

March 22, 2010

How Korean Economy Transformed, How Korea will be able to attain a more advanced economy and to achieve the rank of an advanced country.

by

Kwack, Sung Yeung, and Lee, Young Sun \*

## 1.Introduction

The world environment in this and coming decades appears to be less conducive for development. The economic crisis initiated in the United States has spread around the world. Most countries have been suffering from steep unemployment. The recovery of the real economy is taking a long time. The United States faces the prospect of a jobless recovery and continued high unemployment. There is a high likelihood that the world may experience a lost decade like Japan experienced. The U.S. economy is not as strong as in the past and faces rising government budget deficits and continued high unemployment.

On paper, the United States is one of the powerful leaders in the world. The rising government debt and large unemployment are likely to limit the ability of the leader to promote world economic growth and free trade. On the other hand, China's has been

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\* Corresponding author, Kwack: Professor of Economics, Howard University, Washington, D.C., USA, (e-mail: [skwack@howard.edu](mailto:skwack@howard.edu), telephone USA 301 299-7678); Lee: President, Hallym University, Chuncern, Korea, (e-mail: [ysleeh@hallym.ac.kr](mailto:ysleeh@hallym.ac.kr)). This is a portion selected from Chapter 7 of KOREA'S PRODUCTION DATABASE, 1960-2007: Highlighting the Role of Human Capital and Trade Liberalization in the Changes of Total Factor Productivity and Wage Inequality, (Seoul: Korea Institute for Industrial Economics and Trade, March 2010). The views presented in this paper are those of the authors and do not necessarily reflect the views of the institutions mentioned above.

becoming richer, joining the world leaders. It has seen the use of its Yuan around the world. Last year, China's Cabinet adopted plans to make Shanghai an international financial center by 2020. It is doubtful that China would accept the existing worldview and global order under U.S. leadership.<sup>1</sup> A different worldview about global order creates uncertainty for economic growth in this and coming decades.

Korea attained rapid economic growth in the age of free trade handouts. In the years 2005-2007, however, Korea's growth slowed down. Its average growth rate of 4.8 percent is lower than that of the other Asian NICs-6.6 percent for Hong Kong, 7.5 percent for Singapore, and 4.8 percent for Taiwan. Wage inequality narrowed substantially after the 1980s, but has risen in recent years. The world is entering the age of free trade give-backs. The task facing Korea is to transform its economy and join the group of more advanced economies under the classification used in the IMF's *World Economic Outlook*, while lowering wage inequality or keeping it from rising. But in seeking to transform itself into an advanced country, Korea will face a rough road in accomplishing the two tasks.

The first section of this paper presents a view of how Korea transformed its economy. The second discusses how Korea will be able to attain a more advanced economy. The third describes how Korea can complete its transformation in order to achieve the rank of an advanced country.

## 2.How Korea Transformed Its Economy

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<sup>1</sup> See Martin Jacques (2009) on China's worldview.

Prior to 1960, Korea was still a small closed agriculture-based economy. Per capita real GDP was only \$121 by 1962.<sup>2</sup> Serious hunger and employment problems led to public despair, leading to anarchy as the civilian government lost direction and the capacity to improve conditions. In the midst of the national crisis, General Park Chung Hee took power through a military coup in 1961. His goal was to rescue the national economy and to ensure national security. His immediate goal was to bring Korea out of poverty, anger, and hopelessness.

The Korean economy came to play the central role in the nation's reconstruction. When the government launched its first five-year development plan in 1962, Korea for the first time in its history emerged onto the world economy. The new government initiated a program called the Saemaul Movement (New Village Movement) to reconstruct rural areas, playing a major role, for example, in providing dams for flood protection, in reforesting denuded hills and mountains, and in procuring heavy earth-moving machinery to irrigate, grade, improve, and bring new lands under cultivation or consolidate dispersed holdings.<sup>3</sup> The government also built access roads and brought electrical power to villages that had never had them before. Farmers were provided with tractors to replace the old cow-drawn plow and canals were built to supply drought afflicted areas. Very little corruption was seen, and the entire nation people felt enthusiastically supported and took great pride in the national effort.

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<sup>2</sup> See Cho (1994), Lee (2005), and Nam (1994).

<sup>3</sup> See Kim (1994), and Park (2006).

