

STEPWISE STRATEGY FOR INDUSTRIAL DEVELOPMENT IN KOREA

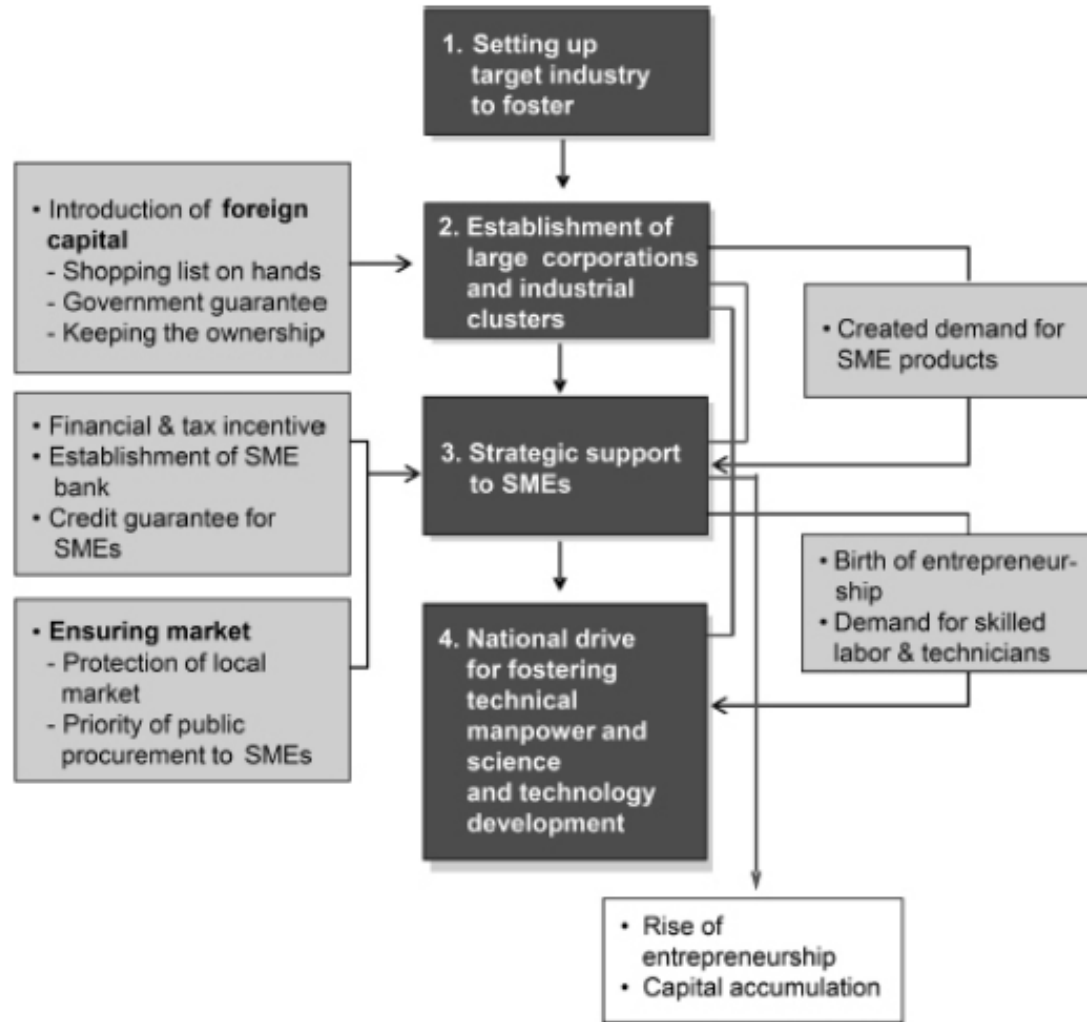
EE 482: Public Policy and Industrialization

Semester 2 / 2020

Faculty of Economics, Thammasat University

Disclaimer: All contents are used for educational purpose only. Please do not circulate nor use for commercial purpose.

