

Out of Debt-Driven Economic Growth

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Abstract

This study provides an analysis of contemporary economic problems in Korea and Japan. Despite of the ceaseless struggle to way out of economic regression, Korea and Japan have been under economic slump since ninety.

Using the new framework of economic systems, this study claims that the problems are associated with the restructuring businesses resulting from national struggles toward economic recovery. Korea reorganized its industry in a market-rational fashion and created a sound banking –finance system that flattened biggest part of domestic profit structure after 1997 Asia currency crisis.

As follows, this system has forced country to find the new domestic profit. Japan also had to find the way to stimulate domestic economic through the 1990s economic hard time.

However, two countries today are faced with different economic struggles in spite of the similar tasks from the 1990s economic hard time. Nowadays, Korea is faced with household debt problem. On the other hands, Japan is faced with government debt.

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Introduction

Today, most countries are having economic struggles and worrying the domestic economic conditions. Especially, debt issues have been magnified as new trigger element of national economic crisis after 2008 global financial crisis because most crises are associated with the debt issues in 2000s. For example, the global finance crisis was associated with household debt. Plus, recent a few of Eurozone countries' crises were associated with government debt.

This worry of debt problem of Korea and Japan is getting serious issues in political economy because the national economy status is important economically and politically. For economic sector, stable and growing national economy status is important for the investment and profits. For political sector, making the stable and growing national economy status is important for result of vote as political power.

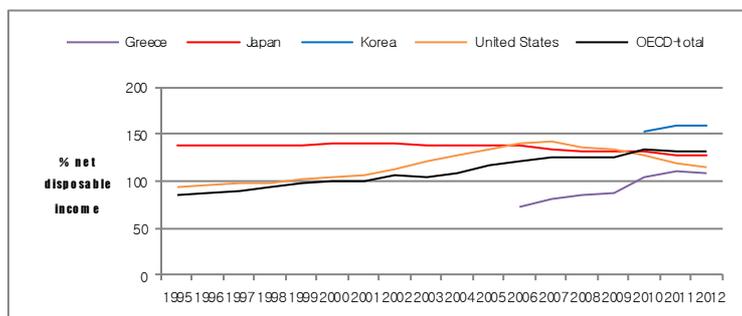


Figure1. Household debt

Many economic experts and policy makers emphasize debt issues of Korea and Japan because both countries today are facing worrying level of debt compared with others. Despite of lack of full historical data, Figure1 and Figure2 are enough to show that today's Korea and Japan have the debt issue by OECD. Korea economy has household debt problem. Japan has government debt problem. This study provides an analysis of contemporary debt problems as economic issues in Korea and Japan.

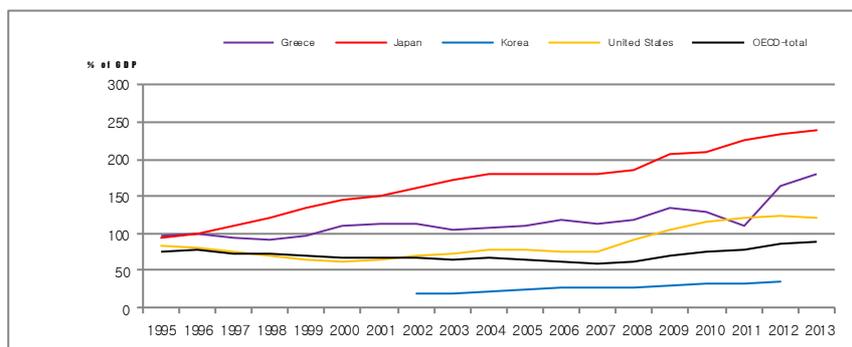


Figure2. General government debt

In the early 1980s, Latin America was faced currency crises and advanced industrial countries were faced slowdown economic growth. These events influenced the flow of the world political economy: Keynesianism had been substituted with Neo-classic

liberalism. Economic policies in most countries were affected by Neo-classic liberalism for past 30years. The flow was solidified after the end of cold war.

However, these 1980s' terrible incidences affected to Asia, which was respected as economic developmental model by showing the surprising economic development: Latin Americas crises affected to 1990s Asia currency crises and United State's problems by export and fiscal deficits were associated with Japan's lost decades.

Besides, even nowadays the world economic condition is worsening than 1980s or 1990s. Most word is under the global crises effects by 2008 financial crisis. Asia countries which based export growth also were influenced by the crisis.

