

Korea to enter lower growth era because of aging population

By Kim Ji-ho, Korea Herald

Korea's potential annual growth will soon fall from more than 5 percent to around 4 percent as the country's society ages and industry battles labor unrest. As a result, the country is entering a "low-growth era," an influential private think tank warned yesterday.

During a symposium with business leaders and lawmakers, the think tank, Samsung Economic Research Institute, forecast the nation's potential GDP expansion rate will slide to 4 percent by 2010. That compares with 5.4 percent, the potential rate between 1996, the year after the country achieved per-capita income of \$10,000, and 2003, and with actual average annual growth of 7 percent over the last 16 years. "If this trend continues without an epochal improvement in total factor productivity, the Korean economy will enter a low-growth stage," the institute said in a report released during the seminar.

The Samsung institute, an adjunct to Korea's No. 1 conglomerate, blamed the changing circumstances on Korea's failure to nurture future-oriented growth engines, its rapidly aging society, and widespread labor-management conflicts.

"To maintain the current growth speed, (Korea) needs to shift swiftly to new industries. But amid weakening sentiments among entrepreneurs and the lack of human resources, investments in new industries have been delayed," it argued.

Shrinking growth potential may keep Asia's third-largest economy from achieving the long-

sought per-capita income level of \$20,000 and joining the ranks of advanced nations for good, it warned. Data on developed countries show that they spent an average of 9.2 years to make the transition from \$10,000 per capita annual income to the \$20,000 level. Korea, however, has stayed at the \$10,000 level since reaching that threshold in 1995.

Hobbled by a consumer credit crunch, which left 16 percent of the nation's workforce unable to pay debt, Korea is having difficulty reigniting domestic demand.

Only 63 percent of people aged between 15 and 64 have a job here, while the comparable rate reaches 71.2 percent in the United States and 68.4 percent in Japan. The figure also falls short of the Organisation for Economic Cooperation and Development nations' average of 65 percent.

"In addition, rising life spans and the falling birth rate are fast aging the society. As a result, the lack of work force between the ages of 15 and 64 is further eroding economic growth," the institute noted. People aged 65 or older comprised just 7.2 percent of the population in 2000. But SERI expects that segment to hit 10.7 percent in 2010 and 15.1 percent by 2020. "The aging factor itself can cut the potential growth rate to 4 percent by 2020 and to 3 percent by 2030," it predicted.

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