Democracy, Development and Innovation:

A Korean Perspective

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Democracy, Dev't and Innovation in Korean History

- In 2017 Korea = impeachment of President Park Geun Hye
- The 2017 impeachment = end of another chapter in Korean history.

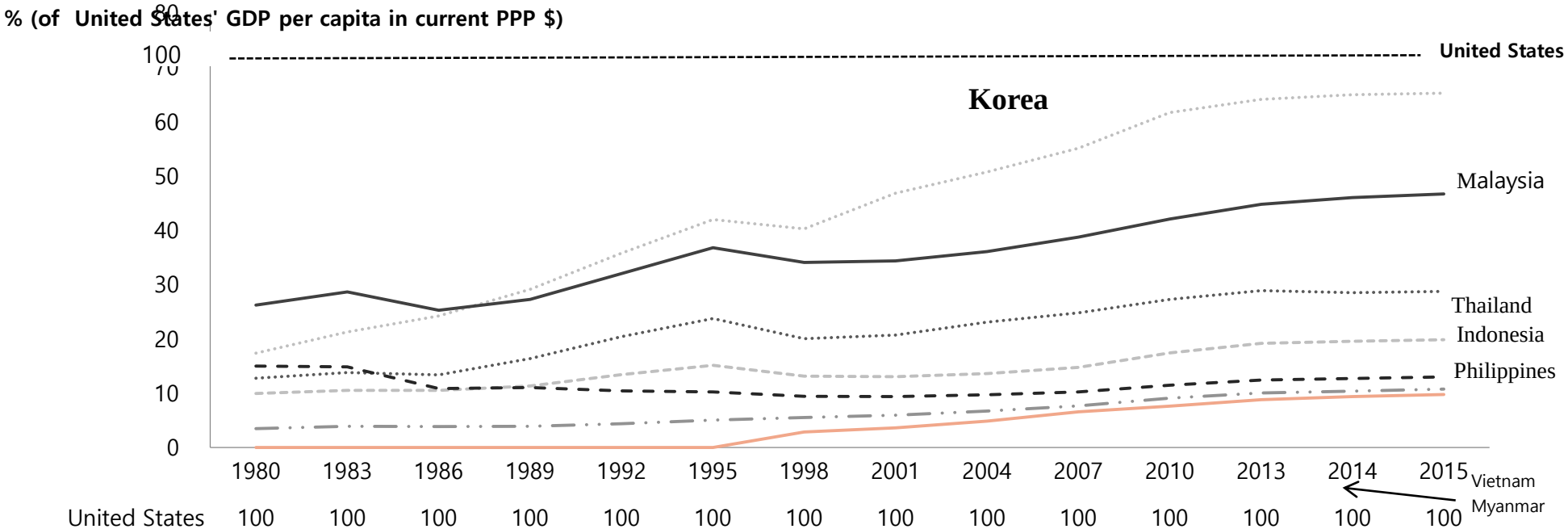
-- It marks 30 years since the 1987 mass-demonstration for democracy that ended the pseudo-democracy of electing the leader by indirect voting, and re-instituted free and direct election with a new Constitution.

- Now, we had a new President, Moon, but we are facing slower rate of economic growth (2% range), which means a lot of difficulty in creating jobs and paying for social welfare.
- Brief History of Korea

- Independent nation for several thousands except 1911 -1945 (Japanese colony); Civil War (1950-53) followed by hunger and poverty

- Economic takeoff since the 1960s to join OECD in 1993 but crisis in 1997 followed by quick recovery in the 2000s

Korea's rapid Catch-up with the USA since 1960:
% (of US GDP per capita (ppp $):