Many scholars' analysis view of economic crises and debt tend to study recent crises and recessions as each of single event or as effects of external factor. There are not many of literatures mentioned connection between not only the crises and debt but also each of crises. Especially, larger mounts existing study of crises characterized very differently.

The major difference of literatures is the sources of crises. Many studies analysis the financial crisis came from United State as developed country. It also made such an impact on many other developed countries- United Stat, United Kingdom, and Euro zone countries- to encounter economic hard time.

Plus, the financial crisis caused difficulties to other countries beside developed countries, which are already struggling with economic hard time by worsening the condition or prolonging the recession period. Despite of the ceaseless struggle to way out of economic regression, Korea and Japan have been under economic slump since ninety. It caused many experts to doubt about the Neo-classic liberalism flow and Asian economic model.

Second difference is changing the financial crisis alarmed other countries. They started to spotlight on debt aspects of domestic country. The debt issue became one of the important elements to prevent worsening the situation or going under the economic doldrums. However, today's configuration of debt occurs dissimilar to each country.

This article covers linkages of among the crises and between the crises and today's debt aspect as well. My study claim that today's economic conditions of Korea and Japan relates with prior crises because they has been under the economic recession since 1990s.

The cases of this study are domestic level of Korea and Japan. The both countries chose different decisions to handle the economic slumps. The different resolutions caused unexpected outcomes through the prolonged economic crises.

Before Korea and Japan had the economic hard time, the both countries were represented as typical model of developmental theory. Steven Vogel, Chalmers Johnson, and other many scholars studied Miracle of Asia economy through 'MITI and Japanese Miracle (1982)', 'Japan Remodeled: How Government and Industry are Reforming Japanese Capitalism (2006)', etc. Figure 3 shows the usual relationship

among the domestic economic agents. In macro economy, domestic economic agents are Household, Business, and government.

Doubt of Asian Model

In macro-economic, economic actors at the domestic level are government, business, and household. Figure 3 show the basic normal relationship between the domestic agents. It is common to think when states have economic shocks; domestic economic actors have to handle the burden together. There are two ways to handle the burden. One is sharing. The other one is shifting.

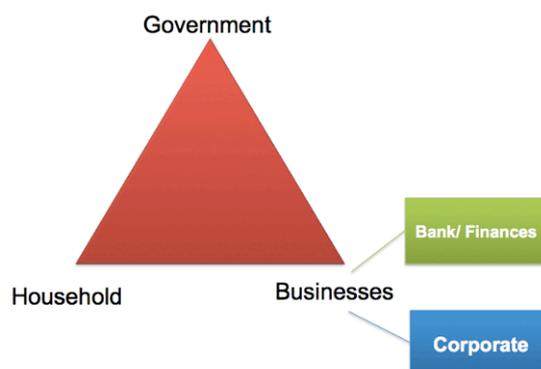


Figure3. Domestic economic agents

As Figure1 and 2 by OECD data, both of two countries still have a lot of debt since crises. However, the kinds of debt seem differences. While most countries are in global economic crises as far, it is more value to study in kind, not in extent degree. My research doesn't show which country is more succeeded in this world economic atmosphere. Instead, it shows different kinds of burden sharing mechanism form the same problem.

The crises' characters of both countries are not the same but they have similar problem that I found was based on developmental states theory. The one of original characters developmental states is the corrupted bonding relationship between the businesses and banks. It was sine qua non for debt-driven growth. Both countries faced this corrupted bonding relationship as primary problem of crises handling; governments of Korean and Japan started to restructure this relationship, which had been industrial structure before the crises.

According to formal Asian development states studies, the relationship between the government and business is important. State had been strong power to choose which industries and corporates would focus on. Most states as Asian developmental model were emphasized business parts that were consist of corporate and banking-finances. Figure 4 helps show what the Asian developmental model is.

