Economic Growth and Poverty Reduction Strategies in Korea

Korea Institute for Health and Social Affairs
Contents

I. Introduction

II. Economic Growth, Poverty and Inequality in Korea

III. Changes in Poverty Reduction Strategies in Korea

IV. Implications of Korea’s Experiences

V. Suggestions
I. Introduction

- Economic Growth and Poverty Reduction in Korea
  - Before 1997

- Government-led development strategies
- Export-driven industrialization
- Successful birth control

Economic growth

Decrease in absolute poverty rate
I. Introduction

Since 1997

Financial Crisis (1997)

Emerging Issues

• Relative poverty
• Inequality
• Bi-polarization in Income distribution
II. Economic Growth, Poverty and Inequality in Korea

1. Economic Growth and Absolute Poverty

- Economic Growth and Reduction in Absolute Poverty
  
  Rapid economic growth contributed to the decrease in absolute poverty rates: “Floating Effect”

<table>
<thead>
<tr>
<th>GNP per capita (US$)</th>
<th>Absolute poverty Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>710 (1965)</td>
<td>41.4 (1965)</td>
</tr>
</tbody>
</table>
II. Economic Growth, Poverty and Inequality in Korea

Economic Growth and Absolute Poverty in Korea

Graph showing GNP per capita PPP (US $) and Poverty as % of pop over the years from 1965 to 2004.

Legend:
- GNP per capita PPP (US $)
- Poverty as % of pop
A higher economic growth rate relates to a larger decrease in absolute poverty rate in other regions.

Economic Growth and Poverty Reduction by Region
II. Economic Growth, Poverty and Inequality in Korea

Key Factors for Reducing Absolute Poverty

- Active and heavy investment in human and physical capital by the public and the private sectors
- Effective family-planning policies

Trend in Total Fertility Rate

<table>
<thead>
<tr>
<th>Year</th>
<th>Fertility Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>4.53</td>
</tr>
<tr>
<td>1980</td>
<td>2.83</td>
</tr>
<tr>
<td>1990</td>
<td>1.59</td>
</tr>
</tbody>
</table>

Strong family planning programs
II. Economic Growth, Poverty and Inequality in Korea

- Improved social safety nets
  - Public Assistance:
    - Launched in 1961
    - Target group: traditionally vulnerable groups such as the elderly, the disabled, and children
    - Expanded to all the citizen as a right in 1999
  - Industrial Accident Compensation Insurance:
    - Launched in 1964
    - Expanded to all the workplaces with at least one employee in 2000
National Health Insurance Scheme:
- Introduced in 1977 for workplaces with at least 500 employees
- Expanded to all the Korean citizens in 1988

National Pension Scheme:
- Launched in 1988 to cover workplaces with 10 employees or more
- Expanded to all the Korean citizens in 1999

Unemployment Insurance:
- Unemployment allowances, job-searching support, job training
II. Economic Growth, Poverty and Inequality in Korea

2. Economic Growth and Relative Poverty

- Increase in the Relative Poverty Rates

  - 8.6% in 1996 $\rightarrow$ 10.0% in 2000 $\rightarrow$ 11.7% in 2004.
  
  (poverty line: 50% of medium income)

  Trend in the Relative Poverty Rates
Factors for the Increase in Relative Poverty

- Globalization, and industrial and job insecurity
  - increase in the working poor

- Low fertility and population ageing
  - increase in the poor aged

- Changes in family structure and the break-up of families
  - Increase in the poor female householders

II. Economic Growth, Poverty and Inequality in Korea
The importance of the strategies is increasingly recognized:

- To tackle relative poverty issues
- To enhance equal income distribution
- To promote social integration
II. Economic Growth, Poverty and Inequality in Korea

3. Economic Growth and Inequality

- Inequality before and after the Financial Crisis

Before the Crisis
- High economic growth
- Relatively equal society

After the Crisis
- Low economic growth
- Increased inequality

- The more serious the inequality, the slower the economic growth
II. Economic Growth, Poverty and Inequality in Korea

Economic Growth Rate and the Gini Indicator

Sources: Raw data from the Korea National Statistical Office's『Survey of Urban Households』(published annually), for each year
The Bank of Korea's website data, for each year
III. Changes in Poverty Reduction Strategies in Korea

1. Changes in Principle

“Growth First, Welfare Later”
- National development strategy before 1997
- Concentrating on economic growth
- Welfare as residual measures for the poor

“Growth Together with Welfare”
- Development strategy since 2003
- Harmonized approach between growth and welfare
- Focusing on sustainable development
III. Changes in Poverty Reduction Strategies in Korea

2. Changes in Target Beneficiaries

1948~1997

The poor
- unable to work

1998~2002

The poor
- able to work
- unable to work

2003~

The poor and the near poor
- able to work
- unable to work

Financial Crisis

“Participation Government”
III. Changes in Poverty Reduction Strategies in Korea


- Harmonized growth of Economy and Welfare Eradicate Absolute Poverty and Reduce Relative Poverty
- Optimal social welfare expenditure
- Reinforced social safety net
- Society Free of Poverty
  - Virtuous Cycle of Distribution and Growth
- Fostering new growth industries
- Increased job opportunity
The importance of economic growth and anti-poverty policies should be emphasized to alleviate absolute poverty.

It is desirable to expand the target groups from the poor unable to work, to the poor able to work and the near poor.
Welfare policies should be designed to succeed in promoting motivation to work among the poor.

Proper attention should be paid to various social problems resulting from low fertility and rapid population aging.
The most efficient way is to consider poverty eradication and income distribution issue from the initial level of mapping out strategies for development and growth.
V. Suggestions

But putting too much importance on distribution will weaken the potential of economic growth and efficiency.
As in the “Fool in the Shower”, plying between growth and distribution will cost a lot of social expenses while controlling its side effects.
For long-term and sustainable development, emphasizing one side is not desirable.
V. Suggestions

It is important to set a policy direction which can establish positive relation between growth and distribution as well as harmonize efficiency and equality.
V. Suggestions

Korea's "Participation Government" is emphasizing the importance of co-growth while trying to embody the vision of Social Investment State into policies.
Thank You