In 1972, the new government launched the third five-year development plan, the aim of which was to develop the heavy and chemical industry in order to strengthen the national defense and make Korea's industries more technology-intensive. The class of businessmen and those in technical profession were belong to the less respected classes in the society. Industries were not well equipped with expertise with knowledge of specialty while the government had recruited a large number of well educated and practical experts. It mobilized capable groups of larger scale firms, which were called as chaebol group, to run the heavy and chemical industry with government provided financial resources.<sup>4</sup> Government policy-makers and personnel provided direction and guidance to the firms selected. The low interest rate policy and government subsidy to investments had the effect of encouraging a capital-intensive method of production. The heavy and chemical industry is an industry with the economies of scale. Korea's own market is small and thus, the foreign market determines the course of the industrial development. As a result, outward-looking export-promotion strategies with big chaebol groups became central to the government's development plan.<sup>5</sup> The development plan brought the expansion of education programs to supply the needed skills. The government plans under the Park's regime established the course of Korean economic and social development in the latter years.

Korea's per capita real GDP in 2007 was \$20220. Korea experienced

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<sup>4</sup> See Oh (2006), and Stern, Kim, Perkins, and Yoo (1995, chapters 1-3, 1-61).

<sup>5</sup> See Scitovsky (1986) for the comparison between Korea and Taiwan.

miracle growth over a short period of four decades. Most economists and analytics agree in attributing Korea's remarkably rapid growth to the nation's openness to trade and its rapid export growth. There is a view that government interventionist or industrial policies are a powerful basis for growth by setting prices right.<sup>6</sup> On the other hand, industrial policies established a favorable environment for investment.<sup>7</sup> The government policy-makers viewed markets as fundamentally imperfect, and hence, the government intervention was thought to be necessary to correct market signals. The government policy, however, may have brought an inefficient utilization of resources. It did, in fact, as shown by a negative total factor productivity growth during the period from 1962-1981. (see Chapter 5). Korea could have attained rapid growth using a free market laissez-faire policy. One can not be sure that free market policy would have allowed Korea to attain such a transformation within the short period of four decades. If culture matters very much in deciding how to implement policy, the distinction between intervention and laissez-faire policy did not matter much in the early development period in Korea.<sup>8</sup> Koreans expected Korean leaders to lead them.

What factors lay behind Korea's economic success? There were many.<sup>9</sup> We identify three which we consider the most important. First, the world economic environment and free trade facilitated Korean trade. The United States was engaged in

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<sup>6</sup> See Amsden (1989).

<sup>7</sup> See Rodrik (1995)

<sup>8</sup> See Harrison (2006) for the argument that culture determines the success of a society.

<sup>9</sup> See Hong (1994, pp. 3-24).

the cold war with the Soviet Union and was eager to assist friendly developing countries in Asia. New technologies were made readily available to Asia including Korea.

On January 2, 1959, the Soviet launched off the Lumik I space capture. The flight of the Lumit set off the breakdown of barriers in space, and speed. According to Kaplan (2009), “ 1959 was the year when the shockwaves of the new ripped the seams of daily life, when humanity stepped into cosmos and also commandeered the conception of human life, when the world shrank but the knowledge needed to thrive in it expanded exponentially, when outsiders became insiders,,,,-when the world as we know now it began to take form.” New idea and technological progress have been occurring.<sup>10</sup> The opportunity to learn and use new technologies was given to the world. Korea entered in the world economy in the 1960s. Korea under the President Park Chung Hee took the opportunity. Korea benefited from the advantages of being a latecomer. But, Korea was not a later comer in the world-many countries did not take the opportunity.

Secondly, President Park Chung Hee mobilized Korea's resources for national reconstruction. His pushes for Seoul-Pusan Express Highway and Pohang Iron & Steel Company are notable examples of his initiative and determination. Schuman (2009) emphasizes the role of his leadership in the economic miracle in Korea.<sup>11</sup> Park Chung

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<sup>10</sup> Kaplan (2009) lists and discusses 29 events in 1959 that affected the political and technological development in later years.

<sup>11</sup> See Schuman (2009, chapter two). He describes in details the miracle of individual countries in Asia including Korea. In Introduction, he discusses the question of what really caused the Asian economic miracle. He emphasizes the role of Asia's leaders who made the hard, but correct, choices in favor of globalization. The Asia's leaders are Lee Kuan Yew in Singapore, Chiang Kai-shek in Taiwan, Park Chung Hee of South Korea, Deng Xiaoping in China, Manmohan Singh in India and Mahathir in Malaysia.

