

**The Korean Economy:  
Higher Costs, Slower Growth, Freer Trade – and the Way Forward<sup>1</sup>**

**Barry Eichengreen  
University of California, Berkeley  
June 2007**

**1. Introduction**

The Korean economy is a riddle wrapped in a mystery inside an enigma. Korean economic growth is one of the great success stories of the last half century. A growth rate averaging 8 per cent per annum over the period fundamentally transformed the country and the lives of its citizens. From a starting point as one of the very poorest countries, South Korea now is the 12<sup>th</sup> largest economy in the world (more or less – these league tables, which tend to be presented with a spurious air of precision, depend on how exactly you do the ranking).<sup>2</sup> It is a member of the OECD. It is known around the world as a producer of motor vehicles, household appliances, consumer electronics, and youth culture. It is hard to imagine a more dramatic success story.

Yet, almost from the start, Korean observers downplayed the economic miracle and raised questions about its sustainability. In the 1970s it was commonplace to question the efficiency and rationality of much of the investment in the heavy and chemical industries and to complain of low profits and mediocre productivity growth. The 1980s started with a debt crisis, a recession and a wrenching structural adjustment and concluded with a wage explosion, all of which were seen as threats to continued growth. The first half of the 1990s featured gradual economic and financial liberalization

---

<sup>1</sup> Text of a keynote speech delivered to the Ministry of Commerce, Industry and Energy/Korea Trade and Investment Promotion Agency conference on Korea's FDI Inducement since the Asian Crisis, Seoul, 20 June.

<sup>2</sup> In particular, they depend on how one does the exchange rate conversion.

and a governmental campaign to rein in the big conglomerates, motivated by the belief that a cosseted economy and chaebol dominance were incompatible with sustained productivity growth. The second half of the 1990s was of course dominated by the financial crisis. Now the secular decline in growth rates from the high- to the mid-single digits, occurring against the backdrop of competition from China, raises questions among both the public and officials about the current performance and future prospects of the economy.

My point is that there is nothing new about the current sense of angst. (Why I use this particular word, derived from Middle High German, meaning “a feeling of anxiety or apprehension, often accompanied by depression,” will become clear later.) Koreans have long questioned whether their country’s superficially impressive economic growth is in fact built on firm foundations. The tendency to emphasize problems rather than achievements, at least in discussions with foreigners, may be a national personality trait. Certainly this is not a trait that the citizens of my country, the United States, display to any degree. But Koreans’ emphasis on problems may encourage an excessively pessimistic view of the economy. To be sure, per capita incomes and productivity remain lower than in Japan and the United States. But both variables are growing faster than in these two richer countries. Convergence is ongoing. It could be that the feeling of angst reflects awareness that other countries in the region are growing even faster, or that Korea itself needs to grow faster in order to be ready for the difficult and costly task of reunification. My sense, for what it is worth, is that the current unease is simply the latest manifestation of the general tendency to emphasize problems at least as much as achievements.

## 2. Popular Explanations

Discussions of why Korea isn't growing faster focus on low investment and the high won. The investment/GDP ratio has fallen from the nearly 40 per cent scaled in the mid-1990s to barely 30 per cent today. Standard growth accounting suggests that the contribution of capital formation to the growth of output was only half in 2000-2005 what it had been in the decade from 1985 to 1995.<sup>3</sup> So-called "new-growth" models positing positive externalities from investment suggest that the negative effects of the post-1995 decline in investment may have been larger still. The idea that the effects should have been even larger than suggested by standard growth accounting is supported by the observation that the decline of investment in machinery and transport equipment, as opposed to construction, has been particularly pronounced in Korea, and that it is the machinery equipment that are plausibly the source of positive externalities.<sup>4</sup>

There is of course no shortage of explanations for the lower level of investment.<sup>5</sup> There is competition in assembly operations and manufacturing generally from low-cost China, just next door. This has encouraged Korean firms to invest abroad rather than at home, arguably resulting in a "hollowing out" of Korean industry. China has indeed been the principal destination for Korean investment. Fully 60 per cent of Korea's foreign direct investment is now destined for other Asian countries. And, strikingly, not just the

---

<sup>3</sup> As in Korea Institute of Finance (2007), Table 1.9.