	1980	1983	1986	1989	1992	1995	1998	2001	2004	2007	2010	2013	2014	2015
United States	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Korea	17,4	21,3	24,2	29,1	35,8	42,0	40,3	46,9	50,8	55,1	61,7	64,2	65,0	65,3
Malaysia	26,2	28,7	25,3	27,3	32,1	36,8	34,1	34,4	36,1	38,7	42,1	44,8	46,0	46,7
Thailand	12,8	13,8	13,4	16,4	20,4	23,8	20,0	20,7	23,1	24,8	27,3	28,9	28,6	28,8
Indonesia	9,9	10,5	10,5	11,4	13,4	15,2	13,1	13,0	13,6	14,7	17,5	19,2	19,6	19,9
Philippines	15,0	14,9	10,9	11,0	10,4	10,2	9,4	9,4	9,7	10,2	11,5	12,4	12,7	13,0
Vietnam	3,5	3,9	3,9	3,9	4,4	5,1	5,5	6,0	6,7	7,7	9,1	10,1	10,4	10,8
Myanmar	0,0	0,0	0,0	0,0	0,0	0,0	2,8	3,6	4,9	6,6	7,6	8,8	9,4	9,8

Middle income trap

Debates on the **3 factors for Economic Growth: Policy, Institution (political democracy), Geography**

1) Policies (open door; international integration)
   => failure with the Washington Consensus
2) Not policies but political Institutions matter (Acemogule et al 2001):
   => Excuse for the Washington Consensus; eg) South vs North Korea
3) Geography matter: A destiny? (J. Sachs)
4) Does institution matter? -> Human capital (Glaeser et al)
   (eg. South Korea: democracy only after economic growth)

=> No discussion of Innovation and Capabilities

=> **Lee & Kim (2009), "different factor at different stage of development"**

- **Confirms importance of Innovation and high education for upper middle and higher income countries;**
- **cf) political Institution and basic human capital matter for low and lower middle C's**

Quality of Political Institutions (constraints on executives)

	1965	1980	2000
Korea	3	1	6
Taiwan	2	3	6
Philippines	5	1	6
Thailand	1	3	7
Malaysia	7	5	4
China	2	3	3
India	7	7	7
Brazil	1	1	6
Argentina	3	1	6
Chile	5	1	7
Mexico	3	3	6

Source: Polity IV Dataset; from Lee and Kim 2009 table 1

Acemoglu and Robinson,
Why Nations Fail
->b/c extractive vs inclusive institution

Bill Gates' book review

"**Never** explain how to move to more "inclusive" institutions"

Inclusive vs. extractive :

-> relevant more in low income or pre-modern economy

b/c less difference among middle income countries

=> Why Nations Fail at Middle Income Stage:

due to not-Innovative systems

Challenge by the Beijing Consensus 北京共識 in China

1) No: Western Democracy -> growth

2) No: privatization/financial liberalization
-> growth
3) Yes: Communist Party/Authoritarianism
-> growth
4) Selective/strategic opening -> growth

->Need for a new thinking on: Political Democracy and development

Now,
Today's Korea at Post-Catchup stage
Changing Needs:

From Political Democracy
to Economic Democracy
(more SMEs, worker participation, equity)
to sustain growth in Korea:

