AN OVERVIEW OF THE ECONOMIC DEVELOPMENT OF SOUTH KOREA: SOME LESSONS FOR ETHIOPIA

Assefa Abebe [1]

Abstract

Some literatures indicate that in the 1960s South Korea and Ethiopia were almost in the same stage of economic development. But currently, we are observing the huge difference between the stages of economic development of these two countries. For example, in 2004 the Korean GDP was 85 times and Korean GNI per capita was 127 times greater than that of Ethiopia (World Bank 2006). South Korea, a country that had been in abject poverty in the 1960s, has become one of the rich countries in the world by registering recognized economic success story. The economic growth that took Japan almost a century has been accomplished by South Korea in less than half of that time. The question is how was this done? What were the factors that have contributed to this fast economic growth and success? What has Korea done to achieve fast economic development? What could we learn from the Korean development experience?

This paper tries to shed some light on the history of economic performances of South Korea in order to seek answers for the above raised and similar questions. The objective of the study is to draw some lessons for Ethiopia by analyzing the dynamics of South Korean economic development. The methodology of the study is reviewing secondary sources of information and analyzing these information/data to reach upon conclusion and recommendations.

[1] Ministry of Finance and Economic Development (MoFED)
E-mail: assefaabebe@yahoo.com

1. What is Economic Development?

Before we embark upon discussion about the economic development of South Korea, it would be helpful to define what *economic development* is all about. Economic Development refers to progress towards achievement of more quantity of resources (wealth) and more quality of life (access to education and health care, employment opportunities, availability of clean drinking water, as well as existence of good governance). It is also progress towards improving a country's ability in economic productivity, employment of human and physical resources, business activity and investment. Unlike economic growth, which is concerned with annual increases in quantity of production, economic development deals more with the basic fabrics of society including cultural beliefs, institutions that govern the way an economy and society function. Soubbotina and Sheram define economic development as:

> *Qualitative change and restructuring in a country's economy in connection with technological and social progress. The main indicator of economic development is increasing GNP per capita (or GDP per capita), reflecting an increase in the economic productivity and average material well-being of a country's population. Economic development is closely linked with economic growth. (Soubbotina and Sheram, 2000:96).*

They define economic growth as:

> *Quantitative change or expansion in a country's economy. Economic growth is conventionally measured as the percentage increase in gross domestic product (GDP) or gross national product (GNP) during one year. Economic growth comes in two forms: an economy can either grow "extensively" by using more resources (such as physical, human, or natural capital) or "intensively" by using the same amount of resources more efficiently (productively). (Ibid).*

Regarding the indicators of economic development, there is a difference of opinion among economists. For instance, Todaro (2002:14-15) argues that since a number of developing countries which experienced relatively high rates of per capita income showed relatively little or no improvement or even an actual decline in employment, equality, and real income of the lower segment of their population, reduction of poverty, inequality, and unemployment within the context of a growing economy could be better indicators of economic development rather than GDP or GNP.

For the purpose of this paper, economic development is a process that involves economic growth (the process of steady increase of productive capacity of the economy over time to bring about more national output and income) plus positive changes in the quality of life of the citizens of a country as a result of improved performance of the factors of production and improved technique of production. Put other way, economic development is multidimensional including sustained growth in real per capita income; reduction of a number of people below poverty line who are unable to meet basic human needs including food, shelter, and health. In sum, economic development is a process and means of obtaining a better life both in physical reality and a state of mind. Indicators of economic development should also take these qualitative and non-market values into consideration.

2. Economic Development of Korea: Transition from Aid Recipient to Donor

South Korea has a recognized economic success story. A country that was in abject poverty in the 1960s is now a member of the Organization of Economic Cooperation and Development (OECD), an organization considered as a group of richest countries of our world. The questions to be raised here are how was this done? What were the elements that have contributed to this fast economic growth and success?

Different scholars have studied the dynamics of South Korean economic development and its contributing factors. Based on these studies, it is possible to categorize the contributing factors of Korean economic growth into two broad categories-internal and external factors which will be discussed next.

