

**After  
Saigon's fall:**



**capitalism's victory  
in Asia**



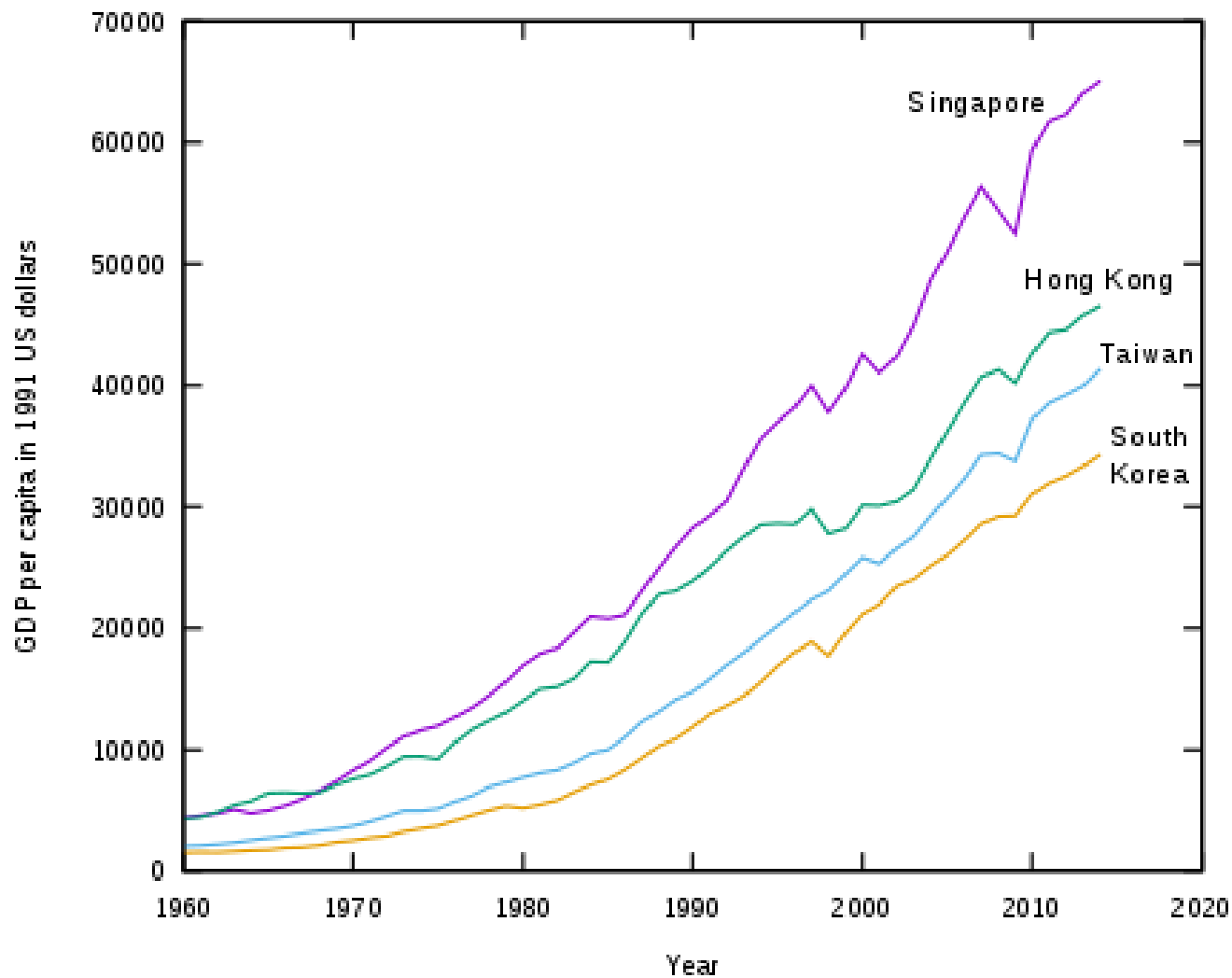
# The Asian “Miracle”

## Korea and the Asian Tigers



Rapid growth with equity ?

# The Asian Tigers fly



- 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
- Undervalued currencies
- Trade surplus
- High level of U.S. Bond holdings
- High savings rate