<sup>4</sup> See DeLong and Summers (1991).

<sup>5</sup> See for example Kramer (2006) for a review.

large conglomerates but small and medium sized Korean enterprises have invested overseas.<sup>6</sup>

For what it is worth, my own research does not support the idea that there has been significant investment diversion.<sup>7</sup> While there is surely an incentive for Korean firms to invest in processing and final assembly facilities in China, there is also an incentive for them, and for foreign companies, to invest in Korea in facilities for the production of the machinery, equipment, and technology that this country exports to China to meet that country's insatiable appetite for investment, and in factories for producing here the sophisticated parts and components that then undergo final assembly there. While Korea should undertake more foreign investment, it should also receive more foreign investment, because its economic structure, emphasizing capital goods, and its level of technological sophistication are complementary to China's. It could be that foreign investors have been slow to recognize this fact. But this is changing now, as evidenced by attendance at this conference. I conclude that China is not to be blamed for the fall in Korean investment rates.

Perhaps the perceived riskiness of investment has risen. Before the crisis, firms engaging in high levels of investment believed that their survival was guaranteed by the government. Or so it is said; I am not entirely convinced by this argument. There were chaebol bankruptcies before the crisis. The Donglip Group, the ninth largest chaebol in the 1960s, was allowed to go bankrupt. Dongmyung, the chaebol built around what was at the time the world's largest producer of plywood, went bankrupt in 1980. And then, of course, there were Hanbo and Kia.

---

<sup>6</sup> Kramer observes that SMEs accounted for about 40 per cent of overseas investment in 2002-4, double their share in the early 1990s.

<sup>7</sup> See Eichengreen and Tong (2006).

It is said that the macroeconomic environment is less certain now that the economy has been deregulated, the exchange rate is floating, and the financial system has been opened to the rest of the world. Uncertainty is a key variable in modern theories of investment: the greater the uncertainty, the stronger the incentive to hold off investing in response to an increase in profitability and to wait and see whether the higher profits are permanent. One observation consistent with this emphasis on uncertainty is that the dispersion of growth projections by forecasters has risen significantly since the crisis, for Korea and the region generally.<sup>8</sup> But, again, I am not convinced, for if you look back at earlier Korean history you see that growth was always volatile. Uncertainty was always considerable, whether we are talking about 1979, or 1987, or 1993.<sup>9</sup> Anyone who was engaging in high levels of investment in the belief that the returns were certain was deluding himself.

The alternative is that the lower levels of investment we are now seeing in Korea are basically a healthy phenomenon. As the economy matures and the high-growth period ends, a lower level of investment becomes consistent with any given rate of profitability. Failure to recognize this tendency can explain why investment rates remained high through the first half of the 1990s and why the financial crisis then followed. Of course, one must then explain why managers were so slow to acknowledge the trend. Here I would point to weaknesses in the Korean system of corporate governance, in which outside investors had limited ability to monitor and discipline managers who failed to recognize and react to what was happening, or who may have simply had their own private agendas, like maximizing the size of the enterprise as

---

<sup>8</sup> Again, see Kramer (2006).

<sup>9</sup> 1979 marked the advent of Korea's first significant debt crisis. 1987 was the year of democratization, labor unrest, and wage explosion. And 1993 saw President Kim's pro-liberalization and anti-chaebol push.

opposed to its profitability. But the financial crisis then opened the eyes of managers to the fact that the high-growth era was finally over. It led to improvements in shareholder rights and corporate governance generally that prevented blockholders and managers from engaging in empire building.<sup>10</sup> The fact that the rate of return on investment is now higher than in the first half of the 1990s, if not as high as in the fast-growth 1970s and 1980s, is consistent with this interpretation.<sup>11</sup>

The other popular explanation for why the economy isn't growing faster, namely the high won, is related, since it is one factor that could be limiting profitability and the rate of return on additional investment.<sup>12</sup> Everyone in this audience will be aware of the appreciation of the won against the dollar: from 1035 at the end of 2004 to 1012 at the end of 2005 to 930 at the end of 2006, and at more-or-less that level at the time of writing. And the won is up about twice as much against the yen, which has fallen against the dollar by about 15 per cent over the period. In contrast, it is up roughly half as much against the renminbi, which has appreciated by about 8 per cent against the dollar since the band widening of mid-2005. Thus, even though unit labor costs in won have risen only slightly faster than productivity since Korea began recovering from the crisis (Figure 1), expressed in dollars they have risen sharply since the beginning of the decade (Figure 2).<sup>13</sup>

---

<sup>10</sup> My own work on corporate governance reform suggests that there have been improvements in Korea, but only since 2002. See Anantochikul and Eichengreen (2007).

