Lessons from South Korean Development and Its Future Challenges

Ai Yulin

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South Korea's economic take-off was known as the 'Miracle on the Han River'. This paper gives insights in the development of South Korea. It explains the following questions: how can South Korea achieve its current achievements? What are the challenges that South Korea may face in the future? And are there approaches available for South Korea to solve those challenges?

Key words: South Korean development; Future Challenges; Recommended solutions.

Introduction

South Korea as a developed country, has world-class leading advantages in IT, steel, automobiles industries and so on. But South Korea was actually one of the most impoverished countries in the world for almost a decade during the 1950s. In early 1960s, its national savings as a percentage of GDP were close to zero. And the level of its income per capita was very close to any other African country. Also, it was resource-poor with little mineral wealth. (Matt, 2015)

Today South Korea is famous for its cultural influence and innovative prowess. It had a real GDP per capita of US$33,207.8 in 2019 and ranked 24th out of 149 countries. Also, South Korea had high ranking on the Human Development Index in 2019. (Statista, 2020)

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Introduction

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This paper is to explore the lessons learnt from South Korea’s development. Firstly, it describes the factors which caused South Korea to develop. Secondly, it explains the challenges South Korea is facing or will have. Finally, it represents possible solutions which may deal with those challenges.

2. How did it develop?

2.1 Government-Led industrialization and the export-oriented policies

The main mechanism for its economic development was government-led industrialization. In 1961, Park Chung-hee led a military coup and then served as president from 1963 to 1979. He shifted the economy to focus on export-driven development strategy and home-grown labour-intensive industries, for example, clothing and textiles. Furthermore, strong support for R&D was central to his first Five-Year Economic Development Plan in 1962.

Those actions supported the emergence of chaebols that a group of massive, mostly family-run business conglomerates such as Samsung and LG. The South Korean government pushed the chaebols to invest heavily in Research and development (R&D) while shielding them from competition. The chaebols powered South Korea’s rise to global dominance in exports. Besides, with increased R&D intensity that focused on applied knowledge, chaebols were driven towards new heavy industries, including shipbuilding, petrochemicals, car manufacturing, and consumer electronics (Leigh, 2020).

2.2 Education

Investing in education was also a measure to increase the development of South Korea. Influenced by Confucian culture which regards scholars as the top of the social hierarchy and the attainment of knowledge is essential. Not only the South Korean government, but also the Korean people take education quite seriously. Additionally, the post-war government has set primary education as one of its priorities. Starting with free primary education in 1959, and it expanded free education to middle school from 1985. (Ministry of Education Republic of Korea, 2015). As of 1970, the literacy rate had grown to 87.6%. Also, the share of public expenditure on education increased by 10% between 2005 and 2014. And there was a focus on science and technology disciplinary areas. As for South Korea, the proportion of graduates and new university entrants in engineering, manufacturing, and construction is much higher than the average values of OECD countries. (Josh, 2018)

Education is a necessary factor which is able to foster the national development and economic growth. Education can make a country have more skilled workers which means it can own more valuable human capital. (Jackalenyehuda, 2016)

2.3 Financial Aids

South Korea got lots of benefits from foreign aid, most of them were from the United States, and followed by Japan. The US offered about $60 billion in grants and loans to South Korea between 1946 and 1978. US foreign aid constituted 99% of the overall assistance including military and multilateral funds received by Korea (Chung, 2007). In the period 1945-53 alone, American assistance (including military assistance) up to $1.2 billion (Mason, 1980).

Furthermore, that was also because South Korea was able to use the aid sufficiently. As South Korea was not
the only country which received foreign aids from other countries. But compared with many other nations which also got financial aids, South Korea made much higher and much more significant progress.

