



## Chapter 2 & 3

Overview of the Korea's Development Process until 1997

The Challenges for Korea's Development Strategies

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Part I: Synoptic Review of  
Korea's Economic Development

Part II: Korea and KBE : Synoptic Review & Assessment  
(1997~2002)

Part III: The Korean Economy Today: Challenges from  
Long-term, Structural Perspective

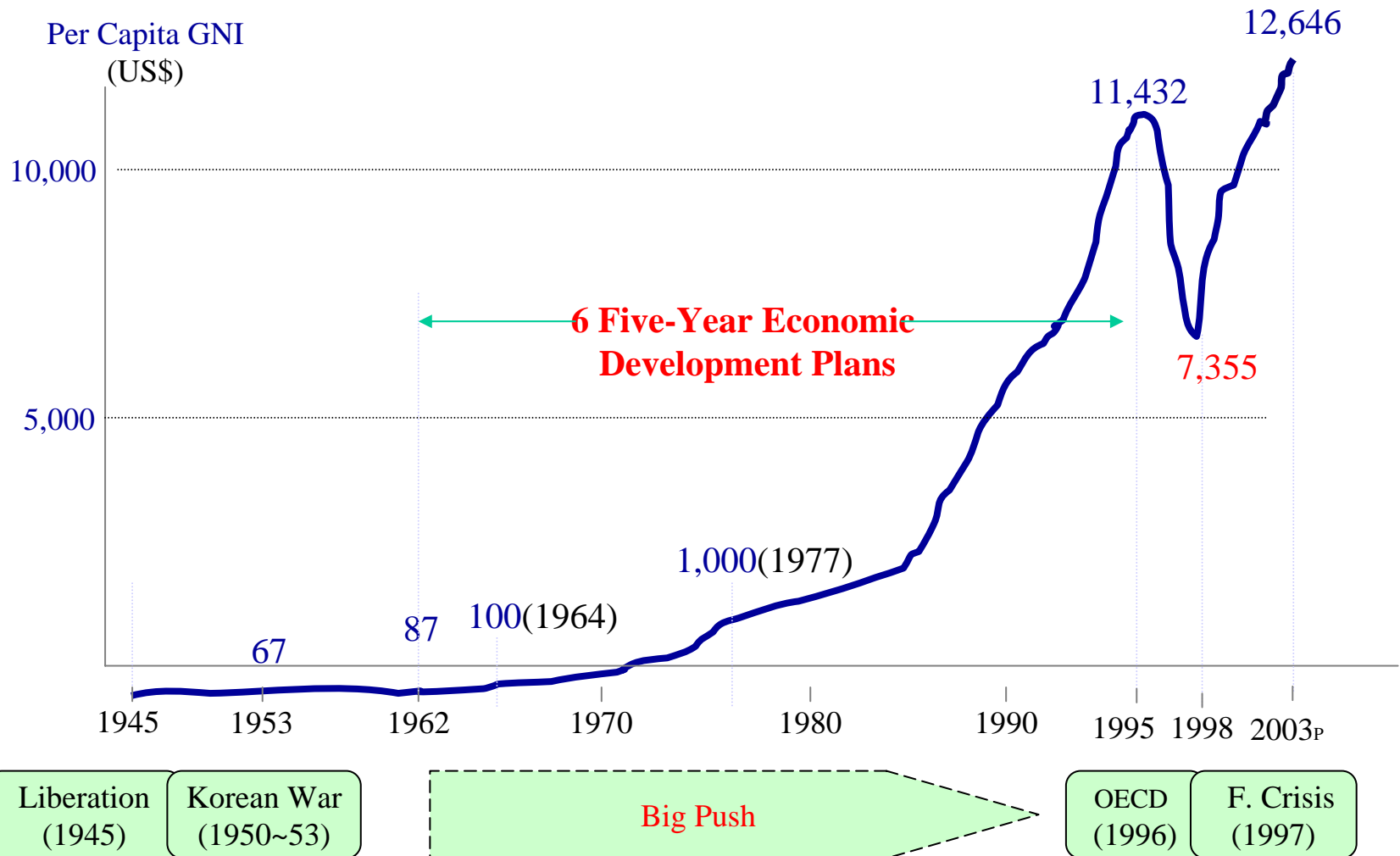
Part IV: Prospect and Key Policy Agendas



**Part I:  
Synoptic Review of  
Korea's Economic Development**

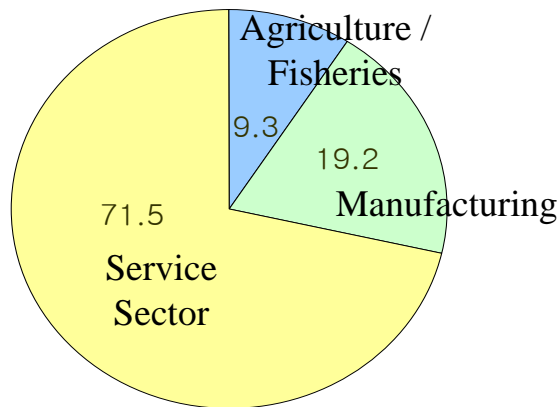
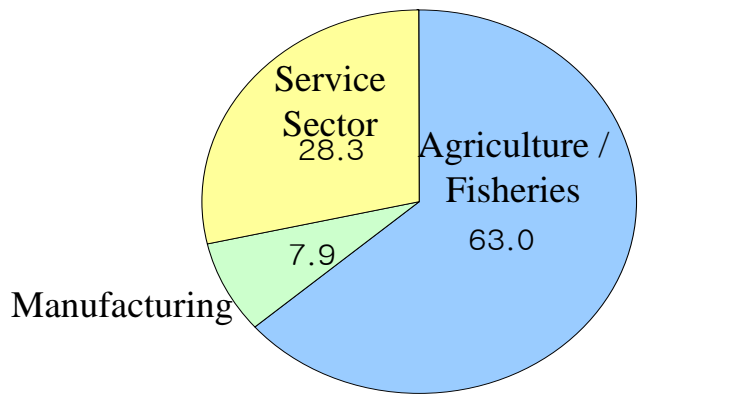
# 1. Transformation of the Korean Economy

