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# REFLECTING ON KOREA'S ECONOMIC DEVELOPMENT EXPERIENCE

Keynote address by Dr Rory Knight

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Dr Rory Knight, is Chairman of Oxford Metrica and the investment committee at the John Templeton Foundation. He was formerly Dean of Templeton, Oxford University's business college. Prior to that Dr Knight was the vize-direktor at the Schweizerische Nationalbank (SNB) the Swiss central bank.

A SUMMIT  
PRETORIA

The Korean Embassy in South Africa with ACCORD hosted a high level summit in Pretoria to introduce the strong parrallels between Korea's experience and that of South Africa. President Motlanthe delivered the opening address. Dr Knight delivered the keymote address. June 7th, 2022

South Africa needs strong trading partners like South Korea not handouts.

## Good morning

South Africa and South Korea are my two favourite countries, I lived in SA for many years and was a Professor at the GSB at UCT and I spend January and February here every year for reasons that will be obvious to anyone who has experienced these months in Oxford. Having visited Korea more than 100 times over the last 20 years...I have a considerable experience of doing business there. I am delighted to be able to present my thoughts on the remarkably strong if hidden parallels between these two wonderful countries.

Many thanks to His Excellency Ambassador Park and Dr Gounden for hosting this event and for inviting me to speak.

Dr Park has delivered an eloquent speech on the extraordinary story that is the development of Korea over the last 70 years....he undersold it. Let me show you the results of the great economic experiment conducted over the last 70 years. Take a peninsula occupied by a homogenous population with shared history, tradition, myths, language and religion and split them into two groups. Let one group allied with

China run a centrally planned economy and the other allied with the US run a free market economy. Shake it up and stir occasionally and allow to boil for 70 years. The result is best illustrated with a night-time satellite picture of the Korean peninsula [Slide 2]. Apart from mentioning that this is not due to load shedding in the North the picture needs no further explanation.

In 1953 after the ROK hosted a proxy war between China/Russia v US, an armistice was signed and the peninsula was divided into two halves at the 38th parallel, North being the Democratic People's Republic of Korea (DPKR), South ROK.

Dr Park provided us with a most informative and insightful description of Korea's development and you may be wondering how this is relevant to South Africa today. These two countries are literally poles apart and at first glance appear to have little in common [Slide 3].. Korea would comfortably fit into the Karoo of the northern Cape with Jeju island landing in Hermanus [Slide 4]. Culturally the two countries are different and have quite different histories up until the end of the 19th century. That all changed at the start of the 20th Century from which time I will demonstrate that they have experienced a surprisingly similar experi-

ence in many ways. I suggest that this similarity is an important foundation to build a strong economic partnership. I argue today that there is considerable economic potential for both countries to form closer economic ties. I will make several practical recommendations on how this might be accomplished which of course is the subject of Session 2 this afternoon. Firstly, let me focus on the parallels.

If you performed a pairwise comparison of all the countries in the world by population size, the closest pairing over the last 60 years is between SA & SK [Slide 5]. Obviously given the relative size Korea is significantly more densely populated. Notice how the population growth rate is slowing in Korea with higher prosperity while increasing in SA. The populations crossed in 2006 at around 48.3 million.

Earlier we saw the evolution of the GDP per capita in Korea, observe the comparison over time with SA. I emphasise the low starting base Korea had. In 1953 Korea would have ranked lower than the poorest African country with a GDP per capita of \$67 compared to SA on \$300, the highest in Africa. By 1960 Korea and SA were on \$158 & \$443 respectively and it took Korea 24 more years to catch up in 1984 when both countries had a per capita GDP of

\$2,400 [Slide 6].

South Africa enjoyed a reliance on mineral wealth and Korea developed human capital. Over the next 40 years Korean growth exploded...with a current GDP per capita in 2021 of \$35,000 while SA generated \$7,000 per capita. In 1953 SA had a per capita income of 5 times SK and in 2021 this was reversed; Korea has a per capita income of 5 times SA. In terms of total GDP Korea is in the top 10 by country with a total GDP of \$1.8 trillion in 2021 in contrast to SA in rank 33 on \$400 billion (up from rank 41 in 2020 by the way) [Slide 7].