# “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

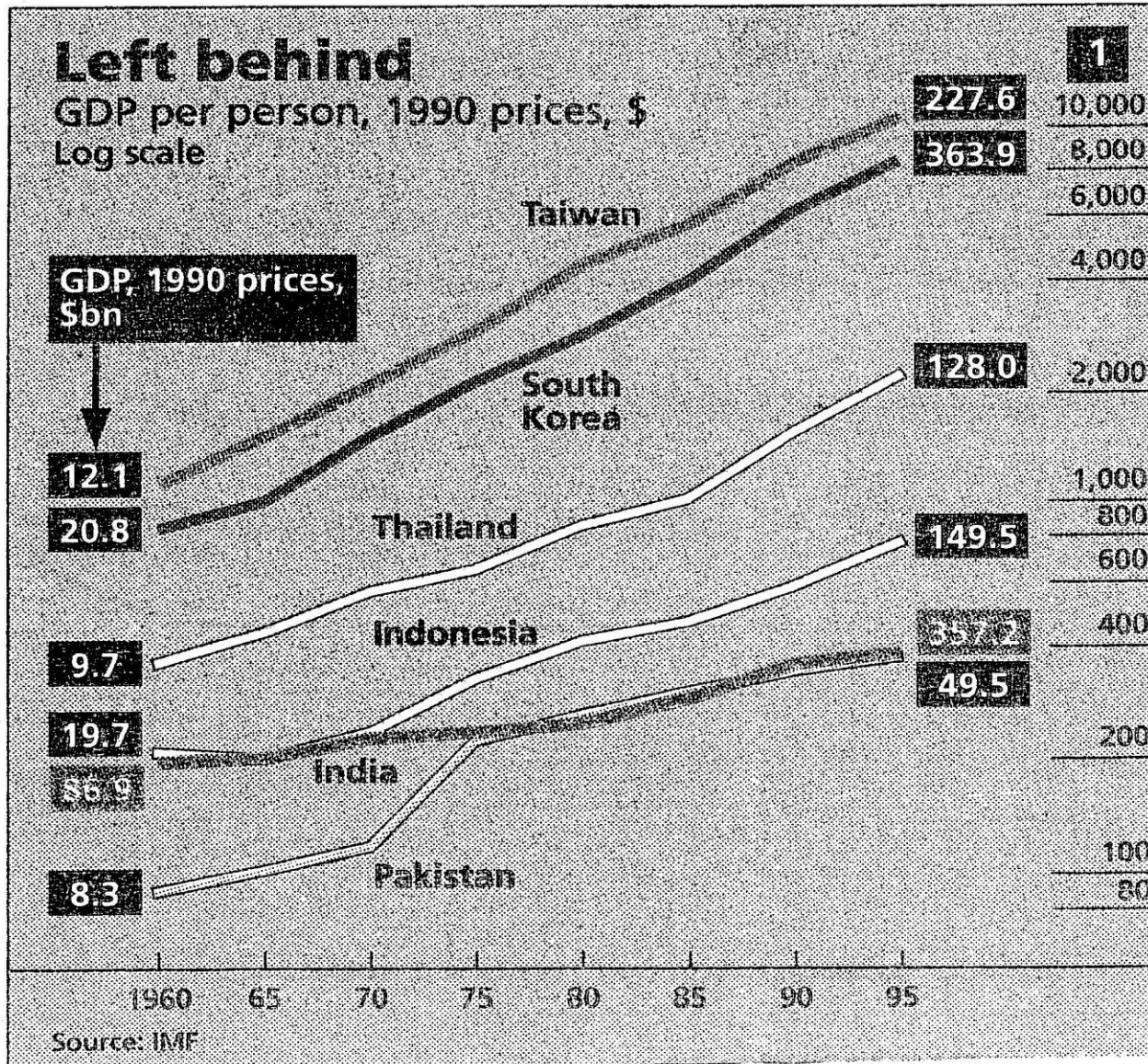
# The Asian Miracle 1

- **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**







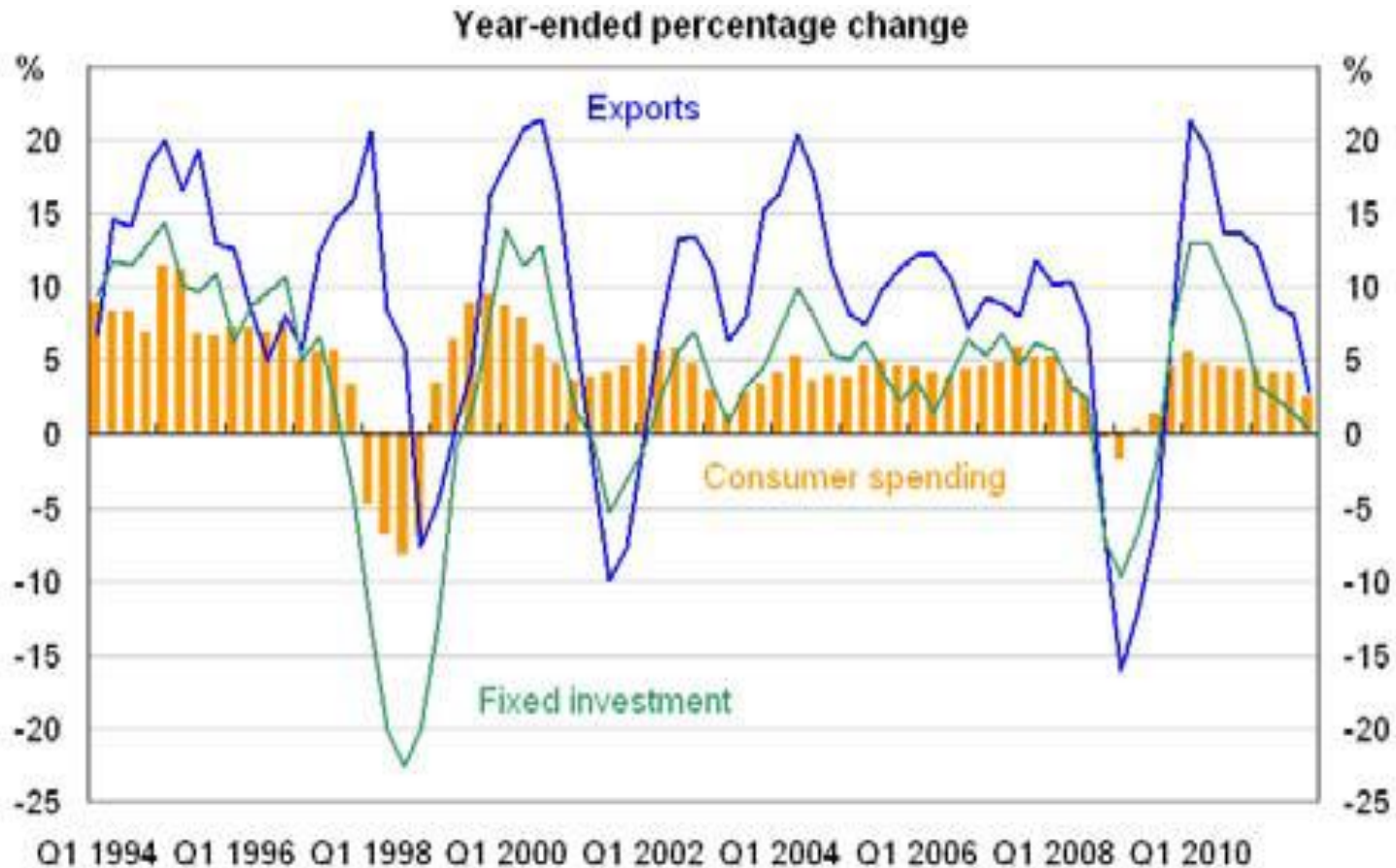
# Key actors

- 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



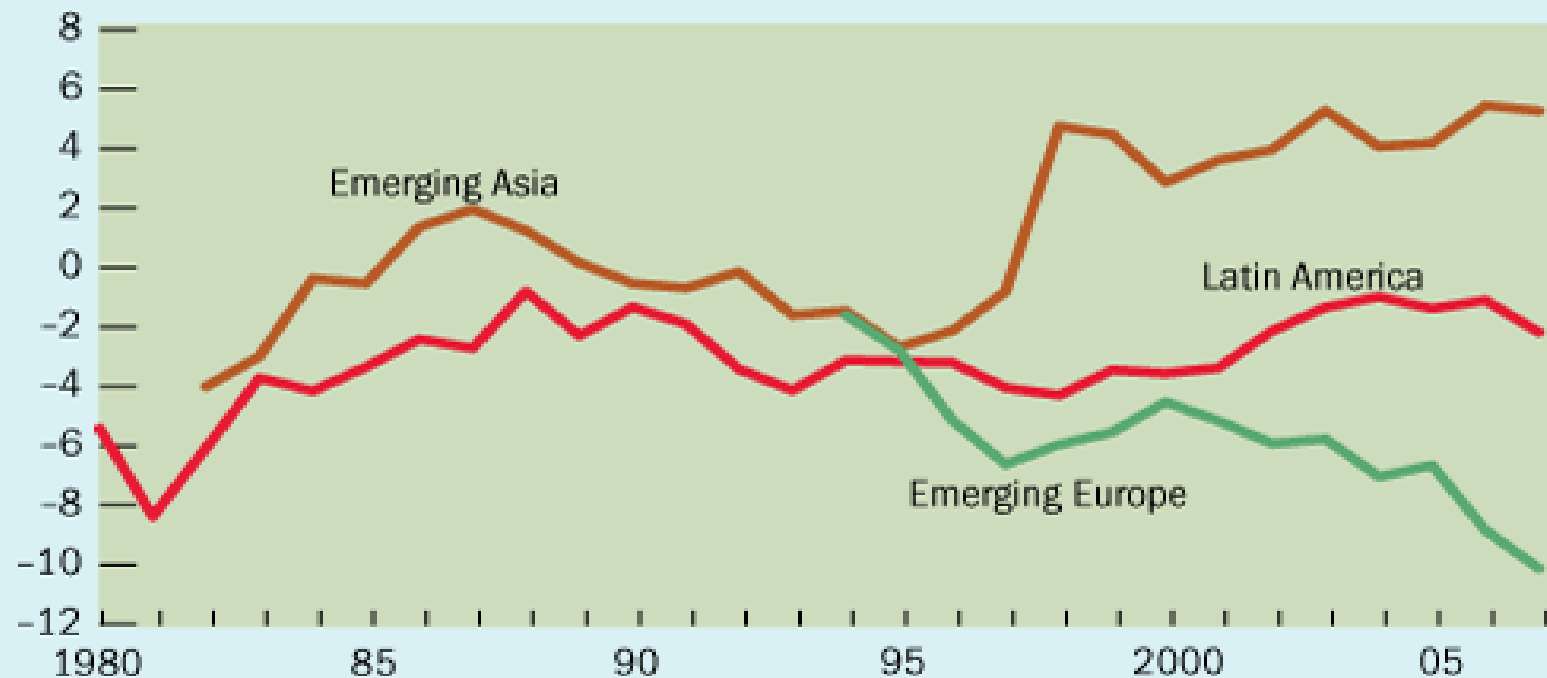
Sources: CEIC; IMF; *The Economist*; Morgan Stanley

# 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)

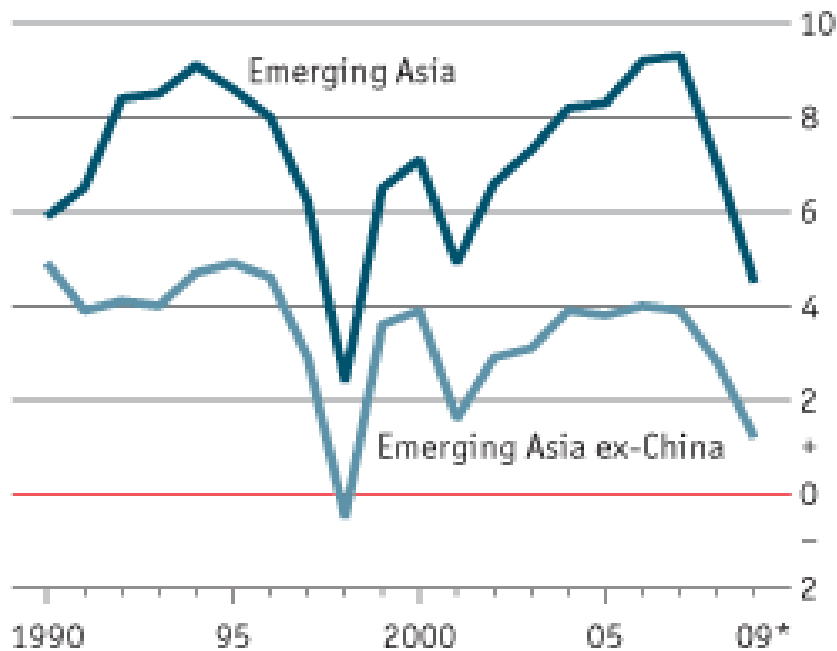


Sources: IMF, *Balance of Payments Statistics*; and IMF staff calculations.

# A new dependence ?

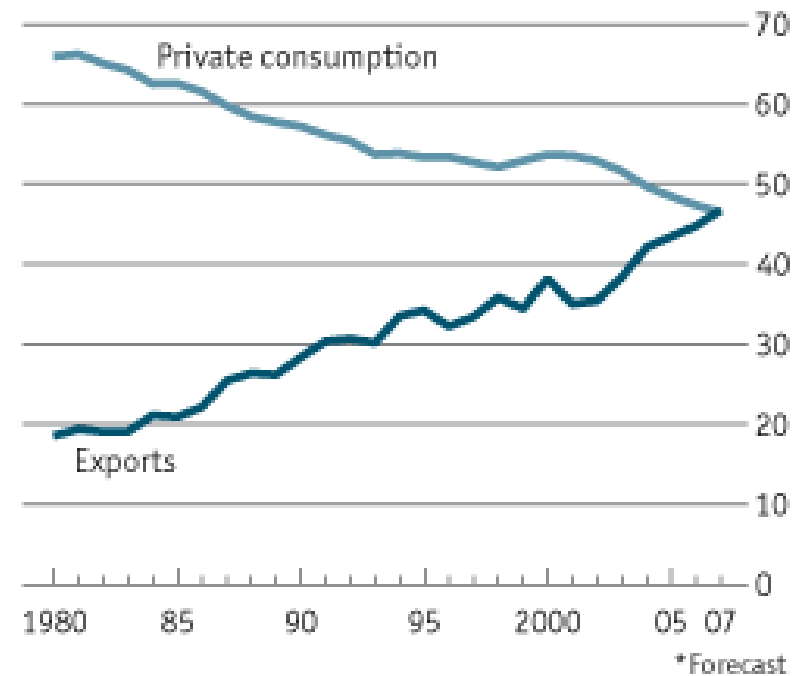
GDP, % change on previous year

3



Emerging Asia, as % of GDP

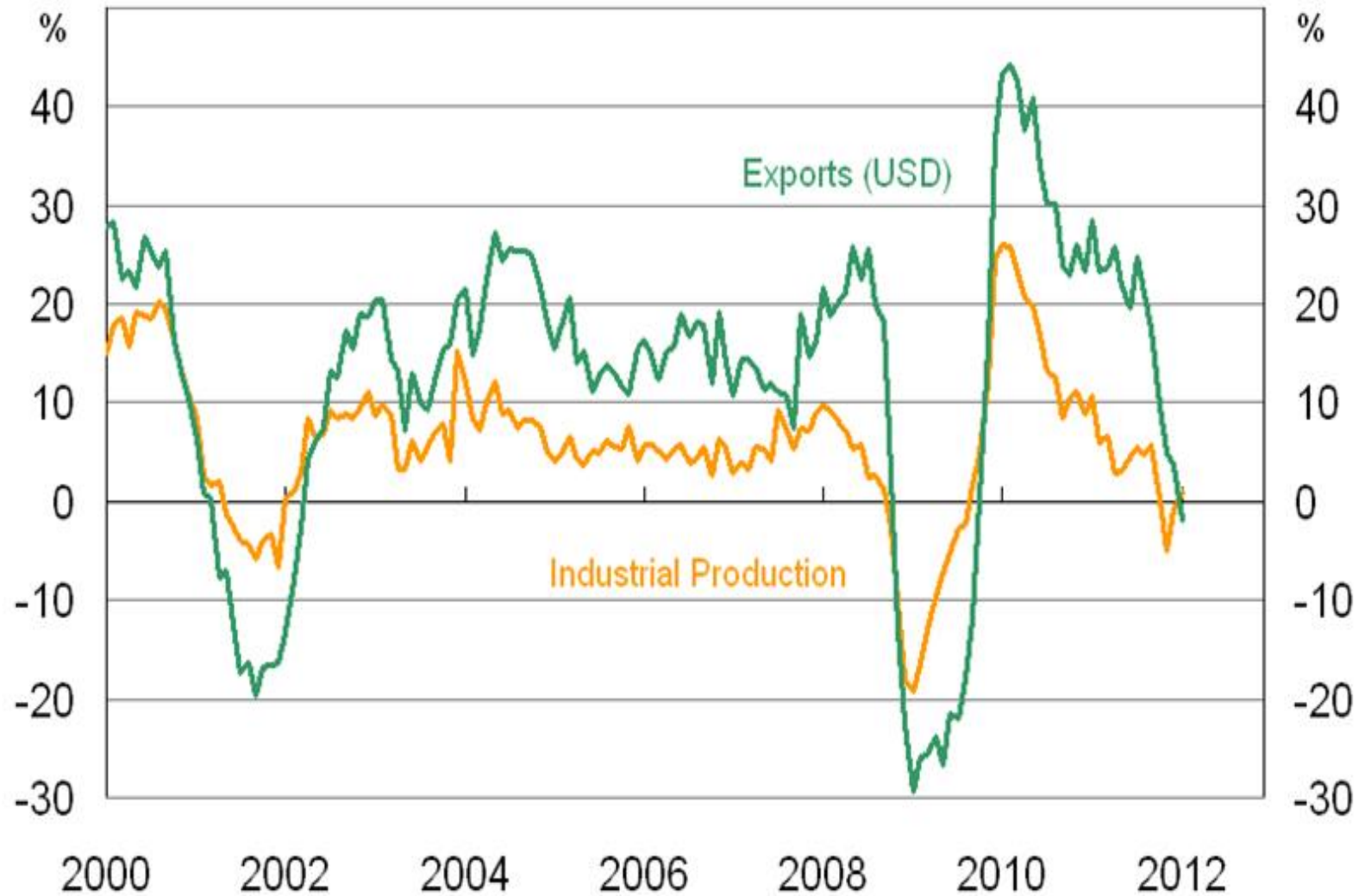
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# Asian Tigers Industrial outputs and exports

