

Government and Market in Korea's Economic Development

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Gurcharan Das writes in one of his books, *India Unbound*: "Jawaharlal Nehru distrusted businessmen ... Prime Minister Nehru merely desired that the 'commanding heights of the economy' should be in the public sector. Beyond that, the Prime Minister left it to the civil servants to create a framework to regulate private enterprise. The underlying assumption remained that business was dishonest, and that to ensure honesty and eliminate profiteering, private business should operate under strict government control."¹

Park Chung Hee, who took the power by coup d'etat in 1961 and initiated the Korea's first 5-year Economic Development Plan the next year, also had a similar idea. As soon as he assumed power, he arrested many prominent entrepreneurs on the ground that their wealth was illicitly accumulated and threatened them that government would confiscate their properties.² This may be a good example that he distrusted businessmen as Nehru did.

Nehru's Development Model vs. Park Chung Hee's Model

The development model that Park Chung Hee employed, however, was different from that of Nehru. Though the Korean model was under strong government intervention, it was basically market oriented aimed at creating a business-friendly environment. The reason why Park did not adopt central planning model like Nehru's, was because of the pressure of the U. S. under imminent military threats from North Korea.

Developed countries achieved economic development because they had preconditions for industrialization, such as a variety of social, political and economic institutions, attitudes which permitted

them to respond to technological opportunities. But the industrialization in Korea was achieved 'through learning' with which she enjoyed the advantages as a late comer.

Utilizing foreign savings and advanced technology, Park Chung Hee's government had taken the role of initiator for the investments and allocation of resources. Emulating Japanese industrialization, the basic mean that Korean government exerted in initiating economic growth was offering cheap credit to private business which did not have the resources necessary to set up strategic and basic industries. Being trained under the Japanese colonial education and served as a Japanese army officer, Park Chung Hee was very much influenced by Japan's Meiji revolutionary regime.³

Why and How the Government Intervened

Poor countries require low interest rates to stimulate investment, and high interest rates to encourage savings. They prefer undervalued exchange rates to increase exports, but, at the same time, they also prefer overvalued exchange rates to minimize the cost of foreign debt repayment and of imports, particularly import of intermediate components and capital goods which poor countries alone are unable to produce. They have to protect their new industries from foreign competition, but they need free trade to boost exports.

Because of these contradictory situations, the governments in late-industrializing countries would take the role of mediating such counteractive market forces. Policy interventions of mediation took many forms: targeted and subsidized credit in selected industries, high deposit rates to encourage savings,⁴ ceilings on

borrowing rates to increase profits and retained earnings, protection of domestic import substitutes, subsidies to declining industries, the establishment and financial support of government banks, public investment in applied research, specific export target, development of export marketing institutions such as KOTRA.

Among all these mediations, the central role that Korean government played was allocating both foreign⁵ and domestic credits, of which costs (rates of interest) were dramatically cheaper than average market prices, to private businesses. Concerning inflow of foreign savings, the government amended the Foreign Capital Inducement Law in 1962, and provided government guarantees to lenders, which eliminated the risks of default and of exchange depreciation.

The discipline of the government was performance-based incentives: to poor performers the credit supply suspended and lucrative reward was given to good performances. Once bank credit was suspended, no firm could survive the times. Those firms achieving stunning performances in terms of exports, R&D etc., were rewarded with further licenses to expand the scale of the business. For entering especially risky industries, the government rewarded with other licenses in more lucrative sectors, thus furthering the development of diversified business groups. With the Government backing them in ventures which did not succeed, the leaders of Chaebol (Korean conglomerates) were daring and full of initiatives. This is the mechanism how Chaebol groups, **Korean conglomerates**, were created. Chaebol has been one of the strong forces of Korean economy and played a dominant role in various ways.