It would be an interesting study to understand the cause of the differences in growth. Our earlier speakers provided much analysis on the factors driving growth in Korea. I would like to focus on one major driver...education, creating human capital. Let me draw your attention to the extraordinary achievements that Korea has made in education [Slide 8]. We must remind ourselves that Korea had a literacy level lower than SA, it had a subsistence economy on a smaller less bountiful territory, and the country's infrastructure had been razed to the ground in the Korean war. Not such an auspicious start. Yet Korea now dominates tertiary education worldwide. (Some micro countries such as Singapore have impressive statistics too). These data are from the OECD. Notice that in the cohort of 25 to 34 year-olds in Korea almost 70% are university graduates. We in the UK are under 50% despite Tony Blair converting all Polytechnics into Universities which inflates our numbers...we are really around 30% on this measure. Clearly, South Africa has considerable work to do in this area.

Notice how Korea managed to do this over 4 decades. Observe the progression over time by contrasting differing age groups [Slide 9]. The 55 to 64 cohort has only a 17% graduate proportion, these are people who were at university in the 80's; notice that as we progress down the age groups the proportion increases; the 45 to 54 cohort (university in the 90's) have 35% graduates; the 35 to 44 cohort (univer-

sity in the noughties) have 56% graduates. This has been a deliberate and steady build. In contrast the proportion of graduates in the equivalent cohorts is reducing in SA. Currently, SA spends around 4.3% of GDP on education and Korea a little less at 3.5%, however the dollar spend per capita is something like 6 or 7 times in Korea. We all have something to learn about education from Korea. Ironically, Korea employs many South Africans as English teachers since all high schools are required to have a first language English teachers. We might think of having knowledge flow in the other direction in the future. Although as an observer I always find it amusing speaking to Koreans with a South African accent.

As we have heard education is not the only factor, there are many more; I highlight another 4 which I consider of relevance in my experience [Slide 10].

National common cause, dealing with Korean business I see this as a very tangible characteristic along with the Palli Palli (hurry up) culture. I am privileged to have a copy of the original manuscript, hand-written by President Park Chung-hee wherein he laid out his philosophy on April 26th 1972. This document is the blueprint for the Saemaul Undong strategy to which Dr Park referred [Slide 11].

Financial structure & governance is different and complex, nothing like the Anglo-American system, the topography of ownership and control revolves around CHAEBOLS, family-controlled structures, (Samsung, Hyundai & the like) with cross-holdings and differential voting rights preventing hostile and foreign takeovers. There were a number of benefits to this structure while Korea was developing. Innovation, R&D is funded within large corporations more than venture capital markets which are less developed. The Chaebol structure facilitated the national industrial strategy. The stock market is extremely concentrated with Samsung constituting more than 25% of the total market capitalisation, the top 100 make up 85% of KOSPI market capitalisation, with over 1,000 listed

securities. Recently, the Chaebols have attracted much criticism in Korea as they are considered too powerful. I would caution against dismantling a structure that attended the greatest economic growth in human history, just saying.

Leverage of colonial assets. Although there remain some tensions over the Japanese occupation by and large Korea has levered the colonial legacy without taking on the demoralising effect of victimhood. Governance is the most striking example; Samsung founder, Lee Byung-chul having studied in Japan at Waseda University (although he dropped out) modelled the Chaebol on the Keiretsu corporate structure in Japan. Samsung is now has revenue of around 3 billion which is about 75% of the SA economy. There are many other examples.

Industrial strategy. This has been covered already, it is clearly a major driver of Korean success.

Let me turn now very briefly to the remarkable parallel in the journey the two countries have experienced since 1900.

1910 [Slide 12]. The century started with conflict in both places; the Boer war in SA and the Japanese incursions in Korea. This culminated in a victor and colonial domination of both countries. In 1910 Japan annexed the Korean peninsula and Britain merged the colonies of the Cape and Natal with the two Boer republics of the Free State and Transvaal into the Union of South Africa a British dominion.

