

Mirror, Reflection, and Prospect: South Korea's Integration into Economic Globalization—Process, Experiences, and Implications for China

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Abstract

From the 1960s to the present, South Korea has risen from the ashes of war, rapidly and comprehensively undergoing a modernization process that transitioned from an agrarian economy to one led by light industry, then heavy and chemical industries, followed by the tertiary sector, and finally a knowledge-based economy. This trajectory mirrors the path China is currently on and will continue to pursue. A key factor in South Korea's successful economic and national transformation has been its adept utilization of opportunities afforded by economic globalization. Its valuable experiences offer important lessons for China.

Keywords : economic globalization, South Korea's economic miracle, implications for China

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Introduction

The renowned historian Wallerstein¹ once outlined three development strategies for Third World countries: first, integrating into the world economic system; second, seizing opportunities to pursue import-substitution industrialization; and third, completely decoupling from the capitalist world system to focus on self-sufficient production. Many Latin American countries adopted the second approach, which proved effective in boosting economic development to some extent temporarily, but unsustainable in the long run. During the Cold War, socialist countries insisted on establishing a "parallel market," isolating themselves to focus on internal development, resulting in evident economic backwardness.

In contrast, South Korea chose the first path and emerged as one of the "Four Asian Tigers." The key to its success lies in adeptly leveraging the opportunities presented by economic globalization, consistently aligning its economic development with the global market. In particular, it capitalized on the gaps created by industrial restructuring in developed countries, utilized its comparative advantages, and achieved industrial upgrading. By adapting domestic reforms to meet the demands of the international economic system and proactively integrating into the wave of globalization, South Korea achieved rapid economic growth—a major factor behind its economic miracle.

Next, the author will focus on South Korea's historical process of actively integrating into economic globalization and its implications for China.

Seizing the Historic Opportunity Presented by Industrial Upgrading in Western Developed Countries

During its first Five-Year Economic Development Plan, South Korea adopted an "import substitution" strategy as its overarching guiding principle. The rationale was to rely on domestic resources, technology, and labor to produce the machinery, equipment, and consumer goods needed for economic development, thereby minimizing imports and alleviating the government's balance of payments pressures. Accordingly, the South Korean government implemented various measures to restrict foreign imports and protect domestic industries.

In its first Five-Year Economic Development Plan, South Korea adopted an "import substitution" strategy as its overall guiding principle. The intention behind this strategy was to rely on the country's own resources, technology, and labor to produce the machinery, equipment, and daily necessities required for economic development, thereby minimizing imports and easing the government's strained balance of payments. As a result, the South Korean government implemented numerous measures to restrict the importation of foreign goods and to protect domestic industries.

On the surface, this kind of trade protectionism appeared to effectively safeguard the fledgling national industries in the short term, gaining the support and endorsement of certain national capitalists. However, from a long-term perspective, this

strategy was not well-suited for South Korea's development. Due to South Korea's small land area, high population density, and limited natural resources, its domestic market was constrained, which in turn became a bottleneck for further economic growth. Moreover, prolonged warfare and political instability weakened the purchasing power of the population and led to insufficient capital accumulation among enterprises.

As one scholar remarked, "The 'import substitution' policy implemented by South Korea during this period was, in fact, a policy of 'self-imposed isolation.' The fatal flaw of such a policy lies in placing the foundation of economic development solely on the country's limited human, material, and financial resources, failing to participate in international economic activities actively and to leverage external conditions for domestic economic development fully" ⁱⁱ.

The historical development opportunity brought about by industrial upgrading in developed countries such as the United States happened to resolve this developmental dilemma for South Korea. After President Park Chung-hee came to power in 1961, in response to the reality of a limited domestic market, scarce resources, and a relatively abundant labor force, he seized the once-in-a-lifetime opportunity presented by the industrial restructuring taking place in the United States. He proposed the slogan "building the nation through trade, exports first," and began to implement an export-led outward-oriented development strategy. By 1964, South Korea had established a relatively sound export-oriented management mechanism, which in turn spurred rapid national economic growth.