Investment and Exports - the Engines of Growth

At the beginning of industrialization that started in 1962, agriculture was the major sector: roughly two-thirds of employment and more than one-third of the GDP were from the agricultural sector. The next three decades witnessed switch from agriculture to manufacturing and again from labor-intensive to capital-intensive manufacturing. Capital-intensive manufacturing (Heavy and Chemical Industry: HCI) began to grow under

the policy of Big Push in 1973 which included steel, automobile, construction, plants, ship-building, oil refinery and various chemical industries.⁶ There was further shift in the 1980s and onward to more high-tech industries such as electronics, semi-conductor, transportation equipment, machinery, and most recently, to IT as well as new-economy-type of venture business. The engines of Korean economic growth have been 'investment (savings) and exports'. During the 1980s and 1990s, Japan, Singapore and Korea recorded the highest saving rates of around 30 percent. High rates of domestic savings plus savings from abroad were utilized for investment. The government itself invested actively during in 1960s and 1970s, and the government investment rose to as much as 41 percent.

The priorities for inducing investment as well as offering subsidies were given to devising mechanisms on how to increase exports. Theoretically, a high investment rate increases the capital stock (things that create wealth) and this can permanently increase the growth rate through economies of scale and other beneficial side effects. Regarding export, it increases the openness of the economy and, by exposing it to foreign technology and foreign competition, provokes a rapid rate of technological progress.

The economic growth that Korea (as well as Hong Kong, Taiwan and Singapore) achieved during the period of 1962-1997 was amazing and evoked a series of publications on the question of what brought these economies to such rapid growth. But nobody seems to agree yet. One of the theories is the opinion encompassing the concept of Asian Values,⁷ while another extreme view is Paul Krugman's thesis.⁸

The newly industrializing countries of Asia, like the Soviet Union of the 1950s have achieved rapid growth in large part through an astonishing mobilization of resources. While accounting for the role of rapidly growing inputs in these countries, one scarcely finds anything to explain. Asian growth, like that of Soviet Union during its high growth era, seems to be driven by extraordinary growth in inputs like labor and capital rather

than by gains in efficiency.....growth based upon perspiration not upon imagination

The bottom line is that Korea (and other fast grown East Asian economies) grew, thanks to an increase of production factors, particularly incorporation of new, idle labor force to the economy. That is to say that Koreans (and other East Asians) worked harder but not smarter and, therefore, they would be drawn into an impasse sooner or later.

Three years after Krugman published the paper, Asian countries faced crisis and this made him very popular in Korea, perceiving him as if he were a prophet-like economist who anticipated an outbreak of crisis. His idea, however, has many misconceptions: his most critical fault was that he ignores that the quality and character of an economy change in accordance with the stages of the development: Hong Kong and Singapore are now much richer than Britain and they have already transformed themselves from what he calls a perspiration stage into an inspiration stage. Korea, a little behind these economies, has also reached to that stage and, now, competes with early developed countries in the fields of most high-tech industries, namely IT, semi-conductor, etc⁹

From the point of view new growth theories, importation plays more significant role in economic development and this applies to the emerging economies too: the imported consumer and capital goods in which technology was embedded, contributed to the growth much more than generally perceived. In Korea, the new government of Chun Doo Hwan launched after the assassination of late president Park Chung Hee in 1979, and his administration opted for greater reliance on the market and open policy to global exposure rather than protectionism. Despite lambasted oppositions, import liberalization was taken, under President Chun's leadership, as governing doctrine of the trade policy. I believe this policy swing from protectionism into market disciplines and free trade in 1980s intensified the competitiveness of Korean firms.¹⁰

To compete in global markets, Korean firms had to improve technology and this had led the economy rely more on R&D. An economy where big businesses play central role can bear the burden for R&D investments better than the other economies who are dependant mainly on smaller-sized firms: Korea is a chaebol (big business group)-dominant economy and has been able to afford larger R&D expenditures than the other newly industrializing economies.

The percentage of R&D expenditure to GDP in Korea was increased remarkably from early 1990s which means Korea came to be very much self-reliant in technology. (Table 1) The Korean products of semiconductor, electronics, computer, automobile, telecommunication and shipbuilding are storming global markets as a result of technological breakthrough.

