

**After
Saigon's fall:**

**capitalism's victory
in Asia**



The Asian “Miracle”

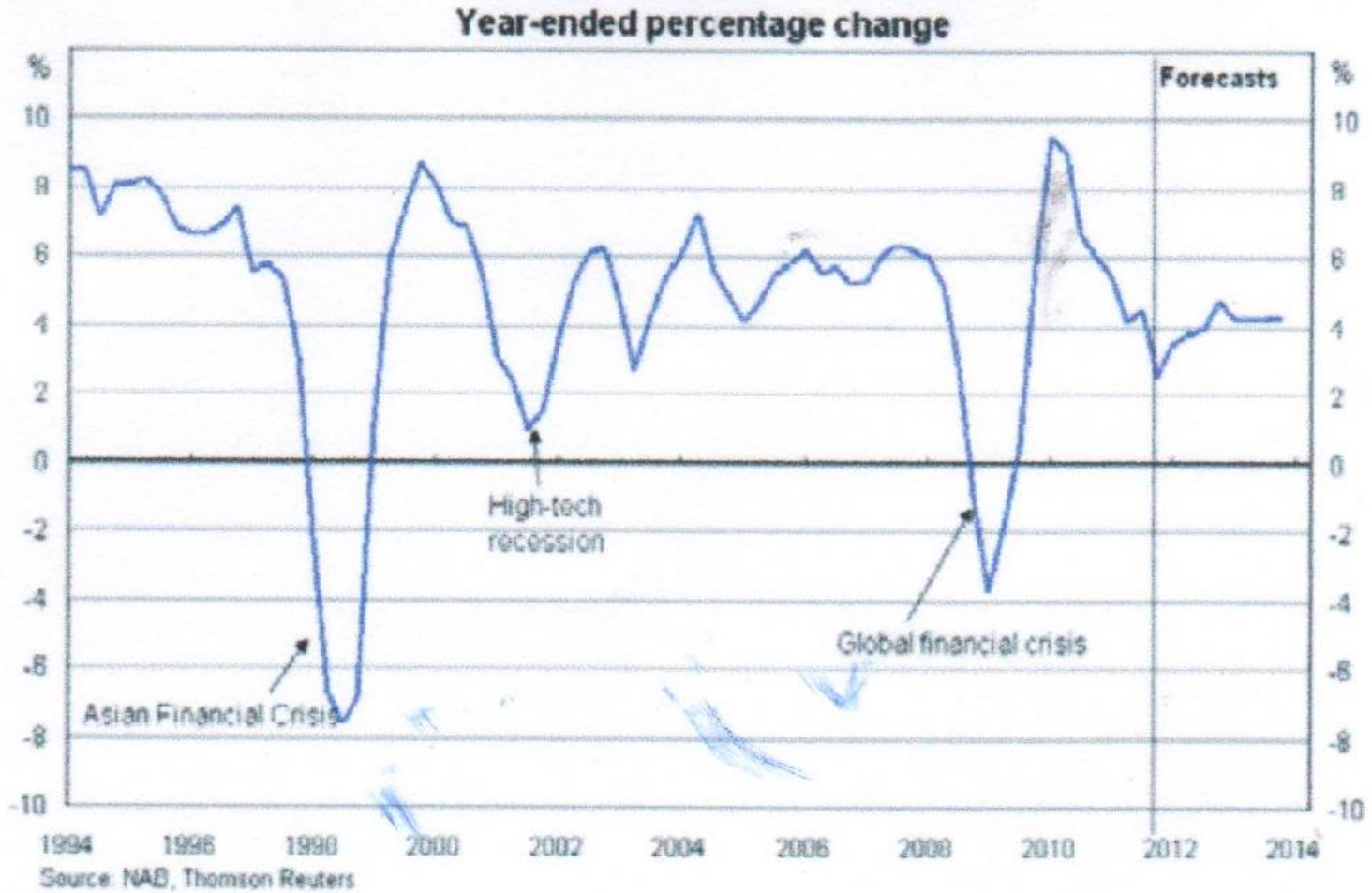
Korea and the Asian Tigers



Rapid growth with equity ?

- Focused on exports to rich industrialized nations
- Sustained rate of double-digit growth for decades
- Non-democratic and relatively authoritarian political systems during the early years
- High tariffs on imports
- The agriculture issue
- Undervalued currencies
- Trade surplus
- High level of U.S. Bond holdings
- High savings rate

Asian Tiger Economies – Regional GDP



“The East Asian Miracle: Economic Growth and Public Policy”

(1994 World Bank's study)

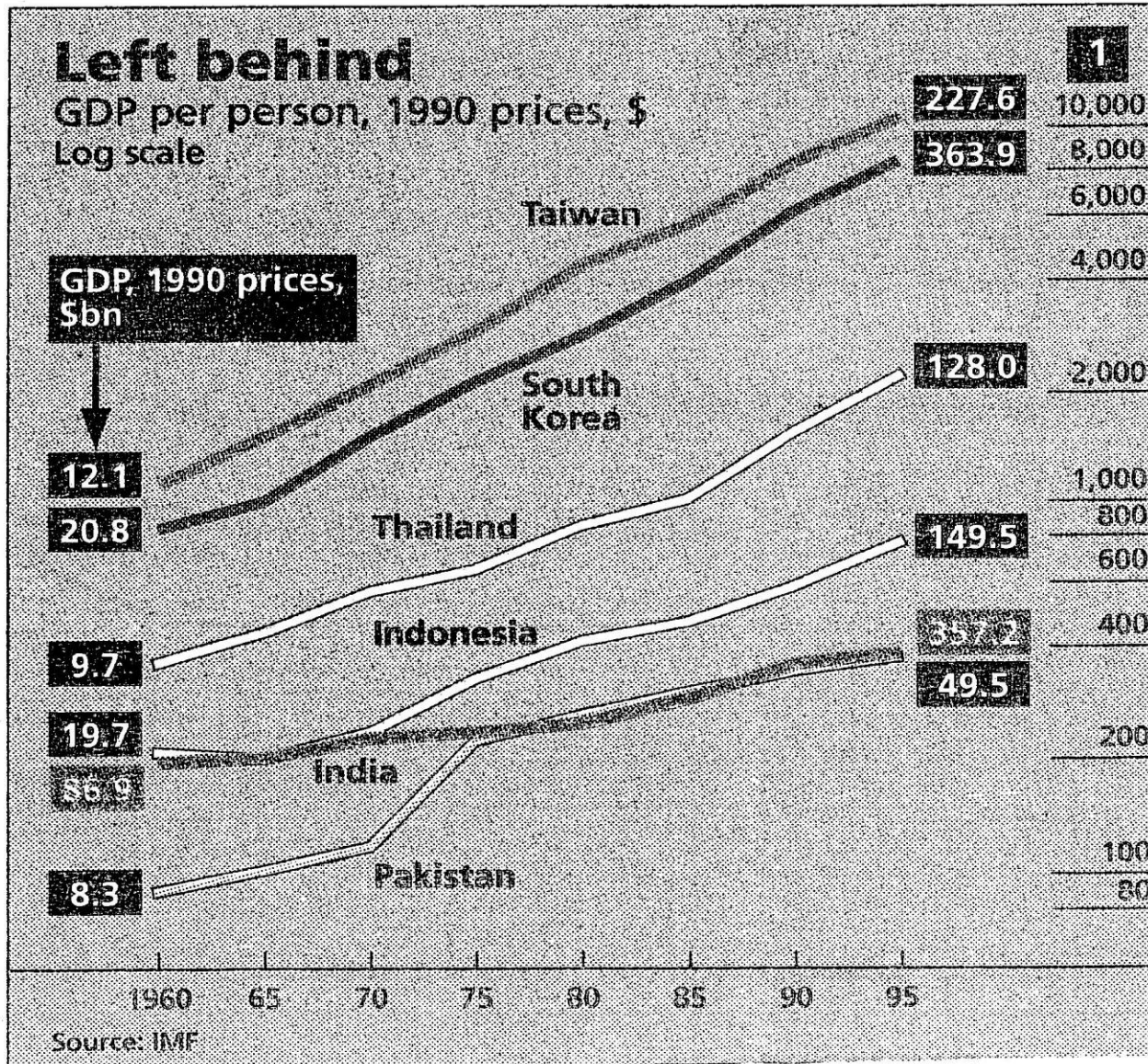
- A **miracle** is an event attributed to divine intervention. Alternatively, it may be an event attributed to a miracle worker, saint, or religious leader. A miracle is sometimes thought of as a perceptible interruption of the laws of nature. Others suggest that God may work *with* the laws of nature to perform what people see as miracles. Theologians say that, with divine providence, God regularly works through created nature yet is free to work without, above, or against it as well.
- In casual usage, "miracle" is seen as any event that is statistically unlikely but beneficial, (such as surviving a natural disaster), or simply a "wonderful" occurrence, regardless of likelihood, such as a birth

