



**Korea-Africa Forum
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South Africa

Development Strategy and Industrialization

- Applicability of the Korea's Development Experiences to Africa

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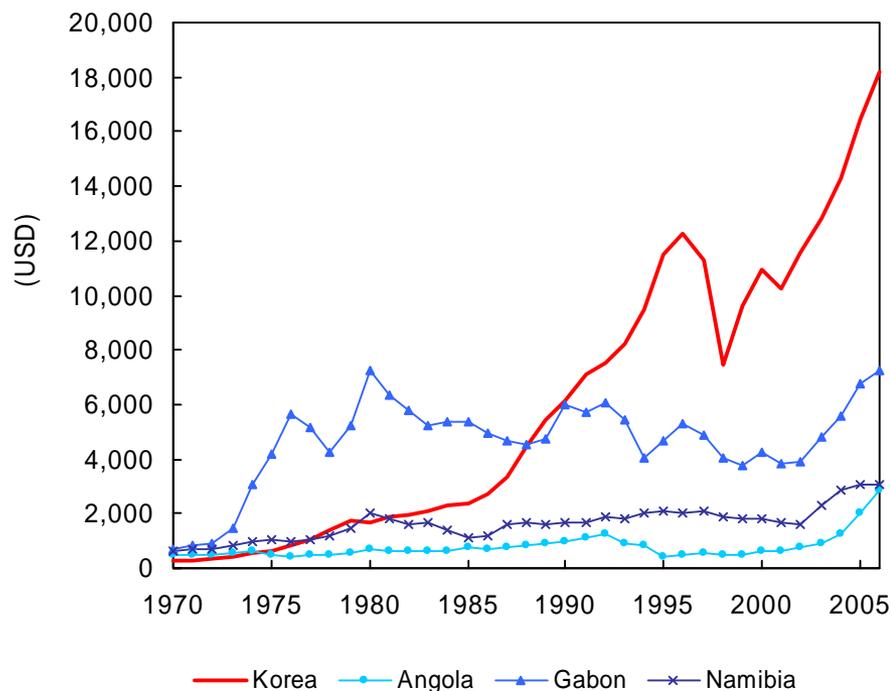
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1. Economic Performance of Korea

The Trend of GDP per capita



Source: IMF

Initial Conditions

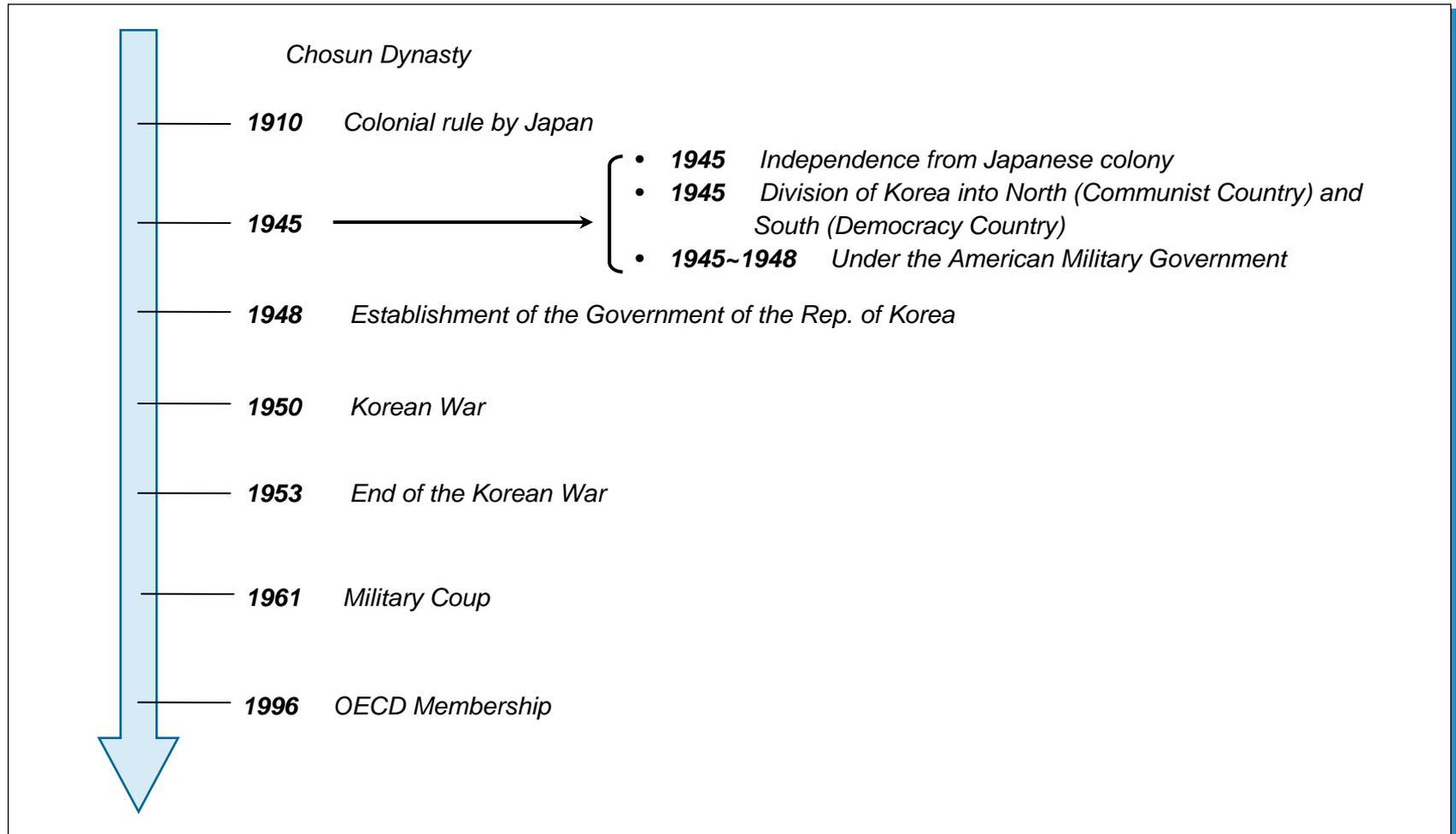
- Very similar to contemporary developing countries
 - Started at the same line
 - Experienced colonial rule and war
 - Poor natural resources and high population density
 - Mental inertia from the colonial rule
 - Half of the population had an elementary education.

