Development Policy Instruments in the Republic of Korea — The Role of Development Banks in Korea

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This study aims to provide a comprehensive overview of the incentive policy and instruments being implemented in the Republic of Korea (South Korea, hereinafter Korea). Korea has been famous for its impressive economic development since the 1960s and one of the major factors behind the economic success was the guiding role of the state (government). In Korea the government has developed a sophisticated and efficient incentive system that enabled the Korean companies, especially the Korean "giants" (chaebols) to be the locomotives of the export-oriented development. Korea used to be a typical follower of the Japanese model in this respect: the main preference was given to selected sectors contrary to other models, like in many European countries where—instead of sectors—the main focus was on horizontal goals, like the improvement of employment, environmental policy, regional development, etc. Financial institutions, first and foremost the central bank (Bank of Korea, BOK) and other development-oriented institutes (like Korea Development Bank, KDB) contributed to development of the Korean economy through various periods and stages of growth, until the present. Through its proactive monetary and credit policies, the Bank of Korea has repeatedly striven to bring the Korean economy quickly on a stable growth in the aftermath of the catastrophe of the Korean War, which broke out soon after its establishment, and the economic setback including the twin oil shocks of the currency crises of the 1970s and the late 1990s, as well as the recent global financial crisis.

1. Introduction

The peculiar way of development of the Republic of Korea is of interest for a variety of reasons. Noland (2011) underlined that rapid growth coincided with extensive state interventions in the economy, and considerable controversy exists as to how much this performance should be credited to the country's state-led development strategy and to what extent the lessons from that experience might be portable or applied elsewhere. He added that the salience of this issue has grown as Korea has become a more important provider of development assistance and advice. Currently,

the country faces challenges in maintaining its superior economic performance in the face of an aging population domestically and a taxing external environment (Noland, 2011).

The main field of research of the present study is how and why development policy—with its sets of instruments—changed during the recent decades in order to maintain and improve the economic competitiveness of the Republic of Korea. The author aims to find answers to questions as follows:

- What are the main features and focal points of the Korean development policy?
- Which are the main goals and elements of the corporate development system?
- Which are the preferences of the FDI policy?
- What kind of economic policy instruments did the Korean government apply in the past and applies at present, and what were/are the roles the financial sector took on in order to contribute to the development of the Korean economy?

Principally, the study is based on secondary research, the backbone of which will be a comprehensive bibliographic overview focusing on the aforementioned questions. Bibliographic sources from Hungarian and Korean HEIs, like Seoul National University (SNU), Korea Development Institute (KDI), banks like Korea Development Bank (KDB), Bank of Korea (BOK), available and reliable information from internet. Statistical data were obtained from international and Korean databases, like KOSTAT, Korean Customs service, etc.

Mention has to be made about the fact that the author used to live and work in the Republic of Korea (2000-2004) so his first-hand experiences, moreover his previously published papers, especially Neszmélyi (2004; 2017) could also serve as starting points in the course of elaboration of the present study.

2. The Roots: The Japanese Model – Developmental State

In the bibliography, the notion and first definition of „developmental state" can be attached to Chalmers Johnson (1982), applied principally to the case of Japan, but it was also extended to other countries. From among the latter, first and foremost the first wave of newly industrialized Asian economies: South-Korea, Taiwan, Hong

Kong and Singapore can be singled out as classic developmental states, but the main characteristics of the extended version of the classic developmental state model can also be valid (with some limitations, of course) for the second generation of the newly industrializing countries in Southeast-Asia (Ricz, 2016).
Ricz underlines that Johnson's definition (1982) is still valid and by this the major attributes of the developmental state are: "a capitalist, plan-rational model, with a long-term commitment to the development-oriented approach, and active state interventionism in order to achieve main socio-economic objectives. It is also tenable that for building or maintaining a developmental state some kind of social consensus is needed regarding the central role of state in development, as well as on the content of the main socio-economic objectives" (Ricz, 2016, pp. 5-6).

On the basis of C. Johnson's "classic school", Ritz (2016) and Csáki (2016) both gave thorough analyses of the peculiar characteristics of the developmental state. Within this explanation they underlined that the Japanese leadership wanted to make a clear distinction between their approach and model and both the American model and the Soviet-type planned economy. While in Japan (and later on in Korea as well) economic planning had a very important role in the economic development, the approach of the Japanese model was "plan rational" while the approach in the socialist bloc was of the former Soviet Union's "plan ideological" (Csáki, 2016; Ricz, 2016). According to Meredith Woo-Cumings (1999, p. 1) the developmental state "is a shorthand for the seamless web of political, bureaucratic and moneyed influences, that structures economic life in capitalist Northeast-Asia".

Levi-Faur (1998) in his comparative analysis on the development policies of Israel, Taiwan and Korea underlined that trade policies of economies in the world can be distinguished by their preferences with respect to the import and export of goods and services. The trade policy that characterizes developmental states is aimed at a maximization of export and a minimization of import (see Table 1). This trade strategy can be called mercantilist, neo-mercantilist, or governed trade, and its basic guidelines follow the policy recommendations of Alexander Hamilton and Friedrich List. 'Export as much as you can and import as little as you have to' is an old mercantilist policy that, although attracting severe theoretical criticism, has managed to survive and even thrive in many countries. It is the scope and depth of the implementation of this principle that helps identify a developmental state and distinguish it from the American regulatory state on the one hand and the Scandinavian welfare state on the other (Levi-Faur, 1998).

Table 1
The Main Types of Trade Policies

Policy	Minimization of imports	Maximization of imports
Minimization of exports	Self-sufficiency (Fichte)	-
Maximization of exports	Governed trade (Hamilton, List)	Laissez-faire (Smith, Ricardo)

Source: own compilation on the basis of Levi-Faur (1998, p. 75)

Nester (1990) emphasized that during the post WWII period Japan concentrated on developing her national economy, and to reach dominant position in East Asia and, later on, in the world economy. In order to achieve these goals, the Japanese government systematically managed the economy through inter-related industrial, trade and financial policies. These neo-mercantilist policies became successful, and by the 1990s Japan became the world's second largest economy. Today it is still one of the biggest economies, with one of the highest per capita incomes, and Japanese corporations and banks are powerful forces in all important global markets.

