

**New Directions
for a Rapidly Maturing Miracle Economy:
The Case of Korea**

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From Rapid, Shared Growth to Slow, Unshared Growth?

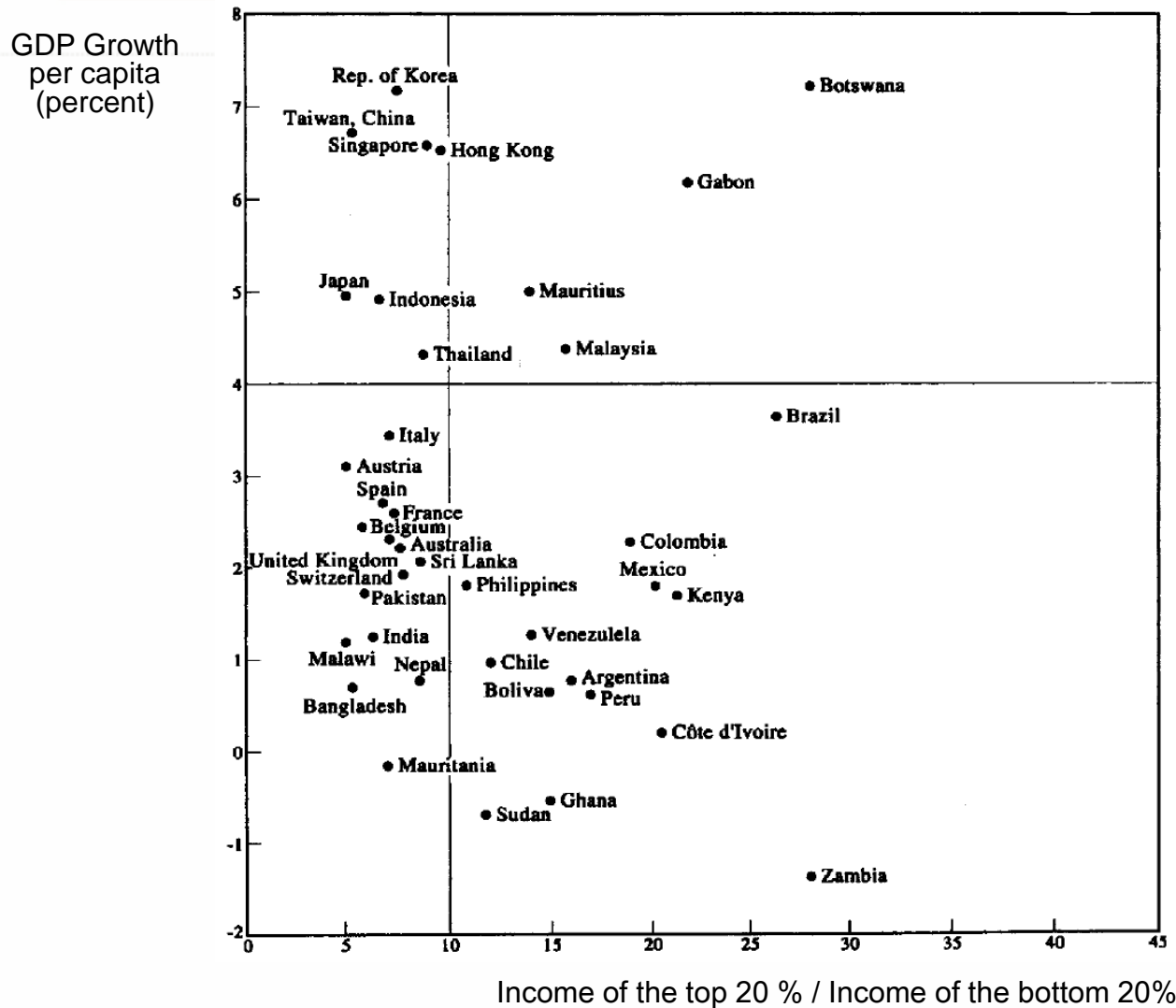
◆ Generating Rapid, Shared Growth

- Initial wealth redistribution to make meritocracy credible (cf. Piketty) : collapse of traditional social hierarchy, land reform, war...
- Human resource development
- Export-oriented industrialization
- Social cohesion policy, while staying away from European-style welfare state models

◆ Responding to Slow, Unshared Growth

- Diminishing returns
- Innovation challenges
- Changes in comparative advantage
- Deterioration in income distribution

Rapid, Shared Growth in East Asia



Note: Average over 1965-1989.