The Asian Miracle 1

- **Governments fail to guide investment to industries that generate the highest growth**
- **But**
- **governments remedied this by deliberately "getting the prices wrong" to promote industries that would not otherwise have thrived**

The Asian Miracle 2

- **stable macroeconomic environment and a reliable legal framework to promote domestic and international competition**
- **Investments in people-education and health**
- **investment levels in physical and human capital substantially exceed those for other countries at similar**
- **dominant role of factor accumulation attributes success to policies that increased physical and human capital per worker and that provided for efficient allocation**
- **acquisition and mastery of technology markets**



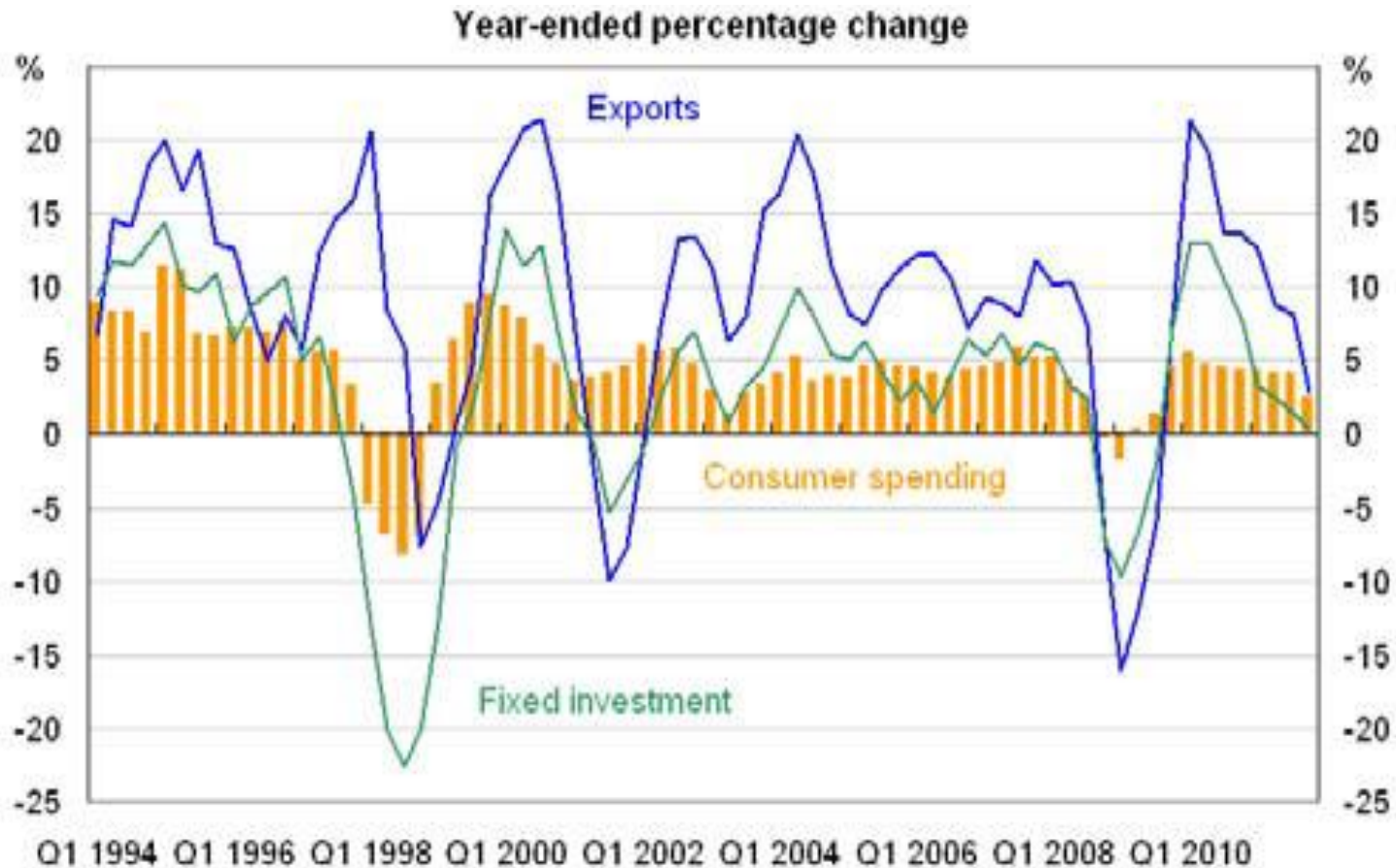
Key actors

- Entrepreneurship
- Supertechocrats
- The State as a venture capitalist
- Tu quoque, Vietnam

The other side of the moon

- the importance of agriculture
- strong protection
- The role of agriculture
pressure groups