***Need for a* Schumpeterian Perspective**
(National Innovation systems)

Lundvall; Nelson (1992):
defines NIS = elements and relationships

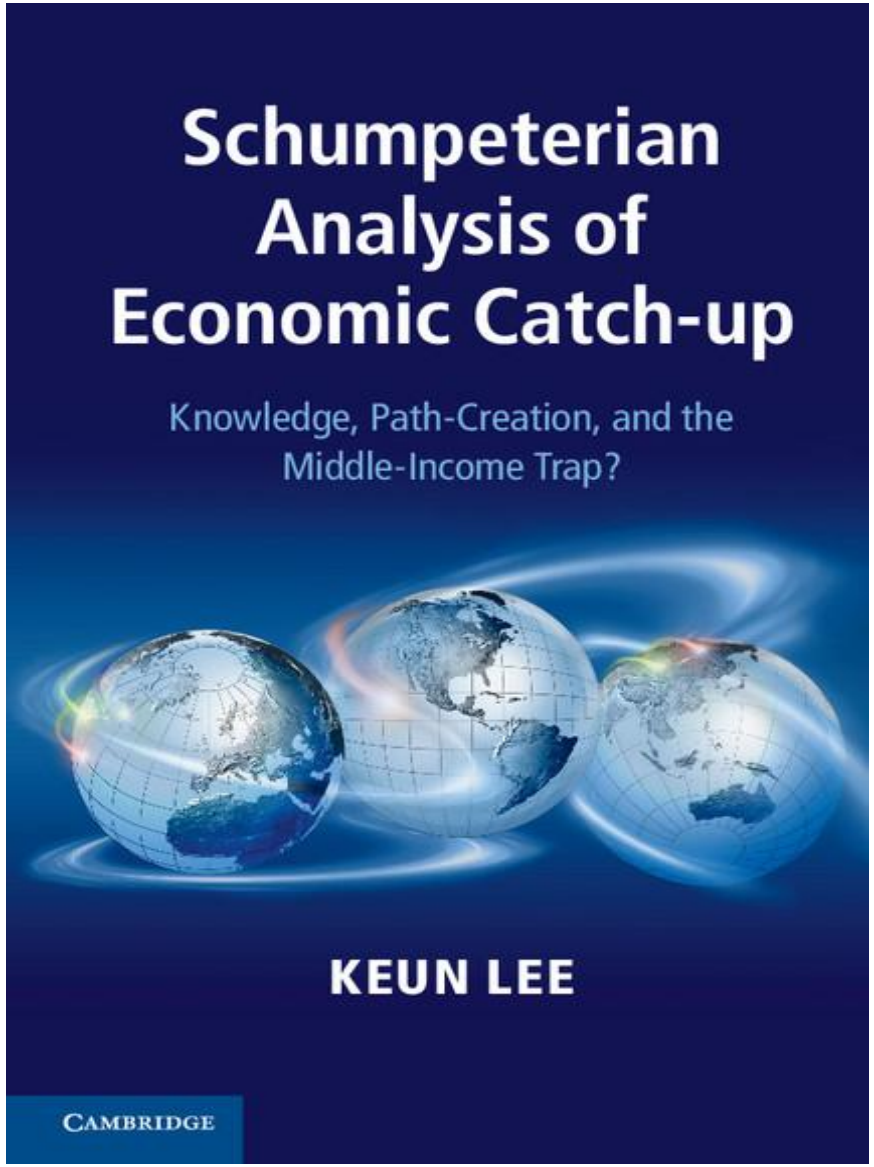
1) which interact in the production, diffusion and use of knowledge
2) rooted inside the borders of a nation state.'

