Export Promotion and Industrial Development - The Case of Korea

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Korea’s economic growth based on Export drive
— from a poor country to a globally leading industrial producer

GDP Per Capita ($, nominal)

<table>
<thead>
<tr>
<th>Year</th>
<th>1960 (A)</th>
<th>1965</th>
<th>1970</th>
<th>1980</th>
<th>1990</th>
<th>2000</th>
<th>2005</th>
<th>2013 (B)</th>
<th>B/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>87</td>
<td>130</td>
<td>270</td>
<td>1,810</td>
<td>6,000</td>
<td>9,790</td>
<td>15,830</td>
<td>26,305</td>
<td>302</td>
</tr>
</tbody>
</table>

Exports ($billion, current) : the World’s 6th as of 2013

<table>
<thead>
<tr>
<th>Year</th>
<th>1960(A)</th>
<th>1970</th>
<th>1980</th>
<th>1990</th>
<th>2000</th>
<th>2005</th>
<th>2013 (B)</th>
<th>B/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>0.1</td>
<td>1.2</td>
<td>20.5</td>
<td>73.7</td>
<td>209.0</td>
<td>284.7</td>
<td>557.3</td>
<td>46,441</td>
</tr>
</tbody>
</table>
Changes of Korea’s Industrial Policies

1. Import Substitution (before 1960)
5. Promoting High-Tech Industry (1987-1990s)
Government Intervention for Export Drive during the Early Industrialization Period (1960s-70s)

Korea turned to Export Drive responding to the shortages of foreign currency resulting from the decrease of Foreign Aid, mainly from the US, since the early 1960s

- Export Target Each Year and Strong Drive
  - Incentives and Awards

- Establishment of KOTRA (1962)
  - Provided overseas market information and assistance to exporting SMEs

- Role of KITA not just as the Conventional Trader’s Society but as an Instrument to promote exports -
  - Membership fee was obligatory (semi-tax)

- Establishment of Total Trading Companies by the Trade Law
  - To function as the windows (agency) for exports of SMEs
The Expanded Meeting for Export Promotion

Government Intervention for Export Drive

Presided by the President and attended by the Ministers and Entrepreneurs
Major Tools of Export Promotion Policies during the Early Export Drive Period (1960s-70s)

◆ Systemic Assistance (incentives) to Exporters
  ● Allowance for retaining foreign exchange earnings and Preferential Exchange rates
  ● Exemption from import controls and tariffs
  ● Financial support for exporters at preferential interest rates
  ● Tax concessions and favor for key industrial firms
  ● National Awards by the President

◆ Manpower Training
  ● Establishment of vocational schools at various levels (high schools, colleges, universities)
  ● Establishment of Trade Department in Major Universities
  ● Establishment of Foreign language training center
Continued Industrial Upgrading and Catch-Up

• Korea’s exports have grown very fast, which provoked severe challenges from inside and outside
  • Due to the rise of income, labor-intensive low price goods lost competitiveness
  • Advanced countries have introduced protective measures
• Korean government and business sectors have promptly responded to the new challenges and tried to explore new sources of competitiveness
  • Industrial upgrading has been the key to continued growth of exports and the whole economy

◆ Changes in Major Industries and Policy Priority Sectors

- Labor-Intensive (textiles, footwear)
- Capital-Intensive (shipbuilding, steel)
- Technology-Intensive (automobile, semiconductor)
<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>iron ore</td>
<td>textile</td>
<td>clothing</td>
<td>clothing</td>
<td>semiconductor</td>
<td>semiconductor</td>
<td>ship</td>
</tr>
<tr>
<td></td>
<td>tungsten</td>
<td>multi-tube</td>
<td>steel plate</td>
<td>semiconductor</td>
<td>computer</td>
<td>automobiles</td>
<td>semiconductor</td>
</tr>
<tr>
<td></td>
<td>raw-silk</td>
<td>wig</td>
<td>footwear</td>
<td>footwear</td>
<td>automobiles</td>
<td>portable phone</td>
<td>display</td>
</tr>
<tr>
<td></td>
<td>anthracite</td>
<td>iron ore</td>
<td>ship</td>
<td>video equipment</td>
<td>petroleum products</td>
<td>ship</td>
<td>automobiles</td>
</tr>
<tr>
<td></td>
<td>squid</td>
<td>electronics</td>
<td>audio equipment</td>
<td>ship</td>
<td>Ship</td>
<td>petroleum products</td>
<td>petrochemicals</td>
</tr>
</tbody>
</table>
New Challenges and Changing Policies