Year-ended percentage change



# Korea

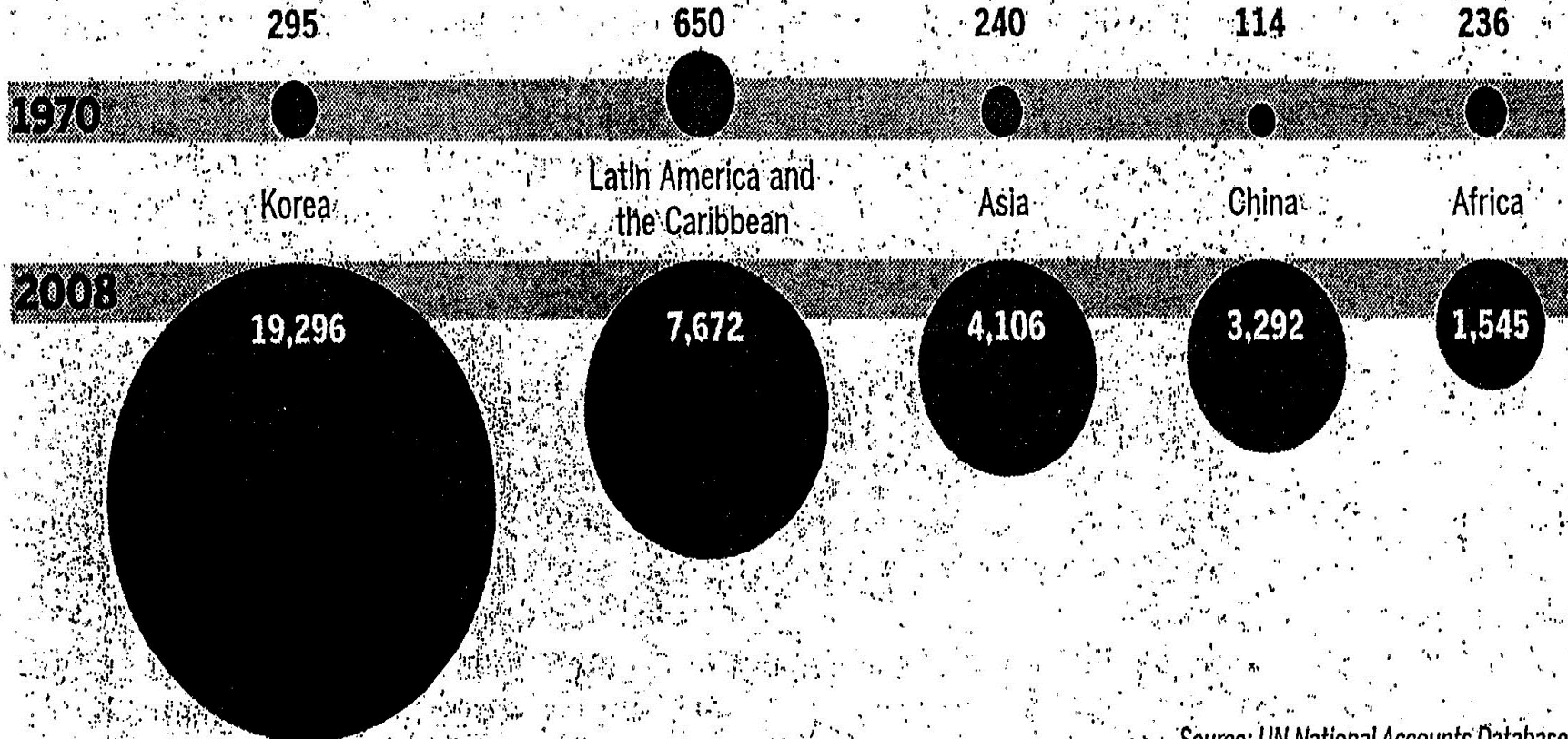
## The Little Giant

- From a poor country to the 15<sup>th</sup> 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 (\$)

