

LESSON 4

The Miracle on the Han: Economic Currents

Like other countries, Korea has experienced vast social, economic and political changes as it moved from an agricultural society to an industrial one. As a traditionally agrarian society, most Koreans once worked on farms or in farm-related jobs. There were no industries in a pre-industrial society.

With the rebuilding of South Korea following the Korean War, many economic changes took place. Heavy industries like steel production and shipbuilding expanded, replacing farms with factories and transforming farmers into factory workers. The shift from the farm to the factory and from the country to the city brought many changes to life in Korea. Urban areas have grown rapidly, too and many people now live in high rise apartments. Farm life has changed with the use of modern technology. International trade, global economic interdependence and the recent financial crisis have brought even more economic and political changes.

LINKAGE WITH CURRICULUM

*Economics
*World History

MATERIALS

*Handouts 1 & 2

Purpose of Lesson and Overview

Students will examine the changes in the South Korean economy since the end of the Korean War.

Students will examine factors involved in economic development and will assess issues facing the Korean economy today.

Content Focus

For most of its long history, Korea was an agrarian society. Industrial development did not take off until after World War II when Korea won independence from Japan. However, economic gains were soon devastated by the Korean War (1950-53). By the mid-1950's, unemployment and underemployment were widespread, poverty was extreme and Korea had few exports. Korea had to depend on imports for both raw materials and finished products.

South Korea's economy improved in the 1960's with the first of the Five Year Plans developed under President Park Chung Hee. These economic plans sought to use the nation's natural and human resources more efficiently and the economy began to grow at an annual rate of 9 percent. Factories produced goods for export.

As exports rose, so did incomes for individuals. A policy of high interest rates was used to encourage Koreans to save and savings rates grew dramatically. In addition, foreign investment was encouraged. The Five Year Economic Plan took an outward approach helping boost foreign trade. Korea's early strategy was to specialize in the production of light manufactured goods that could be sold both to the domestic and international markets.

LESSON 4

Since the 1960's, the Korean economy has expanded in many directions. Production shifted from consumer appliances to heavy industrial goods and equipment. South Korea had developed energy resources and increased agricultural productivity by using modern equipment and technology.

In 1997, Korea faced new economic challenges as it was swept up in the broader Asian financial crisis. It has made hard reforms to prevent mistakes of the past. Restructuring and reorganizing business, banking and government are underway. Although the government reported signs of improvement, the economic turmoil has caused many hardships to individuals.

LESSON 4

The Lesson: Economic Currents

OPENING

1. “What characterizes a country with a strong economy? A weak economy?” Have students give examples and derive a list of some of the factors involved in the economy of any country. Examples include: employment; the range of jobs available; the range of tools and technology used to facilitate efficiency and production; the availability of consumer goods; the prices for such goods compared to the per capital income of the people; the availability of affordable housing and other basic needs; the rate of inflation; the quantity and quality of natural and human resources.

READING

2. “Let’s take a look at the Korean economy, especially since the Korean War.” Examine the data in Handout 1 to see how the economy of the 1950’s compares with the economy in the 1990’s. Korea’s remarkable growth in the 1960’s is often referred to as “the miracle on the Han.” How did it happen?

3. The class will study factors that contributed to the dramatic economic growth in South Korea. These are presented in Handout 2. The class can be divided into small working groups or students can work independently. Have students read Handout 2 to understand the factors influencing economic growth. In addition, they should rank the factors by overall importance in the growth of the economy. Factors should be placed in one of two columns: Least Significant Factors or Most Significant Factors.

ANALYSIS

4. After students have ranked the factors, conduct a class discussion on the reasons for Korea’s economic miracle. Find current articles in the newspapers, such as *The New York Times*, *The Wall Street Journal*, *Los Angeles Times*, or *Washington Post* that cover the economic conditions in Korea today and add new data into the discussion about the strengths and challenges facing the economy. What do you see as the factors involved in creating the modern Korean economy?

