

European Parliament Conference on
“Europe’s Reindustrialisation: Learning from our Competitors”

Korea’s Industrialization: Application of the SER-M Model

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Wisdom for Tomorrow

During 1961-1997, Korean government exercised a set of effective industrial policies to help Chaebols in manufacturing sectors gain competitiveness.

This Chaebol-centric industrial policies are not working any more.

Which is a desirable/feasible policy choice for Korea today?

Wisdom for Tomorrow

Korea in the past 50 years:

- 1961-1987: Period of industrialization
- 1987-2013: Period of democratization
 - 6 Presidential elections resulting in peaceful changes of power
 - On and off with the traditional industrial policies
- 2013-future: With new President Park Geun-Hye, which direction?

Industrialization Revisited

Policy Options

- Back to the traditional industrial policies
- More socially and environmentally sensitive policies
- Creative approach

?

Industrialization of Korea

1961-Today: Industrialization

Per capita GDP: \$82 (166th/170)

→ \$23,679 (34th): (289-fold)

Exportation: \$33million (miniscule)

→ \$547.9 billion (7th): (16,600-fold)

1987-2013: Democratization

Protection of human rights and labor movemen

Freedom of speech (NK followers in National Assembly)

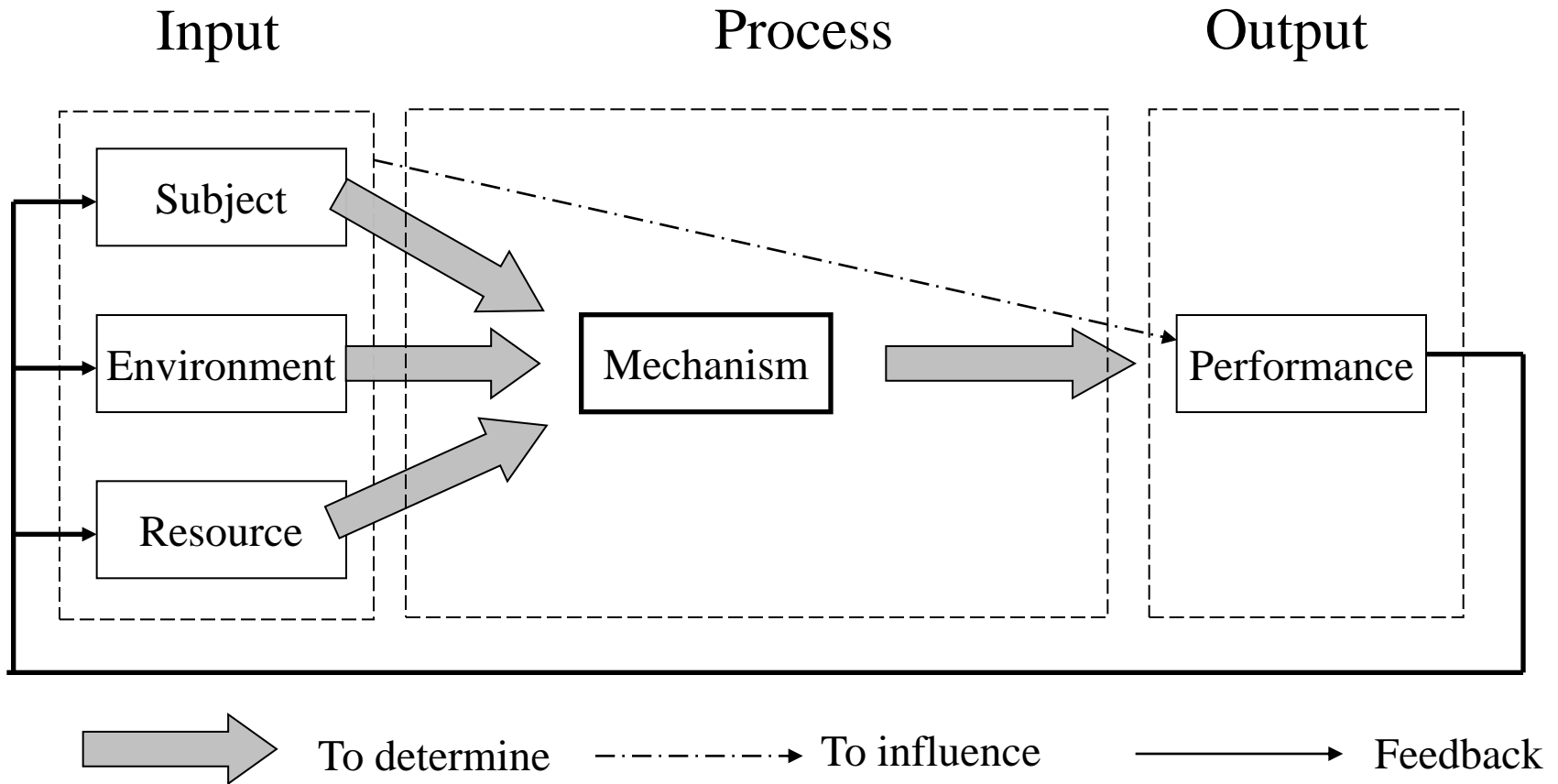
6 Presidential elections for peaceful changes of power

