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The Limitations of South Korea's Government-Led, Chaebol-Centered Development Strategy

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Abstract: This study examines the limitations of South Korea's government-led, chaebol-centered development strategy, which propelled rapid growth from the 1960s but stagnated post-1990s. Structural shifts—urbanization, declining agriculture, and financial market maturation—rendered the imitation-driven model obsolete as Korea approached the global technological frontier. While state-led policies initially addressed underdevelopment through export-oriented industrialization, excessive chaebol dominance stifled innovation, deepened inequality, and disrupted industrial evolution. Vertical integration, subcontractor exploitation, and entrenched rent-seeking market monopolies hinder high-value manufacturing transitions. Post-1997 reforms failed to curb chaebol power, perpetuating labor market disparities and wage gaps. This study underscores the urgency of institutional reforms to foster innovation, equitable growth, and competition, emphasizing that Korea's path beyond middle-income traps hinges on dismantling chaebol-centric structures and revitalizing market-driven dynamism.

Keywords: Chaebol Dominance, Innovation Limitations, Income Inequality, Manufacturing Crisis, Institutional Reform

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Introduction

South Korea's rapid economic development from the 1960s to 1990s, often referred to as the "Miracle on the Han River," was predominantly driven by a government-led, chaebol-centered development strategy. This model, characterized by state-directed industrialization and chaebol promotion, facilitated South Korea's transition from a low-income, agrarian economy to a high-income, industrialized nation within a few decades. However, as the economy matured and approached the global technological frontier, the limitations of this development strategy became increasingly apparent.

The initial success of the chaebol-centered model was rooted in its ability to efficiently mobilize resources, prioritize export-oriented industries, and leverage economies of scale. The government played a pivotal role by providing financial support, infrastructure, and policy guidance, while chaebols functioned as the primary engines of growth, driving industrialization and technological catch-up. This approach was particularly effective during the early stages of development when South Korea emulated advanced economies and focused on imitation-based growth.

However, the structural conditions underpinning this model began to change as the economy evolved. Urbanization, rising income levels, and financial market maturation reduced the necessity for state intervention. Simultaneously, the economy's proximity to the global technological frontier rendered imitation-based strategies inadequate for sustaining growth. The chaebol-centered model, which thrived in an environment of state-led coordination and resource allocation, struggled to adapt to the demands of an innovation-driven economy.

The concentration of economic power within chaebols has led to several critical issues. Excessive vertical integration, monopolistic practices, and subcontractor exploitation have stifled competition and innovation. The lack of incentives for small and medium-sized enterprises (SMEs) to invest in research and development (R&D) has further hindered the transition to high-value-added industries. Moreover, the chaebol-dominated economic structure has exacerbated income inequality, widening wage gaps between large and small firms, as well as between regular and irregular workers.

This study explores the limitations of South Korea's government-led, chaebol-centered development strategy and its implications for the country's future economic growth. By analyzing structural economic changes, challenges faced by the manufacturing sector, and deepening inequality within the labor market, this study posits that the current model is ill-suited for an innovation-driven economy. It concludes that institutional reforms aimed at reducing chaebol dominance, promoting competition, and fostering innovation are essential for South Korea to overcome its current economic stagnation and achieve sustainable, inclusive growth.

The End of the Chaebol Economy

Underdeveloped economies are typically characterized by low income, low educational levels, capital accumulation, a high proportion of agriculture or raw material industries, surplus labor, dual economies, coordination failures, and the absence of institutions, including the financial sector. Escaping the trap of underdevelopment and achieving economic development requires structural change, in which the characteristics of underdeveloped economies gradually fade.

The Park Chung-hee development model, which had been successful for at least 30 years since 1960, began to face criticism in the mid-1990s that it had become unsuitable and that change was necessary (Kwon 2020; You 2021). Why did the strategy that had been effective until then cease to function? The answer is ironic. It became obsolete as the economy evolved into a structure in which the model no longer operated effectively because of the economic development that had been achieved (Park 2011; Park 2021; Hoshino 2016).

