



Development in

# *South Korea*

after the Korean War



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# Obstacles to economic expansion



1 The Japanese colonial rule over South Korea

2 The Collapse of the Japanese economy

3 The partitioning of the nation into South Korea and North Korea

4 The Korean War



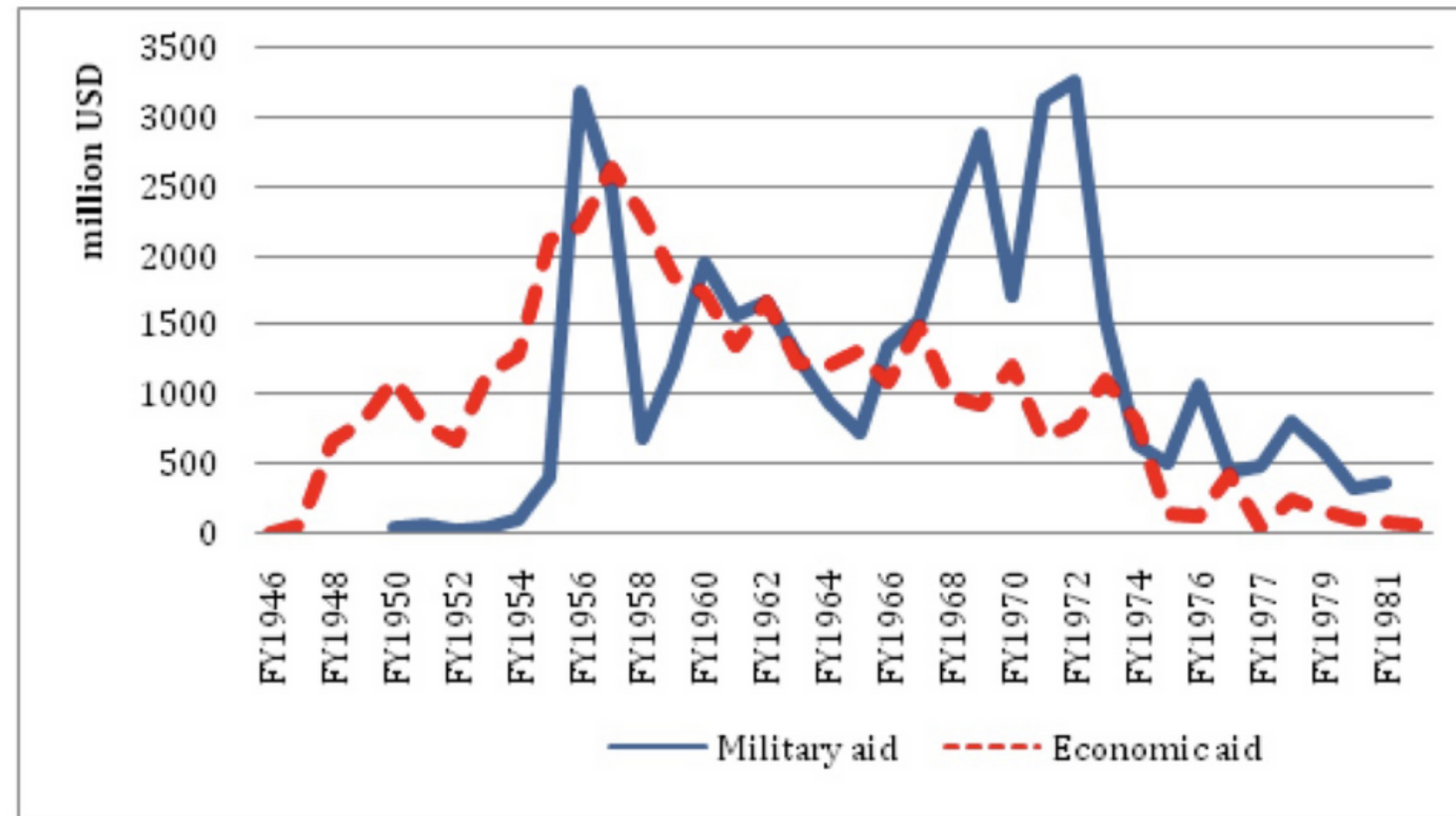
*South Korea's  
development factors*



# Foreign aid

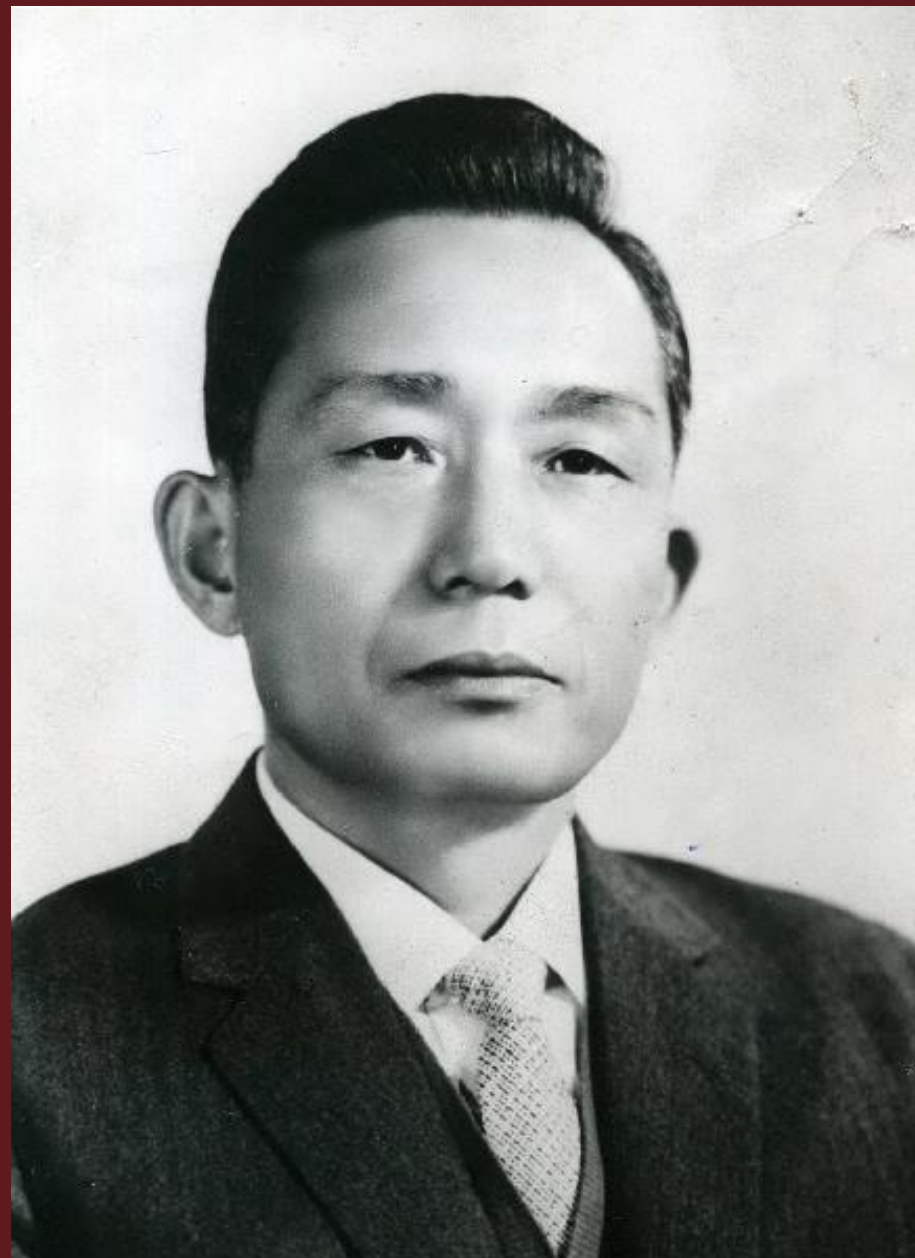
After the Korean War, South Korea's economy was heavily depend on foreign resources through foreign aid, especially from the US.

[Figure 1] US military and economic aid to South Korea, 1946–1981 (constant 2012 USD)



Source: USAID

# South Korea under the Military rule



- The First South Korean government to introduced economic planning.
- Economic growth of South Korea referred as the "Miracle on the Han"
- Desire to free country from America and become self- reliant.
- South Korea became an industrialized country.
- Support SMEs and small business

# *Five year economic plans (FYP)*

- Designed to increase wealth and strengthen political stability

## Example :

- Development of industries
- Shift the South Korea state into heavy industries
- Building an export-oriented economy by promoting heavy and chemical industries
- Shifted to technology intensive and skilled labor intensive industries
- Expand training and R&D in all industries