Broadly speaking, South Korea's outward-oriented development strategy can be divided into two phases. The first phase, in the 1960s, was an export-oriented strategy centered on light and textile industrial products. The second phase, beginning in the 1970s, shifted to an export-oriented strategy focused on heavy and chemical industrial products. The adoption of these two strategies was, in the broader context of international development, a timely response to the restructuring of industries in developed countries led by the United States, which effectively made room in the global market.

The first phase emerged in the context of rising technological standards and increasing labor costs, which rendered labor-intensive industries—such as light and textile manufacturing—less profitable in developed countries. Starting in 1964, the South Korean government officially began to use export volume as a key indicator of national strength and placed particular emphasis on the development of labor-intensive industries, especially those based on light and textile manufacturing. The government took the initiative to implement a series of supportive measures.

This strategy achieved significant results in a remarkably short period of time, as it capitalized on favorable international opportunities while maximizing South Korea's domestic advantages—playing to its strengths and avoiding its weaknesses. The South Korean economy experienced rapid growth, and export volume soared—from \$65 million in 1962 to \$835 million in 1970. Throughout the 1960s, the average annual export growth rate reached 38.1%, a pace rarely seen worldwide. The surge in export volume also led to a significant shift in the overall product structure, with the proportion of industrial manufactured goods continuously increasing, thereby promoting healthy development in both the industrial sector and the national economy.

Entering the 1970s, South Korea's export-oriented development strategy faced significant challenges. With more and more developing countries joining the ranks of export processing zones, South Korea's previous advantage of cheap labor gradually diminished. Moreover, in producing these low-tech, low value-added goods, intense international competition led to rapidly shrinking profit margins, leaving little room for further development. At the same time, this development strategy inherently required the large-scale import of raw materials and machinery from abroad. The terms of trade between primary goods and high-tech machinery continued to deteriorate, making further expansion of exports nearly impossible. Additionally, the appreciation of imported goods combined with relatively declining exports began to create a trade deficit. In response to these evolving realities, South Korea began to continuously upgrade its outward-oriented development strategy.

During this period, developed countries, pressured by energy crises and the need to adjust their own industrial structures, began relocating energy- and resource-intensive, low-technology, and environmentally harmful heavy and chemical industries to other countries. This shift created a favorable opportunity for South Korea to upgrade and transform its industrial structure. Compared to light and textile industries, these heavy and chemical industries had advantages such as higher value-added production, broader markets, and more significant returns. Therefore, beginning in 1972, the South Korean government began tilting its support toward heavy and chemical industries. In 1973, the government issued the Heavy and Chemical Industry Declaration. The declaration stated, first, that the economic strategy centered on light industry in the 1960s had encountered barriers that hindered export growth and had become increasingly unsustainable. Therefore, it was necessary to concentrate national efforts on developing industries with higher value than light industry—such as shipbuilding, machinery, electronics, steel, and chemicals—with the world market as the target, striving to increase exports. Second, in order to reverse the worsening balance of payments, it was essential to upgrade and sophisticate the industries that had previously substituted for imports, starting with the development of heavy and chemical industries.ⁱⁱⁱTo this end, in 1979, the South Korean government established the "Committee for the Promotion of Heavy and Chemical Industry," headed by the Prime Minister. A series of effective measures were taken to implement this strategy: key industries were identified for focused development and received strong support in terms of credit and taxation; special export bases were created specifically for heavy and chemical industrial production; more than 60% of government investment was directed toward infrastructure development to eliminate future obstacles to industrial growth; large enterprises were cultivated, and the development of small and medium-sized enterprises was also supported.

The successful implementation of this strategic decision enabled South Korea's industrial structure to rapidly shift toward a more advanced configuration. Within a short period of time, the country established a relatively complete national economic system and improved its technological capabilities, thereby significantly accelerating the industrialization process.

Overall, South Korea's rapid modernization from the 1950s to the 1970s was closely tied to the broader international economic environment of the time, particularly the postwar "golden age" of prosperity in major capitalist countries. South

Korea fully leveraged the favorable global market conditions characterized by the “three lows” phenomenon—low growth, low inflation, and low interest rates—and seized the historic opportunity presented by the industrial restructuring of developed nations. Facing difficulties with determination and maintaining an independent approach, South Korea formulated its own development strategy and achieved a qualitative breakthrough in industrialization. With strong support from the United States and Japan, South Korea actively absorbed foreign capital and technology, and boldly integrated itself into the global economic system. As a result, it realized the miracle of rapid economic takeoff. It can be said that the key to South Korea’s modernization process lies in its adoption of a correct internationalization strategy.

