

The South Korean Economy  
Achievements and Tasks  
EASTASN 181/281, Winter 2010

Class Hours: Thursdays, 2:15-5:05 P.M.  
Classroom: Building 200, Room 205  
Instructor: Byongwon Bahk  
Office Hours: Thursdays, 9:30-11:30 A.M. or by appointment  
Office: Encina Hall, E316, Office Phone: (650) 723-9744  
E-Mail: [bahk0924@stanford.edu](mailto:bahk0924@stanford.edu) or [bahk0924@yahoo.co.kr](mailto:bahk0924@yahoo.co.kr)

### **Course Description**

Historic overview of the South Korean economy with an emphasis upon turning points and crises, and the policies used to overcome them, followed by an analysis of the challenges facing the Korean economy now and in the future. The course focus will be not only on South Korea's economic policy successes but also on the lessons to learn from its failures and mistakes, as well as how South Korea should address current and future economic problems. The class will consider the success and failure elements in the Korean economy as a whole, by industry, including agriculture, manufacturing, services, and finance; and by input factors, including human resources, land supply, and social overhead capital. We will analyze in detail the most important choices Korea has made in its history of development, i.e., to pursue export-oriented development initially, and at a later stage, open door policy, including free trade agreements (FTAs) with the U.S., EU, and others. One session will be devoted to a study of the North Korean economy and South-North economic cooperation.

### **Grading**

Class attendance: 20%  
Comment on each class by e-mail to the instructor: 20%  
Mid-term paper on relevant economic issues of any country: 20%  
Term paper on Korea-U.S. FTA agreement: 30%

### **Books for Reference**

There is no adequate, up-to-date introductory book on the Korean economy available in English. We will thus draw largely from the following works. Refer to the course outline below for recommended reading for each class. While there is no required reading per se, students will want to do as much reading of these studies as possible, especially those students specializing in economics-related fields. The instructor will provide additional guidance and suggestions in class on the readings selections most useful to each session.

OECD (Dec. 2008), Economic Survey of Korea, OECD, Paris.  
OECD (June 2007), Economic Survey of Korea, OECD, Paris.

OECD (Nov. 2005), *Economic Survey of Korea*, OECD, Paris.  
OECD (June 2004), *Economic Survey of Korea*, OECD, Paris.

Dong-se Cha, Kwang Suk Kim, Dwight H. Perkins, ed., *The Korean Economy 1945-1995: Performance and Vision for the 21st Century*, KDI, 1997, Seoul.

Lee-Jay Cho and Joon-Kyung Kim, *Regulatory Reforms in the Age of Financial Consolidation*, KDI, 2006, Seoul.

Duck-Koo Chung, Barry Eichengreen, ed., *The Korean Economy Beyond the Crisis*, Edward Elgar, 2006, Cheltenham, UK/Northampton, MA, USA

Kim, Chukkyo, *Korea's Development Experiences and Implications for Developing Countries*, Korea Institute for International Economic Policy (KIEP), 2008, Seoul.

Karasulu, Meral and Yang, Dooyong, *Ten Years after the Korean Crisis*, KIEP, 2008, Seoul.

Lee, Jongkyu and Lee, Sanghack, *Recurring Economic Crisis in Korea*, Nova Science Publishers, Inc., 2008, New York

### Course Outline and Recommended Reading

#### I. Thursday, January 7: Historical Overview I

What are the major policy choices that transformed the poverty-stricken new state of South Korea in 1948 into one of the 21<sup>st</sup> century's most successful economy. What lessons should we draw from Korea's economic experience? Recommended reading: Part I *Development Policy, Development Planning, and Role of Government* in Kim, Chukkyo (2008).

#### II. Thursday, January 14: Historical Overview II

Since joining the OECD in 1996, Korea has experienced two financial crises. Even though it has apparently overcome them, Korea now faces other problems, including decreasing job creation, a rapidly aging society, and widening income inequality. Is Korea effectively addressing these issues? Recommended reading: Dongchul Cho, *The Republic of Korea's Economy in the Swirl of Global Crisis*, ADBI Working Paper Series, Aug. 2009.