Regarding the industrial policy, during the post-war period Japanese government attempted to develop the economy's powerhouse in the direction of higher value and technology-based industries. At the beginning the emphasis was on textiles, in the 1950s on heavy industries like steel, petrochemicals and shipbuilding, while the 1960s and 1970s the focus was shifted towards motor vehicles, consumer electronics and microelectronics. Later on, in the 1980s frontier technologies like biogenetics, aerospace, robotics, and the fifth-generation computers came into the forefront. Nester also explained that in Japan the economy could grow rapidly, as the market was protected from imports and foreign investments. Therefore, this growth provided benefits entirely to domestic producers, it allowed them to rapidly diminish their costs to world levels and without foreign intervention. After fierce domestic competition, a few winners emerged in a solid and strong position and became a domestic basis, a "virtual fortress" that later could enter the world market. Nester also referred to Johnson, who claimed that Japanese industrial policy implementation tools comprised a number of instruments of protection like discriminatory tariffs, preferential commodity taxes on national products, import restrictions based on foreign currency allocations, and foreign currency controls, while on the development side they included the supply of low interest funds to targeted industries through governmental financial organs (Nester 1990, pp. 165-166).

Ritz (2015) pointed out that financing development used to be a neuralgic point in classic developmental state literature. As long as in the case of the classic,

Northeast-Asian developmental state a very specific and unique context (in the form of financial development aid from the US and Japan, traditionally high domestic saving rates, relatively closed economic systems, and repressed domestic financial markets) contributed to the financial viability of a national development model. However, at the current stage of financial globalization and of most recent experiences of global financial (and economic) crises, it can be underlined the developmental state in the 21st century have a much narrower room for maneuver to finance their (much broader) economic growth (development) agenda, as did their classic antecedents in the middle of the last century (Ricz, 2015, p. 23).

According to Kim (2014) Korea could be characterized as a developmental state that placed a strong emphasis on industrial policy. After the post-war recovery and reconstruction and having reached a fundamental level of economic development, Korea concentrated on the development of its industrial sectors and, later on, shifted its focus from industrial policy towards innovation and competition policy in the early 1980s. However, the tradition of developmental state survived in various ways, and public procurement for innovation (PPfI) is evident in this context, which is actively implemented particularly in the green industry and shows the manner in which industrial policy and innovation policy are interconnected. The "New Technology Products Program" was actively implemented in Korea (Dae-In, 2014).

Hundt (2014) claimed the Korean government has continued to play a dominant role in the economy. The state guided the industrial and financial restructuring after the Asian economic crisis (1997-98) and intervened to stimulate the economy during the 2008 global financial crisis. He pointed out that state elites have displayed a distinctive form of economic leadership during this process. This is largely consistent with the developmental state, rather than just focusing on performance-related indicators like the annual rates of economic growth. Korean state elites have retained their influential position as economic managers by, for instance, practicing a revised form of industrial policy. According to Hundt (2015), the neoliberal reform had significant social implications. Rather than neoliberalism acting as a democratizing force that shrinks the power of the state, he underlined that the Korean state used the reform agenda to justify an expansion of its powers. The state presented itself as an agent capable of resolving long-standing economic problems, and of defending law and order. By doing so, the state reduced the political space available to non-state actors (Hundt, 2014; 2015).

3. The Formation and Evolution of the Korean Development Policy

Among political and economic analysts there has been a long debate about the role of the state in the economic development of the Republic of Korea, as the features of a developmental state, a neoliberal state and/or a welfare state have appeared simultaneously in the various governments' policies since the 1990s. Suh and Kwon (2014) argue that although the nature, degree and extent of government intervention have varied from administration to administration, the basic stance of a developmental state has been retained, while neoliberal and welfare policies have been used concurrently to further economic and social development. This coexistence of contradictory approaches reflecting alternative market economic systems was the product of a combination of government policies that has for the past 20 years provided the Korean government with the ability to deploy flexible policy mixes in response to changes in the political and economic environment and to maximize the outcomes of developmental policies (Suh – Kwon, 2014).

The economy of the Republic of Korea is arguably one of the most spectacular success stories of development in the recent half century. However, at the start of that period—after the Second World War and the Korean War, till the early 1960s, Korea was a poor country and its prospects for recovery and development were considered gloomy. Its per capita income was lower than that of Mozambique or Bolivia, which is really difficult to understand now, when it is wealthier than Spain or New Zealand, and was the first Asian and first non-G7 country to host a summit of the G20, the unofficial steering committee of the world economy (Noland, 2011).

Mention has to be made of foreign aids as well which very significantly helped Korea's survival in the post-war period. Then and from the early 1960s, it merely contributed to the successful take-off of the Korean economy. In his article Tran (2011) refers to the fact that the US offered about 60 billion USD in grants and loans to Korea between 1946 and 1978. In the same period, the total amount of aid provided by the US to the entire African continent was 68.9 billion USD. Even that time, during the Cold War, the US considered Korea an important ally, and the Korean economy could utilize the aid well (Tran, 2011). According to Noland (2011), the goal was to maximize the value of the American aid which facilitated politicized rent distribution, financed most of the capital accumulation and at its peak in the late 1950s, roughly 80 percent of imports.

Korea is a well-known case of successful catching up achieved through an effective government-led export-oriented strategy. The country is one of the few ones in the

world that has managed to radically transform its domestic economy from one based on agriculture to that of a leading world industrial power, with a constant increase in income per capita and a high growth pattern. Industrialization and the shift from light to heavy and chemical industries boosted the rising growth pattern and favored a virtuous integration into foreign markets. Key policy tools have been the Five Year Economic Development Plans. From 1962 to 1992, the Korean government developed seven plans which set clear targets, identified lines of actions and assigned resources to achieve them. A distinctive characteristic of the multi-annual plans has been the gradual upgrading of targets as objectives were achieved. Actions in key policy fields were sequenced and made coherent with each other. Industrial policy prioritized industries with increasing knowledge content, trade policies selectively managed import restrictions and export incentives, and exchange rates were managed to favor the exports of national products (OECD, 2012).

The Republic of Korea is a well-known example of a late-industrializing country in which development finance played an extremely important role in the country's industrialization process. A key characteristic of this process was the speed with which economic transformation took place. In a context of fast output growth, three rapid changes were witnessed in the sectors and industries driving the growth process. In 1953-1960, the share of manufacturing in gross value added was 12 percent, reached 23 percent in 1971-1980 and 27 percent in 2001-2009. Within the manufacturing sector, light industries were predominant in the 1950s, responsible for nearly 80 percent of all value added in the sector. However, after that date, the sector started to progressively lose ground to the heavy and chemical industries, which grew rapidly, especially from the early 1970s onwards. The value added of the latter in total manufacturing was 64 percent in the 1980s, 75 percent in the 1990s and 83 percent in the 2000s (UNCTAD, 2017).