Stepwise strategy for industrial development in Korea



Stage 1: Identifying the target industries

- The first stage started with **the setting up of target industries** to receive **resourceful nurturing**.
- Based **on an analysis of resource endowment** and of **national demand for industries**, the government established a **comprehensive long-term strategy** for industrial development.
- Setting up target industries is **far from being comprehensive** at **an early stage**.
- In the infant stage of industrial development, focus was given to the development of **import-substitution** and **consumption-goods industries**.
- Over time, it transitioned from **import to export promotion**, **from labor-intensive to capital and technology-intensive industries**, then from **light to heavy and petrochemical industries**, respectively.
- This stage was characterized by the fostering of **garment and low-end electronic goods**, which were later **replaced by steel**, the planning and budgeting authority of the **Economic Planning Board (EPB)**, drafted the plan that **highlighted the target industries**.

Stage 1: Identifying the target industries (cont'd)

- The plan was then elaborated and **incorporated into** the regular **national Five-Year Economic Development Plans**.
- With this plan, **two principal objects** were achieved:
 - (1) **providing a comprehensive guide** for the **government's investment** and support policies
 - (2) **inducing private sector investment** in the **target industries**.
- It goes without saying that back then the private sector was **inclined to channel its investments** in **accordance with** the **government's future development plans**.
- Through the first stage, the private sector understands the **direction of industrial development** **the government is going to foster**, and **they adjust their plan for investment in those industries**.

Stage 2: Establishing corporations and industrial clusters

- At the second stage, **large corporations** and **industrial clusters** were **established** in a **close cooperation** between the **government and the private sector**.
- **Long-term, large-scale investment** is **difficult to take place without** the **support** or **commitment** of the government.
- **Policy changes** pose significant **threats to long-term investments** by private firms.
- It explains why **collaboration between government and the private sector** remains an **indispensable facet** of **economic development**.
- This fact has largely been at **the heart of the industrial policies** of East Asia, particularly in **Japan** and **South Korea**.
- This captures the **treacherous sojourn** of the **nation's powerful corporations**.
- The government engages in **establishment of large corporations, financing schemes,** preparation of **industrial clusters** and **protection of the market** for those corporations.

Stage 2: Establishing corporations and industrial clusters

Policy #1: Legislative processes to support the targeted industries

- The first step for large corporations and industrial clusters is to **take legislative processes** to **guide and support a specific industry**.
- The Korean government established **acts regulating individual industries**: among some of the notable examples are:
 - The Machinery Industry Promotion Act (1967)
 - The Shipbuilding Industry Promotion Act (1967)
 - The Temporary Measure for Textile Industry Facility (1967)
 - The Electronics Industry Promotion Act (1969)
 - The Petrochemical Industry Promotion Act (1970)
 - The Steel Industry Fostering Act (1970)
 - The Nonferrous Metal Smelting Act (1971)
 - The Textile Industry Promotion Act (1979).

Stage 2: Establishing corporations and industrial clusters (cont'd)

Policy #1: Legislative processes to support the targeted industries (cont'd)

- The legislation defined the **regulations on entry**, government policy **review committees**, the establishment of **R&D institutions** and the establishment of **specific business associations**.
- The **policy review committee** was usually constituted of **government officials**, **private experts** in the specific field and **business representatives**.
- Most policies were prepared within the committee through **close dialogue** among the **public and private sector representatives**.
- To **avoid excessive competition** among **local firms** in a **small market**, the government **typically reserved permission for entry** to a **specific industry by law**.
- For instance, **the assembly plants of automobiles**, like **Hyundai Motors** and **Kia Motors**, were **established through permission** of the Ministry of Industry and Trade under the auspices of the Automobile Industry Supporting Act.

Stage 2: Establishing corporations and industrial clusters (cont'd)

Policy #2: Providing a financial support

- **Financing** is a **prerequisite for start-ups** and fostering industries. In most cases, it requires **large and long-term investment** that the **private sector couldn't offer**.
- It had a lot to do with a **severe dearth in domestic financing capacities**, which tended to lag the demand.
- It was at this point that the **Korea Development Bank (KDB)**, established in 1954, was set up as a **state lender** to serve this niche of **long-term financing** for **industrial development**.
- The government was also keen to **attract significant foreign capital** to supplement its pool.
- Yet faced with the reality of the **extraordinary risks** and **high stakes in Korea**, **foreign investors** were **generally put off**.
- A desperate government, undeterred by the challenges, resorted to what was quite frankly considered to be desperate policy measures, the notable one being acting as the guarantor of the foreign loans domestic companies procured from foreign financial institutions.