2.4 Collective Mindset
Influenced by military dictatorship and Confucian values (such as respecting elders) which led to the formation of top-down structures which were beneficial to efficiency. And people worked hard not only for their personal success but for the firms they worked for and ultimately for their motherland. (Korea Expose, 2017). For example, South Korea suffered from a financial crisis in 1998, to save their country in trouble, they were even willing to self-sacrifice - South Koreans queuing for hours to donate their own personal gold to the government to show their support for the country. (Elizabeth, 2017)

2.5 Improvement of Business Environment and Innovation
An open and fair business environment developed the domestic market and can attract foreign investors. South Korea was at an advantage with the ease to start a business and enforce contracts which was helpful to encourage investment, production and communication. (Ana, 2018)

Additionally, technology development and innovation could foster export competitiveness. South Korea has the highest ratio of R&D spending to gross domestic product (GDP) which is even larger than the U.S. and Japan. (Leigh, 2020)

2.6 Land Reform
Land reform was launched there in the 1950s, it made large-scale land redistribution within a short period. It had positive influence on agricultural productivity, which let poverty reduced. And it redressed the colonial legacy of dispossession by eradicating the long-standing landlord system, and land owners and large-scale landholders were virtually eliminated. The conflict between landlords and tenants, which might have led to political turmoil (Kim, 2017)

In general, land reform brought stability to the society and promoted old landlord class to invest their capital and energy toward commerce, industry, and education. (Michel, 2017)

3. Challenges

3.1 Aging Society
South Korea is one of the fastest aging countries in the world. As of the end of 2019, the population aged over 65 accounted for 15.5% of the total population, up from 14.2% in 2018. And it is predicted that by 2067, South Korea will become the oldest society in the world. (Jhoo, 2019).

The aging society can cause a labor shortage. The country’s demographic crisis is mainly due to the very low birth rate and the decreasing marriage rate. In addition, its fertility rate, which measures the average number of children in a woman’s lifetime, hit a record low of 0.98 in 2018, making it the only country in the world with a fertility rate below 1. (Park & Yoon & Kim, 2020)

3.2 Threats from North Korea
Firstly, one of the challenges is about NK’s nuclear weapons and missiles which is related to the country’s safety.

Although North Korea is a state party to the Biological and Toxin Weapons Convention (BTWC) and Geneva Protocol, evidence shows North Korea may maintain an offensive biological weapons program. Such as nuclear, Biological and chemical weapons. (Nuclear Threat Initiative, 2020) Once these weapons are used one
day, it will bring disaster to SK, for both people’s lives and homeland security.

Secondly, it is also related to the refugees from North Korea which may do espionage activities in South Korea. Those people who escape from NK are called defectors. And South Korea received most North Korean refugees in the world. Also, it has tolerant policies regarding the settlement of the refugees.

When North Korean refugees arrive in the South Korea, they have to face joint interrogation by authorities having jurisdiction to ensure that they are not spies. Then they will be sent to a government resettlement center which is an organization which help defectors in their day-to-day life for a more smooth transition into South Korean society (Calum, 2011). Additionally, the ministry of unification is the main institute which manages North Korean defectors in South Korean territory by establishing admission processes and resettlement policies.

However, the process of background check cannot 100 percent guarantee those refugees are real refugees rather than spies which can conduct spying activities. In addition, if some of them can get a chance to serve in the South Korea government which can get some secret information about the country, it will have a disastrous consequence.

3.3 Lack of natural and energy resources

Korea is a resource limited nation, therefore it is one of the top five importers of coal, liquid natural gas and mineral. Thus, the country’s economy is extremely susceptible to changes on the energy market. (U.S. Energy Information Administration, 2018).

The main energies it is currently using are oil and gas which are not renewable resources which means they have limited availability which possibly hinders the development of South Korean industry in the future.

3.4 Loss of Human Capital

In the future, it possibly will face the issue of talents outflow. It is Korean people have high willingness to flee the country.