Hee wrote that “I had to break, once and for all, the vicious cycle of poverty and economic stagnation.” The leadership inspired the government bureaucrats and Korean people to come together in making Korea a nation without ‘hunger’.<sup>12</sup>

Thirdly, Koreans enthusiastically desired greater education levels and practical skills. The government, therefore, implemented the expansion of educational institutions including the university system. The increased stock of human capital and skills responded to the demand for expanded labor input.

## 7.2. Globalization and Quality Growth in Skills for an Advanced Economy

We will discuss how to transform Korean economy and join the group of more advanced economies, while lowering wage inequality. As an economy, Korea has two final goals, as do all other countries. The final goals are the desired levels of economic growth and low wage inequality. Korea also has two intermediate goals--openness to trade and supply of skills. The appropriate combination of the two intermediate goals to attain the final goals is a rise in the openness to trade accompanied by a rise in the supply of skills. To show this analytically, we use a system of two equations.<sup>13</sup> We assume that wage inequality depends upon the openness to trade and the supply of skills and that investment is affected by openness to trade and skills. Output is affected by the labor input and openness to import trade. Openness to import trade provides disembodied

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<sup>12</sup> See Kim (1994) for the discussion of non-economic factors.

<sup>13</sup> This system can be obtained from Kwack and Lee (2007).

technology and embodied technology via imported capital goods. We run two regressions for the 1965-2007 period:

$$\ln\left(\frac{W_S}{W_U}\right) = g - 0.35 \times \ln\left(\frac{L_S}{L_U}\right) + 0.56 \times OP_{XM}$$

$$\frac{\Delta GDP}{GDP_{-1}} = h + 0.42 \times \frac{\Delta L}{L_{-1}} + 101 \times OP_M$$

Recall that  $\ln(W_S/W_U)$  and  $\Delta GDP/GDP_{-1}$  are wage inequality and the growth rate of GDP output, respectively.  $\Delta L/L_{-1}$ ,  $L_S$ , and  $L_U$  are the growth rate in the use of total labor, of skilled labor, and of less-skilled labor, respectively.  $g$  and  $h$  are the constant and other variables. The growth rate of labor input is an average of the growth rates of skilled and less skilled workers, weighted by their relative share in the wage bill. A rise in the openness,  $OP_{XM}$  and  $OP_M$ , leads to a rise in growth and in wage inequality. A rise in wage inequality produced by the increased openness tends to be offset by a rise in the supply of skills.

Korea has opened up its economy. Now, promoting trade liberalization and globalization should focus on eliminating invisible barriers to trade and making the contents of products transparent. In the early 1970s, “Made in Korea” indicated that the products were made by Korean workers using Korean technology and raw materials. The export of “Made in Korea” products led to growth in output and employment in Korea. There is a monotonic direct one-to-one relationship between exports and employment. However, from the 1990s, the big Korean firms started operating as multinationals. They started to import intermediate products and components from abroad and to assemble

them to make “Made-in-Korea” products.<sup>14</sup> They have built the factories abroad to use cheap workers and export the products to Korea and other countries.

Because of this rising use of foreign-made intermediate products and components, the exports of “Made-in-Korea” products do not contribute to the growth in output and employment as much as they did.<sup>15</sup> The Input-Output tables constructed by the Bank of Korea indicate that the total employment effect per unit the exports of one billion won at the price of 2005 was 24 persons in 1995, 10.8 persons in 2005, and 9.4 persons in 2007.<sup>16</sup> The employment effect of exports will continue to decline in the future.

In view of the importance of employment for both GDP and social stability, the focus of economic policy needs to be on ways to increase both exports and employment. Korea should take the measures to encourage foreign multinational firms to establish their operations in Korea and for Korean multinational firms to expand their production at home. The government should also create incentives for the young to undertake new innovative projects. All of these measures will increase employment opportunities in Korea. The legal system needs to be made more appropriate for the global economy. Korea has too many out-dated laws, especially those affecting foreign exchange

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<sup>14</sup> The imports of intermediate products and components are the total imports that exclude final products and raw materials. The statistics on Korea’s imports of intermediate products and components are not readily available. According to According to Koopman, Wang, and Wei (2008), the foreign content in China’s exports is about 50 percent overall and about 80 percent in sophisticated sectors such as electronic devices.

