

# paraf test 17 apr 1.7

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## **South Korean Economic Uniqueness Between Economic Growth, Consumption and National Development in South Korea**

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### **Abstract:**

This study aims to examine the interrelationships between South Korea's household consumption, national development as measured by government spending, and economic growth. This research is a quantitative research using secondary data from the world bank. We use a research period from 2000 to 2021. We choose an autoregressive vector to simulate a causal relationship between variables. We found that South Korea is very unique among other Asian countries. The decline in domestic consumption actually boosted economic growth. This is a unique thing that happened in South Korea. However, the continued increase in economic growth followed by increasing national development was not matched by an increase in public consumption. This is quite unique and requires further investigation.

**Keyword:** South Korean, Economic Growth, Consumption, National Development

**JEL Classification:** E21, O33, O47

### **Introduction**

In a short period of time, Korea saw rapid expansion. In recent years, cultural products, including music, gaming, and webtoons have developed as significant businesses driving the Korean economy. It has world-class competitiveness in sectors like mobile phones, semiconductors, autos, chemicals, and steel (Jung, 2020). The guarantee of each citizen's property rights is stated explicitly in the Korean constitution. It is based on a market economic system, acknowledges people's and enterprises' free economic decisions, and protects any gains and assets gained as a consequence. A completely free market economy is not, however, a guarantee provided by the Constitution. According to the Constitution, money can be taken if it is utilized excessively and causes harm to other people. These are the bare minimum resources needed to solve the issue of free market economics (Kusuma, Dewi, & Sari, 2021).

Korea has achieved unprecedented worldwide economic growth (Ha & Byrne, 2019). The industrial infrastructure was badly damaged during the three-year battle from 1950 to 1953, and the world refers to the economic progress that was nevertheless accomplished under such circumstances as the "Miracle on the Han River" (Purnomo, Ramdani, Salsabila, & Choi, 2020). Korea has advocated and built an export-based economic growth plan since the 1960s (Trang, 2021). Investments in heavy chemical industrial facilities have propelled economic growth since the 1970s, laying the framework for the export of heavy industrial goods. Initially, the majority of exports were made up of raw materials or light industrial goods produced in tiny enterprises (Kai, 2023). Leading the semiconductor and display fields at the moment. Korea had the opportunity to pass the economic threshold and become a developed country thanks to the 1988 Seoul Olympics (Lee, 2021). The four dragons of Asia, as referred to in foreign media, are Taiwan, Hong Kong, and Singapore (Keck, 2020). It joined the Organization for Economic Co-operation and Development (OECD), a group mostly made up of industrialized nations, in December 1996, becoming its 29th member worldwide. It has been revived as a world dragon outside of the Asian dragon (Lim, 2021).

Increasing Korean exports automatically has an impact on domestic consumption and national development as a result of policies to increase exports to spur economic growth (Sahoo & Dash, 2022). The purpose of this research is to investigate the mutual relationship between economic growth, national development in the form of government spending, and domestic consumption in South Korea.

### Research Method

This research is a quantitative research using secondary data from the world bank. We use a research period from 2000 to 2021. We choose an autoregressive vector to simulate a causal relationship between variables. We examine data from South Korea with the following model equation:

$$GDP_t = \beta_0 + \beta_1 CM_t + \beta_2 EX_t + \epsilon_t \quad \text{eq1}$$

$$CM_t = \beta_0 + \beta_1 GDP_t + \beta_2 EX_t + \epsilon_t \quad \text{eq2}$$

$$EX_t = \beta_0 + \beta_1 GDP_t + \beta_2 CM_t + \epsilon_t \quad \text{eq3}$$

Description :

GDP : Economic growth

CM : Consumption

EX : Government Expenditure

$\beta$  : the magnitude of the effect of causality

t : time series

$\epsilon$  : error term

eq1: equation

### Result and Discussion

A stationarity test must be carried out before VAR analysis and the ADF test can be used by researchers to detect whether a series is non-stationary. The error component, which has the possibility for autocorrelation as well, is studied to determine if the series is non-stationary. The following findings were drawn following the unit root test:

**Table 1.** Stationary test

Variable	Unit Root	ADF Test stat.	5% Critical Value	Result
Economic Growth (GDP)	Level	-0.412717	0.7551	
	1 df	-1.811341	0.2921	
	2 df	-3.821137	0.0187	Stationer
Consumption (CM)	Level	-1.721471	0.3412	
	1 df	-1.722157	0.2721	
	2 df	-3.281165	0.0411	Stationer
	Level	-2.563324	0.0847	

Government Expenditure (EX)	1 df	-4.822115	0.0021	
	2 df	-2.972271	0.0019	Stationer

All variables are stationary on the second difference. From this point on, we may define vector analysis in more detail. For causality tests and VAR testing, the lag duration must be sensitive enough. The appropriate time lag is determined using Akaike (AIC).

**Table 2.** The result of the optimum lag test

1	LogL	LR	FPE	AIC	SC	HQ
0	-131.5711	NA	78.51123	14.61711	14.81121	14.51122
1	-59.78287	92.28112*	0.321171	9.642112	9.62218	9.731171
2	-39.72135	16.12356	0.241315	8.714352	10.14871	8.781943
3	-12.51271	13.25713	0.311318*	7.721121	9.27325	7.272234
4	1671.211	0.000000	NA	-191.7726*	-167.4111*	-153.4211*

The outcomes of the Optimum Lag test are displayed in Table 2. The length of the variable Lag with the most criterion (\*) is in Lag 4, according to the table above, thus Lag 4 will be chosen. Autoregressive vectors are used as multivariate forecasting models to construct a forecasting system from linked time series data and to investigate the dynamic influence of random events that upset the system.

**Table 3.** VAR analysis result

	GDP	CM	EX	IU
Economic Growth (GDP)	0.631121 (0.69112) [0.91131]	-0.322811 (0.69235) [-0.49226]	0.271161 (0.21336) [0.89674]	-0.542231 (0.72327) [-0.69114]
Consumption (CM)	-0.932872 (0.62332) [-1.77151]	-0.977621 (0.61122) [-1.92112]	0.281128 (0.21112) [1.11212]	-0.511725 (0.59326) [-0.99322]
Government Expenditure (EX)	0.291128 (1.04211) [0.28945]	1.023726 (1.04122) [0.84055]	0.401231 (0.40221) [0.98376]	1.783311 (1.35117) [1.24112]
C	-7.281271 (3.91212) [-1.92527]	-6.992311 (4.14171) [-1.69811]	1.823112 (2.44711) [2.08813]	-1.459711 (4.95115) [-0.39211]
R-sq.	0.811321	0.751126	0.721162	0.872311
Adj. R-sq.	0.621121	0.671113	0.691315	0.862661

Based on the estimation results, every change in economic growth will have an impact on future economic growth. the relationship between economic growth and consumption is negatively

significant so that the higher the economic growth the lower the consumption. Economic growth has stimulated government spending for development in South Korea. The decline in domestic consumption in South Korea has made it possible for a decrease in purchasing power and an increase in prices. But the unique thing in South Korea is the increased development and economic growth.

### **Conclusion**

South Korea is very unique among other Asian countries. The decline in domestic consumption actually boosted economic growth. This is a unique thing that happened in South Korea. However, the continued increase in economic growth followed by increasing national development was not matched by an increase in public consumption. This is quite unique and requires further investigation.

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