## A. Economic Growth



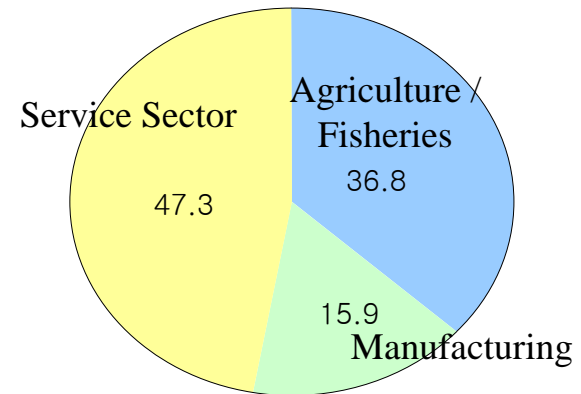
## B. Changes in Industrial Structure

### Employment Structure

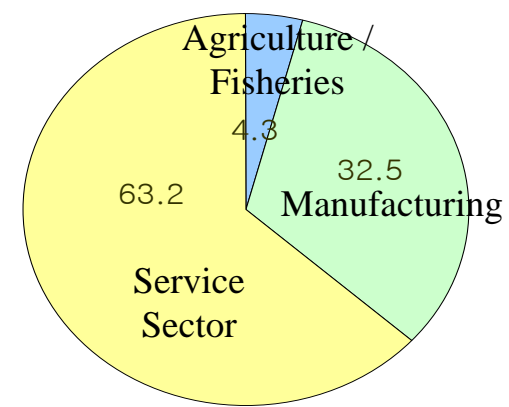


### GDP Structure

1960