→ Zero tolerance on unfair/unjust election (thanks to IT)

Key success factors?

→ SER-M Paradigm

SER-M Paradigm



Industrialization of Korea

Subject (S):

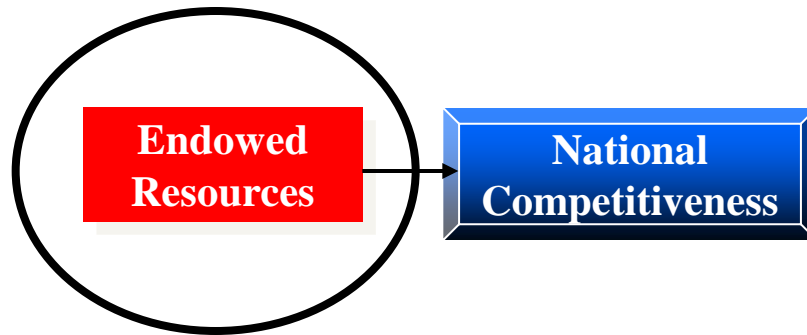
Visionary

President Park Chung-Hee → Industrialization
Presidents Kim Young-Sam & Kim Dae-Jung
→ Democratization

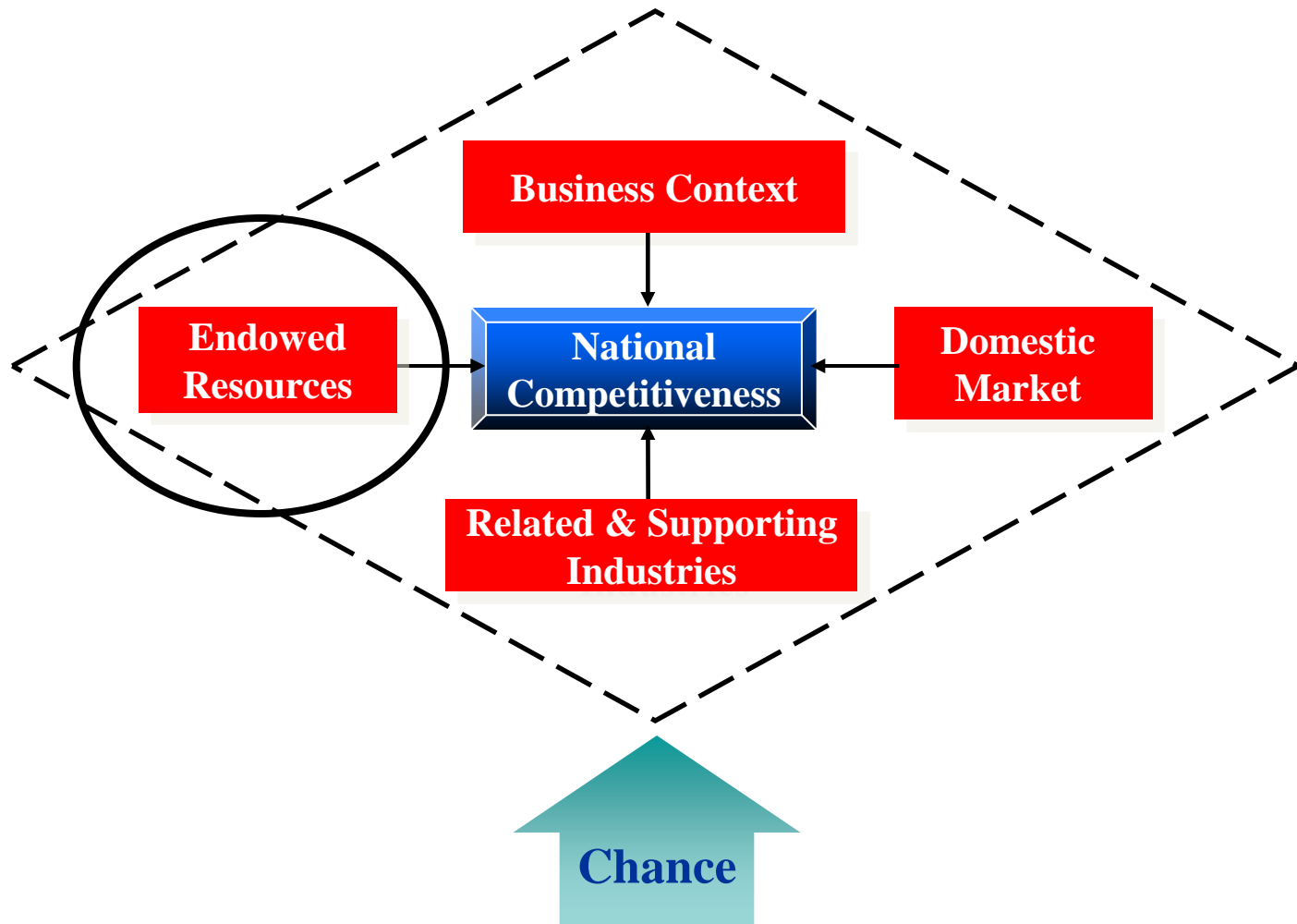
Implementer

Chairman Chung Ju-Young of Hyundai Group
Chairman Lee Byung-Chul of Samsung Group
Chairman TJ Park of POSCO