◆ Increase of Income and Improved Standard of Life
  ● Increase of Labor Cost and Rent
    ➢ Production Automation and Outward FDI
  ● Changes of Life style and Labor attitude in parallel with Upgraded Education level
    ➢ Imports of foreign labor
  ● Private sector-led industrial structure and Democratization
    ➢ Direct government intervention difficult

◆ Intensified Competition in the Global Market
  ● Innovation and Technology driven new products as imperative
    ➢ Increase of R&D

◆ WTO regulations and New Global Standards
  ● Direct subsidies and financial assistance impossible
    ➢ Insurance, export credit, project financing expanded
Industrial Vision and Strategy

◆ From a Fast Follower to Global Leader
  ● From Learning (Catch-up) to Innovation and Creation
  ● Technology and Knowledge-based Competitiveness:
  ● Importance of R&D and “Creative Economy”

◆ Open and Strong Industrial State
  ● Active Participation in FTAs and Global networks
    ➢ The only country so far that concluded FTAs with EU and USA
  ● Respect for Global Standard and Regulation
  ● Knowledge Sharing for Developing Countries
    ➢ Significant increase of Foreign Aid (ODA) donation
# Korean Industries: Now and the Future

## Global Ranking of Korean Industries

<table>
<thead>
<tr>
<th>Industry</th>
<th>2000</th>
<th>2010</th>
<th>2015</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shipbuilding</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Digital TV</td>
<td>-</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Display</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Petrochemicals</td>
<td>4</td>
<td>5</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Automobile</td>
<td>5</td>
<td>5</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Communication Equipment</td>
<td>5</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Semiconductor</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>General Electronics</td>
<td>12</td>
<td>8</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Aerospace</td>
<td>20</td>
<td>14</td>
<td>10</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: KIET
Factors accounting for the Economic success

- **Export-oriented industrialization policies**
- Developmental State with Market Orientation: Strong leadership and capable Bureaucrats
- Success-motivated Business class
- Role of Indigenous Think-Tanks:
- Diligent People and Education Fever
- External Factors: ODA during the initial take-off stage
Korea’s case and Implications for GCC

◆ Different Initial Setting and Comparative Advantages
  ● GCC with Rich Energy Resources and Capital – downstream and forward industries have the potential
  ● Korea with abundant cheap labor in the beginning and the technology oriented manpower later

◆ Continuous Industrial Upgrading and Exploration of New Source of Competitiveness
  ● Essential for sustainable industrial development and economic growth

◆ Manpower Training is most important
Korea and GCC have quite different economic structures, which can complement each other’s strength and weaknesses

<table>
<thead>
<tr>
<th></th>
<th>Korea</th>
<th>GCC</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strength</strong></td>
<td>• Strong Industrial Basis</td>
<td>• World’s largest energy resources</td>
</tr>
<tr>
<td></td>
<td>• Experiences of Industrial Development</td>
<td>• Enough Financial Resources (SWFs)</td>
</tr>
<tr>
<td></td>
<td>• Technology and Manpower - Globally competitive enterprises</td>
<td>• Geographical Advantage as a Nexus to Europe &amp; Africa</td>
</tr>
<tr>
<td><strong>Weakness</strong></td>
<td>• Energy &amp; Raw Material Dependence on Imports</td>
<td>• Heavy Dependence on Energy Sector</td>
</tr>
<tr>
<td><strong>Tasks</strong></td>
<td>• Constant Innovation and Upgrade of Industries</td>
<td>• Industrial Diversification</td>
</tr>
</tbody>
</table>
Thank You!!

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