By gradually promoting the creation of domestic, scientific and technological capabilities and by supporting learning, the Korean government supported the modernization and technological upgrading of domestic industries. In the first stages, the government focused on reverse engineering and learning from foreign best practices. Since the 1970s it has invested in the establishment of government research institutes to support the development of domestic capabilities. Since the 1980s, the government gave incentives to the private sector for investing in research and development (hereinafter R&D). By the 1990s, the chaebols were highly committed to R&D and the government broadened the policy mix for R&D to include support to venture business in parallel with the rising demand from the private sector (OECD, 2012).

Technological parks played a key role in mobilizing regional innovation. They have been introduced in Korea since the mid-1990s on the basis of the successful experience of other countries. In 1997, the government invested 25 billion Korean Wong (hereinafter KRW) over five years in the creation of each of the six-pilot techno-parks. In the light of the success of them the government supported the establishment of additional parks. Techno parks have played a key role in mobilizing the development and innovation of production at the regional level and provide additional services such as business coaching, management and marketing advice, infrastructure provision and R&D support (OECD, 2012).

Comparing the peculiar ways and experiences of development of Korea and Taiwan, many scholars found a number of similarities. The most prominent ones are as follows: relatively small land, with significant population, scarcity of natural resources, especially energy carriers, colonial past, underdeveloped economy after the colonial period which was further devastated by the war(s) (WWII, and in case of Korea, the Korean War as well), strong (dictatorial) political leadership until the late 1980s, export-oriented economic development policy, American economic assistance helped the recovery and the take-off, following Japanese and American patterns, conflicts and continuous tensions in the direct geographic neighborhood, high savings ratio, especially during the take-off period (1970s), democratization process from the late 1980s. At the same time, mention has to be made of significant differences as well, like the role of state (government) in guiding the economic development was strong in both cases while in Korea the government monopolized the credit allocations giving preference to the selected big export-oriented companies (which became the chaebols). In contrast, in Taiwan the interfering role of state was not that strong, mostly family-owned small and medium enterprises (hereinafter SMEs) led the economic development. In addition, Korea followed the chaebol-model, while Taiwan the successful SME model. However, it is an even more important difference, that in Korea the success of the selected companies was pre-decided by the government, while in Taiwan self-made companies became successful (Neszmélyi, 2017).

Finally, mention has to be made of the system of SME-financing in Korea where the government plays a key role through a number of channels. It provides loans through public financial institutions, such as the Korea Finance Corporation (KFC) and the Small and Medium Business Corporation (SMBC). Loans can be provided directly to SMEs or through "on-lending" in which the KFC provides 40 percent of the loan for financial institutions, which are responsible for the remainder. On-lending is more efficient as it utilizes the knowledge and experience of financial institutions. Total SME lending during 2011 by the KFC and the SMBC amounted to 11.8 trillion KRW,

equivalent to 85 percent of the increase in the stock of loans to SMEs that year. Reaching one of the highest shares in the OECD, SMEs accounted for 78 percent of the banks' corporate lending in 2012, as a result of structural changes in the financial market and public support (Jones – Kim, 2014).

The most widely used instrument of public support is credit guarantees, which promote loans to SMEs by reducing the lenders' risks. In the period of 2007-2011, public support in the form of credit guarantees amounted to 100 trillion KRW (8 percent of 2011 GDP) compared to 42 trillion KRW of direct lending. After the financial-economic crisis of 2008, the limit on individual credit guarantees was raised from 3 billion KRW to 10 billion KRW (9.6 million USD) and the ceiling on the coverage of guarantees from 85 percent of the loan amount to 100 percent. The Bank of Korea also encourages SME-lending through its Bank-Intermediated Lending Support Facility, which provides funds to banks at preferential rates. To receive the full amount of funds available under this scheme, nationwide banks must allocate more than 45 percent of their new loans to SMEs (more than 60 percent in the case of local banks). The government promotes SME financing through moral suasion on financial institutions. For example, in the wake of the 2008 financial crisis, it asked banks to roll over SME loans automatically to prevent the default of sound SMEs (Jones – Kim, 2014).

4. The Korean Financial Sector and Economic Development

In the Republic of Korea, the developmental state model meant a comprehensive guiding role of the government, but besides the narrowly interpreted "government"—the cabinet—other state-run organizations played an important role in the formation and implementation of the development policy. The financial sector, first and foremost the bank of issue had various roles through its monetary policy instruments and sometimes through direct operations. Besides the central bank (Bank of Korea) several other banks played an important role in the development policy, far more than other financial institutions do in general. From among the latter—first and foremost—the establishment and role of the Korea Development Bank (KDB) needs to be mentioned.

In addition to KDB, other development finance institutions were established in the Republic of Korea. To finance the agricultural sector, in the early 1960s, the agricultural cooperatives and the Agricultural Bank were consolidated into the National Agricultural Cooperatives Federation (NACF) (UNCTAD, 2017). It was done in due time as it was visible already that as a result of the politically-motivated land reform, miniature, family-based farms were created which faced serious difficulties of

productivity and efficiency. I would like to underline that agriculture was a peculiar field, a "white spot" in terms of the Korean development policy. The spectacular economic success of the Korean national economy can be considered as a result of the export-oriented industrial development, while the food and the agricultural sector were out of focus. The small and fragmented farms could be viable from the point of economy only by being integrated into an efficient and two-level co-operative system. Therefore, from its establishment up to now the NACF has had a substantial role. As Korean farmers could hardly be competitive on their own, they joined co-operatives, and since the late 1950s the two-level co-operative system headed by NACF has given a comprehensive framework for the Korean agricultural production. NACF and its affiliated organizations provide financial assets, production inputs and extension services and they are also directly involved in the various stages of the supply chain (See more here: Neszmélyi, 2004 and 2017).

In the same period, as a further financial institution, the Industrial Bank of Korea was created, with the aim of providing for small and medium-sized industrial units. In 1967, the Korea Development Finance Corporation was created, with a mandate to support the development of private enterprises through the provision of medium-term and long-term financing and equity participation, as well as technical and managerial consulting services. In 1976, the Export–Import Bank of Korea (Korea Eximbank, KEXIM) was established. The institutions were created to support industrial development, and all provided long-term credit drawing on funds mobilized through borrowing from the Government, or international financial institutions and foreign banks, and by issuing securities. They were not normally permitted to accept deposits from the public, especially in the form of demand deposits, a feature that distinguished them from conventional banks. The development finance system of the Republic of Korea was therefore well coordinated, with the Bank of Korea working closely with commercial and development banks and specialized financial institutions to support an agreed development strategy. Policy-based loans accounted for about 50 percent of total credit available in the economy during the 1970s, and for 30 percent in the 1980s, thus demonstrating that the entire financial system was development-oriented. (UNCTAD, 2016).