Table 1
Expenditures on R&D as Percentage of GDP

Country	1978	1982	2001	2004	2005	2006	2007
USA		2.5	2.76	2.68	2.62	2.62	
Japan		2.2	3.13	3.18	3.32	3.39	
Korea	0.6	0.9	2.59	2.85	2.99	3.23	3.50
China			1.07	1.23	1.33	1.42	
Brazil	0.6		1.02	0.9			
India	0.6		0.78				
Mexico	0.2		0.40	0.47	0.50		
Russia			1.18	1.17	1.07		

Source: OECD, Fact book 2006: Economic, Environmental and Social Statistics,

Korea National Statistical Office OECD, Main Science and Technology Indicators 2006

Political leadership and Growth

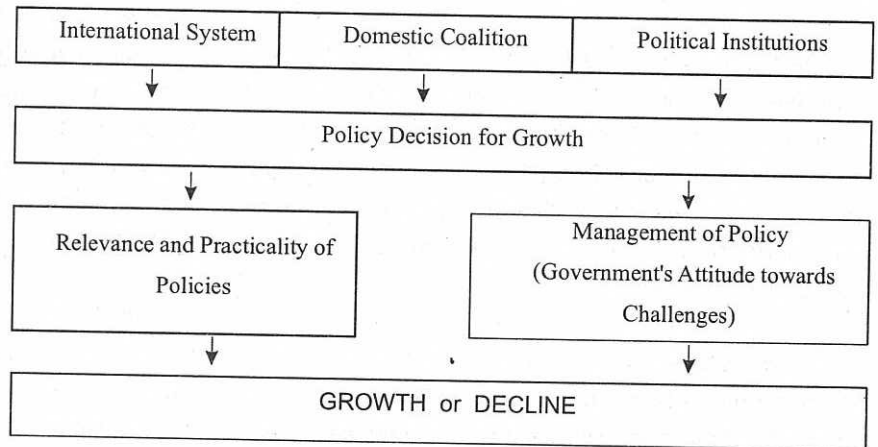
There is no doubt that investment and export were the engines of growth, but the role of political leadership was also noteworthy. In fact, it was more important in economic development of the resource-poor country like Korea.

It is the political leadership which brings forth right institution in place to raise efficiency, and initiate sound policies to promote investment and export. The planning and its implementation depends largely upon the political leadership. It is widely known that the political leaders who were successful in bringing economic development were those who had very clear ideas of targets, and were firmly committed to development, providing insulation over economic technocracy from politicians and vested groups lobbying for special favors.

China was able to escape from poverty and persistent economic stagnation by Deng Xiao Ping's practical philosophy and innovative economic policy. By contrast it was Nehru's bad decision that had prevented India to escape from long stagnation. As Gurcharan Das said: Nehru adopted a socialistic type of mixed 'economy' and this turned out to be a gravely flawed decision for India's future. A vast area of the national economy was put under state control: the system recklessly wasted tax payers' money and recklessly hired workers without any thought to performance. Most big and important companies were state-owned, managed by civil servants who had no training in running businesses at all. This encouraged India to become, so-called, "License-permit-quota Raj" and rent-seeking society.

Among others, long stagnant Indian economy has turned to an accelerating growth only when it transferred the state-controlled economy into open and market system in 1991. This policy change and subsequent political leadership have brought India as an important member of BRICs, the newly emerging big economies.

Systematic Approach to Economic Growth



The success story of recent Ireland is a very interesting case of development model. As one of European countries, Ireland remained poor until 1980s, but today she has grown as one of the richest economies in the world. The development was achieved by a combination of cooperation between employers and workers, injection of FDI (Foreign Direct Investment), a pool of well-educated workers plus the government's leadership and wise decisions.

The examples above are the evidences that economic success is determined by policy, institutions and leadership. (See the chart above) Conversely, the case of Indonesia in the late 1990s demonstrates how bad policy and inadequate measures for coping with economic crisis expedited instability and degradation of economic condition. The economic situations of Latin American countries would be other examples that poor leadership would bring.