Table 1 presents the structural changes in South Korea's economy from 1960 to 2020. As previously discussed, South Korea achieved sustained high growth after 1960. The per capita GDP in 2020 was approximately 30 times higher than that in 1960, and the population more than doubled over the 60 years. The college enrollment rate significantly increased in 2010 before decreasing slightly in 2019.[1] Gross domestic investment as a percentage of GDP also significantly increased in 1990 before decreasing slightly in 2020. Foreign savings as a percentage of

Table 1. Changes in Key Indicators of the South Korean Economy (1960–2020)

	Year						
	1960	1970	1980	1990	2000	2010	2020
Population ('000)	25,012	32,241	38,124	42,869	47,008	49,554	51,781
Urbanization (%)	27.7	40.7	56.7	73.8	79.6	81.9	81.4
Per capita GDP (USD 2015)	1,027	1,977	4,056	9,365	16,992	25,451	31,361
Share of Agriculture, Forestry, and Fishing in GDP (%)	36.6	26.5	14.3	7.6	3.9	2.1	1.8
Exports to GDP (%)	2.6	11.4	28.4	25.0	33.9	47.1	36.4
Gross Domestic Investment to GDP (%)	10.5	26.3	34.0	39.6	32.9	32.6	31.9
Foreign Savings to Gross Domestic Investment (%)	16.5	27.7	26.1	1.5	-3.3	-8.0	-13.2
Unemployment Rate (%)(Labor Force Participation Rate (%))	11.7 (50.1)	4.5 (56.3)	5.2 (59.0)	2.5 (60.0)	4.1 (61.6)	3.3 (61.4)	3.9 (62.8)
School enrollment, tertiary (%)	NA	6.8 (in 1971)	12.4	36.5	76.7	102.8	98.4 (in 2019)

Source: *Foreign Savings to Gross Domestic Investment* data was sourced from the Bank of Korea. The rest of the data were collected from the World Bank.
Note: 1) Urbanization measures the percentage of individuals residing in urban areas relative to the total population; 2) Exports measure the value of goods and services provided to other countries; 3) Gross Domestic Investment to GNI (or GDP): Gross Capital Formation / GNI (or GDP) × 100; 4) Foreign Savings to Gross Domestic Investment: [(Gross Savings/Gross Capital Formation)-1] × 100.

total investment exhibited negative values after 2000, indicating that South Korea had transformed from a debtor to a creditor.

Table 1 also demonstrates the changes in industrial and social structures. The proportion of agriculture in the GDP decreased sharply in 2020, while the urbanization rate increased dramatically. The unemployment rate dropped sharply in 1970; since then, it has remained between the mid-2% and early 4% levels. In contrast, the labor force

participation rate increased by more than 12 percentage points over the past 60 years. Economic development has rapidly transformed South Korea into a manufacturing-centered, urbanized society.

Economic development also led to the resolution of issues that arise in the underdeveloped stage. First, market absence was resolved. Financial markets developed, and independent companies that produce parts and materials emerged. In Table 1, the negative value of foreign savings relative to domestic investment in 2000 indicates that Korea shifted from a net debtor to a net creditor. Additionally, the bank credit to GDP ratio, which is an indicator of financial development, averaged 91% between 2001 and 2011. The market capitalization turnover rate, calculated by dividing the trading volume of listed stocks by market capitalization, was 224% during the same period. This indicates that Korea's financial market has become more similar to those of advanced countries than to those of emerging economies. Meanwhile, the production share of the parts and materials industries in manufacturing increased from 38% in 1993 to 43% in 2008.

Second, growth through imitation reached its limits. A recent theory of economic growth that has attracted attention is the Schumpeterian Growth Theory (Aghion and Howitt 2006). It discusses the optimal strategy for economic growth considering the technological frontier, which has not yet been addressed in traditional growth theories. Underdevelopment is characterized by a significant distance from the technological frontier, wherein an imitation strategy may be the most effective approach for maximizing growth rates. However, as the economy grows and approaches the technological frontier, it must switch to an innovation strategy to achieve sustainable growth (Acemoglu et al. 2001).

Finally, the Korean economy has reached a stage at which it can no longer achieve sustainable real growth through aggregate demand management policies. Without the Chinese boom that began in the 1990s, economic growth through export-led aggregate demand management policies may have reached its limits sooner. In an economic structure in which real growth through aggregate demand management is impossible, technological innovation is necessary to achieve sustainable real growth. This is also why technological and managerial innovation are emphasized for economic growth in developed economies. However, in countries

such as Korea, where the government has partly substituted market functions to achieve government-led growth, there is still considerable potential for economic growth through institutional innovation. It is difficult to achieve technological and managerial innovation without providing appropriate incentives for businesses and entrepreneurs through institutional innovation.

