

The Two Koreas

- Korea the "hermit kingdom" in the 1800s.
- Colony of Japan, 1905- 1945.
- Yalta Agreement split Korea at 38th Parallel; Soviets installed Kim Il-Sung in the north, Americans installed Syngman Rhee in South.
- Korean War (1950-1953) involved U.S. and China, ended in ceasefire but no peace treaty. Over 3 million people died.
- South Korea: 48 million people in an area the size of Indiana.
- North Korea has 22 million people in a 25% bigger area.



South Korea (Republic of Korea)

- In 1950s, land reform, import substitution, and little economic growth. Rhee government was corrupt, and lacked popular support. South Korea was one of the world's poorest countries.
- Student demonstrations in 1960.
- General Park Chung-hee, 1961 -79 :
 - Authoritarian and interventionist government, including price controls.
 - Reduction of budget deficits, price level stabilization.
 - Pro-business outlook, subsidized large conglomerates (Chaebol) through preferential access to state-owned banking.
 - Export promotion, exchange rate unification and devaluation. Industrial policy to encourage Chaebol to specialize in and export higher-tech products.
 - Indicative planning: Economic Planning Board had effective control over government budgets, five-year plans, actual performance usually exceeded plans.

South Korean Economy after Park

- Minimal labor protection, weak (and sometimes angry) unions.
- Export orientation through subsidies and other intervention, trade ratio now 60%.
- Huge **Chaebol** conglomerates with access to state-owned banking, government subsidies:
 - Hyundai, Samsung, Goldstar, Daewoo, et cetera.
 - Nine largest chaebol accounted for 15% of GDP and 13% of exports in 1975, but 67% of GDP and 54% of exports in 1984.
- Korea relied on foreign borrowing through the 1980s, but grew enough to repay.

Political change



- President Park assassinated in 1979 by North Korean agents.
- Another coup by General Chun Doo-hwan, followed by Kwangju massacre.
- Demonstrations in 1987 led to free elections and restoration of democratic government. First election won by General Roh Tae-woo against Kim Young-sam (1992) and Kim Dae-jung (1997). Current president is Roh Moo-hyun. Corruption problems have undermined each administration.
- Asian financial crisis of 1997 → weak banks, excessive foreign borrowing, and capital flight led to big devaluation of the Won. IMF provided largest bailout and imposed policies to raise interest rates, shut down inefficient firms and banks.

Comparative Per-capita Growth Rates 1990 PPP Dollars (Maddison)

	1950- 1960	1960- 1975	1975- 1990	1990- 1997	1997- 2001	2001 Per-capita Income
Japan	7.6%	7.2%	3.4%	1.5%	-0.1%	20,683
Hong Kong	3.5%	5.5%	6.3%	3.0%	-0.3%	21,259
Singapore	0.4%	7.1%	5.5%	5.5%	0.1%	21,011
Taiwan	4.9%	6.7%	6.3%	5.7%	2.7%	16,214
South Korea	3.7%	7.3%	7.0%	5.9%	3.1%	14,673
USA	1.7%	2.4%	2.4%	1.5%	2.0%	27,948
W. Europe	4.2%	3.2%	2.2%	1.2%	2.2%	20,024
World	2.8%	2.6%	1.5%	1.3%	1.7%	6,049

North Korea The Democratic People's Republic of Korea

- North Korea inherited more of Japanese capital investment.
- Under Kim Il-sung, Korean Worker's Party follows Marxist-Leninist ideology, augmented by Stalinism, Maoism, and Confucianism.
- Cult of Personality created around the "Great Leader."
- Land reform initially, followed by full agricultural collectivization, nationalization of all industry, central planning, bureaucratic management, forced savings, high rates of investment in heavy industry and military. The DPRK currently has one of the world's largest armies.
- *Juche* philosophy of isolation, self-reliance. *Chollima* campaign (1956) somewhat similar to China's GLF.
- Reliance on Soviet Union, China, for key imports, export earnings – except when USSR/PRC conflict forced it to choose sides.

North Korean Economic Performance

- Credible data very hard to find. Best estimates are very rapid growth, 1946-49, again 1953-60. DPRK had higher GDP per capita than ROK until late 1970s. Similar PQLI until 1990s. Current per-capita income around \$800-\$1000.
- Gorbachev refused to continue to subsidize DPRK, required hard currency for Soviet exports. DPRK economic growth turned negative after 1988.
- Repressed inflation, shortages grew chronic by 1990s.
- Famine in the mid-1990s led to massive starvation – perhaps a million or more died? Economy did not begin to grow again until 1998, remains 20% below 1990 level.
- Kim Il-Sung died in 1994, replaced by “Dear Leader” Kim Jong-Il who gradually emerged in control. Some hints of tension within KWP, generals.
- Some efforts to attract FDI: Joint venture law (1984), SEZs (Rajin-Sonbong 1991; Sinuiju City, 2002), but few takers. Extractive government policies, political uncertainty.

DPRK Economic Performance, continued

- Desperate need for food aid/imports, electricity, hard currency to buy imports. Comparative advantage in military equipment, accusations that DPRK sells weapons to rogue states, allows drug shipments.
- Kim Jong-Il more willing to interact with outside world than his father, some hints of willingness to reform economy along Chinese lines.
- Economic reforms (2002) adjusted prices, wages, official exchange rate dramatically (2000-6000%) to near black market rates, but did not free them. More autonomy for firms, hints of two-tier price system. Industrial economy shows signs of recovery. Too early to tell.
- Political climate:
 - ROK: Sunshine policy, sympathy towards North.
 - Thawing relationship with U.S. under Clinton, agreement to provide food aid and assistance with building non-proliferating nuclear power plant in exchange for ending nuclear weapons development. U.S. dragged feet on plant, DPRK cheated on agreement.
 - Bush Administration has refused to negotiate with DPRK. DPRK is part of the “axis of evil” and claims to have developed usable nuclear weapons based, in part, on Pakistani designs. Some willingness now to resume multilateral talks.