The different components of the growth



Source: NAB, Thomson Reuters

Exports success and risks

1 Falling off a cliff

Emerging Asia's* exports
% change on previous year, \$ terms

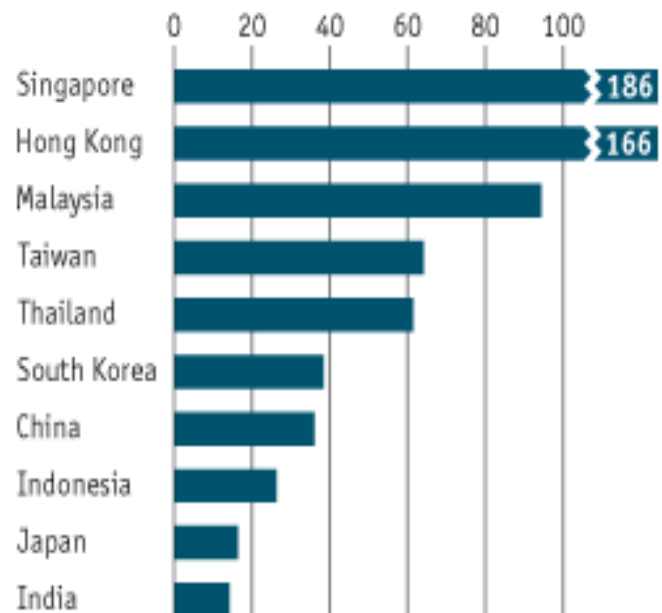


Source: CEIC

*Excluding Japan

2 Asia vu

Exports as % of GDP, 2007



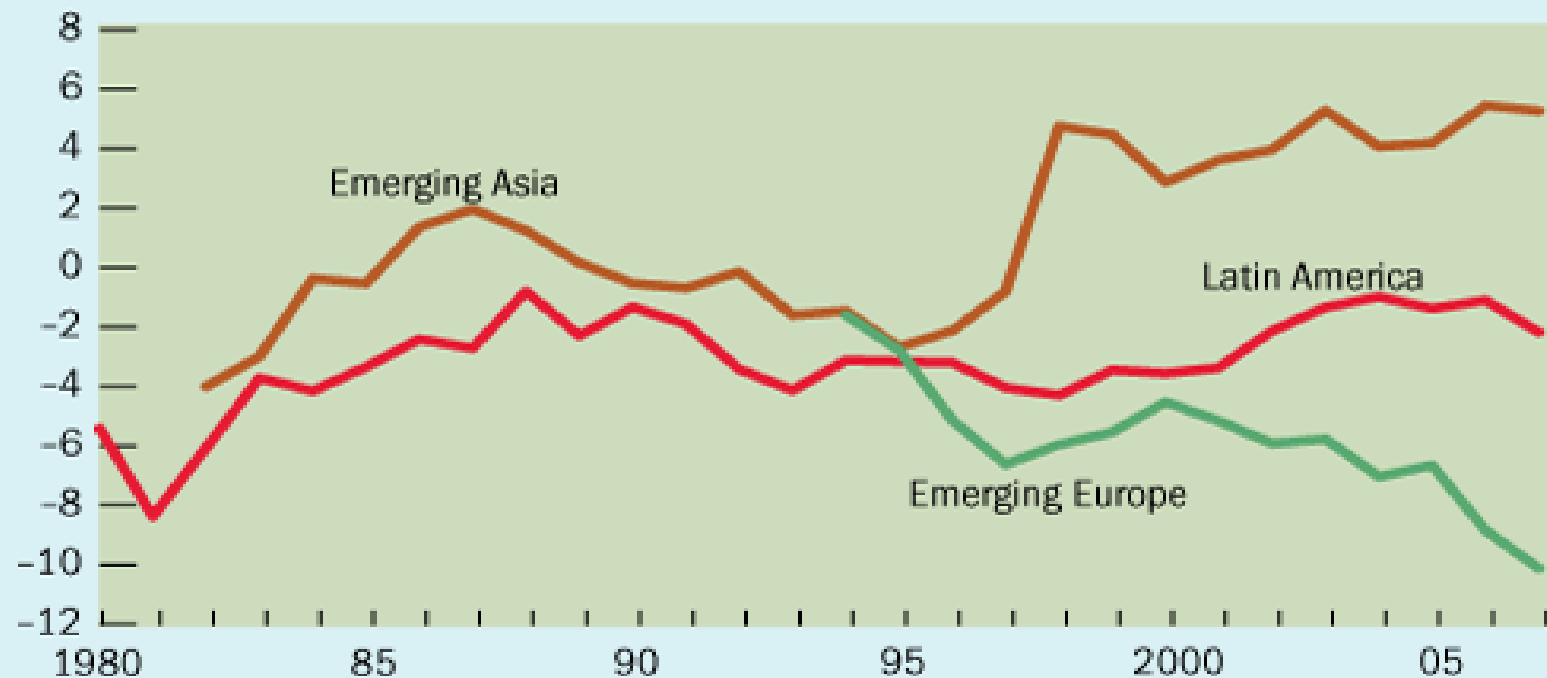
Sources: CEIC; IMF; *The Economist*; Morgan Stanley

A New Asia

Different patterns

Current account balances began to diverge after 1997—with rising deficits in emerging Europe and growing surpluses in emerging Asia.

(average current account balances; percent of GDP)



Sources: IMF, *Balance of Payments Statistics*; and IMF staff calculations.

A new dependence ?

