

# Economic development in taiwan and south korea economics essay



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In the mid 1900s, the poorest countries were still not able to develop at a faster rate than the advanced countries. But surprisingly enough there were two countries in Asia that developed very rapidly but did so without experiencing the customary great and increasing inequalities and the emergence of mass unemployment. These two countries were from the group of Four Tigers, Taiwan and South Korea. Both Taiwan and South Korea did have similarities in their historic traditions but also developed upon different economic policies. When we talk about economic development it usually includes three parts: economic growth, distribution of wealth, and quality of life. Therefore, in this critique essay, I will be talking about how Taiwan and South Korea were similar and different in terms of developing its economy based upon Tibor Scitovsky's essay on "Economic Development in Taiwan and South Korea, 1965-1981."

Taiwan and South Korea were able to be successful in developing their country due to similarities in tradition and background. First, the two countries share a common Chinese tradition and Confucian philosophy. From this tradition and philosophy, getting a high level of education and increasing the level of skills have been very significant. Hence, after the war in 1940s, literacy rates have been rising considerably. Secondly, both countries have the capability and motivation to work hard – which is also one of Chinese traditions. Even to this day, people from Asia are known to work hard for longer hours. In addition, the success to their economy was due to the flexibility in wages as well as having greater employment stability. As the countries followed the Chinese traditions, bonuses were given to their workers – which resulted to a higher rate in personal savings. When the

Japanese ruled over both Taiwan and South Korea, they had helped the two countries see a rise in agriculture productivity and infrastructure investment. Additionally, as the rule came to an end, the countries were able to observe the decrease in inequalities of wealth. A big factor that assisted in equalizing the distribution of wealth was the land reforms distributed among small tenant farmers (landowners were also forced to sell all their land for a price less than the market values).

In the early 1960s, Taiwan had published the Nineteen-Point Economic Financial Reform of the Third Four-Year Plan which encouraged many private manufacturing enterprises to make an investment. Many of these firms were heavy industries of steel, shipbuilding, and petrochemicals. And there were much more Taiwanese firms in terms of number; privately owned manufacturing firms were much smaller than in Korea because of four significant reasons. One is the vast number of immigrants from China that brought 30% of the total inflow of foreign capital - used for establishing independent firms. There was also higher rate in personal savings which allowed firms to easily secure the capital for establishing independent businesses. Knowing that Taiwan better fulfilled the conditions of competition, firms were created to be smaller so it permitted newcomers to enter the market for a cheaper price. Lastly, Taiwan provides infrastructure facilities to enable new firms to establish. In observing these reasons, we can articulate that Taiwan and South Korea have very different monetary policies. The monetary policy for Taiwan has been keeping actual interest rates close to the level of equilibrium interest rate. Instead of keeping the interest rates low to provide low cost of investment for firms, even under

inflationary pressure, Taiwan had raised their interest rates. High interest rates encouraged saving, which became productive capital for firms and major force for anti-inflation. In result, the interest-rate monetary policy has both managed the inflation and investment and growth.

In contrast with Taiwan's economic plan, South Korea policymakers have made general and forceful use of a wide range of incentives intended to reassure private industry's close agreement with their plans. The main incentive is differential access to credit and concessionary cost of credit. Unlike Taiwan, the qualifying criteria for a borrower for low-cost credit in Korea have been far stricter. Hence, the low average interest rates have given the real interest cost of concessionary loans to be zero or lower. Because South Korea is very government-oriented, firms that do not follow the rules formed by the government do not get the loan applications accepted. This concludes that the authorities do have strong control over the decision making in private firms - firms that do follow the government's economic plans (the substantial credit and tax incentives) are enabled in the country. And in result, Korea has created twenty large conglomerates.

Overall, Taiwan has not only achieved great results in all three aspects, but it also has done quite well according to other economic indicators. For example, it has enjoyed a mild inflation rate, low unemployment rate, and has accumulated vast foreign exchange reserves with almost no foreign debt. Limited natural resources and a high population density mean that Taiwan is not self-sufficient. Hence, foreign trade has come to play a leading role in Taiwan's economic development. In addition, because exports from Taiwan have been very strong, Taiwan has not experienced any serious

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unemployment problem. Labor-intensive export firms have provided jobs to large number of people from both rural and urban areas. South Korea's economy grew rapidly under the rule of former President Park Jung Hee. The economy was able to develop as he shifted the country's strategy to stimulating growth through export promotion. His policies encouraged private entrepreneurs. Businesses were given powerful incentives to export, including preferential treatment in obtaining low-interest bank loans, import privileges, permission to borrow from foreign sources, and tax benefits. Therefore, it is inevitable to conclude which one of the two countries was more successful in developing their economy in this period of time. However, when we look at the economy today, South Korea has done an impressive job in bringing them into the position they are in now. Taiwan is still a small, resource-poor economy, vulnerable to foreign pressures, dependent on exports and dependent especially on the U. S. for markets and security.