Advancing Internationalization Through APEC^{iv}

South Korea's economy exhibits a high degree of external dependency and follows an export-led, outward-oriented structure. In the past, South Korea relied on free trade with the Western industrialized countries—led by the United States—pursuing an export-oriented development strategy to transform its impoverished and underdeveloped conditions, ultimately emerging as a newly industrialized nation. However, as the international situation changed, the Western developed countries not only began to adopt trade protectionism and regionalism based on their own national economic interests, but also demanded that South Korea compete on equal footing with developed countries in the global market. As a result, South Korea had to choose to join global economic cooperation organizations, seeking new paths for survival under their protection and coordination mechanisms. Especially since the late 1980s, the rapid emergence and development of economic regionalization and bloc formation, as well as the growing severity of regional trade protectionism, posed significant threats to South Korea's economic development. In response, the South Korean government once again adjusted its external economic development strategy, actively seeking ways to break through these difficulties.

South Korea chose to join APEC. Leveraging its national strength and international reputation, it sought to play a guiding—not leading—role in the Asia-Pacific region to stimulate its own economic growth while simultaneously counterbalancing Japan and the United States. Maintaining a centrist and neutral stance within Asia-Pacific regional economic cooperation was one of South Korea’s key strategies^v. Given its position within regional cooperation frameworks, South Korea aimed to strike a balance between developed and developing countries, drawing benefits from both sides. It adopted a strategy of alignment with the developed countries, especially the United States, to secure funding and access to advanced technologies, while showing sympathy and support toward developing countries to gain goodwill. This dual approach enabled South Korea to attract foreign investment, safeguard its access to the American and Japanese markets, reduce pressure from the U.S. to fully open its domestic market, and curb the rise of superpower dominance (particularly Japan). It also sought to expand its foreign trade and investment markets and reduce excessive dependence on the U.S. and Japan by positioning itself as a mediator between developed and developing nations.

For this reason, South Korea—along with Australia—was among the first to propose the establishment of the Asia-Pacific Economic Cooperation (APEC) forum. Since the founding of APEC in 1989, South Korea has actively participated in regional cooperation as one of its founding members (along with the United States, Canada, Japan, Australia, and New Zealand), as well as a host of trade and investment discussions. South Korea has worked to expand economic exchanges with other countries in the region and has sought to play a “core,” “pioneering,” “bridging,” and “mediating” role in order to enhance its political and economic standing and influence both in the Asia-Pacific and globally. Throughout its engagement in APEC, South Korea has maintained a neutral stance, acting as a mediator in conflicts, and proposing flexible solutions that are more likely to be accepted by all parties. This approach has helped South Korea maintain harmonious cooperative relations with APEC member states and strengthen its international influence.

Implementing a Globalization Strategy: Fully Embracing the World

After World War II, and particularly following the major global shifts between 1989 and 1991, the process of economic globalization entered a new phase of development. However, true integration into the global economy remained largely limited to 20 to 30 industrialized countries. For the vast number of developing nations—especially the newly industrialized economies—this situation posed both serious challenges and significant opportunities.

Alongside globalization, another parallel trend emerged: the increasing regionalization of the world economy. Over the past decade, this regionalization has become markedly more pronounced. The establishment of the North American Free Trade Agreement (NAFTA) and the Asia-Pacific Economic Cooperation (APEC) has accelerated economic integration among countries within these regions and promoted close interactions and cooperation among them. These forms of cooperation, beyond offering regional advantages, are also closely linked to the global trend of nations adopting market-oriented economies. Given South Korea’s unique geographic position and its advantageous standing within both global and regional economic groupings, the pursuit of a globalization strategy proved to be a wise and timely decision. Facing a century marked by both challenges and opportunities, South Korea began formulating its own “Globalization Strategy” in 1995^{vi}. The main goals of this strategy were to reform its domestic political and economic systems in alignment with the emerging international economic order and to further enhance its international competitiveness so that all sectors of national development could integrate more fully into the global landscape. To this end, South Korea adopted a series of measures aimed at comprehensively implementing its globalization strategy, introducing effective reforms in both domestic governance and international relations.