Source: World Bank (1993), *The East Asian Miracle*, p.31.

Convergence?

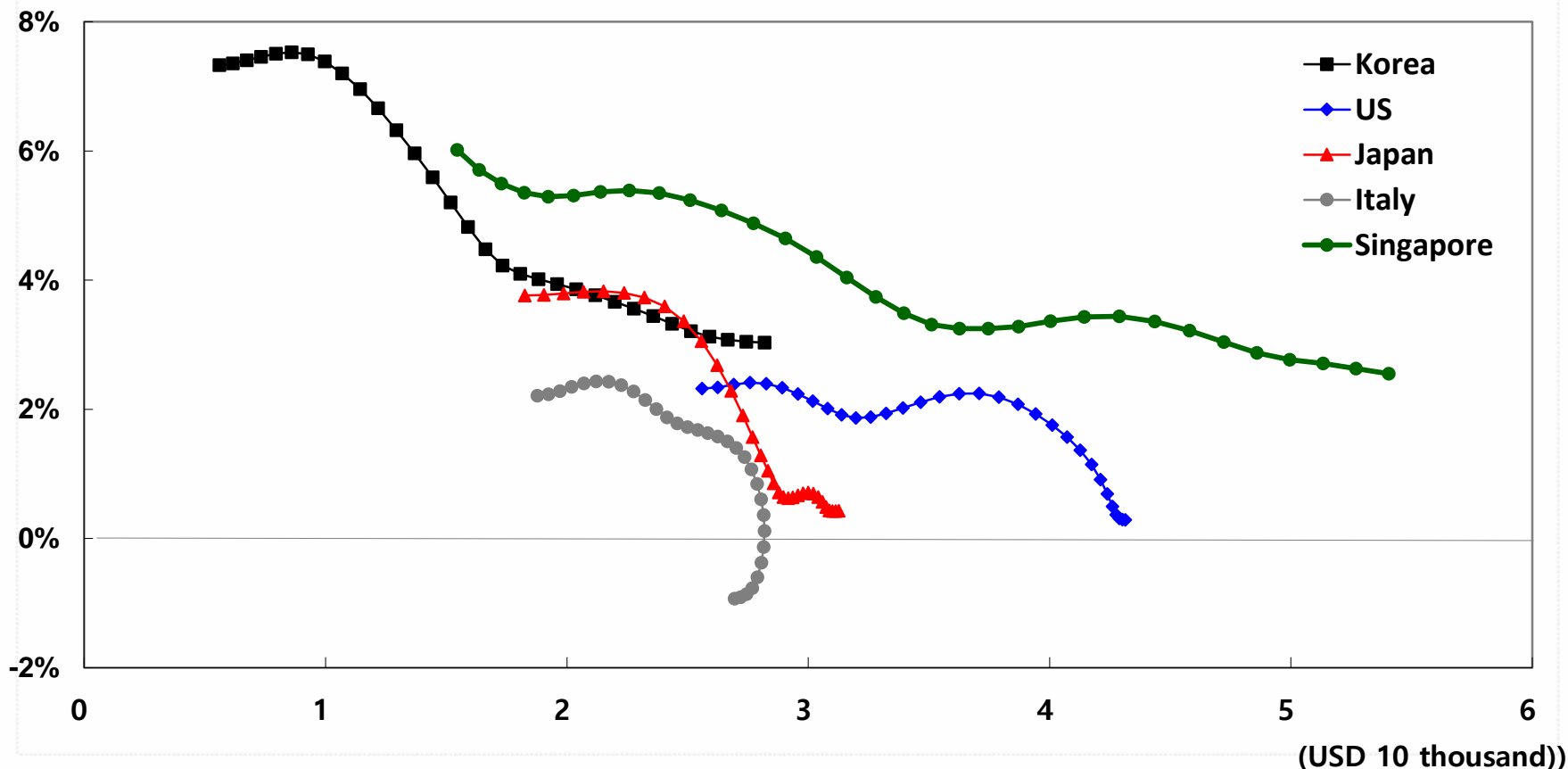
Income classification	Mean growth % p.a.	Volatility (standard deviation)	Years of positive growth %	Average positive growth, %	Average negative growth, %
<i>(A) Grouping countries according to 2008 GNI per capita</i>					
Low income	0.2	6.0	60	3.6	-4.7
Middle income	2.3	5.0	78	4.1	-4.4
High income	3.1	3.6	89	3.9	-3.1
<i>(B) Grouping countries according to 1962 GNI per capita</i>					
Low income	2.0	5.5	72	4.6	-4.3
Middle income	2.1	4.6	79	3.8	-3.5
High income	2.0	2.0	89	2.6	-2.0
Rep. of Korea	5.7	3.8	94	6.4	-4.5