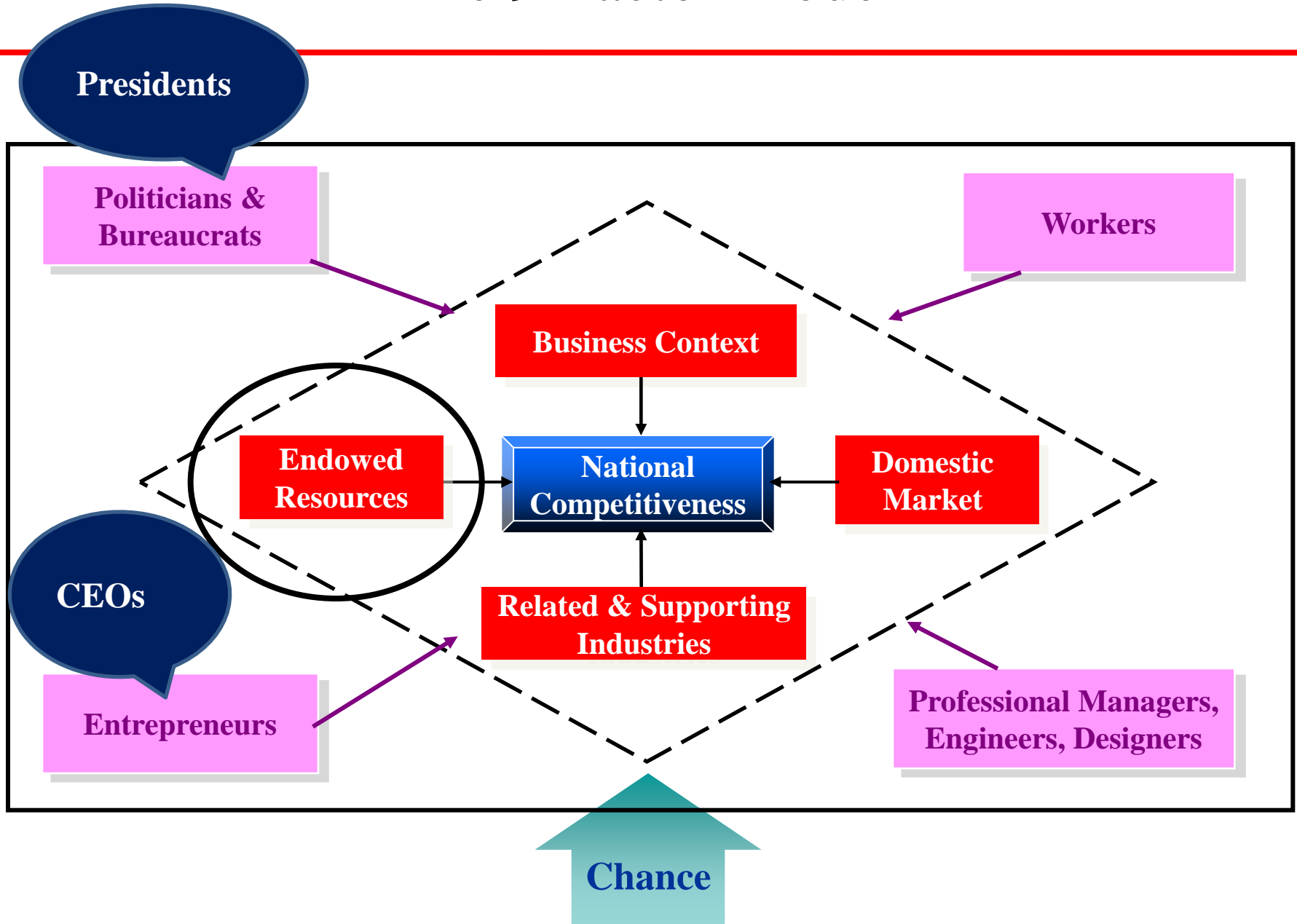
The Productivity Model



The Diamond Model



The 9-Factor Model



Industrialization of Korea

Environment (E)

North Korea's military power and constant threats

→ Made Koreans on constant alert

Japan's imperial savagism in 1910-1945, then splendid economic development

→ Let Koreans determined not to fall again, and provided a model to follow

US military protection and provision of export market

→ Enabled Koreans to concentrate on economic progress

China with mass market and cooperative spirit

→ Provided Koreans with attractive business opportunities in and out

Industrialization of Korea

Resources (R)

Lack of natural resources

→ blessing in disguise

50 million People (80 million+ worldwide)

→ highly educated and motivated, hard-working, and disciplined

Upfront investment in infrastructure (highways, airports, sewage)

→ Enhanced potentials for growth and
conditions for comfortable living

Aggressive investment in IT

→ Basis for quantum growth in related and supporting industries

Industrialization of Korea

Mechanism (M)

- A series of 5-Year Economic Plans from 1962
 - Forceful top-down approach for action plan
 - with long-term vision
 - working as centrifugal force moving into the future
 - aligned people and resources toward the same direction
 - that is to modernize “Our Homeland”
- Saemaul Undong (New Community Movement) from 1970
 - Semi-voluntary bottom-up movement
 - with diligence, self-help, and cooperation