Actively Promoting Enterprise Management and Operational System Reforms

The South Korean government has made efforts to steer its enterprises toward globalization. It has engaged in dialogues with the North American Free Trade Area, strengthened cooperation with Western Europe, particularly the European Union, and actively developed new markets in third-world countries. Regarding changes in enterprise dynamics, the government has encouraged businesses to implement flexible production systems, reduce dependence on the government, expand interactions between domestic and international enterprises, enhance internal development, and actively introduce advanced foreign technologies. Guided by this principle, the government has introduced a series of measures to promote reforms in enterprise management and operational systems.

Actively Engaging in the Global Integration Trend

By the 1990s, South Korea gradually realized that, based on the achievements attained during the "industrialization" phase and its existing capabilities, it could accelerate the process of global and Asia-Pacific integration, occupying a relatively favorable international strategic position. Consequently, South Korea actively advocated for advancing global integration and the integration process of the Asia-Pacific region. To achieve this, South Korea sought to shift its foreign strategy, engage in comprehensive diplomatic activities, and actively participate in international organizations. Particularly during the Uruguay Round of negotiations, despite strong opposition from domestic farmers, South Korea accepted the terms and actively participated in the World Trade Organization (WTO). At the same time, South Korea recognized the importance of regional and national cooperation within "small circles." Not only did it actively engage in regional organizations, but it also made efforts to "bind" the countries of the Asia-Pacific region together, aiming to play a "core role" in the development of the Asia-Pacific Economic Cooperation (APEC) and compete with other nations.

Actively Promoting the Liberalization of International Trade

South Korea is an important member of the Asia-Pacific Economic Cooperation (APEC) and is keen to play a core role within the organization. It advocates that APEC should serve as a tool for promoting trade liberalization and eliminating trade barriers in the Asia-Pacific region. To advance the liberalization of international trade, South Korea plans to reduce the number of imported goods subject to restrictions by 50 each year, gradually achieving unrestricted and multilateral imports, thereby fully integrating the domestic and international markets and aligning the country's economic development with global trends. While relaxing import restrictions, South Korea also strengthened support for exports and worked to improve the international competitiveness of its export products. To this end, South Korea established the "International Competitiveness Enhancement Committee," abolished more than 100 regulations that hindered competitiveness, and focused on protecting key export products. In early 1995, South Korea also put forward the slogan, "Consolidate and develop the Western European market, and develop the markets of third-world countries."

Relying on External Forces for Internal Reforms to Adapt to the Demands of Economic Globalization

After the Asian financial crisis, the cooperation between the South Korean government and the International Monetary Fund (IMF) exemplified South Korea's ability to seize opportunities, proactively integrate into the global economic system, and utilize the power of international organizations to carry out internal reforms. This enabled the country's economic system to align with the requirements of economic globalization.

Following the outbreak of the East Asian financial crisis, the IMF implemented its reform prescription for the countries in crisis. After winning the presidential election, Kim Dae-jung engaged in discussions with the IMF to devise strategies for resolving the crisis. The IMF urgently formulated an unprecedented aid plan, offering South Korea a loan of \$57 billion, but with very stringent conditions. South Korea was required to undertake thorough economic reforms, significantly change its past development model, and move closer to a free-market economic model akin to those of the U.S. and the UK. In response to this challenge, Kim Dae-jung clearly stated that his new government "would fully implement the agreement with the IMF."^{vii} However, Kim Dae-jung's acceptance of the IMF's demands was not entirely out of necessity. Reform had long been his political goal. He believed that although the IMF's reform demands seemed disastrous at first, they actually offered a significant opportunity. Kim Dae-jung sought to use the IMF's prescriptions to reform South Korea's economic system, with the aim of revitalizing the economy. Therefore, he made it clear that eliminating deep-rooted issues and addressing the "Korea disease" would be his top priority, with reforms driving the economic resurgence. After his election, he did not hesitate to cooperate with the IMF. In his inaugural speech, Kim reiterated his commitment to reforms, promising to revitalize the national economy, eradicate corruption, and end centralized authoritarian rule. He also pledged to establish a smaller government that better reflected the people's will, focusing on economic development while advancing democracy, and eliminating unnecessary government restrictions and privileges as quickly as possible, rooting out the sources of bureaucratic control over the economy.

