

CAPITALIST MATURITY AND SOUTH KOREA'S DEVELOPMENT CONUNDRUM

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OUTLINE OF THE PRESENTATION

- Background to this project
- The basic argument
- A quick preview of Korean development
- The concept of capitalist maturity
- The empirics of capitalist maturity
- Key challenges
- Sharing prosperity
- Conclusion: Two-faced after development conundrum for Korea

BACKGROUND

- Not a Korea expert but comparative development
- Early work on the steel industry (1987, 1995 Korea field research, was a guest of POSCO, visited mills)
- This study based on conference organized at the Copenhagen Business School, April 2013
- Oxford University Press, 2015, 14 chapters
- Political economy of capitalism and development combining business, economics, technology, etc.

THE BASIC ARGUMENT

- South Korea's development trajectory well-known
- Shift the debate to “what happens after prosperity?”
- Post-industrial, post-development? era
- Alternatively, how to respond to capitalist maturity?
- Is there a (OECD) roadmap available?
- Whatever the response, it's not going to be easy because the world is not the same as it was for the “catch-up” cycle
- Two responses: external engagement and getting house in order (Korean unification omitted)
- State leading business to now business pushing state in an increasingly pro-business economy

CHAEBOLS: HEROES OR VILLAINS?

EVOLUTION OF CHAEBOL PARTNERSHIP

Development Partnership

■ Objectives

- (G) Rapid industrialization
- (B) Grow & profit♪

■ Tools♪

- Generous subsidies♪
- Strong monitoring♪

* *Export success a key performance criterion♪*

Change of Environment

- President Park's death
- Deregulation
- Globalization
- Democratization:
 - > Need for financing political activities

Political Partnership

■ Objectives

- (G) Political contributions♪
- (B) Maximization of family interests♪

■ Consequences

- Weak monitoring
- Moral hazards, NPLs
- Demand for "economic democratization" ♪



A QUICK PREVIEW

- Per capita income rose 10 fold from 1960-2000
- US: 10 fold increase from 1870-2000 (Barro)
- Lower than India in the 1950s, now nearly 15 fold
- PISA tests (63% of 24-35 complete tertiary education)
- Low wage to high wage, labor intensive to capital and now knowledge intensive
- Authoritarian to democracy (some areas falling short)
- Modernity and popular culture
- Member of OECD and OECD's Development Assistance Committee (2010)
- Net receiver of foreigners

CAPITALIST MATURITY

- Simple concept but not easy to measure it
- Sustained economic growth and structural transformation suggests maturity (market saturation, part of leapfrogging)
- Growing sophistication of products and services, dynamic entrepreneurship
- Capitalists become seasoned with learning by doing (observing), taking risks, investing, competing, indebtedness
- It also means market saturation and new kinds of problems



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“Make In India” Campaign and Its Implications

The government of India selected 25 core sectors* of the economy to be promoted under the campaign, in four major categories: labor-intensive industry, capital goods, industries to be strategically developed and industries with competitive advantage.

* automobiles, automobile components, aviation, biotechnology, chemicals, construction, defense manufacturing, electrical machinery, electronic systems, food processing, information technology and business process management, leather, media and entertainment, mining, oil and gas, pharmaceuticals, ports and shopping, railways, renewable energy, roads and highways, space and astronomy, textiles and garments, thermal power, tourism and hospitality, and wellness.

EMPIRICS OF MATURITY

- Growth trend from the 8-12% per annum in the 1980s, to less than 6% and 9% in the 1990s, to a low of 0.3% in 2009 and 2% in 2012.
- Changing labor markets, structural shifts
- US: 83% of non-farm employment, Japan similar
- Civilian employment in industry peaked in 1991 with 36.82%, gradually declining to 24.77 % in 2011.
- Civilian employment in services consistently increased from 1980 to 2011, from 38.23% to 68.87% (but not tradable services)
- But Japan merchandise trade surplus to deficit, has services always in deficit, Korea also following suit

