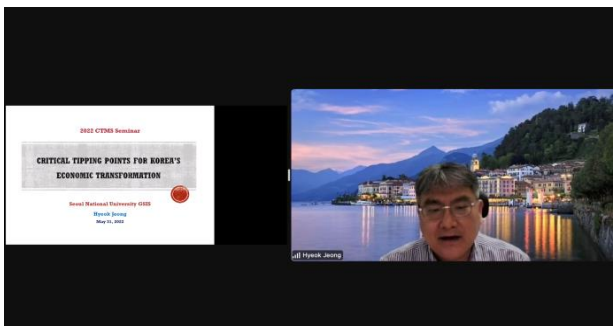
서울대학교
국제이주와 포용사회센터
Center for Transnational Migration and Social Inclusion, Seoul National University

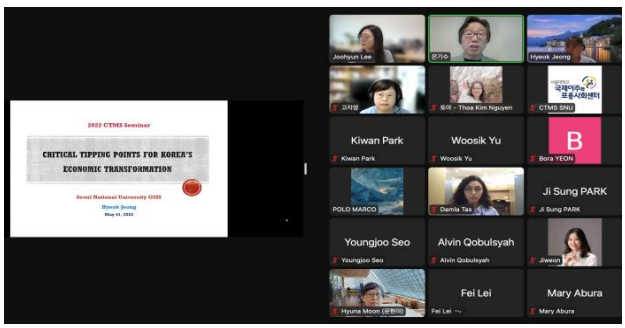
2022 Creating an Inclusive Society Seminar

Event Details

- Topic: Critical Tipping Points for Korea's Economic Transformation
- Date: May 31, 2022 (Tuesday) 14:00 - 15:30 (KST)
- Place: Online Zoom
- Speaker: Hyeok Jeong (Professor of Economic Growth and Development, Seoul National University Graduate School of International Studies)
- Moderator: Ki-Soo Eun (Director of Center for Transnational Migration and Social Inclusion, Seoul National University)
- Host: Center for Transnational Migration and Social Inclusion
- Organizer: Seoul National University Institute of International Affairs
- Sponsor: Seoul National University Graduate School of International Studies, Open Society Foundations

Summary of Presentation and Discussion





The third seminar on "The Critical Tipping Points for Korea's Economic Transformation" sheds light on how Korea was able to maintain its rapid growth for 6 decades, from 1960 to 2014. Counterfactual analysis indicates that the balanced contribution of growth sources has made Korea's economic growth rapid, and the switch from input-based to productivity-based growth in the 1980s has made Korea's development sustainable.

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Economic Development Landscape from 1960 to 2014 Since World War II, Korea is the only country in the world that has succeeded in maintaining an impressive annual economic growth rate of 6% over a period of 6 decades, or a *6p-6d growth performance*. This growth performance is noteworthy given that, like many other developing countries, Korea has dealt with unstable internal and external circumstances, such as the Japanese colonization, the Korean War, a military coup, and the global financial crisis. Despite these unfavorable pre-conditions and events, Korea has achieved rapid and sustainable economic growth, unlike many Latin American and African countries that observed frequent 'growth accelerations' from 1960 to 2014 but ended up being ensnared in the 'middle-income trap'. As a result, the size of the Korean economy has grown significantly in terms of investment, finance, and trade. Its total GDP, which was 0.9% of the US economy in 1960, rose to 10.5% in 2014.

Measuring the Contribution of Growth Sources According to the counterfactual analysis, Korea's average annual growth rate of GDP per capita from 1960 to 2014 was 5.9%; of this, 1.9% was due to productivity, 1.5% to human capital, 1.3% to physical capital, and 1% to labor demography. **The analysis reveals a hidden feature of Korean economic performance that has gone rather unknown until the present: the biggest contributing factor to Korea's *6p-6d growth* is productivity and not physical capital, as we tend to believe, especially due to the strong image of the 1970s' Korean economic growth that was largely based on building infrastructure.** It also shows that there was **a relatively even contribution from the four sources of growth (productivity, human capital, physical capital, and labor demography).** If productivity made possible a sustainable economic growth that lasted for 6 decades, the balanced contribution of each growth source made speedy growth possible.