Note: 2008 per capita GNI levels are: LICs less than or equal to \$995; MICs \$996-\$12,196; HICs greater than \$12196. 1962 GNI per capita levels are the 2008 values deflated by the US GDP deflator.

Source: Winters, Lim, Hanmer, and Augustin (2010)

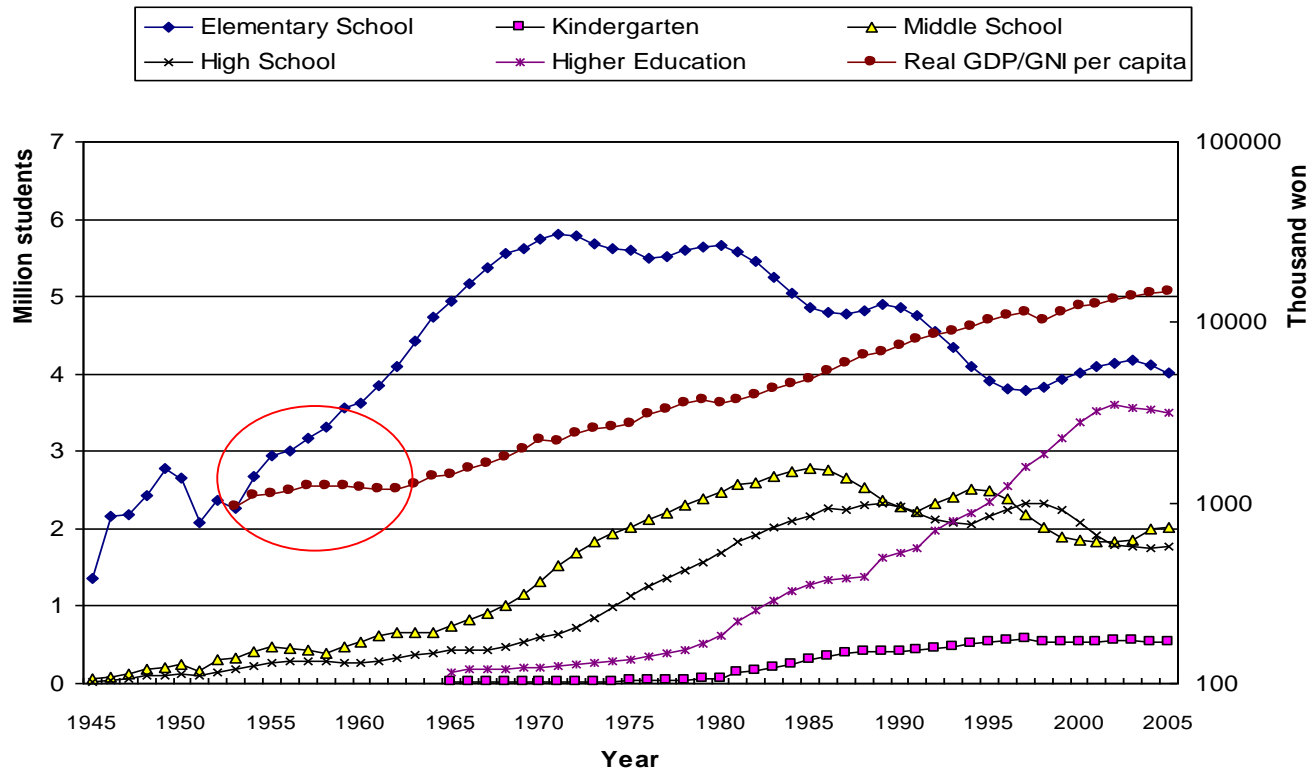
Which Trajectory?

Per capita income trajectory:
level vs. growth rate (1980–2012)



Note: Based on 2005 PPP exchange rates. Per capita income was smoothed out using the Hodrick-Prescott filter.