Korea, Republic of - Exports - World - Mln. USD

Services

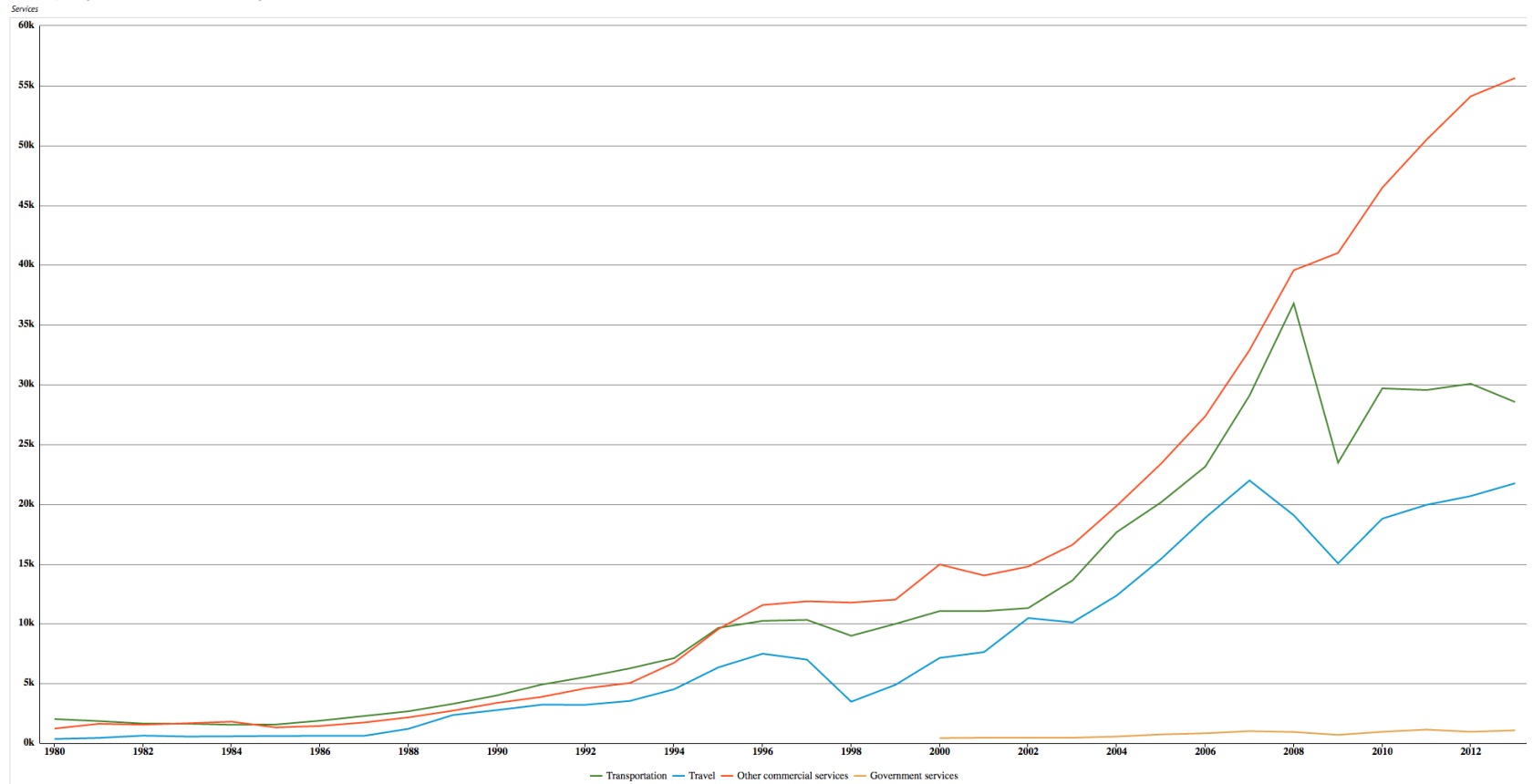
	2012	2013
Commercial services (Services excl. government services)	110,323.5	111,782.9
Transportation	41,399.7	36,551.9
Travel	13,518.2	14,406.8
Other commercial services (Commercial services - Travel & Transport)	55,199.9	60,805.9
Communications services	356.6	907.3
Telecommunication services	165.4	600.9
Construction	19,708.6	19,052.3
Insurance services	489.7	651.6
Financial services	3,193.3	3,620.7
Computer and information services	464.3	931.0
Computer services	297.9	607.3
Royalties and license fees	3,805.9	4,107.5
Other business services	25,929.8	30,063.0
Personal, cultural and recreational services	1,251.7	1,472.5
Audio-visual and related services	359.2	406.1
Services	111,558.5	112,992.7
Other services	56,434.9	62,015.7
Government services, n.i.e.	1,235.0	1,209.8