ASSESSMENT

5. Pursue additional research and analysis on: topics such as the role of women in the labor force; the declining of the importance of agriculture; the United States-Korea relationship; Japanese influence on the economy, both positive and negative; and the economic impact of the Vietnam War on Korea.

Controversial topics concerning the *chaebol* and/or the labor laws of Korea might be explored with research. Students might examine how the “miracle” is holding up in the current economic crisis. The role of Koreans educated in the United States or of Korean-Americans in the economy might also be explored. Students can look at how Korean companies and their products are part of the American economy. How visible are Korean products in our homes and schools? What do these products suggest about international trade?

LESSON 4

World Wide Web

- <http://www.accesskorea.com>
- <http://fas.harvard.edu/~korea>

LESSON 4

Handout I

The Miracle on the Han

BACKGROUND

The term “miracle on the Han” is used to describe the vast economic progress made by South Korea from 1953 to 1997. The Han River is identified with this shift because much of this achievement centered on the area around Seoul in the Han River valley. Ihm Chon-sun, a Korean economics educator, has referred to this change as “one of the most remarkable cases of economic transformation in modern history.”

(“South Korea’s Economic Development, *Social Studies*. Vol. 79, #4: 165)

SOUTH KOREA IN THE 1950’s AND 1960’s

One of the poorest nations in the world, Korea was divided after World War II. During the Korean War, it suffered terrible losses, including:

- 50% of all manufacturing facilities destroyed
- 40% of all private homes destroyed
- 20% of all schools destroyed

Despite efforts to rebuild, South Korea remained poor into the 1960’s, including:

- GNP of \$2.3 billion nationally, or less than \$87 per person (1962)
- Exports of 20% of manufactured goods (1962)
- Total petrochemical production was \$4 million (1968).

SOUTH KOREA IN THE 1980’s AND 1990’s

By the 1980’s, South Korea’s economy was booming. Examples of its spectacular growth include:

- GNP: \$2.5 billion nationally, or \$5,883 per person (1990)
\$4.8 billion nationally, or \$10,543 per person (1996)
- Exports of manufactured goods: 83.6% (1990); 82.1% (1996)
- Annual Average Growth Rates: 9.1% (1981-1990); 7.1% (1991-1997)
- World’s most efficient steel plants
- World’s second largest shipbuilding capacity
- Seoul is a major city with a population of 12 million people.
- In 1996, Korea had the 12th largest trade volume in the world.
- Korea is one of the world’s top ten textile producers in terms of facilities and exports.
- Total petrochemical production in 1988 was worth \$3,858 million.

(Source: National Statistical Office, *Korea Statistical Yearbook*. 1997)

LESSON 4

Handout 2

Reasons for Korea's Miracle on the Han

FACTOR I – EDUCATION

Importance: Some historians cite education as the major factor in economic growth. They point out that Confucianism, with its strong emphasis on education, has been an important part of Korean culture. Even during the Korean War, parents tried to keep schools open. Today's high literacy rate in Korea means the labor force and management are able to adapt quickly to new technologies and business opportunities.

Sample Statistics: Expansion of Education in South Korea

Expansion of High School Education, 1951-1997

Year	1951	1960	1970	1980	1989	1995	1996	1997
Schools	307	640	889	1,353	1,672	1,830	1,856	1,892
Teacher	1,720	9,627	19,854	50,948	87,277	156,342	157,731	158,041
Students	40,271	273,434	590,382	1,696,792	2,326,062	3,727,275	3,683,857	3,556,973

Expansion of Higher Education, 1945-1997

Year	1945	1960	1970	1980	1989	1995	1996	1997
Schools	19	85	168	236	536	747	840	937
Teacher	1,490	3,808	19,854	20,900	39,950	58,177	63,809	69,157
Students	7,819	101,041	590,382	601,994	1,434,259	2,342,786	2,540,209	2,190,734

(Source: Sungho Lee. The Korean Educational System. Seoul: Yonsei University, 1991: 112 and National Statistical Office. Monthly Statistics of Korea. Seoul: 1998. 6)

Argument Against This Factor: Other nations like those of Central Europe also have high literacy rates, but they have not produced similar economic gains. Korea's Confucianism, which requires deference to the hierarchical structure, could also limit human potential.