A summary which was issued in 2010 on the 60th anniversary of the establishment of the Bank of Korea (BOK) describes facts and the history of the BOK in details. The modern central banking system was introduced to Korea when the former Bank of Korea was established in November 1909. It was just at the eve of the Japanese annexation (1910), so for the following 45 years Korea became a colonial part of Japan.

4.1. The Deliberation of Korea and the Korean War

Noland (2011) recalled the circumstances of „ground zero" in Korea after the Second World War. He considered this starting point considerably unfavorably, as agricultural and industrial production were well below pre-war levels and much of the physical plant and equipment barely functioning. Inflation hit triple digits. The ranks of the unemployed were swelled by the return of 500 thousand refugees from other parts of the Japanese empire. Crime and gang activity surged. Levels of human capital and per capita income were higher in North Korea, which predominated in industry, mining, and power generation, compared to the South which was largely agricultural (Noland, 2011).

After the end of the Second World War, from the point of economic self-reliance and development, one of the most urging issue was to re-establish the independence of the bank of issue, cutting the links off from all that resembled the Japanese supremacy. On the 8th September, 1945, the American forces which stationed in Seoul dismissed the Japanese Governor of the Bank of Chosun and closed all of its branches in Japan once and for all. In November of that same year, the U.S. military discharged all Japanese executive officers from the bank and appointed Koreans in their places. The bank's functions changed in some respects. At the time of liberation, Japanese and Taiwanese banknotes, Japanese military notes and the like circulated as currencies, in addition to Bank of Chosun banknotes. Six months after the deliberation of Korea, the Bank of Chosun emerged as the sole issuer of legal tender south of the 38th parallel. In addition, the Chosun Foreign Exchange Bank, which the United States Army Military Government in Korea (USAMGIK) had set up on June 16, 1947 for the purpose of promoting foreign trade and facilitating foreign exchange control, was transferred to the government of the Republic of Korea. In February 1949, the President of the country instructed that the Governor and executive officers of the Bank of Chosun serve concurrently as governor and executive officers of the Chosun Foreign Exchange Bank. As a result, the Bank of Chosun became in practice the only foreign exchange bank in the country (Bank of Korea, 2010).

The Korean War broke out only 13 days after the start of the operation of the Bank of Korea. With the war's outbreak, the Bank immediately changed to a war footing. As the battle front shifted, the Head Office was temporarily relocated to the south, to Daejon, then to Daegu, and finally to Busan. Martial monetary and financial policies were introduced in such a way as to directly regulate financial institutions' deposits, credits, and fund operations in response to the economic situation, and to deregulate or relax regulations when conditions improved. After the cease-fire in 1953, the

government switched from a war-time to a peacetime footing and concentrated on raising the country from the devastation of war and resurrecting the national economy. The Bank of Korea also turned back its financial system management to peacetime mode and strived to press the inflation down. The Republic of Korea was still one of the poorest countries in the world. In 1955, when it joined the International Monetary Fund and the International Bank for Reconstruction and Development, its per capita GNI was about 65 USD. At the beginning of 1954, aid for post-war restoration and economic reconstruction started to arrive from other countries, first and foremost from the United States. Its amount was 710 million USD in total between 1954 and 1956, which was equal to approximately one-sixth of the Korean GDP in that time. A significant part of the foreign aid that was received after the armistice was sold to the public through the Bank of Korea, and the counterpart funds generated by these sales were deposited with the Bank and managed by it (Bank of Korea, 2010).

4.2. Post-War Recovery – Selective Financial Assistance and the Establishment of the Korea Development Bank

Mention has to be made of a new element of the legislation that time, namely the General Banking Act. It was promulgated together with the Bank of Korea Act on May 5, 1950, as the Korean War broke out only a couple of weeks after it (on 25th June of 1950), and it took effect only from August 15, 1954. After the General Banking Act had gone into effect, financial institutions were to maintain reserves against deposits as prescribed by the Monetary Policy Committee, and to receive supervision and inspection by the Office of Bank Supervision. In accordance with the General Banking Act, financial institutions were allowed to handle both long and short-term financing, while the Monetary Policy Committee was enabled to determine the upper limit of long-term loans. The Act also set forth provisions to ensure the public benefit of fund management by financial institutions, by restraining their investment in real estate and prohibiting their establishment of speculative funds and credit extension on terms unduly favorable to one party or the other. Along with the rapid increase in demand for financial instruments for the rehabilitation and economic restoration after the Korean war, the government established a new financial institution, the Korea Development Bank (KDB), as a specialized bank, on April 1, 1954, with the view of strengthening the economic development towards stability and facilitate the reconstruction and improvement of the industrial sectors, infrastructure, financial and corporate system in long run (Bank of Korea, 2010).

KDB was in the epicenter of the development finance system which supported government policy and transformative growth. It was built on the assets and facilities of the Industrial Bank, which in the late 1940s virtually used to be the only provider of long-term credit in the economy. The main roles assigned to KDB were to provide medium-term and long-term loans to the industrial sector and to help develop the national economy (KDB Act, Law No. 302, promulgated on 30 December 1953) (UNCTAD, 2016).

The KDB has been acting as the biggest supporter of public finances and corporations. It was continuously widening its business scope and gained wide and rich expertise in the fields of development finance, corporate banking and corporate structure development (KDB Seoul). Mention has to be made of the fact that originally the Bank of Korea opposed establishment of the KDB. The Monetary Policy Committee argued that the establishment of the KDB, which was intended to be independently run under the Minister of Finance, was contrary to the principles of the legislation of the Bank of Korea Act and the General Banking Act, which was based on the idea of centralized financial control. Consequently, BOK considered the KDB's simultaneous existence and operation of both long and short-term financing incompatible with the principles of sound bank management. In March 1954 the Korean government issued the first Industrial Rehabilitation Bonds, in value of five billion hwan[1], to raise the capital for KDB establishment and operation (Bank of Korea, 2010).

During its first years, KDB was tasked with funding the restoration of industrial facilities and the reconstruction of basic infrastructure. In performing this task, its prominent role in the financial system of the Republic of Korea was soon established. By 1955, the bank accounted for over 40 percent of total bank loans and, at one point, for 70 percent of the equipment loans and 10 percent of the working capital loans made by all financial institutions. In the 1950s, 50 percent of KDB funds came from the Government's fiscal loans programme and another 37 percent was raised by issuing bonds (UNCTAD, 2016).