The limits of the Park Chung-hee development model, which was government-led and chaebol-centered, are a result of economic development. Since the 1997 foreign exchange crisis, there have been continuous calls for a transition to a market-centered approach in economic management. This argument highlights that the development strategy typical of the developing stage has reached its limitations. Nevertheless, the fundamental structure of the Korean economy to date remains the Park Chung-hee development model.

In the absence of financial and intermediate goods markets, the government's intervention in the financial market and chaebols' excessive vertical integration are now producing only negative effects. Moreover, under uncertainty, where it is challenging to predict success, the government's strategy of selecting winners stifles innovation. Furthermore, chaebol concentration and the inheritance of economic power impede opportunities for innovation and fair competition.

Economic Concentration and the Replacement of Political Elites

After World War II, it was common for newly independent countries to adopt government-led economic development strategies under authoritarian regimes. Nevertheless, few countries have succeeded in achieving sustained economic development. For instance, in the 1970s, Philippine President Marcos attempted to achieve economic development by adopting Park Chung-hee's development strategy. However, the Philippines did not achieve a similar level of economic growth as South Korea. What differences exist between South Korea and the Philippines? This explanation is straightforward: President Marcos distributed business privileges to relatives and friends. A critical factor in the success of Park Chung-hee's development model was a preferential policy based

on export performance, which functioned as a pro-competitive reward system (Jun et al. 2022; Klingler and Pacheco 2019).

This raises the question: why did Park Chung-hee's regime use export performance as a reward criterion? Economics identifies the accumulation of physical capital, human capital, and improvements in production technology and institutions as factors affecting economic growth. These factors—capital, labor, and technology—are referred to as the "proximate causes" of economic growth. In other words, while economic growth is driven by these factors, a deeper explanation is required to understand why the accumulation of physical and human capital and technological innovation occurs only in certain countries or at specific times. For instance, if South Korea's economic development after the 1960s was achieved by the accumulation of physical and human capital, it is essential to explain why the Philippines did not achieve a similar level of capital accumulation. In this context, economic development theory refers to the fundamental causes that bring about changes in the proximate causes of economic development as "fundamental causes."

Acemoglu, a professor at MIT who led the resurgence of economic development theory and political economics, and colleagues, empirically demonstrated the importance of economic institutions as a fundamental cause of economic development in the early 2000s (2001). The fundamental cause includes policies, rules, and laws that provide incentives for economic agents' investments and consumption; unlike culture, it can be promptly changed through social decision-making. The core of this fundamental cause is the protection of private property rights, particularly vertical protection, which ensures that the socially weak are not exploited. Acemoglu et al. (2021) used statistical data from countries that experienced Western European colonial rule to demonstrate that countries with well-developed vertical property rights protection achieved economic development.

Acemoglu et al. (2021) found that the UK's vertical property rights protection system was transplanted in an advanced form to settler colonies with primarily European immigrants, leading to economic development in these so-called neo-European countries. In contrast, in extractive colonies, institutions more suitable for exploitation were introduced, and the vested interests formed there continue to maintain

their privileges. In summary, institutions that serve the interests of the political elite—who actually make social decisions—were established, which ultimately promoted or hindered economic development. In settler colonies, the political elite comprised the public, whereas in extractive colonies, it was limited to a small group of colonial bureaucrats.

In this context, it can be understood that the interests of military officers-turned-politicians—the political elite in the early stages of South Korea's economic development—were aligned with economic development. It is plausible to infer that the political elite, who needed to secure their political legitimacy in a context where resources and foreign aid were insufficient and economically vested interests were not firmly established, had no alternative but to adhere to the export-led economic development strategy.

Nevertheless, the government-led, chaebol-centered development strategy intensified the concentration of economic power in the chaebols. With the advancement of political democratization since 1987, it can be judged that the chaebols became the political elite in Korean society. In other words, the economic power feared in the early 20th-century progressive movement in the United States—one that was free from democratic control—emerged. The late President Roh Moo-hyun once stated, "Power has shifted to the market." However, more precisely, it meant that "power has shifted to the chaebols."