<sup>15</sup> Because of the absence of data on imported intermediate products and components, the employment effect per unit of “Made in Korea” exports can not be estimated. However, the employment effect per unit of export volume (exports measured at the prices of 2005 prices) can be computed using the Input-Output tables published by the Bank of Korea.

<sup>16</sup> See Kook (2008) and Kwon(2009).

transactions, and should reduce their number to the minimum required to maintain national security and social safety. This will also be helpful for employment in the service industries.

Based on the Korean survey of population aged 6 years old and above, Korea's educational accomplishment is measured high by the number of educational institutions and the number of graduates. Prior to 1958, less than 1 percent of the population had attended university. It had risen to 5.7 percent in 1985, and to 21.9 percent in 2007. The average period-of-schooling was 6.3 years in 1957, 9.3 in 1985, and 11.5 years in 2007. While these statistics show significant gain in the levels of educational attainment in terms of years of schooling, these data do not take into account the quality of education.

The quality of education in Korea seems low compared to the international standards. According to IMD (2008), the percent of Koreans age group of 25-34 with college and university degrees ranked the 4th among 55 countries. However, Korea's university education-in terms of its quality- ranked the 53th of all. Korea's skilled labor ranked the 43th, compared to 7<sup>th</sup> rank for the United States, 6th for Japan, 40th for China, 12th for Hong Kong, and 8th for Singapore. Although we may question about the data the IMD used in its ranking, the report nonetheless clearly indicates that there is substantial room for improvement in the quality of education in Korea.

Also, there is another problem of the future labor supply. The fertility rate of 5.99 in 1960 dramatically fell to 1.59 in 1990, and further it has fallen to 1.25 in 2007. A continuing decline in fertility will certainly reduce the working-age population. In the face of a decline in the labor supply, there will need to be a substantial quality improvement in the labor services, if output is to continue to grow.

The reality is that the quality of Korean education is lower than the relative level of the quality of Korean education in the world during the 1970s. It is behind that of the emerging economies in Asia- China and India- and Eastern Europe. Japan had introduced a public education system in Korea since the days of its colonization. The quantity of education in Korea was limited until the government of Korea expanded its education system including enrollment in the 1960s. Thereafter, the numbers of graduates in the high school and college rose rapidly. The rise in the growth of education in Korea might have occurred too quickly without due attention to its educational quality.

However, the low quality and lackluster performance of Korean universities are not an accident. Koreans have expected the faculty in the university to play a leadership role in the society. Korean universities have supplied the needed manpower in the government and business. Because of this a substantial number of the faculty have become “policy entrepreneurs”, who “with attention-grabbing titles and simplistic ideas have persuaded lots of powerful people to listen to them” as is pointed out by Nobel Laureate in economics professor Paul Krugman at Princeton to differentiate them from the academicians who do in-depth study and analysis in their respective fields.<sup>17</sup> The government should reform Korea’s current incentive system to a system that provides morale as well as pay incentives for faculty in research university institutions to devote on in-depth teaching and doing research within respectable academic environments. Furthermore, it is a known fact that Korea has been harboring the desire to produce Nobel Laureates and in this vein some Korean universities have had the program of inviting Nobel Laureates. In one sense it is a good move in as much as it shows the interest of

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<sup>17</sup> See MacFarquhar (2010).

Korea to improve educational quality. However, Korea should understand that a Nobel prize at any given time is awarded for scholarly work done 10 to 15 preceding years, which in turn is based on research funded 40 or 50 years ago. Korea should understand that the award of a Nobel Laureate is not a kind of knowledge tests that all Korean are well familiar with. Nobel in his last will requested that his money be used to create a series of prizes for those who confer the “greatest benefit on mankind” in physics and several other fields. Changes in the quality of education can not be instantaneous, and it is indeed a slow process. Hence, it takes hard work and serious commitment to gain international recognition for scholarly achievements.

On average, the level of Korean education and skills is good enough for workforce to productively work in the production of goods and services. It may be enough for professionals to imitate the existing knowledge and technologies. It is not far enough for working with or fostering new ideas and innovation of originality in Korea. Korea has to put itself in a position whereby it has to continue to generate new ideas and technology. Korea needs an idea-innovation culture within Korea. Hence, Korea needs much better policies to create such an environment.