The main goal of the economic policy in the post-war period was to assist and accelerate the post-war recovery and curb the vicious cycle of inflation. In the early stage of the recovery, public projects and the production of basic necessities got priority at the allocation of financial assistance funds with the view of focusing on the quick restoration of production facilities to satisfy basic needs. In 1955 and later on, the limit

1 The hwan was the currency of the Republic of Korea between 15th February 1953 and 9th June, 1962.

on funds available to the private sector was gradually raised, and the management of funds by financial institutions was appropriately adjusted to ensure a balanced supply of working capital. After the mid-1950s the post-war recovery projects were completed, as the American foreign aid policy changed from grants to soft loans, while the Korea – U.S. Joint Economic Committee pushed forward strong economic stabilization policies. This came about in the form of the Fiscal and Monetary Stabilization Plan in 1957, which was the first comprehensive plan aiming to diminish the inflation by monetary instruments (using the money supply as a control index) and tighten both fiscal and monetary policies. In the first year of the plan, the fiscal efforts focused on the reduction of the monetary supply by limiting increases in national defense spending, fiscal investments and loans. One year later, in 1958 the government increased tax revenues through the introduction of new types of taxes like the education tax, and also by the adjustment of tax rates. In the field of monetary instruments, the tight approach was reinforced by preventing total credits from increasing faster than savings deposits. In 1958, the Bank of Korea (hereinafter BOK) revised the Regulations on Fund Management of Financial Institutions, and, in March 1959, allowed these institutions to increase their lending in proportion to the increases in their savings deposits. Besides, the BOK simplified the interest rate scheme twice: first in July then in November 1959. Furthermore, BOK narrowed the gap between its rediscount rate and the loan interest rate of commercial banks in order to reduce the dependence of the financial institutions on the rediscount window and to restore the effectiveness of its interest rate policy (Bank of Korea, 2010).

4.3. The 1960s: The Establishment of the Fundamentals of the Korean Economic Development

The early 1960s was a time of political and social shocks in Korea. The country was shaken by the April 19 Revolution in 1960 and the May 16 Military Coup in 1961. The impressive growth began only after the May 1961 military coup and was a direct consequence of the new military regime's policies. Two major political and organizational changes accounted for the subsequent rapid development of the Korean textile industry. The first was the appointment of two economic secretaries to the President. This enabled Park Chung-hee to monitor economic issues on a daily basis. The second was the establishment of an Economic Planning Board in June 1961; this board was to be the heart and brain of the Korean economic miracle (Levi-Faur, 1998).

The situation was further complicated by the cuts in American aids. The military government—among such circumstances—drafted and implemented its first 5-year

Economic Development Plan in 1962 with the view of elevating the people from poverty and to establishing the fundamentals of a self-reliant economy. The Bank of Korea assisted the government with the elaboration of the draft plan in 1960. The government took direct control over commercial banks in June 1961 in order to ensure the effective implementation of the Economic Development Plan. Moreover, in May 1962 the independence of the central bank was also curbed significantly. The aim was to establish a government-controlled financial system and to maximize the economic growth (Bank of Korea, 2010).

The switch from import substitution in the 1950s to export-orientation from the early 1960s onwards brought about the first adaptation of the role of KDB to new policy priorities. The constitutive act of KDB was amended for the first time to raise its capital and allow it to develop a set of policy instruments that was the core of the export credit programme. The provision of payment guarantees for foreign borrowing (see above) was one of the key policy instruments of the export promotion strategy, as it allowed export-oriented firms to access foreign capital at considerably lower interest rates (Cho – Kim, 1995). In order to fund its activities, KDB started to issue industrial finance bonds (KDB bonds) (UNCTAD, 2016).

In June 1962, the government imposed monetary reforms as part of the emergency monetary measure to direct floating capital into industrialization efforts and tie down excess liquidity. The significant increase in liquidity brought about by this process served to increase inflation, while the reduction in aid and rise in imports jeopardized the foreign currency reserves. The government re-adjusted the Fiscal Stabilization Plan in 1963 to steer economic policy toward stable growth by means of fiscal and monetary tightening and tougher price controls. In the meantime, the government and the Bank of Korea adjusted the foreign exchange rates in 1964 and the interest rates in 1965 to more realistic levels respectively, so as to enhance their price adjustment mechanisms, while rationalizing its foreign exchange policy and monetary and financial policy. After the accomplishment of the first 5-year plan, the Second Economic Development Plan started in 1967 till 1971, and it led to noticeable development in industrialization. Mention has to be made of the fact that Korea benefitted from the economic boom in developed economies, as well as from the Vietnam War and from other positive external conditions. In 1962 the government enacted the Foreign Capital Inducement Act in order to attract foreign capital, and after this Act was legislated in 1966, the amount of foreign capital inflow started to increase sharply. As at that time the domestic savings base was still modest, foreign capital became inevitable in the expansion of investment and the improvement in foreign currency liquidity. However, it also generated problems like high inflation, and some companies made

wrong investments by excessive borrowing. The government made significant efforts to improve its relations with international financial organizations, and as a part of that, Korea joined the International Financial Corporation (IFC) in March 1964 and the Asia Development Bank (ADB) in August 1966. During the second half of the 1960s, the annual growth rate of the Korean economy remained at a high rate of about 10 percent, and as the prices soared and the current account deficit widened, signs of an overheated economy became visible (Bank of Kore, 2010).

The development finance system that was established to provide financial resources for rapid economic development was not limited to such development and specialized banks. In the early 1960s, commercial banks also supported development. They did so both directly, by providing policy loans, and indirectly, by providing resources for development and specialized banks for on-lending operations. As part of the overall financing architecture, the Bank of Korea came under the control of the Government, which served as a mainstay of the whole system in its critical role as provider of liquidity and guarantees (UNCTAD, 2016).

4.4. The 1970s: The Decade of the Economic Take-Off for the Republic of Korea

In the 1970s, the development strategy of the Korean government was shifted towards the heavy and chemical industries, as noted above. To support this new strategy, it established training centers to help form a skilled workforce and research institutes to generate research and development activities. On the financing front, it enhanced the role of development and specialized financial institutions as vehicles that provided long-term credit at low interest rates. KDB, in particular, refocused its role to finance new industries in addition to the energy sector and export-oriented industries (UNCTAD, 2016).