Korea, Republic of - Imports - World - Mln. USD

Services

	2012	2013
Commercial services (Services excl. government services)	104,872.4	105,921.6
Transportation	30,061.0	28,535.7
Travel	20,669.4	21,738.2
Other commercial services (Commercial services - Travel & Transport)	54,104.5	55,628.5
Communications services	1,103.7	1,808.9
Telecommunication services	519.1	1,042.0
Construction	3,363.2	3,882.5
Insurance services	794.1	796.8
Financial services	976.3	930.9
Computer and information services	480.4	627.2
Computer services	155.1	257.6
Royalties and license fees	8,477.7	9,597.5
Other business services	37,722.3	36,679.3
Personal, cultural and recreational services	1,186.8	1,305.4
Audio-visual and related services	361.9	372.9
Services	105,824.8	106,996.5
Other services	55,056.9	56,703.4
Government services, n.i.e.	952.4	1,074.9

Korea, Republic of - Services Imports - in - Min.\$



CAPITALIST MATURITY, RESPONSES, AND TWIN ENGAGEMENTS

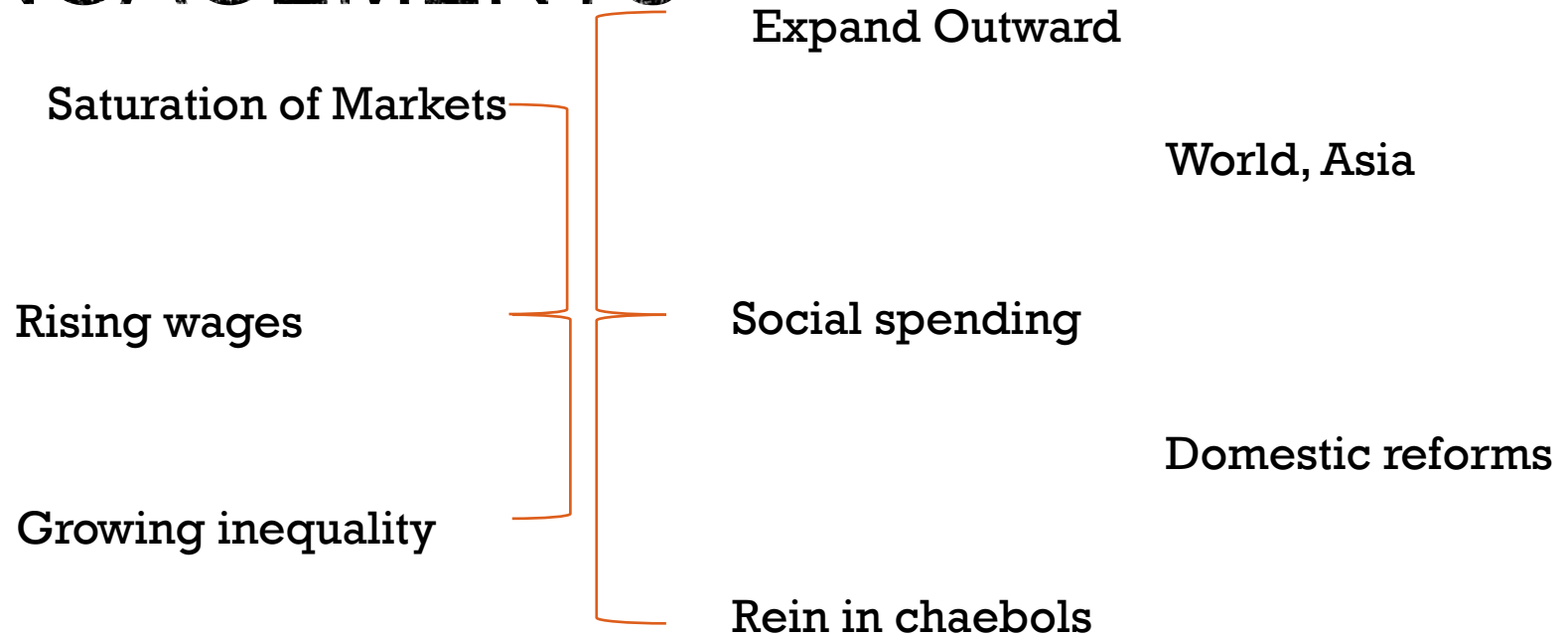


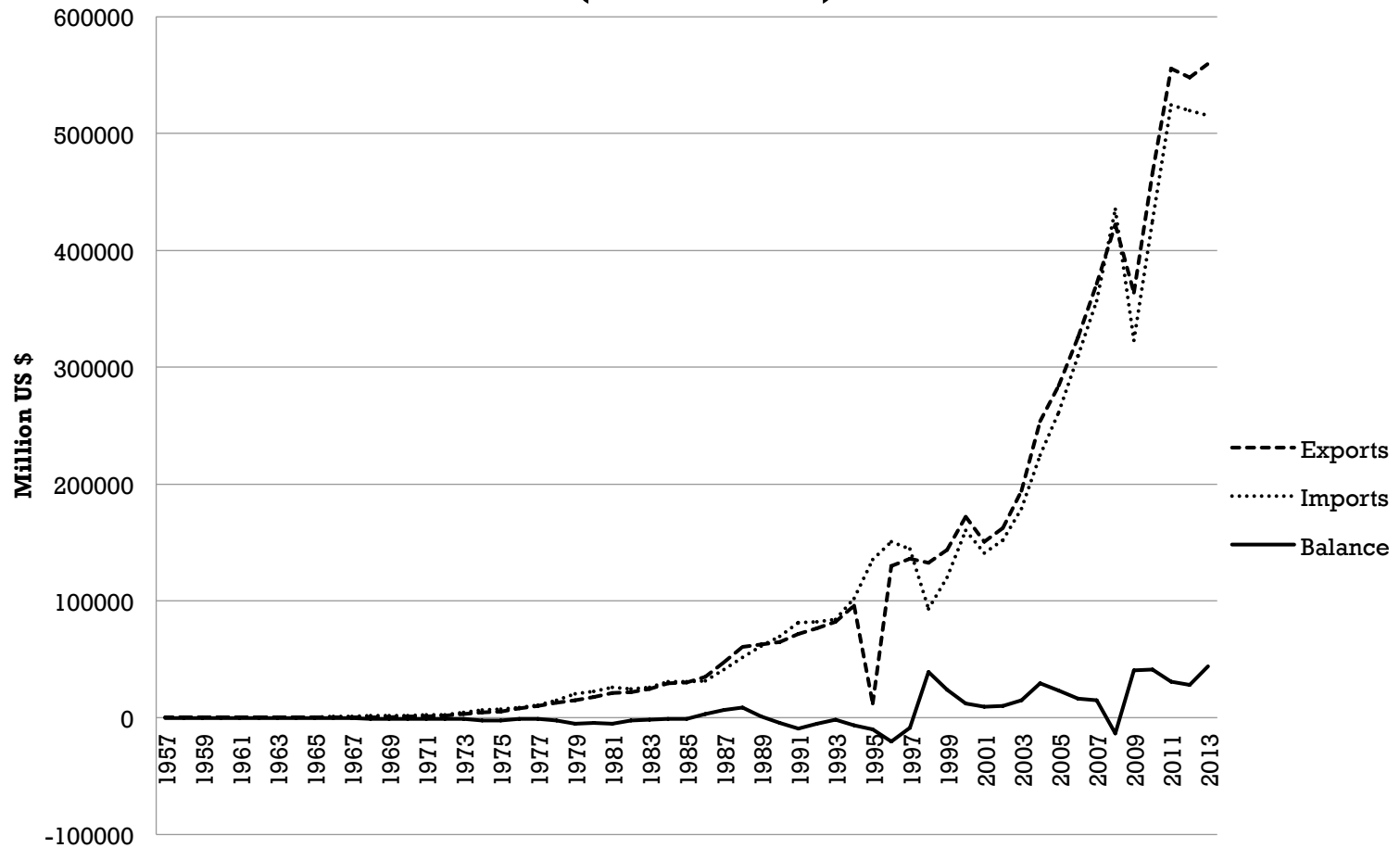
Table 1: Rapidly Ageing Population in Korea Relative to Other OECD Countries