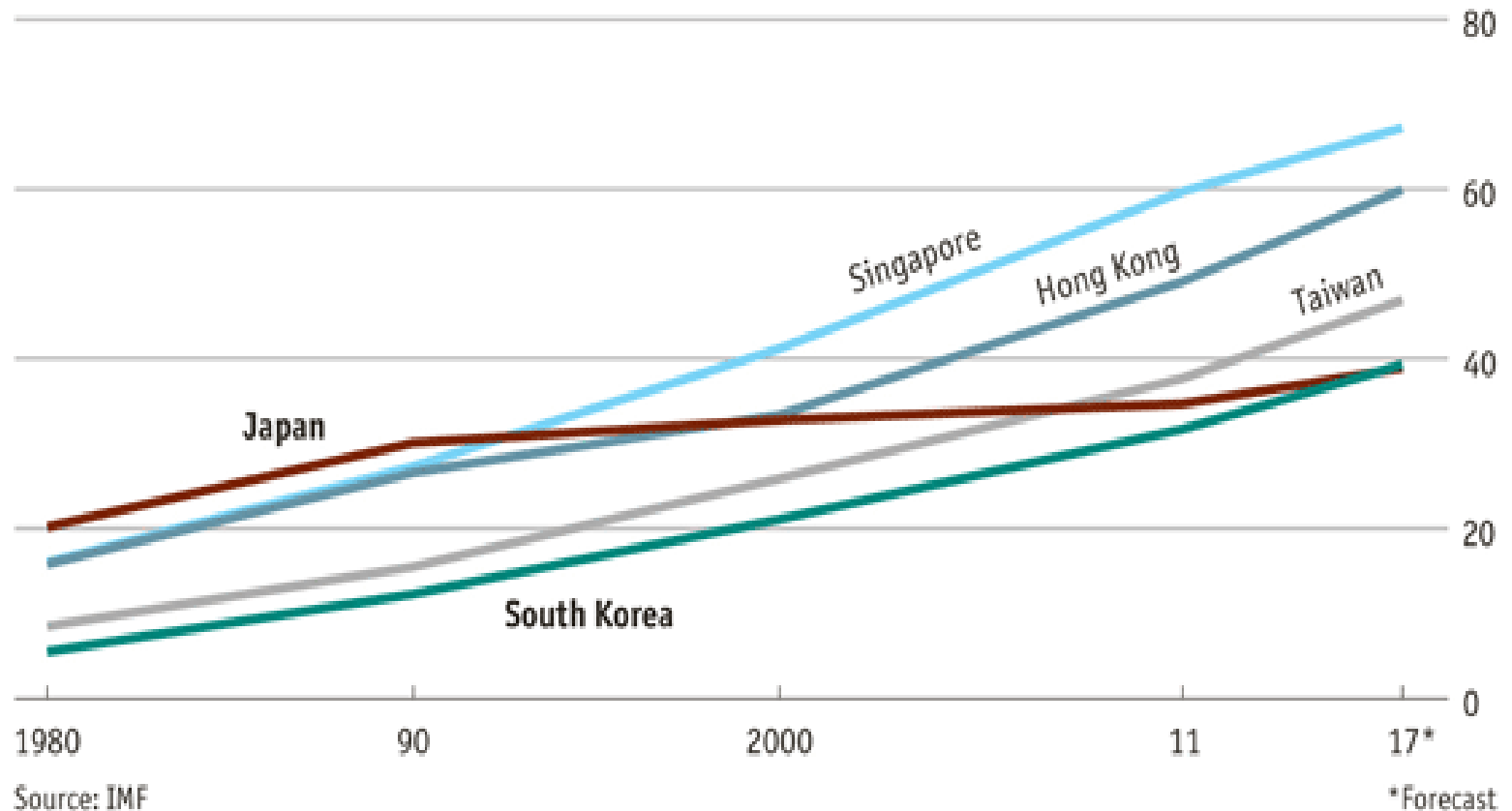


Source: UN National Accounts Database

# And still confirming the trend

## GDP per person at purchasing-power parity

2011 prices, \$'000

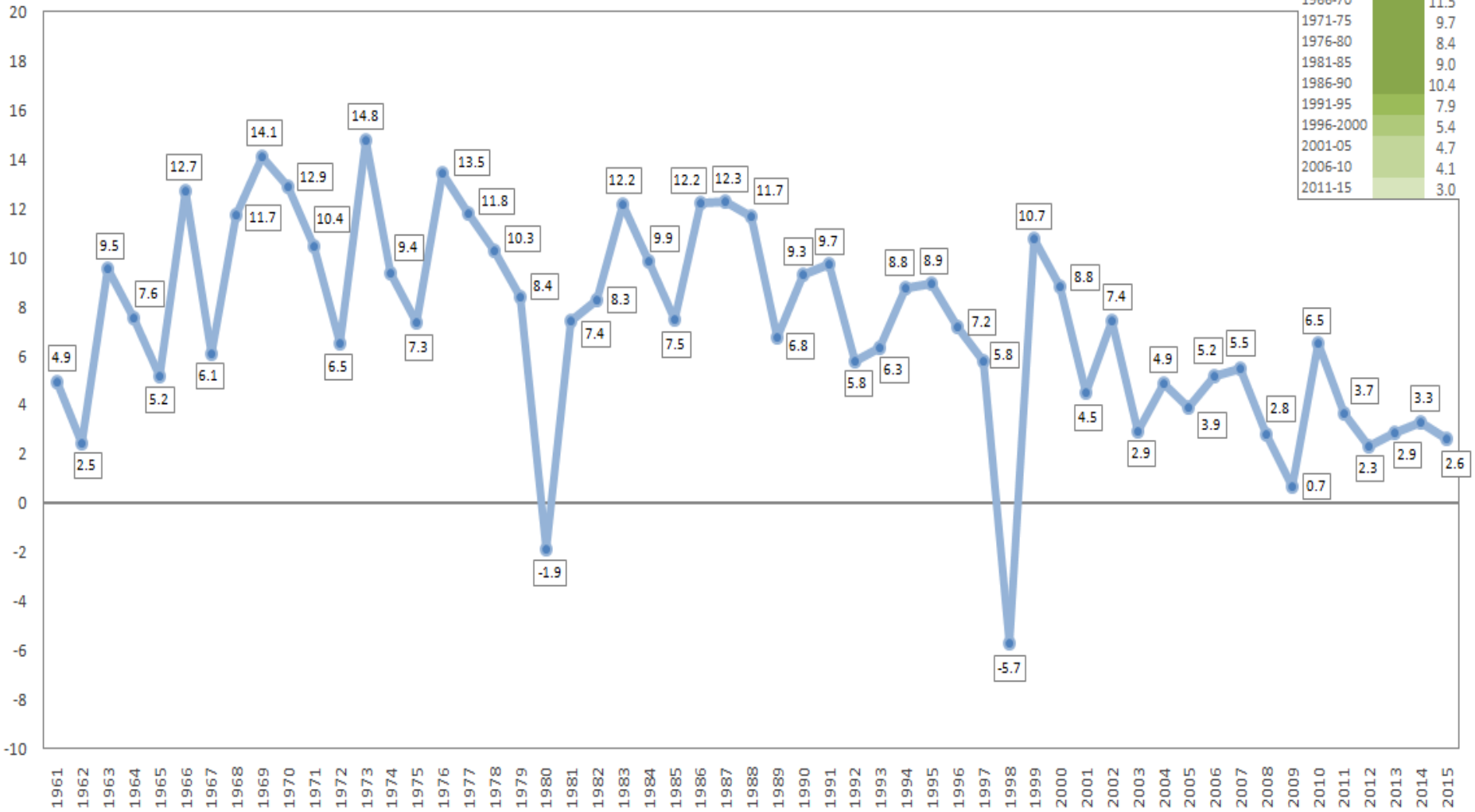


# A successful story

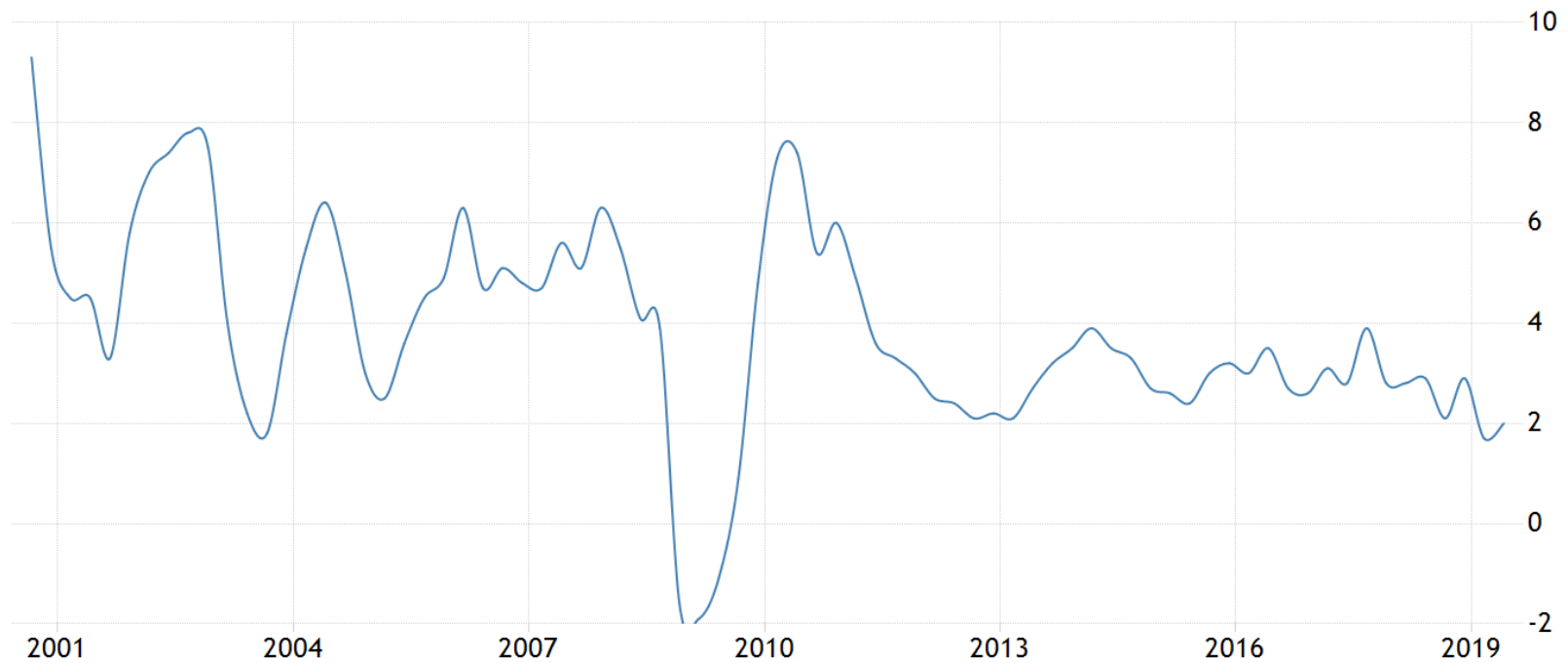
## Historical GDP growth of South Korea

### 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



# The more recent trend, 2000-2019



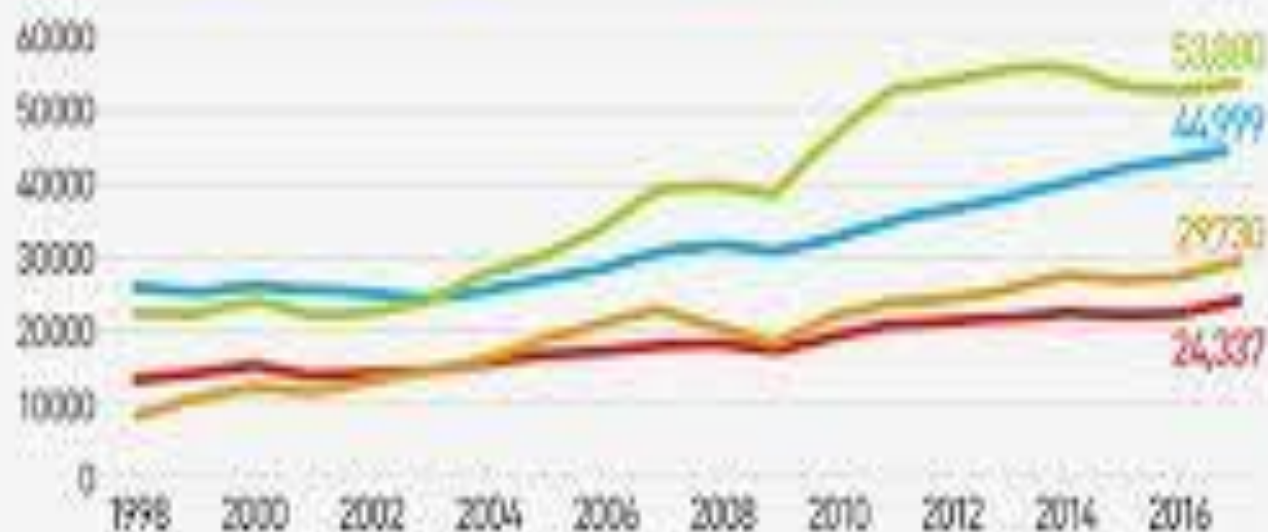