Between late 1969 and early 1971, the government cooled down the economy by implementing Comprehensive Stabilization Measures in every economic sector. Similarly, the Bank of Korea tightened the stance of its monetary policy. In 1972, the Korean government enacted three legislations with the view of shifting the grey market to the organized financial sector: the Short-Term Financing and Banking Act, the Mutual Savings and Finance Company Act, and the Credit Union Act. Moreover, in December 1972, it also passed the Act on Promoting the Development of Heavy and Chemical Industries and Diversification of Financial Structure (Bank of Korea, 2010).

To strengthen the lending capacity of the development and specialized banks, the Government created a National Investment Fund in 1974, and the deposit-taking banks and insurance companies were required to lend a certain portion to this fund. The fund then transferred these resources to development and specialized financial institutions in the form of long-term loans at low interest rates. Between 1974–1991, 80 percent of its lending was allocated to such institutions. Between 1974–1981, when the larger heavy industries were being established, 62 percent of the fund's total lending was allocated to KDB. As an additional funding source, KDB issued foreign currency bonds (UNCTAD, 2017).

The Bank of Korea strived a lot to improve the structure of banks in order to serve as the backbone of the financial sector. The Bank of Korea strengthened the foundation for banks' self-sustaining management by tackling their difficulties with non-performing loans and institutionalizing their accountability in management. In 1973, after the privatization of the Commercial Bank of Korea, the BOK encouraged banks to expand in size. In late 1973, the first oil crisis had a negative impact on the Korean economy which was characterized by slowdown, surging inflation and an increasing current account deficit. In response to the new situation the government announced a programme called "Presidential Emergency Measure to Stabilize the National Economy" in January 1974. Still in 1973, the government started to develop the heavy and chemical industries, and for the financing it established the National Investment Fund in 1974 and the Export-Import Bank of Korea in 1976. Moreover, the Bank of Korea worked out a system for preferential finance to channel funds into these industries. The second oil crisis in 1979 generated a price boom in the international markets not only for crude oil, but other raw materials, and slowed down the advanced economies in the world (Bank of Korea, 2010).

4.5. After the Two Oil Crises: the 1980s

In the 1980s, the successful establishment of the heavy and chemical industries allowed for the support of new industries further up the value chain, such as the automobile and electronics industries. Once more, KDB reoriented its funding, towards these industries. In the same decade, KDB began to prioritize lending to SMEs and to support industrial restructuring (UNCTAD, 2017).

In 1982, the Korean government launched economic stimulus packages to revive the economy without risking its economic stability. Among the measures mention has to be made of lowering the money supply growth target to 20-22 percent, a significant

reduction of its rediscount rates and the lending and deposit rates of financial institutions. As a part of stimulus measures the government cut house acquisition and registration taxes by 30 percent to facilitate the development of the housing market. In the early 1980s, a number of structural problems deriving from the government-oriented economic development appeared on the surface, like chronic inflation and growing imbalances in development among various economic sectors. The government, therefore, decided to make a shift towards a private sector-led economic development, with special focus on the restoration of the market mechanism, economic openness, and financial deregulation. In 1981, the government amended the Regulation of Tax Reduction and Exemption Act. This Act served as an instrument to assist certain industries, to significantly shrink the scope of the industries eligible for tax reductions and exemptions. Moreover, a system of tax credits for technology and human resource development were created, hence the method of industrial support could be changed from a direct approach targeting specific industries to an indirect support approach valuing the functions of industries. For three years after 1986, the Korean economy showed a spectacular growth again, exceeding 10 percent annually. Moreover, in the course of this period, Korea finally left behind its chronical current account deficit: during the mentioned period it reached a current account surplus of 30 billion dollars. Korea, ultimately benefited from the so-called "three lows": the weak USD (Japanese Yen), the (relatively) low oil prices, and the low international interest rates. After 1986, the sustained current account surplus started to curb the excess demand for funds, and left market rates to fall. In December 1988, the Korean government and the BOK took decisive measures in order to liberalize the interest rates. Lending rates of all financial institutions were liberalized, with the exceptions of those on loans backed by funds for specific policy purposes, and those on loans for the agricultural, fishery and livestock sectors. By the 1980s, the government encouraged private companies to expand their investments in technological development through tax discounts, financial support and by the government purchase system. In 1981, the government granted the companies a 10 percent tax deduction on their technology and human resources development costs. In order to increase the corporate research and development efforts and make more seed capital available for company start-ups, the government supported the establishment of more venture capital institutions such as the Korea Technology Development Corporation. In the first part of the 1980s, the Korean leadership concentrated on assisting SMEs to enable them to play a complementary role to large firms, while in the second half of the decade it strived to make SMEs more competitive. In 1982, certain business areas were declared to be open only for SMEs and, in 1983, comprehensive measures were taken to identify and support SMEs having high growth potential and to improve their product quality. Besides the government, the Bank of Korea significantly enlarged its

financial support scheme for SMEs, moreover, it also encouraged financial institutions to increase their financial support to rural and fishery areas. The Republic of Korea joined the Organization of Economic Cooperation and Development (OECD) in 1996, with the view of establishing the fundamentals for speeding up the domestic economic system. The Bank of Korea participated in the establishment of the Executives' Meeting of East Asia and Pacific Central Banks (EMEAP) in 1991, and then joined the Bank for International Settlements (BIS) in 1997, strengthening its exchanges and cooperation with the central banks of major countries (Bank of Korea, 2010).

4.6. The 1990s and the Impacts of the Asian Financial Crisis (1997-98) on the Korean Economy

In the 1990s, KDB was the main supplier of funds to high-technology industries and began to expand its international and investment banking business in order to become a globally competitive investment bank. The aim was to support companies of the Republic of Korea operating abroad, underwrite corporate bonds and support merger and acquisition projects (UNCTAD, 2017). In 1997, a large and persistent current account deficit emerged in the Korean economy that slowed down the foreign capital inflows and thus seriously exploited the foreign exchange reserves exercising a squeezing effect to the KRW. By the second half of 1997, the confidence of foreign investors eroded in the Korean economy. The reason for this was the currency crisis in Southeast Asia that spread over to Korea rapidly causing insolvency of Kia Motors, one of the biggest motor vehicle producers. In early November, foreign exchange conditions deteriorated rapidly, and the KRW went into a freefall against the USD. The Bank of Korea had to provide support for the settlement of foreign claims. Foreign exchange reserves of Korea rapidly fell, and on 3rd December the Korean Government finally compelled to sign a Standby Arrangement for 21 billion USD with the International Monetary Fund (IMF). The International Bank for Reconstruction and Development (IBRD) and the Asia Development Bank (ADB) were also ready to provide an additional 10 billion USD and 4 billion USD. Furthermore, another 23.35 billion USD was offered by a number of advanced countries, like the United State and Japan. In April 1998, the government restructured 21.7 billion USD in short-term foreign liabilities as fresh debts with one to three-year maturities under government credit guarantees in order to stabilize the liquidity of foreign currency. It issued Foreign Exchange Stabilization Fund Bonds denominated in foreign currency during that year in the value of 4.1 billion USD. The bond market was opened at the end of 1997 to attract foreign investments, and later on, in 1998, the full stock and money markets were opened. Foreigners were also allowed to engage in mergers