Performance of Korea

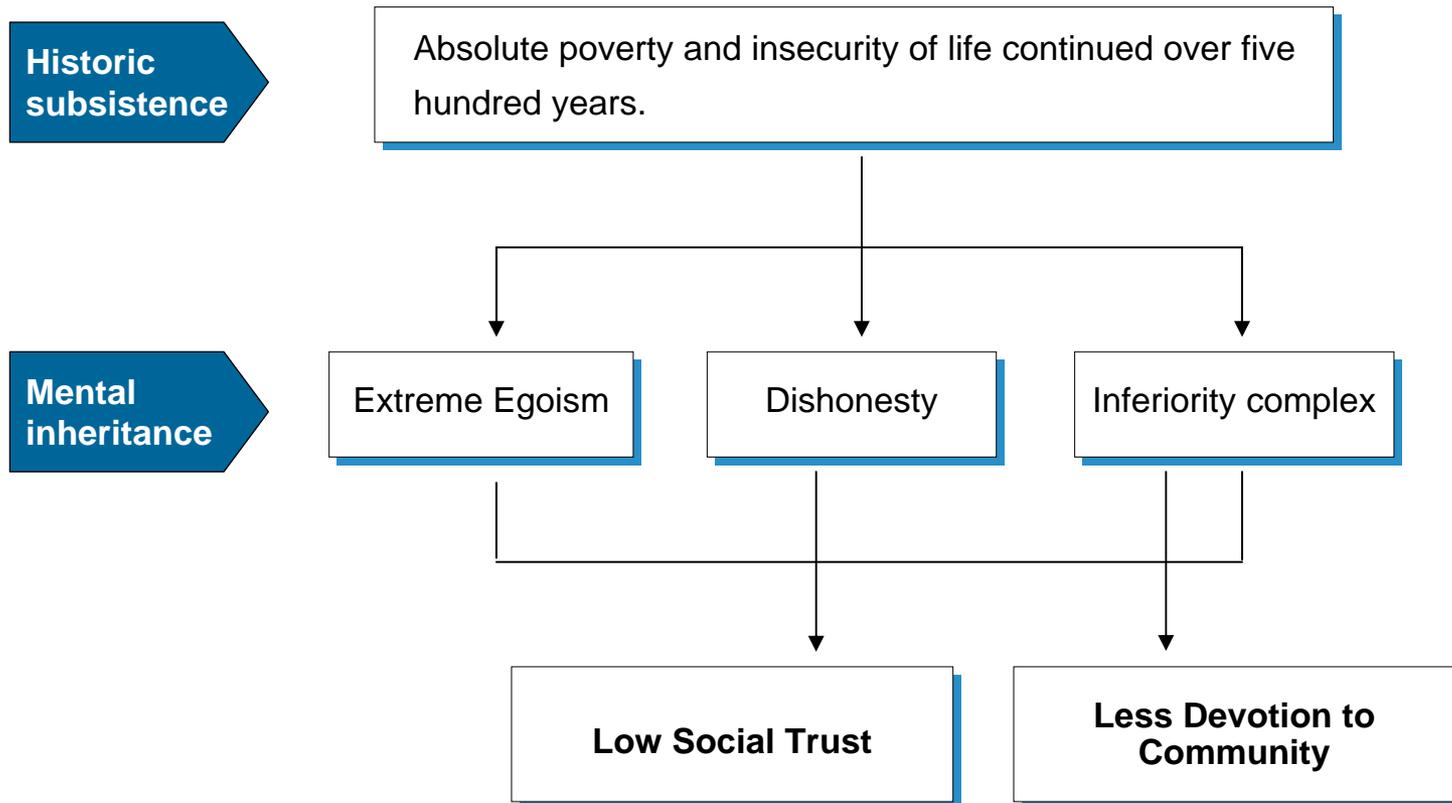
- Poverty elimination & economic development
 - Per capita GDP was risen from USD 79 (1960) to 18,164 (2006).
 - Korea has become a world manufacturing basis of steel, automobile, ship-building, semiconductor chips and etc.
 - Industrialization period: 200 → 100 → 30 years
 - Realization of democracy as well as economic development

2. Historical Background and Its Consequences

Historical background of Korea



Inheritance from the chronic poverty



Korean economy at its onset of modern economic growth

Standard of living

- Shortage in food in an agricultural country
- Per capita GDP at USD 79 in 1960
- US aid occupied half of the government budget. (1961)
 - Subsistence depending on foreign aid

Chronic deficits in international balance of payment

- International balance of payment (1960)
 - Exports: USD 32mln
 - Imports: USD 97mln
 - deficits: ▲USD 65mln
- Chronic shortages of foreign exchange
 - Foreign aids: USD 2,418mln from 1950-61
 - Korea ran a current account deficit of USD 50mln.

