Contemporary South Korean Economy: Challenges and Prospects


In Contemporary South Korean Economy, Chiang provides a critical analysis of the Republic of Korea's economic development in the two most recent decades. Chiang highlights that most of the literature on the Republic of Korea's economy focuses on the country's substantial economic growth periods between the 1960s and 1980s; yet, there is little literature that discusses Republic of Korea's post-industrialization period. Examining the recent economic performance of the country is important because policymakers can observe whether the Republic of Korea's export-oriented policies were sustainable in the long-run. This book aims to investigate the core economic structures of the country and issues after attaining its post-war industrialization. Contemporary South Korean Economy is a necessary addition to literature on the country's miraculous growth.

Chiang organizes the chapters into five distinct topics: the changing drivers of economic growth, the importance of large businesses, the Republic of Korea’s free trade agreements, the growing income inequality and the Republic of Korea's ageing demography. Chiang provides a clear account of the policies and actions taken by the Government, and offers analysis of the risks that are associated with these actions. The author uses data from various sources, including the Bank of Korea and the US Bureau of Economic Analysis, to support her arguments.

Chiang outlines the policies implemented in the Republic of Korea since industrialization; especially in the recent years, during which export levels have consistently dropped. The country’s export levels shrunk between 2014 and 2016, from about $706.56 billion (in current United States dollars) to $569.08 billion.¹ The author attributes the decline in exports to various factors, including China’s increasing industrial strength, which has reduced China’s reliance on Korean intermediate goods, and Japan’s depreciating currency, which has

¹ Exports of goods and services (current United States dollars), data accessed from the World Bank Database. Available at: https://data.worldbank.org/indicator/NE.EXP.GNS.CD?locations=KR-KP
reduced the competitiveness of Korean goods in the world market. With declining export levels, the Korean Government has shifted its economic growth strategy to one that focuses on promoting domestic consumption and investment. The Korean Government implemented policies to cut interest rates to 1.5 per cent, reduce the consumption tax, and increase expenditure to stimulate the economy. At the same time, the Republic of Korea negotiated bilateral free trade agreements with China, the United States and other large trading partners. Although China’s industrial shift had negative repercussions on the Republic of Korea, trade with China has been a crucial driver of the Korean economic growth. These free trade agreements are to provide Korean producers with more access to both Chinese and American markets.

The Republic of Korea decided not to take part in the negotiation of the Trans-Pacific Partnership (TPP), which brought together 12 countries from around the Pacific Rim, most notably the United States, and concluded negotiations in 2016. The major question, of course, was about the potential impacts of TPP on bilateral trade between the United States and the Republic of Korea. While Chiang does not go into analysis of the TPP’s impacts, other literature (for example Gilbert and others, 2017) indicates small losses for the Republic of Korea with the United States being a member of the TPP. Gilbert and others (2017) attribute these losses to trade diversion and preference erosion; since the Republic of Korea and the United States already have an existing free trade agreement, the participation of the United States in the TPP might cause the country to shift imports away from the Republic of Korea to other members in the TPP. Of course, with the United States’ withdrawal from the TPP in 2017, this discussion is not applicable, at least not in the foreseeable near future.

Tariff reduction was a critical strategy used during industrialization period of the Republic of Korea, and continues to be important today. During the industrialization period, the country provided tariff exemptions on imported goods used as inputs for exported goods, and established a broad tariff reduction; additionally, major trading partners reduced their tariffs on imported Korean goods under the General Agreements on Tariffs and Trade (GATT). The effect of these reductions on welfare in the manufacturing sector was examined in a static neoclassical growth and trade model by Michelle Connolly and Kei-Mu Yi; this study is not referenced in the book, yet it supports the author’s claims that fewer trade barriers were beneficial to the Republic of Korea’s economic growth. Connolly and Yi simulate the tariff reductions that were implemented between 1962 and 1989 and assume no technological spillovers as a result of trade. Considering that the model assumes no technological advancements, the results suggest that tariff reductions explain a noteworthy proportion of the manufacturing sector’s value-added per worker; the actual extent to which tariff reductions affected welfare

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in the manufacturing sector is expected to be greater with endogenous technical change. Tariff reduction was a beneficial component of the Government’s Development Strategy because it aided the expansion of the manufacturing sector.

