

## **Some Impressions of Korea Today**

**Hugh Patrick**

**Discussion Paper No. 68**

Hugh Patrick

R.D. Calkins Professor of International Business Emeritus  
Director, Center on Japanese Economy and Business  
Columbia Business School  
Co-Director, APEC Study Center, Columbia University



**Asia-Pacific  
Economic Cooperation**

Discussion Paper Series  
APEC Study Center  
Columbia University

August 2010

## **Some Impressions of Korea Today**

Hugh Patrick

R. D. Calkins Professor of International Business Emeritus  
Director, Center on Japanese Economy and Business  
Columbia Business School, New York, NY\*  
Co-Director, APEC Study Center, Columbia University

### Abstract

This paper contains my reflections on Korea based upon my visit in May 2010. I note demographic trends, the Korean work ethic, average workforce age, and educational trends among other topics. I also observed a paradox of homogeneity and nationalism, but with a high willingness to work in or trade with other nations. This is related to my optimistic forecast for Korea's economic growth, both in per capita and in overall GDP terms. I then look at Korea's firm structure and corporate governance. Finally, I comment on South Korea's relationship with North Korea, prominently colored by the sinking of the Cheonan by North Korea a few weeks before I arrived.

---

\* I have benefited from comments on an earlier draft from various Korean colleagues whom I thank, but since these are essentially only my views, I do not list them by name.

I visited South Korea in May 2010, as I have done every year for some years. The visit reaffirmed my deep respect for what and how much Korea has achieved since I was first in Busan, Seoul and the countryside in 1952. Korea's economic development and growth, which continues, is extraordinary and wonderful. I am equally impressed that Korea has successfully made the transition quite peacefully from a military-run, authoritarian state to a vigorous democracy. Of course Korea has many problems, but so do all countries. Relative to some other successful nations, Koreans seem to worry more about the future and are less complacent about the present. This is probably one reason Korea is a rather flexible, pragmatic (if at times emotional) society.

What follows are some of the impressions, thoughts, and puzzles from my recent trip to Seoul.

First, Korea's demographic transition is inevitable and inexorable, combining significantly increased life expectancy and low fertility rates. Korea's economic transition has been more rapid than most other OECD countries. I understand the population will peak between 2025 and 2030 at about 49 million. The numbers of those of standard work force age (15-64) will peak by 2016. Extending retirement age (now about 58 for private firms and 60 for public civil servants) and increasing female work force participation only delays the eventual situation of a smaller work force, a lower proportion of the total population working (since increases in older, retired people will more than offset the gradual reduction in numbers of young children and those in school), and a high proportion of older Koreans. Korea probably is about 15 years behind Japan in this demographic transition, but only 15 years or so ahead of China because of China's sustained one child policy. I certainly do not expect immigration to be large enough to offset population decline. Reunification with North Korea would increase the population by about 50%, but that is unlikely to occur soon.

Second, my knowledge of the Korean language is essentially non-existent. I did learn two words: "bbali, bbali", literally "quickly, quickly" (meaning hurry up), which summarizes the Korean focus on quick results; and "specs", short for specifications, as a way of distinguishing a

(young) person's profile from others: schools attended, awards won, employer and occupation, outstanding achievements, and so forth. "Specs" is similar to a person's "résumé" in the United States. These are terms that were used quite frequently, and say something about Korean motivations.

Third, my impression is that Koreans, young as well as everyone else, work hard, more so than people in any other country I know of. Many explanations are possible: opportunity to rise economically and socially; a very competitive, "can-do" environment; institutions which penalize the appearance of shirking, such as leaving the office in the evening before others do; the incentives put into place as long ago such as the early post-World War II land reforms; and the work ethic inherited from the Confucian culture. Even so, as the economy grows and incomes rise, young Koreans are clearly placing more emphasis on family and leisure compared to work than their parents felt able to do. Nonetheless, given unemployment concerns and their strong career motivations, I gather Koreans in their twenties apparently work considerably harder than their counterparts in Japan and the West.