Massive latent unemployment

- No industrial base
- Population of the rural area to total (1960) :58%
- Share of agriculture in GDP (1960) : 36.8%

Korea at the onset of its modern economic growth

Pre-modern mentality

- Pre-modern mentality of the people
 - Inferiority and dishonesty
 - Negative consciousness of people due to mental inertia from colonial rule

Poverty Trap

- Economic conditions: poverty trap
 - GDP: \$79 (1960)
 - Shortage of food in an agricultural country
 - Chronic deficits in international balance of payment
 - Subsistence depending on foreign aid
 - No capital for industrial development
- International balance of payment (1960)
- Exports: USD 32mln
 - Imports: USD 97mln
 - Balance: ▼USD 65mln

Social instability

- Social instability
 - Socio-political instability
 - Severely unstable society, and ideological confrontation
- ❖ Korea was viewed as a hopeless country compared with other Asian countries such as Philippine, Thailand and Myanmar.

Questions

What are the differences from Africa?
How could Korea make it out of this circumstance?

3. Development Strategy of Korea

Prior industrialization strategy

Alternative of the Korean economy

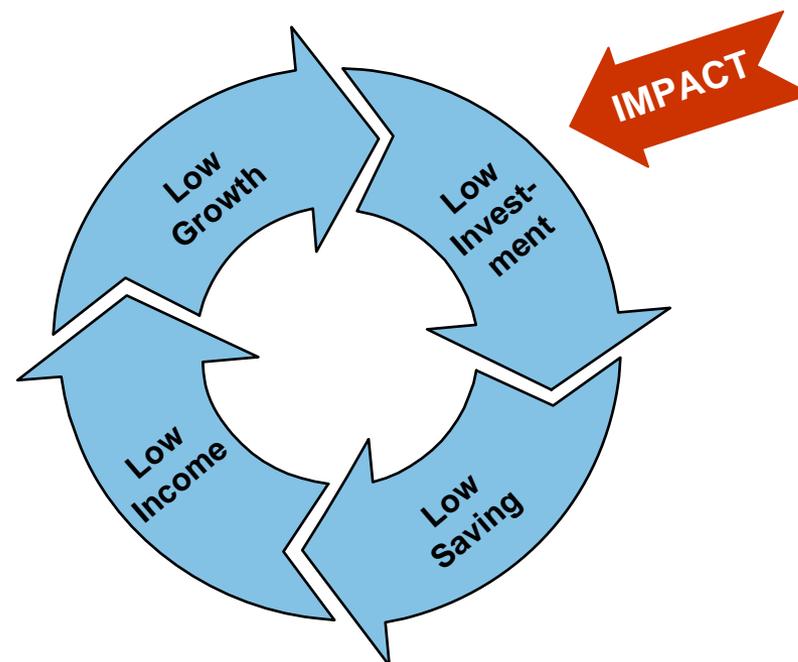
Government in the early 1960s

- Is it caused by the rich?
- Arrest of entrepreneurs and those who illegally accumulated wealth
- Monetary reform (Hwan to Won)
- Learned that poverty could not be solved by redistribution

- **Strategic goal of poverty elimination: Building industry to export**

- No way was found in agriculture due to its poor endowment.

The ways for exodus from the poverty trap



Giving birth to enterprises through capital mobilization

Financial mobilization to foster enterprises

- Claim fund for colonial control to the Japanese Government
- Established Foreign Capital Inducement Act (FCIA, 1960)
 - Government guarantees for payments of the foreign loans borrowed by Korean private enterprises (1962)

** This was the most difficult decision in my presidency./ President Park*

- Government control on banking industry for allocation of financial resources
- Fiscal investment for SOCs in a large scale

Massive investment for HCs and Protection of businesses

- Investment plan (1973~1981): US\$ 9.6 billion
 - Total export in 1972: US\$ 1.67 billion (current deficit: Δ \$372 million)
- Exceptional measures for rebirth of businesses
 - A measure to freeze the payment of loans and interests borrowed in the private money market in the early 1970s
 - Financial assistance and tax incentives for insolvent firms

Korea's strategy to foster modern industrial labor force

Quality of the Koreans as industrial workers in the 1960s

- Mental state : A sense of inferiority and dishonesty
Young men during the farmers' slack season
- Skill and attitude for work : Experiences in farming work using agricultural tools;
Tendency of doing work very roughly
- Culture : Despise business for making money
Factories could be only run by the Western people and Japanese.

How to change their attitude?

- Let them understand the benefits of money
 - Providing employment opportunity
- Training and education
- Visions for the study of science and technology

Approach to vocational training

- The government thought that Korean workers are required to be equipped with new moral and attitude toward work.
- Three "*Jeong Principles*" : Devotion (*JeongSung*), Accuracy (*JeongMil*) and Honesty (*JeongJik*)
 - fostering young technician and engineering incorporated with this philosophy

Korea's strategy ...(con'd)

Establishment of a model engineering high school

- Facility
 - The best in Asia
 - Modern experiment equipment
- Curriculum and teaching
 - All faculty were recruited from Japan.
- Selection of students
 - Upper 10% of the junior high school
 - Recommendation and interview
 - Selection based on the will and characteristics of students
- School life
 - All were accommodated to the dormitory.
 - Strong emphasis on spiritual education

Supportive policy for the engineering school

- Incentives for the students
 - All the expenses were free.
- Supervision of the school was moved to the Ministry of Industry and Resources from the Ministry of Education
- Guarantee for their future
 - Employment and stable life were guaranteed.
 - Favor for university education

Performance and its influence

- The school model expanded throughout the country.
- International contest between Japan and Korea (1976)
 - Korean students showed better performance than Japanese counterparts.