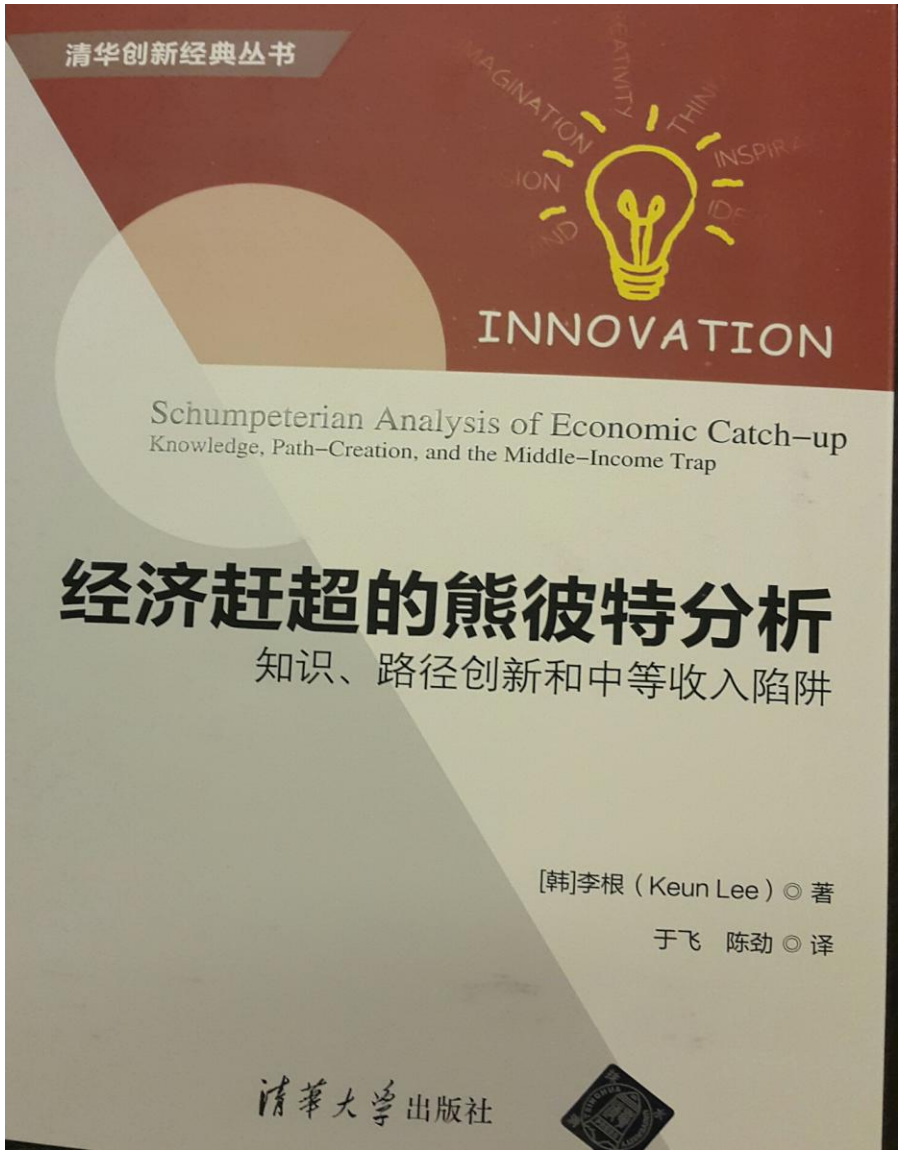
It is about efficiency
in acquisition, creation, diffusion, and utilization
of knowledge.

-> The differences in NIS
determines different levels of competitiveness of nations.