Country	Year when the share of elderly (over 65) makes up:			Years elapsed	
	7% of population	14% of population	20% of population	7-14%	14-20%
Korea	2000	2018	2026	18	8
Japan	1970	1994	2006	24	12
Germany	1932	1972	2012	40	40
United Kingdom	1929	1976	2021	47	45
Italy	1927	1988	2007	61	19
United States	1942	2013	2028	71	15
Sweden	1887	1972	2012	85	40
France	1864	1979	2020	115	41

Source: United Nations in OECD (2008: 29).

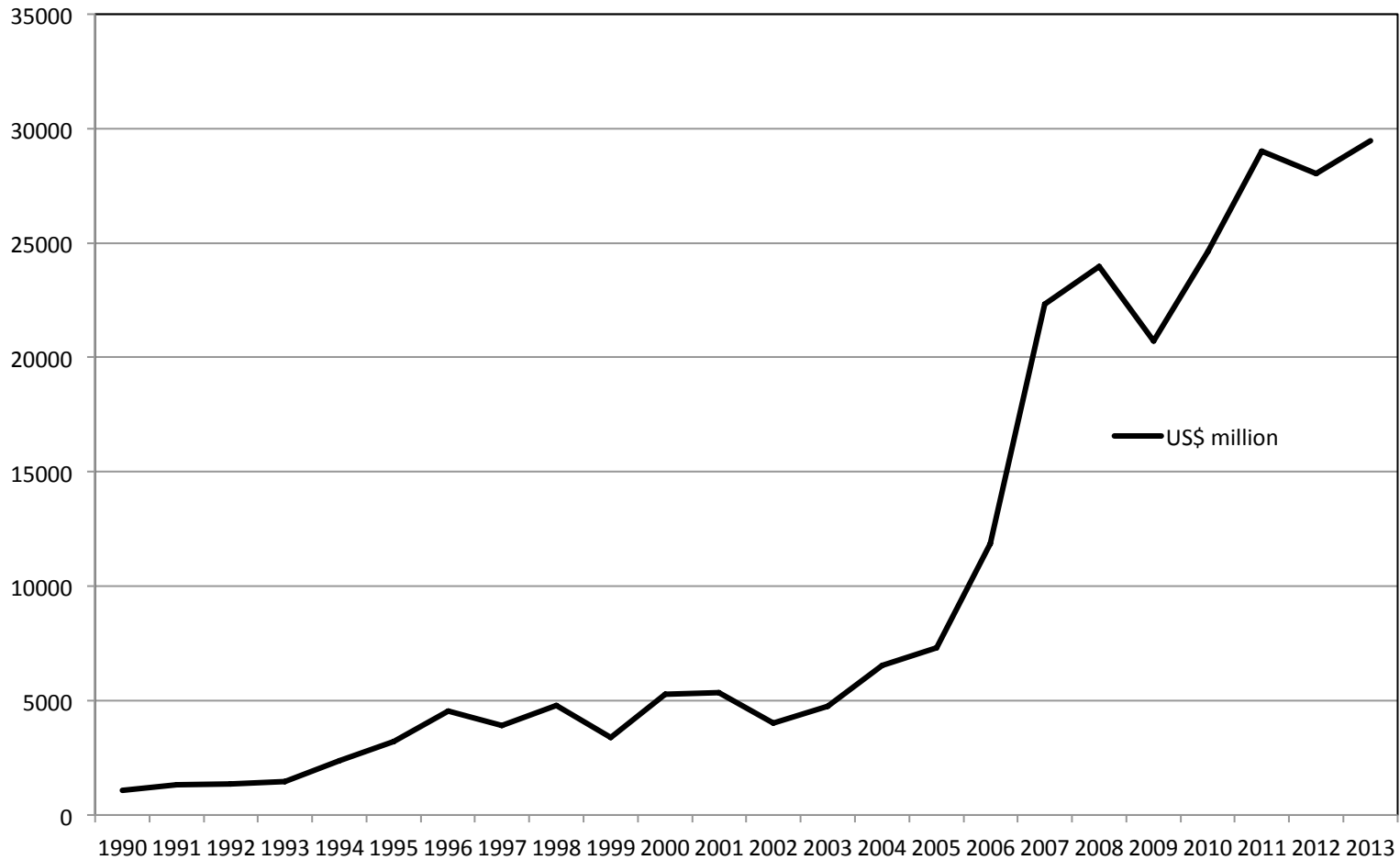
Fertility Rate 1.2

Figure 1: Korea's Continued Export Drive (1957-2013)



