

Analysis of Factors Widening Productivity Gap among Industries and Influence on Economy

The Korean economy has repeatedly shown short-term upswings and downturns since 2000, with the growth rate remaining within a range of 4~5%. Attributing such overall economic sluggishness to the deepening polarization of the economy, the government and academies have recently been developing various policy measures to promote balanced growth to ensure a virtuous circle of growth and employment. So far a number of studies have been undertaken to try to figure out what widens the productivity gap between the manufacturing and services sectors and between export-oriented and non-export oriented firms. However, these studies did no more than briefly explained what caused the growth gap among industries and how serious it is and failed to present sufficient in-depth analysis of the productivity gap. In particular, no empirical analysis has yet been conducted of the fundamental causes of the productivity differences among industries, and analysis of their consequences has also been limited and narrow.

In this respect, an analysis is undertaken in this paper of what mainly causes the productivity gap and how this widening gap affects the Korean economy in the short- and the long-term.

According to the empirical analysis, the widening productivity gap among industries since 2000 stems from structural factors including the degree of progress of informatization, the degree of R&D intensity, and the quality of human resources. Thus, the productivity gap has been widened by structural factors not by cyclical factors but which have been driven by in the fast changes in the employment and production structures toward those of the service and manufacturing sectors, respectively. Meanwhile, it is estimated that employment structural changes resulting from productivity differences have slowed down the annual growth rate by 0.7 of a percentage point since 2000 and that changes in the employment structure have shortened the business cycle and

increased the risk of business fluctuations. Based on these results of the analysis, we would like to draw some policy implications as to how to improve the efficiency of counter cyclical policies and expand the basis for balanced growth across industries.

First, as the productivity gap is mainly attributed to structural factors and is difficult to narrow in a short period of time, growth differences among industries are likely to last for the time being. With certain industries leading the entire business cycles, it is difficult to assess the overall business conditions on the basis of the existing business indexes alone. In this respect, various business indexes, including a diffusion index, need to be created and brought into use, while industry- and demand-specific microeconomic analyses should be undertaken. Based on these indexes and analyses, counter cyclical policies should be implemented from a medium-term perspective.

In addition, medium- and long-term policies to promote balanced growth across industries should be carried out in the following directions. First, in order to narrow the digital divide, the degree of IT utilization throughout the entire economy needs to be improved. Second, for the development of human resources of the services sector, training and education systems need to be developed for potential professionals as well as current experts. Third, when it comes to R&D investment, the manufacturing sector, which already saw a significant growth in quantitative terms, should focus its efforts on improving efficiency, while the services sector needs to concentrate on quantitative growth. Finally, market opening, although believed to slow down economic growth in the short term, has a positive influence on productivity improvement in the medium- and long-term, and for this reason, various policy measures need to be developed to promote the opening of the services market in an effort to further enhance productivity.