South Korea's acceptance of the reform conditions set by the International Monetary Fund (IMF) aimed at positioning the country within the international economic system and adapting to the demands of economic globalization. This was not only a crucial factor in South Korea's swift recovery from the economic crisis but also one of the key reasons behind its successful modernization.

From the above analysis, it is evident that every step of South Korea's modernization has been closely related to international contexts and the global economy. South Korea has been adept at seizing every opportunity and international condition available to serve its economic development, actively participating in international cooperation and competition, and proactively integrating itself into the wave of economic globalization. Moreover, South Korea has boldly used the demands of international organizations and the operating rules of the international economy to carry out internal reforms and align itself with the requirements of global economic development. It can be said that economic globalization created the opportunity for South Korea's economic rise, while South Korea's active engagement in the global economic wave is the true reason behind its economic success.

Implications for China

Every economy in the world is unique, with varying scales, histories, and cultural backgrounds. However, this does not diminish the fact that there are certain regularities and lessons from the development of some early industrialized economies that can be beneficial for others. From South Korea's active integration into the globalized economy, there are several aspects worth considering for China.

Chinese-style modernization must proceed under conditions of openness, making rational use of international division of labor and industrial transfer trends, and adapt to the changing global landscape.

In the current context of global economic integration, although there is still varying degrees of trade protectionism, openness and globalization remain the mainstream. When formulating industrial policies, China should not attempt to build "full industrial chains" and achieve self-sufficiency on its own. Instead, it should make reasonable use of international industrial division, industrial transfer, and factor flows, striving to make breakthroughs in key sectors and participate in international competition.

Take advantage of the demands of international organizations and the rules of international economic operation to carry out internal reforms, adapting to the requirements of global economic development.

South Korea has emphasized the importance of utilizing international industrial transfer under open conditions, combining industrialization, urbanization, and internationalization, and actively participating in international division of labor and industrial competition. The industrial policies during South Korea's authoritarian era led to the first stage of the "Miracle on the Han River," transforming the country from a backward, impoverished agricultural nation into an industrial powerhouse, but they also created serious problems, known as the "Korea Disease." South Korea used the East Asian financial crisis as an opportunity to reform its economic system, adopting the IMF's prescription. By decisively abandoning old industrial policy models, replacing them with competition policies and technology policies, South Korea eradicated the "Korea Disease" and achieved a profound transformation, enabling the second phase of the "Han River Miracle" and propelling high-quality development.

Managing the Relationship Between the Broader Government (Administrative, Legislative, and Judicial) and the Broader Market (State-Owned Enterprises, Private Enterprises, Entrepreneurs, and Entrepreneurial Spirit)

A crucial aspect of South Korea's integration into economic globalization and its modernization process is its emphasis on government leadership, while never denying the importance of the market. South Korea respects and adheres to market principles, balancing the roles of the government, market, enterprises, and entrepreneurs. During this process, a large group of entrepreneurs, such as Chung Ju-yung, Suh Seung-hwan, Lee Byung-chul, Lee Kun-hee, Choi Jong-hyun, and Koo Ja-kyung, emerged. These entrepreneurs had strong nationalist sentiments and exemplary entrepreneurial spirit. South Korea's government leadership does not mean the government handles everything; rather, the government provides public goods, encourages private sector participation, and maintains clear boundaries between the public and private sectors.

Conclusion

Korean's experience offers valuable insights for China, which is currently undergoing comprehensive reforms. Government decision-making should broadly incorporate diverse opinions, ensure procedures are legal and compliant, and avoid closed decision-making and "small circle" benefits. The central government's focus should be on providing public goods, optimizing the market environment, and, to prevent market failure, allowing, guiding, or encouraging private capital to flow into certain specific sectors. It is important to fully harness the creativity, exploration, and innovation of entrepreneurs, as well as the role of market-driven financial instruments in incubating, nurturing, and accelerating development. For state-owned enterprises involved in market competition, reforms should be carried out in terms of ownership structure, incentive mechanisms, and constraints in accordance with market rules.

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Conflict of Interest

The authors declare no conflict of interest.

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