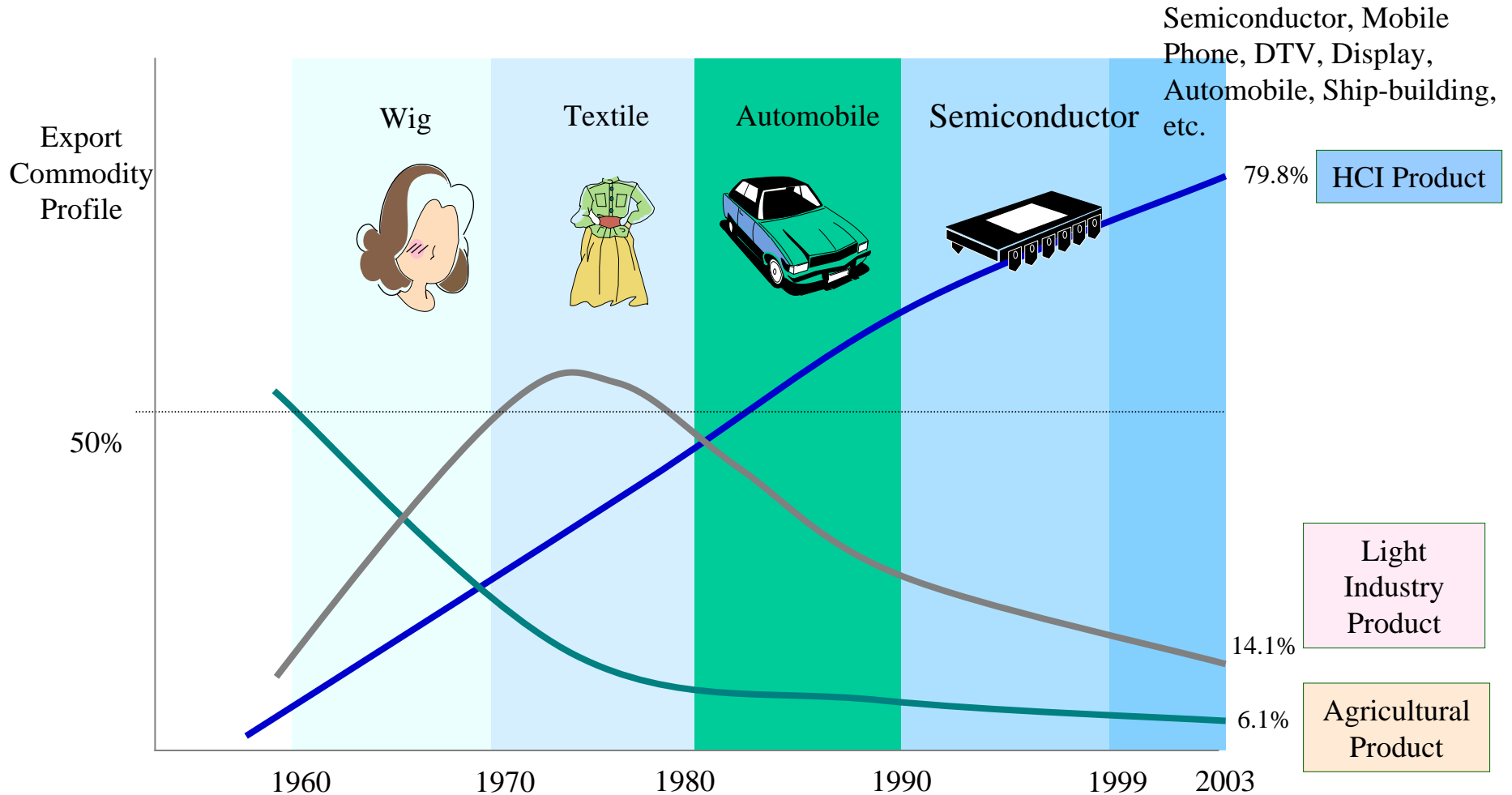


2002

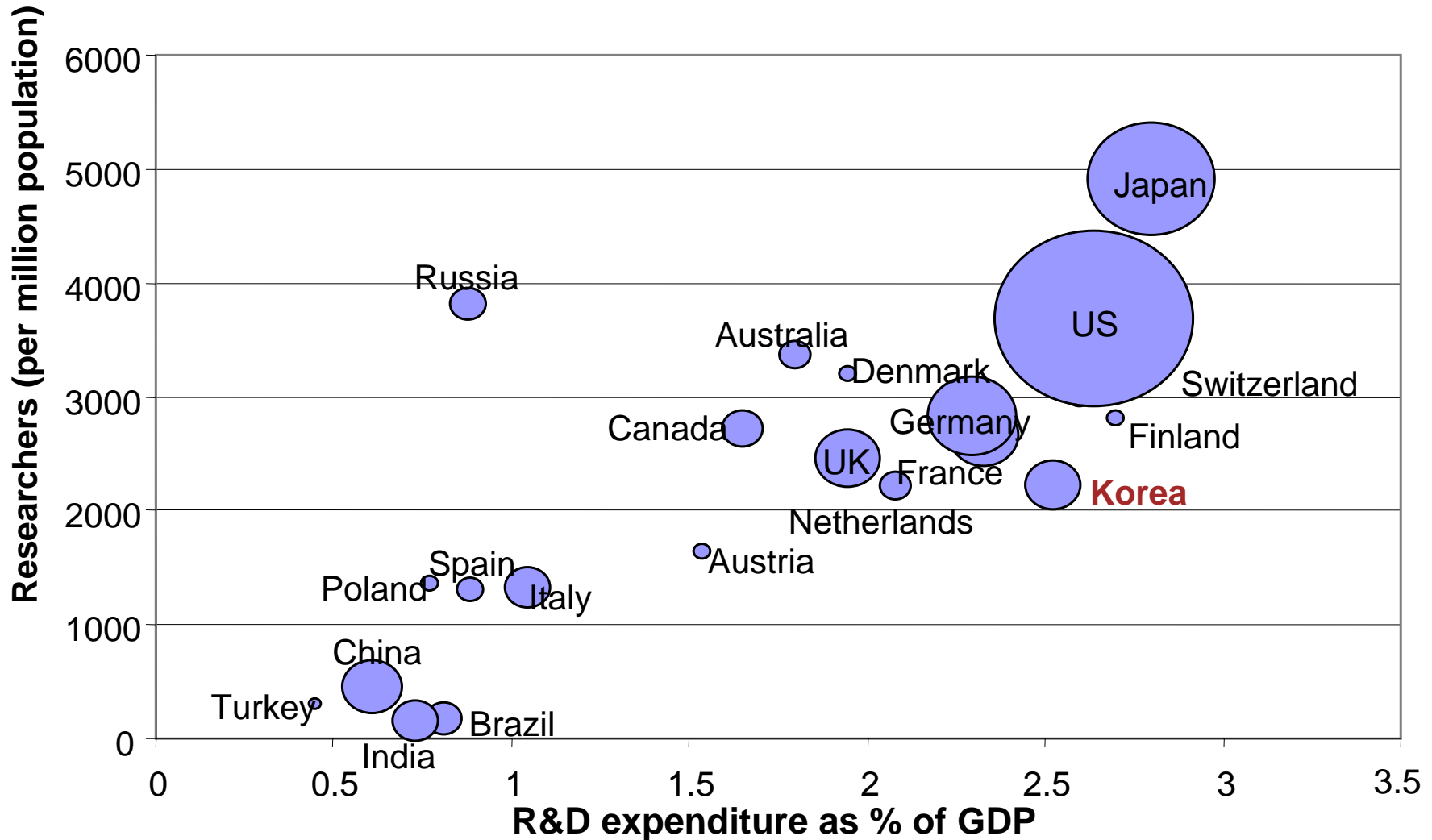


# C. Changes in Export Commodity Profile

- from Agriculture to Manufacturing /
- from Light Industry to Heavy and Chemical Industry