<sup>11</sup> KIF (2007), Figure 1.18.

<sup>12</sup> Although the data on rates of return, which, as just mentioned, are quite respectable, do not obviously support the argument. There is also a third popular explanation for Korea's low investment – that it has been depressed by public-policy measures to discourage speculative investment in real estate. But the decline investment since the first half of the 1990s is still evident if we limit our attention to non-construction-related forms. An even more comprehensive list would include also high oil prices (although these have not been high until recently) and tensions with North Korea (although these rise and fall).

<sup>13</sup> When one considers Korea's effective exchange rate instead of the bilateral rate against the dollar, as is more appropriate, the rise in foreign-currency-denominated costs is still there, even if it is less dramatic.

To my mind, this focus on other countries and their currencies is the right way of thinking about Korea's exchange rate problem. The yen is weak because Japanese growth is still anemic. (I am not among those who believe that Japan is now embarked on a vigorous recovery.) It is weak because after a decade-long slump the government lacks other instruments with which to stimulate the economy. The dollar is weak because the United States has a current account problem, whose correction requires exporting more and importing less. The response of U.S. exports and imports to the weaker dollar isn't much evident yet, but it is coming. U.S. exports are up, and U.S. growth, which drives the demand for imports, is slowing. With the yen and dollar weak, it is almost a matter of definition that the won should be strong, through no fault of the Bank of Korea.<sup>14</sup> With Japanese growth slow and U.S. growth slowing, it is not surprising that Korean growth and investment are not as high as might be hoped.

So I regard the strong won as more a symptom than an independent cause of the pressures on the Korean economy. Given this diagnosis, I also doubt that much can be done about it. Lowering interest rates would bump up against the Bank of Korea's inflation target. Sterilized intervention would have little purchase, given the openness of the Korea's capital markets and the substitutability of domestic and foreign assets. While tightening fiscal policy would limit the appreciation of the exchange rate, it would also slow the growth of domestic demand, which would not be constructive. "Grin and bear it" is not very helpful advice. But there are few alternatives, given how exchange rate appreciation mainly reflects problems abroad.

---

<sup>14</sup> There are other major currencies, such as the euro, but I regard them as mainly spectators at this game. And there is the renminbi, to be discussed momentarily.

Two more points support the conclusion that it is not mainly the high won that is the problem or currency depreciation that is the solution. First, it is not clear that appreciation of the renminbi (one way of limiting the appreciation of the effective exchange rate of the won) would be helpful for Korea. A stronger renminbi would make it cheaper and hence more attractive for Chinese enterprises to import Korean machinery and equipment. But a stronger renminbi would also raise Chinese labor costs and slow the growth of that country's exports. Insofar as China serves as assembly platform for a variety of Korean products ultimately sold into third markets, the result would be akin to a negative supply shock.

Second, the strength of the won has been accentuated by Korea's shipbuilding boom. The results have not shown up yet in exports, given that it takes several years to build a supertanker. But shipbuilders have already begun to convert the anticipated export revenues into won in the forward market as a way of hedging against exchange rate risk.<sup>15</sup> Upward pressure on the won in the forward market spills over to the spot market. To the extent that this is the explanation, the strong won reflects the health of the export sector. It reflects Korea's success in shipbuilding, an industry in which the country's market share globally has been rising, strong currency or not.