Public schools should be the core of the educational system. While problems with public schools are produced by many different factors, such as central government’s control, parents, families, school facilities, school management, and teachers, the privatization of public schools does not solve the problems of public schools.<sup>18</sup> One needs to pay more and give more autonomy to attract able and dedicated teachers in public schools from primary schools to universities. Korea needs to adopt more open

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<sup>18</sup> The U.S. experience seems to support it. See Ravitch (2009).

system and invite foreign scholars to teach and do research in universities. By building a better infrastructure of education, Korea can raise the quality of education. Productivity and growth in the economy depend upon on sustained improvements in skills and education.

### 3. High Quality Institutions and Long Time Horizon for an Advanced Country

In the recent years, we have heard calls for Korea to become an advanced country. No Korean scholars or speakers, however, said what it means to be an advanced country. No dictionary contains the term “advanced country”. In Webster’s *Third New International Dictionary of the English Language Unabridged* edited by Philip Babcock Cove and the Merriam-Webster Editorial Staff in 1968, “Advance, Forward, Further, Promote: these four verbs signify in common to help to move ahead.” “Advanced is far on in time, in front of or beyond others as regards as progress or ideas.”

A country is a multifaceted human organization. Some of the countries in the world are in front of others with regard to the moral value standard. Some, in turn, develop technologically more than the other. While a country is poor, the country is morally an advanced country. While a country is materially rich, the country is morally a backward country. It is possible to define the advanced country in all aspects. In practical terms, no such country exists. When we refer to a country as an advanced country, we are referring to the country’s advancement relative to the other countries. We can judge a country in terms of material-abundance, technology, and cultural aspects. A country may be called economically advanced, technologically advanced or culturally and morally advanced.

Economic development is conceptualized to mean “all necessities and convenience of life” in the phrase of Adam Smith (1976). Simon Kuznets (1966) wrote that “we identify the economic growth of nations as a sustained increase in per capita or per worker product”. Economic development includes material well being but also includes non-material services as measured by a set of social indicators such as air quality, the environment, health status and the social welfare system.

Human beings live together in groups. Culture can be regarded as a set of values, beliefs, customs, and traditions, and so forth, which serve to bind a group together. North and Thomas (1973) identify the term “institutions” to be the “social infrastructure” that reduces uncertainty and diminishes transaction costs in the creation of a cohesive group. Hence, institutions are connected to culture. It is not difficult to imagine that institutions and culture will affect the way individuals in the group think and act. Hence, they will have a significant effect on the way in which the group behaves and produces. Institutions will affect economic efficiency, equity, and the economic and social objectives that the group decides to pursue.<sup>19</sup>

One of the big debates in our profession involves the causes of economic development. Why is North America richer than South America? Why is Africa poor and Europe wealthy? We have long known that children learn from parents. “The apple does not fall far from the tree”.<sup>20</sup> Capitalism in its many variant has been shown to be a

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<sup>19</sup> See Eicher, Theo S. and Cecilia Garcia-Penalosa (2006).

<sup>20</sup> See Duncan, Kalil, Mayer, Tepper, and Paynes, (2005).

generator of wealth.<sup>21</sup> Institutions and culture nourish productive policies and behavior and greatly affect whether nations rise or stay down.

Whether a country advanced involves both material and non-material well-being. In simple terms, a country is here defined as advanced when its citizens feel happy and enjoy both a comfortable life and personal freedom. For our purposes, “institutions” refer to both institutions and their culture, including the political system, politics, etc. They constitute the initial conditions which are significant determinants of the speed at which countries grow.<sup>22</sup> Consequently, institutions greatly affect whether a country becomes advanced.

Institutions alone do not produce output, but affect output indirectly through their effect on factor accumulation and productivity. According to Hall and Jones (1999), less than half the impact of institutions is through their effect on factor accumulation and the remainder is through their effect on productivity. M. MacFarlan, H. Edison, and N. Spatafora (2003, 96-97) state that “Toward one end is the notion of institutions as establishing the rules of the game for a society or as the formal and informal constraints on political, economic, and social interactions....Toward the other end of the spectrum and giving more specific shape of this broad concept of institution would be particular organizational entities, procedural devices, and regulatory framework”. They find that institutions have a strong and significant impact on GDP growth. The impact may partially reflect the role of institutions in enhancing the sustainability of policies.