Analyzed the Innovation systems at 3 Levels: country; Sector; firm

=> 2014 Schumpeter Prize

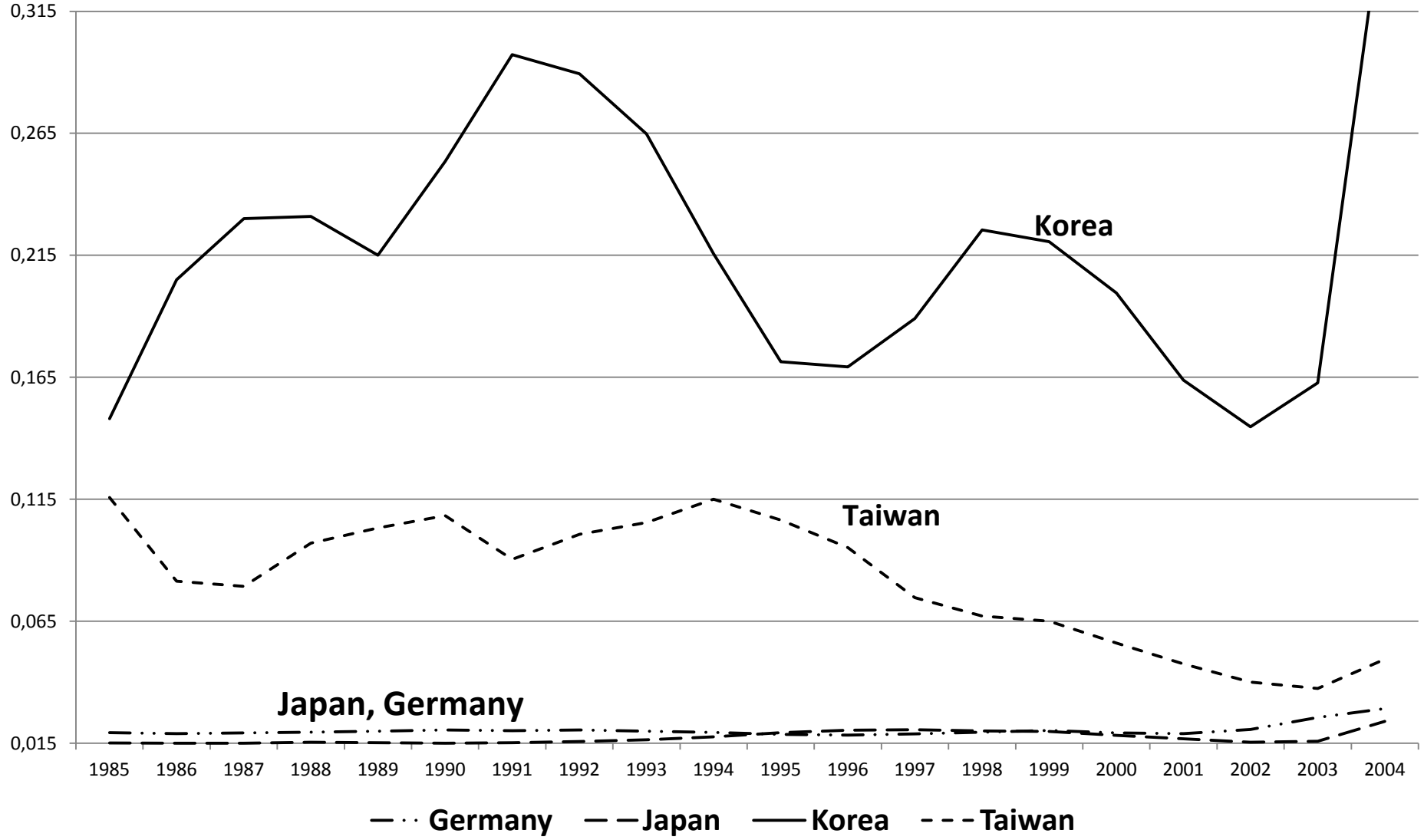




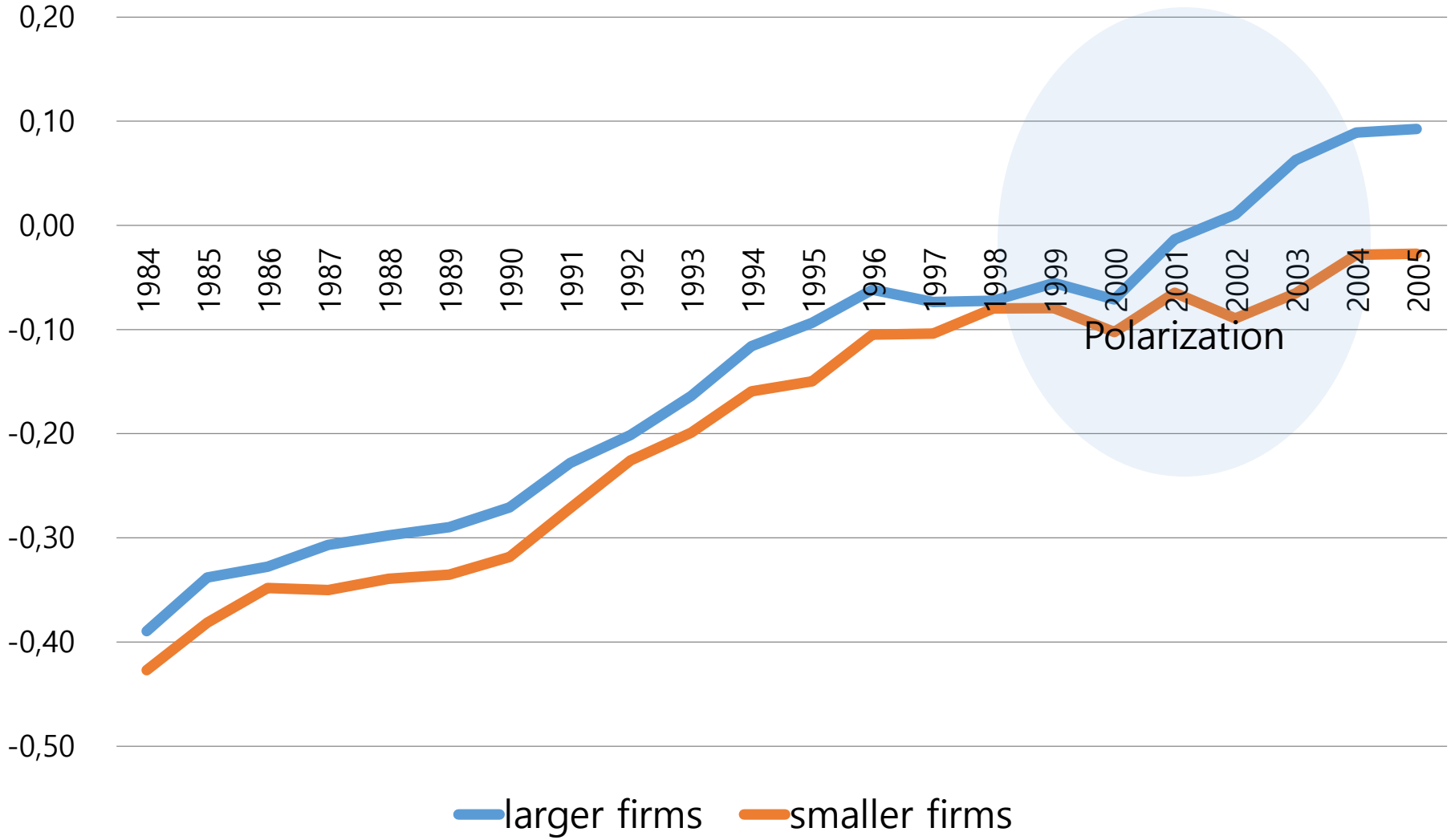
5 Key Variables
to measure the NIS

Intra-national creation and diffusion of Knowledge (=localization of knowledge) (vs. reliance on foreign sources)
Balanced vs. Concentration of knowledge creation (by assignees)
Technological specialization 1 (short vs. long cycle technologies)
Technological. Specialization 2 (high vs. low originality technologies)
Technological Diversification (Wide vs. Deep in patent portfolio)

Assignee Concentration by HH-Index : Korea, too high (3 year moving average)