SOURCE: TRADINGECONOMICS.COM | THE BANK OF KOREA



Table 3

## Nominal per capita GDP in U.S. dollar terms (US\$)

— Taiwan — Singapore\* — South Korea — Hong Kong

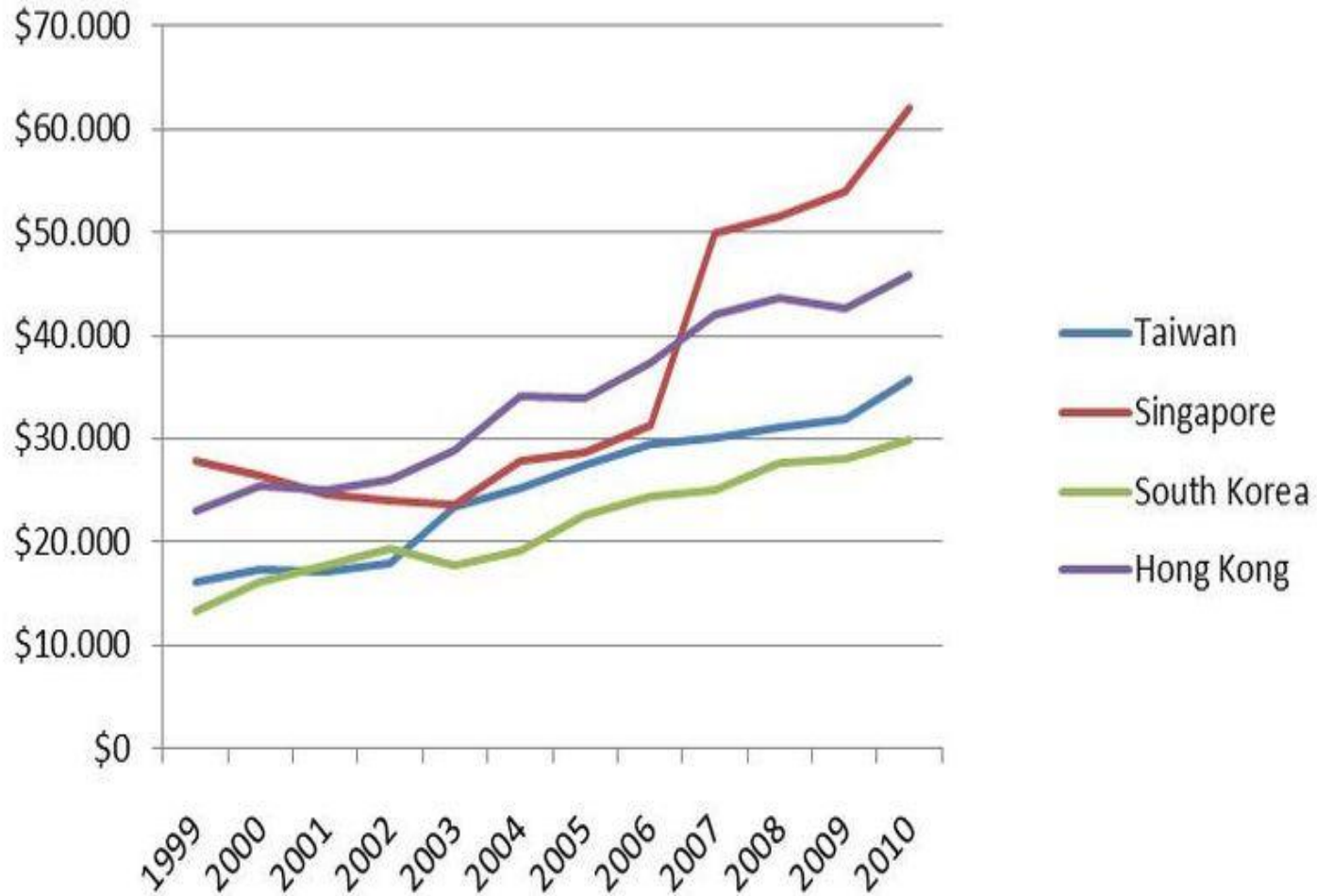


\*Singapore had real GDP growth of 15.26% in 2010 and 6.27% in 2011, causing a spike in per capita GDP.

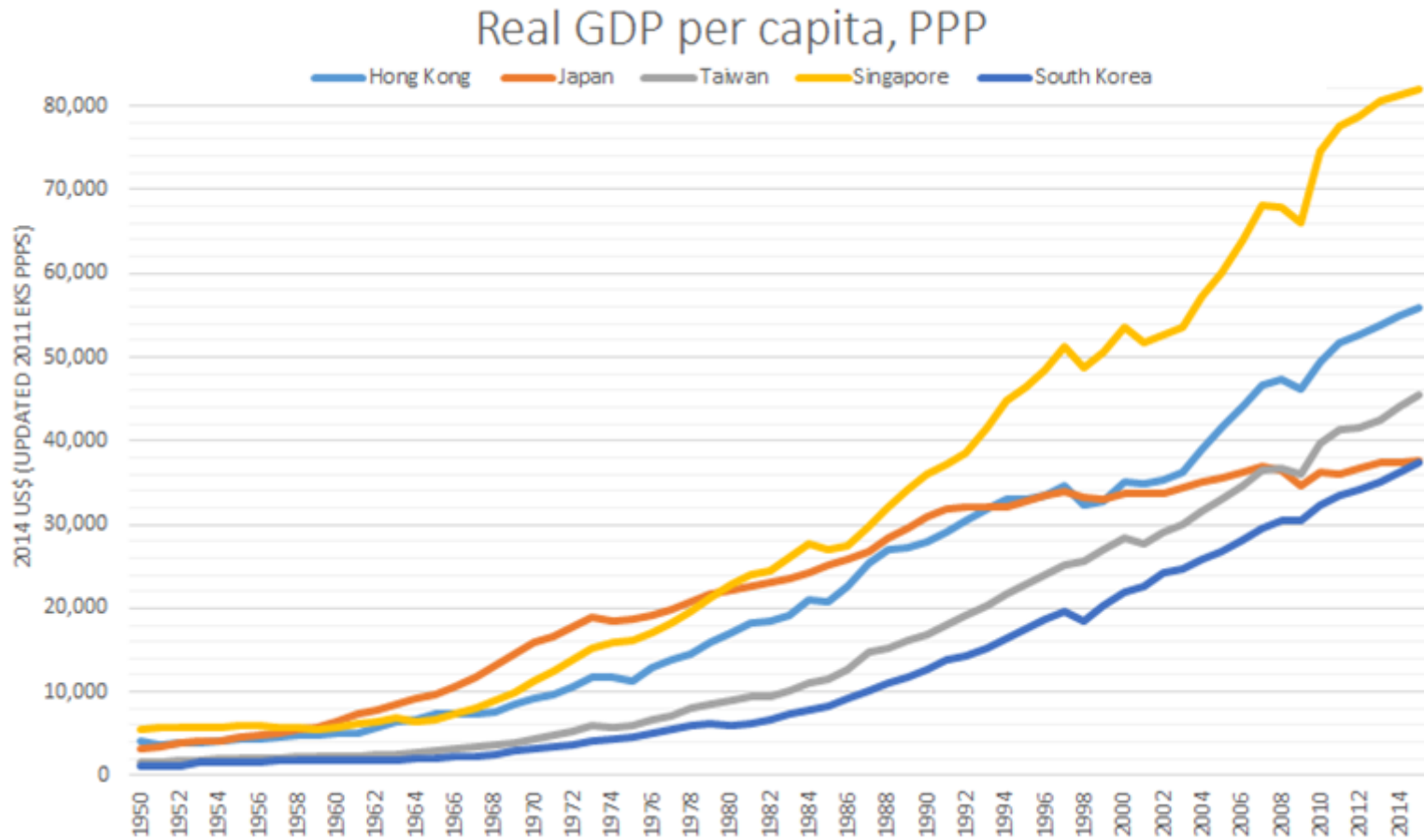
Note: 2017 figures for Singapore, South Korea and Hong Kong are IMF estimates.

