

Economic Growth in South Korea, 1961-2000

(book in Spanish, Editorial Síntesis, Madrid, 2002)

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Abstract: South Korea has experienced spectacular economic growth rates over the last forty years. How did this economic “miracle” occur? Economic growth in Korea can be explained in terms of geography, demography, human development or economic convergence theories. However, the debate over the role of legal, political, financial or institutional developments in Korean economic growth is perhaps the most complex of all. This monograph is an innovative work in the field of applied economics that aims to study some of the least researched factors in Korean economic growth from three different perspectives. The first part deals with the macroeconomic aspects of Korean economic growth, the second part looks at several domestic factors and the third part touches upon certain international determinants of economic growth.

Chapter 2 argues that there are five key hypotheses to East Asian economic growth: the factor accumulation hypothesis, the neoclassical hypothesis, the coordination failure hypothesis, the revisionist hypothesis and the dual TFP hypothesis. Chapter 3 focuses on several empirical exercises where the author estimates the role of different factors of production, technical change and productivity growth in South Korea. The role of capital accumulation is very important while productivity growth is important and the growth in human capital is moderate. However, it is very important to consider the figures in historical context looking at each policy period. The largest increases in productivity occur during the export promotion period in the early sixties and in the liberalization period in the mid eighties both in Korea and in Taiwan. This indicates that large capital expenditures occurred after significant increases in productivity. This would partly turn Krugman’s argument around: because Koreans learned to work more cleverly, they decided to invest heavily in capital equipment. This chapter also gives some evidence on the fact that productivity is negative only in periods of high political instability, reinforcing the link between growth, productivity, and political developments.

Chapter 4 is mainly an empirical estimation of the explanatory variables of growth, touching upon legal, political, cultural and institutional developments, and measures the impact of physical and human capital and productivity increases on economic growth. Using growth regressions, the author finds that the early protection of property rights and, to a lesser extent, contract enforcement, was extremely important in achieving ex-post growth in South Korea. On top of that, this East Asian country has benefited from a very successful legal tradition from an economic perspective: the German legal

system. The uniform composition in terms of race and language has also favored economic growth in Korea while political stability has been crucial over the development period.

The second part of this book covers State-business relations, the structure of the large conglomerates, industrial and technology policy, and the financial system in South Korea. Chapter 5 analyzes state-business relations in Korea in the contexts of development, democracy, globalization and the Asian crisis and challenges conventional wisdom on the strength of these two economic actors. The recent financial crisis has provided evidence of the embedded weaknesses of the Korean developmental model. Likewise, the Asian crisis has unveiled how fragile state-business relations have been during the nineties and how democracy and globalization have influenced both the state and the business conglomerates. Can we still think of Korea as a country of strong businesses and strong state? Chapter 6 talks about the structure of big conglomerates and industrial and technology policy and points out that it is no coincidence that the Asian financial crisis has affected groups that were more focused on the production of capital intensive goods rather than those more centered around technology related businesses. Chapter 7 argues that the creation of a market for corporate control in South Korea should establish the basis of a more competitive, more efficient and less concentrated economy.

The third part of this monograph reviews the importance of the international dimension in South Korean economic growth. Instead of focusing on the the well-researched topic of international trade and its impact on South Korean economic growth, this part looks into the influence of foreign capitals and the regional political economy. Among the most important ideas in this part is that foreign capital has not played a very important role mainly due to empirically measured political and cultural factors. The last chapter in this book supports that the geopolitical situation in North East Asia has favoured economic growth in South Korea and explores different dimensions such as regional security, economic interdependence and the Korean reunification.

Keywords: Economic growth, Korean economy, political economy, law and economics

JEL Codes: K11, N15, O47, O50, O53