1961 [Slide 12]. Fast forward to 1961 and we have another coincidence of events, after much unrest in 1960 in both countries Sharpeville in SA and weeks later serious students riots in Korea resulted in elections in both countries, a very close referendum for a republic status in SA and the election for a new constitution in Korea led to change in 1961. Korea created the second republic within months of SA becoming a republic.

1984 [Slide 12]. In 1984 Korea caught up with SA in terms of GDP per Capita at \$2,400.

2006 [Slide 12]. In 2006 the SA overtook Korea at 48.4 million.

I have identified these milestones to point out that SA does not face a unique set of challenges; of course the particulars are idiosyncratic and there is no template to be borrowed from Korea or anywhere else. Korea suffered from a much more brutal colonial experience for 35 years, its resources were considerably less than SA and yet they made it to a fully industrial top 10 country in one lifetime without accepting aid! And they are not finished, the next step is to achieve 50 (per capita GDP of \$50k), this will be FinTech, projecting Seoul as a global financial centre replacing Hong Kong. SA could do well to connect with Korea to enjoy the benefits of a strong partner who is empathetic.

#### Five point plan

As I stated, SA needs a strong trading partner and Korea is an ideal candidate. To date there is very little trade, an insignificant amount of tourism and no direct flights.

What are the attributes of a good trade partner? Economic strength is evident, a similar size, complementary and without imperial ambition. Korea is the ideal partner for SA.

At the risk of pre-empting the discussions for this afternoon I would like to conclude by suggesting a five-point plan to connect SA & SK [Slide 16].

#### 1. Smart free trade agreement

This requires government commitment, and by smart I mean keep it simple and tailored to a few clearly defined areas of complementarity. Avoid the mistake made with the SA-UK post Brexit FTA, where the EU-SA FTA was copied and pasted as the SA-UK FTA. Consequently, for example SA wines attract a £2.50 per bottle duty, thus was designed by the EU to protect French wine producers.

#### 2. Tourism

The first step is to establish direct flights between Seoul and SA. Twenty-seven million Koreans travel outside of Korea every year, 2% of that market would make Korea SA's largest tourist market, currently enjoyed by the UK at around 400,000 visitors. Believe me the Koreans will spend more per person.

#### 3. Agriculture

Korea imports food, SA could become a material supplier. The introduction of Korean technology to agriculture without the land tenure issue would be a significant synergy.

#### 4. Technology

A number of opportunities come to mind;

Korea is a leader in solar technology and SA has sun;

FinTech is the new frontier and a Korean partnership would allow SA to leapfrog into the new world of blockchain technology.

KEPCO is in discussions with the UK for the provision of mini nuclear power stations to solve our energy problems. I suspect Korea would help solve ESKOM's issues and be rid of load-shedding which is hampering growth in SA.

Imagine a free trade zone in Cape Town where Samsung sets up a high-tech electronic assembly plant for distribution in the southern hemisphere. No tax earns a commitment to a long-term education and training programme.

#### 5. Education

The most effective means of knowledge transfer is through educational and research collaboration. I am pleased to see Dean Duggan of the UCT GSB here, business schools could lead the way in this area.

I urge that these are business led

initiatives and avoid aid, handouts limit growth.

In the words of President Mandela in a speech delivered not far from here 28 years ago seem apposite ...The time to build is upon us. [Slide 14].

## THE GREAT EXPERIMENT



Source: Image captured on 18 January 2021, by the VIIRS instrument, aboard the joint NASA/NOAA Suomi NPP satellite.