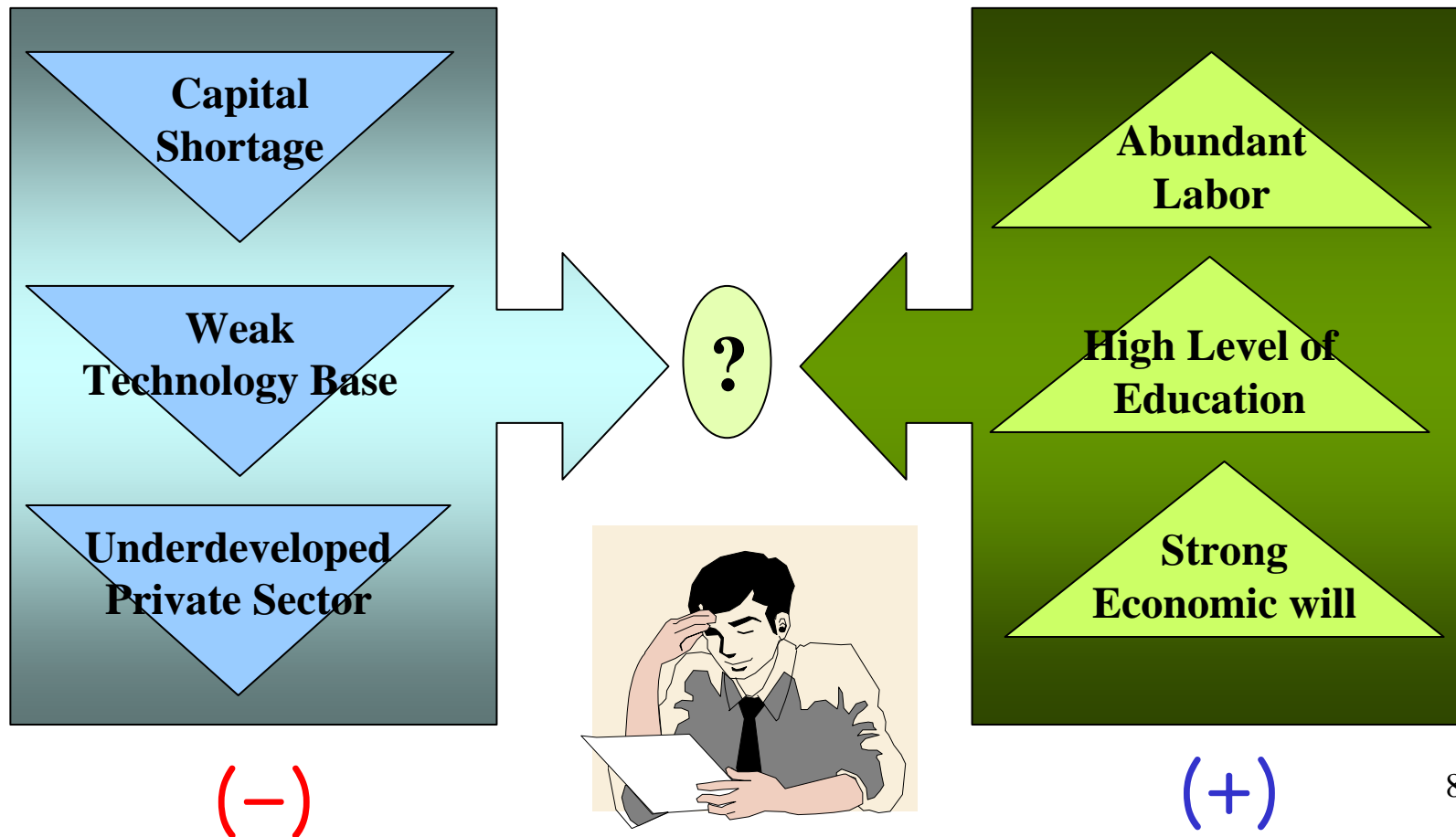


## \* Technological Capabilities: R&D

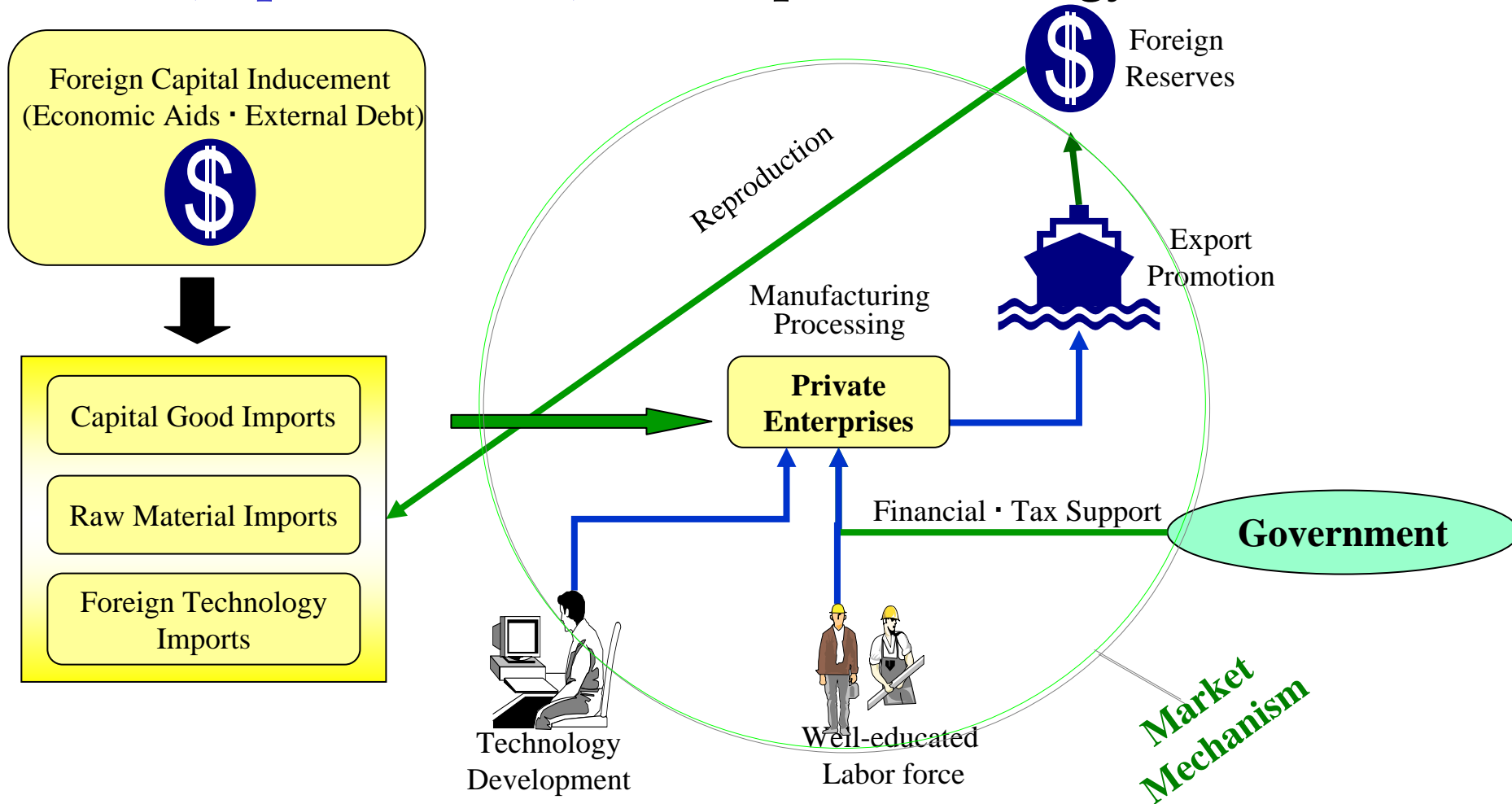


## 2. Economic Take-off with Outward-looking Development Strategy (1960-80)

### A. Economic Conditions of the early 1960s



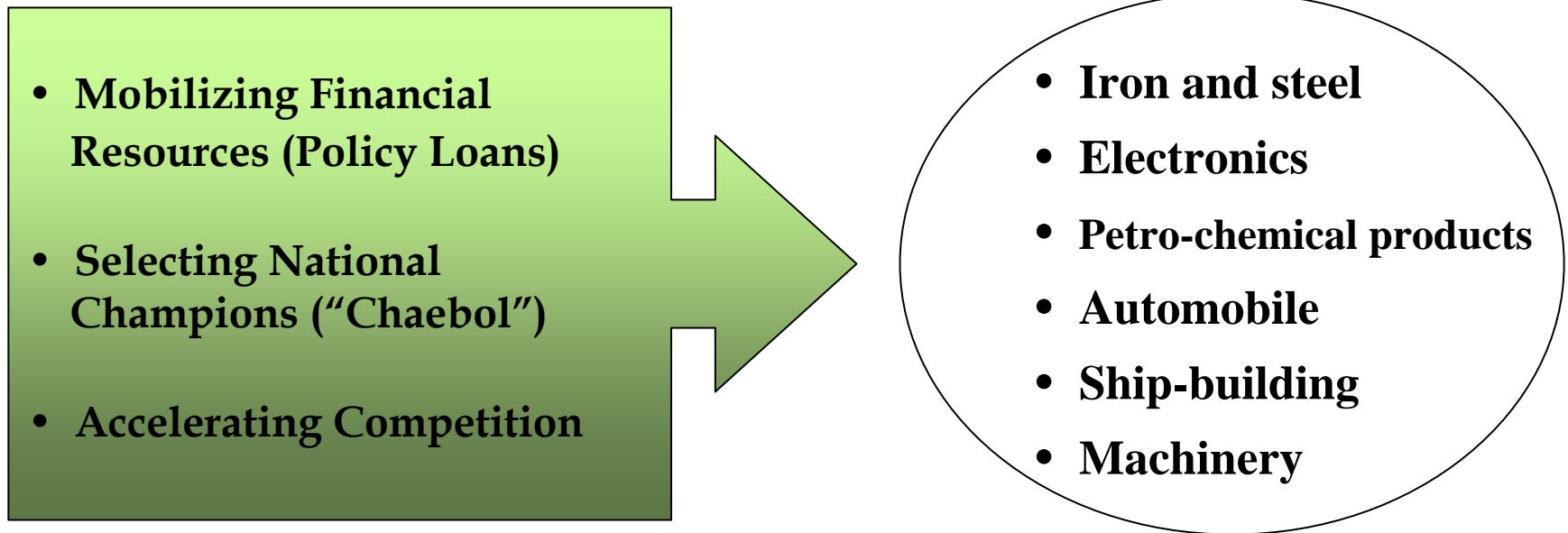