with and hostile takeovers of domestic companies. The foreign investment environment noticeably improved by opening more industries to foreign direct investment and allowing foreign investors to purchase domestic real estates in Korea. To mitigate the structural vulnerability of the Korean economy, the government pushed forward with the restructuring of financial institutions and other businesses. In the frames of this endeavor, the Bank of Korea facilitated the restructuring of the financial institutions and supported the smooth recovery of the real economy, and at the same time made all efforts to preserve the stability of prices and the financial markets (Bank of Korea, 2010).

The Asian financial crisis in 1997 called for a renewed role for KDB, moving beyond its strategic role of picking winners with the capacity to add value throughout an export chain to encompass a countercyclical role in order to help the country overcome the credit crunch. In addition, it was involved in the process of the comprehensive corporate restructuring in Korea following the crisis. During the global financial crisis in 2008, KDB played a substantial, countercyclical role again (UNCTAD, 2016).

In accordance with the IMF-agreement, the BOK raised interest rates to ensure foreign currency liquidity and stabilize the exchange rates. The foreign exchange market regained stability by the second quarter of 1998, and interest rates were steadily cut to avoid the deepening of the recession in the real economy. The BOK acquired Deposit Insurance Fund Bonds and Non-Performing Loans Resolution Fund Bonds in order to support the restructuring of financial institutions, while extending special liquidity loans to sustain financial stability. These policies and measures contributed to the fact that the domestic financial and foreign exchange markets regained stability in 1998, and later on, the real economy started to grow again even faster than it was expected and regained its vitality. The current account reverted to a substantial surplus, which improved Korea's possibilities to pay off external debts. Korea fully repaid its IMF borrowings before maturity, on August 23, 2001 (Bank of Korea, 2010).

The Korean government, therefore, implemented a corporate restructuring programme from January 1998 after agreeing with the business sector on five principles for restructuring: the enhancement of transparency in corporate management, the elimination of cross-payment guarantees, radical improvement of financial structures, selection of core businesses and greater responsibility of the majority of shareholders and management. As a result, 64 affiliated companies signed the Financial Structure Improvement Agreements with their main creditor banks between February and April. The mentioned companies' total borrowings from financial institutions ranged over 250 billion KRW. In May 1998, all the banks were asked to form

a committee in order to determine corporate insolvencies and evaluate the levels of insolvency of a total of 313 companies that showed signs of financial imbalances. As a result of the corporate restructuring initiatives, the top five chaebols (with the exception of Daewoo) met most of the requirements stipulated in the agreement on the financial structure improvement: the debt ratio target of 200 percent, the elimination of cross-payment guarantees, the attraction of foreign capital, and the dissolution or spin-off of affiliates. Besides the top five, other large corporations were also successful in meeting most of the requirements specified in the agreement. Thus, their debt ratio shrank by half compared to its level at the end of 1998 (Bank of Korea, 2010).

4.7. The Present Age: The Financial-Economic Crisis (2008-2009) and the Post-Crisis Period

By the 2000s, the volume of international capital inflow significantly increased. Foreign investors had continuous interest in acquiring ownership of Korean equities which reached 43.9 percent in Korean domestic stocks by the end of July 2004. Foreign net purchasing of domestic bonds such as Treasury Bonds and Monetary Stabilization Bonds increased to over 32 trillion won in 2007. In 2008, after the American Lehman Brothers' bankruptcy, the impact spilled all around the world, plunging the global financial system into a severe shock. The Korean economy was not an exception, it was heavily hit as well. The Korea Composite Stock Price Index, which was around 1,400 before the Lehman Brothers' crisis, shrank to 939 on October 24, 2008. Volatility in the financial market increased, and the real economy contracted sharply in parallel with falling stock prices and the value of the Korean won which resulted in the drop of the Korean GDP. The main direction of the government was focused on fiscal spending. Moreover, the Bank of Korea also took decisive steps to mitigate the effects of the crisis: it lowered its policy rate from 5.25 percent to 2 percent and pumped liquidity into the sectors suffering from the credit crunch. In response, the Bank of Korea made six cuts in its base rate between October 2008 and February 2009 to slash it from 5.25 percent to 2.0 percent. Moreover, it injected a big volume of liquidity, in anticipation of the overall deteriorating financial health, in all economic sectors. It purchased back the Monetary Stabilization Bonds in the value of 700 billion KRW on October 23, 2008 and purchased 1 trillion KRW in government bonds from financial institutions on November 19. It pumped about 8.3 trillion KRW into securities companies to solve their problems of liquidity, and about 5 trillion KRW under repurchase agreements into the market for credit bonds such as CDs and bank debentures from October 2008. The open market operations of BOK previously comprised only transactions in government bonds, government-guaranteed

bonds, and Monetary Stabilization Bonds, but in November and December 2008 this list of eligible collateral was expanded to include bank bonds, some special bonds, and mortgage-backed securities (MBS) of the Korea Housing Finance Corporation. In addition, starting from December 2008, twelve securities companies were temporarily permitted to engage in repurchase (RP) transactions, together with counterparties that were previously eligible: the nineteen banks, one securities company and the Korea Securities Finance Corporation. In order to assist small and medium-sized enterprises in improving their balance sheets, the Bank of Korea raised its aggregate credit ceiling from 6.5 trillion won to 9 trillion won in November 2008 and increased it again to 10 trillion won on March 23, 2009. The BOK not only increased the liquidity supply but also established more channels and means of providing liquidity. The government and the Bank of Korea also strived for increasing financial institutions' capacities to extend credit. The government made new investments totaling about 8.7 trillion KRW in the Korea Development Bank, the Industrial Bank of Korea and the Export-Import Bank of Korea, on November 13, 2008 and March 23, 2009, to finance export and import companies as well as SMEs. The Bank of Korea paid a total of 500.2 billion won in interest on reserves on December 11, 2008. What is more, the Bank of Korea concluded currency swap agreements with the central banks of major countries in order to stabilize the foreign exchange market and poured foreign currency liquidity into the market to prevent the instability of the foreign exchange market from spilling over into other areas. All these resulted in a positive GDP growth already in the first quarter of 2009 (after -4.5 percent growth in the last quarter of 2008). The stock prices returned rebounded to pre-crisis levels in 10 ten months, and moreover, the foreign exchange reserves increased to a never experienced high level of 273.7 billion USD by the end of January 2010. This means that the Republic of Korea found its way very rapidly out of the global financial-economic crisis (Bank of Korea, 2010).