FACTOR 2 –Government Economic PLANNING

Importance: The Korean government, working with industry, made several five year plans to focus on economic development. First, it set goals in light manufacturing, like textiles, using Korea's labor force. Then, it focused on heavy industry, like cars and shipbuilding. In Stage 3, Koreans have moved into the fields of high technology and communications. Thus, Korea has followed a plan of economic development common to most industrialized nations.

LESSON 4

Sample Statistics: South Korea's Share of World Steel Production

Korea's Share of World Steel Production

(Crude steel, million tons)

	World Total	Korea	Percent
1970	595.4	0.5	0.1
1980	716.4	8.6	1.2
1987	737.5	16.8	2.3
1988	780.0	19.1	2.4
1991	735.6	26.0	3.5
1992	723.5	28.1	3.9
1993	730.8	33.0	4.5
1994	730.0	33.7	4.6
1995	756.0	36.8	4.9
1996	752.0	38.9	5.2

(Source: Korean Overseas Information Service. *A Handbook of Korea*. Seoul: 1995: 383 and Korean Iron & Steel Association. *Steel Statistical Yearbook*. Seoul: 1997: 39)

Argument Against This Factor: Other nations, such as the former Soviet Union and Cuba, have tried to use centralized planning to develop their economies. Their examples illustrate that central planning can be inflexible and can result in slow, inefficient bureaucracies. Five year plans may be insensitive to short-term changes that demand immediate economic responses.

FACTOR 3 – FOREIGN AID

Importance: The United States and the United Nations furnished considerable economic aid to Korea. The U.S. alone contributed \$12.3 billion from 1945 to 1976. Further, the stationing of U.S. troops in South Korea eased the burden of financing a larger South Korean army. North Korea, on the other hand, uses 20 percent of its GNP for defense while South Korea spends 12 percent. During the Vietnam War, South Korea sent troops to support the United States. Their wages were paid partly by the U.S. and partly by South Korea.

LESSON 4

Sample Statistics: U.S. Aid to Korea

Foreign Economic Aid Received by Korea, 1945-1982

Year	Total
1945	4.9
1946	49.9
1947	175.4
1948	179.6
1949	116.5
1950	58.7
1951	106.5
1952	161.2
1953	194.2
1954	153.8
1955	236.7
1956	326.7
1957	383.0
1958	321.2
1959	222.2
1960	245.5
1961	199.2
1962	232.2
1963	216.4

(*In millions of U.S. dollars)

Year	Total
1964	149.3
1965	131.4
1966	103.3
1967	97.0
1968	105.9
1969	107.3
1970	82.6
1971	51.2
1972	5.1
1973	2.1
1974	1.0
1975	1.2
1976	1.7
1977	0.9
1978	0.2
1979	0.2
1980	0.4
1981	0.2
1982	0.1

(Source: Korean Overseas Information Service. *A Handbook of Korea*. Seoul: 1990: 376)

Argument Against This Factor: The U.S. has helped many nations worldwide. For example, the Marshall Plan helped to rebuild Europe after World War II and considerable aid has been given to African nations. Not all nations have had economic miracles.

FACTOR 4 – THE LABOR FORCE

Importance: After the economic devastation of the Korean War, people struggled to find jobs. South Korea attempted to shift the economy from agriculture to industry. Strict government labor laws kept workers in their jobs, often in what some historians cite as “discipline” conditions. Dormitories were built; Korean working days were among the longest in industrial world. Wages were low, particularly for young women just entering the labor force. The Confucian ethics of hard work and contributing to the family welfare also helped build a workforce that was dedicated to increasing production.