Beside investment and exports, other strategies or facets that helped rapid economic growth in Korea were Education (almost 100 per cent literate),¹ shared growth of relatively low level of inequality, healthy fundamentals based on fiscal budget with no deficit, meritocratic management of public administration,² and peaceful industrial relations.³

Intervention promoted growth at Initial Stage, hindered progress Later

History progresses dialectically. "Government-business partnership" had been hallmark of Korean Development model that brought miraculous growth. Some time later, however, it was converted to be a major culprit of economic crisis. Under the government-led industrial policy, much of Korean industrialization has involved repeated rewarding of cheap bank credits; roll over of overdue loans, bailout in case of emergency, etc.

Since neither government officials (or politicians) nor businessmen are saints or moral reformers, long-lasting friendship and connection between government and business began to be followed by wheeling and dealing, horse trading, and trafficking gradually that characterized the government-led development process.⁴ This has induced rampant distortions of market: a great deal of moral hazard in the system, particularly, in the financial sector and chaebol management, lack of transparency, weak competitiveness, chaebol's twisted orientation of seeking market-share expansion at the cost of losing profits, etc.

Many ill-managed firms had been kept alive, which otherwise would have gone bankrupt, at the expense of well-managed corporations but having no connection. Market - distortion also led failures of policies that aimed at eradicating the prevalence of crib markets.

The partnership model, on the other hand, intensified the long and unreasonable East Asian custom of lack of rule of law. Because the principal instrument of government to discipline the business has been the use of officials' discretion to threaten and reward, and not explicitly defined law or legislations.

The exposures of slush fund scandals, once chronic

news of the Korean mass media, demonstrated that government intervention model had been very convenient channels for padding up bank accounts of politicians and bureaucrats. Responsibility given to government officials to monitor business has been transformed into vested interests, empowering officials to regulate business activities wilfully and this has made Korea a red tape Raj. The firms, which donated stunning amounts of slush fund, had to rely upon accounting fraud or window dressing. First, to seal illegal donation they had given to politicians or government officials; second, to compensate the losses brought by the donation. The compensation took various forms but most of it would have been spread over minority share holders' revenues through window dressing of books.

The pronouncement made by the late American President John F. Kennedy in his inaugural address: "Ask not what your country can do for you, but ask what you can do for your country" - has become well-known aphorism in the world. Nevertheless, Koreans seem they have not learned any lesson from it. Korean government's hegemony over the nation's economy for long time may have made people think, unconsciously, that the government is omnipotent and able to provide panacea once it decides to undertake the task. Koreans have become people who never stop 'asking' government to do anything they want.

The Economic Crisis, Reform and Toward Market Discipline

While government intervention promoted growth in achieving success, lots of by-effects such as market distortions, moral hazards, poor competitiveness, and non-transparency had been amassed in the process of growth. Finally in 1990s, the intervention began to counteract against further progress. Intervention had been a very useful strategy to bring fast growth at the rudimentary stage but it appeared to be less suitable at the stage of grown-up market economy. The emblematic phenomenon, which proved malicious to economic

system was chaebol's twisted management on the basis of, so-called, 'too-big-to-fail' hypothesis. It is chaebol's bad habit to rely on government support and bank loans excessively, believing that they would not fail if they sustain their sizes enormously big, even in situations where they make no profits.

The economy, built on such fragile foundation, was just vulnerable when it faced an unexpected shock of financial crisis in 1997. Korea had gone almost to a moratorium and was saved by the IMF's bailout with great difficulty. But as soon as she escaped from moratorium, a Big Bang followed. Fourteen commercial banks were closed down, and 11 out of 30 largest chaebol groups went bankrupt. Two major banks went insolvent. They had been taken over temporarily by the government and, soon after, sold out to foreign investors. Unemployment rose sharply, rendering many homeless.

