

Korea heads for new growth paths

By Linda Duffin
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South Korea's new President Lee Myung-bak is under pressure.

In the few short months since he was elected, his popularity has plummeted.

He promised to revitalise the flagging economy with free trade deals and deregulation.

But his first attempt at freeing up trade has led to huge public protests over US beef imports, forcing him into a series of equally public apologies.

So President Lee is having to fight on a number of fronts.

There are the voters, thanks to that US beef row. There are neighbours and fierce competitors such as China and Japan. And on top of all that, the global credit crunch.

There's also the perception of corruption - South Korea's big family-run conglomerates have been making headlines again with a series of high-profile financial scandals.

The president nicknamed the Bulldozer has a lot of problems to plough through.

Miracle on Han River

" The big issue is how to escape from this nutcracker situation "
Kum Dong-wha, president of Korea's Institute of Science and Technology

The shiny modern capital, Seoul, where around a quarter of the country's population lives side by side in high-rise after high-rise, looks prosperous enough.

The spotlessly clean streets are full of smartly-suited people, their shoes polished to a mirror shine, rushing from one business appointment to another.

South Korea rose from the ashes of the war that 60 years ago divided it from the Communist North to become one of the world's biggest economies.

It's been a phenomenal success story they call the miracle on the Han River.

For the people?

But growth is slowing.

And it is nowhere more evident than in Seoul's busy street markets.

They are packed with shoppers picking over the merchandise.

They come here because prices are lower than in the shops and they are having to stretch their budgets further these days.

Koreans are highly paid, but the cost of living has shot up too.

Market traders say their profits are down 30-40% on last year because consumers have less and less money to spend.

"The government says they're revising economic policy for the people," says one. "When you look at the trends, that's not how it's happening. I think the big businesses will benefit more than regular people."

Many problems

The global credit crunch is partly to blame.

" In this age of globalisation you have no option "
Sa-Kong Il, chief economics adviser to the President

But South Korea's reputation for insularity does not help.

It can be hard for foreigners to do business here.

President Lee has promised to unravel some of the bureaucratic red tape, which binds foreign and domestic businesses alike.

But there are other problems.

English, the international language of business, is the second language in Korean schools and parents spend a fortune getting extra tuition for their children, but few Koreans speak it with any fluency.

High wages and militant unions have contributed to a drop in overseas investment.

And the big conglomerates, the chaebol, are family-run businesses, which have been resistant to importing outside expertise.

New direction

And then there is the problem of the neighbours.

Kum Dong-wha, president of Korea's Institute of Science and Technology, says his nation is being squeezed between low-cost China and high-tech Japan.

"The big issue is how to escape from this nutcracker situation," he says, insisting that in advanced science and technology, South Korea is still way behind Japan, while China is catching up with both of them fast.

The country needs to reposition itself.

South Korea's fortunes were founded on labour-intensive industries such as car- and ship-building and they continue to be successful.

But the twin realities of high wage bills and cheaper overseas competition are leading government policy makers to look towards high-tech, high-return industries, like bio- and nano-technology, robotics and IT.

In addition, Korea wants to take advantage of its geography and transform itself into a regional financial hub.

It has nearly universal high-speed internet access and a highly-skilled and educated workforce.

And Shanghai and Tokyo are only short plane rides away.

Stalled Bulldozer

South Korea has reinvented itself before - and against tougher odds.

But Lee Myung-bak's efforts to rush through the ratification of the US free trade deal have backfired.

Far from providing a quick fix for South Korea's economic problems, the crisis has paralysed his government.

For the moment at least, the Bulldozer seems to have stalled.

President Lee's chief economics adviser, Sa Kong-il, insists this government will keep its promises to revitalise the economy.

"In this age of globalisation you have no option," he says.

"If you are interested in creating jobs for people, you have to create a business-friendly environment. Otherwise jobs will go away and new jobs won't be created."

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