Now, Korean government has confidence that we could do machinery work as Japanese do.

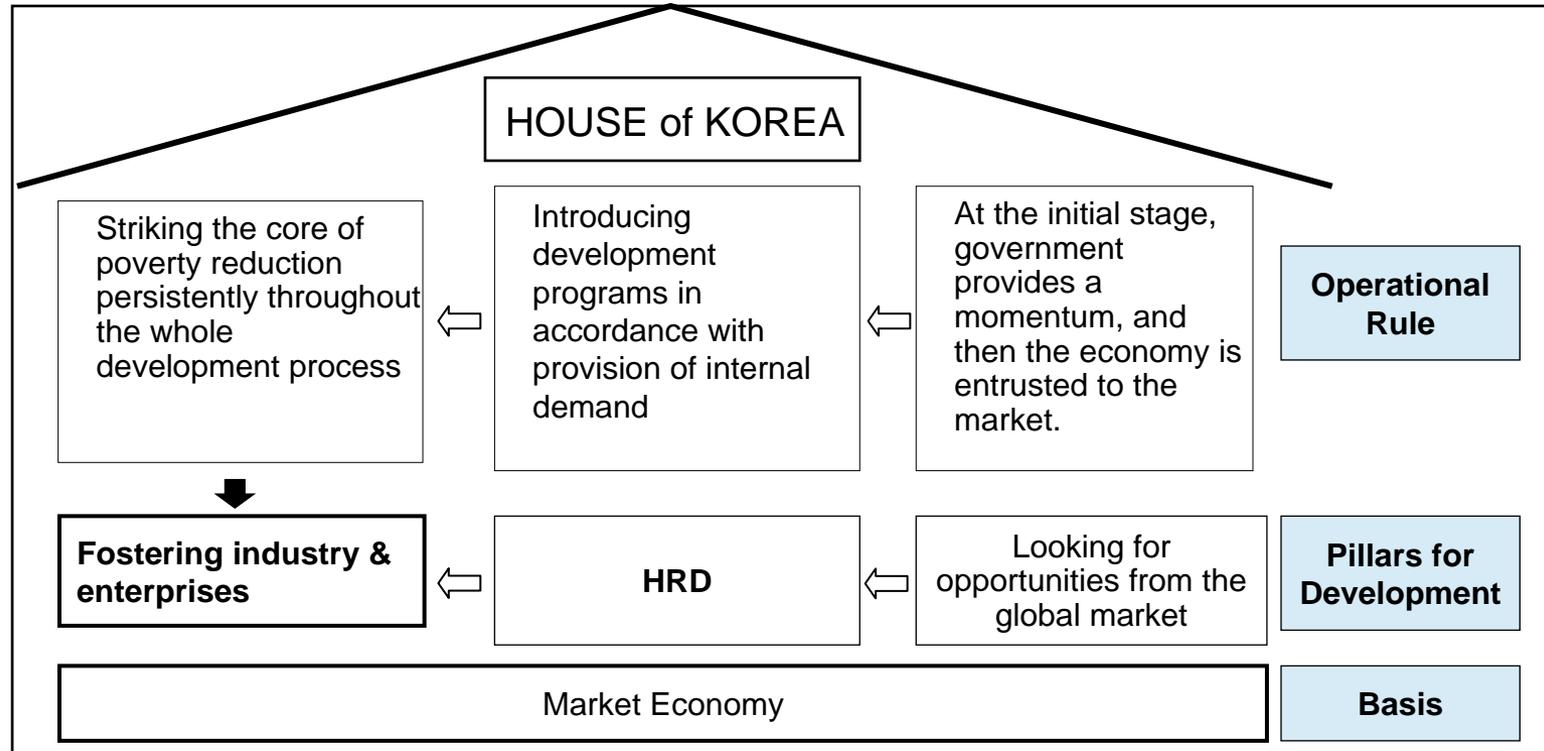
The graduates of engineering schools, vocational training institutions became backbone of Korea's industrialization since 1970s