The Manufacturing Crisis and Deepening Inequality

Entrenchment of Low Growth

There is increasing concern that the South Korean economy may be following a trajectory similar to Japan's "Lost 30 Years." During the 2008 global financial crisis, the South Korean economy maintained a relatively healthy growth rate; after 2012, the economic growth rate rose again. However, it dropped to 2.6% in 2015 and remained at 2.7% in 2016.

The downward trend in South Korea's growth rate since 2015, which began when the global economy was recovering, albeit weakly, is alarming. This raises concerns that the decline in economic growth may be attributed to structural factors in the South Korean economy than global cyclical factors. Although the growth rate in 2015 was

2.6%, inventory contribution was as high as 1.1 percentage points. Inventory, which is included in GDP calculations even if it is produced but not sold, can be either positive or negative each year. However, inventory contribution in 2015 was unusually high. Excluding inventory contributions, the growth rate would have only been 1.5%.

The growth rate in 2016 was also reported to be approximately 2.7%, with the quarterly growth rates being 0.5%, 0.8%, 0.6%, and 0.4% in Q1, Q2, Q3, and Q4, respectively. Moreover, the 0.6% growth in Q3 was achieved through additional budgetary spending and real estate construction investment. Without government policy intervention, there may have been almost no growth in Q3. In 2017, the growth rate rebounded to the low 3% range owing to the so-called semiconductor supercycle but returned to the high 2% range in 2018 and low 2% range in 2019. Some predictions suggest that the potential growth rate could decline to the 1% range under the next administration. Thus, the South Korean economy has already entered a phase in which low growth is becoming entrenched. However, it is unlikely that this entrenchment of low growth will result in a long-term recession, as in Japan.

The inference that the recent decline in economic growth is due to structural factors rather than cyclical phenomena reflects a manufacturing crisis. Recently, the profitability and competitiveness of the manufacturing industry have been rapidly declining, which can be understood as a consequence of the disruption of industrial evolution, where the sector is restructured toward high-value-added businesses.

The Manufacturing crisis

Manufacturing accounts for a large proportion of South Korea's economy. As of 2014, manufacturing in South Korea accounted for approximately 30.2% of the GDP—a significantly high figure considering that the manufacturing share of the GDP is 22.6% in Germany, a recognized manufacturing powerhouse, and 18.7% in Japan. Although the proportion of manufacturing in the South Korean economy decreased to approximately 25% in 2020, it remains significantly higher than that in major industrial countries or the OECD average (see Figure 1).

A large proportion of South Korea's manufacturing is concentrated in a few major heavy and chemical industries. As of 2012, five major

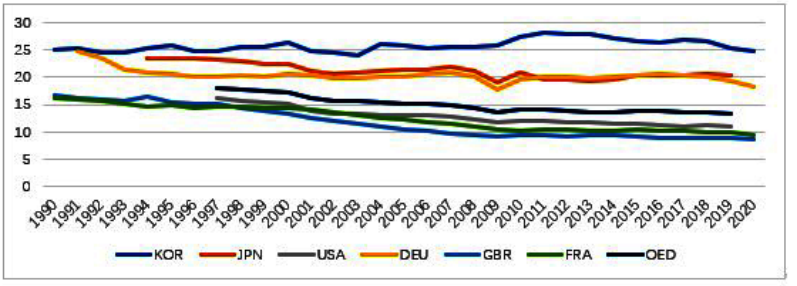

Figure 1. Trend in the Proportion of Manufacturing

Source: World Development Indicators, World Bank

industries—chemicals, transportation equipment, primary metals, machinery, and electrical and electronic equipment—accounted for 67% of manufacturing sales and 77% of manufacturing exports. Export destinations are concentrated in China, the United States, and the European Union (EU). As of 2013, China, the United States, and the EU accounted for 26.1%, 11.1%, and 8.7% of the manufactured goods export market, respectively.

Manufacturing has driven South Korea's economic growth since the early stages of economic development. However, since 2012, the manufacturing growth rate began to align with the overall economic growth rate, and in 2015, the contribution of manufacturing to growth declined rapidly. This decrease in manufacturing growth and its reduced contribution to economic growth stem from the declining competitiveness of South Korea's manufacturing sector.