Human Resource Development: School Enrollment and Per Capita Income



Source: Center for Education Statistic Information (<http://cesi.kedi.re.kr>)

Korea invested in its people even when it was quite poor. Prior land reform and flattening of the traditional hierarchy created expectations for social mobility conducive to human resource development. Universal primary education greatly increased the number of enrolled students at all levels, but did not raise per capita income until complementary developments in industrial and trade policy took place.

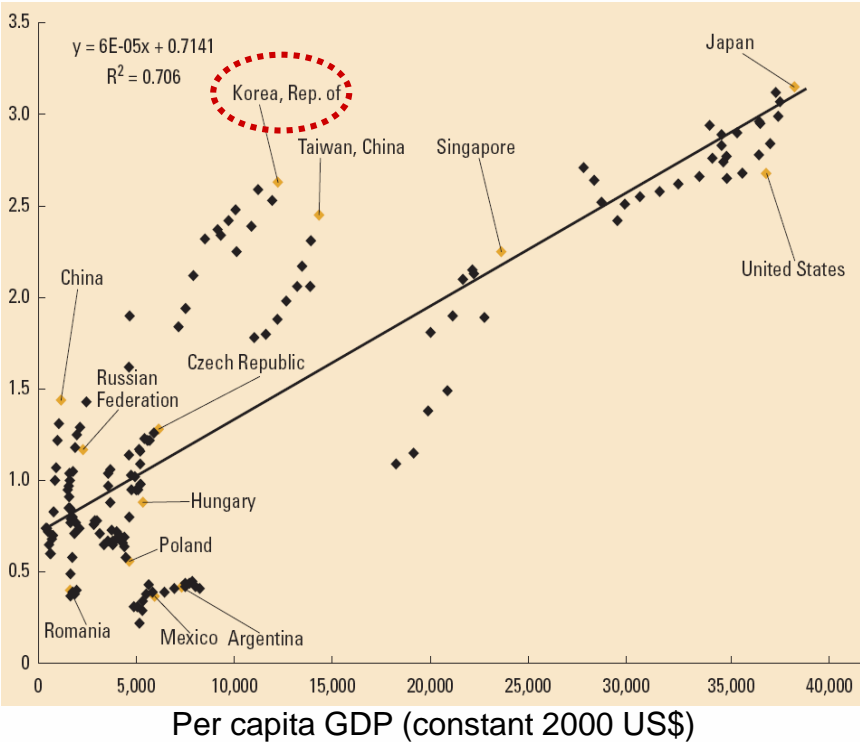
Export-Oriented Industrialization: Korea's Top 10 Exports



	1960	1970	1980	1990	2000	2010
1	Iron Ore	Textiles	Textiles	Electronics	Semiconductors	Semiconductors
2	Tungsten Ore	Plywood	Electronics	Textiles	Computers	Ships
3	Raw Silk	Wigs	Iron and Steel Products	Footwear	Automobiles	Phones
4	Anthracite	Iron Ore	Footwear	Iron and Steel Products	Petroleum Products	Petroleum Products
5	Cuttlefish	Electronics	Ships	Ships	Ships	Automobiles
6	Live Fish	Fruits and Vegetables	Synthetic Fibers	Automobiles	Wireless Telecommunication Equipment	Liquid Crystal Devices
7	Natural Graphite	Footwear	Metal Products	Chemicals	Synthetic Resins	Auto Parts and Components
8	Plywood	Tobacco	Plywood	General Machines	Iron and Steel Products	Plastic Products
9	Rice	Iron and Steel Products	Fish	Plastic Products	Textiles	Org. & Inorg. Compounds
10	Bristles	Metal Products	Electrical Goods	Containers	Video Devices	Electronic Appliances