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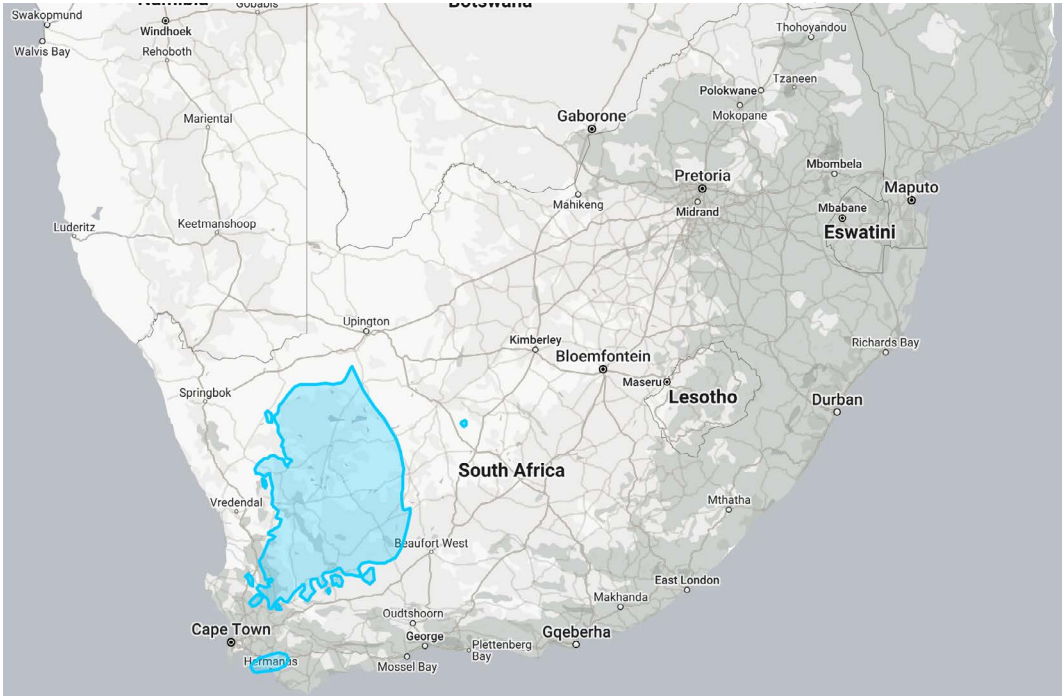
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## SA & SK POLES APART



