Preface

When I was born, in 1960, my home country of South Korea (hereafter often just Korea) was one of the poorest in the world. Its per capita gross domestic product (GDP) was lower than that of Nigeria and near that of Ghana. This is not surprising, as Korea shared many similar initial conditions with typical African countries. Korea had been subjected to foreign colonial rule for over four decades and had gone through a three-year civil war. The country was also suffering from food shortages and had been relying on food aid from the United States since the end of World War II despite more than 85% of South Korean GDP coming from agriculture.

Over the course of my life, I have directly witnessed Korea's rapid economic catch-up. In the 1960s, Koreans were extremely poor. I wore rubber shoes as a child and ate just one piece of cornbread, provided as a part of US food aid, each day for lunch during elementary school. To provide my siblings and me with better educations, my parents decided to move from a small southern city to the capital city of Seoul in 1968. Indeed, my family was a part of the mass urban migration wave in South Korea. While I was attending high school in the late 1970s, my father bought a used car despite my mother's concerns that we couldn't afford it. I entered university as a first-year student in 1979; this was also the year that former dictator-modernizer President Park Chung-Hee was shot and killed suddenly by a member of his inner circle. A resulting emergency military decree closed all colleges for over a year in response to pro-democracy demonstrations. However, around 1980, South Korea's per capita GDP in purchasing power parity (PPP) terms reached 20% of the US level, which corresponds with the lower bound of an upper middle-income country. Fifteen years after that, it reached 40% of the US level, enabling South Korea to join the Organisation for Economic

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Co-operation and Development (OECD) as a high-income economy. In the 2020s, South Korea's per capita GDP in PPP terms surpassed that of Japan and reached over 70% of that of the United States.

My life experiences in South Korea over the past sixty years have also provided me with insights into the meaning of economic development for latecomers. I have always felt that what I have witnessed in Korea does not correspond with what is taught about development by conventional economics. Economic development in any country is a long, winding journey; any controlled experiment lasting just a couple of months is too short and narrow to reflect the uncertainty and variability of economic development. In this book, I have attempted to conceptualize the Korean experience and compare stylized facts with the experiences of other developing countries. South Korea pursued an export-oriented growth strategy. Its success provides a counterexample to so-called dependency theory, which asserts that if a country opens its markets to global forces, it will never develop because all of its surplus will be exploited and sent abroad. This dismal prediction of "development of underdevelopment" was popular in Korea, as well as in Latin America, where it originated, when I was in college during the 1970s and 1980s. Moreover, South Korea's success also went against the tenets of the so-called Washington Consensus, as its process of opening up and liberalization did not happen all at once but rather very gradually, with the government continuing to protect domestic markets and remaining involved in industrial policy. South Korea's success was an exception, in that many countries before had opened up but had failed to achieve as successful a catch-up as South Korea. Indeed, many countries suffered from the liberalization trap and became stuck in the middle-income trap, unable to advance beyond the middle-income stage and close the gap with the United States.

Neither a closed nor an open economy guarantees rapid catch-up. Opening an economy is necessary for local economies and entities to benefit from foreign capital and learn from foreign companies, eventually generating domestically owned sources of innovation

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and developing capabilities beyond foreign direct investment (FDI)-linked companies. Managing such global–local interfaces is one of the key challenges that decides the long-term fate of an emerging economy; it is also one of the first key themes dealt with in this book. That is, in this book's discussion of the development detour, I demonstrate that latecomer economies should generate a critical mass of domestically owned companies by opening their economies and obtaining knowledge and technologies from foreign firms before globalizing their own firms during the final stage of development. This book also addresses the experiences of many countries beyond South Korea to provide robust empirical evidence demonstrating that opening should be managed by public policies so as to provide local firms with opportunities to build up their own capabilities.