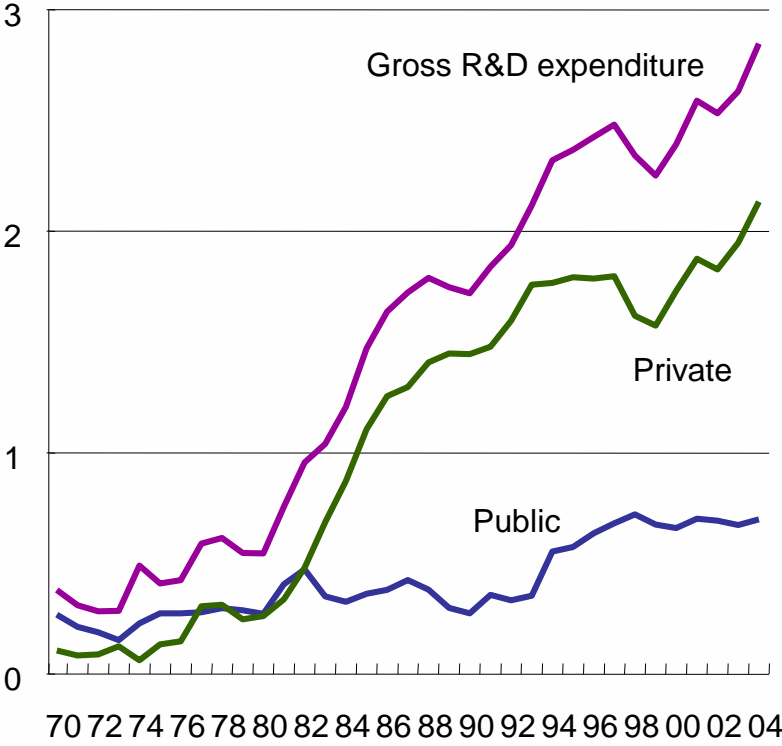
Industrial Upgrading

Gross R&D expenditure (% of GDP)



Source: World Bank (2007).

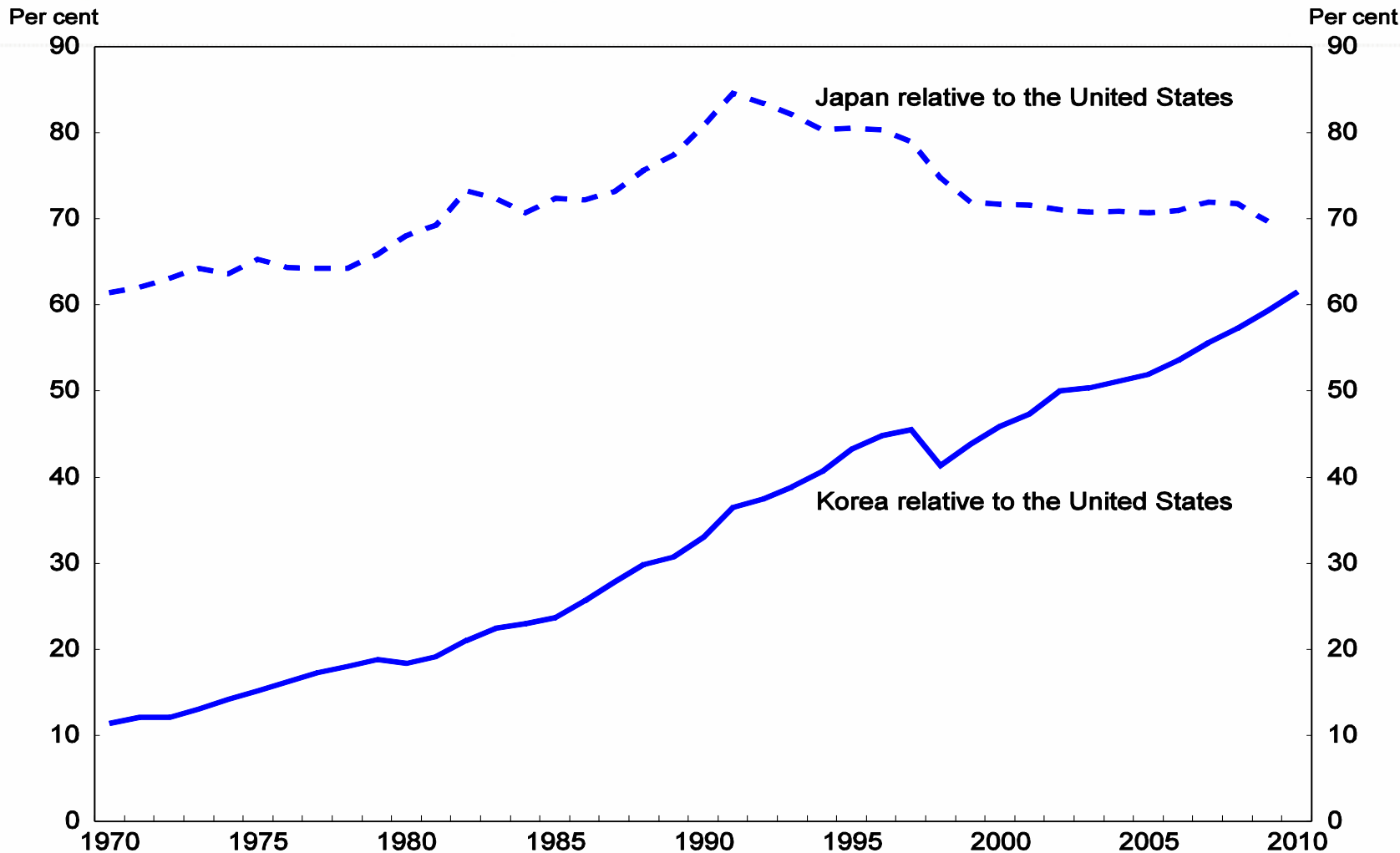
(% of GDP)