2.1 Internal Factors

2.1.1. Political Leadership

The Korean economic system during its early development stage, for that matter up to the mid 1990s, was “government guided capitalism”. This system was clearly indicated in the First Five Year Plan (1962-1966) of the country: “ Throughout the plan period [1962-1966], the economic system will be a form of ‘guided capitalism’, in which the principles of free enterprise and respect for the freedom and initiative of private enterprise will be observed, but in which the government will either directly participate in or indirectly render guidance to the basic industries and other important fields" (Economic Planning Board/EPB, 1962:28).

Korea was liberated in 1945 from the 36 years (1910-1945) of Japanese colonialism, and the Republic of Korea was officially established on August 15, 1948, three years after liberation. After its liberation, Korea had been under U.S. Military Administration for three years (1945-1948). The first president of South Korea, Syng-Man Rhee was a man who spent most of his adult life in USA and after his resignation on April 26, 1960 mainly because of students' protest against election fraud, corruption, and dictatorship in late February and March 1960; he also went back to USA where he died. Korea's economic growth during the presidency of Rhee, particularly from 1954 to 1960 was modest, achieving an average GDP growth of 3.7% per annum (Cho, 1998:6). After President Rhee's resignation, the interim government headed by Ho Chong led country for four months, and then held an election in which Yun Po-Sun was elected as president. During the presidency of Yun Po-Sun (1960-1961), which lasted only for nine months, Korea adopted a parliamentary form of government while real power was in the hands of Prime Minister Chang Myon. The government of Chang Myon was taken over on May 16, 1961 by the bloodless coup led by General Chung-Hee Park that forced President Yun Po-Sun to resign.

By the election held in December 1963, General Park was elected, and the military government was replaced by the civilian government, though the leadership remained in the hands of President Park. The real miracle of Korea's economic development began during the Presidency Park's of who led the country from 1961 to 1979. Albeit it is not free from criticism, his economic policy pulled South Korea out of its economic malaise. President Park who was educated in the Japanese Military Academy in Manchuria and used Japanese experience as a model for economic development, made protecting his country from communist invasion (from North Korea) and alleviation of poverty the primary goals of his government (Cho, 1998:6). During 1961-1979, the real GDP of Korea grew on average by 11% per year, and per capita GNI increased on average by 8.9% per year (Kim, 2002:2). That period was the time of Korea's economic development take-off.

Following president Park's assassination on October 26, 1979 by Kim Jae-Kyu, Chief of the Korea's Central Intelligence Agency (CIA), Vice President Kyu-Ha Choi became Acting President. However, the student movement that consistently demanded the removal of martial law which was instituted following the assassination of president Park, and the mushrooming of demonstrations in opposition to the continuity of the remnants of Park's regime in power posed a challenge to the government. After about ten months in office, Vice President Choi relinquished power in August 1980.

In 1980, the Korean economic growth recorded negative growth rate (-4.8%) for the first time since the liberation (Stern, et al, 1995:84-85), as a result of the political instability that occurred following the assassination of President Park coupled with other internal factors such as failure of agricultural products due to unusual cool weather during the summer of 1980 and external factors such as the second oil shock of 1979.

After the resignation of President Choi, General Chun Doo Hiwan who was acting Chief of the Korean CIA and Head of the Defense Security Command was elected president and ruled Korea for seven years (1981-1987). During his period substantial economic liberalization in trade and industrial policies was achieved in part due to the government's own initiative and in part due to pressure from Korea's largest trading partner, the USA (Cho, 1998:9).

The end of President Hiwan's term of office was followed by the government of President Tae-Woo Rho, who was another former military General and close friend of President Hiwan (Cho, 1998:9). He was elected for five years term (1988-1992). Above all, his period was known for allowing political democratization.

In 1993, President Yong-Sam Kim (1993-1998), the first head of state who was not from military background since 1961, was elected. His government was pressed internally by the globalized *Chaebols* (large business conglomerates of Korea) and externally by USA, OECD, WTO, and IMF to take economic liberalization and market opening measures. In short, his period was a period when Korea joined OECD and launched various economic liberalization measures and the period of financial crisis that surfaced in November 1997.

The period of President Dae Jung Kim (1998-2002) was the period of recovery from the financial crisis and it is too early to comment at this juncture on the performance of the current government led by President Moo-Hyun Roh (2003-2007).

2.1.2. Economic Development Policies

As mentioned above the Korean economic development is known as government led economic development. By putting in place necessary economic policies and suitable strategies as well as showing flexibility in implementation of these policies and strategies, the government played a very important role in the economic development of the country. These policies and strategies will be discussed below briefly.