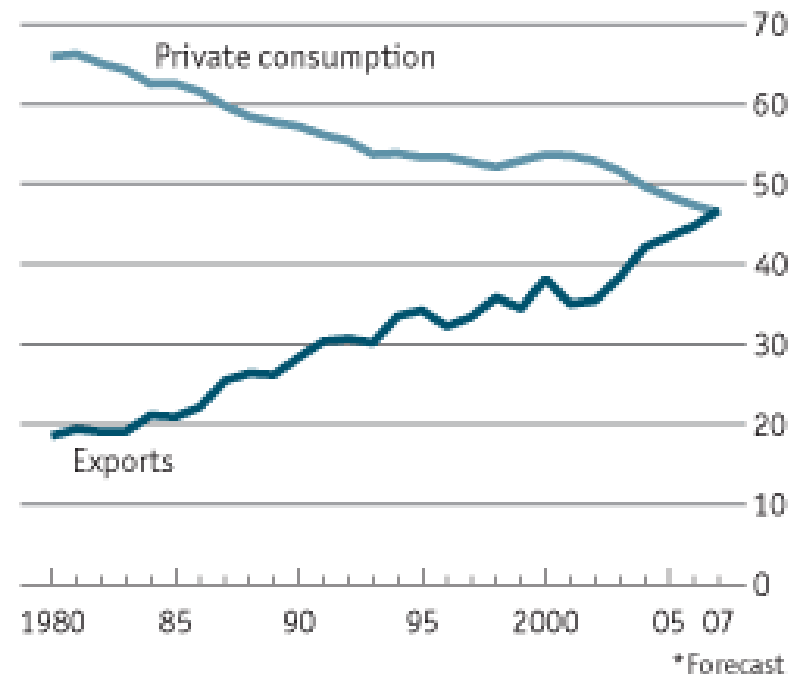
GDP, % change on previous year

3

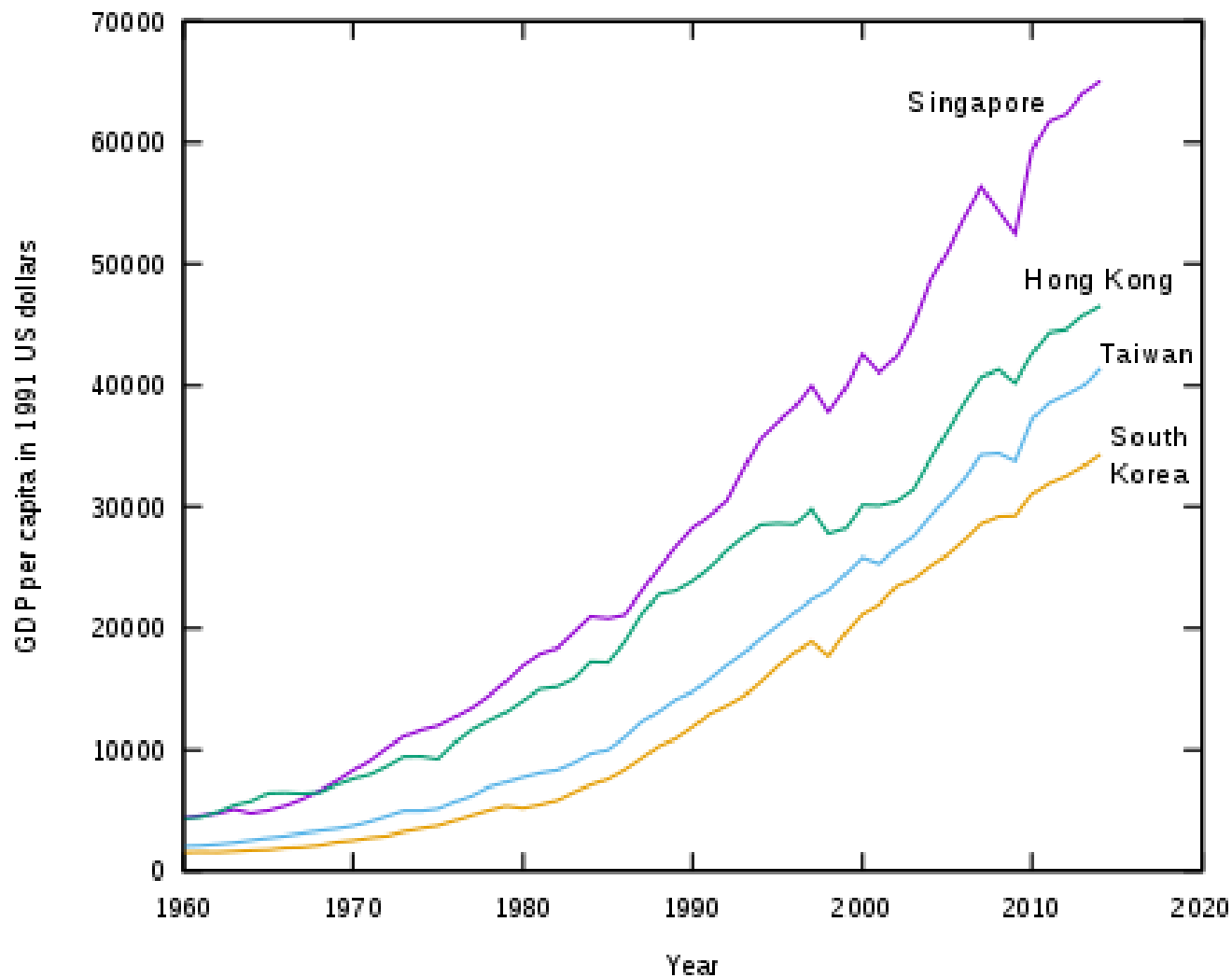


Emerging Asia, as % of GDP

4

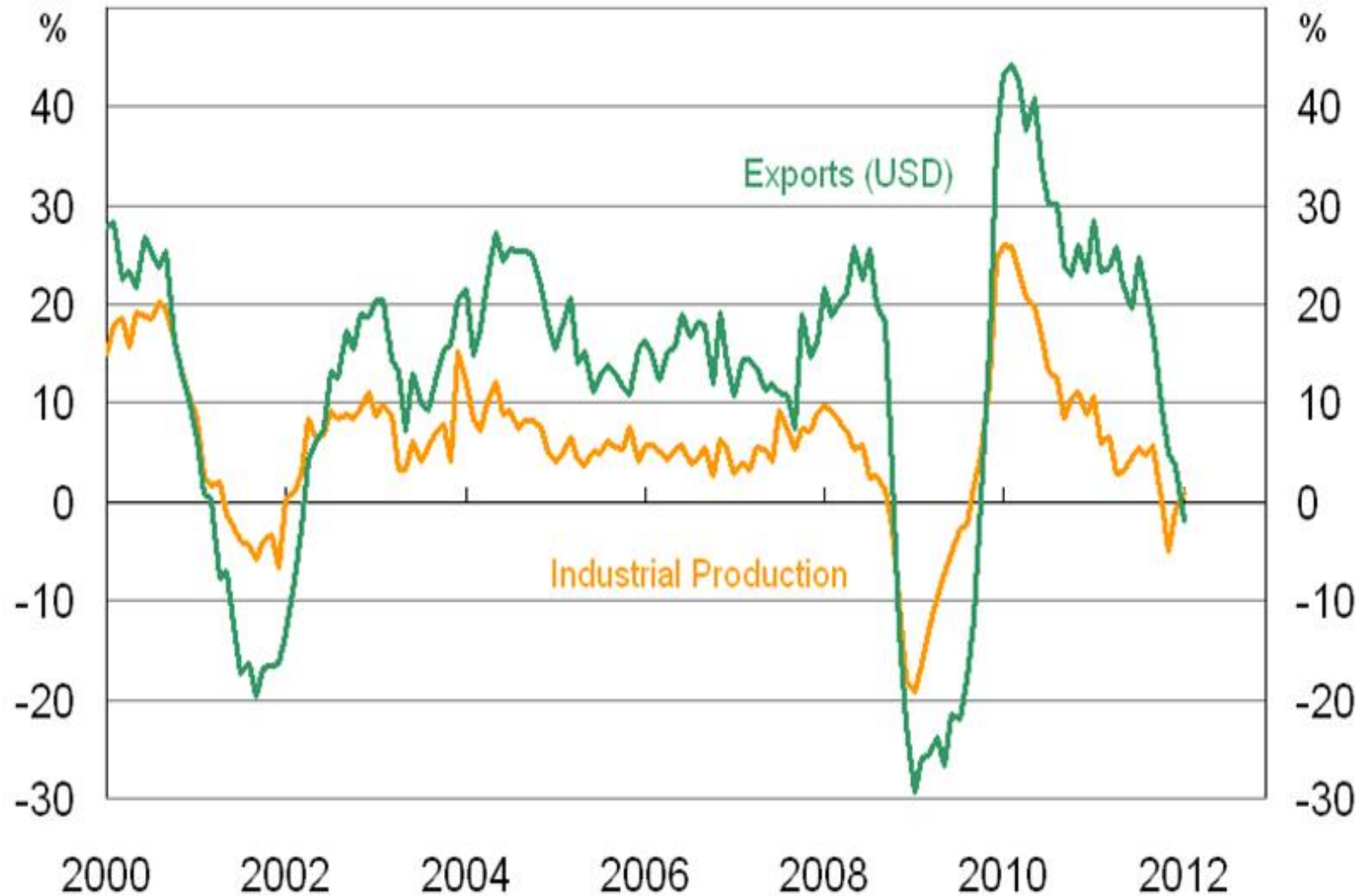


The Asian Tigers fly



Asian Tigers Industrial outputs and exports

Year-ended percentage change



Korea

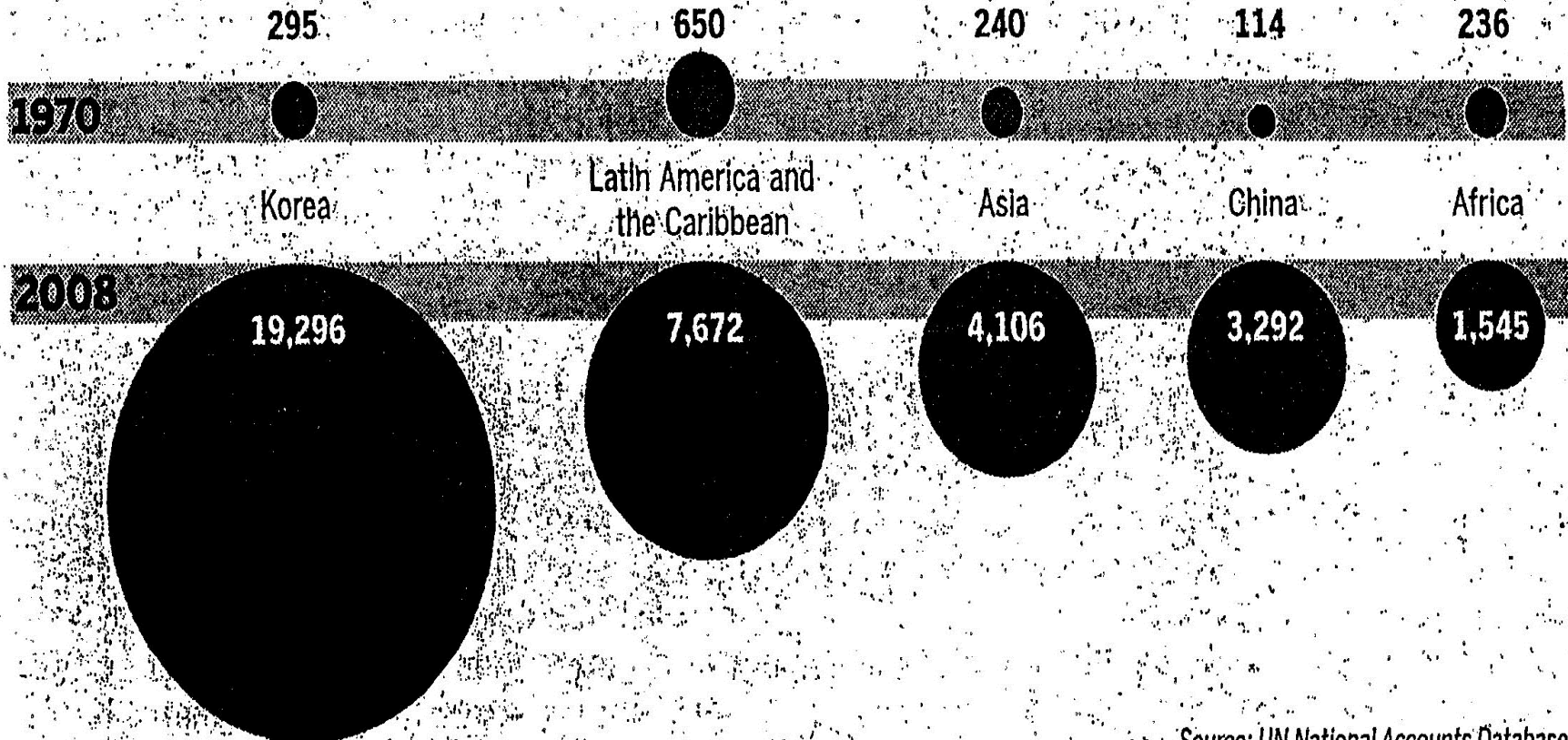
The Little Giant

- From a poor country to the 15th ranking in the World GDP
- Authoritarian state – strong bureaucracy
- “Highly interventionist, but with the discipline of having to export” (D. Perkins)
- Efforts in “traditional” sectors: transportation, spec. chemicals, telecom.
- Technological imports (1970 onwards)
- Paying attention to the quality of labor