I understand the average age of marriage for women is close to 30, and men slightly older. I was told, to my surprise, that young men in what I term the elite group do not first enter a company until about 26 or 27 (23 for women). All men have to serve two years of military service (or in some cases its civilian functional equivalent); they generally serve their military duties during their undergraduate years so that they graduate from their elite university at age 24 or 25. They will generally interview for corporate jobs well before their graduation. Some students may spend a year or so abroad in order to learn English (or Chinese) and about another culture. These days some students have earned graduate degrees before taking their first job in order to better prepare for the job market.

Fourth, Korea is basically a merit-oriented society, and education is a very important route to success. Koreans know this well, and respond in a typical pro-active Korean fashion in driving for educational excellence. I understand virtually everyone graduates from high school,

and 83% of them go on to further education. There are nearly 2 million students in four-year universities and 760,000 in two/three-year colleges, mainly vocational training programs. Seemingly, so many college graduates implies an occupational mismatch: too many graduates seeking management-track, professional, or at least white collar jobs (better than secretaries) relative to the demand for them. Most college graduates want to work at large businesses, financial companies, or government-owned institutions. One problem is that many of those graduates who could not find jobs in these prestigious institutions are not willing to work in small and medium sized enterprises (SMEs). Therefore, SMEs are always short of labor. At the other end in terms of worker educational levels, SMEs that engage in 3D (dangerous, dirty, and difficult) operations cannot find Korean workers. As a result, they rely on foreign workers for these jobs. Out of approximately 23 million employed people in Korea, about 600,000 are foreign workers, many of Korean heritage living in China.

Fifth, relatedly, Koreans place a huge emphasis on children (and adults) learning English, particularly the children of those in the elite managerial and professional classes. Study in middle and high schools, in order to be accepted in a good university, often is a tormenting grind, including outside tutoring programs. I am impressed by the number of stories I was told of children studying abroad, or wife with children studying in Canada, the United States, or elsewhere while the husband is a “goose father”, working in Korea and flying off occasionally to visit the family. I was interested to read a newspaper article indicating Jeju Province is creating international schools where most topics are taught in English. One pamphlet, “Jeju Global Education City: Where Learning Is Joyous,” described a plan to establish 12 elementary, middle and high schools to house 10,000 students. The market is at work; the cost apparently is about one-half of that incurred sending kids to schools abroad.

Sixth, Korea is a country where ethnic homogeneity is one of the highest percentages of the population in the world, even more so than Japan, and certainly than China. I sense an interesting combination of deep nationalism and pride (sometimes a sense of superiority) with a sense of insecurity and of even anxieties about inferiority. Insecurity is certainly derived from

Korea's long history, not just because it has a weird, inward-looking, bankrupt North Korean regime at its northern border. Being between China and Japan – two much larger, more powerful countries, each with its own deep culture and long history – forces Korea and Koreans to be outward-looking, to seek contacts, relationships, and markets with the United States, Europe and the rest of the world. This benefits Korea, as it responds constructively to the more insular, inward-looking ways of both Japan and, in the longer run, China. One Korean friend commented, "Being between China and Japan does make Korea be more globalized. In the past, we viewed our position as a shrimp between two giant whales. However, I think that Korea needs to be a dolphin between two whales. As a dolphin, we need to be more agile and adaptive than the whales. Economically speaking, it means that we need to increase our GDP and trade volume, and produce our products better than China and cheaper than Japan." Another told me that when he was in elementary school many years ago, he and other children learned a rhyming song that said in essence: "don't trust Americans, don't be cheated by the Soviets, be wary of the Chinese, or else the Japanese will take us over again."

Seventh, the World Bank purchasing power parity measures of GDP/capita indicate that Korea's level of living is almost 80% of Japan's; the 2008 ratio of 79.1% has been increased by Korea's better economic performance than Japan in the past 18 months. It is reasonable to expect that, over the next decade, Korea's growth rate per capita will be at least 2 percentage points higher than Japan's. This means that, in a decade, Korea's standard of living will be higher than Japan's. Having caught up with Japan, how will Koreans respond?

Eighth, Korea's macroeconomic performance continues to be very good. As a consequence of aggressive fiscal and monetary policy and a sharply depreciating currency, Korea has recovered from the global recession more rapidly than any other OECD country except Australia. The growth rate is forecast to be 5.8 percent in 2010. It probably is time to reduce the degree of monetary policy ease by beginning to raise interest rates (as was done, by .25%, on July 9). Korea's fiscal policy on the whole has been quite careful, with only occasional budget deficits when in recession, and a low government debt/GDP ratio of about 33%.