## B. Working Mechanism of the **Outward-looking (Export-oriented) Development Strategy**



\* Started with the **First 5-Year Development Plan (1962)**

## C. Change in Industrial Policies during the 1970s

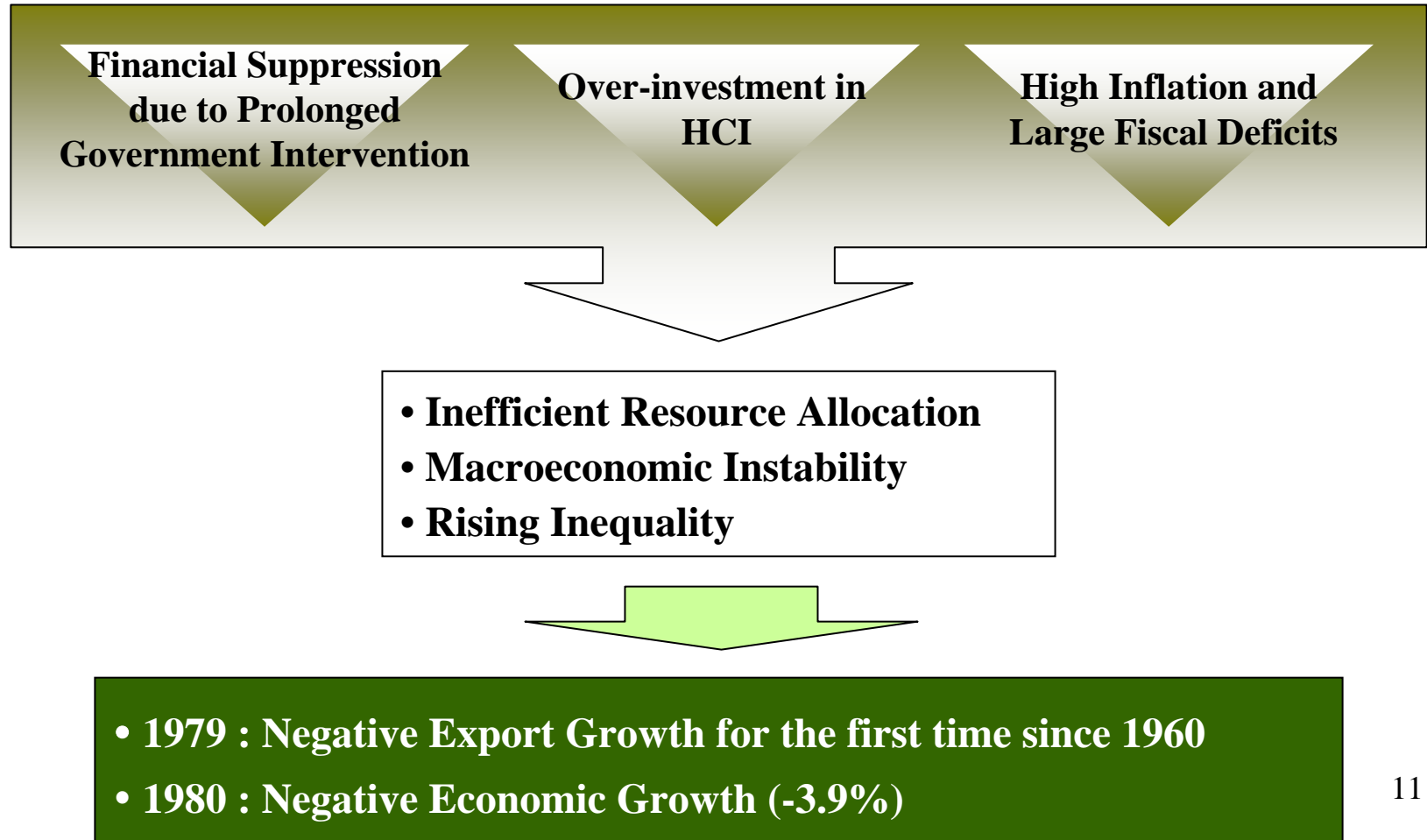
- Light Industry to Heavy and Chemical Industry (HCI)  
(HCI drive set off in 1973)