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<sup>21</sup> There are costs to capitalism. See Barbera (2009).

<sup>22</sup> See Knak and Keefer (1995).

From the perspective of Korea becoming an advanced country, the institutions are those that establish the rules of the game for a society and the formal and informal constraints on political, economic, and social interactions. In this perspective, “good” institutions establish legal and incentive structures that decrease uncertainty and promote efficiency. Thus, good institutions contribute to stronger economic performance.<sup>23</sup>

We are interested in finding the characteristics of the institutions in advanced countries. We decided to choose 10 countries for consideration; Japan, Australia, Canada, Finland, France, Germany, Italy, Sweden, the United Kingdom, and the United States. Table 1 lists the selected countries and their per capita real GDP in 2007 and 2008. From them, we selected four countries. Finland and Sweden represent the European countries, and the UK represents the common wealth countries. These four countries are classified as “more advanced economies” in the IMF’s *World Economic Outlook*.

Their shared characteristics affecting transaction costs and incentives are as follows:

First, Law and Order

These countries keep their constitutions unchanged over a long period. They were adopted after long and serious discussions. The constitution is the fundamental standard for law and order. All the disputes among government agencies and individuals are handled by a variety of courts, whose decisions are made on the basis of evidence and the laws. This institutional arrangement keeps the cost of disputes to a minimum and forces the keeping written records.

Second: Political Party

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<sup>23</sup> See North (1991).

These countries have two major political parties. Political parties are formed on the basis of ideology and the intent to promote the welfare of the people. Hence, the political parties are active, regardless of changes in the political leadership, which helps political stability, an essential for economic performance.

Third: Credibility

The governments seek to retain their credibility through policies and regulations. They go through lengthy public discussion in order to reach consensus. Individuals keep a record of their promises. If an individual does not keep his/her word, he may lose respect. Through credibility, the nation decreases the transaction costs.

Fourth: Assignment of Responsibility Based on Comparative Advantage

In principle, the government manages public goods and social infrastructure capital. The main tasks are the maintenance of law, national security, education, health, and social security. The United Kingdom and the United States emphasize the role of national security and their role as leaders in the world. On the other hand, Finland and Sweden emphasize the role of social welfare and internal security. Both countries play a limited leadership role in the world. This distinction between the two pairs may come from the fact that the United Kingdom and the United States are large, thus setting the prices of rule and order in the world. The other two countries adopt a role of price takers, since they judge themselves small.

Fifth: Individual Sovereignty and Sharing

The individuals in the four countries are responsible in managing their lives and sharing their wealth with needed individuals and groups. They work to make money and

share it with others. The majority of them act within the law and custom, and have a strong sense of community and fairness.

In summary, the governments and individuals of these four counties think in the long term and respect law and order. They are less sensitive to short-term events. Over the longer time, daily fluctuations, either up or down, will offset one another. Individuals concentrate on what they want to do. Their governments let them live as they wish.

Now, we look whether the government and individuals in Korea act differently. The common story among all the Korean people with whom I have discussed this issue over the years is that they are “busy” or don't have time to relax. When I asked a friend of mine to have dinner this Friday, he said ‘I heard’. His answer was not clear, and I was confused. Now, my interpretation is that he does not know what will happen on Friday and does not want to commit. However, if he has time then, he will have dinner with me. This story suggests that Korea is a country with high transaction and information costs. The Korean government and people live from day-to-day, and their decisions are made with the short-term in mind. Such short-term oriented behavior is called dynamic Korean behavior. One does not know the trajectory of such dynamic behavior, so that it could also be seen as behavior with a high degree of uncertainty.

Korea has changed its Constitution many times. The Korean government has not fully kept its commitments to foreign countries. Many of high levels of government and large business officials in the past have committed illegal activities.

Some Korean leaders and scholars say that the country will soon become an advanced country. However, it seems that Korea is not yet close to join the ranks of the advanced economies culturally or materially. It is fair to say that Korea's institutions at

present lack the necessary progress for such advanced country status. Korea certainly needs higher quality social, economic and educational institutions. It still needs improvements in the functioning of independent judiciary and a system of judicial accountability. Furthermore, the country still has to deal with corruption issues that are commonly associated with different levels of economic development.