 - working as centripetal force to unite people together
 - motivated people in the countryside and industrial sites
 - as manifested in the slogan “Let’s enjoy good life”

Industrialization of Korea

- **Chaebol** as a powerful mechanism in 1970~80s
 - Birth of Chaebol: as government's vehicle to build economy
 - A series of 5-year economic plans
 - Government guaranties for corporate loans
 - Business model of Chaebol: as provided by government
 - Monopoly through license to one
 - Protection of domestic market against imported goods
 - “Buy Korean”
- **Monopoly Rent**

Industrialization of Korea

- Chaebol as a powerful mechanism in 1970~80s
- Monopoly rent as a happy child of government & Chaebol
 - Monopoly rent became the source of Chaebol-affiliated companies' payment of the loan principal and interests
 - Government would be safe from burdens of loan guarantee.
- “Big horses never die.”
 - If a chabol is in financial trouble, it should borrow more from abroad so that government rescues it through loan guarantee.

Industrialization of Korea

- Separation of government and Chaebol since 1997
 - President YS Kim's pledge to join OECD realized in 1996
 - Korean market was forced to open.
 - Chaebol-affiliated companies immediately lost monopoly rent.
 - Government declared “no more guarantee on loans.”
 - January 1997, Hanbo Steel bankruptcy
 - April 1997, Sammi Special Steel bankruptcy
 - July 1997, KIA motors bankruptcy
 - November 1997, Korea government declared **moratorium**.