Main factors for economic development of Korea

Explanatory Factors

Uniqueness of Korea

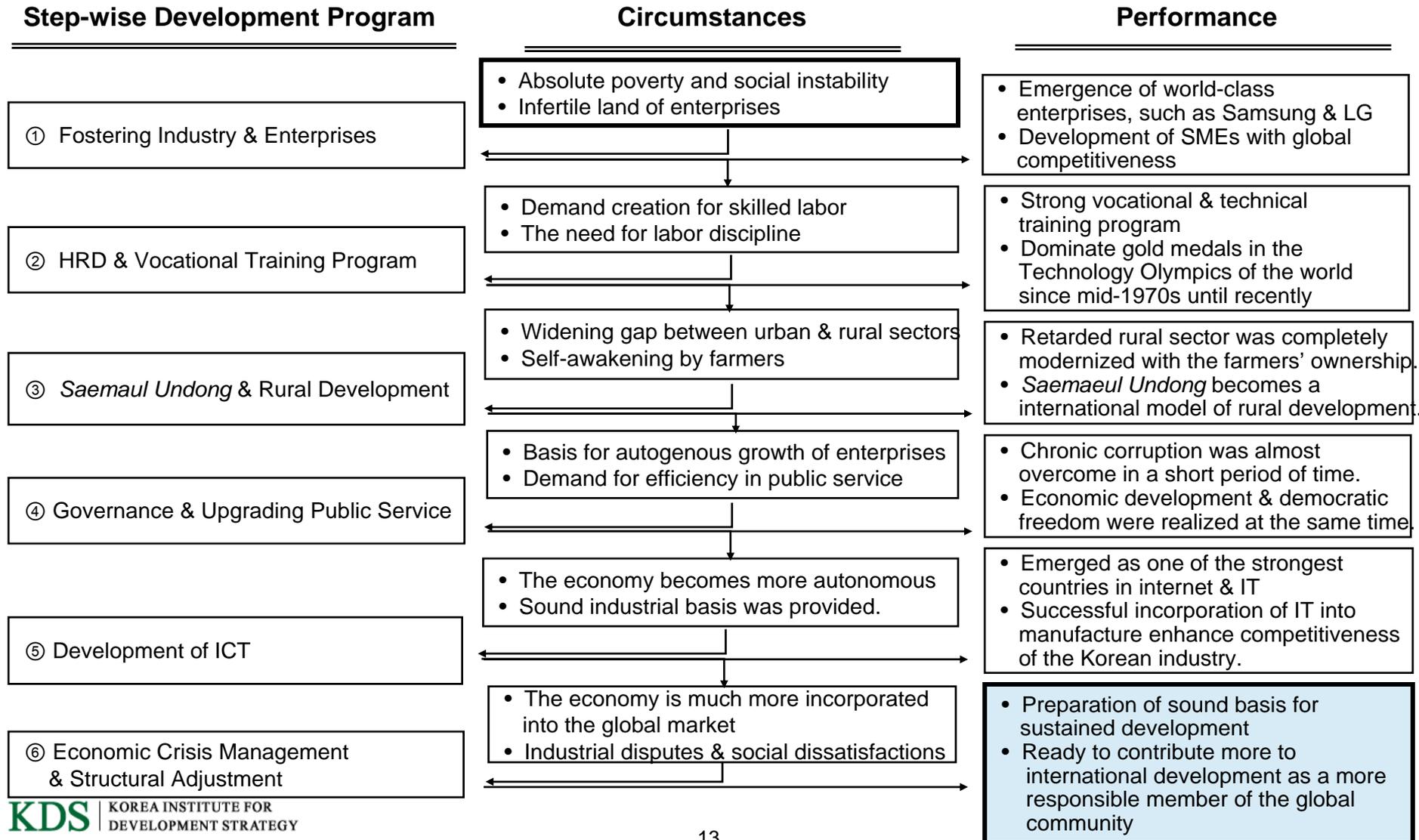
Feasible
Development
Strategy



Learning
Environment

- The existence of advanced Japan in its neighborhood
- Koreans possessed a latent consciousness that Koreans could do what the Japanese did.
- High aspiration for learning & economic development is motivated by the Japanese development.

Contents of the Korean development experience



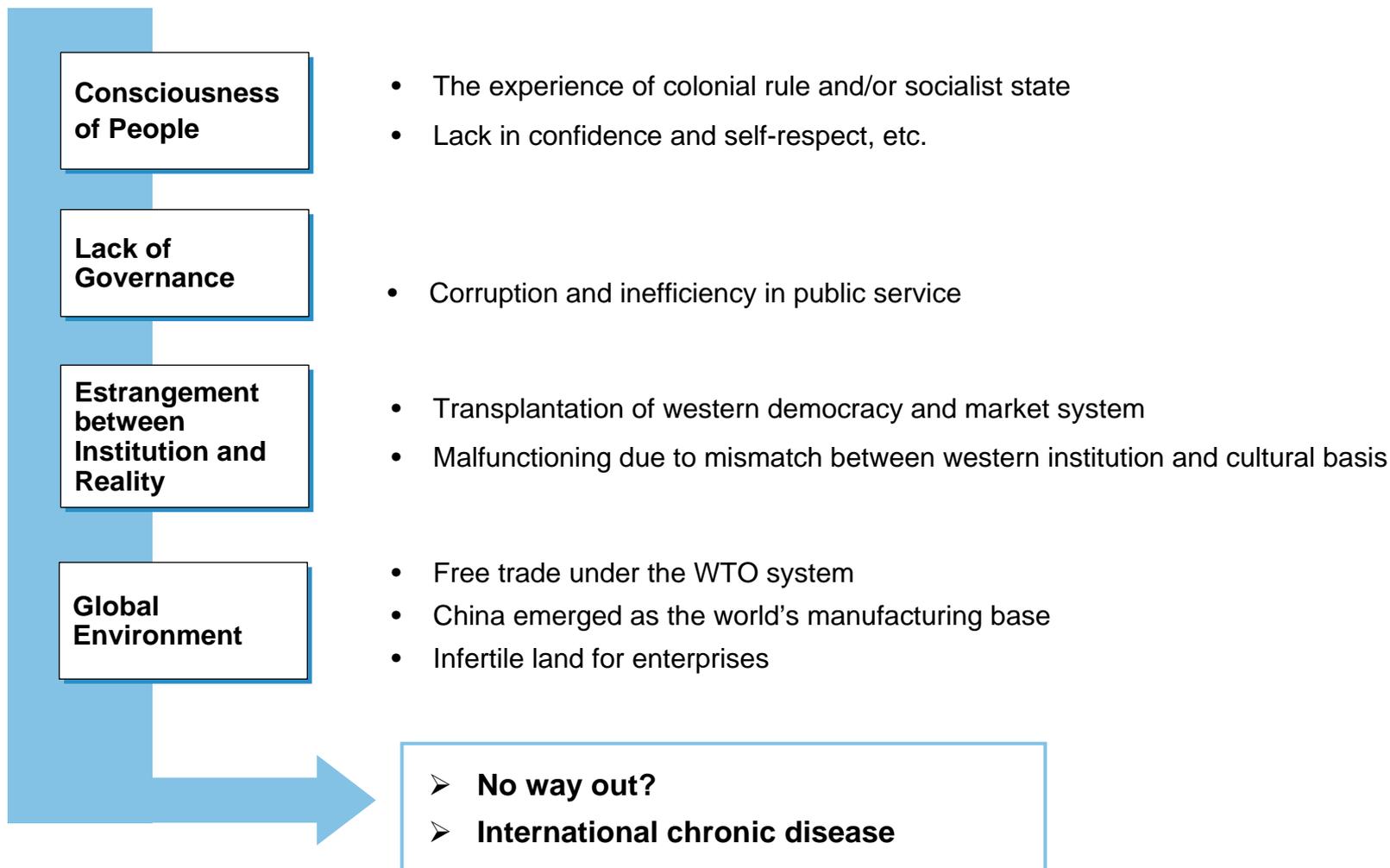
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1. Development Circumstances of Africa

