US Review

**US**

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:  
   b. 1970’s: promotion of heavy industry (steel, chemicals, autos)  
   c. 1980’s: High Tech (ships, electronics)  
   d. 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.
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
- 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

<table>
<thead>
<tr>
<th>Role of government</th>
<th>Direct / Interventionist</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ideology</td>
<td>Developmental</td>
</tr>
<tr>
<td>Financial System</td>
<td>Credit based</td>
</tr>
<tr>
<td>Industrial relations</td>
<td>Docile at first, now Militant</td>
</tr>
<tr>
<td>Business organization</td>
<td>Strong Chaebols</td>
</tr>
<tr>
<td>Education system</td>
<td>Strong</td>
</tr>
<tr>
<td>Who drives the system</td>
<td>Firms</td>
</tr>
<tr>
<td>Strengths / weaknesses</td>
<td>Coordination / Transparency, flexibility</td>
</tr>
</tbody>
</table>