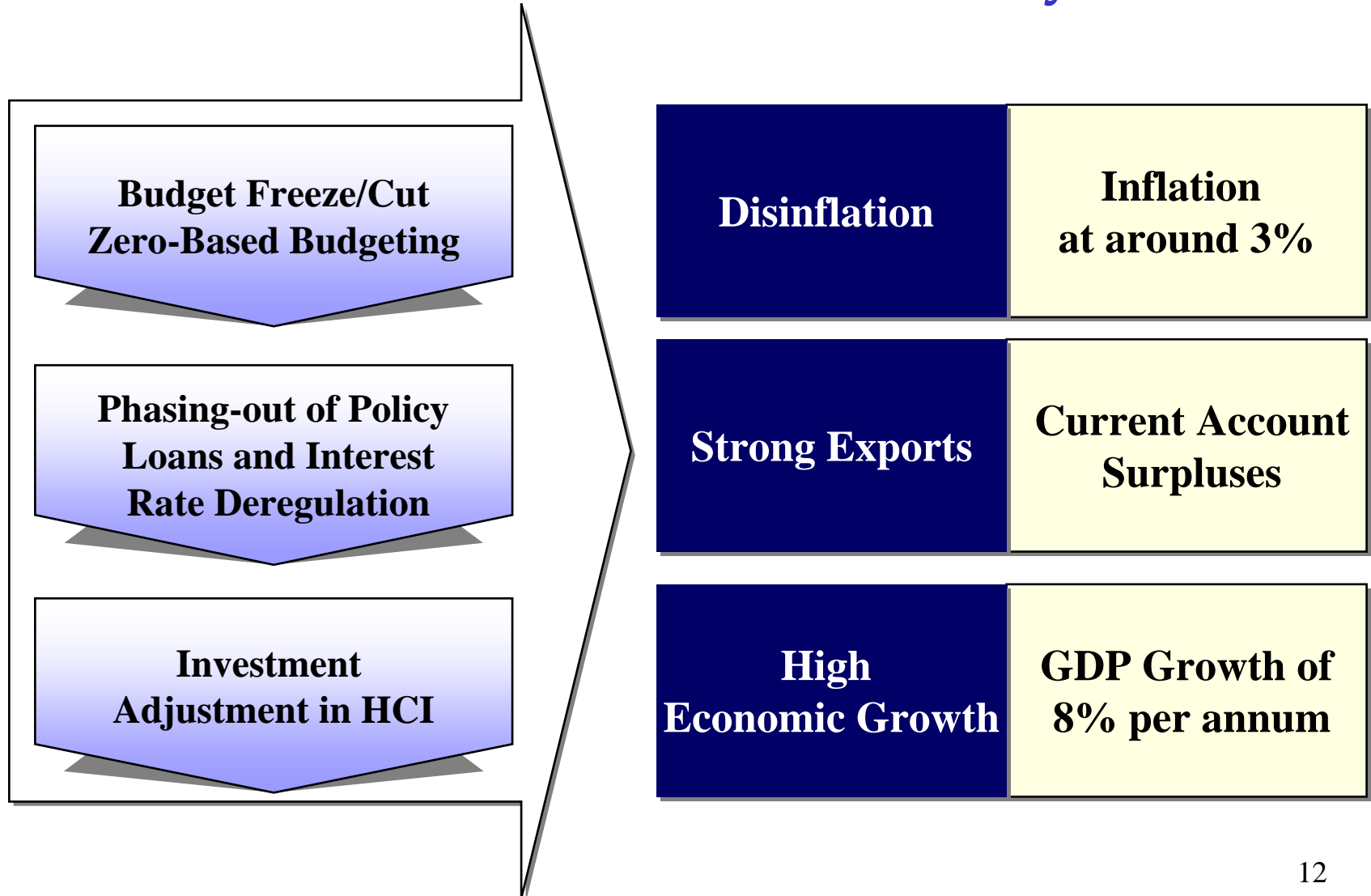
- from general export promotion to the **“picking-the-winners policy”**
  - respond to wage increase
  - respond to increased international competition in light industries
  - nurture defense industries (← the Nixon Doctrine)

# 3. Changes in Development Strategy(1980-2000)

## A. Limits of the Government-led Development



## B. Stabilization Policies in the Early 1980s



## \* Technological Capability Building-up

### ❖ 1960-1970s : Building institutions

- KIST (1966); MOST(1967); KAIST(1973)
- Technology Development Promotion Act (1967)