Stage 2: Establishing corporations and industrial clusters (cont'd)

Policy #2: Providing a financial support (cont'd)

- While providing the private sector with the latitude to invest in target areas, it **briskly stepped in with public funds to supplement** the areas where the **private sector investment could not conceivably make inroads**.
- This interest in foreign investment notwithstanding, the government ostensibly was **keen to restrict entry** to **specific industries** and technological fields.
- Koreans also had to **maintain controlling stakes** in **all domestic industries**.
- In fact, **several multinational automobile firms** attempted to **build their own plants in Korea**, which were **kept out to protect domestic enterprises** for automobile parts.
- It was **within this protective shield** that the likes of **Hyundai Motors, Hyundai Heavy Industry** and **Samsung Electronics** could thrive.

Stage 2: Establishing corporations and industrial clusters (cont'd)

Policy #3: Providing the industrial clusters or complexes

- Korean firms also received **government backing** through the **establishment** of **industrial clusters or complexes**.
- A plan was set off toward this end with **adequate legislative backing** including the creation of **public corporations** to **manage these industrial complexes**.
- A case in point is the **automobile industry**, which benefited from the establishment of the **Ulsan Industrial Complex** to serve **Hyundai Motors** and **other manufacturing firms** to **supply parts** and intermediate goods.
- The **industrial clusters** or **corporations** thus established **required continued support** by the government.

Stage 2: Establishing corporations and industrial clusters (cont'd)

Policy #4: Protecting the domestic market by import restriction

- The newly born, less competitive companies **could not compete with multinational automobile firms** on **price** and **quality**.
- In the early days, the **government restricted import of foreign cars**, and in later days when **direct restriction** became **tax authorities**.
- However, these invisible restrictions were completely released soon due to trade friction in later days.
- There were also times when domestic corporations had to resort **to low pricing** as a way of **leveraging entry** into the **international market**.
- They were offered a **compensatory differential of high domestic prices** to enable them to **go beyond the breakeven mark**.
- Every effort was put in place **to secure** not just the birth but **the survival of domestic enterprises** in the **ruggedly competitive international market**.

Stage 3: Support to small and medium-sized enterprises (SME)

- At the **second stage**, in the case of the automobile industry we merely **established the assembly line**.
- A typical automobile consists of **20,000–30,000 parts** working jointly to enable optimum functionality.
- Going by this, **these different parts produced by the SMEs** ultimately **determine** the **competitiveness** of an automobile.
- In a sense, the **establishment of large corporations** might be **easy compared with SME development**.
- The former may be constructed with **introduction of foreign capital without local technological capacity**.
- Yet in the case of Korea, the **establishment of large corporations** at the second stage **created a market for SMEs**.
- A resulting **spillover effect** was the birth of more industries and an **invigoration of domestic entrepreneurial spirit**.
- The rise of large corporations and SMEs paved the way for **employment creation** through the **demand for skilled labor and technicians**.

Stage 4: Fostering technical manpower and science and technology development

- The fourth stage is national drive for **fostering technical manpower** and **science and technology development**.
- Like the baby metaphor used in the opening stage of this section, this boils down to whether the baby is **sufficiently nourished** and **supported enough** to grow into a functional and capable adult.
- By the way, the **establishment** of **enterprises and industrial clusters do not by any means** constitute a **conclusive panacea** to the problem.
- The real elephant in the room is often whether such industries are **sufficiently competitive enough** to merit their continued operation.
- In this context, the critical void to fill was the **continued flow of competitively world-class standards of labor** alongside the **corresponding state of technology**.
- This became the fixation of the government at the fourth level of its industrialization drive.
- Consequently, a robust campaign was unveiled to train and recruit a credible pool of technicians and skilled labor to address the shortage of the technology field.

Source: Directly quoted from Chun, S.H. (2018). *The Economic Development of South Korea: From Poverty to a Modern Industrial State*. London: Routledge.

Conclusion

- Thanks to the **four steps** taken in a **stepwise manner** herein discussed, this once-upon-a-time land of industrial barrenness evolved into **a hub of major global corporations**.
- As has been explained, their success was never an isolated act of fortune but the product of a **consistent government initiated and directed stepwise process**.
- In response to the confidence placed in them, the charge on the ground in ways that were remarkable in every sense.
- It seems that the **government's anchor, survival instinct of enterprises**, and **devoted labor force** worked together to create a momentum for industry to take root in what was otherwise a wasteland of despondency.