By its financing activities the KDB has been playing a key role in the advancement of the phenomenal economic growth of the Korean economy, through supplying it with resources and financial knowledge (even today within the globally leading industries and multinational conglomerates). Today, KDB Bank is a representative corporate bank that acts as market leader and stabilizer. The core business areas are corporate banking and restructuring, investment banking, venture capital, technology finance and consulting, overseas financing business, pension and trust, research and credit review. Being a global player, the expanding global KDB network operates in 21 countries, made up of 9 overseas branches, 5 subsidiaries and 8 representative offices. In Europe, KDB has a branch in London, 2 subsidiaries in Hungary and Ireland and a representative office in Germany, Frankfurt.

Both the rapidly changing macro-economic environment of the last decade and the recent financial crisis have highlighted the necessity of the rapid responsiveness of the banks to the external environmental changes (Kalmár – Zéman – Lukács, 2015). Thus, in recent years, plans have been designed to redirect KDB towards the future economy and to facilitate to complete this task, in 2013 and 2014, KDB started with several initiatives to support SMEs that promote a creative economy and entrepreneurs and companies which develop new technologies. These initiatives comprised a financing scheme for a creative economy. The goal was to provide investments and loans for SMEs that promoted a creative economy, a Techno Banking fund which concentrated on intellectual property, a pioneer programme to provide support to future-oriented start-ups and SMEs and a growth accelerating programme to provide venture companies and start-ups not only with funding but also with networking opportunities and mentoring support. The biggest recipients of new investments in start-ups were industries of cultural content, information technology, biotechnology and manufacturing. The push towards a creative economy and technology aims to reduce the dependency of the economy of the Republic of Korea on the manufacturing sector. However, this reorientation, with the support of KDB, does not preclude the historical role of KDB of supporting massive infrastructure projects, which it maintains. In 2014, KDB, with other partners, committed nearly 2.2 billion USD to the Power Energy Fund III of the Korea Infrastructure Investments Asset Management Company, the largest infrastructure fund in the country's history (UNCTAD, 2016).

During the 2000s, there were various ideas and plans to privatize KDB. The arguments in favor of privatization were that KDB was inhibiting the development of the financial system of the Republic of Korea, and that privatization was an expected endpoint for a bank that was expanding by incorporating new banking activities (e.g. investment and insurance) and becoming progressively internationalized, with subsidiaries and branches in different parts of the world, as part of a strategy to transform it into a global investment bank. However, such plans have recently been reversed, and privatization is no longer on the government agenda. The latest plans are to streamline KDB activities and to reassert its role as the country's key provider of finance for development (UNCTAD, 2016)

Connel, in his study (2014) mentions that in her inaugural address on 25 February 2013, (former) President Park Geun-hye, daughter of late General and President Park Chung Hee announced her vision to create a "Second Miracle on the Han River" by a new policy focus on developing a so-called "creative economy". However, the exact meaning of "creative economy" from a policy perspective remained partially unclear and it is still a topic of discussion. The former president defined it as the idea of

creating new engines of growth and employment through "the convergence of science and technology with industry, the fusion of culture and industry, and the blossoming of creativity in the very borders that were once permeated by barriers." This focus on the new forms of the convergence of information and communications technologies (ICT) with traditional industries, as well as culture and content, has been a recurring theme in her statements on the creative economy agenda. The creative economy agenda represents a substantial and necessary effort of the Korean government to set the foundation for sustained growth and prosperity in the future. Furthermore, it means new approaches and opportunities to tackle pressing social and demographic challenges. Moving forward, it is important that the Korean government should not lose focus of its goal of ensuring the best potential ecosystem in Korea for innovation, entrepreneurship and fostering creative new industries. Tackling regulatory, structural, and cultural barriers requires a long-term approach and commitment, and may not yield short-term results (Connel, 2014).

Despite the recovery of the global economy, the country's economic growth has been progressing at a slower rate than it had been before the crisis, due to increased vigilance as to credit risk on the part of financial institutions, and more stringent financial regulation on the part of governments around the globe. The full-scale movement towards correcting the global imbalances is expected to strongly rely on the nation's exports. In the medium- and long term, the basic demographic changes, deriving from the low birth rates and the ageing of the population, will reduce the labor supply, and this may to undermine the long-term growth potential. These problems point to the necessity of finding and developing new drivers of sustainable economic growth. This should be the highest priority in the economic policy during the forthcoming years (Bank of Korea, 2010).

5. Conclusion

In the wake of the recent global financial crisis, the world economy is now seeking a new paradigm, and Korea must cope with these circumstances in a proactive manner. It should play a leading role in coordinating the opinions of industrialized nations and emerging market countries and forging a consensus within the framework of international cooperation.

The division of the Korean peninsula, the heritage of the Japanese colonial system, the devastation of the Korean war and the geo-political and economic context of the bipolar world order, all had substantial implications on the Korean economy, including

the applied development model and instruments. Political and economic analysts agree about the fact that Korea in its economic development policy followed a specific way that we can call the Japanese model based on the theory of the developmental state. However, due to historical, cultural, political, societal and other reasons, the country has not fully copied but rather adapted this model to its needs and endowments. The government and the central financial institutions have been playing a traditionally strong role in the mechanism of the formation and implementation of the economic development policy.

The model Korea implemented focused substantially on the consciously selected and nurtured industrial companies that rapidly grew into big conglomerates (chaebols) which acted as locomotives and flagships of the Korean export-oriented industrial growth. However, nowadays the government pays more attention to the development of SMEs and to their better integration into the national economy. Therefore, there are special schemes and instruments for SME-financing as well.

In order to fulfil the changing role as a provider of subsidies, long-term loans and other financial instruments for the development of the national economy, Korean financial institutions, like BOK, KDB and other institutions have gone through successive transformations, adapting their functions and repositioning themselves in response to changing circumstances and the different stages of development that the Republic of Korea experienced over time.

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