Firstly, decline in life satisfaction which involves social pressure, such as job insecurity, low wages, high living costs, academic stress and heavy competition of employment which due to the large mismatch between the supply and the demand of human capital (Noriyo, 2018). In the last century, the collective mindset had positive effects which was a factor that fostered the development of South Korea. However, nowadays, imposing the collective mindset on individuals creates a lot of inefficiencies in the workplace: South Korea has the third longest average working hours with the lowest GDP per hour worked in the world among OECD nations. (Jieun, 2017)

In addition, South Korea has the second largest suicide rate in the world. According to government statistics, one in four South Koreans struggles with a mental health disorder at least once throughout their life. (OECD, 2020) South Korea's suicide rate is still the fourth highest in the world, low levels of happiness can ultimately cause social instability and loss of human capital.

Secondly, according to the law of South Korea, all healthy men have obligation to serve in army. Unless they do not have South Korean citizenship anymore. The length of one’s military service is around 2 years which is ranked the top 4 in the world. (Central Intelligence Agency, 2020)

Thirdly, there is a trend of gender inequality in South Korea. Males have already had serious employment issue, for females, they even have more serious employment problems. For instance, compared with males, the females tend to receive lower wages and have lower employment rate. It is mainly because maternity leave is not welcomed in South Korea, and it is also due to the Confucian family values which defines
women’s roles as a wife, mother, and housekeeper.(Joori,2019)

3.5 Challenges from China
South Korea’s competitive industry is at the risk of being eroded by China. Policymakers in China recently think more seriously about high-skill manufacturing and exports. And it has excellent manufacturing industry with low human costs . Furthermore, China is traditionally a large importer of South Korean goods. (Bryan,2018) Besides, China is known as ‘the world’s factory’ , ‘made in China’ can be seen in almost everywhere.

4. Recommendations

4.1 Encourage procreate and introduce immigrants
The low willingness of procreate possibly can be alleviated by encouraging women to have children, including good child care and housing policies, and employment reforms . And the government should try their best to solve female’s issues of concern about procreate.

South Korean government can act like many western countries that also have aging society problem , they take a more active immigration policy to bring in highly skilled foreign workers .

4.2 Stronger Background Check
Although South Korea does have background checks on those refugees , some of them maybe cannot be caught , so that they can still do spying activities in the country. I suggest that they can behave like the United States , which is also a country that can receive North Korean refugees , but they have stricter background check process which takes a long time. So that some North Korean refugees cannot wait any longer and chose to go to South Korea which only takes six months maximum, unlike the one year for the United States. (the Bush Institute, 2014 )

Even for those who can pass the background check , it is still better not let them serve in the army and the government . Some people may argue that it is a discrimination . In fact , it is not .As the South Korean government can provide aids to them to help them integrate into the society ,for example, career guidance , education assistance and culture introduction .But the job positions in the military and government , are tightly linked to the safety of the whole population of South Korea. Single spy which is not caught can lead to catastrophic results.

4.3 Develop Renewable Energy
Today many countries are trying to develop new energy , include South Korea . Developing renewable energies ,such as solar, wind energy and hydraulic, can efficiently deal with the issues about possible future shortage of traditional energies and high prices of unrenewable energies .In addition , it can also help South Korea transition from a fossil fuel energy economy to a sustainable energy economy sufficiently .

4.4 Focus More on Competitive Industries
An attempt to compete with China on cost or scale will fail. Since South Korea’s comparative advantages are technology and innovation, instead of resource-intensive heavy-manufacturing industries, which will inevitably lose market share to competitors in China. ( Stephen & Sharon,2010 )

Thus, South Korea is supposed to invest more on its competitive industries which are semiconductor, display, chemicals and steel industries. (Invest Korea,2020)
5. Conclusion

The export-oriented policies, investing in education, the collective mindset, improvements of business and R&D and land reform were the factors which made South Korea have a successful development. However, probably South Korea will face challenges because of aging population, challenges from North Korea and China, lack of natural and energy resources and loss of human capital. To alleviate those issues, the government should have better policies about encouraging procreate and introducing immigrants, do stronger background on North Korean refugees, develop renewable energies and focus on its competitive industries, such as display, semiconductor, steel and chemicals industries.

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