Source: Ministry of Science and Technology, Bank of Korea

Exposed to global competition, private-sector companies came to realize that innovation was key to their prosperity and dramatically increased their R&D expenditures.

Intra-Regional or Extra-Regional Convergence?

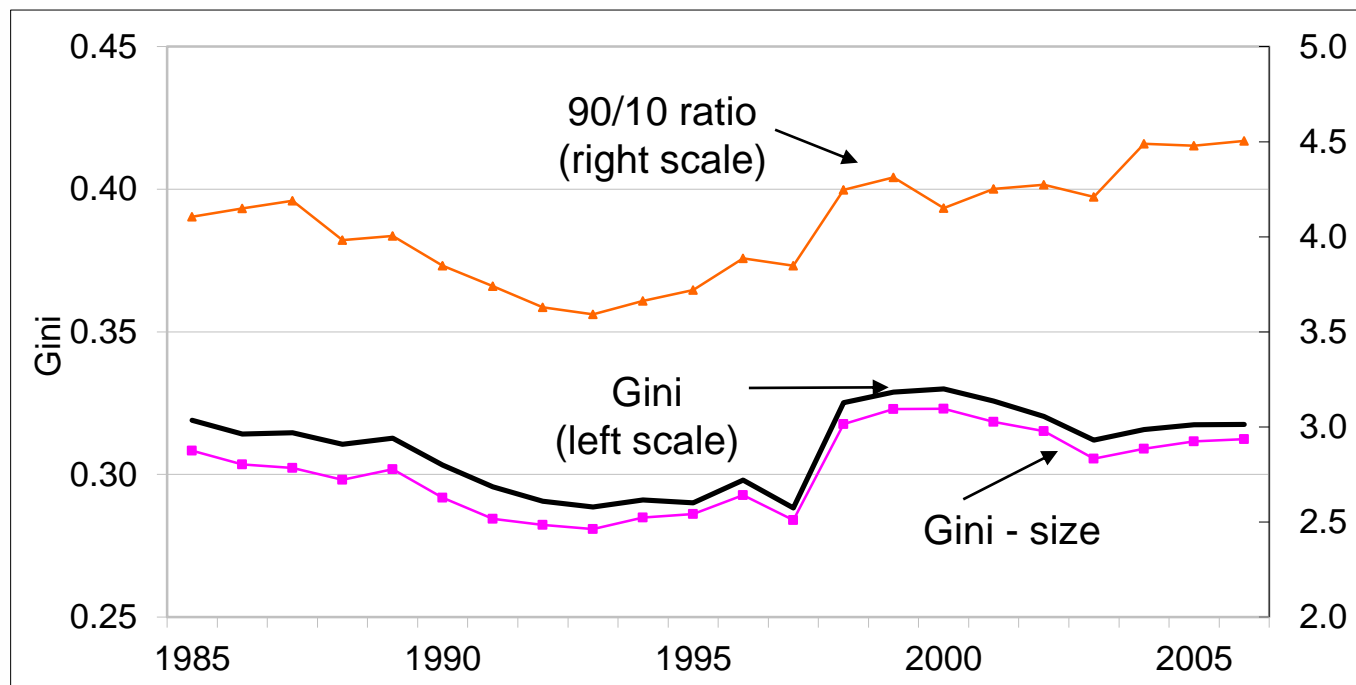


Note: Based on 2009 purchasing power parity exchange rates.

Source: OECD Economic Outlook database.