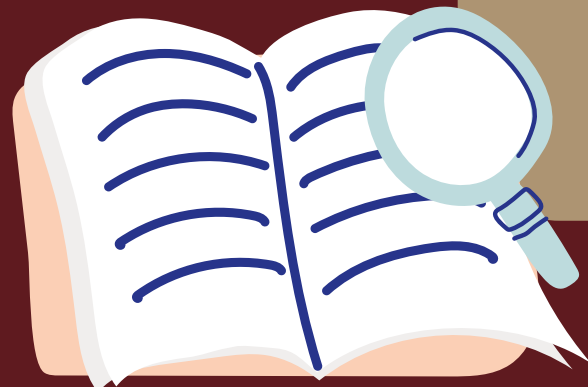
# Education



Rapid expansion of education in  
South Korea

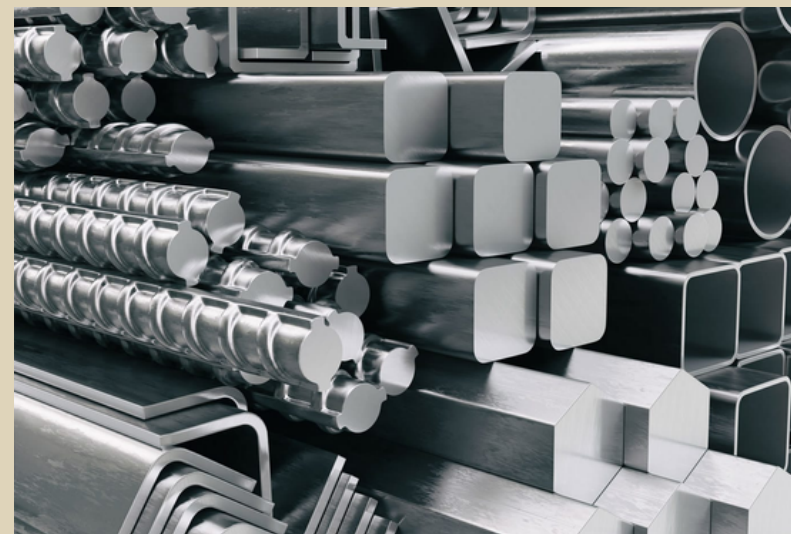
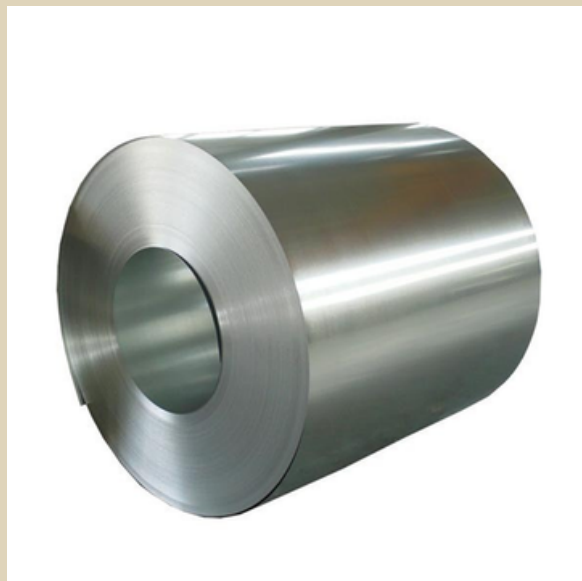


Increasing in the employment rate because the laborers  
were getting higher education.



# *Industrialization*

- Key of South Korea's economic growth was the modernization with industrialization and expansion of the industrial sector.
- Shift from light to heavy industries.
- Six industries were target : steel, chemical, metal, machine building, shipbuilding, and electronics.



# Export-led industrialization

The economic team under the military government pushed for an export first economic policy.

Rapid rise in South Korean export was the result of rapid economic growth.

Export products :

- Began with Textiles, plywoods, wigs
- Heavy chemical industries
- Steel products
- Electronics
- Ships

From the late 1980s, South Korea became economically self reliance and also becoming part of a global economic system



# Industrial Organization

- the government's selective credit policy, according to the scale of business

- government's ability to allocate financial resources
- favored *Chaebol*
- to ensured the economic success of the country; resulted in the rapid expansion and increased domination
- resulted in the concentration of economic power in their hands; dominant economic position





- almost monopsony power to *Chaebol* in term of Financial
  - ability to access to the best bank loans, by government support
  - able to borrow money from domestic and foreign sources
  - *Chaebol* also borrowed money from external sources
  - *Chaebol's* ability to build business empires using large amounts of leverage
- small and medium-sized enterprises in Korea have historically been denied ready access to loans
  - more than 50 percent of all new funds raised in Korea went to the top five *Chaebol*
  - borrow from the curb market, at much higher interest rates

# Personal saving

- negative impact on personal saving during the period after the Korean War; before *interest rate reform*
- average annual rate of interest on savings deposits paid by banks between 1953 and 1964 ranged between 4.8 and 15 percent



