

Topic and Research Question

In most studies, foreign trade is seen as the major reason for economic growth. This paper will discuss the relationship between foreign trade and economic development after 1978 in China and after the 1960s in Korea. These two time periods were chosen because both countries started implementing new economic policies, especially their foreign trade policy then. The research question that this thesis will explore is: What role did foreign trade play in Chinese and Korean economic development? This research question implies that other questions deriving from this one must be addressed as well. For example: what was the initial condition of the economic reform in Korea and in China? Was international trade the reason for technology spillover and the utility of FDI in these two countries? Is international trade the root cause of development and creation of inequality? Did it influence institutional advancement in both countries? After the research questions are enumerated, a brief literature review will be provided and then, the theoretical framework will be developed for analysis. In the following two sections, the theoretical framework will be applied to the case of China and Korea. At last, the conclusion – different routes to the same destination – will be presented.

State of the Art

There is a huge amount of scientific literature on international trade and economic development in general. Most of the studies argue that international trade opens markets for domestic products, reduces costs, promotes technology spill over, introduces further competition within the domestic economy, improves the efficiency of local firms, and affects the rate of economic growth. Trade liberalization also causes inequality and institutional advancement (Stiglitz 2005; Krugmann 2006; Marijit 2008; Naughton 2006; Bramall 2009; Wu 2010).

Early on, scholars pointed out that a country could benefit highly from foreign trade (Ricardo 1911). Comparative advantage theory was seen as one

of the classical economic theories. China and Korea appear to be very attractive topics for many scholars and economists in their research areas.

Methodology and Approach

To answer the research question, a framework based on the theoretical findings will be introduced. This theoretical framework, which is discussed in detail in the corresponding section of this paper, will be applied to the case of China by using data after 1978 and for Korea after the 1960s. Since this paper is to focus on international trade and economic development, it is logical that GDP data, as well as the total amount of import and export should be considered as a measurement. Other indexes cannot be overlooked, such as the Research and Development (R&D)/Gross Domestic Product (GDP) ratio, development of laws and regulations after 1978, and especially the data after China became a member of World Trade Organization in 2001. For Korea, the focus is on the time after 1960, when Korea became a member of the Organization for Economic Co-operation and Development (OECD) in the 1990s, especially the post-crisis era (after 1997).

Main Facts

China

After the People's Republic of China was founded in 1949, the Soviet command economy model was installed in China. Until the late 1970s, the Chinese economy was very underdeveloped, especially in the rural areas. 1978 was the turning point of China's economic development. After China had launched the Reform and Open Door Policy, Chinese foreign trade developed more rapidly than before. Regarding the situation in China, the government needed to re-establish the rules for all players – including Township and Village Enterprises (TVEs) and State owned Enterprises (SOEs). During the last three and a half decades, foreign trade, especially the export share in GDP, has shown a significant positive effect on efficiency, which is also an important factor in industrialization in China. China's specialization in processing industries led to the improvement of

domestic productivity upgrading, together with the advancement of managerial and marketing skills. Because of the favourable historical background and geographical conditions, generally these advantages helped promote economic growth in the eastern regions, but the western provinces were still lagging behind. Entering the World Trade Organization was the most important and strategic decision made by the Chinese government in terms of Chinese economic development. The Chinese government not only played an important role for internal rule-making, but also for rebuilding the regulations for activities outside of China. The government regulated domestic economic activities in order for Chinese enterprises to be more competitive on the global market.

South Korea

After the end of World War II, Korea was one of the poorest countries in the world and the per capita income was less than 100 USD. American aid amounted to almost 80 percent of Korea's fixed capital formation. When US aid was reduced in the 1960s, it forced the Korean government to seek an alternative plan especially for the capital source. Korea chose to develop the manufacturing industry and later on science and technology as their new comparative advantage.

In the 1960s, Korea started an industrialization process and switched its trade policy to export promotion. The economic development of South Korea was seen as one of the most successful stories of the post war era. Foreign trade played a significant role in industrialization and modernization. Korea's specialization in processing industries led to the improvement of domestic productivity upgrading, which was also accompanied by advanced management and marketing skills. Aside from structural inequality there are other problems that Korea has to face today. The FDI policy is still not friendly to foreign investors; the institutions still need to be improved and become more transparent for the international market economy. Since Korea started an export-oriented economic policy, especially after Korea became a member of the Organization for Economic Co-operation and Development (OECD) in

the 1990s, and after the crisis in 1997, the country has become more open to the world.

Results

The results of this thesis reveal that the initial conditions for both countries – China and South Korea – at the beginning were quite poor and both had to face serious challenges. China is a socialist country under the control of the communist party. The economic reform was targeting to build a socialist market economy. Korea is a capitalist country, which started economic growth under an authoritarian military government. The Korean economy was described as “National Capitalism”. Different routes were pursued to the same destination. Open trade policy helped the two countries clarified the development distance to the international world. However, internal structural reform was the real engine for economic growth in these two countries.

References

All references can be found in the full version of the MA thesis available at: <http://othes.univie.ac.at>

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