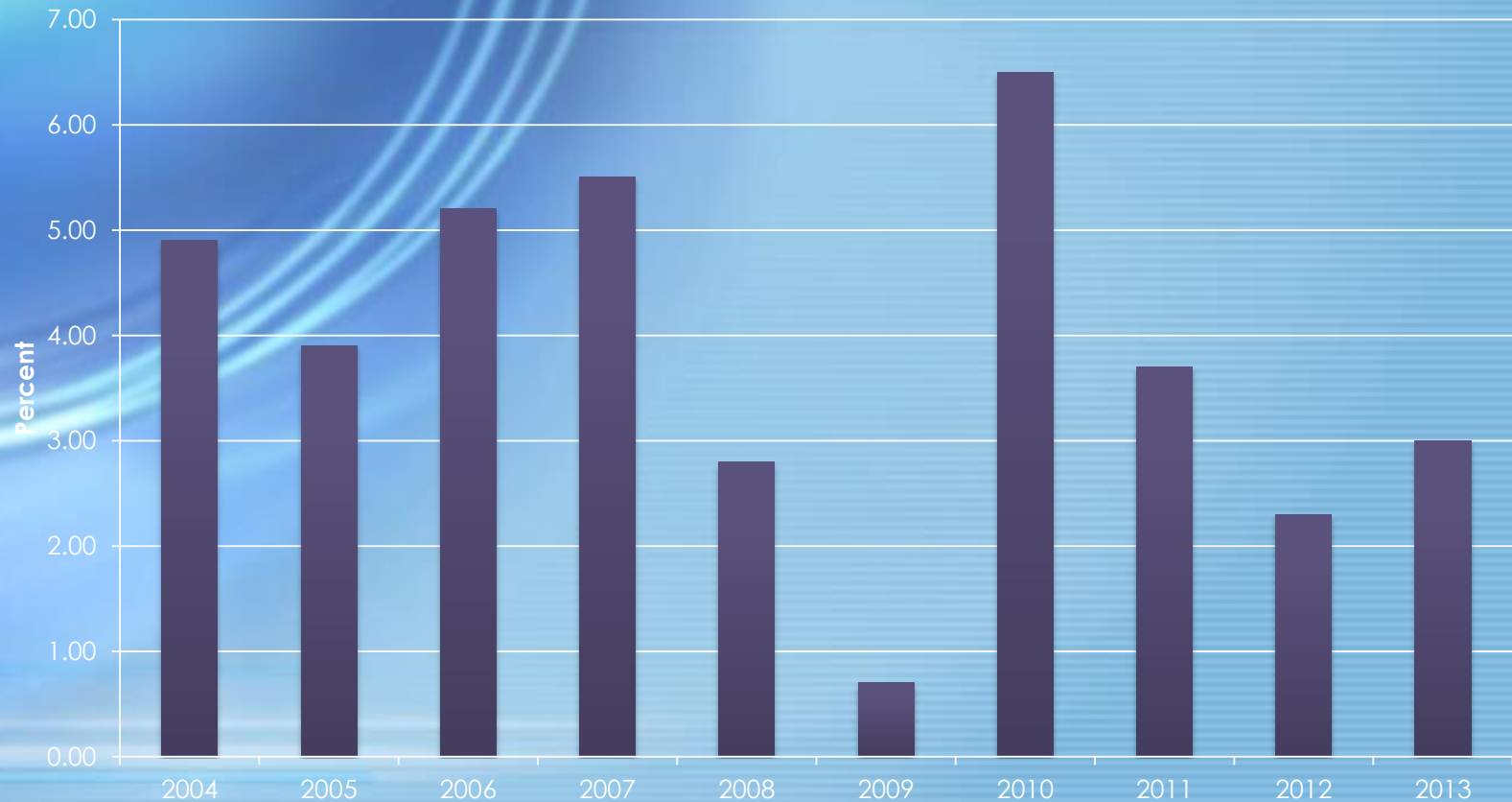
A labor union demonstration in Myongdong

The background is a light blue gradient with several white, curved, concentric lines on the left side, creating a sense of motion or a stylized globe.