Source: Taiwan's Central Bank

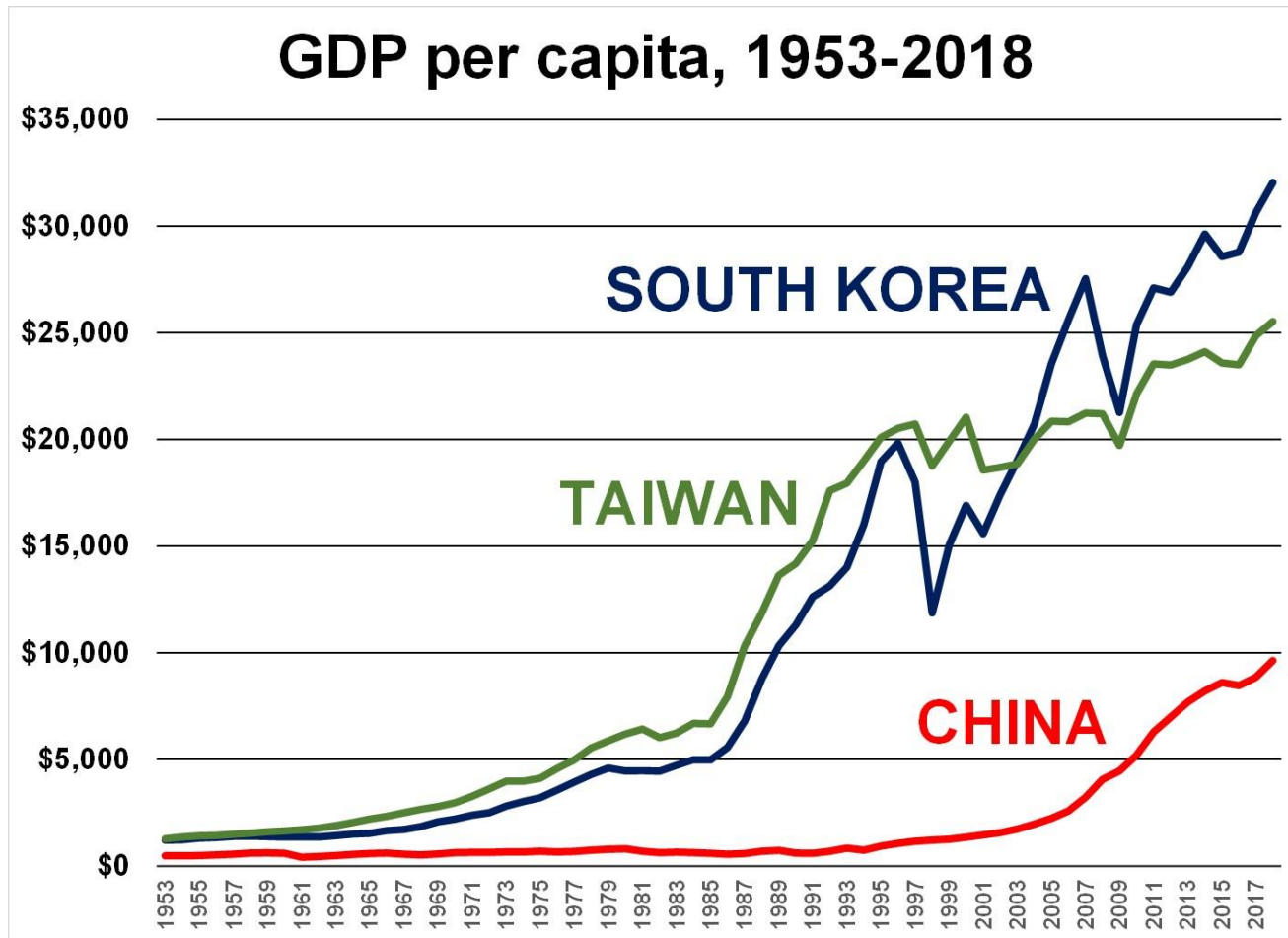
# per capita GDP



# A new divergence?



# An important comparison...

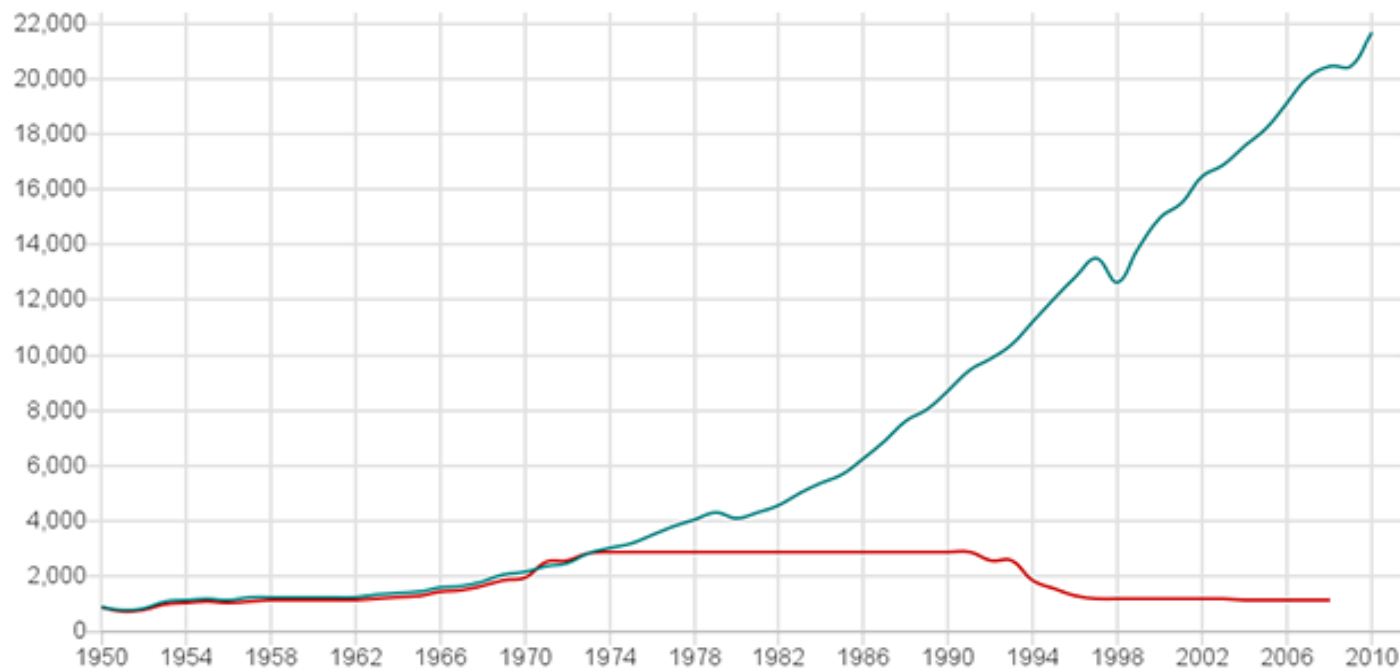


# ...and another one

**But the Koreas used to be much more closely matched**

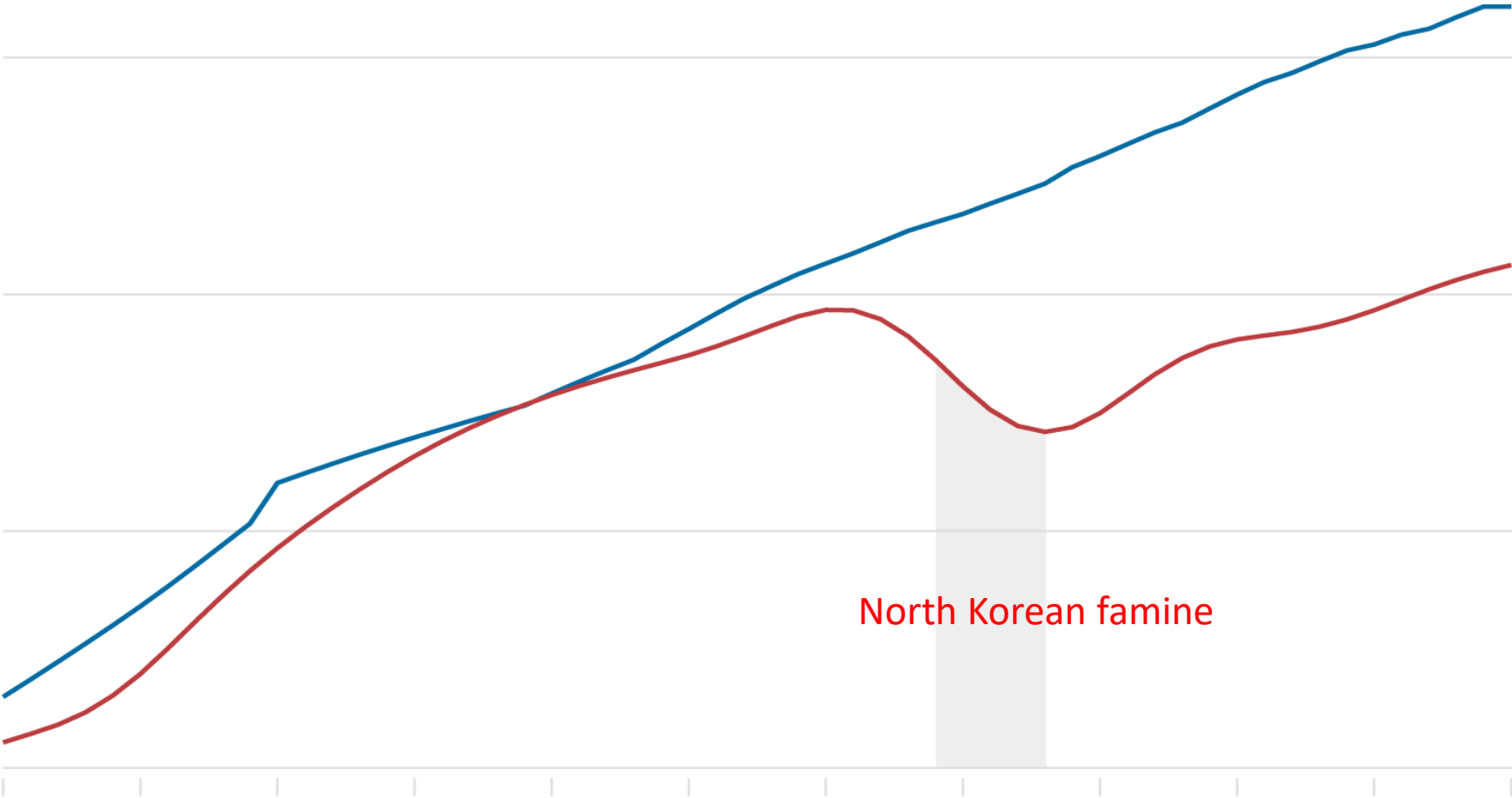
GDP per capita in USD, 1950-2010

— S. Korea — North Korea



Source: The Maddison Project

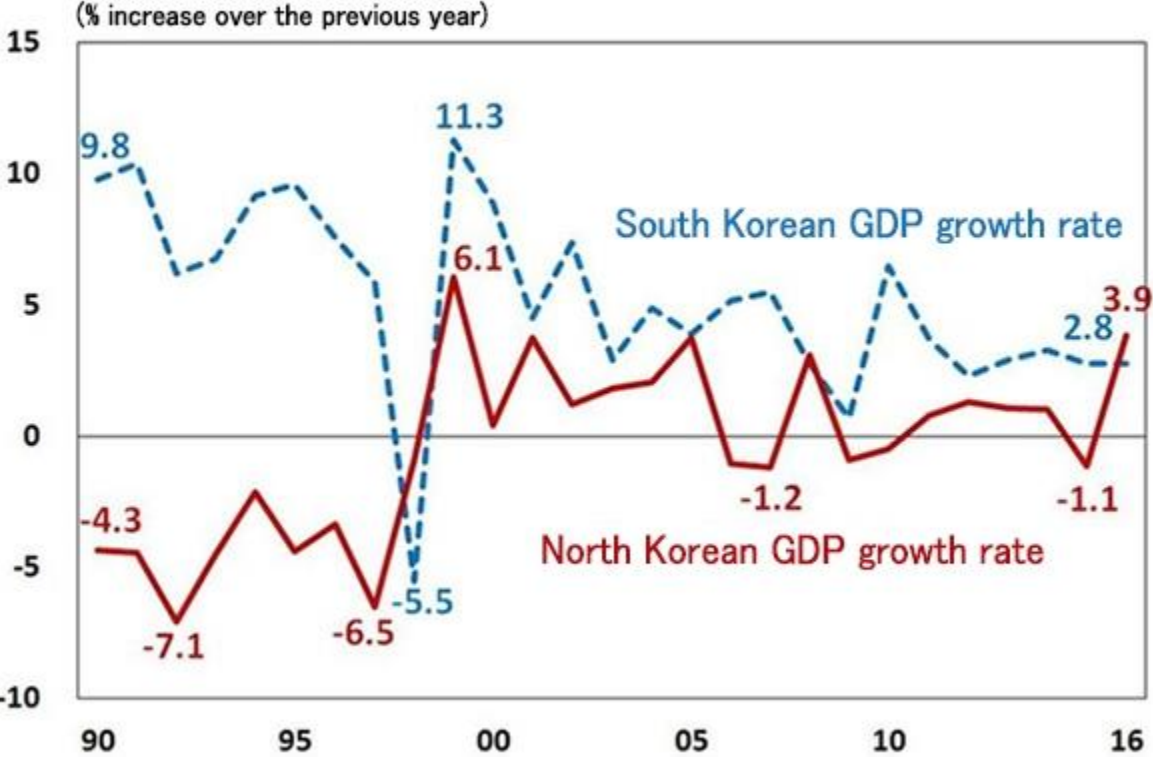
# The crisis of 1995-96 in North Korea





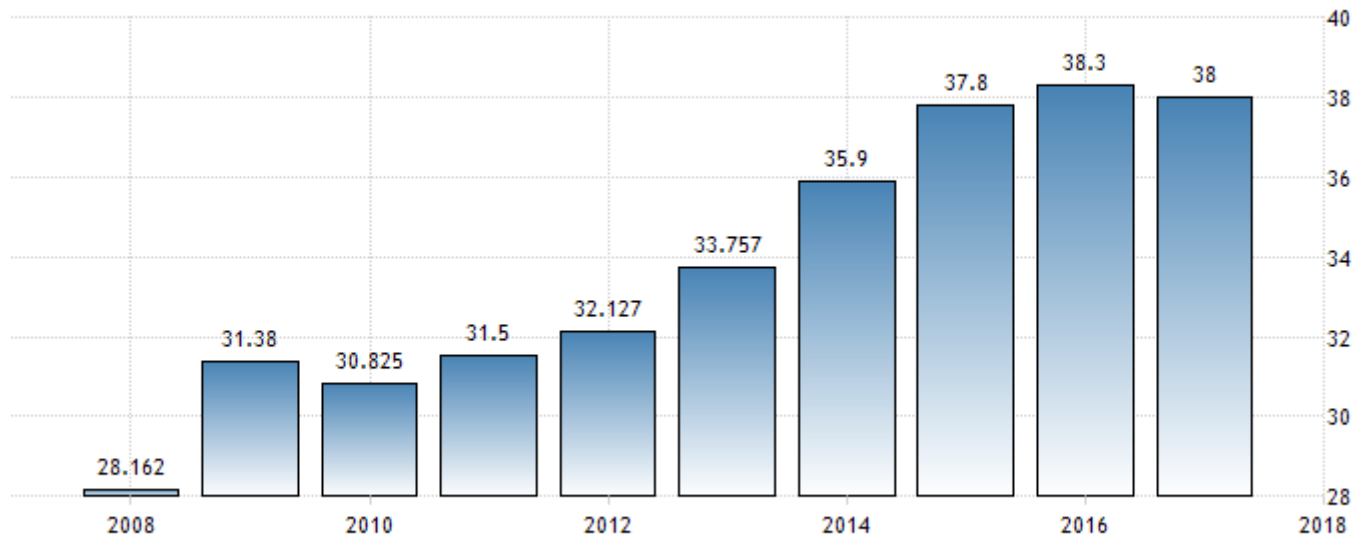
# Is something going to change?