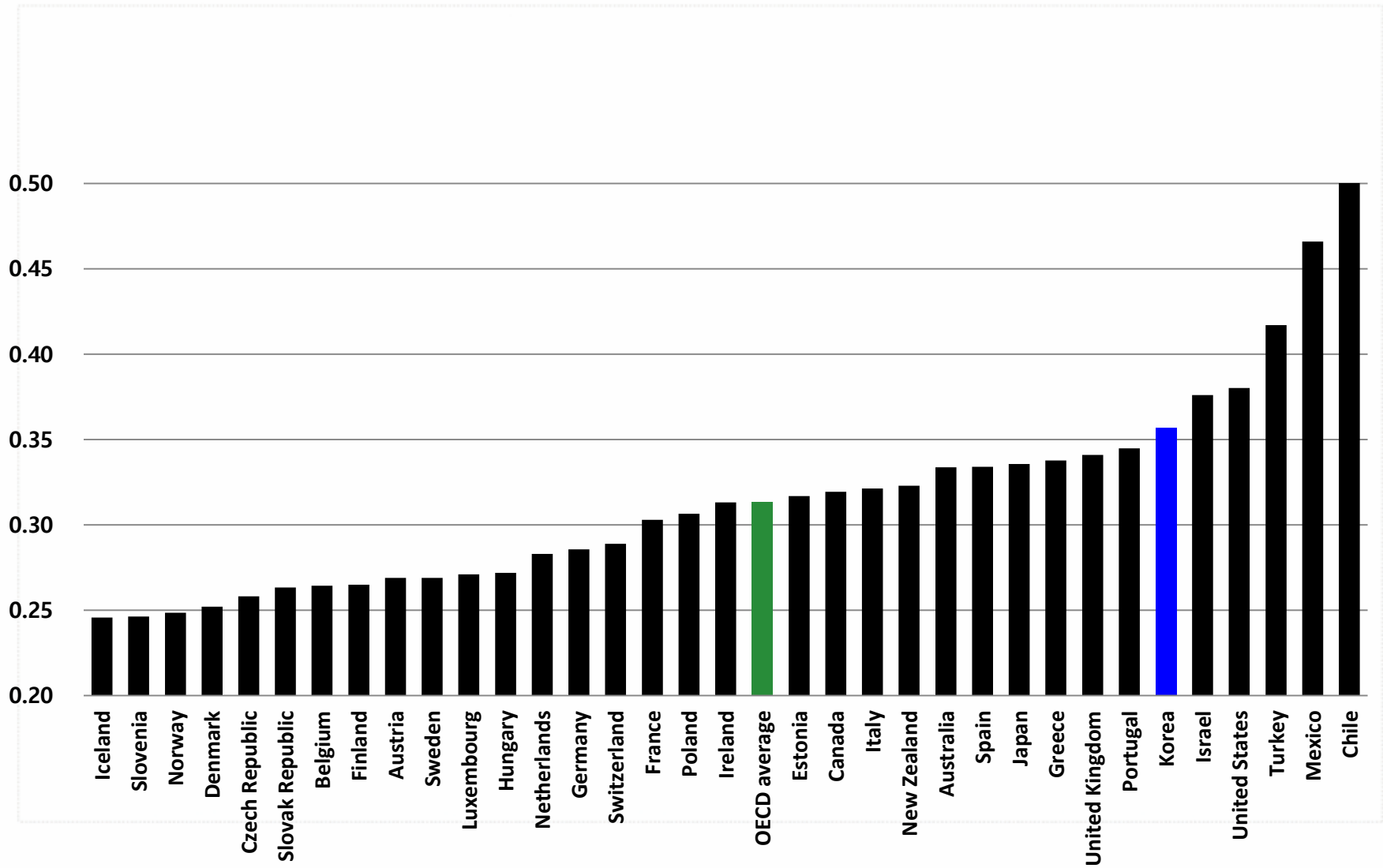
Democratization, Industrial Restructuring, and Economic Crisis

Measures of Income Inequality based on Total Household Income



Source: Authors' estimates from the micro data files of the HIES. The Gini is computed using percentiles. The adjustment for family size is number of members raised to the 0.5 power.