Change of perspectives

Wealth of nations

GDP per capita in 1970 and 2008 prices (\$)

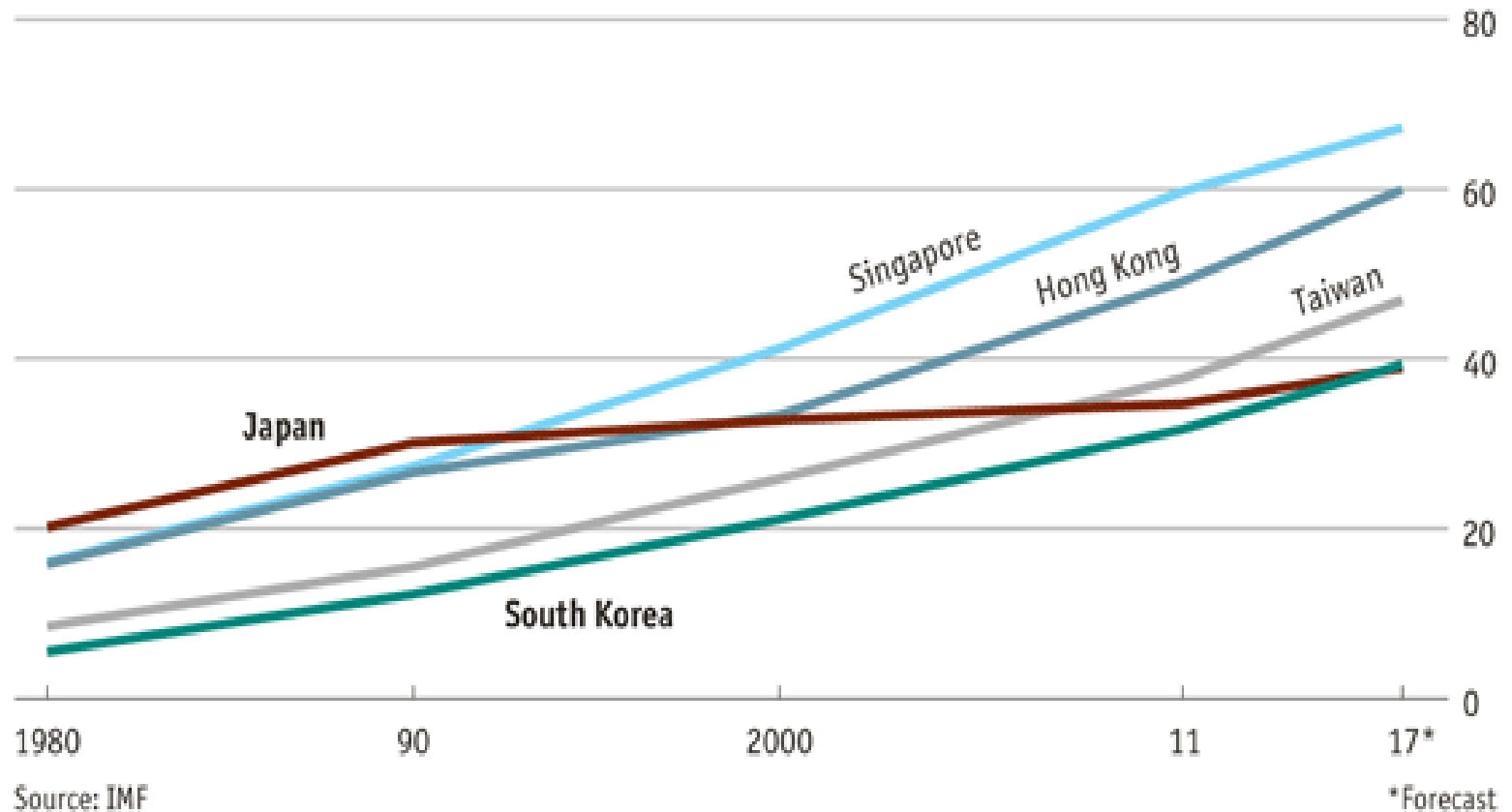


Source: UN National Accounts Database

And still confirming the trend

GDP per person at purchasing-power parity

2011 prices, \$'000

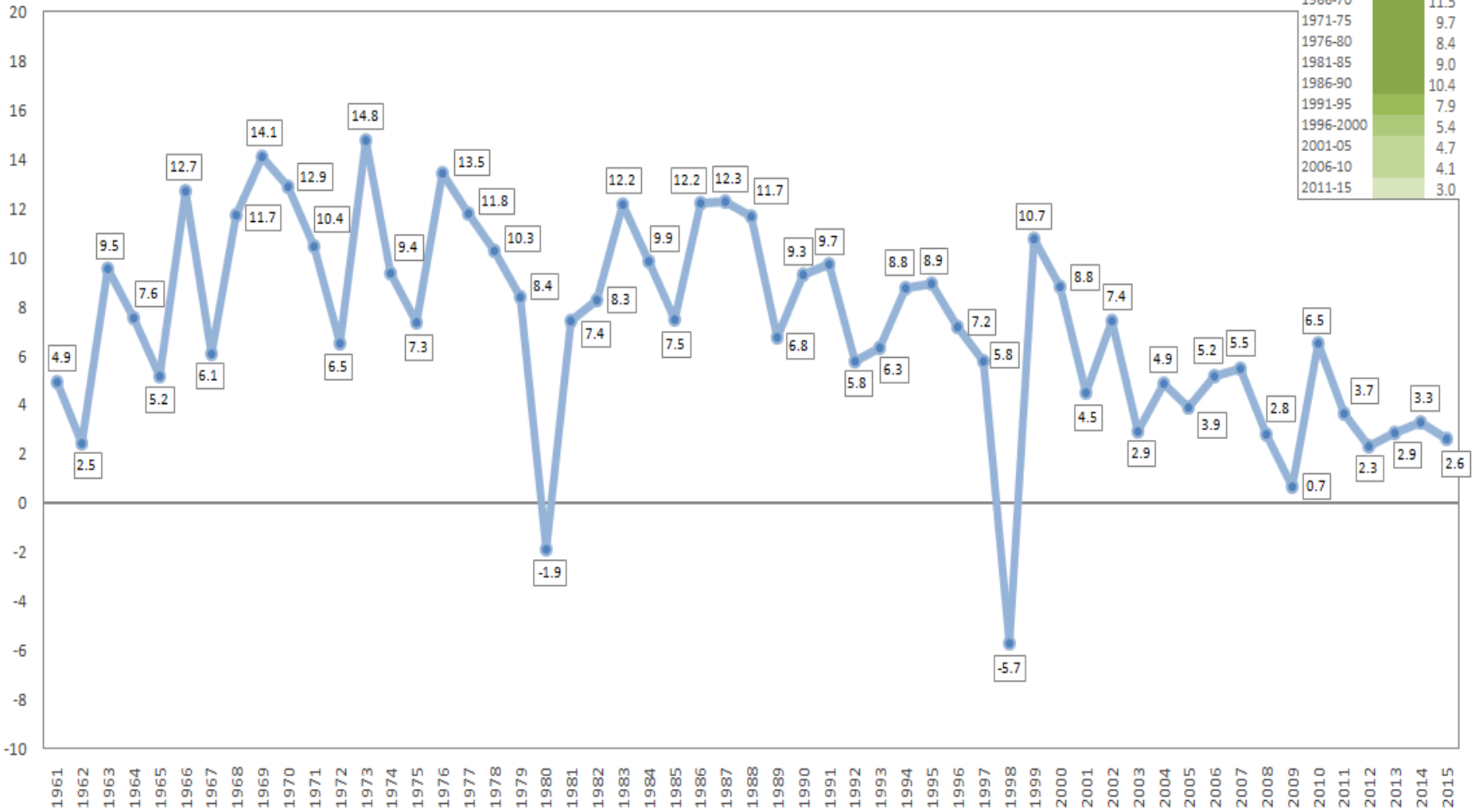


A successful story

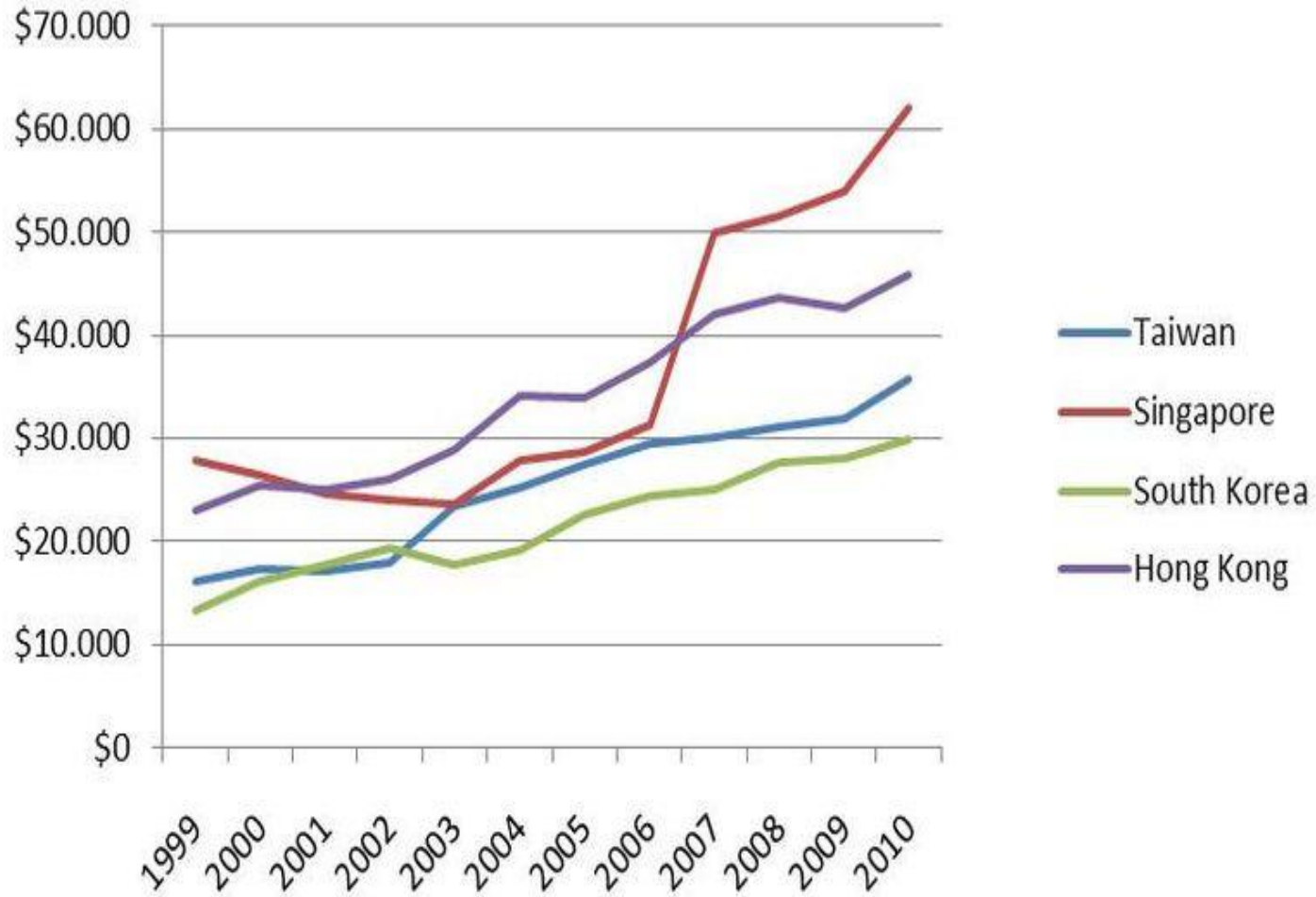