To fight against this crisis, Korean Government and IMF provided structural reform and restructuring program that would redress the structural vulnerability of financial and economic system, targeting to remove intervention and to enhance market discipline. Along with the reform program, the government extended its efforts to bring inflow of FDI; most of the foreign investments in Korea by the time were in the form of "loans" not direct investment of shareholdings. The sizable inflows of investments from abroad afterwards helped Korea a great deal to recover from the crisis. Since then, about 40% of Korean stock market shares and over 50% of shareholdings of many major Korean chaebols like Samsung, LG, SK, Hyundai Motors were taken over by foreign investors. These excessive looking foreign shareholdings played a role of strong bulwark that prevented the government from its tenacious temptations to intervene improperly.⁵

In 2003, the Korean financial market faced a credit crisis, triggered by LG Credit Card Firm. Because of the firm's failure, default ratio rose too high to control and number of defaulters reached three million (6% of

the total population). If the government stayed away from this crisis and left its settlement to the market, the firm might have gone insolvent. But the government, fearing destructive impact that the bankrupted firm would bring on financial market, intervened and persuaded creditors (the banks lent loans to the Credit Card Firm) to rescue the ailing firm. But a foreign-owned bank refused to listen to the government.

This triggered heated debates over the role and responsibility of foreign-owned banks in Korea. Many suggested that we may need some measures to counter maverick-like behavior of foreign-controlled banks, claiming that they ignore the state's authorities to implement monetary policy, and care nothing else except their own profits.

There were other non-xenophobic opinions, too, though their voices were not as loud as the former one. Korea did not invite foreign investors to do the job of philanthropic social work. Any investors, regardless of their nationalities, either local or international, are entitled to escape any possibilities of getting losses. They are doing business for the sake of their self-interests and this will eventually help Korea. This is what Adam Smith had elucidated centuries ago.

Before the financial crisis of Korea in 1997-8, moral hazard had been widely prevalent in banking institutions, and financial failures were caused by government intervention. That is to say that the intervention of government was the main cause of the widespread moral hazard and financial failures. This denotes that Korea had been in desperate need of someone who would refuse intervention or refute unreasonable requirements of the government. The role was carried out by foreign-owned banks.

Another controversial issue which arose after the crisis was a show down between SK group, the Korea's third largest chaebol, and Sovereign Asset Management,

a Monaco-based fund investor. Sovereign has battled for about one year to win the management control of SK oil refiner, a subsidiary of SK group, claiming that any manager who had been convicted should lose his seat. Mr. Chey, Chairman of SK, was sentenced a three-year prison term from being convicted for an accounting scandal. He was out on a bail at the time when Sovereign raised a question about the legitimacy of the chairman's seat. SK was successful in fending off the Sovereign's attempt at the annual general shareholders' meeting held on March 12, 2004, winning support from minority shareholders. SK was able to win the votes because it demonstrated itself to improve corporate governance and transparency, and abolish the remnants of the old bad management.

Concerning this, there was skepticism over a possibility of SK's backlash. There had been many occasions of backlash. For example, when a business falls into a predicament, the chairman or the like promises to reform in public and thanks to this promise he averts crisis. Once the crisis is over, however, he forgets the promises he made and changes nothing. But SK case was not like that, since the situation was much different from previous times: another Sovereign would attack SK group any time whenever they find some excuses to claim for winning management control.

There are still many people who are antagonistic against foreign investors with a chauvinistic perception as if it were colonial-type invasions into Korean economic territory. Particularly it was distinct at the Sovereign's attempt because it was the first action a foreign shareholder trying to assert itself so extensively as a minority investor (held 14.99 per cent stakes of oil refinery) of a Korean company. This abiding sense of tragedy may be a trauma from the experience of being ruled as colony: colonial rule lasted 36 years overrides 64 years of independence afterward, the ghost of colonial imperial power still haunts over many Koreans' ethos.