- high interest rate policy between 1965 and 1972; implemented in 1965
- the organized financial intermediaries were made more attractive
- level of time and savings deposits in banks grew at a compound annual rate of nearly double and brought about a fourfold increase in savings/time deposits in two years.
- personal savings increased while decreasing personal consumption during 1966-68
- resulted in large increases in personal savings and helped to channel funds from the curb market to banks

# *Financial reform*

- government's financial policy resulted in poor management of financial institutions
- inefficiencies in financial resource allocation
- incentive framework for the financial sector



# *Main goals of the financial sector reform program*

- By restructuring financial institutions, government provided financial support in addition to private recapitalization efforts
- opened up the financial sector to foreign investors



# *Financial Supervisory Committee*

- strengthen the supervision of financial institutions
- confirm more closely to international norms
- Result : non-performing loans was brought under control, banks' bad loan ratio had dropped



# *Financial Costs of Reforms*

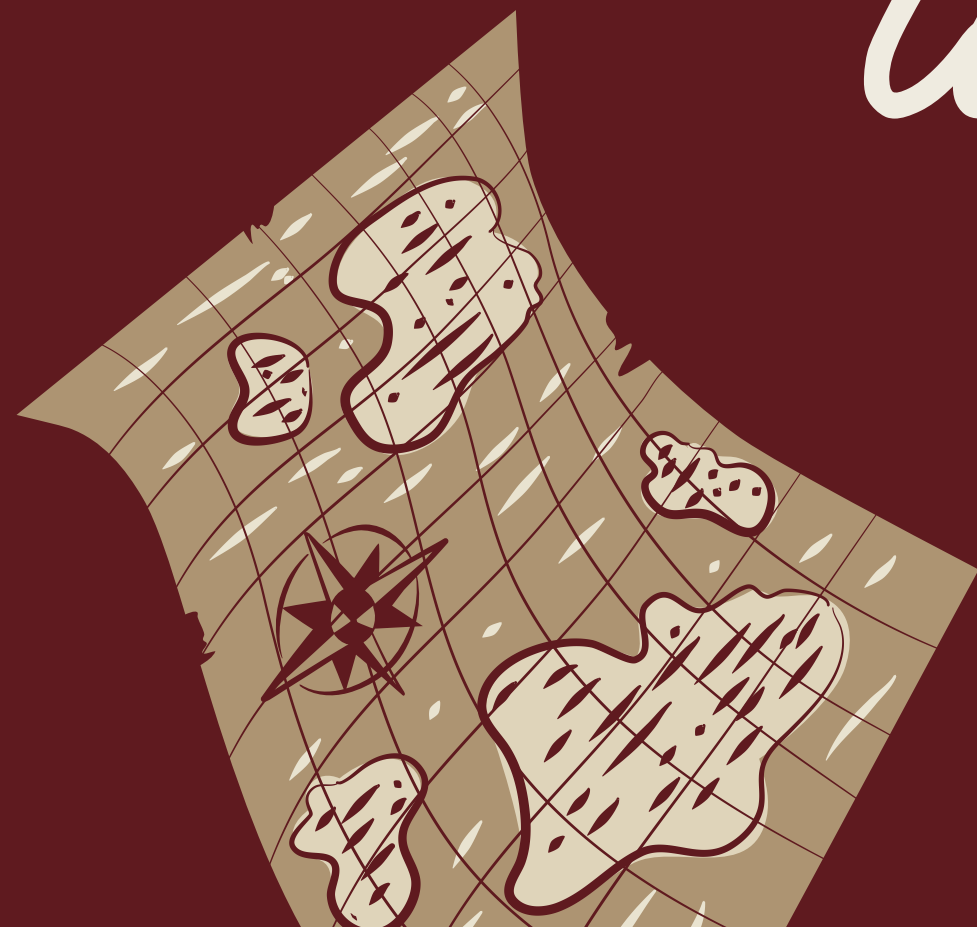
- initially borne by the financial institutions; nonperforming loans, later borne by government; nonperforming bank loans were as much as a quarter of GDP, and nonperforming assets nearly two-thirds of GDP in 2000.
- the restructuring of the nation's financial sector amounted to \$65 billion



- the cost of the interest subsidy was then made up by the Bank of Korea
- the Bank of Korea had to extend special loans
- The rediscounting was covered partially out of profits of the central bank and partly by direct subsidies from the government.
- recapitalize and clean up the financial sector so that the financial and corporate reform could be completed
- public burden caused by the government's public debt: interest, lost principal, opportunity costs
- government efforts to support strategic industries



*Thank You for  
listening!*



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