#### III. Thursday, January 21: Financing and the Financial Sector

Many economists believe that the Korean finance sector played a pivotal role in raising investment funds. Was the Korean financial sector sacrificed for the sake of rapid development of the manufacturing and export sectors? How did Korea successfully overcome the two financial crises of 1997-98 and 2008-9? Can the financial sector become a locomotive for growth in the near future?

Recommended reading: *Global Financial Turmoil; Impact and Challenges for Asia's Financial Systems*, Jongwha Lee and Cynyoung Park, ADBI Working Papers, June 2008.

#### IV. Thursday, January 28: Manpower, Education and Training

Human resources development was one of the most important factor in the Korean economy's success. Is that still so? Why did the education sector become the ugly duckling of the Korean economy? Can it become a swan in the future?

Recommended reading: In OECD Economic Surveys of Korea, Chapter 3. Reforming the labor market, in 2004 Survey, Chapter 5. The labour market, in 2005 Survey, Chapter 5. Sustaining growth by reforming the labour market and improving the education system, in 2008 Survey;

#### V. Thursday, February 4: Social Overhead Capital (SOC), Land Supply and Regulations

Did early investment in SOC led to the economic development of Korea? Land is among the scarcest resources in Korea and hence repeatedly became the target of speculative trading. The future of the Korean economy will be dependent upon efficient land supply, one of the most challenging tasks facing Korea's economic policymakers.

Recommended reading: To be announced.

#### VI. Thursday, February 11: Trade Policy and Free Trade Agreements

The South Korean economy is best known for the export-oriented development strategy the government long pursued. Less well known are the construction of heavy and chemical industries begun in early 1970s and the open door policy initiated in later 70s. What obstacles lie in the way of Korea's push for free trade, including ratification of the Korea-U.S. Free Trade Agreement (KORUS FTA)? How can they be removed?

Recommended reading: Part VII *Liberalization Policy and Korea-US Trade in Kim*, Chukkyo (2008)

#### VII. Thursday, February 18: The Manufacturing Sector

The development of manufacturing industries in the optimal sequence was the core factor in Korea's success, and even today the Korean economy still depends predominantly on the export by manufacturing industries. What was the logic behind the strategy? What changes need to be made?

Recommended reading: Chapter 7 *Korean Industry and Trade over Fifty Years* by Anne Krueger, in Dong-se Cha, ed.

#### VIII. Thursday, February 25: The Services Sector

The services industry has been the orphan in the Korean economy. With the manufacturing sector no longer creating jobs, the services industry has very

recently moved into the spotlight. But in most important part of it, the so-called social services such as medical, education, and childcare services, progress is slow due to reluctance to accept competition and to induce FDIs. Recommended reading: Ch. 4 *Boosting productivity in Korea's service sector*, in OECD's 2008 Economic Survey of Korea.

#### IX. Thursday, March 4: Agriculture

Agriculture now accounts for less than 3 % of Korea's GDP. Why should we even study it now? Is it impossible for Korean agriculture to develop into a competitive industry such as in The Netherlands and Denmark? Is agriculture more difficult to make internationally competitive than manufacturing?

Recommended reading: Jung-ho Kim, Chapter 6 *Agricultural Policies*, in Korea Rural Economy Institute, *Agriculture in Korea*, KREI, 2008 Seoul

#### X. Thursday, March 11: The North Korean Economy and Inter-Korean Economic Relations

After liberation from Japanese colonial rule in 1945, North Korea had an economy that was stronger than South Korea's. What went wrong with the North Korean economy? Why does North Korea not copy the Korean, Chinese, or Vietnamese models of economic success? Is South Korea willing and able to help the North, and if so, under what conditions?

Recommended reading: Part V. *North Korean Economy*, by Hong-tack Chun and Jin Park, in Dong-se Cha ed., KDI