Comparison of economic growth rates in South and North Korea



# Debt/GDP ratio: a dream for advanced economies!

SOUTH KOREA GOVERNMENT DEBT TO GDP



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

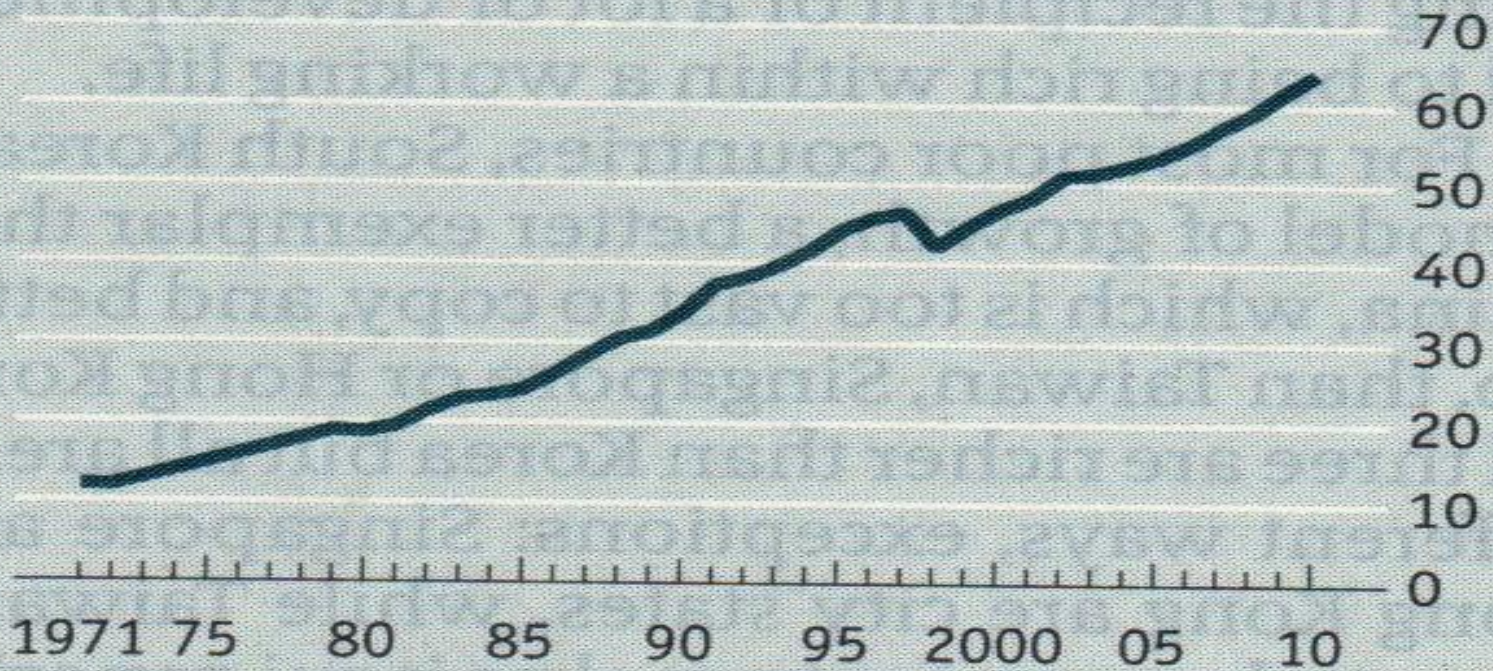


# Catching up USA ?

## A constant convergence...

1

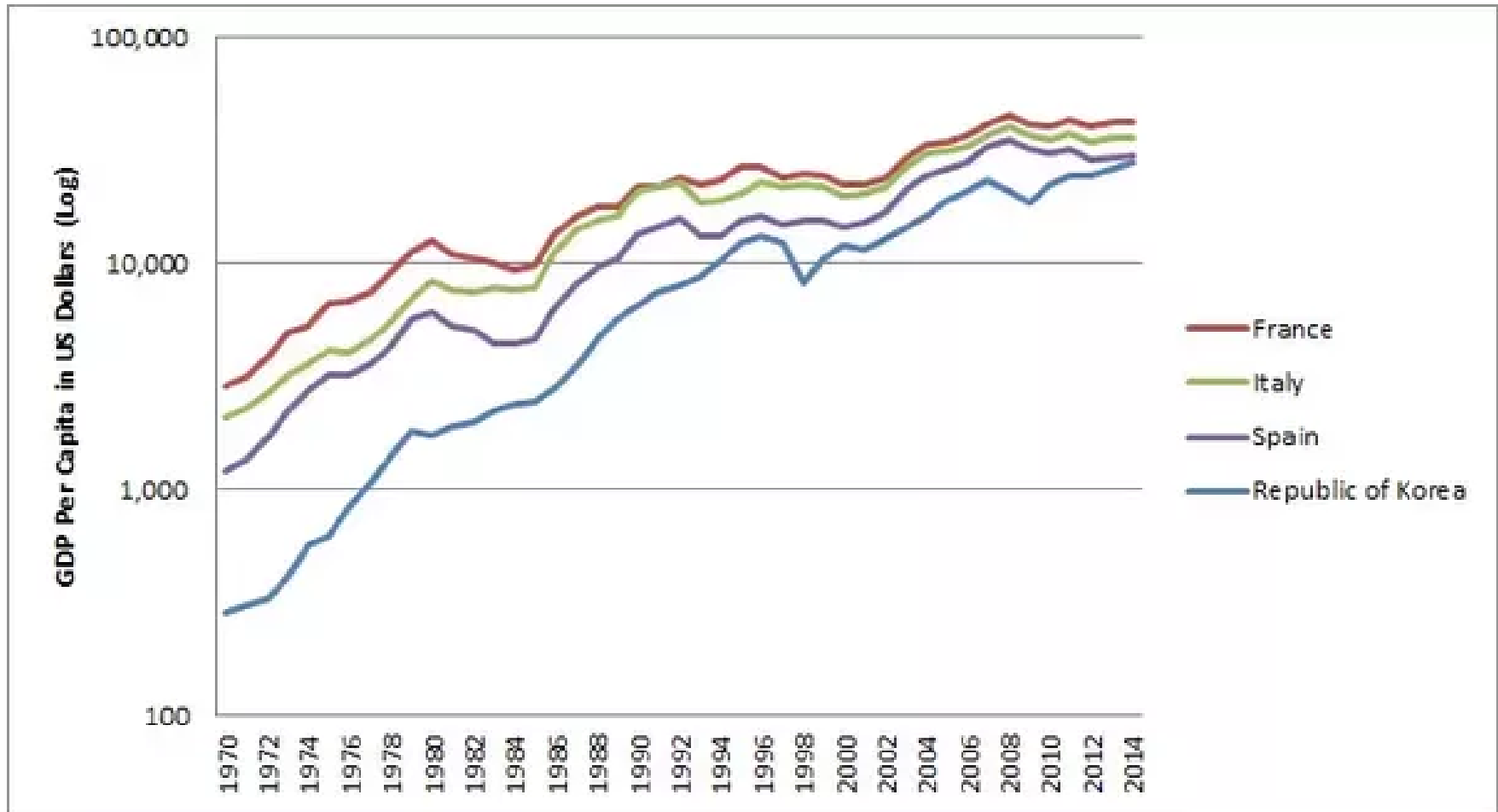
South Korea's GDP per person\* relative to the US  
%



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**

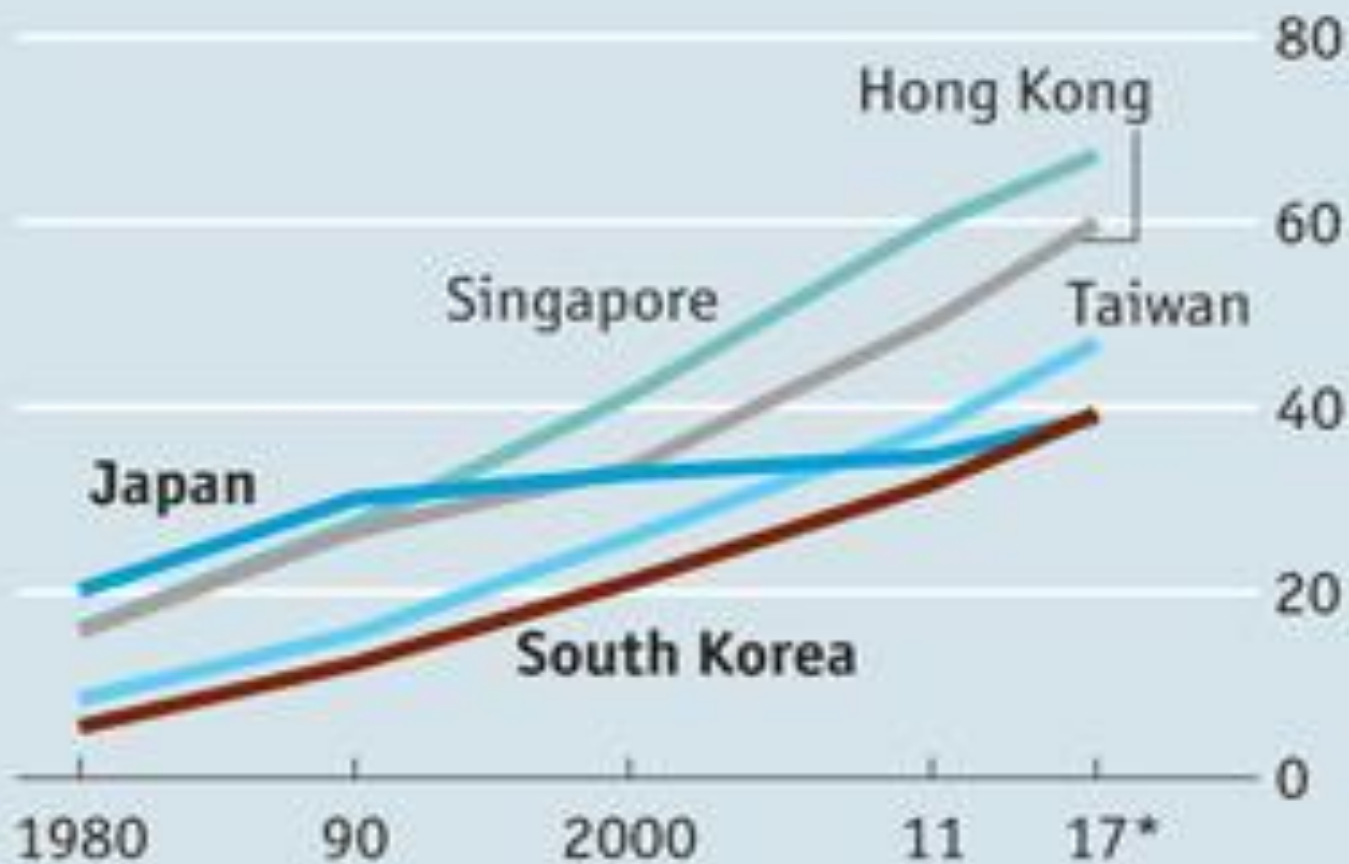
**2012\***



\* Forecast

## Overtaking the leader

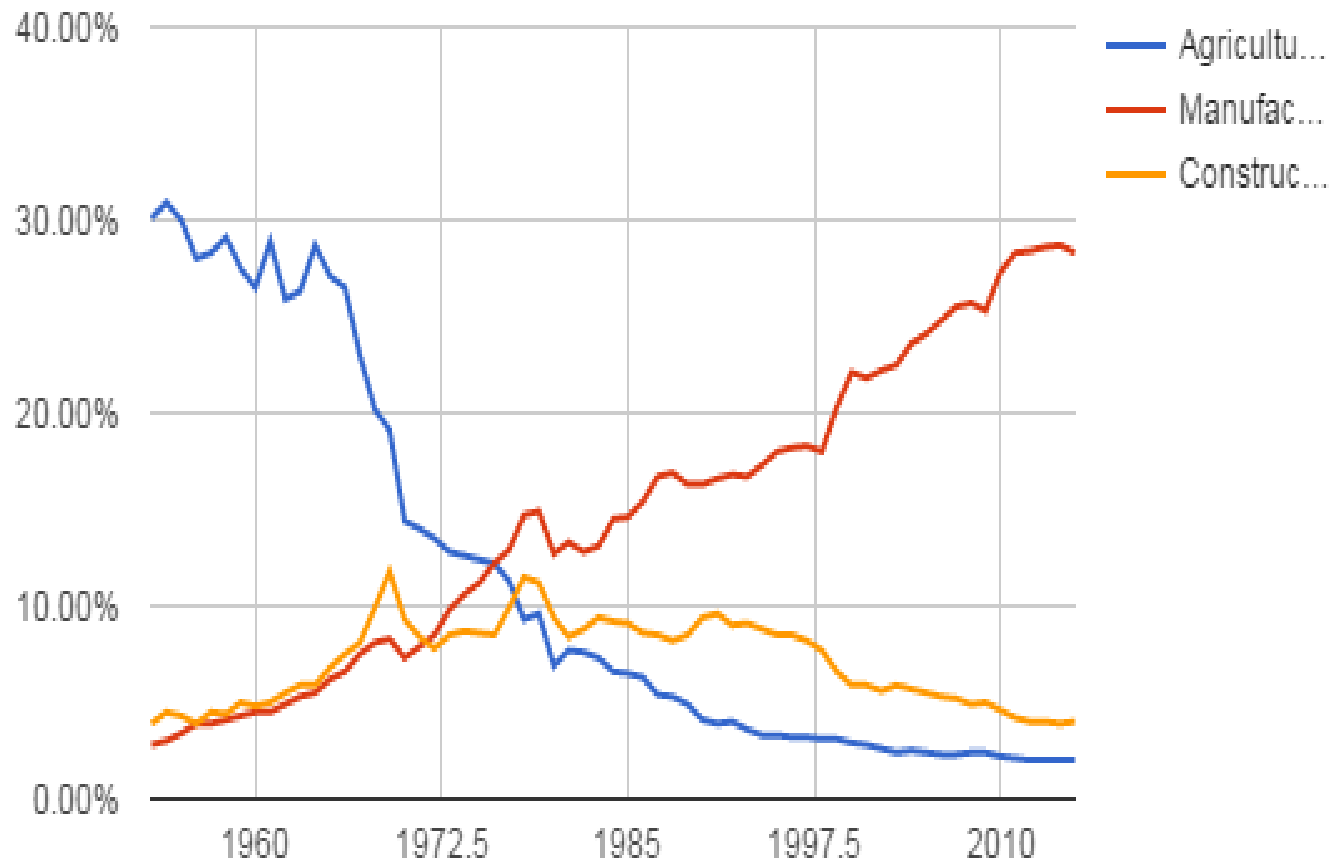
GDP per person at purchasing-power parity  
2011 prices, \$'000