According to a KDB Industrial Bank report, based on the manufacturing competitiveness index published by Deloitte and the U.S. Competitiveness Council, South Korea's ranking fell from 3rd in 2010 to 5th in 2013; further declines are expected. The trade specialization index, which measures competitiveness using trade performance, also revealed a slight decline in manufacturing since 2012, particularly in non-IT manufacturing. Moreover, manufacturing profitability has exhibited a downward trend since 2011. The operating profit margin for sales decreased from 6.7% in 2010 to 5.1% in 2013, with a significant decline in sectors such as petrochemicals, steel, and shipbuilding. This downward trend in manufacturing competitiveness is problematic as it is expected to

accelerate in the future.

As economies develop, the progression of major industries typically moves from light industry to heavy and chemical industries, followed by parts and materials, IT industries, and financial services. In the United States, the proportion of manufacturing in GDP decreased from approximately 25% in the 1950s to 14% in 2009 as the rapid growth of the financial and IT sectors replaced traditional manufacturing. In contrast, Germany and Japan have witnessed a reduction in the proportion of manufacturing; however, their major manufacturing industries have continued to evolve by prioritizing high-value-added products within their industries.

In South Korea, policies to develop heavy and chemical industries began in the 1970s (Jang et al. 2010; Dalton and Dela 2018). Subsequently, industries such as automobiles, semiconductors, petrochemicals, shipbuilding, steel, and home appliances became mainstays. These heavy and chemical industries are capital intensive; their ultimate competitiveness lies in the wage competitiveness of skilled labor. Once capital is invested and factories are constructed, latecomer firms or countries can gain an advantage in producing commodities using new factories and process technologies. Moreover, over time, labor skills improve and wages remain relatively low, enabling these countries to gain price competitiveness in generic products compared to advanced industrial nations. South Korea's heavy and chemical industries have evolved through this process.

If emerging countries begin to catch up, it is inevitable that the price competitiveness in generic products will be lost. Just as Korean companies once replaced Japanese and European generic product manufacturers, China and other emerging countries are now beginning to replace Korean generic product producers. In contrast, Germany and Nordic countries have developed their industries by focusing on the production of high-value-added intermediate goods and specialized products. They have continued to produce high-value-added intermediate goods and specialized products domestically, while reducing or relocating their generic product businesses abroad.

The essence of South Korea's manufacturing crisis involves the disruption of industrial evolution toward high-value-added products. Quantitatively, the proportion of intermediate goods produced by South

Korean manufacturers is increasing. Specifically, the proportion of parts and materials production in manufacturing increased from 38% in 1993 to 39% in 2000, and 43% in 2008. Particularly, the export of parts and materials increased faster than that of finished goods, accounting for nearly half of total exports by 2010. However, this rapid increase in parts and materials exports was due to the rapid growth of the Chinese economy, which led to a surge in exports of Korean parts and materials to China. In contrast, the market share of Korean parts and materials in advanced countries has decreased. The trade deficit in the materials sector with advanced countries has worsened, and parts exports are concentrated in IT-related items. This reflects the reality that, except for some IT products, such as semiconductors, there are no core products or technologies; the current technological level is weak compared to that of advanced companies; and efforts and investments in technological development are significantly lacking.

The failure of industrial high-value-added evolution is also reflected in surveys targeting manufacturers. According to a survey conducted by the Korea Chamber of Commerce and Industry between May 27 and June 27, 2016, among over 2,400 manufacturing companies nationwide, about half (49.9%) of the responding companies stated that their current sources of profit are declining. The average product commoditization period was reported to be 8.4 years, with the electronics sector at 6.5 years (the shortest), automobiles at 8 years, machinery and steel at 9 years, and refining at 10 years.

One fundamental reason for this disruption in industrial evolution is the concentration of economic power in chaebols. Additionally, excessive vertical integration, de facto exclusive contracts, the propping up of marginal firms, and inadequate protection of the property rights of the weak have disrupted industrial evolution. This disruption is the root cause of the manufacturing crisis.

Deepening Inequality Under the Chaebol System

Until recently, theoretical and empirical research on the relationship between inequality and economic growth has been actively conducted. The term “inequality” encompasses not only economic aspects but also political and social dimensions. However, in this study, inequality

is narrowly defined as income inequality, which is commonly used in economic discussions, and proceeds accordingly.