Over the last four decades, Korea's power elite including the chaebol have enjoyed high rents and achieved great wealth.<sup>24</sup> If one is a member of this group, one's children are likely to take the same path and join the elite. This leads Korea to grow apart. To preserve the interests of their groups, the time horizons of the power elites have been shrinking. Like that of the power elite, the time horizon of the Korean nation has been short. Now leaders in Korea have sought to hit home runs-to attain first-, faster performance- rush, rush-, so we can be number one in the world. There is more emphasis on swinging hard to make the big hit. This encourages reckless behavior. It produces more uncertainty and more costly failures in the long term. Above all the race to top results in Koreans who look like insensitive to law and cheating.<sup>25</sup>

The full realization of the benefits of being an advanced country requires that Koreans think in the long-term, abide by the legal system of government, and subscribe to accepted standards of conduct, work, ethics and morality. The established leaders of government, businesses and society need to demonstrate that they adhere the codified legal framework not only in form but also in practice. Becoming both an "advanced country" and a "more advanced economy" poses the most formidable challenge for the

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<sup>24</sup> See Ades and Tella (1999) for rents, competition, and corruption.

<sup>25</sup> For westerner's observations on Korean behavior, see Breen (2004).

Korean society in this century. There are plenty of lessons that Korea can learn from the experiences of the modern advanced societies. Finland and Sweden including Norway and Netherlands take advantage of being a price taker in the world and help the less fortunate. People behave an unbelievable level of hardheaded discipline and intensity. At the same time, they possess a high level of generosity and love in helping the people in other countries in need.

Korea should vigorously change its institutions with the long-term in mind. The private sector should pursue its interests in a truly competitive marketplace and carry out innovative gainful activities. The government should concentrate in producing high-quality public goods and social infrastructure capital that create externalities for the private sector. The Korean government unfortunately, however, has tended to frequently change its policies and measures. Frequent policy changes have often caused confusion in the private sector. According to Daron Acemoglu, Clark Medal winner and economics professor at MIT, “ Nations are not like children—they are not borne rich or poor. Their governments make them that way.”<sup>26</sup> For Korea as well as the other nations in the world, both the government and the private sector should work together to make better living and to function efficiently. Google could not have existed without U.S. government started the Internet technologies long before the company’s founders were born. But, the government could not have created Google itself.<sup>27</sup> This pattern of industrial development—public investment, followed by private industrial growth- has prevailed through the years. To move its country into an advanced level and for its economy to prosper, Korea

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<sup>26</sup> See Acemoglu (2010,p.2).

<sup>27</sup> See Fallows (2010).

should develop and foster high quality institutions. Sound and good institutions are the key to ensuring the sound functioning of the political and economic systems within an advanced country.

#### 4. Conclusions

Korea's growth may have been too rushed, emphasizing quantity over quality. The quality of its institutions and the assignment of responsibility we suggest here are the first steps toward shifting Korea from its current road of polarizing growth to a road of shared prosperity. “The apple does not fall far from the tree”. “I will never do this again.... I messed up but wait till next time.” We know how hard it is to shake habits, especially addictions. We have to allow for political reality. Reforms and changes will encounter strong resistance from some of the establishment and the power elite. The changes will not be easy and may, indeed, be painful. “A great Jewish scholar said two words you would later invoke many times with many of us: try again”.<sup>28</sup> Institutions can change. Such changes take time and need leadership. We all have faith in the Korean people. Koreans truly can change by education and persuasion. They will do so, for they value togetherness and desire to live together and to grow.

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<sup>28</sup> Cited from Albom (2009).

Table 1: Per Capita Real GDP in 2007 and 2008

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	2007	2008	Euro Area	Major Advanced Economies
Korea	21245	18248		
Japan	37258	42169		x
Australia	42063	42352		
Canada	37262	37234	x	
Finland	42562	45923	x	
France	36175	38633	x	x
Germany	37370	40543	x	x
Italy	29971	31500	x	x
Sweden	44138	45040	x	
UK	43390	39976	x	x
USA	43943	43730		x

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Raw data source: IMF, *World Economic*

*Outlook*

Figures are per capita real GDP in 2007 at the dollar of 2007.

The base year of GDP figures is 2008.

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