KOREA'S ECONOMY TODAY: RECENT STATISTICAL DATA

Real GDP Growth

Year Over Year



Source: Bank of Korea



Per Capita Gross National Income

At Current Prices

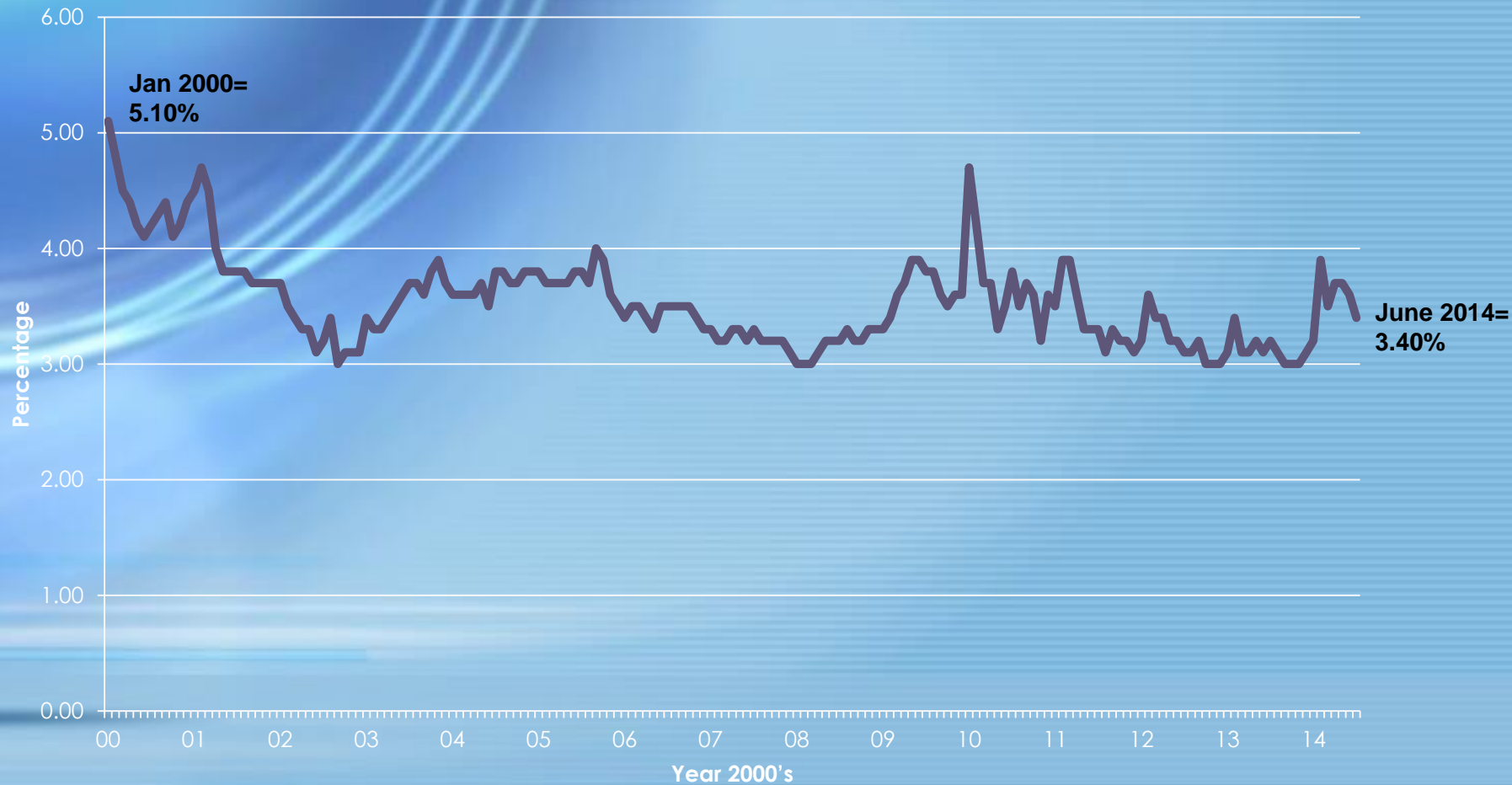


Source: Bank of Korea



Unemployment Rate

Seasonally Adjusted



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

South Korea's "Han River Miracle"