### **3. Difficulties of Transition**

Then why is Korea growing more slowly? Part of the answer is simply greater maturity – less scope for catching up, in other words. But another part is the transitional difficulties of restructuring the economic and social system. An economic and social

---

<sup>15</sup> There are no official statistics on this behavior, but Lim (2007) suggests that shipbuilders hedge some 70-80 per cent of their net U.S. dollar position two to three years ahead. They may have been doing so even more than is typical insofar as they perceive the dominant risk as further won appreciation.



model is a system of interlocking parts. Those parts fit together in intricate ways. The operation of each individual component complements the operation of the others, enhancing the efficiency of the mechanism. Now assume that the mechanism has to be updated – that the parts all need to be succeeded by more efficient replacements. But if the parts cannot all be replaced at the same time, there then is a danger of incompatibility, or at least slippage, between the old and new ones. Think of when jets replaced propeller airplanes. The new engines promised to enhance efficiency and increase speed. But to exploit that potential it was also necessary to develop and deploy new stabilizers, new wing designs, and new mechanisms for fuel delivery. Just installing the new generation of engines without also making these other changes would have reduced rather than enhancing the efficiency and stability of the craft.

The economic and social equivalent is capital markets, labor markets and product markets, along with policies for their regulation. Korea's bank-based financial system was very good for mobilizing large amounts of savings and plowing them into established industries using known technologies. A labor market in which workers enjoyed high levels of employment security – at least in the large-firm sector – but relatively little autonomy worked well when growth depended on providing workers with vocational training and familiarizing them with new technologies. An industrial structure dominated by large firms was well suited to a period when technological change meant importing from abroad technologies offering economies of scale and scope. Government policies emphasizing savings and extending investment guarantees fit the bill when the task for growth was to expand capacity in industries using known technologies rather than to develop new products and processes at home. Critically, these different elements

complemented one another. By providing steady finance to an established set of industrial clients, the banking system facilitated the provision of vocational training and enhanced the stability of employment, irrespective of fluctuations in the cash flow of the borrowers. Strict regulation of the labor market in turn made lending decisions easier for the banks. And so forth.

Now the model needs to be updated for the 21<sup>st</sup> century. As Korea approaches the technological frontier, capacity to innovate becomes more important. The country's bank-based financial system has to give way to stock markets and venture capital, which are better at taking bets on unproven technologies. Technological flux implies the need for more small and medium sized firms, which are the sources of radical new technologies. (Not exclusively, perhaps, but disproportionately.) It implies the need for more turnover in the labor market, as firms are born and die. The role for government is no longer to encourage investment generally or to attempt to govern individual investment decisions but to subsidize activities like R&D and tertiary education, which have positive externalities in a technologically-dynamic world.

In other words, reforms are complementary.<sup>16</sup> But there is no all-powerful social planner to implement these various changes simultaneously. The different components making up the mechanism evolve at different rates; they are reformed at different speeds. Here, financial market reform has gone faster than industrial restructuring. The reorientation of government policy has lagged.

This is not to deny that Korea is a dynamic place. One can imagine a not-too-distant future in which capital markets, labor markets, industrial structure, and government policy have all been remade to meet the needs of the 21<sup>st</sup> century. But with

---

<sup>16</sup> This is the message of Braga de Macedo and Oliveira Martins (2006).

different elements of the system being updated at different times, the efficiency of the mechanism is likely to be less while it is still under renovation. These transitional difficulties are the explanation, in my mind, for why the economy is not growing faster.<sup>17</sup> The good news is that this story points to a happier future.

#### **4. Another Country**

So how can Korea do better? Here I want to an answer by considering the experience of another economy, namely...Germany. (Now you know why in my introduction I referred to the Korean sense of “angst.”) Koreans are used to looking to Germany for policy lessons, notably negative ones related to reunification. It used to be that every time I changed planes in Frankfurt I would run into my Korean friends in the transit lounge; they were there to study how Germany had handled, or mishandled, reunification. Today I want to suggest that, in addition to those reunification-related lessons about what not to do, German experience also offers useful lessons about how to successfully update a mature economy.

We are used to thinking about Germany as a slowly growing economy suffering high unemployment. In fact, Germany is currently one of the fastest growing economies in the euro area. Its rate of per capita income growth is fully half a percentage point faster than that of the United States. Its exports are up by nearly 50 per cent since the beginning of the decade. The country’s high unemployment is finally coming down.

So how has Germany done it? To start with, very serious economic problems – slow growth, stagnant productivity growth, and double digit unemployment for the better

---

<sup>17</sup> Thus, it has been widely argued in the literature that financial and corporate restructuring is the explanation for why growth hasn’t been faster. This is exactly my point.

part of 15 years – broke down political resistance to reform. In other words, there developed a consensus on the need to remake the economy for the 21<sup>st</sup> century. Importantly, that consensus encompassed both the political left and right; it was the socialist-led government of Gerhard Schroeder that pushed through important reforms liberalizing the labor market.

