

# The Strategic Comparison of Economic growth between China and South Korea

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**Abstract**—China and South Korea have become other's important trade and investment partners. At present, the overall situation of bilateral economic and trade cooperation is good, and have a bright future. The result of bilateral trade cooperation is remarkable. Since they establish the diplomatic relations, bilateral trade have increased more than 20% annual growth rate, the rate of trade in the history between China and other developing countries is rare. At present, China has become South Korea's second largest trading partner; South Korea is China's fifth largest trading partner. Mutual investment has been also developed rapidly. South Korea's direct investment level is also rising; the investment by Chinese enterprises to Korea also made great progress. At present, Chinese enterprises such as manufacturing and service industries have set up branches or branch office in South Korea to promote bilateral economic, trade cooperation and exchange to make a positive contribution.

**Keywords**- South Korea; economic growth; strategy

## I. INTRODUCTION

Kuntz think if the average annual growth of GNP is more than 3%, this belongs to the high-speed growth and the countries after the war in order to quickly catch up with developed countries, they always take the rapid growth strategy, and it is also called catch-up growth. The average annual growth rate of South Korea's economy between 1965-1994 was 7.1%, the first five-year plan period (1962-1966) the GNP is growth to 7.9%, the second five-year plan (1967-1971) and the Third Five-Year Plan (1972-1976) period the real GNP growth rate was 9.7%, in some years it broke the two indices. As 1973 the rate was 14% and in 1976 it was 13.4% in 1983 it was 12.6% in 1986 it was 12.9% in 1987 it was 13% in 1988 it was 12.4%, which has been maintained a high growth in 1996 (6.9%).

After the reform and opening up, China's economy has maintained a rapid growth, in 1979 to 1997, the average annual GDP is growth to 9.8%. the annual economic growth rate have maintained a world-leading level in nearly 20 years. China's total GDP in 1978 was 400 billion Yuan, in 1997 ,it amounted to 7.5 trillion Yuan, it was an increase of nearly 20 times, China's per capita income varied 684 Yuan to 2654 Yuan from 1978 to 1995, it was an increase of 40 times. China and South Korea have adopted the strategy of rapid economic growth, mainly due to low economic growth in

both countries starting point. In 1962 early development of GNP of the Korean economy was \$ 2.3 billion, and their per capita income is only \$ 87, because of the domestic and international environment, Korea was forced to take the high-speed growth strategies. China's economic takeoff second starting point --- social labor productivity in 1981 was \$ 545 / person / year, the same year the United States was \$ 25,934, and it was \$ 17,634 for Japan, and for West Germany, it was \$ 23,944, and it was \$ 21,804 for the United Kingdom, and for France, it was \$ 24,092. They are respectively for China's 47.6 times, 32.4 times and 43.9 times, 40 times, 44.2 times. Assuming in labor productivity there is zero growth in major developed countries, and China's extraordinary annual growth rate is 6-9%, it needs 40-60 years to reach the level of production of mainly developed countries in 1981; if they grow at a rate of 2% per year, China will reach their level in 1981 until in 2060. If their labor productivity growth rate was more than 2%, then it would require a longer time to reach that level [3] (P58). This shows it is very similar that the rapid growth of China and South Korea has taken a strategic background.

Of course, before the reform and opening up, the average annual growth rate of China's agricultural production in 1952-1979 was 8.6%, but this speed is based on the extension of the type of expanded reproduction, its labor productivity was low, fixed assets was waste, considerable part of the growth was invalid. In 1952-1979, China's infrastructure investment was 65 billion Yuan, fixed assets was 450 billion Yuan, and investment returns wad only 300 billion Yuan, the total investment was accounting for 54.5%. Therefore, growth must be based on the economic benefits.

Causes of high-speed economic growth in China and South Korea have similarities and differences between points. One point is to maintain a high rate of investment. Korea in the process of economic growth has been maintained the high investment rates for more than 30%. And the technical content was high fixed capital investment, tools and others remain at 30% above the level. After the reform and opening China's rapid economic growth, one of the supporting forces is the high investment rates, China's economy in 80-90 century has maintained a high investment rate of 40%, however, and China's investment in the field of technical content is not high. "Seven • Five" and "Eight • Five" investment-tech state-owned enterprises during the program always below 25%, it resulted in low levels of investment in technology and the main reason due to the investment structure was the proportion of investment in real estate was too high.