### ❖ 1980s: National R&D Programs (NRDP, 1982)

- Private firms began to act

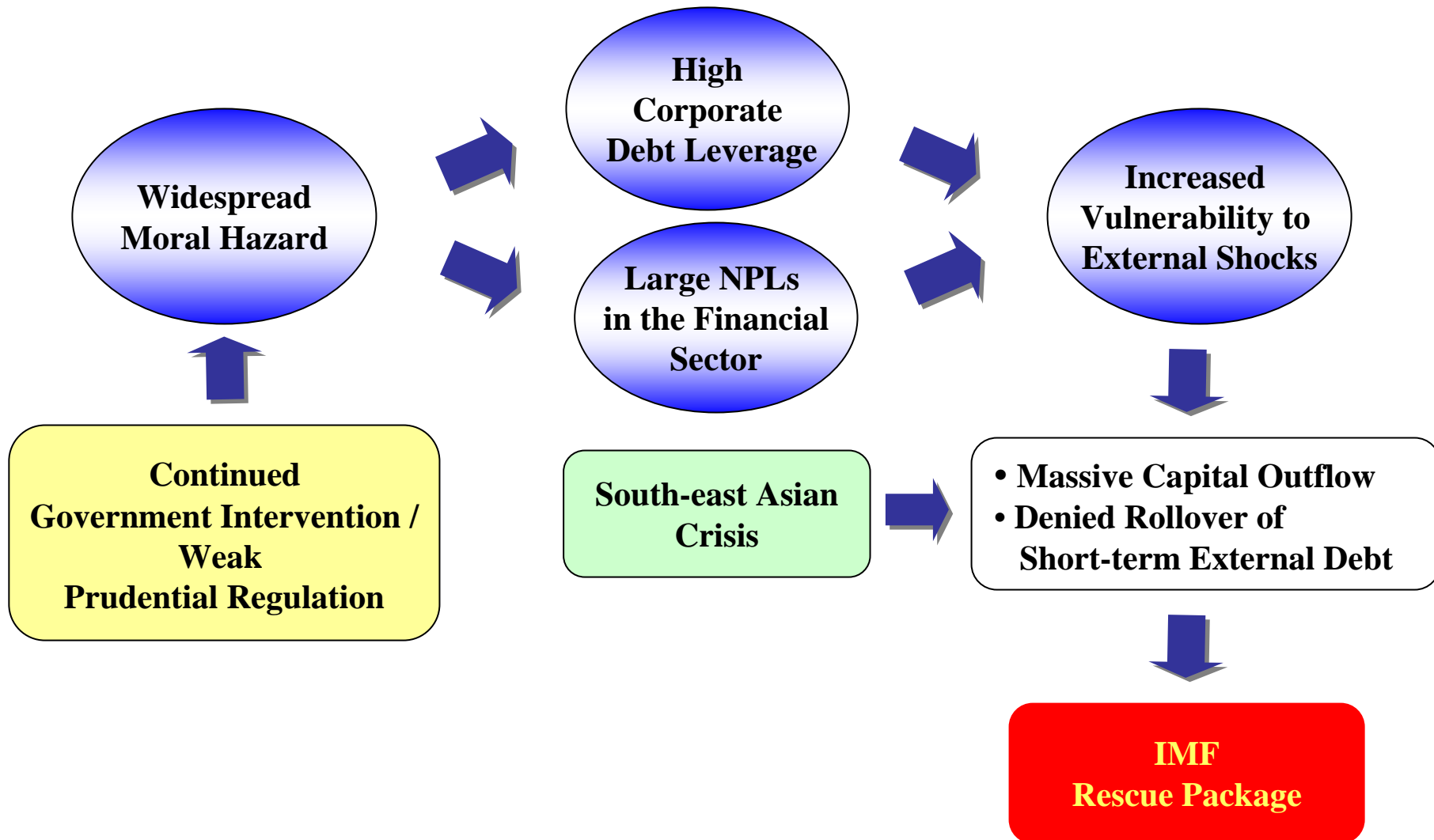
### ❖ 1990s: Mission-oriented R&D by line ministries (Targeted, top-down)

- Private/public partnership in technology development

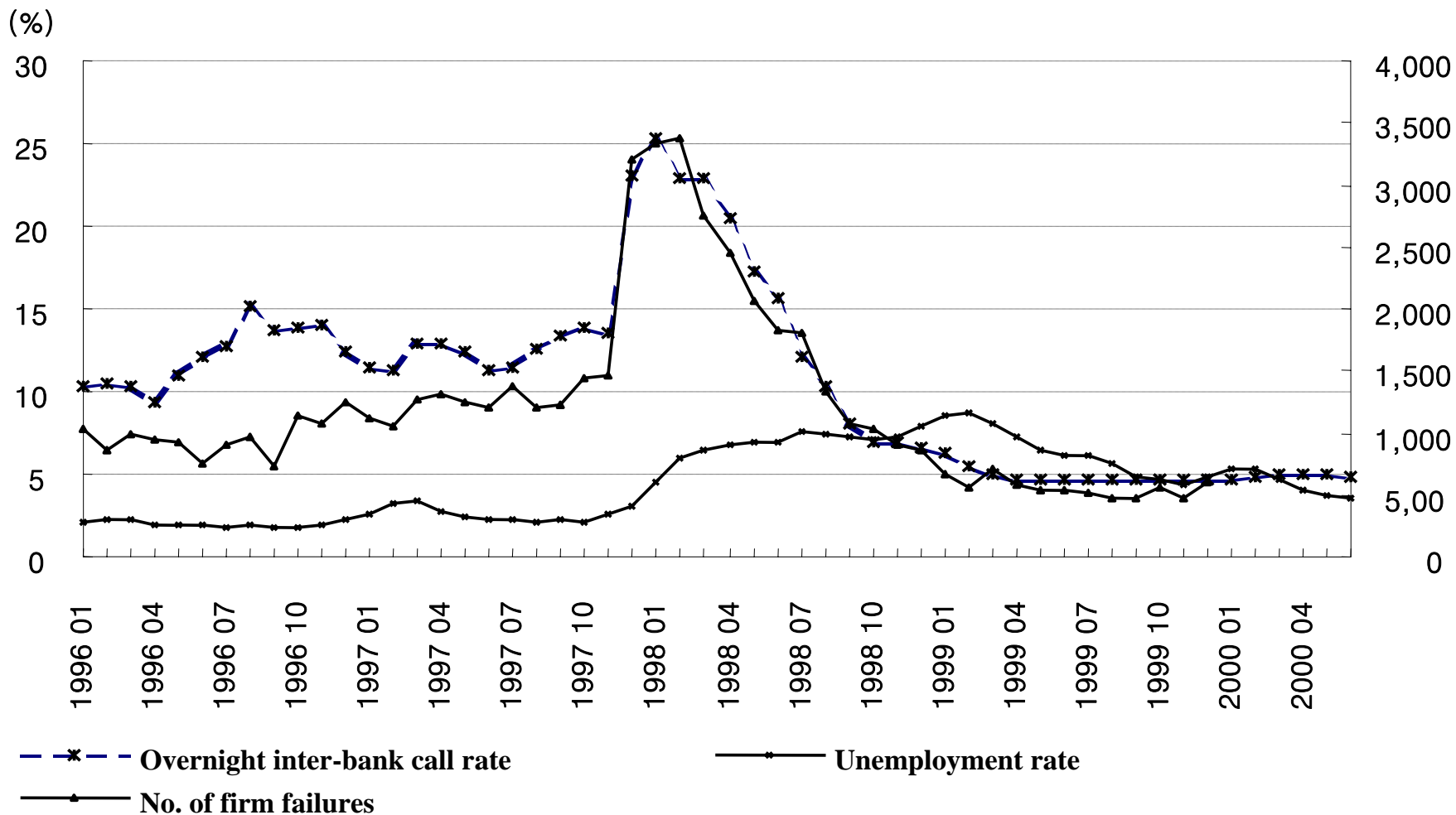
## Changes in R&D Activities

	1970	1980	1990	2003
<b>GERD (US\$, Mil.)</b>	<b>33</b>	<b>428</b>	<b>4,600</b>	<b>16,000</b>
<b>Gov't : Private</b>	<b>71 : 29</b>	<b>64 : 36</b>	<b>19 : 81</b>	<b>25 : 75</b>
<b>R&amp;D/GDP (%)</b>	<b>0.38</b>	<b>0.77</b>	<b>1.87</b>	<b>2.64</b>
<b>Researchers</b>	<b>5,628</b>	<b>18,434</b>	<b>70,503</b>	<b>198,171</b>

