

The Republic of Korea

I. Economic Structure

A Record of Growth

The Republic of Korea has one of the most consistent and remarkable growth records of any economy in the world. Since 1970, the country's economy has grown at an average of more than 8% a year. Between 1986 and 1988 annual growth rates averaged more than 12%. Manufacturing has been and continues to be the base of the Korean economy, accounting for 31.6% of GDP in 1989. Key industries include steel, electronics, automobiles, shipbuilding, and heavy machinery.

Electronics is the fastest growing of the industrial sectors. In 1988, Korea exported \$4,743 million worth of electronic components, nearly three times the \$1,792 million exported in 1984. Korea has been especially successful with semiconductors. In 1989, it produced \$5,682 million worth of computer chips and has come to rival the United States and Japan as a producer of integrated circuits.

An Ongoing Transformation

Today's Korean economy is the product of a systematic and ongoing transformation that reaches back four decades to the end of the Korean war. In the late 1950s and through the 1960s, the Koreans focused on import substitution. They then expanded their export-oriented light manufacturing industries such as clothing and textiles, and encouraged the development of producer goods industries. By the 1970s, the South Korean economy was expanding into heavy and chemical industries, and shifting its emphasis from the importing of foreign capital to the acquisition of foreign technology. At the same time, the competitiveness of the country's export-oriented industries was strengthened.

In the 1980s, the Koreans began to focus on technology-intensive sectors, encouraging the development of highly skilled manpower and improving productivity. During this period, their earlier reliance on clothing and textiles ended while steel and electronics emerged to new prominence. This process of technological upgrading will continue through the 1990s as the Koreans adjust their industrial structure to meet changing world conditions, seek to improve productivity, and promote balanced regional development within the country.

Industrial Structure

Large companies known as *chaebols* have been the backbone of Korean development. Even so, the government has played a major role in the country's economic policy, writing detailed plans for each industrial sector. Recently, the government has begun to focus on encouraging small- and medium-sized enterprises. It is seeking to assist SMEs by providing venture capital, low-cost loans and R&D incentives.

Warning Signs

Recently, there have been signs that Korea's export-oriented formula for success may have to undergo some revision. Exports, grew by only 10% in 1989. As a result, Korea's current account surplus has narrowed and there is less liquidity in the economy. This, in turn, means that overall economic growth slowed in 1989, though it was a still impressive 7%. There were other warning signs, however.