

# Japan and south korea economic developments



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Japan and South Korea within several decades made their way from being destroyed by the war and poverty-ridden to industrialized, highly developed and quite rich countries. At first glance, it seems that stories of Japanese and Korean miraculous transformation are rather similar to each other. Both countries faced similar problems and challenges in the beginning of their growth path. Moreover, both Japan and South Korea received strong growth incentives from abroad. Thus, foundations of Japan's growth were laid during the American Occupation period, whereas South Korea after the Second World War was also occupied by the American forces and received huge financial support from the United States. But were their ways of economic development actually alike and to what extent? So, let us look closer and try to answer this question.

Many scholars agree that Japan's and South Korea's outstanding economic performance was a result of strong government policies and efficient reforms. The countries' approaches to economic development appear to be similar in several aspects. One of the most obvious common features is interventionist policies. In Japan, the MITI shaped industrial policies, while also consulting with private actors and guiding them to the "right" direction. South Korean government also applied direct intervention in economic system by controlling prices and taking part in decision-making process of private actors.

Government guidance and supervision over economic processes significantly contributed to the Japan's and Korea's outstanding economic performance. Comparing the main government economic development policies, several parallels can be drawn here. In both cases, high and rapid economic growth

was achieved through intensive industrialization and export promotion. Japanese and Korean government counted primarily on development of heavy and chemical industry sectors as the main driving force of development. The key industries were provided assistance and various benefits, including loans, subsidies, and tax privileges, etc. At the same time, investment was strongly promoted. The success of industrialization and export-promotion policies owes to several specific policy instruments and approaches, which were effectively used both by Japanese and Korean governments. Among the most important are mobilization and allocation of capital, adoption of foreign technologies, cooperation with business conglomerates, and restriction of imports.

The success of industrialization and export-promotion policies was closely linked to the efficient mobilization and allocation of capital by managing savings and investments. The Japanese and South Korean governments were particularly effective in promoting domestic saving of financial institutions, enterprises, and households by means of monetary policy instruments. Likewise, they also succeeded in channeling these funds as capital investments to industrial production (and also services sector later). The factors of production were moved from low-productivity sectors to more productive ones (Pilat 1993).

While conducting industrialization and promoting export, Japanese and Korean governments paid special attention to importing foreign technologies. Investments and loans were provided 'selectively to those firms capable of adapting and improving imported technology' (Odagiri & Goto 1993). Successful adoption of foreign technologies became a basis for <https://assignbuster.com/japan-and-south-korea-economic-developments/>

modernization of Japanese and Korean industry and increased competitiveness of their goods on the international market.

Within the framework of industrialization and export encouragement policies, Japanese and Korean governments maintained close relations with big business. Similarly, due to historical and cultural tradition, Japanese as well as Korean business is dominated by the large conglomerates. This tendency has become apparent in Japan since the 19<sup>th</sup> century. Although zaibatsu were dissolved by the Occupation government in the late 1940s, business conglomerates reemerged later as keiretsu. The Korean analogue known as chaebols appeared the second half of the 20<sup>th</sup> century. The rise of keiretsu and chaebols was both a consequence of state policies of industrialization and export-promotion as well as its main force. Industry and big business benefited from this policy receiving strong support from the government, which led to the growth of business conglomerates. Rise of conglomerates, in its turn, resulted into increase of industrial production and growing competitiveness of Japanese products on the international market. Thus, cooperation between government and big business conglomerates reinforced industrialization and stimulated exports, which, undoubtedly, played a significant role in economic growth in Japan and South Korea (Ohno 2006; Shin 2003).

Another common feature of Japanese and Korean governments' approaches to export promotion is trade policies, which played a significant role in economic progress in both cases. At the initial stage, governments were promoting protectionist policies. Various import restrictions, such as tariffs,

quotas, and other, were imposed in order to protect domestic producers from international competition. While import was restricted, export was intensively stimulated. The combination of these policies proved to be very effective in stimulating economic growth.

Foreign capital as an instrument of industrialization and of increasing exports was used both by Japan and Korea. However, the role assigned to foreign funds and their contribution appeared to be considerably different in each case. Thus, in Japan foreign direct investment was restricted from considerations of being unhealthy for Japanese economy. Foreign borrowing was practiced by Japanese government, but in moderate size. Japan mostly relied on domestic capital for financing investment, while foreign loans constituted less than 1% of the total amount.