Industrialization of Korea

- Disintegration of incompetent Chaebols since 1998
 - New President DJ Kim without political bondage with Chaebol.
 - IMF's rescue fund totaling \$21 billion.
 - 19 of 30 Chaebols were dissolved, and the rest went through harsh restructuring.
 - Firms focused on efficiency and invested in R&D as a real source of **value added**.
- Surviving Chaebol-affiliated companies became competitive and global (Samsung Electronics, Hyundai Motors, LG Electronics).

Democratization of Korea

Since 1987

➤ Outburst of democratization with

The restoration of the “direct” Presidential election
Shift away from industrialization-at-any-cost

➤ Toward

Protection of human rights

Attention to social and environmental issues

Balance of growth and stability

Welfare budget reaching 30% of government budget

Economic growth rates going down from 10% to 3% p.a.

Democratization of Korea

In the process, Korea caught two birds:

Efficiency

Equity

Using two wings:

Industrialization

Democratization

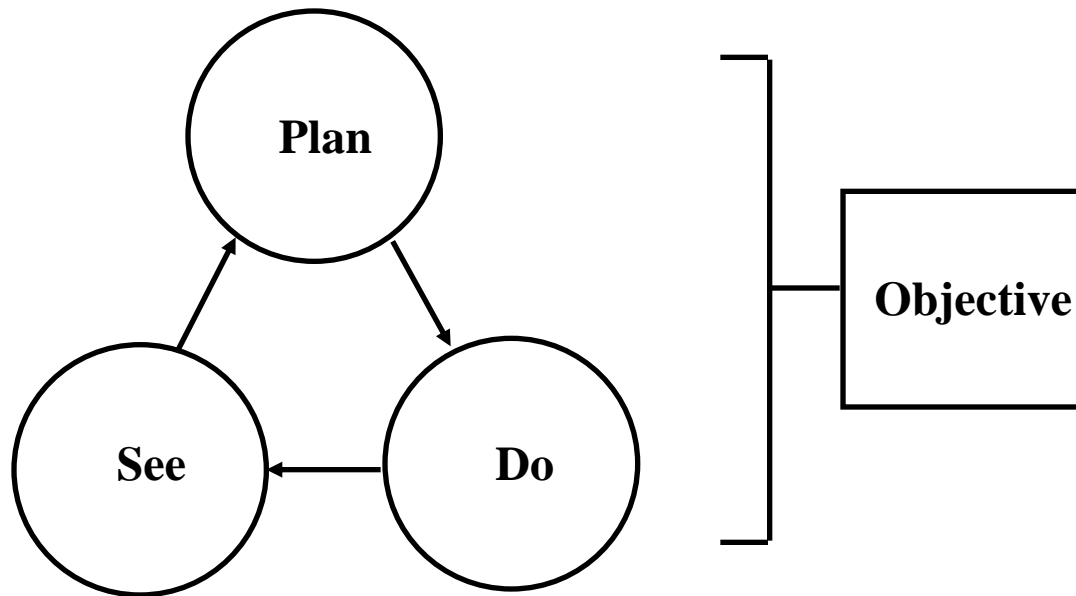
Chaebol-affiliated companies also became independent of the government, and more balanced management of