2.1.2.1. Inward Looking Economic Development Policy, 1948-1960

The first president of South Korea, Syng Man Rhee, adopted an economic policy known as “Revised Capitalism” which allowed private ownership within the limit of what his government believed would maximize public welfare. His development strategy was import substitution, which was then used by many less developed countries. Korea maintained an overvalued exchange rate and strove to substitute imports with domestically produced goods (Sohn, *et al*, 1998:13). To implement its import substitution development policy, the government used strategies such as restricting imports through tariff and non-tariff mechanisms and at the same time giving incentives to exporters through subsidies and export credits.

Three years after the establishment of South Korea, the Korean War (1950-1953) broke out and caused huge human casualties and tremendous economic destructions. During the war, 1.5 million people were killed and 40% of the country’s industrial facilities were destroyed (OECD, 1996:1). Fortunate enough, by 1957, with the massive economic assistance mainly from USA and from UN Agencies, the Korean economy had largely recovered from damage inflicted during the Korean War (EPB, 1962:27).

Even though the government of President Rhee was criticized by some for giving more attention to maximizing foreign assistance in order to rebuild industries and finance imports rather than to domestic savings and export earning (Sohn, *et al,* 1998:15), the GDP growth was not bad. Korea's GDP growth for the years from 1953 to 1960 was an average annual rate of 4% (Kim, 2002:2.).

Table 2.1: Key Economic Indicators for Korea, 1948-1960 in Current Market Price

Year	GDP (Bil. Won)	Per Capita GDP (US$)	Export (Mil. US$)	Imports (Mil. US$)	Exchange Rate (Won/US $)	Foreign Exchange Reserve (Mil. US$)
1948	-	-	22	208	-	20
1949	-	-	14	133	-	22.4
1950	-	-	29	48	-	26.8
1951	-	-	16	155	-	38.0
1952	-	-	28	214		82.7
1953	48	67	40	345	6.6	108.7
1954	66	70	24	243	18.0	107.8
1955	115	65	18	341	30.2	96.1
1956	152	66	25	386	50.0	98.6
1957	197	74	22	442	50.0	115.6
1958	205	80	17	378	50.0	146.5
1959	218	81	20	304	50.0	147.3
1960	245	79	33	344	62.8	157.0

Source: National Statistical Office and Ministry of Commerce, Industry, and Trade as quoted in Sohn *et al*, (1998:14).

2.1.2.2. Outward Looking Economic Development Policy, 1961-1972

The outward looking economic development policy, also known as export-oriented industrialization (EOI), came in to operation with the coming to power of General Chung Hee Park. The main goal of this policy was to transform the aid-based economy of Korea into an export-led manufacturing-based economy. The main reasons for choosing this policy were to overcome Korea's lack of natural resource and small domestic market, need for foreign exchange in the face of decreasing volume of foreign aid, and belief that Korea has a comparative advantage in production of labor intensive export products (OECD, 1996:1 and Kim, 2002:2).

Here, the reader should bear in mind that the shift of policy from inward looking development that was based on import substitution to outward looking development policy that was based on export promotion did not mean liberalization of import. The government continued import restriction using both mechanisms of quantitative restriction and tariff. For quantitative restriction, the government used what was know as " positive–list system" under which only those commodity items listed could be imported with or without prior government approval depending upon the system of semi-annual trade program designed to control imports quantitatively. After the second half of 1967 the "positive-list system" was changed to "negative-list system" under which only the imports of those items listed were prohibited or restricted (Kim, 1994:22).

Besides restriction of imports by the use of positive and negative list system, the government of Korea also used the complete prohibition of import of certain items considered inessential. According to the Law Prohibiting Sales of Special Foreign Products enacted in 1961, sale of certain foreign products such as foreign made cigarettes, coffee, cosmetics, high-quality clothes and the like were banned and transcending this ban was a crime (Kim, 1994:9). In short, the trading behavior of Korea during this period may be characterized as promoting exports as much as possible and keeping imports to the minimum necessary level by giving preferential treatment only to capital goods in order to accelerate investment activities and to raw materials and intermediate goods which were used for the production of goods for export. The import liberalization seen in the field of raw materials and intermediate goods, which were used to produce export goods, was because of the reason that the objective of export promotion strategy cannot be achieved while maintaining extreme forms of import restriction.