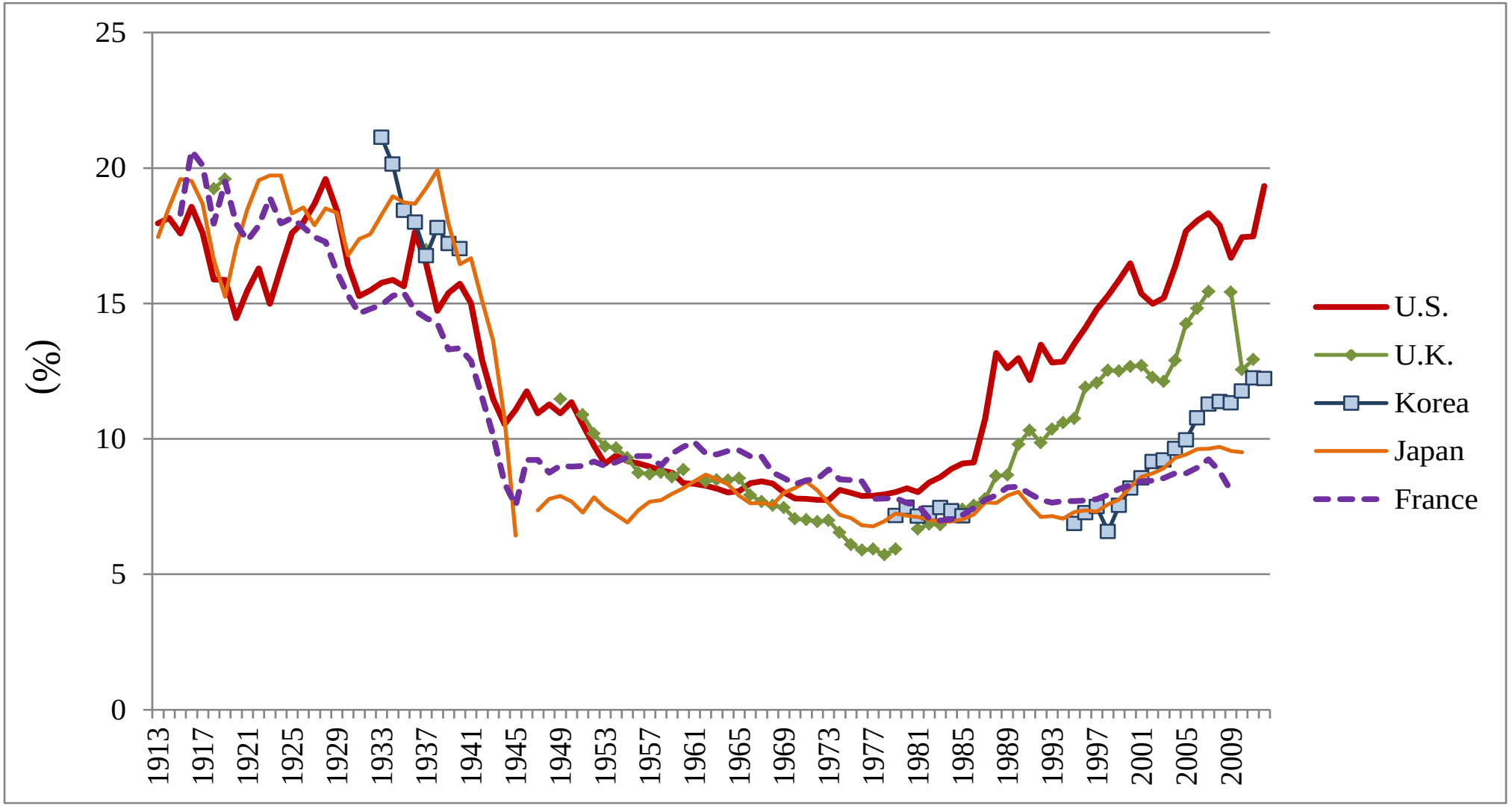


Also, increasing Productivity Polarization since 2000 in Korea
Productivity (TFP) by firm size (large vs Small firms)



Income Shares by Top 1% Rich:

The higher in Anglo-Saxon Capitalism with higher financialization;
In Korea, rapid increase since '97: (Kim; 2014)



My messages

1) Catch-up Stage

Minimum degree of political democracy required for economic growth at lower income stages

- but, political democracy alone does not bring in growth beyond the upper middle income stage, which requires innovation capabilities
- Long term growth -> labor demand -> high wages -> less inequality

2) Post-Catchup Stages

Growth slowed down plus financialization -> more inequality

- More economic democracy needed to sustain growth:
  (SMEs/Startups, worker empowerment, and welfare system)

* Also to check too much financialization

Gracias! *ස්තුතියි !*

Obrigado!

Thank you! *Tak!*

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감사합니다

Danke shon!

ありがとう

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