Planning

Doing

Seeing

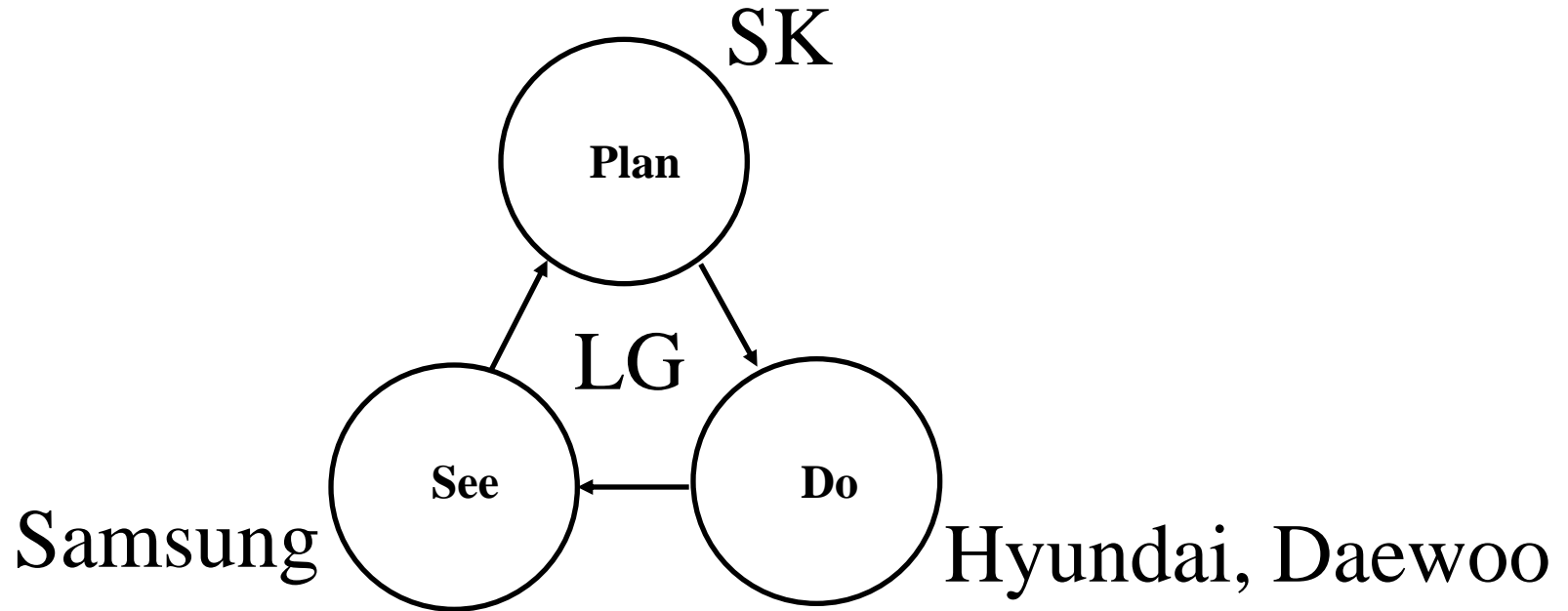
What is Management?



Division of Responsibility between Government and Corporations

	Period	Plan	Do	See
Park Chung-Hee taking power	1961-1978	Gov't	Firm	Gov't
Park Chung-Hee assassinated	1979-1996	Firm	Firm	Gov't
Korean Gov't unable to rescue failing companies	1997-	Firm	Firm	Firm

Characteristics of Chaebols



In the wake of the 1997 Economic Crisis, **Samsung** became the leader.

It is likely that by 2014 **all of these groups** become balanced in all P-D-S.

Future of Korea

Korea must move forward toward “Fully Advanced Stage.”

Chaebol s lack the spirit of “Cooperation” with SMEs.

“The haves not,” such as unemployed, refugees from North Korea, handicapped, and immigrants need warm hands. The “haves” must **share**.

Outside Korea, many under wars, homicides, famine, and diseases. Koreans must pay their dues. “God helps those, who **help** others.”

Korea must **create** a new road to reach an advanced stage. Creativity is a key to the new world.

Future of Korea

Conference organizers call Korea “our competitors” along with the US and Japan, which is either untrue or exaggerated.

On the basis of democratization that was achieved two hundred years ago, most European nations went through the second stage of industrialization and the third stage of modernization and now moving to the **fourth** stage.

Korea has just passed the first stage of industrialization and the second stage of democratization in the past 50 years, and is about to move to the **third** stage of modernization.

Korea is the one to learn from EU.

Future of Korea

The history does not repeat itself.

“A second round of **industrialization**” is not the right answer to Korea.

- Chaebol cannot be recreated with democracy in town (Sequence).
- Chaebol is a horse to cross the river from under-developed economy to developing/semi-developed economy, but not to advanced economy.

“Transition to **socially and environmentally conscious** state” is too costly given Korea’s fiscal condition.

Korea’s New President Park Geun-Hye proposed “**Creative** economy” as the nation’s vision for the future.