Factors about China and South Korea supporting the high investment rate have in common, which rely on high domestic savings rate and a lot of foreign investment. Domestic savings rate rose to 6.9% in 1960 and rose to 35% in 1991, in order to increase the savings bank deposit rate from 15% to 24%. In the economic development process, there was a lot of foreign investment in South Korea, the total amount of foreign investment was \$ 50.968 billion from 1959-1994, an average annual growth rate during 1962-1982 in Korea was 8.2%. The rate that foreign investment contributes to the economy was 3.3%, that is, if not introducing foreign economic growth, it reached only 4.9%. South Korea takes advantage of the introduction of foreign based borrowing, and supplement by direct investment. During 1962-1982 a total foreign investment in South Korea was \$ 35.8 billion, and loan was \$ 33.1 billion, it accounted for 92%; foreign direct investment was \$ 2.7 billion, it accounted for 8%.

Since the reform and opening up, with the rapid economic development, urban and rural residents have a strong propensity to save money. In 1993 urban and rural residents of the marginal propensity to save money was 43.7% (the percentage increase in the urban and rural residents' savings accounts for the amount of increase in GDP). In 1997, for example, in China's total savings, enterprise deposits, treasury deposits and government agencies and organizations accounted for only 37.7% of the total deposits, accounted for 56.2 percent of urban and rural residents' savings. Since reform and opening, the total foreign investment in 1995 reach \$ 201.57 billion, and foreign direct investment accounted for about 50%, it introduced a large number of Chinese direct investments.

Since the reform and opening up, an important reason for China's rapid economic growth is economic reform. Modern economic growth theory attaches great importance to the system and institutional factors and it was the key factors of economic growth.

## II. CHINA AND SOUTH KOREA ARE IN THE PROCESS OF ECONOMIC GLOBALIZATION AND DEVELOPMENT

Beginning in the 1980s, the economy of regional blocs surging worldwide, especially after the end of the Cold War, the traditional pattern of international politics has disintegrated. The world economy appeared two new trends: First, economic globalization, cooperation of economic interdependence between countries was increasingly close; the second is the regional economic integration, it accelerated the depth and breadth of development, trade Protectionism was on the rise. The European Common Market had a further development and the North American Free Trade gradually formed, AFTA has expanded the scope of the Member States, in many different sizes and different levels of regional economic, the cooperation has developed rapidly.

From the perspective of the current economic development trends, because limited space and time chasing capital were to maximize profits, the regional economic integration will eventually integrated into the world economy on track. As international relations have become diversified

increasingly, the world was deeply into the geo-economic era, and gradually formed a financially oriented new international economic order. This happens to increase pressure and urgency of the bilateral economic and trade cooperation between China and South Korea. China and South Korea are geographically adjacent, and have similar cultural traditions, economic complementarily, and are facing new challenges and opportunities. We should take advantage of relative stability in East Asia, and catch rapid economic development opportunity, through the strengthening of bilateral cooperation between the two countries to seek faster economic development is the common goal. In this trend, bilateral economic, trade exchanges and cooperation are an irresistible inevitable choice. Due to lacking of resources, Korea needs China as an economic hinterland, while China also needs the economic advantages of South Korea's economic development to improve the economic status in the international arena, to survive and develop in the joint economic cooperation.

### Complementary cooperation between China and Korea

According to the theory of international economics, economic complementarities and mutual compensation refer to the relationship between different countries or regions of the various elements about productivity and interdependent. This complementary relationship, generally by providing products, services, technologies, services or investment manifested. Constituting a complementary economic needs three basic premises: First, it needs mutual advantage, and second, it needs others and the third it needs mutual desire. Unilateral advantage does not constitute a material basis for complementary.