Contrary to what general public believe, foreign

investors are performing very important roles in keeping Korean economy healthy. In a deep-sea fishery, it takes months to bring tunas they catch from South Pacific to Korea. Keeping only tunas alive in a ship and sailing to Korea, you may find a large number of tunas dead and rest of them exhausted when they arrive. But if they put a shark in the tank together with tunas, you may find most of them alive fresh with only small number of them consumed as shark's food. Because tunas keep themselves alert and swim fast all the way not to be eaten, they stay alive healthy. Foreign owned banks and foreign investors in Korea are playing their role of a shark. They keep Korean economy from being derailed, and having business stay alert, efficient and competitive.

A few foreign owned banks and Sovereign did watchdog's job and examples of this kind are numerous. Korean people suffered a lot after 1997 crisis. It was, however, a cost they had to pay to move forward to progress.

Years after the incident of SK-Sovereign showdown, another similar attempt occurred. Carl Icahn, a Wall Street corporate raider triggered a fight against KT&G, the nation's leading tobacco and ginseng processor in 2006. It delivered more surprising shock to the public because KT&G, once government owned but privatized some years ago, was a corporate of good governance and generous dividend payout. When it became clear that KT&G was target of Carl Icahn's acquisition battle, it raised heated controversies again over the protection of Korean firms from international investors' merger attempts.

Local businesses and some critics raised concerns that M&A bids by foreign investors could threaten the nation's crucial industries and, above all, destabilize the economy in the long run. They called on the government to devise legal measures to help companies defend themselves. Some policy makers looked as if they were listening to the businesses but basically the

government kept the stance not in favor of providing defense and protection mechanism against international investors' acquisition bids for local firms. Korean government has become aware that excessive protection spoils the private businesses.

Concluding Remarks – Market Hypothesis still Valid Amidst World Financial Crisis?

What is the ultimate answer for sound management of an economy, free and competitive market or government intervention? This has been a controversial issue for centuries and since the Great Depression in 1930s, Keynesian views of government intervention had prevailed.

But the climate of opinion began to change in favor of market in early 1980s which was sometimes called either as "the second coming of Adam Smith" or "Neo-liberalism". The experience of Korea, which took a swing of its orientation from the earlier "intervention" into the "market discipline" later, advocates the market hypothesis strongly. However, recent financial crisis from Wall Street was followed by speedy and vigorous intervention responses of not only the US government but also many other countries in the world. There was a resistance against it from the US Congress: many of the Congressmen criticized the government taking intervening measures on the ground that spending taxpayers' money to subsidize failed private financial companies was not justifiable. But such voices were ignored; the rescue measures taken by the Treasury Dept. and FRB were ratified by the Senate soon after. The Congress had to follow the suit at the second vote.

Does this mean, as some intellectuals insist, abandoning market discipline? That is to say, is it a setback from the free competitive capitalism to the Keynesian interventionism? According to Milton Friedman, a leading pioneer of the neo-liberal competitive market capitalism, the critical means to stabilize the economy comes from monetary policy which has a high risk of

mismanagement, abusing the discretion of an individual authority.⁶ His theory gives us an excellent insight to explain exactly why the crisis was created in the US and soon after it was aggravated seriously to be spread out to the world. The financial crisis was produced at first, from sub-prime mortgage crisis which has stemmed from the US monetary policy adopted to boost and revive construction business years ago. The flawed financial system in the US and successive bursting bubbles in housing prices made the situation grow worse. This was compounded by Greenspan's too long-lasting low interest policy.

The bail-out plans, including nationalization of some ailing banks in the US and in major European countries, were taken as attempts to prevent the crisis from reaching to a devastating stage. It is not, I believe, abandoning the competitive free market principle but, rather, the measures taken are to bring back the derailed market into its orbit by protecting its basic role.

When it was known that the US president-elect, Barack Obama, reportedly asked outgoing President Bush for emergency contingency measures for the Big Three US auto manufacturers, apprehensive responses from the world arose worrying that the rescue measures might possibly lead the US economic and trade policy into protectionism. This response may be an evidence of that the free market capitalism is not likely to be replaced by a flurry of government dominance because of recent crisis.