A second factor prompting reform was the creation of a free trade area with Eastern Europe as a result of the admission of the so-called accession economies into the European Union in 2004. (Here I will be drawing parallels with Korea’s FTA’s, including that with the United States, in a moment.) Poland, next door to Germany, has an abundance of high-skilled, low-cost labor. Its accession to the EU gave German companies the opportunity and incentive to move east if German workers didn’t moderate their wages and if the unions resisted more flexible labor-market arrangements. At the same time, free trade with countries like Poland allowed German companies to restructure in efficiency-enhancing ways. They could transfer the production of standardized parts and components, and certain assembly operations, to Poland, while building up research, development, and precision manufacturing at home, enhancing the cost competitiveness of the enterprise and encouraging investment. The Bundesbank has studied the question of whether investment by German firms in Poland and other Eastern European countries effectively “hollowed out” the German economy. It concluded the opposite – namely that the availability of this low cost platform for assembly and for the production of standardized components in fact increased the attractions of Germany as a destination for inward FDI by foreign companies.

In Germany's case, one key is that there has been sufficient time to reform the entire range of arrangements – financial markets, labor markets, government policies – so that the new arrangements fit together in complementary ways. Capital markets have taken over from the banks: the share of bank loans in financing has declined from 80 per cent at the beginning of the 1990s to less than 50 per cent today. On the side of the labor market, access to unemployment benefits was tightened, unemployment insurance contributions were reduced, and small companies were exempted from layoff protection laws. Large companies were permitted to hire workers for a trial period without automatically giving them security of employment, and wage negotiations were considerably decentralized, allowing for greater wage differentiation by workers in firms facing international competition.<sup>18</sup> A health insurance reform introduced in 2004 lowered costs and restored the financial health of the system. Corporate tax rates were slashed, and very small companies were exempted from corporate taxes entirely.

One shouldn't overstate the extent of these reforms or the consequences, but there is no question that they are producing results. The unions have noticeably moderated their wage demands. German companies have successfully restructured and shed redundant labor. The result has been a fall in unit labor costs in manufacturing by almost ten per cent, proceeding at an accelerating pace since 2003. Hence the export surge and the rise in investment. The detailed picture is more complicated, as might be expected. The rise in labor productivity and decline in unit labor costs have been most dramatic in manufacturing, where restructuring – prompted by international competition – has been extensive, but less in construction, and even less in services, which are still sheltered

---

<sup>18</sup> Through the operation of so-called "opening clauses," which allow decisions regarding, inter alia, hours and wages to be delegated by the national trade union to the employees of a particular enterprise.

from foreign competition.<sup>19</sup> But the result has been a remarkable surge in exports and improvement in competitiveness.

Let me note also several additional reasons for taking this comparison seriously. Germany is specialized in exports of transportation and machinery equipment. A substantial share of exports are going to emerging markets with high investment demands, both in Eastern Europe and East Asia.<sup>20</sup> In addition to a handful of very large companies, most German exports of these goods come from smaller firms. The German government and German companies spend generously on R&D: Germany has the highest R&D ratios in Europe, after only Switzerland, with its extensive chemical and pharmaceutical industries. But Germans are perennially dissatisfied with the performance of their university system. They are currently seeking to reform it, not for the first time, to better reward excellence and deliver scientific training of the first order. And they have not solved the problem of fostering effective university-industry collaboration. All of these observations will sound familiar to a Korean audience

Korea is not Germany. Being right next door to China is an order of magnitude more challenging than being right next door to Poland.<sup>21</sup> Still, one can imagine that some lessons carry over. Moderate wages and enhance the flexibility of labor markets in order to take advantage of new opportunities. Stay the course in terms of restructuring, and recognize the positive productivity effects of shifting standardized parts of the production

---

<sup>19</sup> Output per hour worked rose by 3.2 per cent per annum in manufacturing between 2000 and 2005, but by only 0.7 per cent in construction and 0.8 per cent in services. Preliminary figures for 2006 suggest a 6.6 per cent rise in labor productivity in manufacturing, compared to 1.6 per cent in construction and a mere 0.2 per cent in services. Allianz (2007), p.14. The improvement in productivity has been least in network industries (electricity, postal services, the railways, telecommunication), which face little real competition and have been slow to adopt new information technologies.