During 1961-1972, the Korean government used various export promotion measures to promote export. These measures include, but are not limited to, the following:

1. Vigorous administrative support for export promotion;
2. Giving preferential export credit (policy loan), a loan on which interest rate was lower than the normal interest rate, to exporters;
3. Sending economic missions consisting of leading business persons to Western industrialized countries to negotiate on financing for selected projects;
4. Allowing investors to import capital goods on long term-settlement basis using the long-term export credits of capital exporting countries;

5. Foreign loan repayment guarantee;
6. Tariff exemption on imports of raw materials and intermediate goods used for export production;
7. Indirect domestic tax exemption on intermediate inputs used for export production and on export sales;
8. Direct tax reduction on income earned from exports and other foreign exchange earning activities;
9. Wastage allowance for raw materials imported for export production, allowing export producing importers more than normally needed to compensate wastage occurred during production;
10. Tariff and indirect tax exemption for domestic suppliers of intermediate goods used in production;
11. Accelerated depreciation allowance for fixed assets of major export industries;
12. Export targeting system, setting annual export targets by major commodity groups and by destination;
13. Support for overseas' marketing activities of Korean exports through Korea's diplomatic missions and governmental agency called Korea Trade Promotion Agency (KOTRA) overseas' networks; and
14. Dissemination of necessary information and solving problems associated with export on Monthly Trade Promotion conference which was attended by the president of the country, all cabinet members, and heads of major financial institutions, business association leaders, and representatives of major export firms.

The export promotion policy of Korea is often cited as a successful example of a government-led outward looking (export based) economy. This policy worked in favor of Korea's comparative advantage of that time which was in light manufacturing. In light of this it is worth to quote the works of Sohn and *et al* (1998)

> *Unlike other developing countries, which tried to induce heavy manufacturing without adequate capital base or experience, the focus on light manufacturing allowed Korea to make the most of what it had. Exports resulting from such a strategy brought Korea the foreign exchange it needed to upgrade its capital stock, build up entrepreneurial experience, and set up the necessary foundation to move into heavy manufacturing in the late 1970s and 80s (Sohn, etal1998:24).*

It was with this experience that Korea registered a successful record in implementing its Heavy and Chemical Industries development policy.

Table 2.2: Key Economic Indicators for Korea, 1961-1972 in Current Market Price

Year	GDP (Bil.Won)	Per Capita GDP (US$)	Export (Mil.US$)	Imports (Mil.US$)	Exchange Rate (Won/US$)	Foreign Exchange Reserve (Mil. US$)
1961	294	82	41	316	127.4	207.0
1962	356	87	55	422	130.0	168.6
1963	503	100	87	560	130.0	131.5
1964	716	103	119	404	214.2	136.4
1965	806	105	175	463	266.3	146.3
1966	1,037	125	250	716	371.3	245.2
1967	1,281	142	320	996	270.5	356.6
1968	1,653	169	455	1,462	276.6	391.0
1969	2,155	210	122	1,823	288.3	552.9
1970	2,788	253	835	1,983	331.6	609.7
1971	3,419	289	1,068	2,394	347.2	568.1
1972	4,191	319	1,624	2,522	392.9	739.7

Source: National Statistical Office and Ministry of Commerce, Industry, and Trade as quoted in Sohn *et al*, 1998: 18.

2.1.2.3. Heavy and Chemical Industry Promotion Policy, 1973-1979

This policy is also known as Heavy and Chemical Industry (HCI) Drive, and the policy gave special focus to six major industries as a base for Korea's economic development. These industries were iron and steel, non-ferrous metal, machinery, shipbuilding, electronics and chemical industries. According to Kim (Kim, 1994:42), the main reasons for pursuing HCI Drive were:

1. Security threat from North Korea and need to build domestic defense industry;
2. Increase of protectionism in industrialized countries against labor intensive goods of Korea produced under the Export Oriented Industrialization (EOI) policy;
3. Rapid rising of wage-rental ratio within the country which reduced the international competitiveness of Small and Medium Enterprises (SMEs) of Korea; and
4. Need to improve the balance of payment of the country in the long run.