- From recipient to donor of international humanitarian and development assistance
- A new player on the international development scene
- Legitimacy derived from "middle power" status
- The need to assess own development experience to identify applicable best practices

The Applicability of the Korean Model of Development

- Korean values, export-led growth, geopolitics and the U.S.-Korea alliance
- Given the uniqueness of its distinctive features and determining factors, the Korean model of development is not replicable in its entirety
- “Middle power” Korea has the moral and professional authority to apply selected components of its experience to a developing country context

Achieving Maximum Efficiency on a Limited ODA Budget

- **Brief history: establishment of Economic Development Cooperation Fund (EDCF) in 1987 and Korea International Cooperation Agency (KOICA) in 1991**
- **ODA/GNI ratio still comparatively low, but continuously growing: 0.02% in 1991, 0.09% in 2008, 0.10% in 2009; 0.14% in 2012 (narrowly missing 0.15% target), not yet at OECD/DAC member average of 0.25%**
- **If average ratio is reached, ROK ODA could amount to US\$ 3 billion by 2025, an extraordinary expansion of the US\$ 57.5 million allocated in 1991**
- **International partnerships are needed; capitalizing on “comparative advantages” areas highly desirable**

Promoting a Culture of Development

- Quintessentially Korean values enabled Korea's development
- While Korea can't claim monopoly over such values, they can foster a culture of development in a developing country context
- The study of Korean language, culture, taekwondo and the "Korean Wave" can contribute to promoting a culture of development
- Korea's successful behavior change campaigns: the Saemaul Movement and its overseas followers
- Korea's Specialty Areas

ODA, a Stand-Alone Service Industry

- Donors can't afford to retain all requisite expertise in-house
- ODA is an industry that offers significant opportunities to both for-profit and not-for-profit actors
- The eight MDGs: Korean private and public sector players can capitalize on their comparative advantage
- In addition to involvement in large infrastructure projects, the Korean private sector can get involved in the “softer” side of development
- Opportunities to be prime or sub-contractor can be extended to both chaebols and SMEs

Incubate and Internationalize Development Consulting as a Leading Service Industry

- **Many of Korea's most successful industries went through an "incubation" phase; international development consulting can follow the same path**
- **International development consulting can foster the progress of Korea's service sector**
- **Both for-profit and not-for-profit actors can play a role**
- **Overseas training, degree programs and internships are of the essence: OPT, WEST, and the need for support by private-public partnerships**
- **Offer opportunities to foreign players, and seek reciprocity; internationalize procurement process**

The Need to Harmonize International Development Efforts with Forward-Looking Resource Diplomacy

- Korea's automobile, high-tech, "green" and other industries depend on a stable supply of critical minerals
- Minimizing vulnerability to restrictions imposed on the supply of such minerals by competitors
- It is advisable to harmonize international development efforts with Korea's avant-garde resource diplomacy
- Comprehensive ODA packages could include assistance with geological surveys and exploration
- Korea was a latecomer in oil exploration, but can be a "benign leader" in the exploration, extraction, and distribution of critical minerals of growing

The Recipe for “Middle Power” Success

- Korea, a “benign middle power” bridging the gap between developed and developing nations
- Do not replicate “Han River Miracle” in its entirety, but selectively apply best practices of development policies
- Acknowledge the importance of international development as an industry; the “incubator” approach
- Encourage and support young Korean talent seeking relevant overseas experience
- Further open Korean ODA procurement to foreign bidders
- Harmonize international development efforts with Korea’s forward-looking resource diplomacy