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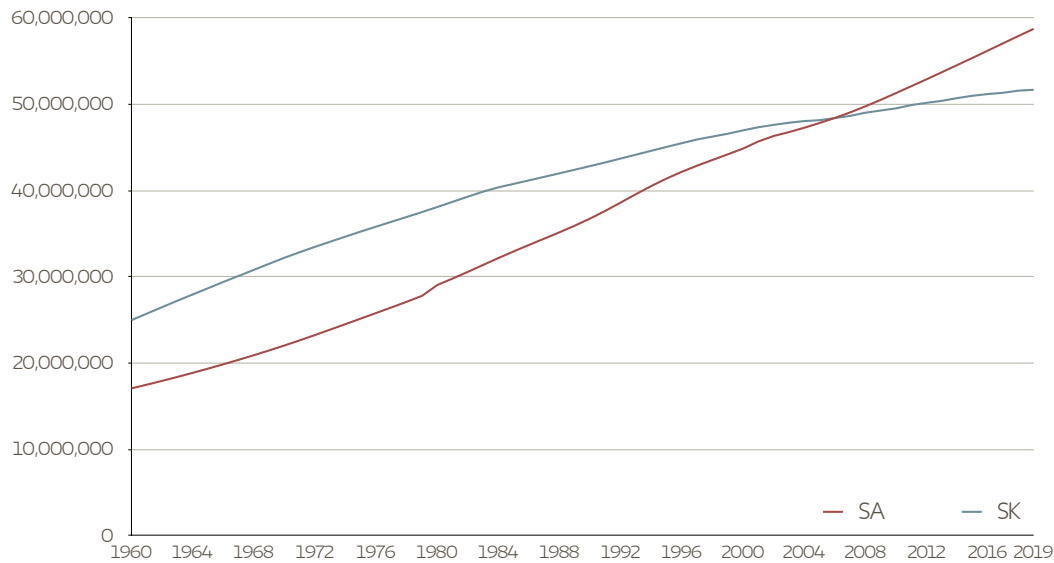
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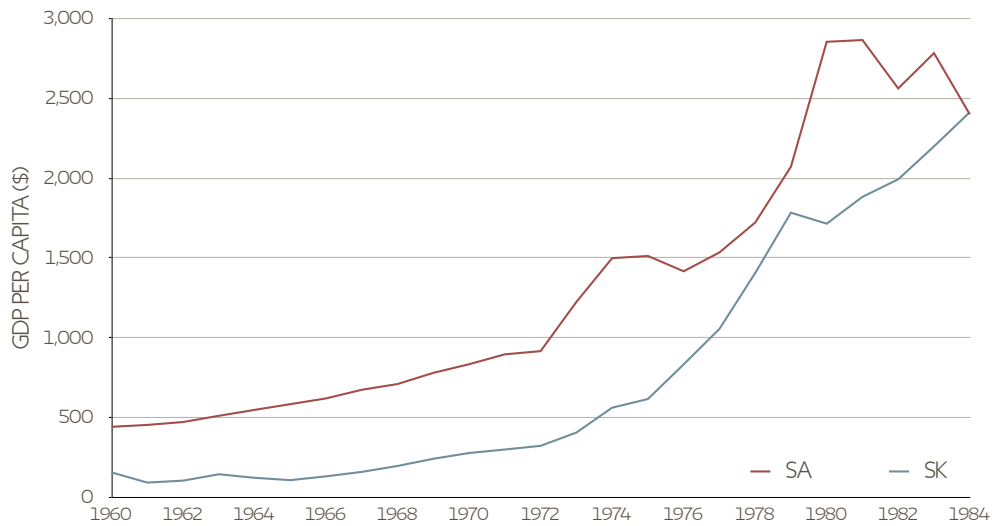
ALMOST THE SAME POPULATION



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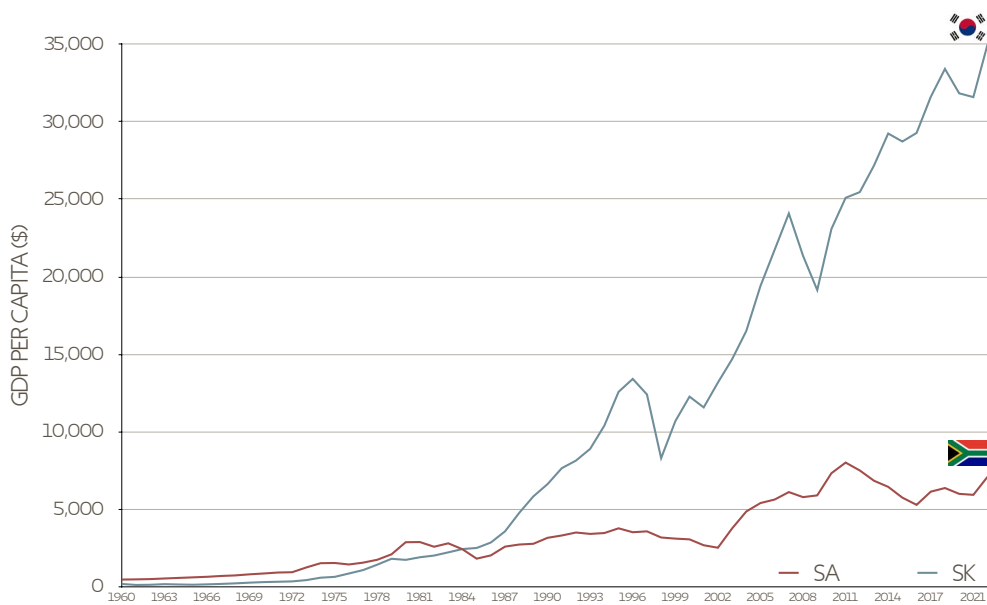
## SK CATCHES UP