However, there may be a rather significant, hidden fiscal problem. Municipal governments can set up local public corporations for various projects including land development, and these public corporations can, and do, borrow huge amounts at low rates from banks because lenders feel the central government will guarantee against default. There seems to be little central government control over this process, since the central government does not officially guarantee these loans. This may well eventually result in significant non-performing loan problems. And, as in many other countries, the national pension system will turn into deficit in two or three decades if Korea does not engage in a major reform fairly soon.

Ninth, Korea's industrial structure is fundamentally based on small and medium-sized enterprises, about a million or so, and on about 3000 large firms. SMEs employ 88% of the labor force. Many SMEs are suppliers to major Korean firms, many of which are globally competitive and some of which, such as Samsung and LG, hold well-established, global brand names. "SMEs" is obviously an extraordinarily heterogenous classification – narrower classifications are by sector, industry, firm size, productivity, degree of success (or closeness to bankruptcy). SMEs continue to be the biggest black box in my trying to understand the Korean economy. They still receive preferential treatment, through low tax rates and avoidance of tax payments, though less than in the past, I gather. Government credit guarantees of loans to SMEs are overwhelming; SMEs can readily roll over loans. I understand 100% of loans for exports are guaranteed, and 90% of other loans. However, the government rolling over of guaranteed bank loans has been a temporary measure during the global financial crisis, and the government is now putting zombie companies, large and small, under mandatory debt workout programs or into bankruptcy procedures, mainly in the troubled construction industry.

Tenth, one of the first stories I read in the newspaper when I arrived in Seoul happened to be about a major bribery case against 28 active prosecutors, as well as many others, involving maybe a hundred persons. A construction company in Busan had admitted making payments to prosecutors and others over many years. Corruption, particularly involving construction, is a problem in almost every country. I have the impression that, over time, as

Korea has deregulated and liberalized to a more market-based economy, the degree of corruption has decreased in Korea. It is fascinating that several years ago the chairman of the family-controlled Samsung Group was convicted of tax evasion and the chairman of the Doosan Group was convicted of accounting fraud involving a company slush fund, but more recently each was pardoned and has subsequently resumed his respective chairmanship. A recent Korean book has alleged that Samsung engaged in a range of similar practices; they have succeeded in preventing newspapers, in which they advertise substantially, from advertising the book. However the book has had large sales because of discussions on the Internet. The matter is complicated; the author is a former Samsung legal executive who allegedly retaliated for Samsung's refusal to continue his annual post-job bonuses beyond several years. At the same time, it is generally accepted that Samsung companies are excellently managed; and many people apparently want to work for Samsung.

Finally, the Cheonan ship tragedy of course was headline news when I was in Seoul, and appropriately so. When I was there the evidence was only beginning to be gathered, but it was clear to me that only North Korea had any motivation to torpedo it. I was interested that some Koreans were skeptical about the Korea military's handling of information; not only was it slow to be transparent, but there was a certain degree of skepticism about the reliability of the military's disclosure (or non-disclosure) of information. I am impressed by the Korean government's very sensible policy of relying on a team of multinational experts to examine the evidence and draw conclusions about the attack, and of forbearance from direct military retaliation, while pursuing further international sanctions against North Korea. The Cheonan appropriately has become an international issue.

South Korea is in a difficult position: the harder its policy line and restriction of economic relations with North Korea, the more China will probably become involved with the North Korean economy. China is in a difficult position too, since I do not think it wants to see North Korea collapse. Half of North Korea's trade is with China, and about one-third with South Korea. China has quietly become a significant investor in North Korean mines, ports, and other



facilities. As other countries increase sanctions on North Korea, its economic survival will depend increasingly on China. The Cheonan incident is only one, opaque element of the huge regime issue of succession in North Korea.

I have long thought, and continue to think, that reunification on the Korean peninsula, which has to be essentially on South Korean terms, will not take place anytime soon. None of the major players – China, South Korea, the United States, Japan, Russia – wants to see regime collapse in North Korea leading to chaos there.