Early economic discourse has argued that income redistribution policies could reduce incentives for savings, investment, and innovation; thus, strong redistribution policies could hinder economic growth (Kaldor 1957; Lazear and Rosen 1981). On the other hand, from the perspective of economic development theory, scholars have argued that if even a minority could invest in human capital or financial assets in underdeveloped states, economic growth could begin and spread to other marginalized groups, leading to economic development (Barro 2000).

However, recent theoretical and empirical discussions suggest a negative correlation between inequality and growth. For instance, political and economic instability caused by inequality can increase uncertainty regarding the recovery of investment returns, thereby hindering investment (Alesina and Perotti 1996; Rodrik 1999). From the perspective of economic development theory, except in cases of extremely low income, a more equal income distribution—one that enables more individuals to accumulate human capital or financial assets—fosters economic development (Aghion et al. 1999; Galor and Moav 2004; Perotti 1996).

The International Monetary Fund (IMF), which previously emphasized the positive correlation between inequality and growth, has recently released empirical research confirming that lower income inequality levels are associated with higher and more sustainable economic growth (Forbes 2000; Ostry 2014). Additionally, it has been argued that although extreme redistribution policies may negatively impact growth, they do not necessarily have a detrimental effect on growth when they are not extreme. These theoretical and empirical studies converge on the idea of "inclusive growth."

From 1980 to 1994, South Korea's income inequality decreased as the economy developed. However, from 1994 to the mid-2000s inequality increased, despite economic growth. The correlation between economic growth and inequality shifted from negative to positive in the mid-1990s. The factors contributing to the increase in income inequality after 1994 are subject to debate among scholars; however, the majority opinion identifies labor income inequality as the primary cause. Indeed, individual workers' wages and household-level income differ, and the

causes affecting changes in income distribution are diverse and complex. All factors, including economy and industry, population and family, employment and labor, policy and institutions, and politics and parties, can affect income distribution. There are also various other factors, such as the rise in self-employed and special employment workers, increase in the proportion of one-older-person households, and the issue of older persons living in poverty.

Nevertheless, the primary factor underlying the increase in income inequality after 1994 is the widening gap in wage income. This disparity reflects the wage gap between SMEs and large enterprises, as well as between regular and non-regular workers. It is also a result of the fact that labor unions have not made a significant contribution to curbing this trend. Since the mid-1990s, South Korea's worsening income inequality has been largely due to factors related to policies and institutions such as the segmentation of the labor market, corporate market dominance structure based on vertical specialization, expansion of external market opening policies, and corresponding expansion of corporate overseas expansion.

The fundamental cause of South Korea's labor income inequality is its chaebol-centered economic structure, which was successful from the 1960s to the early 1990s. From the 1980s to the mid-1990s, income inequality improved with economic development. The so-called "trickle-down effect" occurred during the high-growth period. However, chaebol-centered economic development intensified the concentration of economic power in chaebols. The concentration of economic power is not only a stumbling block in transitioning from an imitative economy to an innovative economy but also the root cause of issues such as exclusive subcontracting transactions, technology theft, and price undercutting. Price undercutting has become the source of competitiveness for chaebol conglomerates that produce final goods, and the South Korean economy, which has relied on such competitiveness, has reached its limitations. In this process, the gap between SMEs and large enterprises, as well as between regular and non-regular workers, persists and continues to widen.

Particularly after the 1997 foreign exchange crisis, the so-called "big deal" policy promoted the monopolization of industries and demand. In the automotive industry, Hyundai Motor acquired Kia Motors, and

the remaining three companies, Samsung Motors, Daewoo Motors, and Ssangyong Motors, were acquired by foreign companies. Consequently, the domestic market essentially became a monopoly system dominated by Hyundai-Kia Motors. With Hyundai-Kia Motors occupying 70–80% of the domestic market, the automotive parts subcontracting structure solidified into a demand monopoly and exclusive contract relationship. As exclusive contracts were continuously extended, prime contractors gained insight into the cost structures of subcontractors, rendering the latter virtually unable to sustain operations if excluded from exclusive contracts. Therefore, price undercutting continues in exclusive contract relationships, and technology theft persists. However, few cases have been officially raised or litigated. This stems from the fear of retaliation, such as terminated transactions, if issues are officially raised. Consequently, problems are typically raised only when businesses have nothing to lose after being driven out by technology theft. Thus, because technology theft and price undercutting are rampant, innovation does not occur in the intermediate goods manufacturing industry, leading to a gap in profitability and wages between SMEs and large enterprises.

