1. The Korean Economy: Is There Industrial ‘Hollowing Out’

This paper explores the issue of outward foreign direct investment (OFDI) exporting Korean jobs during 1986–2003. In the midst of an overall increase in employment in Korea, there was a temporally coincident increase in OFDI and a decline in manufacturing employment. An examination of the employment structure and capital stock changes suggests that there had been a structural transition in the Korean economy from a capital intensive to a knowledge intensive base. Simple regression analyses demonstrated that the OFDI from Korea had a checking effect on rising unemployment. As such, the increase in unemployment can be attributed to the trends of the time and the East Asian financial crisis.

Introduction

One of the major features characterising the contemporary Korean economy is the extent of globalisation activities through foreign direct investment, especially outward foreign direct investment (OFDI). The main thrust of Korean OFDI took place in the mid–1980s. The nominal value of approved OFDI increased to US$367 million and reached a peak of more than US$6.6 billion in 1996. Although the volume of Korean OFDI decreased during the East Asian financial crisis — that is, 1997–99 — it bounced back with a strong recovery of the economy. The average annual growth rates in the nominal value of foreign direct investment (FDI) for the period 1987–2003 were 33.2 per cent for the approved amount and 29.8 per cent for the invested outward amount (Korea Ex–Im Bank 2004). The proportion of the invested OFDI during the same period remained on average at 63.6 per cent of the approved OFDI amount. However, the increase in Korean OFDI during the period did not occur in leaps and bounds, as is shown in Figure 1 below. Instead, the growth rates experienced quite a high degree of volatility irrespective of whether they are measured in nominal price terms or constant price terms. The values of the standard deviation of the amounts are 89.9 per cent for the approved amount and 56.4 per cent for the invested amount. As such, the coefficients of variation of the OFDI growth rates during the period for the approved and the invested amounts are 270 per cent and 190 per cent respectively.