Creative Economy

- Prerequisite: **Freedom** based on robust democracy
 - Government role: To provide **infrastructure**
 - Education
 - Ease of doing new business
 - IT network (Smart-way)
 - Global network
 -
- Establishing the base camp and moving it up

on May 29, 1953



**On top of the world:
Tenzing on the summit of Mt Everest.
Photograph taken by Edmund Percival
Hillary, 29 May 1953.**







Creative Economy

- Prerequisite: **Freedom**
- Government role: To provide **infrastructure**
 - Education
 - Ease of doing new business
 - IT network (Smart-way)
 - Global network
 -

→ Establishing the base camp and moving it up
- Corporate role: To **create & share** value
 - Creating Share Value (CSV)

Emergence of Shared Capitalism

Peter Drucker
Michael Porter
Shared Capitalism

Anatole Kaletsky
Democratic Capitalism

Anthony Giddens
New Capitalism

John Keynes
Revised Capitalism

Adam Smith
Classic Capitalism

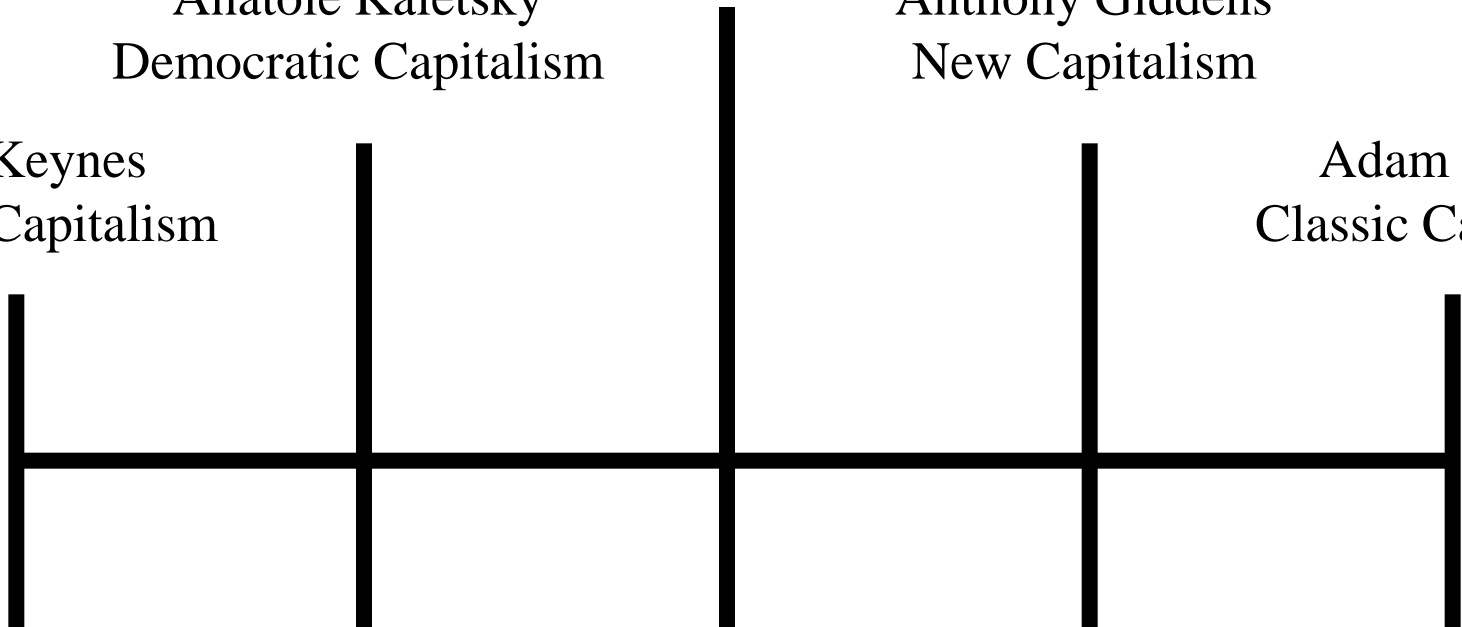
Government-led
Capitalism 2.0

Society-led
Capitalism 4.0

Cluster-led
Capitalism **5.0**

Corporation-led
Capitalism 3.0

Market-led
Capitalism 1.0



Future of the World

Dream → Avant garde → Reality → Classic → History

Your dream-based history of EU will be a benchmark model for us in the world to follow.

God bless you, the citizen of European Union.

God bless us all, the citizen of the world.

Thank you!