Meanwhile, in South Korean case, domestic capital could not cover the need for investment, so, to a greater extent, it was financed from foreign loans (which, interestingly, were borrowed mostly from Japan). Foreign direct investment was also strongly promoted by Korean government and supported by special legislation. Moreover, in contrast to Japanese approach, one of the main sources of financing investment in Korea was direct state investments and various state loan programs, which also constituted a considerable share in total investment (Shin 2003).

Thus, both Japanese and Korean governments focused on export-promotion as a main driving force of economic development. Apparently, in both cases this policy was implemented in a quite similar way. However, there was one important difference. While promoting export, Japanese government also

paid attention to domestic market and stimulated domestic consumption. In that way, newly produced consumer electronics such as TVs, refrigerators, washing machines, and cars went to domestic market in the first place, and only then for export. Thus, domestic consumption became one the main drivers of growth together with export. On the other hand, Korean approach was based on export-first principle. According to this policy, 'Korean firms were marketing their products in overseas markets rather than in domestic markets', while many of consumer goods were inaccessible for Koreans and sometimes even prohibited to sale. For instance, color TVs were admitted to domestic market only in 1980 (Harvie & Lee 2003).

The government economic development policies in Japan and South Korea were framed into economic plans. Economic planning became an important instrument in supervising economic processes and implementing policies of industrialization and export-promotion. Being used reasonably, planning played a significant role in achieving economic growth. The plans did not take a form of strict programs like in central planning economies, but served as indicators for the further development and informed the public about the government expectations for the future.

Economic growth in Japan was accompanied by the several economic plans. The plans usually included the medium-run scenario of development, stated the goals and priorities of the policy, and, finally, indicated the possible line of action for the private sector. The first one – the Economic Self-Reliance Five-Year Plan was adopted in 1955. It was followed by the Doubling National Income Plan in 1960, which became the most efficient one. Aiming at doubling national income, the plan was put into practice even more

successfully than it was expected. The 1970s were also marked by several economic plans; each of them was designed accordingly to the situation to address current problems. The Economic and Social Development Plan of 1967-1971 and the New Economic and Social Development Plan of 1970-1975 were focused on the problems that appeared as a consequence of the rapid economic progress and emphasized balancing economic development. Further, the Economic and Social Basic Plan, which was dealing with the development of Japan internationally and welfare of society, was in force between 1973 and 1977. The first oil crisis brought changes to the Japan's government economic policies, so the Economic Plan for the Second Half of the 1970's introduced for the period of 1976-1980 promoted initiatives for energy-saving (Otsubo 2007).

Likewise, in South Korea, economic planning was an essential element of government developmental policies. Economic plans were developed by the special agency, The Economic Planning Board, established in 1961.

Altogether, seven five-year economic development plans were implemented during the economic miracle period of 1960s-1990s. Plans were establishing targets of various macroeconomic indicators, such as rate of growth, rates of investment and saving as a share of GNP, as well as exports and imports targets. The general direction of development and goals to achieve were indicated in the plans. Plans also included the development strategies.

Generally, Korean economic development plans paid special attention to industrialization and exports as the main factors of economic growth. At the initial stage, emphasis was put on promotion of light industries development and import substitution, whereas later, focus shifted to heavy and chemical

sector, and also exports expansion. In the last three plans the course was taken on gradual easing of government control and liberalization of trade (The Federation of Korean Industries 1987).

Although the government policies and reforms clearly made the greatest contribution to the Japan's and South Korea's economic growth, it is worth to mention one more important factor, without which economic miracle would not, probably, happen at all. This refers to the cultural peculiarities of the Japanese and Koreans. Japan and South Korea are both East Asian countries with strong collectivist culture influenced by Confucianism. Being the two basic cultural features, Confucian tradition and collectivism create a unique and favorable environment for economic development. Confucianism as an official ideology was dominating in East Asian countries from the end of the 13<sup>th</sup> century. By the end of the 19<sup>th</sup> century its influence became weak and limited, and today Confucianism does not exist in its original understanding as the social and political system. Nevertheless, Confucian ethics and values still remain relevant in the modern East Asian societies. The value system along with the social structure in Japan and Korea are strongly influenced by the Confucian tradition, which is quite evident in everyday life. Primarily, the Confucian teaching stressed the humaneness and the harmonious relations between the people. In practice, this principle means the respect to the authorities, to parents, to elder people, placing collective interests prior to the personal, and taking care of other members of the group. The dominance of the Confucian system of values contributed to the formation of the strong collectivist culture in East Asian countries, in contrast to the Western European individualism. The importance of nation, society, community and