Trap in poverty



2. Africa's Dilemma

Institutional capacity building for development

Supply

- Institutional capacity and its transferability

| Component | Transferability |
|--------------------------------------|-----------------|
| Organizational design and management | High |
| Institutional design | Medium |
| Basis of legitimization | Medium to low |
| Social and cultural factors | Low |

Source: Francis Fukuyama, State Building

Demand

- Insufficient demand for institutional reform
 - Even if a society as a whole is better off with good institutions, every new institutional arrangement produces winners and losers, and the latter oppose any institutional reform.

implantation

- Most of developing countries trying to transplant western institutions have FAILED.
 - Cuba, the Philippines, Haiti, the Dominican Republic, Mexico, Panama, Nicaragua and South Vietnam
- Only a few countries have succeeded.
 - ➔ In those successful cases, sufficient demand for institutional reform was followed by supply of institutions.
 - ❖ Korea and Taiwan (1960s), Chile and New Zealand (1970s and 1980s)

Business environment of Mozambique

Basic Conditions of Economic Growth

: Development of enterprises for sustained creation of employment opportunity and value added

Business Environment

| Section | | Contents | |
|----------|-------------------------|---|-------------------------------------|
| Domestic | Financial Accessibility | • Interest rate : 20%+ | • Very low |
| | Tax burden | • Value added tax: 17% | • Corporate tax: 32% |
| | Labor cost | • Firing cost: 14 week salary | • Unskilled labor |
| | Government service | • Dealing with license: 212 days | |
| | Market | • Segmented due to poor SOC | • Very low demand due to low income |
| Trade | | • Massive inflow of the cheapest products in the global market particularly from China • Prevalent smuggling and tax evasion | |

Existence Conditions of Enterprises

- ① No conditions of existence are provided for any start-up enterprises.
- ② Daily business is conducting crimes everyday at the risk of jail and bankruptcy.

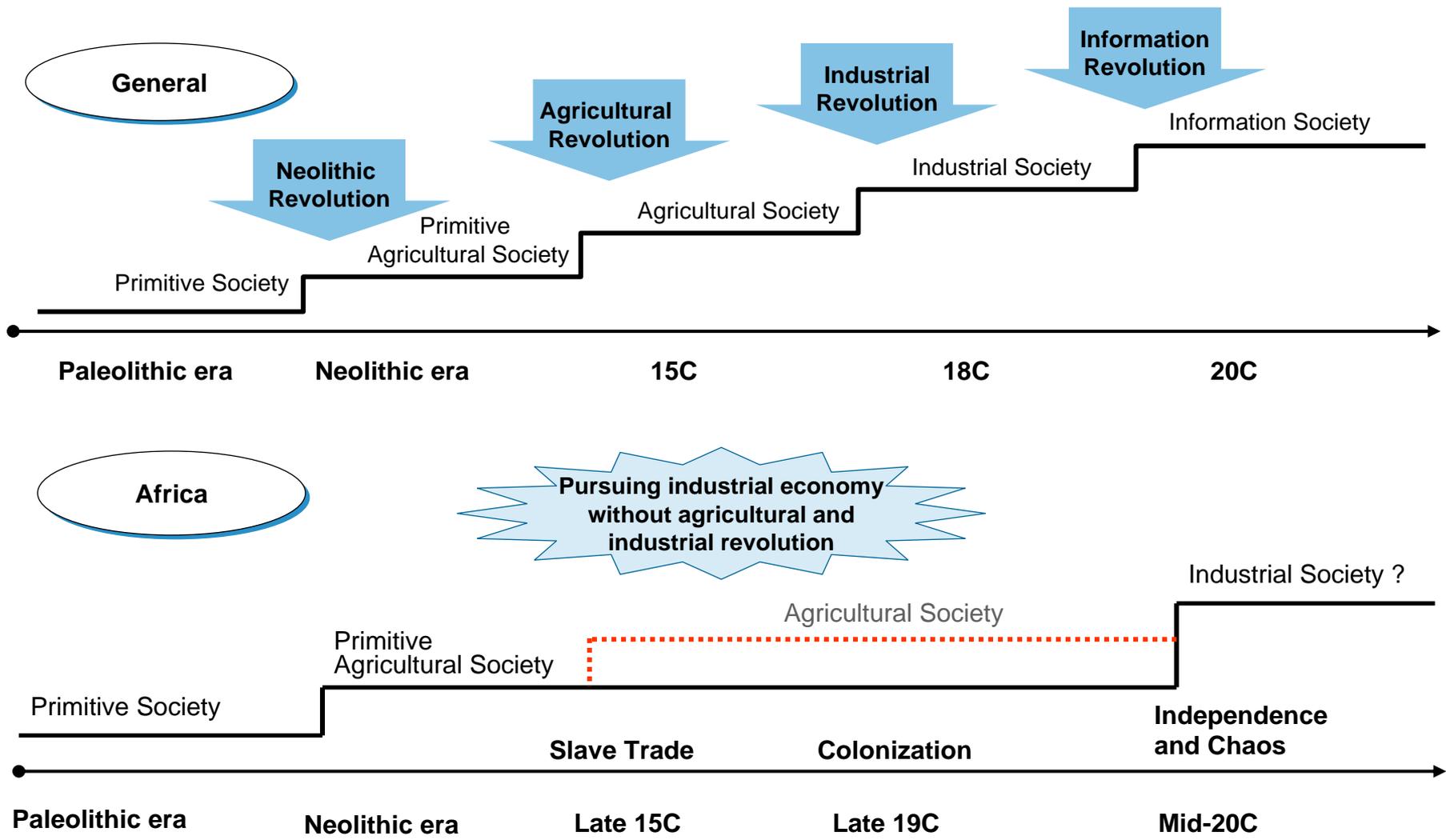
Source: KDS comprised based on AfDB services