Historical GDP growth of South Korea

Growth Profile

1961-65	5.9
1966-70	11.5
1971-75	9.7
1976-80	8.4
1981-85	9.0
1986-90	10.4
1991-95	7.9
1996-2000	5.4
2001-05	4.7
2006-10	4.1
2011-15	3.0



per capita GDP



Debt/GDP ratio: a dream!



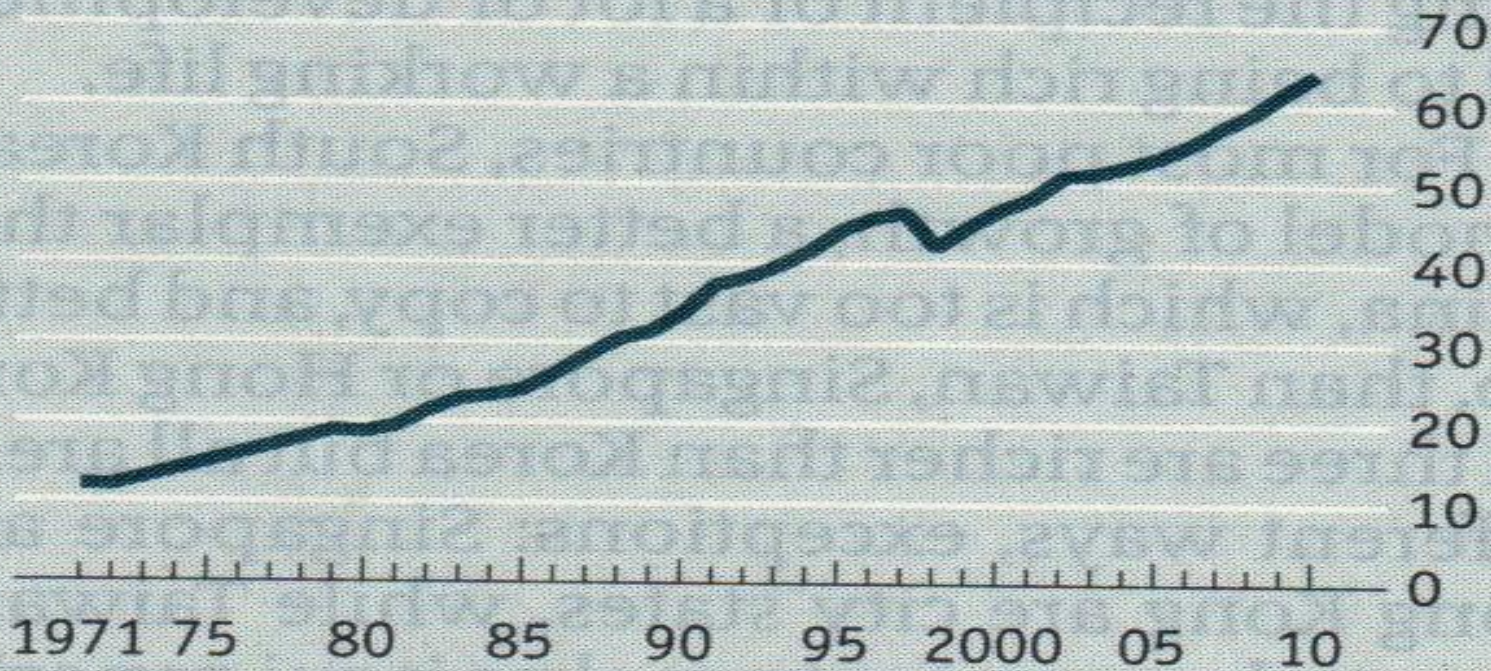
SOURCE: TRADINGECONOMICS.COM | MINISTRY OF STRATEGY AND FINANCE, SOUTH KOREA

Catching up USA ?