It is also said that HCI Drive was President Park's attempt to copy the Japanese model of industrialization that achieved development through promotion of heavy and chemical industries. In most cases, the Korean pattern of economic development is said to follow Japanese development pattern. "Korea's HCI promotion policy took elements from the successful early heavy manufacturing and chemical industry promotion and industrialization strategy of Japan" (Sohn, *et al* 1998:29).

Korea used various policy measures to mobilize resources including capital, technology, technical manpower and entrepreneurship, and to determine industrial sites. These policy measures include (See Kim, 1994, p.43):

1. Giving preferential long-term credit (policy loan), on which interest rate would be lower than that of normal interest rate to HCI sector;
2. Providing tax incentives to those enterprises engaged in HCI sector;
3. Giving credit repayment guarantee to those who borrow money from abroad;
4. Enhancing the capacity building of schools, and expanding vocational and technical training facilities to supply necessary manpower to the HCI sector;
5. Expansion of Research and development (R & D) activities;
6. Constricting industrial sites; and
7. Following expansionary monetary and fiscal policy despite the high inflationary pressure.

These policy measures were able to attract many large business groups to invest in HCI projects and HCI became the womb of today's Korean *Chaebols* (Korea's large business conglomerates). Korea's major exports of today such as automobiles, ships, steel, electronics and semiconductors got their impetus in HCI Drive.

In the second half of the 1980s, the HCI sector took the advantage of favorable international environment, especially the advantage of what is known as "Golden Opportunity of Three Lows" (low oil price, low Dollar value as a result of devaluation of dollar due to Plaza Accord, and low interests rate in world financial market), and began to increase its exports. As a result, "…the HCI exports increased from 14 percent of total manufactured exports in 1971 to 39 percent in 1979 and then to 52 percent by 1989…." (Kim, 1994:44).

In fact, the story of HCI policy is not only the story of success. It had also its own drawbacks and these drawbacks were excessive investment in heavy and chemical industries that outpaced the increase in the supply of skilled labor or the capacity to absorb the related technology, taking limited financial resources in the form of credit away from other industries such as SMEs and service industries, creating imbalance in investment and causing the economic power to concentrate in the hands of few business groups.

Table 2.3: Key Economic Indicators for Korea, 1973-1979 in Current Market Price)

Year	GDP (Bil. Won)	Per Capita GDP (US$)	Export (Mil. US$)	Imports (Mil. US$)	Exchange Rate (Won/ US$)	Foreign Exchange Reserve (Mil. US$)
1973	5,376	396	3,225	4,240	398.3	1,094.4
1974	7,597	542	4,460	6,582	404.5	1,055.7
1975	10,135	594	5,081	7,274	484.0	1,550.2
1976	13,913	803	7,715	8,774	484.0	2,960.6
1977	17,807	1,012	10,047	10,811	484.0	4,306.4
1978	24,002	1,396	12,711	14,972	484.0	4,937.1
1979	30,802	1,644	15,056	20,339	484.0	5,708.1

Source: National Statistical Office and Ministry of Commerce, Industry, and Trade as quoted in Sohn *et al* 1998:30.

2.1.2.4. Stabilization, Liberalization, and Globalization, 1980-1996

In April 1979, the Korean government announced the Comprehensive Stabilization Program (CSP) to redress the mistakes made in the 1970s. The CSP was based on the recognition that the industrial policies had caused havoc in all aspects of Korea's economic life: management of macro-economic policies; management of small- and large- scale firms, in both the favored sectors and other industries; competitiveness in the export markets; and credit standing in the international financial market. The macro-economic policies had become a hostage held by industrial policies rather than setting the general framework for industrial development (Stern, *et al*, 1995:85).
As a result, the government began striving to attain price stability, establishing an unbiased incentive structure, promoting competition within the domestic market and from abroad, emphasizing on overall economic efficiency rather than promotion of particular industries, relying more on market rather than intervening at the industry

and firm level and pursuing conservative management of fiscal and monetary policy to reduce the then double-digit inflation.

