

Executive Summary

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Introduction

In the economic crisis in East Asia, the biggest difference between Korea and Taiwan was that Korea fell into a currency crisis while Taiwan did not, although Taiwan has been increasingly influenced by the economic crisis and has proved to have experienced problems similar to those of Korea. Behind the big difference we find the different mechanisms of economic development of the two countries: Korea's was led by the government and chaebol conglomerates, and Taiwan's by the private sector, and especially by small- and medium-sized enterprises. While both development mechanisms were rational, Taiwan's mechanism easily adapted itself to the changes in the economic environment at home and abroad starting in the latter half of the 1980s and later but Korea's mechanism was not able to respond adequately, inviting economic crisis.

Chapter 1

The economic performances of Korea and Taiwan displayed a striking contrast when the Asian economic crisis struck. Specific differences can be found in the exchange rates of their currencies, stock price indexes, economic growth rates and unemployment rates. In order to understand the background for these differences, we conducted a comparison of the economic structures of Korea and Taiwan, which showed that Korea's trade is structured around exports by industries that enjoy economies of scale, and the concentration rate of export items is relatively high. On the other hand, Taiwan's export items are more diversified than Korea's and its strength lies in its industries that are competitive even without the economies of scale. As for corporate management, Korean companies, in the pre-crisis years, actually did better than their Taiwanese counterparts in terms of profitability and growth potential, but faced great risks as a result of their high debt-equity ratios. On the other hand, the debt-equity ratios of Taiwanese firms were very low, meaning that they were giving priority to safety in their management.

Chapter 2

Korea experienced overheated investment and entry in many of its industries in the mid-1990s, inviting an economic crisis through increased imports and oversupply. The phenomenon stemmed from Korea's development style, which was deeply dependent on hardware, in a way that catered to chaebol-centered industrial organizations. The crisis came as an indication that this style had its limits. The contagion of the crisis reached Taiwan in 1998. Some financial institutions became insolvent in the latter half of 1998. In Taiwan, a speculative economic bubble had been generated since the mid-1990s, although it was still not large in scale. The economic slowdown following the spread of the Asian crisis to Taiwan led to the bursting of this bubble, resulting in the bankruptcies of some companies and financial institutions. But it is highly unlikely that these failures will lead to an economic crisis which will encompass the whole of Taiwan.

Chapter 3

This chapter analyzes the differences and similarities between Korea and Taiwan by looking at two specific industries. In the area of integrated circuits, the big Korean conglomerates flexed their financial muscles and focused on dynamic random access memory (DRAM), catching up with the forerunners in a short period of time. In Taiwan, on the other hand, semiconductor makers developed by focusing on the foundry business and making use of the linkages to U.S. firms. Thus Korean chipmakers' profits were very vulnerable to fluctuations in DRAM prices, while Taiwanese companies maintained stable, high profits by concentrating on the niche foundry business market.

Korea and Taiwan have much in common in their iron and steel industries. In both countries, state-owned companies monopolized upstream businesses, and made aggressive forays into downstream operations after being privatized, while the companies that had been conducting downstream operations planned active investment to go upstream. In Korea, overcapacity ultimately brought on a slump in the steel industry, leading to a decline in steel prices on the global market resulting from export drives. This steel market slump spread to Taiwan via an influx of cheap imports.

Chapter 4

This chapter analyzes the differences and similarities between Korea and Taiwan through their financial systems. In Korea, a large volume of short-term capital flowed in from overseas starting in 1996, because of an easing of regulations on capital transactions, where fund procurement took precedence over fund management, as well as the authorization of a large number of merchant banks. As these funds flowed in, competition between commercial and merchant banks intensified in the short-term money market, making it difficult for the market to discipline chaebol borrowers, and this in turn leading to a rise in their debt-equity ratios.

In Taiwan, the chief aim of financial liberalization was deregulation at home, and little headway was made in easing controls over external capital transactions. An analysis of bank management shows that there has been a shift to long-term finance, a decline in capital asset ratios, and a narrowing of spreads, an indication that Taiwanese financial institutions have been more willing to take business risks.