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Korea in the World: Past Lessons and Future Challenges

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Good Morning, Ladies and Gentleman,

It is, indeed, a great privilege for me to have this opportunity to meet you all.

Organizers of this conference asked me to talk about Korea's role in the world since 1960, what has gone right and what needs to be corrected.

Given the time constraint, what I would like to do, is to briefly discuss Korea's economic experiences since the early 1960s, possibly to highlight a few important lessons and policy implications not only for others, but ourselves. It is always useful to remind ourselves of lessons from both past successes and failures to properly deal with challenges for the future. As the time allows, I would like to say a few words on critical economic challenges facing Korea today.

Within a little over a generation's time, Korea, a dirt-poor nation as late as the early 1960s, joined the ranks of industrially advanced nations in the 1990s. Korea became a member of the OECD (Organization for Economic Cooperation and Development) in 1996. According to a World Bank report, Korea is one of only a few nations such as Japan, Spain and Portugal which were able to escape from "middle-income trap" between 1960 and 2006.

No wonder, Korea's successful past is most frequently mentioned as a prime example of "how nations succeed." I suppose, the presence of the poverty-stricken North Korea makes the Korean case even more prominent.

The Korean economy had experienced a sudden take-off since the early 1960s. The economy grew nearly 10% with its export growing over 30% per annum for a few decades. The question is how it happened. Of course, the role of government was critical. Most importantly, the Korean government, first, adopted an outward-looking growth strategy based on export promotion in the early 1960s unlike many other developing nations then and second, established a "business and entrepreneurship-friendly ecosystem"

The outer-oriented growth strategy was highly rewarding for Korea. With it,

Korea was able to take full advantages of the post-WWII liberal economic order, under which free trade and foreign exchange and financial stability were provided. The Korea's experience in this regard highlights the importance of government's role in adopting an appropriate growth strategy to best adapt to the prevailing international environment.

The Korea's business-friendly ecosystem was effective in substantially increasing Korea's entrepreneurial supply which was essential for the nation's rapid trade and economic growth.

It is worth noting the business and entrepreneurship-friendly system not only promoted new entrepreneurship, but made existing entrepreneurs better utilized by eliminating opportunities for socially unproductive, but privately profitable business activities, i.e., various rent-seeking and speculative activities, through various regulatory and institutional reforms and restructuring.

The government's special efforts for providing outstanding enterprises and entrepreneurs with various non-pecuniary incentives, such as government's special social recognition for them also contributed toward both the promotion and better utilization of entrepreneurship.

As John Maynard Keynes pointed out long time ago, the socio-political attitude toward businessmen would certainly affect their “animal spirit” for action or inaction, so the nation’s supply of effective entrepreneurship for economic growth and job creation.

I purposely emphasize this point because it is so relevant in today’s Korean context. According to an internationally comparable “global entrepreneurship index” which reflects each country’s entrepreneurial environment, Korea’s standing among the OECD countries currently is below 20th .

At this point, I must not forget to say, Korea did make plenty of policy mistakes along the way. Most critically, the government’s policy failure of inducing business and financial firms to prepare to adapt to the clearly anticipated accelerating globalization and rapidly changing global competition paradigm was primarily responsible for the 1997/8 currency crisis.

Fortunately, however, the painful crisis turned out to be a “blessing in disguise” to the extent that it forced Korea to carry out socio-politically difficult reforms and structural adjustments, which were long overdue. In any case, the government’s policy failures incurred heavy costs for the nation.

Keeping lessons and policy implications from Korea's past experiences in mind, let's now turn to the Korea's future. Needless to say, Korea's past successes do not guarantee for its continued success unless Korea properly deal with major challenges for its future.

The most urgent challenge for Korea today is how properly adapt to rapidly developing so-called 4th industrial revolution and to gain competitive edge. As we all know, this paradigm shift affects not just doing business, production, distribution, or consumption, but every aspect of our living and way of life.

According to a frequently quoted and widely recognized recent Davos report about the 4th industrial revolution, 65% of primary school children entering school today will end up working in entirely new jobs which do not exist today. It also foresaw most of these jobs will be complex and highly interrelated. Consequently, among others, workers' abilities to adjust to new jobs, to get new skills and knowledge, to work and communicate with others at different jobs with different specialties will become especially important in the future.