LESSON 4

Sample Statistics: Distribution of Employment by Gender and Industry

Distribution of Employment by Gender and Industry

Year	Female				Male			
	Total (in thousands)	Agriculture Forestry & Fishing	Mining & Manufacturing	Services	Total (in thousands)	Agriculture Forestry & Fishing	Mining & Manufacturing	Services
1963	2,675	68.7%	7%	24.3%	4,998	60.1%	9.7%	30.2%
1970	3,578	57.2%	12.2%	30.6%	6,167	46.5%	15.6%	37.9%
1980	5,222	39%	22.3%	38.7%	8,462	31%	22.7%	46.3%
1984	5,535	30.2%	22.9%	46.9%	8,894	25.2%	25%	49.8%
1986	6,165	26.3%	25.1%	48.6%	9,339	21.9%	26.4%	51.7%
1987	6,613	24.3%	28.2%	47.5%	9,741	20.3%	28.1%	51.6%
1988	6,771	22.9%	29.2%	47.9%	10,099	19.1%	28%	52.9%
1991	7,535	18.6%	27.6%	53.8%	11,076	15%	26.9%	58.1%
1994	8,005	15.9%	22.1%	62%	11,832	12%	25%	63%
1997	8,639	13%	18.5%	68.5%	12,409	9.7%	23.4%	66.9%

(National Statistical Office. *Report on the Employment Structure Survey*. Seoul: 1998)

Argument Against This Factor: The strictness of Korea's labor laws also brought on social protests and strikes that might impede production.

FACTOR 5 – KOREA'S CHAEBOL-INDUSTRIAL ORGANIZATION

Importance: In order to make the leap from small-scale manufacturing to world industrial power, South Korea used the *chaebol*, a vertically integrated system of companies. As Andrew Carnegie had created his steel company in the 19th century in U.S. by forming companies that focused on different parts of steel making, Korean companies like Samsung and Hyundai owned similar “small bits of large finished product” companies. Business experience under the Japanese occupation had also given the Koreans an understanding of the Japanese *zaibatsu* organization with its links to government.

LESSON 4

Sample Statistics: 10 Korean Companies

10 Korean Companies' Exports, 1965-1995

(in millions US\$)

Year	Export	10 Corporates' Contribution of Total Export
1960	33	N/A
1965	175	77.0%
1970	835	67.8%
1975	5,081	65.5%
1977	10,046	63.6%
1980	17,505	67.9%
1985	30,283	72.2%
1990	65,016	57.9%
1995	125,058	60.4%

Argument Against This Factor: This manufacturing was the result of other factors, like government support and foreign loans and only illustrates other insight. Sheer size can also become unwieldy and poor leadership can be disastrous.

FACTOR 6 – WORLD ECONOMIC CLIMATE

Importance: Korea's progress was made in a time of general economic prosperity. Despite the slowdown in the 1970's due to the oil crisis, a resource that Korea lacks, South Korea expanded into world markets. Other nations, particularly the U.S. and European nations, had the means to buy Korean products.

Sample Statistics: Exports of Korean Products by Principal Area of Destination

Export of Korean Products by Principal Area of Destination

(in millions US\$)

Year	Japan	U.S.	European Union	S.E. Asia	Middle East/Asia	Other	Total
1988	19.8%	35.3%	13.4%	12.8%	3.7%	15.0%	\$60,696.4
1991	17.2%	25.8%	13.5%	19.3%	3.7%	20.5%	\$71,871.1
1994	14.1%	21.4%	11.0%	24.2%	4.1%	25.2%	\$96,013.2
1997	10.9%	15.9%	12.4%	27.0%	3.8%	30.0%	\$136,164.2

(Source: Bank of Korea. *Monthly Balance Payment*. Seoul: 1998 May)

Argument Against This Factor: Other nations might have benefited equally from the world economic climate, South Korea's particular role might not have been so dramatic.