family over the individual has become the main feature of East Asian cultures, Japanese and Korean particularly. Obviously, such attitude of Koreans and Japanese to the collective interests and their strong feeling of responsibility before the community are among the main factors that contributed to the prosperity of these nations. Generally, owing to these national traits, East Asia has become the most dynamically developing region, growing stronger and gaining more influence on the international arena over the last decades (Hang 2011).

To conclude, Japan and Korea came to the economic miracle in quite a similar way. Despite the deep economic crises and social and political instability brought by the wars, Japan and South Korea successfully transformed into economically advanced countries within several decades, which are quite rare cases in world history. Although sometimes different in details, Japanese and Korean approaches, generally, coincide in many aspects. Economic development in both cases was led by intensive industrialization and export-promotion implemented through the system of administrative guidance and economic planning. Consequently, it appears that this particular combination of instruments against a background of East Asian cultural tradition led to such outstanding results and created economic miracle in Japan and South Korea.

## Conclusion

In the second half of 20<sup>th</sup> century, Japan and South Korea presented to the world two notable cases of remarkable economic transformation known as economic miracle. Many scholars agree that much of a credit for their

success belongs to the government policies. This thesis has been a study of the mechanism of Japanese and Korean economic miracles in the context of government policies in historical perspective. The first goal of this research was to find out what were the fundamental policies that contributed to their economic miracles. And secondly, it aimed to determine if Japanese and Korean approaches were similar. It was supposed that economic development strategies of Japanese and Korean government were partly similar, while based primarily on policies of industrialization and export-promotion.

At the beginning of their path, Japan and South Korea were heavily affected by the war and, as a consequence, plunged into the deep social and economic crises. To recover their economies, countries' governments undertook quite similar approaches. Primarily, their development patterns were characterized by government intervention into the market processes through administrative guidance and with the help of economic plans. While not going to extremes, Japanese and Korean approach allowed avoiding both deregulation of the free-market system and over-regulation of central planning. The policy of reasonable, balanced and appropriate intervention into economy proved to be very effective in Japanese and Korean cases (Liu 2012). Economic development policies emphasized intensive industrialization and promotion of export as the basis of economic growth. The industrialization and exports were stimulated by means of effective mobilization and allocation of domestic and foreign capital, import of foreign technologies, maintaining strong relations with business conglomerates, and also restriction of imports. Noteworthy, the success of this particular

development strategy in both Japan and South Korea was not accidental, but owes to the East Asian cultural background based on Confucian and collectivist tradition. Similarly to Japanese and Korean experience, other East Asian countries, including Singapore and Taiwan, also managed to achieve high economic growth within quite a short period of time through this scheme. The examples of Japan, South Korea, and other countries of East Asian region that reached high growth allow assuming that this approach forms the basis of so-called East Asian model of economic growth.

To conclude, during the last 25 years Japanese economy recorded average growth rate of around 1.3% annually. Certainly, this figure can not be compared with the high growth of the 1960s. However, against a background of the world trend towards economic decline, this rate does not look that bad and is in line with growth rates of other developed countries. In spite of slow growth, Japan still remains one of the largest economies in the world.

Moreover, official statistics showing economic decline do not reflect actual Japan's reality. Japan is a highly developed and rich country with one of the highest standard of living. On the other hand, South Korea is one of the most rapidly developing countries being the 15<sup>th</sup> largest economy in the world. Korea is known as one of the Asian Tigers together with Taiwan, Singapore, and Hong Kong. Over the last several years, its economy has been growing at a stable rate of around 3% per annum. Korea and Japan together are among the world leaders of technological innovation (Blaauw 2014; Dadush 2014). Much of the present economic attainments of Japan and South Korea can be traced to their economic miracles of the second half of 20<sup>th</sup> century. Despite some recent and current difficulties, Japan's and Korea's history

demonstrates their great potential, so it is to be believed that even better achievements are yet to come.