These characteristics of the revolution suggest the necessity of government's various policy changes. Most importantly, an urgent necessity of fundamental reform in the current education and training and retraining system and labor

market structure and policy. For example, workers' frequent job changes would require a genuine life-long learning and training. Under such a circumstance, wouldn't the current 4 year university system be obsolete soon? How about rigidly organized system of major fields in terms of humanities and social sciences with natural sciences and engineering?

Regarding labor market, the inevitability of workers' frequent job changes would require both high labor market flexibility and new social safety nets for workers. The existing separate industry based labor market policy needs to be reoriented toward "protecting workers, not jobs."

It is also urgent to have the government's fundamental regulatory paradigm change to adapt to the 4th industrial revolution era adequately. Most of existing laws and regulations for specific industries already become barriers for new entrepreneurial activities, most of which involve a number of different existing and completely new industries. Korea already has a number of examples such as the drone delivered services and medical services provided through internets. Another serious example regards big data. Since Korea is one of the most highly digitalized economy, the availability of big data is higher than many other countries. But the utilization rate of these data is much lower than many OECD countries.

Without going into detail I just want to say that the government's new regulations should be based on the principle of "negative list system" which has been so much talked about, but not yet fully implemented.

The discussion so far leads me to another urgent challenge facing Korea today, and that is how to enhance the rapidly declining nation's economic growth potential.

Up until the early 2000s, the nation's economic growth potential was still around 5% level. But, today, it is estimated to be around 3%, perhaps already below 3% level.

Obviously, as economies develop and mature, they are bound to experience declining growth potential. But the problem is the speed of the decline. It is too fast in my view. Furthermore, it seems to me there is still enough room for enhancing it with appropriate policy measures.

In short, what I would like to emphasize in this connection is that the establishment of a favorable business ecosystem and carrying out all the reforms previously discussed will certainly help enhance the nation's economic growth

potential by higher investments and over-all economic productivity (total factor productivity). What it means is that those reforms are necessary for Korea to face those two major challenges simultaneously.

In passing, I must say a major political reform is also urgently needed to facilitate those necessary reforms. At the same time, I must also point out the necessity of making the government function more efficiently by better organizing and coordinating government's activities and better motivating civil servants.

Before closing, I would like to briefly touch on the Korea's leadership role in the world; two specific roles. First, since Korea has human resources which still have fresh first-hand experiences of development in both public and private sectors, Korea can and should be much more active in assisting many late starters and follower nation in sharing their valuable experiences. I believe these efforts need to be better organized and coordinated at the government's level.

Second, Korea, being one of major beneficiaries of the existing world order, which is under serious threat, should take a more active leadership role in preserving it. Of course, as a non-super power, Korea has an obvious limit to play such a global leadership role. However, Korea does have a unique

advantage as well. Korea is a member of the OECD, but Korea still is easily identified with developing and emerging countries.

Consequently, Korea is well positioned to play a global intermediating leadership role between the developed and the developing. More specifically, Korea, together with like-minded other G20 member countries, should try hard to lead a collective global leadership to make the G20 Summit as a functioning global economic governance and lead the G20 to play a proper role for a closer global policy coordination needed in this highly uncertain global economic and financial environment.

Lastly, I must say a word on two Koreas' unification before closing. Obviously, two Koreas' unification is a great challenge as well as opportunity for Korea's future. But this subject is too big and complex to bring into my discussion today. However, I just want to say a word in this connection. And that is, previously discussed all the reform efforts would certainly contribute toward strengthening Korea's economic fundamentals. Needless to say, strong economic fundamentals are absolutely necessary to make the unification endeavor successful, when indeed the opportunity comes.

I would like to close my remark today by saying that Korea, as one of the fastest

aging nations in the world today with rapidly declining economic growth potential in the midst of accelerating the 4th industrial revolution, urgently needs to set the national agenda right and adopt right growth strategies and policies not to get stuck in what I would call a “premature high income trap”.

Thank you.