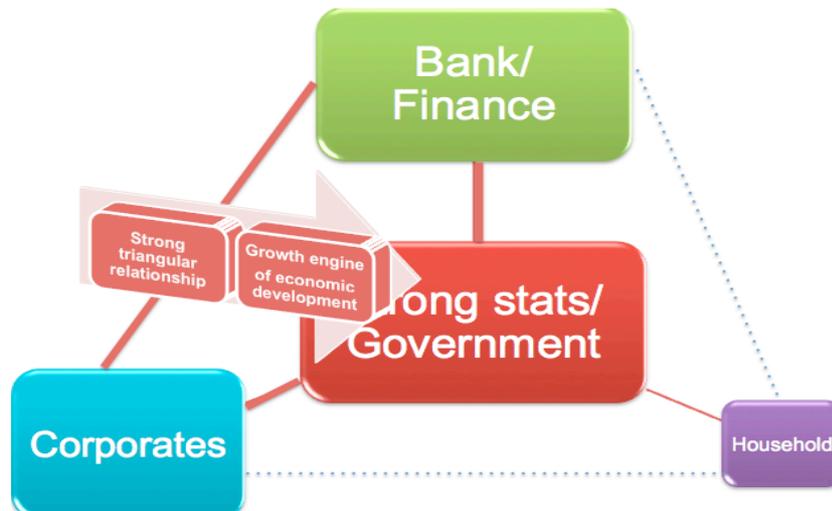


Figure4. Characters of Asian developmental model before the crises

However, after the crises, relatively many of recent scholars started to show the myth and misunderstanding of Asian developmental model. It was starting from Paul Krugman and Ha-Joon Chang to Joseph Wong and Ji-Wan Yun.

Korea and Japan have been had so many problems in variety domestic parts by accepting the Neo- classic liberalistic flow (Chang, 1998), unbalanced development (Yun, 2012), corrupted strong relationship between the government and business, moral-hazard of large corporates and so on. These problems are associated with each other and even affects today.

My study used the formal studies flow to show the causes for today's debt problems of Korea and Japan. The major problem was the corrupted strong relationship. It made large corporate-centric, chea-bol in Korea and zaibasu in Japan, and government-centric economy. As follows, it affected to create the unbalanced development of society and economy.

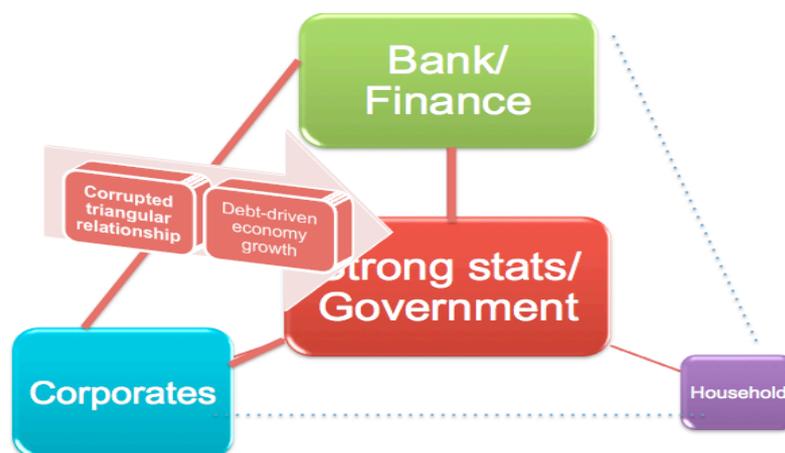


Figure5. Re characterizing the Asian developmental model after the crises

Among the characteristic of Asian development model, many experts and scholars pointed out the problems with banking-finances system and the financial structure of corporates after the crisis in Korea. On the other hand, the major problem of Japan

was caused by people's behavior. Changing interest rates and slowing down the export profits in business parts as corporates and banking-finances.

Therefore, both countries needed to reform the business parts during the economic hard time. Figure 6 helps show which agents needed to reform in normal domestic agents' relationship. Korea and Japan were struggling with the same domestic economic parts as urgent takes.

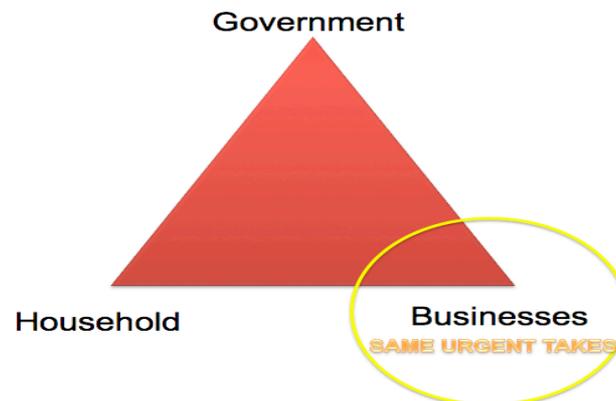


Figure6. Domestic economic agents after the crises

In 1990s, Korea and Japan had to extricate the economic hard time. Even though he detailed the each field in businesses, both countries needed to take action on businesses and find the new engine to lead the economic growth. That is the both countries had the same urgent takes.

Korea economy reeled from Asia currency crises in mid-1990s. Korea carried out a large-scale restructuring on overall society and economy. Nowadays, IMF counts Korea as successful model to go through the IMF processes and overcome the hard time.