Obama, some time later, publicly demanded that the top managements of the car-makers should leave their offices in the case of providing bail-out to the companies. This is to prevent the moral hazard that is highly likely to be followed by the rescue measures: the decision to have the CEOs who are responsible for management failures lose their jobs was to preserve the least role of market principle. Such a feedback of actions tells us that the revised financial system would

make competitive market more solid to face any crisis later.

In relation to today's crisis, India may face a difficult situation which would require a deliberate and wise decision. Some of the banks are stranded by the world financial crisis: they borrowed the money from international money markets such as Wall Street or City of London, and re-lent the money to their domestic clients. But the crisis has frozen world money markets and those banks suffering from liquidity crunch may ask Indian government for help. Some big businesses in same situation might be seeking same bail-out measures, too. If such a case would ever happen, it will raise a question whether the government should rescue them or not?

Profits and risks would be likened as the both sides of a coin: in good times all profits are returned to companies or banks exclusively and that is compensation for risks they may face at bad times. They deserve suffering, therefore, from hardship of battling crisis when things go wrong. But if there be assurances of rescues from the government, it would definitely lead the companies to be irresponsible and moral hazard would prevail. If no bail-out is provided, on the other hand, the national economy would suffer a great deal, since the crisis this time is profound and affects worldwide. A plausible answer to this question, learned from the experience of Korea, is that rescue measures should be taken in case of critical occasions but the businesses should be charged adequate penalty for their mismanagement. This way, the government intervention may harm the market discipline the least.

Another controversial issue related to the global financial crisis is Sonia Gandhi's recent comment.⁷ She is reported to have said that bank nationalization by Indira Gandhi in 1969 had given India "stability and

resilience". Similar opinions have been widely expressed in Korean mass media since the crisis: they say Korea threw open its financial market widely because of the persistent oppression from the American imperial power at the time of Asian financial crisis in 1997. Korean domestic market has become a highly attractive gambling ground for American hedge funds now and will become a comfortable target of their speculation in the future.

It is true there were pressures from IMF to open the Korean financial market during the 1997 Asian Crisis and it is also true that we were suffering from a drastic devaluation of Korean currency at present because substantial amounts of international funds have left Korea towards Wall Street. However, it is very easily presumed that it might have taken much longer and onerous time for Korea to recover from the 1997's crisis, if she did not open its market and international funds and investments did not rush into Korea afterward.

The effects of nationalization of banks, which took place in India decades back, should have been much more devastating than closing domestic markets from world and remaining reclusive.

Market is the arena where economic actors interface for their livelihood: economic actors' activities are disciplined ultimately by self-interest. In another words, self-interest and incentive play a central role in entire markets. Government's intervention usually goes against self-interest of individuals. Any policies or measures that run against self-interest of individual people and thereby run against market would probably go awry: this is a great teaching from Adam Smith and a universal lesson from human history.