A constant convergence...

1

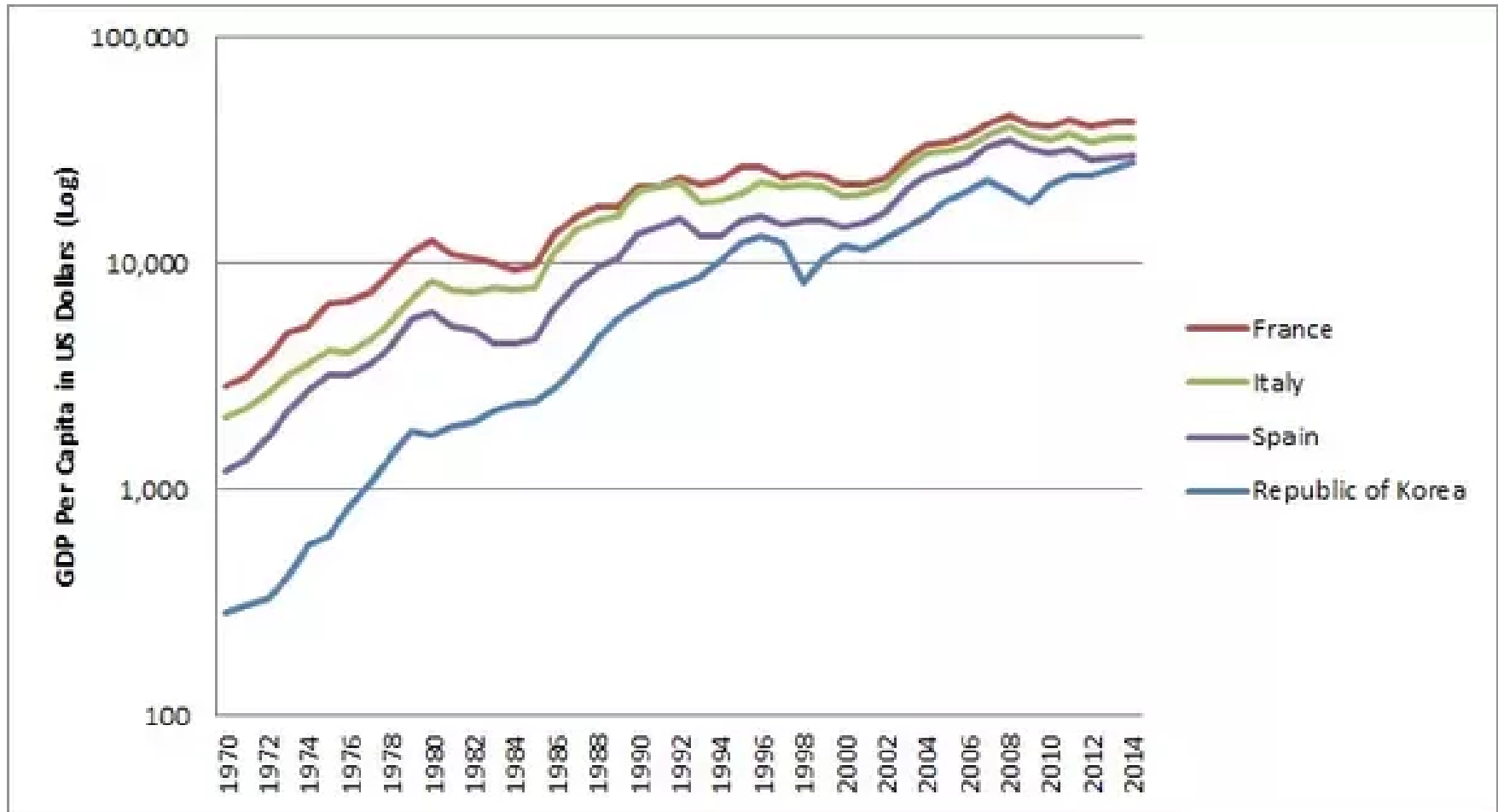
South Korea's GDP per person* relative to the US
%



Sources: WEO; KDI

*At purchasing-power parity

And also the other advanced economies



Closing another gap, even more important

GDP per capita
Purchasing power parity (\$)
2000



Japan
25,700

Japan
36,200

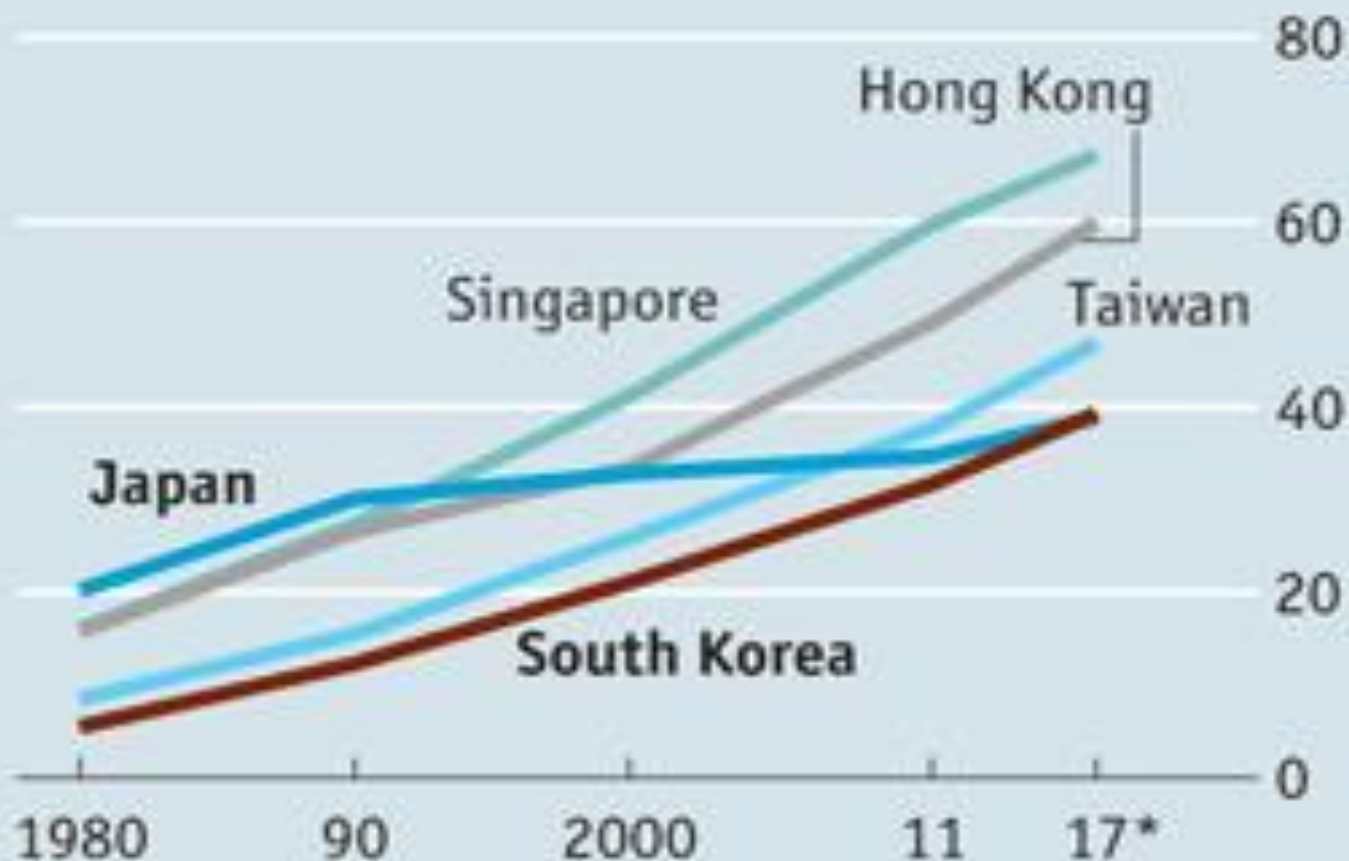
2012*



* Forecast

Overtaking the leader

GDP per person at purchasing-power parity
2011 prices, \$'000



Source: IMF

*Forecast

A very demanding State

- Industrial policy “à la française”: national champions - subsidies, privileges in return for pursuing the government industrial strategy: steel, petrochemicals, nonferrous metals, shipbuilding, electronics, machinery
- Efficiency at any price in the 1960-70's
- car industry 300.000 cars per year in a country with only 165.000