Technology theft deprives intermediate goods manufacturers who produce parts and materials of the incentive to focus on technological innovation. Intermediate goods subcontractors, who have become mediocre and replaceable through technology theft, once again become the prey of price undercutting. Consequently, SMEs producing intermediate goods have neither the incentive nor the capacity to innovate and are forced into price competition rather than quality or technological competitiveness.

However, this problem does not end here. The importance of human capital diminishes when price competitiveness becomes the primary factor influencing corporate competitiveness. In a seniority-based wage system, in which human capital is not important, companies are laying off employees in their 40s and 50s. When employees in their late 40s or early 50s retire, they may be compelled to engage in self-employment using their severance pay. Most become bankrupt within five years and live in poverty as older persons. To address poverty among older persons, the government has no alternative but to increase fiscal spending on employment programs for older persons.

The problem of self-employment cannot be resolved in situations

that involve many early retirees. Although some individuals retire early and engage in self-employment using their severance pay, the demand for self-employment is insufficient. Unlike the United States or Europe, the demand for self-employment in Korea is not guaranteed to a certain extent. This is because there are many pensioners in the United States and Europe. Pensioners form the demand layer for self-employment, while those who retire early and receive severance pay become the suppliers of self-employment. The imbalance between the supply and demand of self-employed individuals in Korea ultimately stems from Korea's economic structure. Therefore, unless this structure is resolved, self-employment measures will be ineffective.

The Need for an Innovative Economy and Chaebol Reform

It is rational to employ imitation-based catch-up growth strategies during the initial stages of economic development. Moreover, it is effective for the government to take the lead in pursuing such strategies. In the early stages of economic development, the question of what to imitate can be resolved relatively easily. South Korea can obtain this information by examining Japan's economic development process. The success or failure of imitation-based catch-up economies depends on how swiftly and effectively resources are concentrated. In the early stages of economic development, when the market is underdeveloped and private companies lack capacity, it can be effective for government bureaucrats to exercise strong leadership and drive economic development through the selection and concentration of resources.

As the economy develops, the potential for growth through imitation diminishes. Consequently, further growth without innovation becomes challenging. However, reconciling corporate innovation with government-led economic policies is difficult. This is because uncertainty is the most significant characteristic of an innovation-driven economy, wherein the government cannot predict which industries or companies will succeed.

Government-led industrial and R&D policies can have opposing effects in an innovation-driven economy with high uncertainty. However, economic development in South Korea has led to significant private

sector growth, raising the question of whether private companies can become the main actors in innovation and lead the high-value-added and high-end development of industries. Nevertheless, chaebol-centered economic development has led to the dominance of the private sector by the chaebol system, which has hindered high-end development and high-value-added industries through innovation. The excessive vertical integration and order allocation practices of the chaebols do not provide challenging companies with opportunities for innovation. Additionally, the suppression of innovation competition ultimately reduces the innovation incentives of chaebol companies. Moreover, because of technology theft from subcontractors, the subcontracting companies of chaebol conglomerates are compelled into price competition and cost undercutting, ultimately losing the incentive and capacity to innovate. Furthermore, when the inheritance of chaebols is possible, chaebol families impede the growth of challenging companies and build entry barriers.

Conclusion

South Korea's government-led, chaebol-centered development strategy was instrumental in transforming the nation from a low-income agrarian economy to a high-income industrialized powerhouse. However, as the economy matured and approached the global technological frontier, the model's limitations became increasingly evident. Structural changes brought about by urbanization, financial market development, and technological advancement have rendered imitation-based growth strategies obsolete. The concentration of economic power within chaebols, coupled with excessive vertical integration and monopolistic practices, stifled innovation, hindered industrial evolution, and exacerbated income inequality.

The challenges faced by the manufacturing sector, particularly the decline in competitiveness and profitability, underscore the need to transition to high-value-added industries. However, the chaebol-dominated economic structure has created significant barriers to this transition because it discourages competition, innovation, and SME growth. Persistent wage gaps and labor market disparities further

highlight the social and economic costs of maintaining the status quo.