In 1988, Korea became a signatory to the IMF Article VIII agreeing not to control foreign exchange and in 1989 Korea announced that it would follow Article XI of GATT agreeing not to restrict trade to control its balance of payment and to further increase its pace of import liberalization. In addition, realizing that integrating itself

more with the world economy encourages both exports and imports that make the economy more efficient, Korea decided to be part of the globalization process in the 1990s. Korea participated in the Uruguay Round Negotiation of (1986-94) and when the World Trade Organization (WTO) was established on 1 January 1995, Korea was one of the founding members. One year after, in December 1996, Korea joined the Organization for Economic Cooperation and Development (OECD) and became one of the thirty members of the organization. To join both WTO and OECD, Korea took various economic liberalization measures required to qualify for the membership of these international multilateral organizations.

2.1.2.5. Crisis, Recovery, and Further Liberalization 1997-2003

The Asian financial crisis, which began in Thailand in July 1997, occurred in South Korea in November of the same year. The spillover contagion effect from other Asian countries coupled with internal weaknesses associated with trade and industrial policies of the country caused the Korean financial crisis of 1997. Foreign capital flew out of the country; foreign exchange reserves of the country depleted and exchange rate soared; the foreign banks, particularly the Japanese banks which lent money to Korean *Chaebols* at a very low interest rate without proper consideration of the financial status of the borrowers, wanted their money to be paid back and refused further extension of loan agreement. However, the Korean firms to which the assistance of government was reduced due to the liberalization of the 1980s and early 1990s were not in a position to pay back their debt. This was partly because some of them already lent out what they borrowed on the short-term basis at a very low interest rate from foreign financial institutions to other foreign borrowers on the long-term bases with high interest rate to get the difference of the interest rates as a profit by continuous renewal of their short-term borrowing agreement and others invested in what they mistakenly thought would be productive area. Therefore, the healthy-looking Korean economy faced a sudden financial crisis.

Since some of the *Chaebols* were considered "too big to fail" because if they failed and went out of business the national economy would be in a problem due to the number of workers they had employed and their contributions to the national economy, the government had to bail them out of this financial crisis. Knowing that the problem was getting worse, the Korean government requested the assistance of the International Monetary Fund (IMF) in November 1997. With the IMF coordinated rescue package, South Korea made a significant progress in stabilizing its external financial position and overhauling its financial and corporate sectors. "On December 3 [1997] Korea and the IMF reached an agreement on a financial aid package totaling $58.35 billion that included loans worth $ 21 billion from the IMF, $10 billion from the World Bank, $4 billion from Asian Development Bank (ADB), and $23.35 billion from the G-7 and other countries. The nation [Korea], however, was obliged to accept the terms and conditions imposed by the IMF…" (Lee and Patricia, 2003:15) The terms and conditions of IMF have led Korea to further restructuring of the economy, liberalization and market opening.

The Korean economy, which achieved an average GDP growth rate of 8% for the three decades before the 1997 crisis, showed a sharp contraction of about 5.5% in 1998. The Korean currency (Won) depreciated by about 50% in January-February 1998, inflation which was 4.5% in 1997 rose to 7.5% in 1998 because of price increase partly due to depreciation of the Won, which resulted in higher import prices (ADB, 1998:82).

In the second half of 1998, the Korean crisis began to subside and the country entered a period of rapid recovery. Usable foreign exchange reserves, which were only US$8.9 billion in December 1997, increased to US$ 48.5 billion (more than six month's import cover) by the end of 1998. External debt declined from US$ 158 billion in December 1997 to US$ 152 billion by the end of 1998 and the share of short-term debt in total external debt has declined from 40% in December 1997 to 21% in December 1998 (ADB, 1998:83).

Following the recovery from the financial crises, Korea continued undoing the half a century old cronyism of government and business sector, which was the main cause of the 1997 financial crisis, to allow more competition within the framework of free market. Currently the South Korean economy is doing well. Korea's GDP growth rate that was –6.7% in 1998, immediately after the financial crisis of November 1997, registered annual GDP growth rate of 6.3% in 2002 (World Bank Group, 2003).

2.1.3. Culture

The Korean economy has been shaped by the Korean people and their land on which they live. Directly or indirectly, culture, behavior, attitude, and practice of the Korean people, as well as the location, climate, and the status of natural resource endowment of the country have influenced Korea's economic development.

