

THE REPUBLIC OF KOREA'S EXPERIENCE IN POST-WAR ECONOMIC RECOVERY AND INNOVATIVE MODERNISATION

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The Republic of Korea (hereinafter referred to as ROK), also known as South Korea, is one of the countries that has successfully rebuilt its war-torn economy. In just a few decades, the ROK has transformed from an agrarian, economically underdeveloped country into one of the world's most advanced economies. While in the 1960s, the gross domestic product (GDP) per capita was just over 100 US dollars, by the mid-1990s this figure had surpassed the 10000-dollar mark and now exceeds 30000 dollars (Fig. 1).

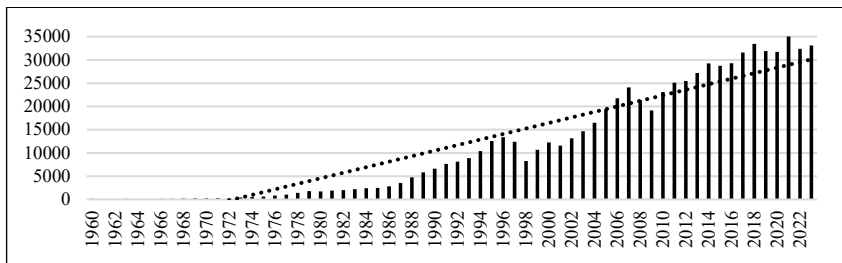


Figure 1 – Dynamics of GDP per capita in the ROK, 1960–2023, current USD

Source: compiled by the author based on data from [5]

The country's dire economic situation in the 1950s, a direct aftermath of the Korean War's destruction of infrastructure, is evident from the GDP data (Fig. 1). It should be noted that the Korean War not only solidified the territorial division of the Korean Peninsula into spheres of influence but also caused significant economic and demographic losses. The 1950s in the ROK were characterised by poverty, a lack of resources and a shortage of skilled labour.

It is important to emphasise that under these conditions, the ROK required not merely a post-war reconstruction, but the formation and development of a new post-war economy. Immediately after the war, foreign aid played a crucial role in the country's recovery, primarily from the United States of America [6]. The funds received were primarily directed towards rebuilding roads, bridges, and

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power stations, supplying the population with food, and purchasing equipment necessary to resume production. However, this external support had a downside, as the ROK's economy became dependent on it. Under these circumstances, an over-reliance on international aid threatened to turn the country into a permanent recipient of donor funds. This situation served as a catalyst for the modernisation of economic policy, aimed at reducing this dependence.

In the 1960s, ROK President Park Chung-hee focused on export-oriented industrialisation, which meant that the main priority became the production of goods for sale abroad, not just for domestic consumption.

The measures that facilitated this policy shift included:

1. establishing export quotas and providing tax incentives to companies that met or exceeded set targets;
2. financing infrastructure projects from the state budget, namely the construction of roads, ports, and power grids;
3. offering favourable business conditions to foreign investors in designated areas;
4. encouraging young people to pursue education in the fields of engineering, science, and technology. Furthermore, funding was provided for scientific research aimed at gaining a competitive advantage.

The ROK began to actively develop its light industry as, unlike the capital-intensive construction of heavy industry enterprises, it did not require significant financial investment. This allowed the country to earn the foreign currency needed for subsequent investments in heavy industry and infrastructure. In the 1970s, significant attention was given to shipbuilding, metallurgy and car manufacturing – sectors requiring large investments and complex technologies [3]. To foster their development, the government provided cheap loans and incentives to large industrial groups or chaebols – family-owned conglomerates such as Samsung or Hyundai.

Despite encouraging foreign investment, the government also restricted direct foreign investment and ownership in strategic sectors. For instance, foreign investment proposals were rejected if the benefits for the country's development were not considered substantial enough. At the same time, projects with high development potential that facilitated the inflow of capital, technology, equipment, know-how and experience were supported. Preference was also given to the creation of joint ventures with foreign investors, particularly those where local entities maintained majority control [1].

Simultaneously with the economic transformations, attention was also given to social programmes. New schools and colleges were built, and the state was involved in retraining programmes for workers and managers, while urban development gave people the opportunity to change jobs quickly, learn new skills and thus adapt to the needs of a rapidly growing industry.

This high level of education became the foundation that enabled Korean companies to create innovations and modernise their technologies. Consequently, the groundwork was laid for future success in the electronics and automotive sectors.

To better understand how the interaction between government and business enabled the economic recovery in the ROK, we can examine the following implemented measures:

1. beginning in 1962, five-year plans with specific targets were introduced. These targets included, for example, export volume, the share of industry in GDP and investment levels. This approach allowed for the coordination of efforts between the state, banks and business entities. For instance, the first five-year economic plan centred on forced industrialisation aimed at import substitution, while the second five-year plan (1967–1971) was intended to modernise the industrial structure and lay the foundations for a self-sufficient economy;

2. state financial resources were invested in certain corporations if they were considered promising and capable of growth. However, if a company failed to meet the established requirements, support could be reduced or withdrawn;

3. the state initiated the creation of science and research parks and institutes to build its own innovative potential. This enabled the ROK to innovate and become competitive in electronics, engineering, and other high-tech sectors;

4. incentives were provided to exporters, including reduced customs tariffs and preferential loans for purchasing modern equipment. This lowered the production cost of finished goods, making them competitive on the global market.

As a result, the ROK is now a leading global exporter of products such as automobiles, ships, electronic devices and semiconductors, which dominate the country's overall export structure (Fig. 2).

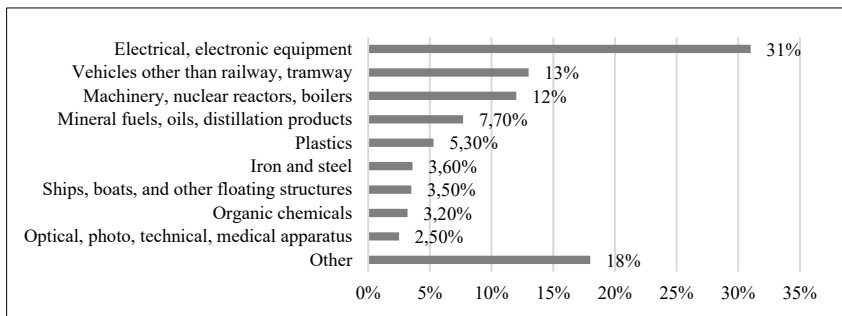


Figure 2 – Export structure of the ROK in 2024, % of total

Source: compiled by the author based on data from [4]

The quality of life for the population also improved, as life expectancy increased, child mortality rates decreased and the majority of the population gained access to higher education, with Korean universities beginning to rank among the best in the world.

However, it should be noted that rapid industrialisation and urbanisation also led to negative consequences, namely, the emergence of environmental challenges (air and water pollution) and the rise of inequality between workers in manufacturing sectors and those with better access to education and innovation.

Thus, the ROK is a prime example of how state policy, combined with private initiative, high societal motivation and strategic investments in education, can catalyse rapid economic development in a short period of time. The country's reform experience serves as a reminder that economic recovery and the transition to the status of a highly developed nation depend on the ability of the government, business and society to coordinate their activities and be open to change. For Ukraine, the experience of the ROK is a reminder that economic recovery is not about returning to a pre-war state but an opportunity for structural transformation. Key areas of focus must include not only attracting foreign aid for infrastructure reconstruction but also state-led stimulation of high-tech export industries and educational reform to prepare a skilled workforce.

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