Tipping Points for Korea's Economic Transformation Upon a closer look at each of the 6 decades, the counterfactual analysis reveals a sequential pattern in Korea's growth path that can be divided into three stages. During the first stage (1960-1970), the main driving forces were human capital and labor. The second stage (1970-1980), as widely known, the major growth source was physical capital. However, for the last stage (1980-2010), the main growth source has continuously been productivity. In this view, while Korea's take-off into economic growth was made in the 1960s, **the uniquely Korean pathway to development started in the 1980s, with the switch from an input-based to a productivity-based economic growth. Hence, the tipping point for Korea's economic growth occurred in the 1980s, not in the 1960s.** Besides, the 1980s corresponds to the period when Korea joined the middle-income range countries (1982) and moved out from this category to join the advanced-economy countries (1988). Korea has successfully escaped the middle-income trap precisely with the transformation of its main engine of growth from factor accumulation to productivity during this period. In fact, conventional economic theory suggests that input-based economic growth can only be temporary, of around 20 years, due to the law of 'diminishing returns'. This is the fundamental insight from the Korean development experience that is worthy of note for many developing countries.

Critical Changes in the 1980s Aside from Korea's democratization process that started in the 1980s, the decade was also marked by other critical changes that have contributed to the shift of Korean economic growth from an input-based to a productivity-based one. First, following the 100% primary education enrollment rate achieved in as early as the 1960s, middle school enrollment rate had also reached 100% in 1985. This confirms that Korea's development was based on universal fundamental education. Second, inflation rates that had fluctuated from 30% to 60% since the mid-1950s was stabilized by the mid-1980s at around 2%, bringing macroeconomic stability to the Korean economy. Third, the interest rate spread has also stabilized at around 1.57% since 1989 with the liberalization of the financial sector. Fourth, Korea, which had aimed for an open economy basing its export growth on import expansion, transitioned from a trade-deficit to a trade-surplus economy. Fifth, Korea graduated from being an ODA recipient country, which made possible non-ODA development cooperation. Sixth, the ratio of foreign savings to investment has rapidly declined since the 1950s and reached -6.4% during the period of 1985-1991, indicating that Korea was now an investor rather than a country receiving foreign investment. Seventh, the Korean government has achieved fiscal independence since 1974 with foreign aid accounting for 0% of its revenue. Last but not least, Korea's rural electrification rate had reached 100% by 1978, which is representative of rural development, and can also be said that Korea has achieved an inclusive economic growth. This inclusiveness has played a critical role in the transformation from an input-based to a productivity-based economy.

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Q: What do you think about Paul Krugman's criticism on the Korean economy (1994) that, as it has based its growth on input maximization, it wouldn't be able to maintain its economic growth in the future?

A: Krugman has grounded his criticism on Alwyn Young's research which claims that East Asian countries' economic growth is based on perspiration (input-based) rather than inspiration. However, his scope of his analysis is limited to the late 1980s, failing to observe the subsequent transformation in Korea's economic growth engine.

Q: In 1957, Ghana and Korea both belonged to the category of the poorest countries in the world. However, Korea succeeded in transitioning into an advanced high-income country in 6 decades, whereas Ghana has not. Are there any specific policies that Korea enacted to accelerate its economic growth?

A: The sequential pattern of its growth was key. Korea has first focused on labor, secondly on human capital, then physical capital, and finally productivity. Each stage became the ground for the next stage.

Q: Counterfactual analysis requires data that has been accumulated for years. In this regard, do developing countries have sufficient data to replicate such analysis?

A: Yes. I started this analysis upon the invitation of the World Bank, who wanted to find a benchmark study with a similar approach for developing countries. I was able to use the rich data collected by international organizations to make this analysis internationally comparable.

Q: How did the presence of migrant workers impact Korea's economic development?

A: As Korea only started to open its doors to migrant workers in the mid-1990s, the share of migrant workers was very small during the target time period for this study. Hence, their impact was not significant.

Q: You have stated that one of the two factors on which Korea has based its economic development was human capital accumulation. Given that Korea has the lowest fertility rate among all OECD countries (0.84 children/woman, 2020), what would the Korean economy look like in the future?

A: As far as I am concerned, the low fertility per se is not a concern, as I perceive it to be the result of low growth. In fact, Korea has registered an economic growth of 2.5% for the period of 2010-2014, something that has never happened in Korea since the 1960s. What is worrisome is that productivity is no longer the main source of growth. The main contributors have shifted to human capital and labor. If productivity was still the main engine of growth, the slowdown of the Korean economy could be understood as temporary. However, this is not the case, and if such trend persists, it would be a real concern because, in neoclassical theory, productivity is the factor that generates long term growth. The rest of the growth factors can only have a temporary effect, lasting for a maximum of 20 years. Given the circumstances, it will be crucial to first identify the reasons behind this sudden drop in productivity so that we can effectively prepare to address the forthcoming challenges.

Summary by Bora Yeon (CTMS Intern)
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