The rapid economic development achieved by the resource poor Korea makes some one to be interested in looking into the culture of the people, which in turn has influenced the economic development of the country. Unlike peoples in Ethiopia, who are heterogeneous, Korean people are homogeneous, speak one language, share the same history and have similar psychological makeup. The Korean people have the tradition of Confucianism, which puts emphasis on value of education (self-improvement, personal cultivation, and achievement), subordination to authority, respect to seniority, family life and filial duty, hierarchical and harmonious relationship, personal integrity in public service and loyalty to the country. These Confucian values contributed to the existence of disciplined and hard working workforce in Korea, and culture of respect to authority and loyalty helped in implementation of economic policies formulated by the government.

Compared to Ethiopia, which has a vast area of land and abundant natural resources, Korea has a smaller land area (98,480 sq. km, out of which only 20% is arable), is relatively poor in natural resources and has an unfavorable climate. These led the people to develop the culture of hard working, saving by postponing current consumption and creativity. This contributed to the outward looking economic development strategy of Korea and its focus on knowledge-based products.

In short, ethnic and cultural homogeneity, strong Confucian heritage and ability of political leadership to harness the strength of the Korean people contributed to the rapid economic growth recorded by Korea.

2.2. External Factors: Good Use of Foreign Resources

The availability and good use of foreign resources were other important factors that contributed to rapid economic development of Korea. The sources of these foreign

resources were foreign borrowing and official development assistance. South Korea has exceptionally enjoyed huge foreign loan and aid. In this regard worth to quote is the work of Cho (1998)

> *Many observers overlook the importance of foreign aid and loans in shaping Korean economic policies (…) and its push toward economic development. From 1946 to 1976, the United States provided $12.6 billion in economic and military aid to Korea (…); Japan contributed an additional $1 billion, and Korea borrowed $2 billion from multilateral financial institutions. For a country with a population of 25 million (at midpoint 1960), the total of more than $15 billion gives a per capita assistance figure of $600 for three decades. No other country in the world received such large per capita sums, with the exception of Israel and South Vietnam (…). The total of $6 billion U.S. "economic" grants and loans to Korea during 1946-78 compares with $6.89 billion for all of Africa, and $14.89 billion for all of Latin America (…) (Cho, 1998:7).*

South Korea benefited from external resources not only by getting access to relatively huge amount of foreign funds, but also by utilizing these foreign capital inflows productively as discussed in section 2.1.

3. Lessons Learned From South Korean Development Experience

The purpose of reviewing the history of economic development of South Korea is to seek answers for the questions like what has Korea done to achieve rapid economic development? What were the conditions that have existed in Korea? The answers for these questions and lessons learned from South Korean development experience will be summarized below.

2. Political Stability and Leadership Commitment to Make Development Happen: In its about six decades of history, South Korea didn't face any serious internal political instability except the coup of 1961 and the mushrooming demonstrations of 1980, mainly in Kwangju. Compared to the political situation of Ethiopia, which suffered from the recurring destructive civil wars, it is possible to say that the political condition of Korea was stable. Furthermore, we observed greater leadership commitment to bring development in Korean economic history than in that of Ethiopia.

2. Cultural Factors: Korea has homogenous culture and population. Its culture and the worldview of its population have been influenced predominantly by Confucian ethos. This Confucian ethos contributed to the economic development of South Korea by inspiring the people for higher accomplishment, particularly in education, and for serious concern about duty/obligation. There is no visible conflict on cultural values in the case of South Korea.

Ethiopia is a multi ethnic country with heterogeneous cultures and worldviews. Ethiopian ethics are neither Confucian nor protestant. They are diverse, ranging from

Orthodox-Christian in the northern part of the country to nomadic-egalitarian in the southern part of the country. These differences in cultural values and worldviews sometimes lead to conflicts, which in turn affect the economic development.

3. Human Resources: Korea has had skilled human resources that have managed to imitate, internalize, and generate modern technology, which contributed to the fast growth of the economy. Adult literacy rate of South Korea in 2002 was 97.9%, whereas that of Ethiopia for the same year was only 40.3% (UNDP, 2003).

4. Foreign Saving: During its initial stage of development, Korea filled its resource gaps with massive foreign saving which had flowed to the country in the form of ODA and commercial loans. But Ethiopia didn't have such opportunity.

In sum, the experience of South Korea demonstrates that in order to make economic development happen in Ethiopia, it is necessary to examine the constraints associated with political stability and commitment of leadership, culture of the society, human resources and saving, and address these constraints.

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