The new Korean heroes: the Chaebol

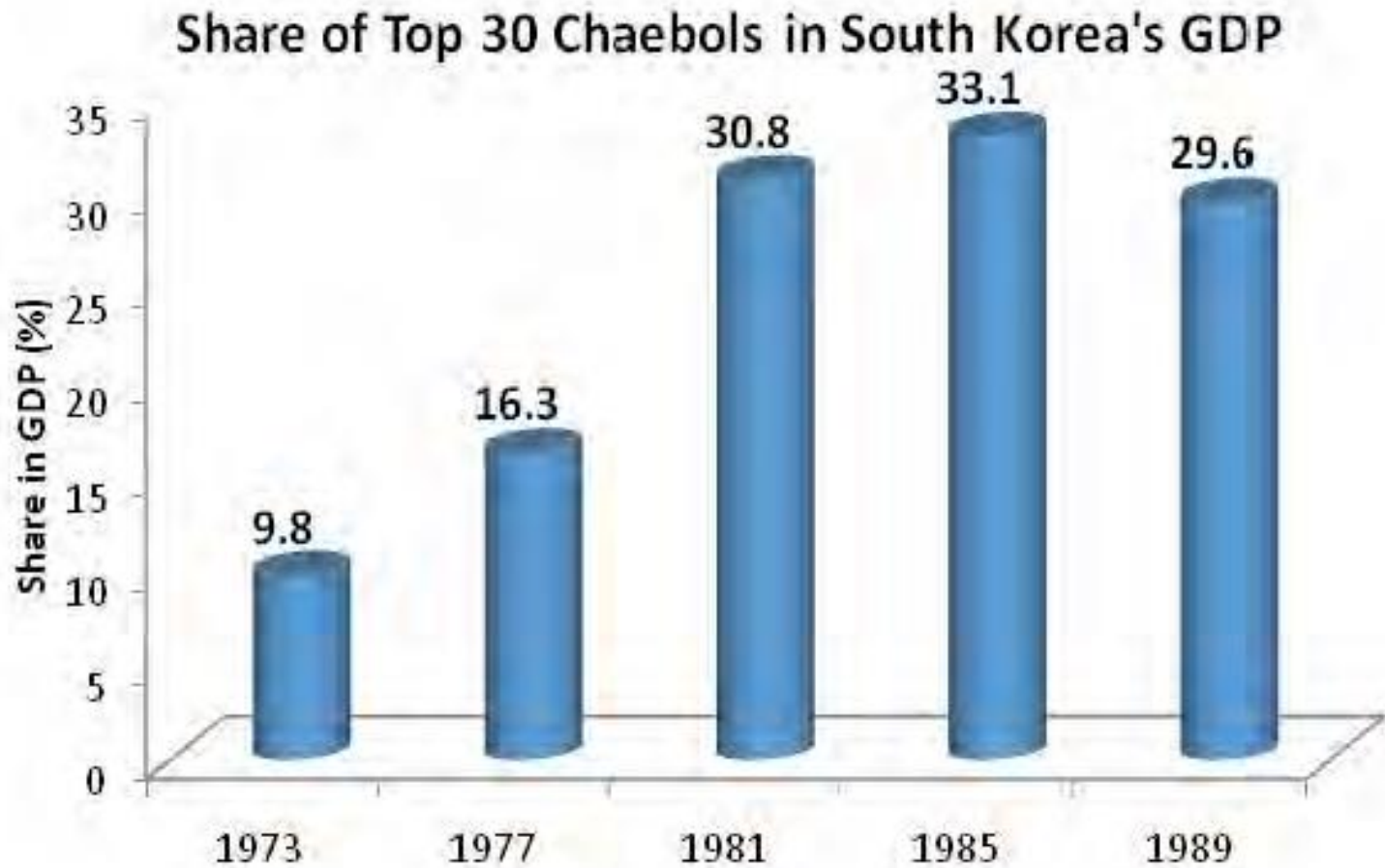
- A conglomerate or an hybrid between Zaibatsu (role of the families) and keiretsu (unrelated sectors) ?
- But without any banks – credit policy in the hands of the state

Technological and organizational innovations even in very mature sectors



37,5% of World Market

The growing importance of Chaebol



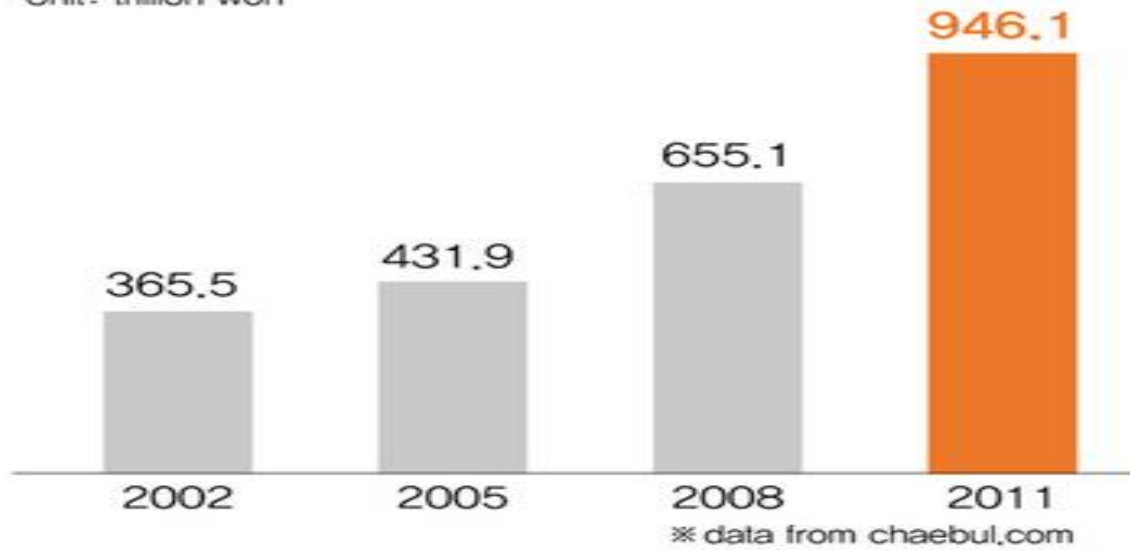
And even bigger today

The ten largest chaebols' share of South Korea's GDP (2011)



The ten largest chaebols' total sales

Unit: trillion won



As a percentage of GDP, the sales of the top ten companies grew from 53.4% in 2002 to 63.8% in 2008 and to nearly 80% last year.

South-Korean Biggest groups

Companies

- Samsung Electronics
- SK Holdings
- Hyundai Motor
- LG Electronics
- Korea Electric Power
- Kia Motors
- Hanwha
- Hyundai Heavy Industries
- Korea Gas
- Hyundai Mobis
- S-Oil
- Lotte Shopping
- Samsung Life Insurance
- Samsung C&T
- GS Kaltex

Global 500 ranking (2017)

- 15
- 95
- 99
- 162
- 177
- 209
- 246
- 302
- 313
- 332
- 347
- 439
- 431
- 413
- 447
- 486
- 479

WEEK POINTS

- Medium sized enterprises less dynamic
- The risky policy of bank financing
- Never too big to fail: Daewoo (1998)