However, other facts like youth-unemployment rate, consumer prices index, minimum wages, and etc. show otherwise in today's Korea. Japan also has been had problem since 1990s. Japan also even today has the similar problems: youth-unemployment rate, slow economic growth and so on.

In 1985, exchanging rate of Japan's currency (yen) was surprisingly increased after Plaza agreements. The value of real assets skyrocketed in the aftermath. Furthermore, a staggering trade deficit as Japan's engine of economic growth even made depress the domestic market.

In case of Korea, the crises hit the Asia; foreign investors took out the money simultaneously. The cause was liquidity: a shortage of foreign currency. Korea's economic development had been based with foreign loan. State became the security for the bank to borrow the money. The money went strict to the industries that state picked out.

This structure of economic flow was the engine of Korea's economic growth. It made the cheabol-centric economy system. Its effects led Korea's business restructuring and to find the new profits other than bank-cheabol profit structure for the banking-finances.

The major problem of two countries was originated business parts in 1990s' crises. That caused both countries to find the new engine for the economic growth, not the one by Asian developmental theory symbolized. Therefore, the ways of two countries reacted differently from the economic hard time. Korea chose to extend credit. Japan chose to expand the budget.

Historically, the overcoming process of the economic crises is usually painful (McKinsey Global Institute, 2010). The role of state and obligation of domestic actors is also important key to the process in the burden handling mechanisms of crises.

The state has been the one of major actors in the global economy. In the political economic field, state always has been the one of most important arguing elements. Most arguments divided two. One is about connection between the state and economic openness. The other one is between the state and business.

With the economic openness, political decision of state determined as obstructer or helper. Other many literatures are about the correlation of power's magnitude between state and businesses.

Most 90s' studies claimed the power of state is getting smaller compared with the global businesses. However, according to Vogel, the power of state is getting bigger with the openness because the role of state at the domestic level are diversifying and widening to protect their economy (1996).

Korea and Japan still have strong intervention of government in economy even after the reformation. It is able to explain with path dependency. Growth and development have been originated since modern economy. It affected process of the reformation in 1990s. It even affects the nowadays.

Conclusion

The influence of financial crisis has been assessed as tremendous and special because it shocked overall global economic environments. It caused such an impact on economic condition of many developed countries such as United Stat, United Kingdom, Euro zone countries and so on.

The world economy perceived through the experiences of financial crisis and a few of national crises. Debt matters have been deemed one of strong connections with economic crisis and recession to resolve or prevent the economic difficulties. Undoubtedly, debt matters and burden-handling process has been consolidated as center issue for the political realm.

The debt tendency of Korea and Japan is distinct. Figure1 shows that Japan has problem with government debt. Figure2 shows that Korea has problem with household debt. From a comparative perspective, this article argues that recent Korea and Japan's peculiar economic situation originated in the consequence of economic revival in 1990s.

My study shows the emergence of new debt to different sectors is caused from extrication from the debt-driven growth economy. To be specific, the country's initial

extrication strategy of the Asian financial crisis and 'lost decade' in 1990s had attributed the trend to dissimilar pattern of debt between domestic agents.

Drawing upon the new framework of economic systems, this study argues that the problems are associated with the reformations resulting from national struggles toward economic crisis recovery.

Therefore, this study argues that today's differences debt aspect of Korea and Japan are originated the resulting of economic reformations. In other words, the current debt's different feature between Korea and Japan has attributed the sequel of economic reformation at crises in 1990s. Plus, irrationality of one parts in domestic agents metastasized to other parts. Figure 8 illustrates the different irrationality directions in both countries.

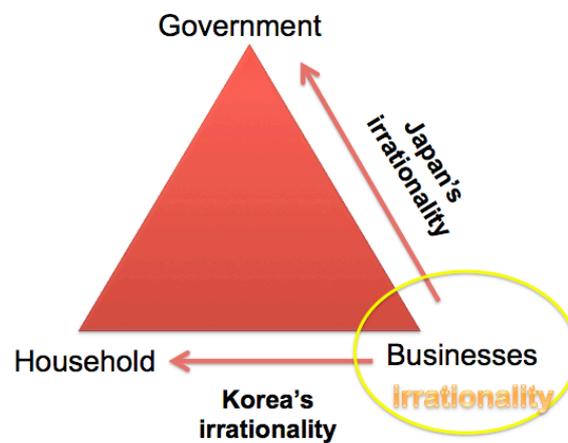


Figure7. Metastasis of irrationality

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