Chiang’s account of why the Republic of Korea was vulnerable to the Asian financial crisis in 1997, however, exposes an important loophole in the Development Strategy. The export-oriented industrialization strategy was sustainable for close to four decades, with the exception of the Asian financial crisis during which gross domestic product (GDP) dropped. The export-oriented strategy was affected during the Asian crisis because as export levels dropped, the Government could not service its debt, which was constituted by short-term foreign loans. Although Chiang raises an important point about the risks of short-term financing, she does not explicitly express the fundamental reason behind the vulnerability of the Republic of Korea, which is arguably the lack of diversification in the Development Strategy. The Korean Government focused solely on using a trade surplus as a stabilization tool; this is why external factors, such as the depreciation of the Japanese Yen, have had such a big impact on the economy of the country as a whole.

In addition to only focusing on export development, the Korean Government also only promoted exports of leading sectors, and this led to the chaebol structure. “Chaebol” is a Korean word that means “business family” or “monopoly”. Many businesses that received preferential treatment during the Development Strategy were owned by the same dynasty. It is important to note that specializing in certain industries for exports is more efficient, especially if the Republic of Korea has a comparative advantage for producing specific goods. However, this preferential treatment led to an economic structure where a few large corporations were holding the weight of the whole country. Chiang argues that although the existence of the chaebol structure allowed the Republic of Korea to be vulnerable to the Asian financial crisis between 1997 and 1998, its recovery can also be attributed to the chaebol’s international business expansion. “Chaebol’s success has since paved the way for the country to become an important world manufacturer in heavy industries, such as shipbuilding, automobile and steel production” (Chiang, 2017, p. 43). So this raises the question of whether a chaebol structure is beneficial to an economy if it makes a country vulnerable to crisis, but is also essential to its recovery. Although chaebols are more equipped for promoting innovation in the Republic of Korea, this structure leaves small and medium sized enterprises (SMEs) behind; this structure will promote economic growth, but also inequality. Additionally, by depending on a few large companies, the Republic of Korea is at risk for future crisis.

The Government should have also promoted other sectors, in addition to exports, to reduce risk. Chiang highlights that unlike other Asian countries, the Korean Government did not utilize foreign direct investment (FDI) policies as part of its industrialization plan. It was only after the crisis that the government realized that encouraging FDI’s, in addition to exports,
would be a more sustainable structural change. As the Republic of Korea promotes consumption and innovation, FDI would be a great tool to offer high-skilled job opportunities and diversify the country’s Development Strategy.

Chiang provides a well-organized and detailed account of the economy of the Republic of Korea in the recent decades. The author also discusses future challenges the country may face, including its ageing labor force, and growing inequality. She effectively makes policy recommendations that would help the Republic of Korea maintain its economic growth in the future, while avoiding crisis. However, one policy recommendation that Chiang does not explicitly discuss regards the Republic of Korea’s lack of diversity in their Development Strategy, which has made it vulnerable to external factors. Some of the points that Chiang makes also raises important questions for further discussion. For example, is the chaebol structure good for the economy as a whole? Overall, this book is a great resource and an important addition to literature on the Republic of Korea’s miraculous growth. From this book, policymakers can learn what worked in the country’s Development Strategy, and what could be improved.


Data:
Exports of goods and services (current US$), data accessed from the World Bank Database. Available at: https://data.worldbank.org/indicator/NE.EXP.GNFS.CD?locations=KR-KP

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**Bibliography**

*The ARTNeT Secretariat, Trade, Investment and Innovation Division, United Nations Economic and Social Commission for Asia and the Pacific, [www.artnetontrade.org](http://www.artnetontrade.org) and artnetontrade@un.org*