

# Preface

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Korea has experienced one of the most profound economic transformations of any nation in history, and remains a very important field of academic inquiry. This book draws upon my knowledge and experience of Korea's catch-up process. I have tried to examine the most relevant themes normally associated with a study of this kind and to structure my thesis accordingly.

This book has evolved from my *Trade and Growth: A Korean Perspective*, published in 1994 and containing 23 papers I had written over a quarter century. In the late 1990s, however, Korea has experienced the so-called IMF crisis of near bankruptcy that has dramatically revealed its Achilles' heel. (The financial crisis that invited the IMF intervention in November 1997 is somewhat misleadingly called "the IMF crisis" in Korea. I prefer to call it simply "the 1997 crisis.") Korea is still trying to restructure its economy. Such an experience has very much influenced my perception of the Korean economy and its export-oriented growth process. I think "the 1997 crisis" has helped me to obtain a more balanced perspective, and has motivated me to write a new version of Korea's catch-up.

This book represents an historic study of Korea's economic development and political economy rather than a contemporary study. Only Chapter 8 gives a concentrated deliberation of the origin of "the 1997 crisis," and only at the end of Chapter 9 are the most recent post-crisis developments in the Korean economy addressed.

Every expert on the Korean economy seems to have a very different opinion on Korea's catch-up process. Since I majored in international trade, I myself tend to amplify the aspect of "trade and growth." My object is to give a possible perspective on the Korean economy, or a possible perspective on NICs (Newly Industrialized Countries) economy in general, for those who have a serious interest in understanding the export-oriented catch-up process.

Chapter 1 sets the general context of Korea's catch-up experience, laying a conceptual foundation and developing some theoretical arguments. In the following chapters, I will be making some casual remarks on "the 1997 crisis" under each chapter theme, but the subject itself is delved into in Chapters 8 and 9. The process of Korea's catch-up has yet to run its course. Korea still has a long way to go to eliminate the developmental gap with

the advanced countries. Hence, each chapter examines the persisting challenge from its own chosen perspective.

A preliminary version of Chapter 5 was published in the *International Economic Journal*, Summer 2000, with the title of “Engine of Export-Oriented Catching-Up: Small Firms vs. Big Conglomerates.” I contend that the differences between Korea and Taiwan in size structure of firms may reflect the divergent responses of entrepreneurs in each country to different, “semi-permanent” socio-political conditions that determine the costs of market transactions.

An earlier version of Chapter 7 was presented at the 11th Congress of the International Economic Association in Tunis on 19–22 December 1995 as an invited paper with the title of “The Catching-Up: Lessons of East Asian Development” and was published in *Contemporary Economic Issues 1*, edited by Justin Yifu Lin (Macmillan/St. Martin’s Press, 1998, pp. 3–17).

A preliminary version of Chapter 8 was published in *International Economic Journal*, Spring 1998, with the title of “Financing Export-Oriented Catching-Up in Korea: Credit Rationing, Sustained High Growth and Financial Crisis.” This chapter addresses the question, “How could Korea achieve sustained high growth for more than three decades with such a corrupt and backward financial system?” I contend that the system of rationing bank credit on the basis of firm’s export performance during the 1960s and 1970s could very much overcome the adverse selection problems in a repressed financial regime. Since the early 1980s, however, bank credit has been rationed less and less in proportion to export performance, while the nominal financial liberalization has failed to modernize the Korean financial sector. This may explain the financial chaos in the 1990s.

A preliminary version of Chapter 9 was presented at the International Seminar on “Models and Policies of Development” hosted by IDB/BNDES at Rio de Janeiro, Brazil, on 22–23 June 1998.

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