

Globalisation Case Study: South Korea

by Dan Nguyen

Globalisation, an important characteristic within the contemporary economic environment, has resulted in significant changes to individual nations in terms of economic development strategies undertaken by national governments. The term globalisation refers to the integration of local and international economies into a globally unified political, economic and cultural order. Globalisation is not a singular phenomenon however, but a term to describe the forces that transform an economy into one characterised by the embracement of the freer movement of capital, labour, technology, and financial flows.

It is often difficult to determine or categorise an economy as being globalised, yet there are several key indicators that suggest economic management decisions of an economy have in fact been undertaken as a result of globalisation. The main evidence that suggests the burgeoning existence of globalisation is resource use patterns, and the establishment of intergovernmental agreements, as well as transnational corporations. Globalisation has essentially been driven by the breaking of economic barriers between different nations over the last half-century. The global markets have experienced economic liberalisation, resulting from the global drive for the deregulation and micro-economic reform of national economies. These measures have translated into a reduction in the restriction on trade, capital flows, and financial investment. In addition, this economic liberalisation has in part been determined by the current state of technological advancement. As a result of this technology growth, transport costs have reduced dramatically, making trade more cost-efficient. Communication costs have also reduced due to telecommunication advances, and also, international finance movements have been escalated due to the innovations such as the Internet for e-commerce. Therefore there is an evident interactive relationship between economic liberalisation and technological advancement in the process of globalisation.

Since World War II, a number of East-Asian nations have experienced significant economic growth, and the rapid nature of this growth rate has allowed them to be classified as

Newly Industrialised Countries (NICs). South Korea is a prime example, and major NIC, as since the 1960s, Korea has experienced per annum GDP growth of well over 9%. This exceptional performance is attributable mainly the high-quality labour supply and careful government planning, has resulted from the emergence of globalisation.

Gross world production, the total output by every nation, totals each individual nation's GDP figures, and currently, South Korea is the 14th largest economy in the world, at almost US\$600 billion, accounting for 1.6% of total world output, which highlights the phenomenal turn around for South Korea, from an underdeveloped third-world nation, to becoming a high-tech and rich manufacturing economy.

A key factor that has propelled South Korea's growth has been its strong export emphasis since the 1960's, where growth of exports climbed 21% annually. Emphasis has been placed upon the more skill-intensive, high-quality industries such as the motor vehicle industry and electronics manufactures. This has translated into South Korea presently having the sixth largest motor vehicle industry in the world, and is now also the fourth largest manufacturer of electronics goods.

Korea's emphasis towards stronger education has directly contributed to its strong growth period by resulting in an extremely highly educated workforce. Currently, Korea devotes 14% of GDP towards educating the young. Another key factor in Korea's growth has been the rise of transnational business conglomerates or "Chaebol" in Korean. During 1998, the four largest Chaebol – LG, Daewoo, Samsung, and Hyundai – constituted a massive 60% of total GDP, proving their significance towards an expanding Korean economy. As a result of the globalisation of these firms, names such as LG and Hyundai are commonly known throughout Australia.

The Chaebol operate many different industries, and the increasing competition in the world export markets due to the removals of restrictions, and market restructuring, have produced incentive for these businesses to become global and establish foreign subsidiaries. These firms then attempt to reduce costs of production by, ironically, using cheap foreign labour from its Southeast Asian neighbours, and using the foreign raw materials of the host country.

The global economy is, by definition, subject to the ups and downs of the business cycle, caused by changes in production within the major economies of the world, such as South Korea. For that reason, the Korean government attempts to limit the uncertainty of international business through an extensive policy mix. The pervasive influence of the government is one of the trademarks of the Korean economy. Since Korea is poor in natural resources, the government direction was inevitable for growth to occur. Prior to 1960, Korea was an impoverished nation, yet today, it is one of the most urbanised nations in the world, with rates of over 75%, compared with 35% urbanisation prior to 1960.

More recently, in 1993, the government began to implement five year FDI plans to promote economic improvements. Additionally, government deregulation has aided the global integration process through the reduction of protective industries such as tariffs, from 12% to 8% in the space of four years during the mid 1990s.

As South Korea has risen as an NIC, it has become actively involved in most of the world's important trade blocs and agreements. Korea has been a member of APEC, and it has with the other "Asian Tiger" economies, remained one of the fastest growing economies in the

world despite the recent Asian financial crisis in 1997/98, thanks in part to the cooperation of nations that the APEC provides for struggling nations.

However, at the height of the Asian financial crisis, Korea was hit hard, where, after long periods of sustained economic growth, the economy came to an abrupt halt. In November of 1997, Korea's economic situation deteriorated to the point where the Korean government requested a US\$ 50 billion loan from the International Monetary Fund (IMF) to bail out its ailing economy out of recession, while forcing continual deregulations and relaxing its tight laws on foreign takeovers. Nevertheless, the Asian recovery of 1999 saw the South Korean economy come roaring back, due to a surge in private consumption expenditure and net foreign exports. Statistics show that Korea has recovered faster than any of the crisis-hit nations, and the sure sign of economic revival was that major firms resumed investment within Korea, with figures indicating a 13% increase in the first quarter of 1999, compared with a 27% plunge the previous quarter.

With the advent of globalisation however, an opportunity cost exists between economic growth and environmental management, and is sometimes referred to as "equity vs. efficiency". In relation to South Korea, economic growth has led to a general degradation of its natural environment, especially with the pollution of its major rivers of Han and Nakdong. As little priority is currently being given to the Korean environment, the inevitable outcome is that global pollution levels would increase and quality of life would decrease as a result. In order to maintain ecologically sustainable development for the future, governments must accept some trade off of growth to accommodate environmental protection.

As the world moves into the 21st century, the globalisation of nations has become the forefront of economic discussion and planning. The move towards market-based systems

characterised by open market trade, financial transfers and technological advancements has become increasingly significant as organisations such as the WTO become more influential. South Korea is a perfect example of a globalised nation through its shifting emphasis towards rapid industrialisation, technological innovation and aggressive exporting through comparative advantage, along with a more relaxed government influence are the keys toward South Korea's maximisation of sustainable economic growth.