They have mutual advantage, the same structure or their strengths is difficult to achieve the purpose of communication and can not constitute complementary. Even they have mutual strengths and needs, but the two sides are politically hostile or unilateral seclusion, it can not be achieved complementary if no dealings with others. From the perspective of comparative advantage, due to China and South Korea's history, geography, and different economic factors, it resulted in a high degree of economic complementarily on both sides objectively. And it was mainly in the following aspects:

## III. COMPLEMENTARY FACTORS OF PRODUCTION

It performed the complementary natural resources, human resources and application technologies. China has a relatively abundant natural and human resources, mineral-rich farmers, huge market potential. Especially after decades of economic development, it has become a huge national economic system, and has the advantage of basic research and high-tech fields. On the other hand, China is shortage of funds, and its management is lack of marketing experience. Relative to China, South Korea has obvious advantages in capital, technology application, operation and management. But South Korea is lack of natural resources plaque, labor resources, small domestic markets, and limited economies of scale.

Thus, China has the advantage of natural resources and labor, capital and Korea has the advantage of technology,

China and South Korea have such highly complementary in terms of production factors. We can Take the other's advantages to make up for own short, the economic development of the two countries will undoubtedly be of great help, since the establishment of diplomatic, the rapid development of bilateral trade fully illustrates this point.

#### A. *Complementary of industrial structures*

Due to differences in the level of economic development stage, the two countries in the industrial structure have a multi-level complementary. According to the industrial structure theory, it generally considered to have a comparative advantage in the area of economic capital and technology-intensive area. On the stage of economic development in a dominant position, relative to the economy has a comparative advantage in labor-intensive areas of resources. At this stage, Korea has a comparative advantage in industries and technology of capital-intensive and technology-intensive. Trade between the two countries since the establishment of diplomatic relations, the results from the different characteristics use the trade, the South Korean trade with China in the field of capital and technology-intensive area, the export is dominant: In the non-durable consumer and labor Light-intensive field, the input is dominate. Further the analysis of intra-industry trade relationship between the individual industries, it can be seen fibers, textiles, miscellaneous products, and precision machinery, these disposable products in areas have an input feature, then the rest of the various industrial fields show the output characteristics. Especially road vehicles, general machinery, chemical industry, iron and steel, office equipment and other industries, the output characteristics are more obvious. At present, China is in a period of adjusting the industrial structure, China will be the development of basic industries and infrastructure, transport, energy, raw materials, etc., which is the South Korea's advantage, as long as both sides have the desire for developing cooperation, this cooperation will be promising.

#### B. *complementary products*

from the current product quality between China and South Korea, China's products are mainly labor-intensive, low value-added part of the grades and products, while South Korean production is capital and technology content, from the perspective of the morphology products , China is still in the less variety, single, long cycle, high-volume production stage, while South Korea has entered varieties, short, small quantities production stage; from the production process, it has the downstream processing and assemble in China, South Korea belongs to the upstream production of raw materials, components or semi-finished products.

#### C. *Complementary in terms of import and export commodity structure*

In terms of import and export commodity structure, over the years, Chinese exports to South Korea are mainly

forestry aquatic products, textiles, mineral products, iron and steel, oil and non-ferrous metals. South Korean exports to China are mainly textiles, electronics and electrical, chemical products, iron and steel. For the structure of Import and export of goods, China and South Korea have their own advantages, which the two countries are at different stages in economic development.

## IV. CONCLUSIONS

After 90 years, the Korean economy continues to adjust policies to address the rapid growth that occurred during a series of sequels. For example, the one-sided emphasis is on the speed, due to neglecting quality, there appear broken bridge, collapsed department store, the first big enterprise, SME policy is appeared after the emergence of large enterprises bloated, after the cause of fair wealth differences, we should be well experienced and learned lessons from Korea, and continue to overcome similar problems.

All in all, China and South Korea are inseparable and trade partnership, with the economic development of China and South Korea, the two countries to further deepen interdependence, and even can be called the economic fortunes of the Community. Therefore, in order to deepen and further development of bilateral economic and trade cooperation between the two countries, we must make full use of their respective comparative efforts to strengthen economic and trade cooperation, ready to overcome and resolve trade frictions between the two countries and relate issues in order to seek the establishment he economic fortunes of the Community of "equality, mutual benefit and common development"

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