<sup>20</sup> The share destined for emerging markets is in fact substantially higher than that of Japan, the UK and the U.S., reflecting Germany's distinctive product mix.

<sup>21</sup> Although it also offers even greater opportunities.

process to lower-cost countries in the neighborhood. Exploit the complementarities between different reforms.

## **5. Final Thoughts**

Let me conclude with some final thoughts on the U.S.-Korea FTA and on foreign direct investment in Korea.

In Europe, the positive productivity effects of the single market flow not simply from the scope it affords for regional supply chains but also to the intensification of product market competition. Domestic firms faced with more intense import competition have to shape up or die. The OECD has documented this positive effect of product market competition on productivity in a series of empirical studies.<sup>22</sup> An independent analysis by Rachel Griffith of the Institute for Fiscal Studies in the UK shows that the increase in efficiency due to the intensification of product market competition is greatest among firms with principal-agent problems.<sup>23</sup> By contrast, there is much less evidence of an effect on firms where managerial control and ownership are closely aligned. This suggests that more intense product market competition can be especially helpful in Korea, where the existence of agency problems associated with the separation of ownership from control has long been noted.

The intensification of product market competition will similarly be one of the effects of the U.S.-Korea FTA. Pharmaceuticals, chemicals, advertising, and media, none of which are as productive as they might be, will face stronger import competition as a result of the FTA. Korean automotive companies, which have enjoyed a largely sheltered

---

<sup>22</sup> See Gjersem (2004).

<sup>23</sup> See Griffith (2001).

domestic market, will face growing competition from Japanese cars produced in the United States, forcing them to raise efficiency. Thus, the FTA will sharpen the incentive to boost productivity and better align ownership with control.

In addition, one would also expect the FTA to spur additional U.S. investment in the electronics industry in Korea and in the relatively cosseted service sector (banking, insurance, brokerage, asset management, and accounting), where U.S. firms have long complained of barriers to entry.<sup>24</sup> This is yet another mechanism for ratcheting up product market competition and stimulating greater productivity.

So you will see that I am relatively optimistic about Korea. The fundamentals, from macroeconomic policy to human capital formation, are strong. Life next door to a rapid-growing, immensely-large low-wage economy like China is not easy, but it affords opportunities, not least for an economy like Korea specialized in the production of electronic components, machinery and equipment. Exploiting those opportunities will require further restructuring. There will have to be additional offshoring of the production of standardized components and assembly operations and additional specialization at home in R&D, design and precision manufacturing. The U.S.-Korea FTA and the continued liberalization of inward foreign investment strengthen the incentive for Korean firms to move in this direction. It is not surprising, perhaps, that many observers are disappointed by recent rates of growth, since restructuring is disruptive to the status quo. But it promises better things going forward. This, in a nutshell, is why I am optimistic.

I am happy to take your questions to the extent that time permits. Thank you very much.

---

<sup>24</sup> This is the prediction of Schott, Bradford and Moll (2006).

