

# The Korea Economic Slice on KBC (Vol. 1.14)

An Exclusive Report from [Korea Business Central](#) and [DS - Financial Market Analysis](#)

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*The Korean Economy has for years received criticism for its similarity, and perhaps near mimicry, to Japan's economic structure. Japan has certainly led the East towards financial prosperity and growth in the latter half of the 20<sup>th</sup> century after the reconstruction efforts that followed World War II. From ship building to steel to digital technology, Korea has deliberately repeated industries in which Japan has been successful. Many Korean's are cognizant of this fact and look upon the aging population mixed with deflation in Japan with unsympathetic eyes and international peers appreciate the necessary establishment of clear path for Korea moving forward. This week we'll look at the Japanese post-war recovery, Korea's repetition of that model, and think about how Korea can potentially sidestep the pitfalls of the stagnating Japanese economy...*

## MacArthur and then Some...

World war two was literally devastating to Japan, as two ruthless atomic weapons were used on its population as a means of forcing surrender. In those days it would have been deplorable to imagine an agreement where both sides coexisted, and even worked together, but the relationship would indeed bear fruit.

One man who shared the courage of the humanitarians among the U.S. ranks was a General MacArthur, who would be responsible for the occupation and initial reconstruction of Japan. Under "MacArthur's Plan", as it became dubbed, the first priority was food distribution. However later, the plan came to fully provide a chance for the Japanese economy to prosper and so much more.

Following the War, and the [surrender of Japan](#), the U.S. had vested interest in keeping the country militarily weak but economically able. We saw how it is possible for two countries to begin the post war healing process, even after such atrocities, and move towards economic partnerships.

The Supreme Commander of the Allied Powers

(SCAP) felt that the best path towards democracy was actually through economic recovery. Since there was a great famine in 1946 and the costs to Japan's infrastructure were immense, it would first have to be the government that stimulated growth on the island state.

Mainly, the Ministry of International Trade and Industry (MITI) made it possible for any government mandate, regarding economic activity, to be supported with the full force of the Japanese government.

Contrary to the pipe dream that U.S. patriots would prefer you to hear, it turns out that Japan's recovery looked more like a centrally orchestrated endeavor than anything led by private industry. The MITI enabled Japan's leadership to enact free trade policies; allowing technology imports to be untied from other goods, giving authorities control over the regulation of imports, and establishing the Japan Development Bank to finance future economic investments.

## Economic Miracles

While most of us enjoying this article are quite

familiar with the “miracle on the Han river” catch phrase, there was also similar talk of the post-war “miracle” that occurred in Japan’s economy.

The industrial paths are actually strikingly similar. Emphasis on the industrial sectors, and government spending to support them, led both Japan and Korea into post-war economic success. The steel and ship building industries have favored both countries’ lack of minerals and land, but rich assets in deep water ports and coastal populations.

Most impressive perhaps, is the way in which Japan’s leadership entered certain markets and then overtook them. Reverse-engineering of automobiles was the first major triumph, a practice that would serve as a model for most early triumphs of the Japanese and Korean economies. Many saw the attempts of Korea to enter the automobile market after Japan and compete directly with the well established industry in Japan as an impossible feat, yet thanks to the recall events and Korea’s persistence, Hyundai grew much faster than Toyota or Honda over the last 18 months.

Following steel, ship building and automobiles, the focus of both economies turned to Technology.

## Technology That Matters

Japan reverse engineered American technologies across the board, from radios and televisions to cameras and computers. They took apart the newly invented machines of the U.S. and literally “built a better mousetrap”.

Of course there were many marketing and brand issues to work through, since early Japanese models had flaws and a general lack of quality, but by the end of the 1970’s Americans were turning up in droves to invest big money in assets as expensive as automobiles.

There are instances which argue in favor of Japan’s miracle coming from a tougher road.

The U.S. was proud that Japan had recovered and sprouted a pseudo-free-market economy, but when Honda started draining market share from GM, Chrysler and Ford, the gloves came off. An “unofficial cap” was placed on the imports of automobiles to the U.S., where the U.S. strong armed the Japanese into a fixed number of auto imports in exchange for continued U.S. backing, just as Russia began bragging of its Cold War nuclear arsenal.

Nonetheless, the quotas were abandoned and reverse engineering of U.S. products allowed, as Japan and Korea, pursued economic gentrification. Soon after the initial stages of post war recoveries in both countries, technology became the government endorsed focus.

Initially Korea sought out prosperity by entering markets which were already established in Japan and America. It seemed irrational at the time, since Japan had the power to aggressively compete with new entrant Korea, but the Korean government invested heavily in initial subsidies that supported the industry until it was competitive.

Still in Korea we see signs of government planned industry in different parts of the country. Some cities are focused entirely on certain industry at the hand of the government and the recent “free economic zones” are areas deemed separate from standard trade policies.

Nevertheless, the economies in both Japan and Korea have found a free market soul at the end of a centrally planned recovery. Japan found ways to make many goods better than their U.S. competitors and Korea has found was to make many of those goods equally well and at lower price points, while also managing to make many products better.

Just this year we’ve seen Samsung crowned the largest technology company in the World, and it’s not due to Korea’s government subsidizing the industry. Instead, Samsung has found that it can make certain products better; mobile phones, digital display monitors, and specific chip sets, to name a few.

*There are many reasons why we can compare Japan and Korea, which for Koreans can be a scary proposition. It's no secret that Japan's low birth rates, aging population, and lack of natural resources are facts of life that may be facing the Southern half of the peninsula as well. Yet the ability of Koreans to build and compete together has proved the critics direly wrong in the past and there's reason to believe they could again be muffled. Korea has much lower national debt compared to the size of its economy, and are beginning to find products that they can differentiate themselves with regardless of price points. The key will be for Korea to use the same tactics and study the mistakes of Japan as they happen, just as they learned from their successes.*

*All data for proprietary charts are compliments of the Bank of Korea ECOS System.*

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