South Korea must undertake comprehensive institutional reforms to achieve sustainable and inclusive growth. Reducing chaebol dominance, promoting fair competition, and fostering innovation are all critical steps. Policies that encourage R&D investment, support SMEs, and protect subcontractors' rights can help revitalize the economy. Additionally, addressing income inequality through equitable wage policies and social safety nets is essential for ensuring that the benefits of growth are widely shared.

In conclusion, while the government-led, chaebol-centered model was effective in the early stages of development, it is no longer suited to the demands of an innovation-driven economy. South Korea's future economic success depends on its ability to dismantle existing barriers to competition and innovation and to create a more dynamic and inclusive economic system.

Notes

1 Higher education enrollment rates can exceed 100% because those who proceed to graduate school after completing their undergraduate degree are counted twice.

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韩国的政府为主导、财阀为中心发展战略的局限性分析

摘要：本研究探讨了韩国的政府为主导、财阀为中心的发展战略的局限性，该战略推动了20世纪60年代以来的快速增长，但20世纪90年代后陷入停滞。随着韩国接近全球技术前沿，城市化、农业衰退和金融市场成熟等结构性转变，使得模仿驱动的模式变得过时。虽然国家主导的政策最初通过出口导向的工业化解决了欠发达问题，但财阀过度主导则抑制了创新、加剧了不平等，并破坏了产业的演进。垂直整合、分包商剥削和根深蒂固的寻租市场垄断，则阻碍了高价值制造业的转型。1997年后的改革未能遏制财阀势力，导致劳动力市场差异和工资差距持续存在。本研究强调了推动创新、公平增长和竞争的制度改革的紧迫性，并强调韩国摆脱中等收入陷阱的道路取决于破除以财阀为中心的结构与重振市场驱动的活力。

关键词：财阀主导、创新局限、收入不平等、制造业危机、制度改革

한국의 정부 주도 재벌 중심 발전 전략의 한계

초록: 본 연구는 1960년대 이후 급속한 성장을 이끌었으나 1990년대 이후 정체에 빠진 한국의 정부 주도 재벌 중심 발전 전략의 한계를 분석한다. 한국은 글로벌 기술 경쟁력 선두에 접근하면서 도시화, 농업 쇠퇴, 금융시장 성숙 등 구조적 변화가 발생했고, 모방 주도형 성장모델은 한계에 직면했다. 국가 주도의 정책이 수출 중심 산업화를 통해 초기 저개발 문제를 해결했으나, 재벌의 과도한 독점은 혁신 저해, 불평등 심화, 산업 구조 고도화의 걸림돌로 작용했다. 수직적 계열화, 하청업체 착취, 시장 독점은 고부가가치 제조업 전환을 가로막았다. 1997년 이후 추진된 개혁은 재벌 경제력을 견제하지 못해 노동시장 양극화와 임금 격차를 확대시켰다. 본 연구는 한국의 혁신과 공정한 성장, 경쟁력 제고를 위한 제도 개혁의 시급성을 강조하고, 중등소득 함정을 극복하기 위한 재벌 중심의 경제 체제 개혁의 필요성을 강조한다.

핵심어: 재벌 경제력, 혁신 제한, 소득 불평등, 제조업 위기, 제도 개혁

韓国政府主導の財閥中心型開発戦略の限界

要旨： 本研究では、韓国において1960年代に始まった高度成長を推進したものの1990年代以降は停滞した、政府主導の財閥（チェボル）中心型開発戦略の限界を検証する。韓国が世界の技術フロンティアに近づくにつれ、都市化、農業の衰退、金融市場の成熟といった構造的な変化が模倣主導モデルを時代遅れなものにした。国家主導の政策は当初輸出志向の工業化を通じて発展の遅れに対処していたものの、過度の財閥による支配がイノベーションを抑圧し、不平等を深化させ、産業の進化を混乱させた。垂直統合、下請業者の搾取、レントシーキングな市場独占行為の常態化が高価値製造業への移行を阻害している。1997年以降の改革も財閥の権力を制限できず、労働市場の格差や賃金格差を永続化させてしまっている。本研究では、イノベーション、公正な成長、および競争を醸成する制度改革が急務であることと、中所得国の罠を超える韓国の道筋が財閥中心型の構造を解体し、市場主導のダイナミズムを再活性化させることにかかっていることを強調する。

キーワード： 財閥支配、イノベーションの限界、所得の不平等、製造業の危機、制度改革

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