

## Preface

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This book investigates the transition in the economy of South Korea (hereafter Korea) from a state-led system over the three decades of unprecedented economic success preceding the financial crisis of 1997 to a market-oriented system of the post-crisis period with sluggish economic development. From the early 1960s through to the 1997 financial crisis, the Korean economy continued to surge. After a serious economic setback over one year in 1998, it recovered quickly, unlike other crisis-afflicted economies in East Asia, and became the world's 11th-largest economy in 2003. Korea thus stands as proof that one country can leap from being one of the poorest in the world to joining the ranks of the richest in just one generation.

In the immediate aftermath of the 1997 crisis, outdated economic policies and institutions were regarded as the primary culprit. The Korean government therefore vigorously pursued profound reforms of the nation's economic institutions, in response to both the crisis and the transition under way in its geopolitical and global economic environments as well as domestic political and social changes. These sweeping institutional reforms have in turn been the main drivers of the transition in the Korean economy from being heavily controlled and state-led to a liberalized, knowledge-based economy anchored in market principles. Consequently, Korea presents a fascinating case for enquiry into the evolution of a national economy with its distinctive experiences of apparently miraculous success over three decades since the early 1960s, tumultuous financial crisis in 1997, swift recovery through sweeping institutional reforms, and remarkable economic transition into the twenty-first century.

Despite rapid recovery from the crisis over one year and the sweeping institutional reforms that were introduced as the remedy, the Korean economy entered a low potential growth phase. Clear signals of sluggish performance from the dawn of the twenty-first century have raised concerns in all walks of life in Korea about the consequences of a stagnant national economy, and the dimming prospect of crossing the threshold to advanced-economy status. What explains the sudden economic slowdown and unpropitious prospects of the Korean economy for the decades ahead? In order to reinvigorate and fortify the economy for national well-being and to achieve the popular Korean aspiration to live in an advanced economy, what

should be done, by whom, and how? This book is an attempt to address these critical questions through analysing the dynamics of institutional changes and economic operations in Korea across the transition period.

This volume has a number of distinctive features. First, it adopts an institutional perspective in exploring the evolution of the Korean economy in the emerging globalization era because of the nation's idiosyncratic institutional framework. The Korean economy maintains *sui generis* characteristics even while drawing, with most national economies, towards a global standard. As the world has witnessed through the collapse of socialism, differences in per capita income across countries are due mainly to differences in the quality of institutions, and the persistence of relative institutional inefficiency is frequently a major source of long-run economic stagnation. This book therefore examines the Korean institutional context through the multiple lenses of history, society, culture and politics, and analyses various aspects of the Korean economy in this light.

Second, the comprehensive approach of this study explores a rich array of pertinent topics across its 12 chapters to present an informative and across-the-board picture of the Korean economy in transition. It explores the evolution of institutions to investigate the impacts of economic policy, culture and politics on macroeconomic development, and the nation's economic transition toward a knowledge-based economy. Recognizing the now relatively wide open nature of the economy, the book discusses recent developments in institutions that relate to Korea's external economic relations. These include inter-Korea economic relations and the North Korean economic reforms in 2002, both of which are of major significance for the Korean nation and its economic performance. Micro-level analysis takes up institutional reforms related to three main sectors: business, finance and public administration. The book also includes detailed discussions on labour and social welfare issues, recognizing sustainable and equitable economic development as the Korean people's preferred course for the nation. This volume therefore provides valuable, comprehensive information for those seeking to understand the Korean example of national economic development and transition, whether for scholarly purposes or for active engagement in economic development policy.

Third, this volume draws extensively not only from sources in the English and Korean languages, including electronic as well as published materials, but also from my experiences as both scholar and consultant. I have many years of experience involving frequent visits to Korea for academic purposes and as consultant on projects concerned with the Korean economy. I have also conducted surveys and interviews with foreign business people in Korea in the recent past, and these have contributed to my understanding of the Korean economy from foreign perspectives.

The need for this book became clearer to me while teaching a course entitled 'The Korean Economy' at Griffith University in Australia since 1996, and at the International Summer Campus of Korea University, Korea in the recent past. There was no comprehensive treatment of this subject in a single volume; the sources of pertinent information were scattered and inadequate for presenting a well-rounded picture of the recent development of the Korean economy. As the 11th-largest economy in the world and located in a strategically dynamic region of Northeast Asia, Korea plays an important role in the regional and global economy. Yet it has eluded the careful examination that it deserves. All chapters have been rewritten a number of times as the speed of institutional reforms and their consequences overtook production of this book. A number of former students and other colleagues commented on some chapters of the book over the several years of its creation.

Indeed, many people have made valuable contributions to producing this book. Its preparation has been part of a research project funded by the Korea Research Foundation in Seoul, to which I express sincere thanks. I thank Steve Johnson at Sam Houston State University, Dr Hun Soo Kim at Korea's Ministry of Labor, David Schak and Byung Min at Griffith University who commented on draft chapters. Daniel Halvorson deserves special mention for his excellent research assistance and for meticulous editing of this volume. Thanks are also due to Robyn White for her careful attention to detail and her efficiency in preparing the manuscript to meet the exacting specifications of the publisher. Perhaps most importantly, I express deep thanks to my wife, Joanne Kwon, whose patience and caring prevailed while I was buried in researching and writing this book over what seemed like day and night for several years. I therefore dedicate this book to her with warmest thanks and affection. I of course remain solely responsible for any errors and shortcomings in the content of this book.