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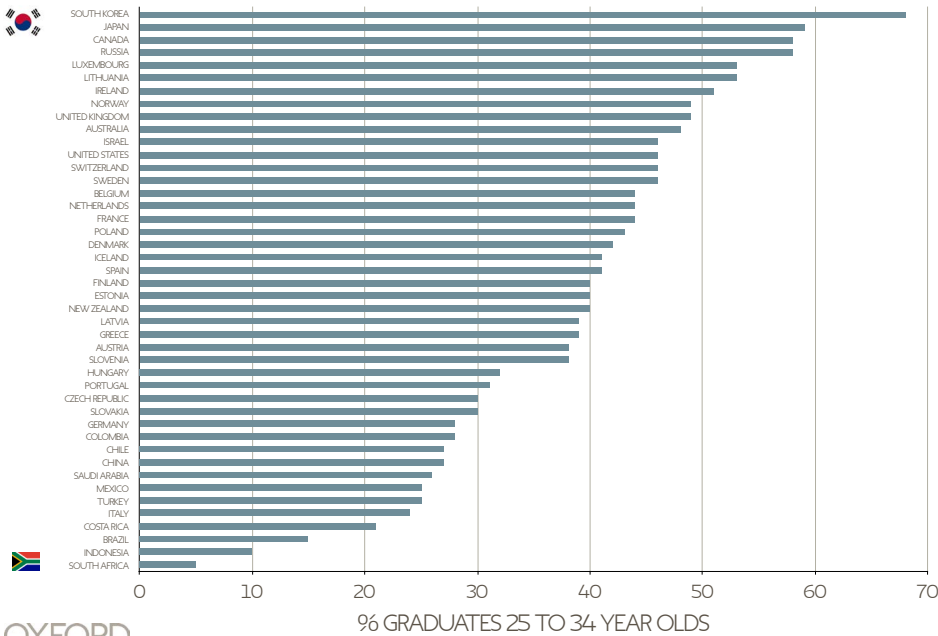
## SK TAKES OFF



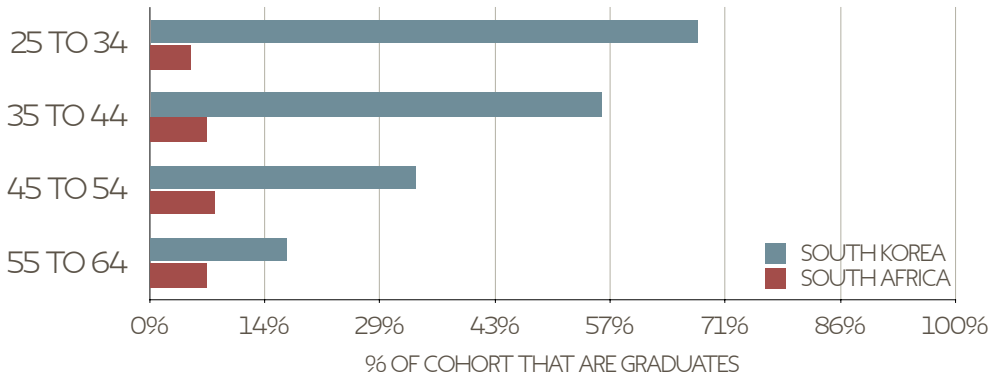
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SOUTH KOREA DOMINATES TERTIARY EDUCATION TABLES



EDUCATION DRIVES GROWTH





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# KOREAN SUCCESS DRIVERS

UNIVERSAL EDUCATION PRIORITY  
South Korea now the world leader

NATIONAL COMMON CAUSE  
Saemaul Undong strategy

FINANCIAL STRUCTURE & GOVERNANCE  
Chaebol's aligned with National Industrial strategy

LEVERAGE OF COLONIAL ASSETS  
Japanese corporate structure

INDUSTRIAL STRATEGY  
Innovation & technology focus...Samsung

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PRESIDENT PARK CHUNG-HEE

HAND WRITTEN MANUSCRIPT OF THE  
PLAN FOR THE SAEMAUL PROJECT  
EXPRESSING THE UNDERLYING  
PHILOSOPHY AND IDEOLOGY.