Source: Korea International Trade Association, <http://global.kita.net/>, Accessed 08/07/2014.

Figure 2: Korea's Foreign Direct Investment (US\$ million)



Source: Adapted from Korea Eximbank, Foreign Investment Statistics, http://21.171.208.92/idisas_eng.html, Accessed 08/09/2013.

Table 2: Korea's FDI by Region (% share)

	2000	2005	2010	2011	2012	2013
Asia	32.4	59.3	41.3	38.9	40.4	38.3
Middle East	0.6	1.8	1.4	1.4	1.3	1.6
North America	27.9	17.7	19	29.2	22.1	20.8
Central/S. America	28.5	8.3	9	8.8	11.9	10.9
Europe	5.9	9	24.9	15	14.7	16.6
Africa	3	1.8	1.2	1.3	1.3	0.6
Oceania	1.7	2.1	3.2	5.3	8.4	11.1


Source: Korea Eximbank, Foreign Investment Statistics,
http://21.171.208.92/idisas_eng.html, Accessed 08/09/2013.

KEY CHALLENGES: PART I

- China principal market but also competitor
- Raw material and critical technologies dependence
- Foreign direct investment inevitable but:
 - Transfer of Korean institutional/business practices (tensions in managerial styles, labor relations)
 - POSCO's travails in Indian resource/steel investment
 - Asian migration (inevitable) but ethno-nationalism
 - High skilled and unskilled (3D jobs), marriage migrants



KEY CHALLENGES: PART II

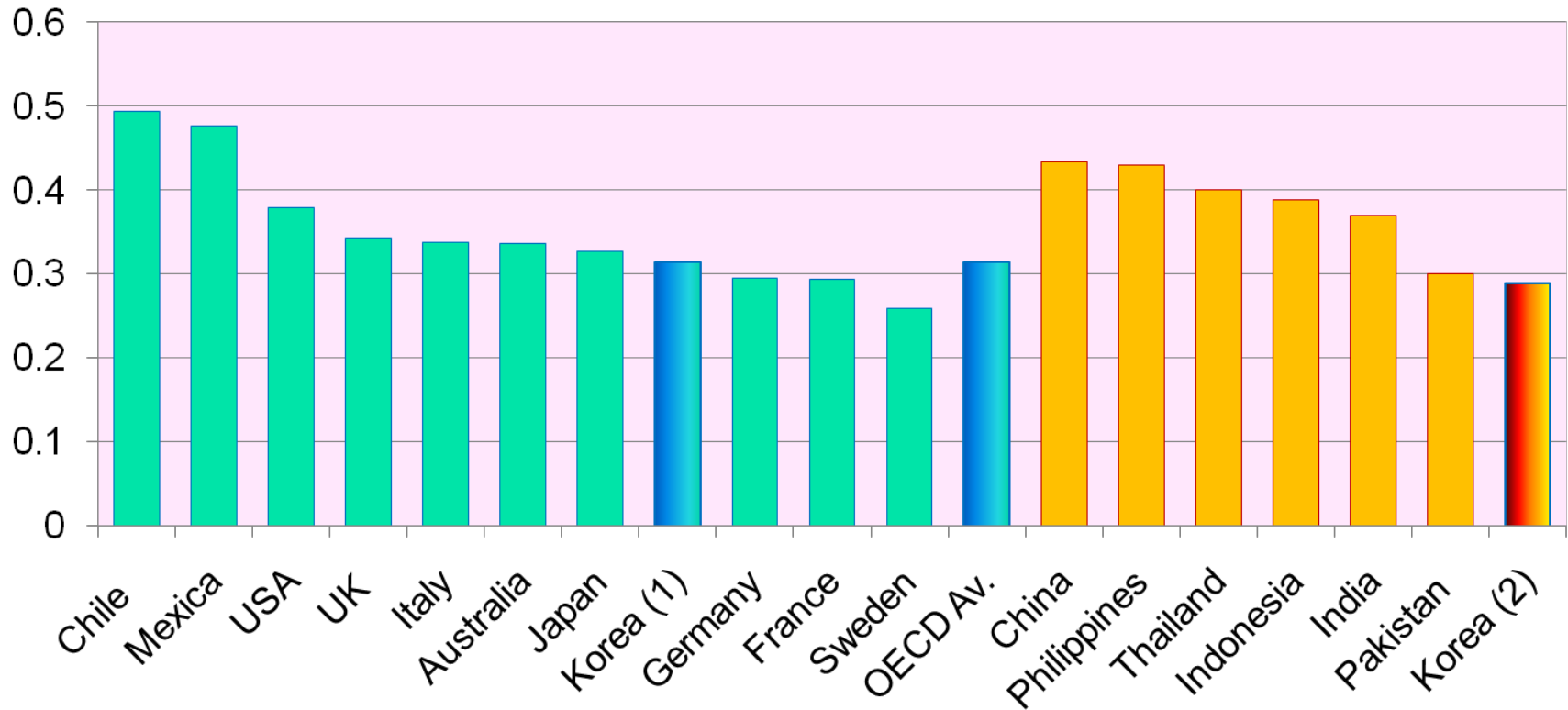
- Soft growth expectations: 2.4% (2018-2030)
- Declining savings, rising household debt
- Green technologies and 17 growth sectors
- But innovation “environment” weakness
- Female participation in Korea low among OECD (many possible policy interventions for women)
- Education, child care, women’s participation
- Foreigners and employers
- Foreign workers and nationals
- Inequality (wage gap by workers, gender,  middle class)