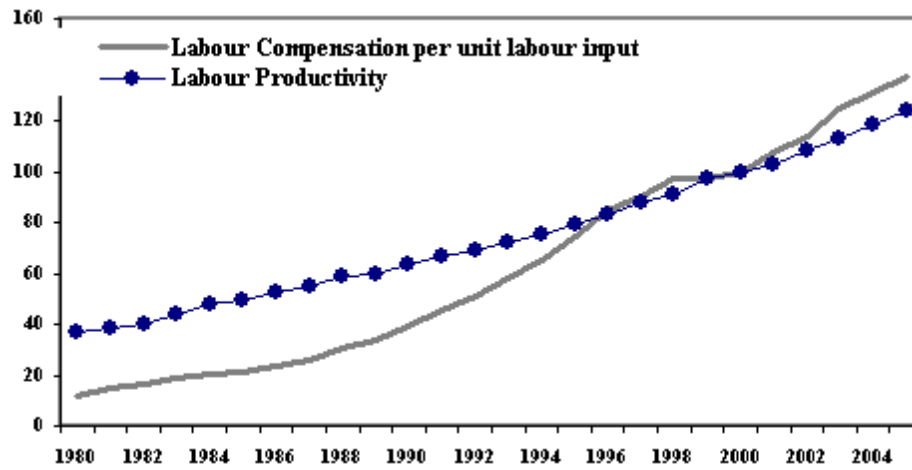




## References

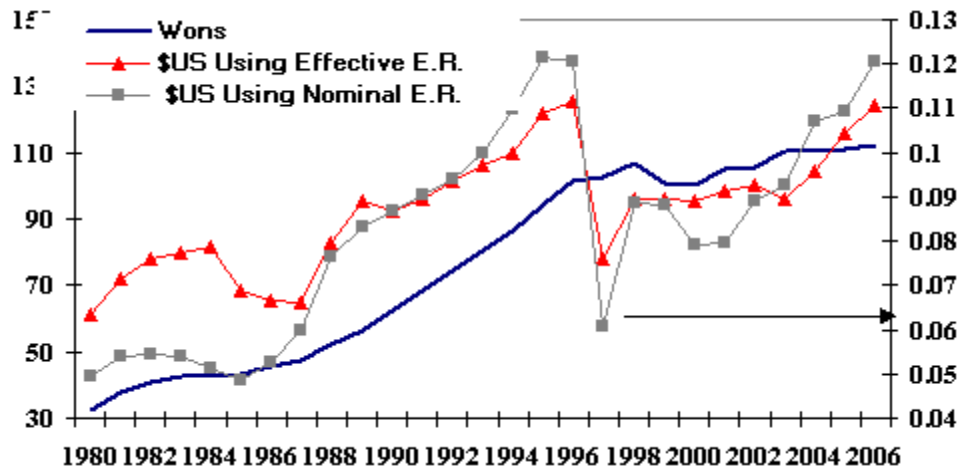
- Allianz (2007), "European Growth and Jobs Monitor," Frankfurt: Allianz Dresdner Economic Research.
- Braga de Maceo, Jorge and Joachim Oliveira Martins (2006), "Growth, Reform Indicators and Policy Complementarities," FEUNL Working Paper no.484, New University, Lisbon (July).
- Anantochikul, Sudarat and Barry Eichengreen (2007), "Corporate Governance Reform in Emerging Markets: Where, Why and with What Effects?" unpublished manuscript, University of California, Berkeley.
- DeLong, J. Bradford and Lawrence Summers (1991), "Equipment Investment and Economic Growth," *Quarterly Journal of Economics* 106, pp.445-502.
- Eichengreen, Barry (2005), "Is a Change in the Renminbi Exchange Rate in China's Interest?" *Asian Economic Papers* 4, pp.40-75.
- Eichengreen, Barry and Hui Tong (2006), "How China is Reorganizing the World Economy," *Asian Economic Policy Review* 1, pp.73-101.
- Gjersem, Carl (2004), "Policies Bearing on Product Market Competition and Growth in Europe," OECD Working Paper no.378 (December).
- Griffith, Rachel (2001), "Product Market Competition, Efficiency and Agency Costs: An Empirical Investigation," IFS Working Paper 01/12, London: Institute for Fiscal Studies (May).
- Korea Institute of Finance (2007), *Korean Economic and Financial Review*, Seoul: KIF (January).
- Kramer, Charles (2006), "Asia's Investment Puzzle," *Finance and Development* 43, [www.imf.org](http://www.imf.org) (June).
- Lim, Jiwon (2007), "Korea's Shipbuilding Boom and its BoP Implications," *Global Data Watch*, New York: J.P. Morgan (18 May), pp.21-22.
- Schott, Jeffrey, Scott Bradford and Thomas Moll (2006), "Negotiating the Korea-United States Free Trade Agreement," Policy Brief in International Economics 06-4, Washington, D.C.: Institute for International Economics (June).

**Figure 1 : Labour Compensation per unit of Labour Input and Labor Productivity (2000=100)**



Source: OECD

**Figure 2: Korea Unit Labour Cost (2000=100)**



Notes: The unit labour cost expressed in \$US using the effective exchange rate has been rescaled by 100.

Sources: OECD, BIS and IFS.