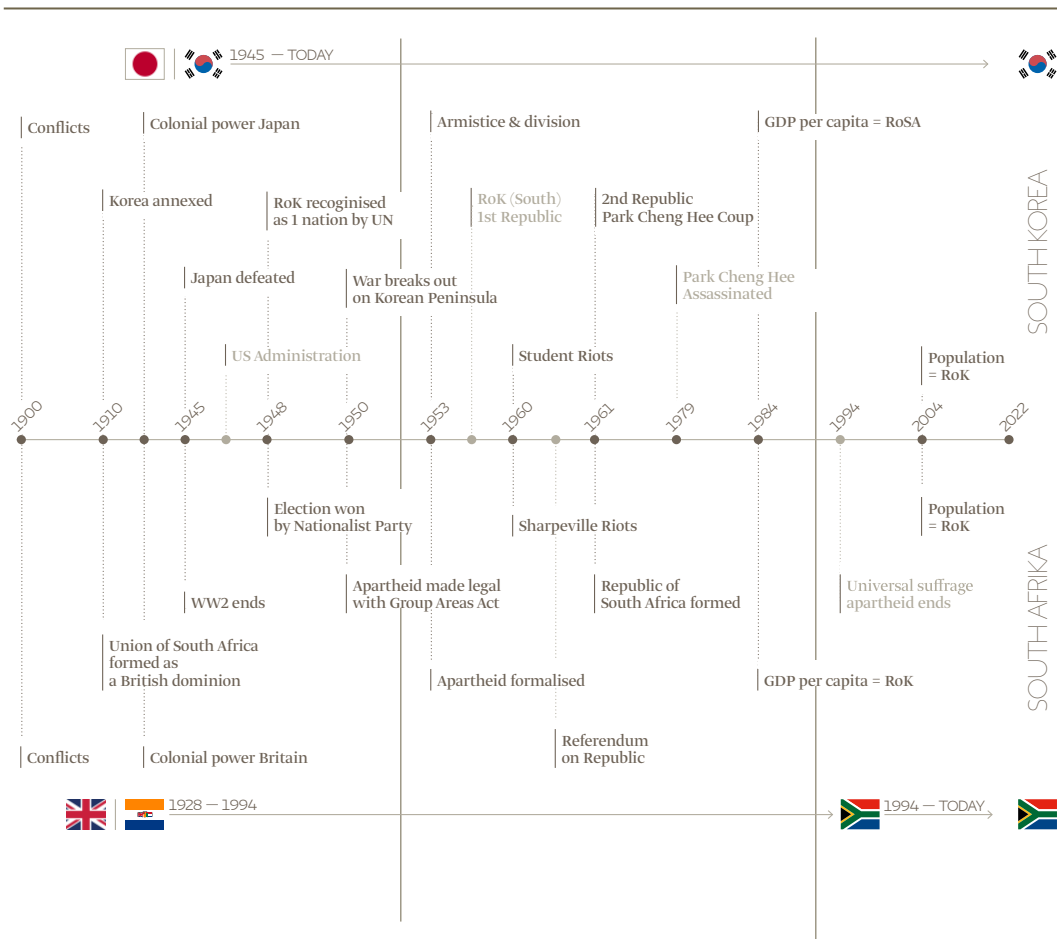
Presented in Gwangju, Jeollanam-do, on April 26, 1972

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## SA-SK FIVE POINT PLAN

SMART FREE TRADE AGREEMENT  
Specific to complementarity

### TOURISM

Direct flights

27 million Koreans travel. 2% = largest customer

### AGRICULTURE

Wine

### TECHNOLOGY

Free trade zone

Solar

Fintech

Energy..mini nuclear power stations

### EDUCATION

Business school interchange

Technology transfer

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PRESIDENT NELSON MANDELA

THE TIME TO BUILD IS UPON US

Inaugural address Pretoria May 10 1994

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