Source: IMF

\*Forecast

## Agriculture, forestry and fishing, Manufacturing and Construction



# 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



# Technological and organizational innovations even in very mature sectors

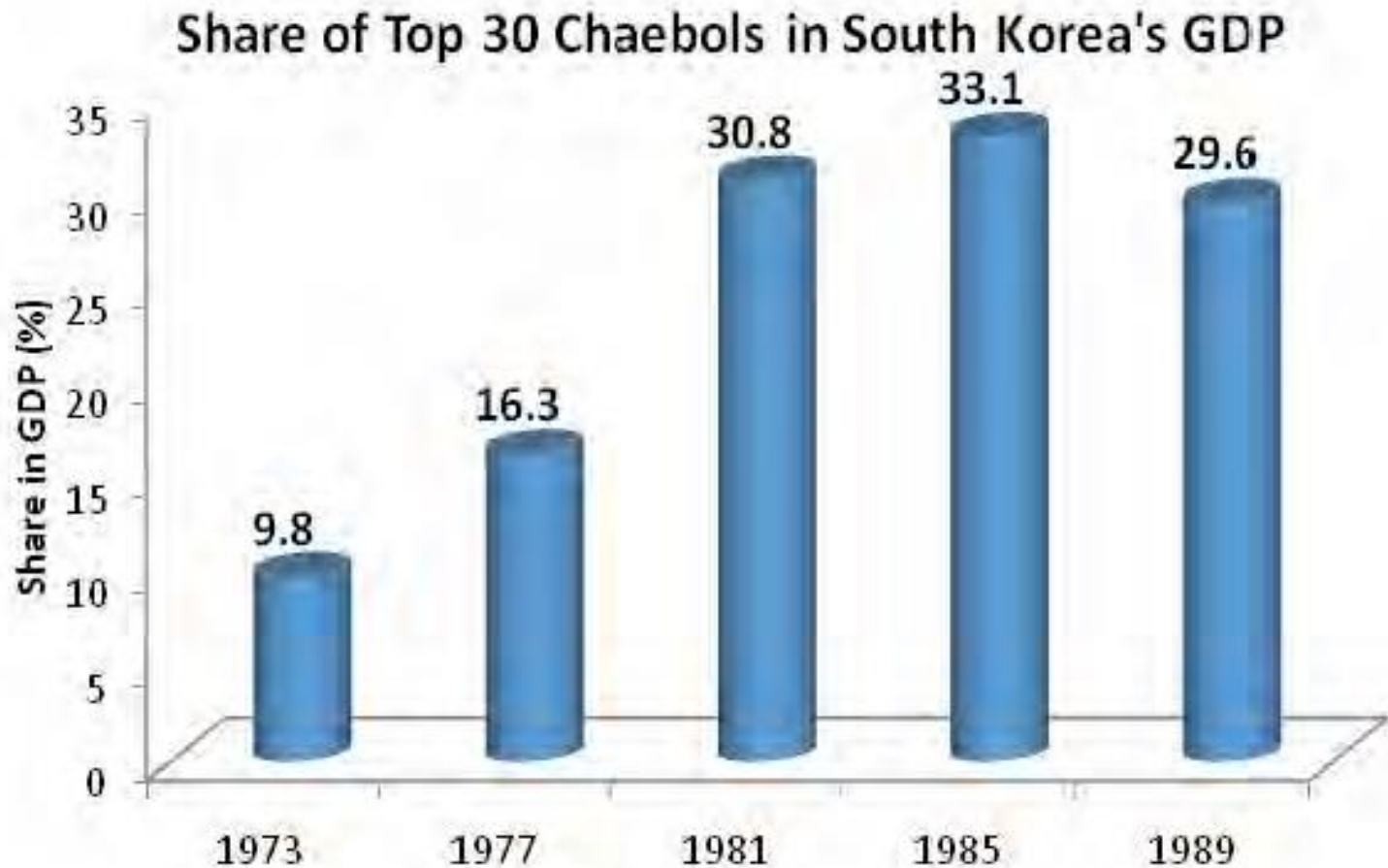


**37,5% of World Market**

# 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

# The growing importance of Chaebol



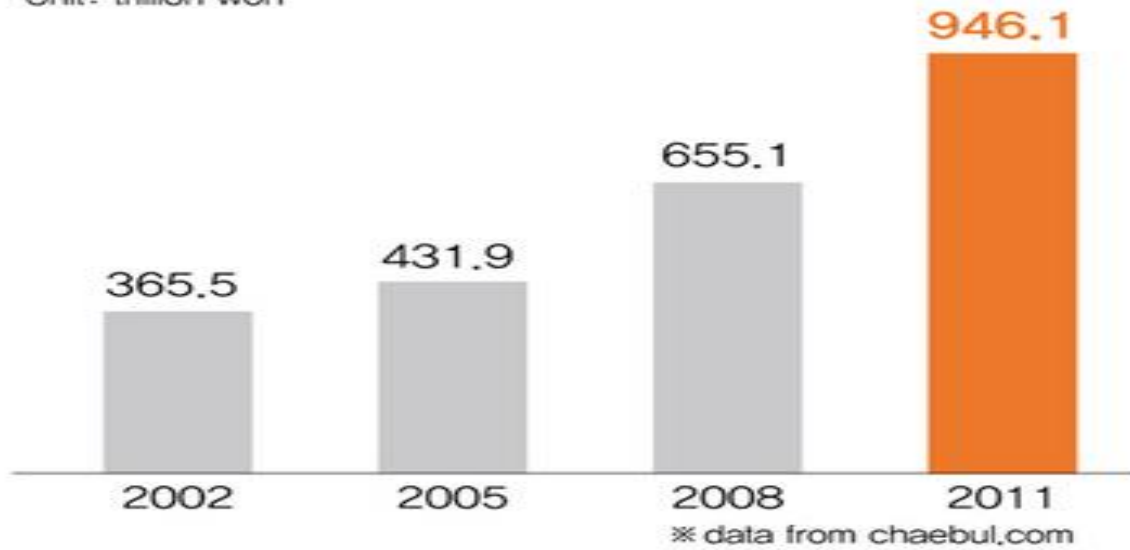
# And even bigger today

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



The ten largest chaebols' total sales

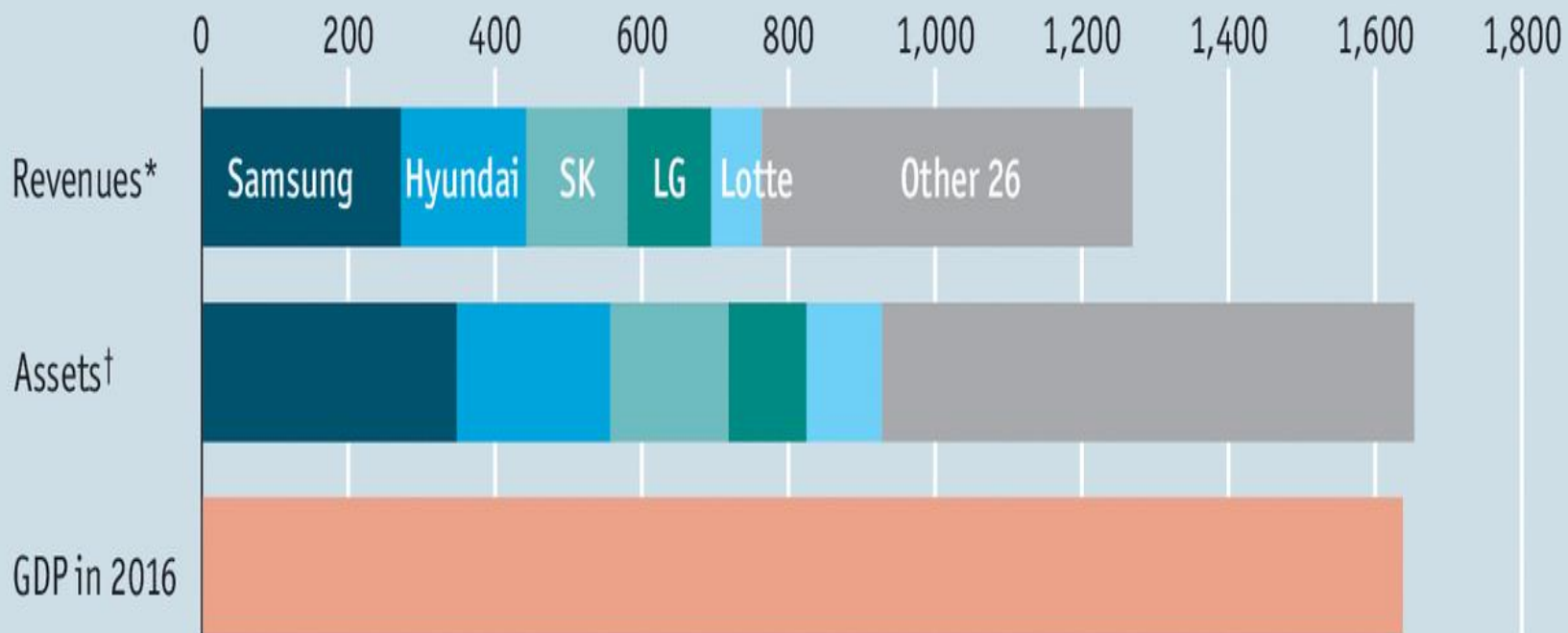
Unit: trillion won



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.

## Too big to play fair

South Korea, 31 major *chaebol*, 2016, won trn

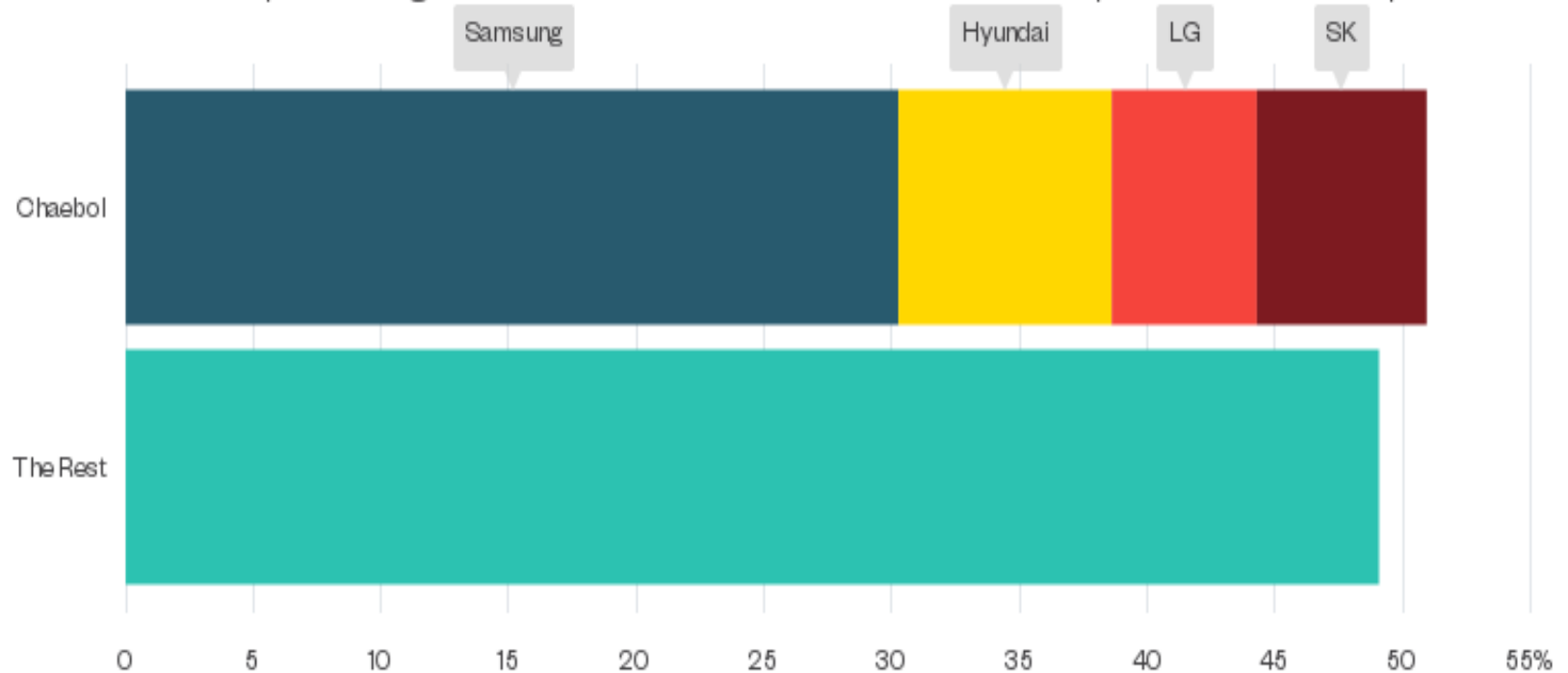


Sources: Korea Fair Trade Commission; *Nikkei Asian Review*; KOSIS

\*Year to April †At April 30th

# Market Overweight

South Korea's top four conglomerates account for more than half the Kосpi Index's market capitalization



Source: Bloomberg

BloombergGadfly

# South-Korean Biggest groups

## Companies

## Global 500 ranking (2018)

- Samsung Electronics
  - Hyundai Motor
  - SK Holdings
  - LG Electronics
  - Posco
  - Korea Electric Power
  - Kia Motors
  - Hanwa
  - Hanwha
  - Hyundai Mobis
  - Samsung Life Insurance
  - S—Hynix
  - KB Financial Group
  - LG Display
  - CJ Display
- 12
  - 78
  - 84
  - 178
  - 184
  - 188
  - 219
  - 219
  - 244
  - 380
  - 421
  - 431
  - 471
  - 483
  - 493

# WEEK POINTS

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