Footnotes

- 1 Gurcharan Das, *India Unbound*, New York: Anchor Books, 2000, pp. 11, 95-96.
- 2 They were exempted from both prosecution and confiscation of their assets and released soon, in exchange for obligation that they should do their best for national economic development.
- 3 Park Chung-hee, *The Country, the Revolution and I* (Translated by L. Sinder), Seoul, 1963.
- 4 In early 1960s, Korean government had banking institutions sustain deposit interest rates higher than lending rates. This 'negative interest rates policy' was practiced for some time to induce people to save..
- 5 Most of foreign borrowings were in the form of long-term loans and FDI (Foreign Direct Investment) accounted for only less than 5 percent until Korea opened money market wide in 1997. Korean businessmen were very proud that they did not concede their management control to foreign investors. However, it has been proved that it did more harm than good.
- 6 There are some criticisms against the government's HCI project. Since the government diverted more funds to the HCI industries than the market would have allocated them, other sectors had less access to investment funds and bore higher interest rates. Other sectors also had to pay higher wages, as the protection given to the favored industries enabled them to pay more. The sectors discriminated against were those industries accounting for the major share of exports, i.e. light manufacturers. (Yoo, Jung-ho, "Neoclassical versus Revisionist View of Korean Economic Growth", Development Discussion Paper 588, Harvard Institute for International Development.) But I believe that the Big Push toward HCI should be interpreted as a turning point from a low-end toward high-end economy in modern history of Korea.
- 7 Jung, D. H., Asian Values: A Pertinent Concept to Explain Economic Development of East Asia?, *Comparative Civilizations Review*, ISCS, Fall 2004. (No. 51), pp. 107-124.
- 8 Krugman, Paul, "The Myth of Asia's Miracle," *Foreign Affairs*, Vol. 73 (Nov.-Dec., 1994), pp. 62-78.
- 9 The statistics that Krugman's conclusions rest on is the work of Alwyn Young, another American economist. He looked at 118 countries from 1970 to 1985, and attempted to split GDP growth into the part attributable to increased inputs of labor and capital, and that attributable to more productive use of those inputs, namely total factor productivity, or TFP. Surprisingly, Mr. Young found that the growth of TFP was generally not higher in East Asia than in the rich industrial economies. Singapore's productivity growth, he said, was close to zero. Many other economists, however, reckon Mr. Young's numbers were just wrong. See, *An Empirical Inquiry into the Nature of South Korean Economic Growth*, Center for International Development at Harvard University, Working Paper No. 47, Sept., 2001.
- 10 Cortwright, Joseph, *New Growth Theory, Technology, and Learning: A Practitioner's Guide*, Review of Economic Development (Literature and Practice, 2001, No. 4.
- 11 Much higher expenditure on education was allocated to basic and secondary schools but higher education was relatively neglected. During the smokestack stage, such improvement in secondary education was much helpful and contributed a lot in promoting social productivity. At the watershed from smokestack to a stage of high-tech industry, however, poor quality of traditional-type education of 'learning by rote' is now bringing serious problems. How to reform this out-dated education and change it into a productive and creative teaching to meet the needs of high-tech economy is a hot issue in Korea today.
- 12 Such meritocracy has made people excessively interested in achieving status. Education may be the only channel, under the meritocracy, for mobility. People are extraordinarily enthusiastic to let their children pass the entrance examinations of *universities of best reputation* and the national examinations to become high ranking government officials to get good law jobs: school education in all gradations seems to be just training courses for students to get good grades in the examinations which are far from creativity or productivity. Many of those who are afraid of baneful sides of Korean education either immigrate themselves for their children's better education or let their children study in other countries
- 13 Only ostensibly peaceful: the peace had been maintained by the government's suppression to keep political stability which was essential for both military dictatorial rule and luring foreign loans. Trade-based unions were banned and instead company-unions were created. However, ostensible obedient workers were honed under the severe suppression to become extremely militant afterward. Now, Korea has one of the most rigid labor markets in the world and that is major barrier for sound and continuous development. Freeman estimated that there had been few benefit in Korea to offset the political and economic costs imposed by labor repression. The World Bank, *The East Asian Miracle*, Oxford University Press, 1993, p. 272
- 14 Amsden, Alice H., *Asia's Next Giant*, New York: Oxford University Press, 1989, pp. 16, 63.
- 15 The rush of foreign investor, including some hedge fund into Korean money market contributed a lot to bring a quick recovery from 1997's crisis, but its fast outflow from Korea, in late 2008 when the global financial crisis expanded worldwide, hit Korean currency market severely. It depreciated the value of won against US dollar 40% at most. It triggered controversies again and some critics blast the excessive dependency of Korean economy on foreign investments. More comment on this is in the concluding remark.
- 16 Friedman, Milton. *Capitalism and Freedom*, University of Chicago Press, Chicago, 2002, Chapt. 3.
- 17 Das, Gurcharan, Changing rule of dharma, *The Times of India*, Nov. 30, 2008.