Questions

- ① Is there a way that these countries get out of this situation by themselves?
- ② Is it possible that the situation get improved as time goes by?
- ③ Is the external financial assistance (ODA) effective under this circumstances?
International poverty is a chronic disease which is hardly cured.

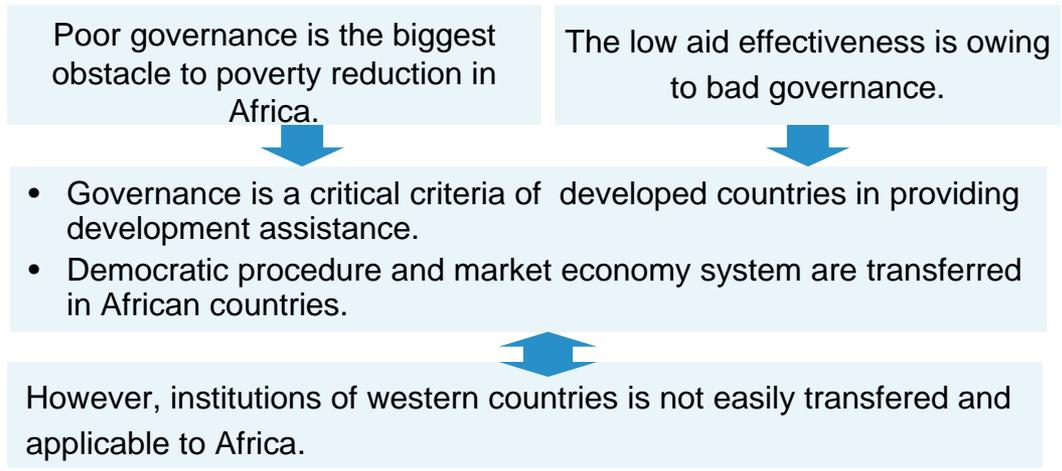
1. Development Circumstances of Africa

The roots of African poverty and consciousness of people



Poor governance and its enhancement

Donor's policy regarding governance



Transferability of Institutional Capacity

| Components | Transferability |
|--------------------------------------|-----------------|
| Organizational design and management | High |
| Institutional design | Medium |
| Basis of legitimization | Medium to low |
| Social and cultural factors | Low |

Source: Francis Fukuyama, State Building, 2004

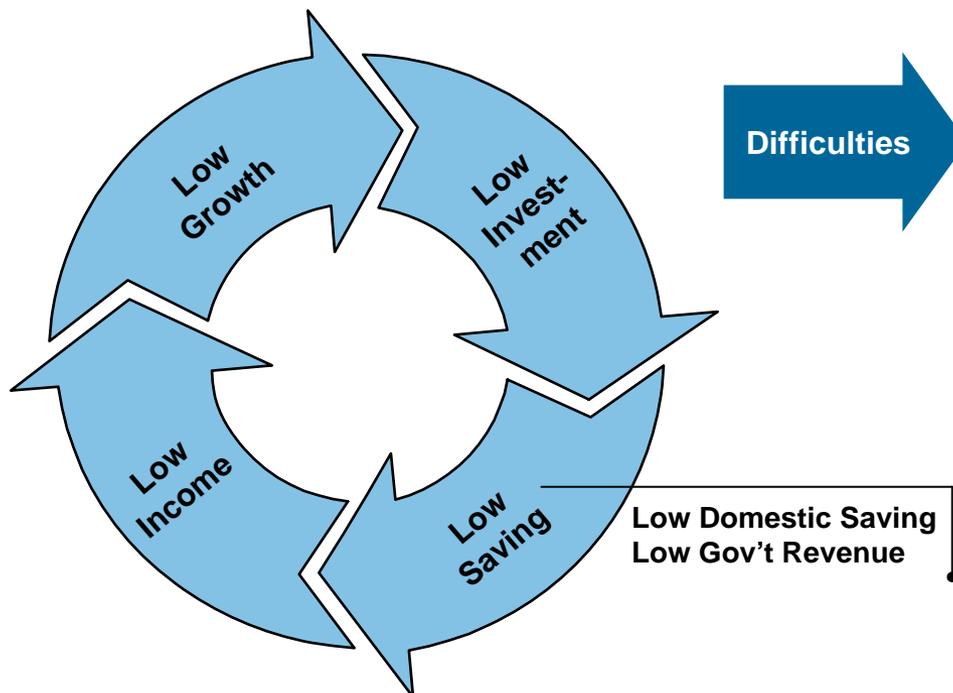
A fundamental reason for African poor governance