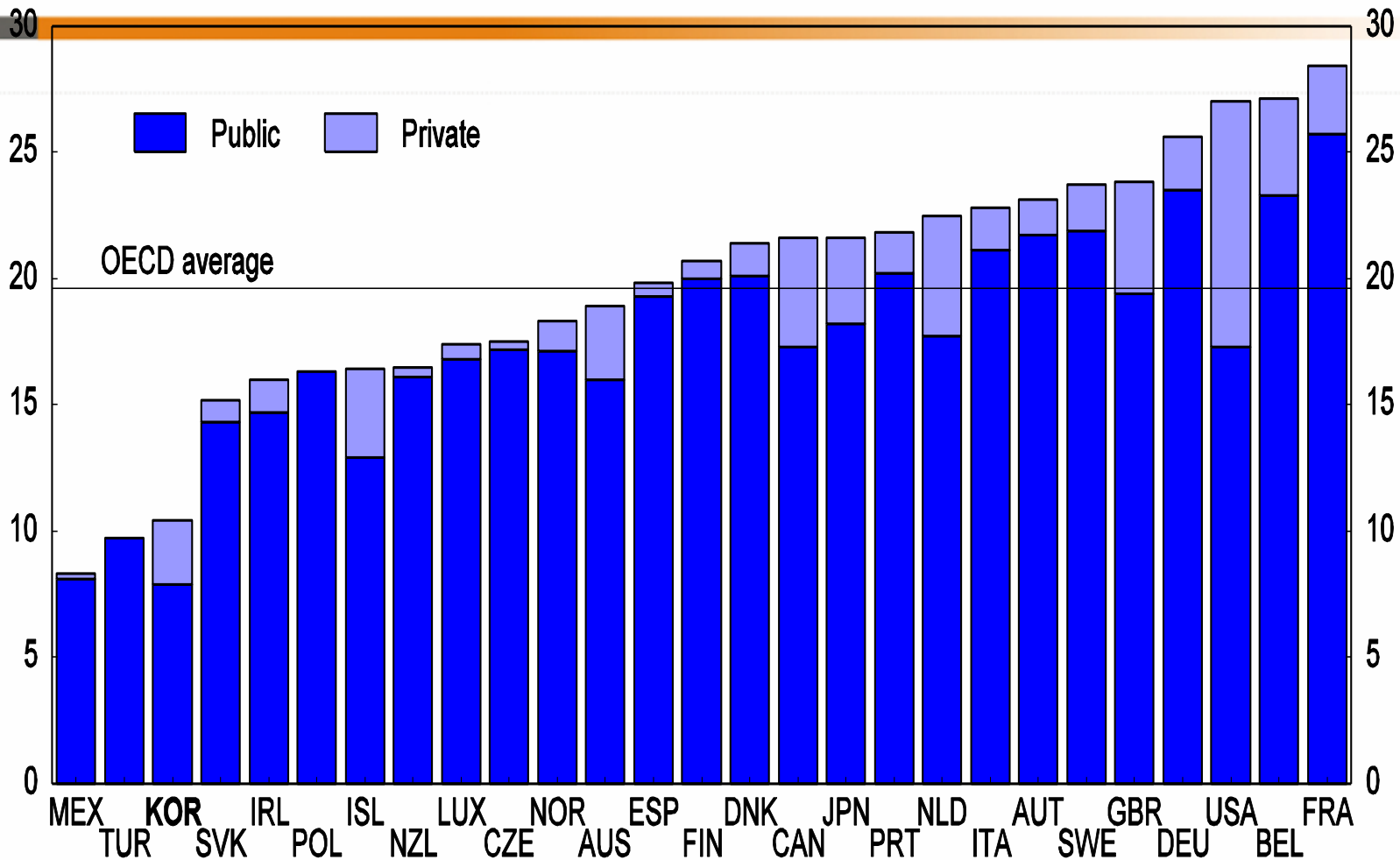
Income Inequality (2009-11)



Social Expenditure

As a per cent of GDP in 2007

Per cent



After accounting for the impact of the tax system. Private spending includes mandatory and voluntary payments.

Source: OECD Social Expenditure Database (SOCX), www.oecd.org/els/social/expenditure.

◆ Managing Expectations

- Natural slowdown
- Irresponsible to set an unsustainably high annual GDP growth target
- Unrealistic to expect trade on its own to generate broad-based growth
- Unrealistic to expect “trickle-down” policy to work

◆ Policy Issues

- Dynamic business ecosystem to promote innovation
- Integrated labor market to provide compensation linked to productivity
- Proactive public finance system to address economic and social disparities