The second detour involves the coevolution of firms with surrounding institutions and innovation systems. This second detour first generates growth-leading big businesses and then, at a later stage, small- and medium-sized enterprises (SMEs) and startups. Detouring from big businesses to SMEs is needed, because having thousands of SMEs does not enable a middle-income economy to overcome entry barriers and break into high-end segments and sectors. Once a country possesses a necessary mass of innovative big businesses, these businesses will become flagship companies that contract with SME suppliers as part of their supplier network while also generating spinoffs and viable startups. It can take decades to build up a sound institutional or investment climate that can nurture startups. It takes less time, however, to concentrate resources and competencies among a few firms so that they may grow into leading flagship companies. South Korea and Taiwan became high-income economies not by having thousands of SMEs but rather by growing a few large firms, such as Samsung and Taiwan Semiconductor Manufacturing Company (TSMC), which incorporated many small suppliers into their networks.

The third detour involves governmental intervention. Although this detour ends with the government playing a minimal

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role during the final stage of development, I make the provocative assertion that the role of government should not decrease in a linear fashion over the course of development but rather should increase at the upper middle-income stage, with the scope of government intervention forming an inverted U-shaped curve. Specialization according to a country's comparative advantages at the low-income stage does not necessitate considerable direct government intervention. However, for a country to enter high value-added sectors and catch up with leading countries in global markets, governments may need to undertake more direct forms of intervention, such as pursuing public–private joint research and development (R&D) initiatives. Such interventions become necessary because firms at this stage face increased difficulties in terms of entry barriers and intellectual property disputes. Technology transfers become more difficult the closer a country gets to frontier technologies, and more high-end sectors in the global market tend to be oligopolistic or monopolistic in nature and heavily dominated by incumbents.

South Korea is an exemplary case of a country that took a detour to development. Indeed, during its rapid catch-up period, which lasted until the mid-1990s, South Korea pursued a selective opening and promoted big businesses rather than SMEs, nurturing domestic value added rather than simply joining global value chains (GVCs). South Korea maintained a relatively closed posture and protected its markets; however, it is now one of the most open markets in the world and the only country that holds free-trade agreements (FTAs) with the United States, the European Union (EU), China, and India.

In summary, the overarching argument of this book is that there exist multiple pathways that latecomers can take to achieve catch-up and close the income gap with incumbent countries. For latecomer countries, one crucial question is whether to follow the trajectories of present-day rich countries or to seek out different and new trajectories (Lee 2019). Although this is a fundamental question, scholars offering mainstream prescriptions have not sufficiently explored it. Instead,

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they have suggested that latecomers should follow the trajectories of forerunners or, at the least, attempt to emulate them as soon as possible. The linear perspective also asserts that latecomers should follow the path of structural transformation taken by the current mature economies, focusing first on the primary sector, then manufacturing, and finally services. Another line of scholarship within the linear view bases its policy suggestions on the concept of economic complexity, suggesting – without consideration for entry barriers – that latecomers should attempt to move into product spaces dominated by advanced economies. This book proposes an effective alternative to prevailing development thinking by focusing on nonlinearity and the multiplicity in pathways for the economic development of latecomers. It explores the possibility that latecomer economic catch-up is possible not only by relying on manufacturing sectors but also on IT services, as in the case of India, or resource-based sectors, as in the cases of Chile (wine, salmon, fruits, and wood products) and Malaysia (palm oil, rubber products, and petroleum products).

Given that innovation is considered to be both a bottleneck for continued growth beyond the middle-income stage and the solution to the middle-income trap, this book explores economic development detours pursued by latecomers that rely on the power of innovation. Therefore, the title of this book employs the term "innovation–development detours." It seeks to offer new insights regarding detours to economic growth that have become more viable in the age of de-globalization, with a focus on global–local interfaces, nonmanufacturing industries, and the coevolution of firms and surrounding systems.

Regarding the book's theoretical framework, I apply a Schumpeterian approach, adopting the framework of innovation systems, which have been theorized at the national, sectoral, regional, and firm levels. Thus, I am greatly indebted to intellectual pioneers in this field, including Richard Nelson and Bengt-Åke Lundvall, who jointly developed the intellectual network of Globelics and the Catch-Up Project.

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