

US Review

US

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|------------------------|---|
| Role of government | Indirect/regulatory |
| Ideology | Laissez-faire |
| Financial System | Capital Market based |
| Industrial relations | Fragmented / weak unions |
| Business organization | Weak Business Associations / lobbies |
| Education system | Bi-polar (top univ. vs weak public schools) |
| Who drives the system | Firms |
| Strengths / weaknesses | Flexibility, entrepreneurs / weak coordination (across companies, gov. vs firms) |

Korea

- Government role is impressive. State led developmental model. Similar to other Asian countries and also France.
- After Korean war GDP was below Brazil, Mexico, India. Incredibly fast growth after that targeting certain successful industries.
- Good social welfare and educational system.

How did Korea do this? Is this model sustainable?

Government role

1- Plans:

- 1960's: infrastructure and simple industries: plywood and cotton spinning (light industries). Later on garments and shoes.
 - 1970's: promotion of heavy industry (steel, chemicals, autos)
 - 1980's: High Tech (ships, electronics)
 - 1990's: continue in high tech.
- **Discipline:** Government played an important role in discipline of the workforce (organized labor) and firms (performance based credit assignment, mainly on exports)
 - **Subsidized credit:** borrowed from abroad and used control of financial system to promote its plans.
 - **Wrong Prices:**
 - Protectionism for its market (i.e. steel)
 - Subsidies
 - Import restrictions: not ISI, but as a way to develop local industries.
 - **Technology:** used market access to extract licenses from multinationals.

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- **Education:** huge investment in primary / secondary schools. 95% enrollment (1994). 20% higher education. Vocational training promoted. 1980's huge investment in engineering and science. People sent abroad and bring back knowledge to Korea.

Other actors / factors

- **Chaebols:** conglomerates of firms, similar to Japanese model. Government played role in forming this groups. Strategy: form powerful groups to be able to compete.
- **Cold war:** US played some role in helping this development.

Given that this model appeared to work, what happened after July 1997? Was there a collapse? If yes, why did the system collapse? Is it sustainable?

- Reform pushed by IMF / Government.
- Bankruptcies in different sectors.
- Job guarantee no longer exists.

Daewoo Case – What happened to this Chaebol?

- Highly leveraged. D/E of four.
- Growing and grabbing cheap deals in order to increase size and power. Incentive of system is for market share.
- Decision to go into auto industry may have been a problem.

Industry

- New entrants: difficult due to size of conglomerates.
- Buyers: recession, devaluation so it is hard to sell. Principal markets are other developing countries also in trouble
- Substitutes: not a problem
- Suppliers: captive

Porter's Diamond

Industry problems exacerbated by national system and set incentives.

- Demand: suppressed at country level. High overcapacity
- Factors: skewed cost of capital in the system. Government intervention.
- Related industries: no power vs. the Chaebols
- Structure: Chaebol is key to understanding the complicated system. Big players lock up new markets.

Should the government pull the plug on Daewoo?

4 I's

- **Issue:** bankruptcy or nationalization?
- **Interest:** government, suppliers, financial communities. Which do we take into consideration?
- **Institutions:** not only the firm, but relationship with other players and actors.
- **Inform:** what information do we want? Going forward, how does it use the information to show it was a good gamble?

Korea

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|------------------------|--|
| Role of government | Direct / Interventionist |
| Ideology | Developmental |
| Financial System | Credit based |
| Industrial relations | Docile at first, now Militant |
| Business organization | Strong Chaebols |
| Education system | Strong |
| Who drives the system | Firms |
| Strengths / weaknesses | Coordination / Transparency, flexibility |