Forces behind the Development of South Korea

Prithvi Naik¹, Kartik Bhatt²
¹²Christ University, Bangalore, Karnataka

ABSTRACT

This article aims to analyze the driving forces behind the growth of the South Korean economy. For over 5 decades, South Korea has grown rapidly taking strides into developing and easing their trade and that has led to them into becoming the fourth largest economy in Asia and eleventh largest in the world and was one of the few countries which had minimal impact of the great recession. The government has planned the development progress cleverly and the implementation of 10-year-plans has worked miracles for the country.

Keywords: Industrial Development, Economic Aid, Financial Crisis, Bail-out Package, Five-Year Plans.

1. INTRODUCTION

In order for us to analyze the forces behind this growth, we have to take a trip to the past and start from the 1960s. Since the 1960’s the South Korean Government followed two consecutive Five-Year Plan beginning from the year 1962 for the growth of the industrial sector of South Korea to set a firm base for the backbone of the economy. The factors that helped Korea to gain such position in such a limited period of time go back to the help from the US also called the “iron hand of the Korea” and furthermore the advancement of the industrial and sector, the strict rules and policies regarding the currency and foreign exchange, emphasizing on the education system so that there would be a large number of high skilled labor available at any point in time in the future, the state enforced capital structure.

With the scarcity of natural resources, South Korea turned that big disadvantage into an asset. It is so because, with such lack of available and abundant resource, the US and Japan didn’t enter the South Korean Market for its manufacturing and development of products. Thus because of this lack of natural resources, South Korea enjoyed flexibility from the US to expand and develop its Industrial sector which led to a strong hand in the development of the South Korean economy.

2. THE INDUSTRIAL SECTOR GROWTH

This is one of the most important factors which led to the rise of the development of the South Korean economy and make it one of the fastest rising economies in the world. The South Korean government initiated a two consecutive Five-Year Plan for the growth of the industrial sector of Korea. The first Five Year Plan for the economic reconstruction and the development of industrial structure started in the year of 1958 by the Rhee government. Its main aim was to achieve a self-sustaining government through the domestic resource and the proper utilization of the limited resource present. The overall objective of all the combined plans was to gain: 1) the increased industrial productivity; 2) social and physical overhead capital development; and lastly; 3) the increase in the export.

The Five-Year plans faced success because of the work is driven human workforce, US support both financially and mechanically and technologically and lastly the main focus and efforts by the state government and the officials. The Political Leadership period of the 1960’s can be characterized as a revolutionary period. It is so because of the political influence and efforts; the reconstruction of Korean economy and stronghold of the Industrial Sector could be attained.
Another factor responsible for such fast-economic development of South Korea is the grants, both financially and technologically received by the South Korean government by the United States. As stated by even the World Bank, South Korea did not rely on loans for almost two decades after the end of Second World War and later also when they did, it was only a limited amount until 1967.

On the other hand, the US granted the Korean government a sum of total USD 3,100 million. Thus, since the beginning, the US was playing with an iron hand to the South Korean Economy for its development and industrialization process. The major expansion plan of the 1960’s was funded by the US.

(Campbell & Tullock, 1957)

Economic Development and Its Impact
Since the 1950s, South Korea’s economy has passed through three stages in its development, (1) 1954-1957, the stage of reconstruction, (2) 1958-61, the stabilization stage and (3) 1962-present, and stage of rapid development.

The Korean economy’s rise began in the third stage, 1962, with the implementation of the first five-year plan (1962-66) by Park Chung-hee, the President then. He had the knowledge that this plan was over ambitious and a very difficult task for the country. Korea found it difficult to meet the requirements of the plan and then in 1965, their relationship with Japan has resumed again and that enabled South Korea to receive large input in the form of aid from the Japanese. Another factor which contributed to the South Korean economic growth in the first five-year plan was the Vietnam War. The amount of spending done by the US on their troops in Vietnam increased which led to the Koreans supplying them with the basic supplies.

After the success of the first five-year plan, the South Korean decided to immediately sanction a second five-year plan in the following year and the main aim of the second plan was to attain economic independency. After the closing of the second five-year plan, the net exports of the country were roughly $1000 Million was gained in foreign exchange.

(Rhee, 1973)

Asian Financial Crisis and its Impact on South Korea
The Asian Financial Crisis was a period of crisis which struck the major parts of East Asia in July 1997 and it indicated to an economic meltdown for various countries in the Pacific Rim. The cause of the crisis can be traced to Thailand after its currency suffered a major collapse and spread panic in the neighboring regions. The countries to have suffered the wrath of the crisis were South Korea, Thailand, and Indonesia.

By September 1997, the Won had depreciated almost 8% against the dollar when compared to Thailand (42%) and Indonesia (37%). Although this meant that the Korean economy was stable, post the crisis the won experienced a sharp drop and that drove widespread panic throughout the country.

By the end of October 1997, the Korean economy was well positioned when compared to the other affected countries and that’s when the problems started to grow. Korea’s direct competitors, Singapore and Taiwan embraced the depreciation rather than fighting it and that attracted a lot of investors from abroad considering the drop of the local currency against the US Dollar. This affected Korean trade as they lost their competitive advantage and this worsened the conditions in the country.

Another factor which led to Korea’s downfall during the crisis was the political instability in the region. Amidst the crisis, the Presidential candidate Kim Dae Jung was sending mixed signals when it came to the economic policies of the country and that raised uncertainty among the people. People were confused on whom to vote for the elections and that also raised concerns whether the IMF Plan would be implemented or not.

Late November 1997 saw the IMF looking into the matter and decided to send some officials down to country in order to negotiate a bail-out package for the country. They decided to offer $60 Billion packages to Korea on certain changes in their structure which further in the future enhanced the economy of the country in the coming years.

IMF also acknowledged the importance of Japan in the region and the aid it can provide to the countries then and had prioritized the development of Japan for the same. Post the IMF Bail-out package, the Korean economy has recovered very well and has managed to reach the 4th largest country in the Asian region.

(Jung & Clark, 2010) (Gidwani, 2010)

3. CONCLUSION AND THE FUTURE

On a conclusive note, we can say that it was a masterstroke decision from the South Korean President Park to initiate the five-year plan model in the country when it all seemed over ambitious and too much to handle. Despite all the tough things they had to go through, the Korean economy has thrived and has succeeded in making a global name for themselves in the world and is one of the developed countries with a high rate of per capita income.

It was not just the Koreans who worked towards this bright future, they have received help all along the way. In the initial stages, it was the Japanese aid and the American aid. They poured money into the country which they used to expand their development and grow their trade relations in the world.

The Asian Financial Crisis in 1997 was a testing time for the country where all growing economies in the region drastically fell to the dollar and Korea seemed to be in control before things went downhill for them too.
That’s when another major contributor to Korea’s economic development came into the picture, the IMF. They came up with a bail-out package for the country and also suggested some structural changes for the country.

Today, South Korea is the 11th largest economy in the world and the 4th largest in the Asian continent. Majority of their GDP is contributed by the service sector. Things seem to be bright for the country as they are taking rapid strides into developing their relations with the rest of the world and the future seems to be bright for the country. As of 2016, almost a quarter of their export is with China and also, they import the most from the same country. South Korea also has peaceful relations with the neighboring countries barring North Korea. Peace talks are ongoing between the two countries and one can only hope that they reach an agreement and this will be beneficial for both the countries.

4. REFERENCES