CONCENTRATION OF ECONOMIC POWER

		2000	2006	2011
Top 30 B Gs	Sales	44.1	35.8	37.4
	Assets	42.4	40.5	35.6
	Employees	10.1	10.3	10.0*
	GDP (value-added)		approximately 15%	
Top 4 B Gs	Sales	28.1	19.1	18.8*
	Assets	21.2	18.7	18.4*
	Employees	4.6	4.9	5.0*

Note: * Figures for 2010.

GINI COEFFICIENT (MOSTLY LATE 2000S)

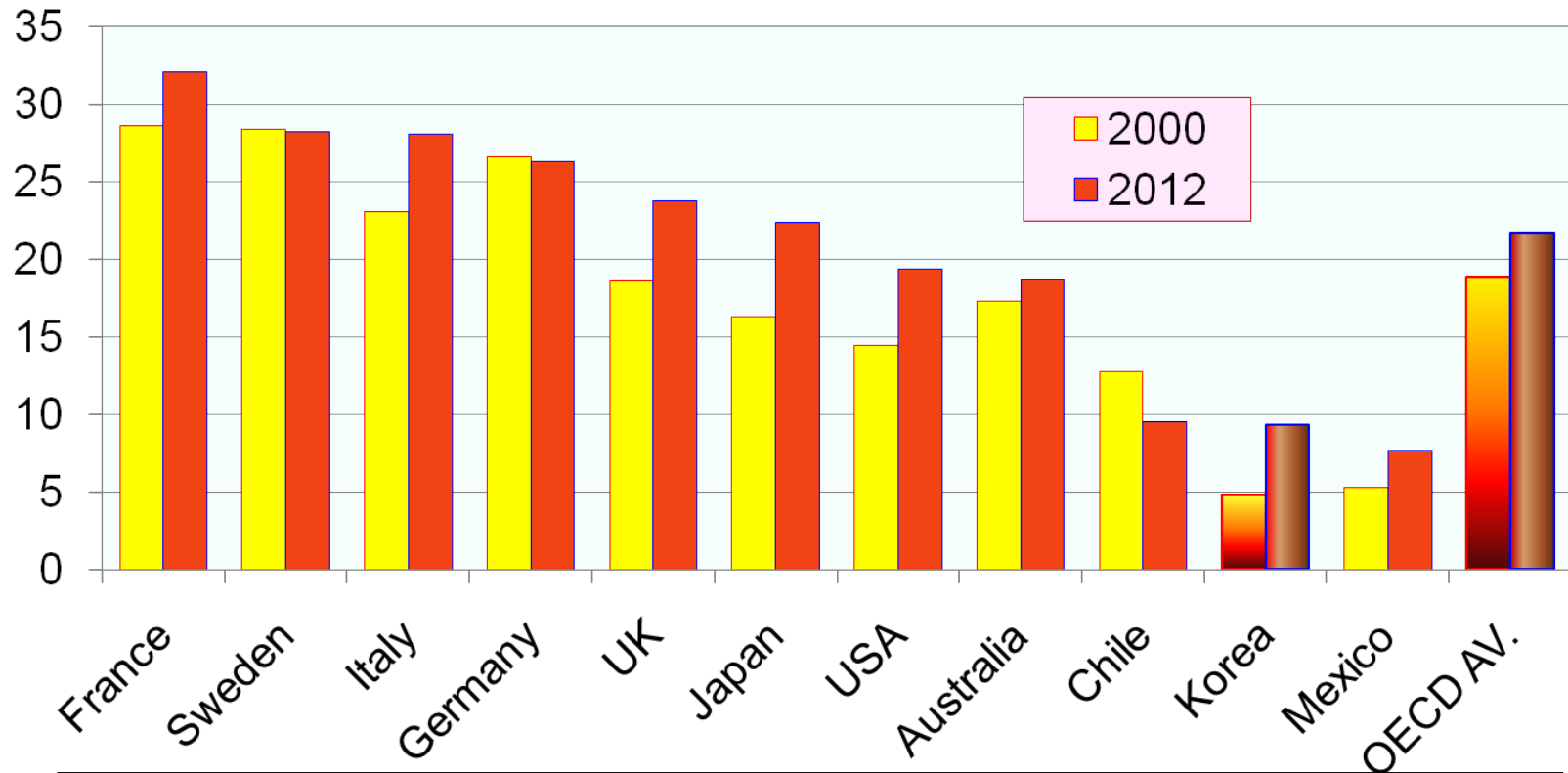


Sources: OECDiLibrary and ADB, *Asian Development Outlook 2012*.

SHARING PROSPERITY

- Chaebols (moral hazard, golden goose), family control
- Separation of commerce and finance (chaebols control financial institutions)
- Inter-subsidiary business deals to be monitored (unfair competition)
- Corporate governance such as electronic voting to elect independent directors by minority shareholders
- Strong punishments for embezzlement etc. instead of pardons
- SMEs and non-regular workers (lower wages, benefits, security)
- Health, insurance regular versus non-regular workers (wages 61% of regular)
- Low unionization rate for non-regular workers (1.4% versus 14.4%)

SOCIAL EXPENDITURE (% OF GDP)



Note: It is 2009 for Japan, 2010 for Chile, and 2011 for Mexico instead of 2012.

Source: OECDiLibrary.

SHARED GROWTH & SOCIAL WELFARE

HOW?

- National Commission for Corporate Partnership designating products/services reserved for SMEs
- Better enforcement of Fair Trade Act
- Comprehensive welfare services tailored to the needs of each age group
- Basic Five-Year Social Security Plan: finance without raising taxes?



TWO-FACED AFTER DEVELOPMENT CONUNDRUM

- Capitalist maturity demands flexible responses on external and internal fronts
- Managing external sector well, exports (also services), upgrading, FDI
- But multiculturalism? assimilation, acceptance, employment, career prospects of foreigners not well
- Continuing challenges to democracy due to inequality
- Domestic front many areas of intervention: dualism, creeping inequality, quality of life issues
- Social spending 9.3% compared to OECD average of 14.4% of regular workers
- Fiscal constraint
- Need to restore a better balance between state and big capital with a people-centered economy and society

D'COSTA AFTER-DEVELOPMENT DYNAMICS



AFTER-DEVELOPMENT DYNAMICS

SOUTH KOREA'S CONTEMPORARY
ENGAGEMENT WITH ASIA

EDITED BY ANTHONY P. D'COSTA

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THANK YOU!

Thank you!