- Mental inertia from the unfortunate historical circumstances.
- In Africa, no smooth transition of human civilization was occurred.
 - Agricultural civilization, industrial revolution and information society
 - The period of development stages can be shortened, but not be skipped.
- Lack of countervailing powers to balance political power causes vicious cycles of poor governance.

Solutions

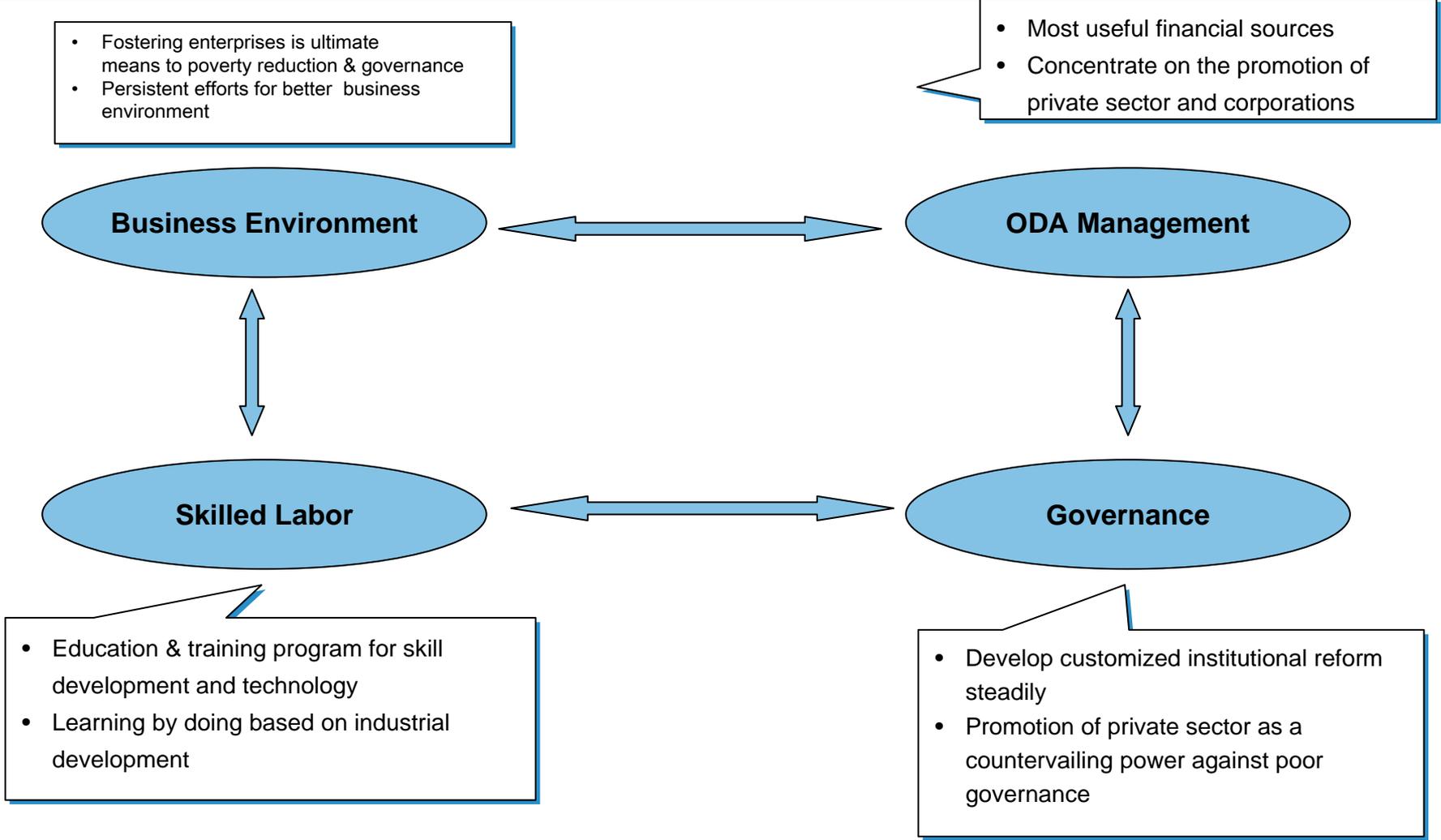
- Foster business sector and agriculture with all its potential.
- Create a basis for the demand for institutional reform.

Africa's dilemma in making accessibility to foreign capital



- ODA on poor governance
 - Insufficient contribution to economic development
 - No way to go for productive use
- Difficulties in enhancing governance and capacity building
 - Low transferability of Institutions
 - Poor internal demand
- Lack of FDI inflow
 - Due to poor business environment
 - Poor infrastructure
 - Poor internal demand
- Lack of skilled labor

3. An Alternative for Africa



Thank you!