# 4. Delayed Economic Reform and Financial Crisis of 1997

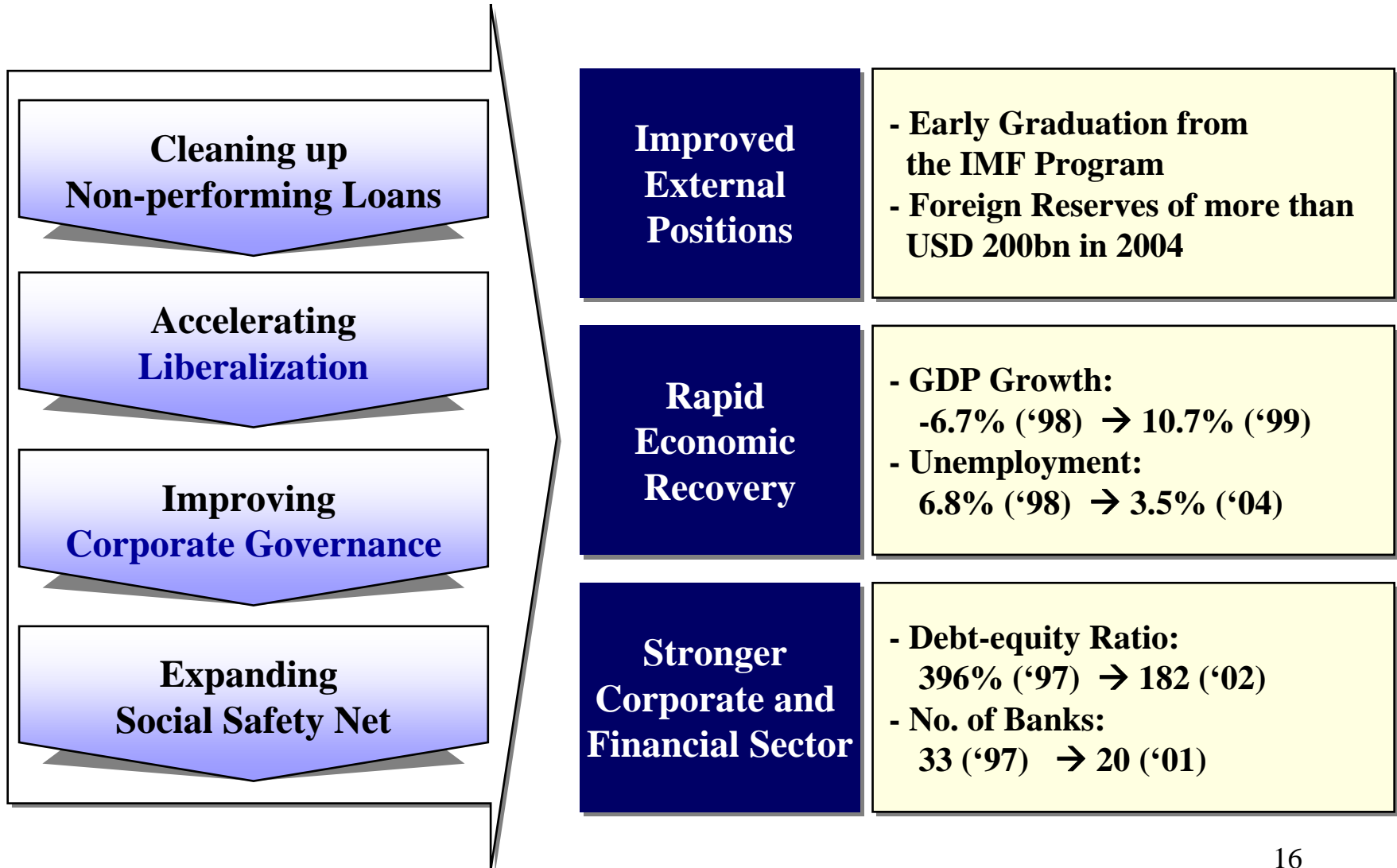


# Firm Failures and Unemployment, 1996-99



Source: Choi(2001), Bank of Korea, and National Statistical Office.

# 5. Swift Crisis Resolution and Economic Recovery



## ***Corporate Sector Reform***

- **Chaebols**: required to eliminate existing cross-debt guarantees
- Exit of 55 non-viable firms
- Corporate **workout programs**: IBRD to provide expertise
- **Big deals**: core competencies, reducing excessive capacity, creating efficient management structures

## ***Market Liberalization***


- Eliminating foreign equity ownership ceilings
- **Hostile M&As** by foreigners
- Legal basis for FDI: **FIPA** (foreign investment promotion act)
- Phasing-out of remaining **Import barriers**  
(e.g. import-diversification program)

## 6. Five-year Economic Development Plans

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- **State-led Planning** (1962-76); 1st, 2nd, and 3rd Five-year Economic Development Plans
  - Suitable for an **under-developed, small-sized economy** with a relatively simple structure
  - Focused on setting up sectoral **investment plans** and mobilizing and allocating **domestic and external resources** to support the implementation of the plans
  - Supplemented by annual **Economic Management Plans**

- **Indicative Planning** (1977-91); 4th, 5th, and 6th Five-year Economic Development Plans
  - To cope with the **growing size and sophistication** of the economy
  - Giving a greater role to **private initiatives**
  - Reflecting a growing concern on **equity issues**
  - **Medium-term Fiscal Plan** introduced in the early 1980s to bridge the gap between EDPs and annual budgeting
    - Not published to the public
    - Not tightly linked to annual budgeting



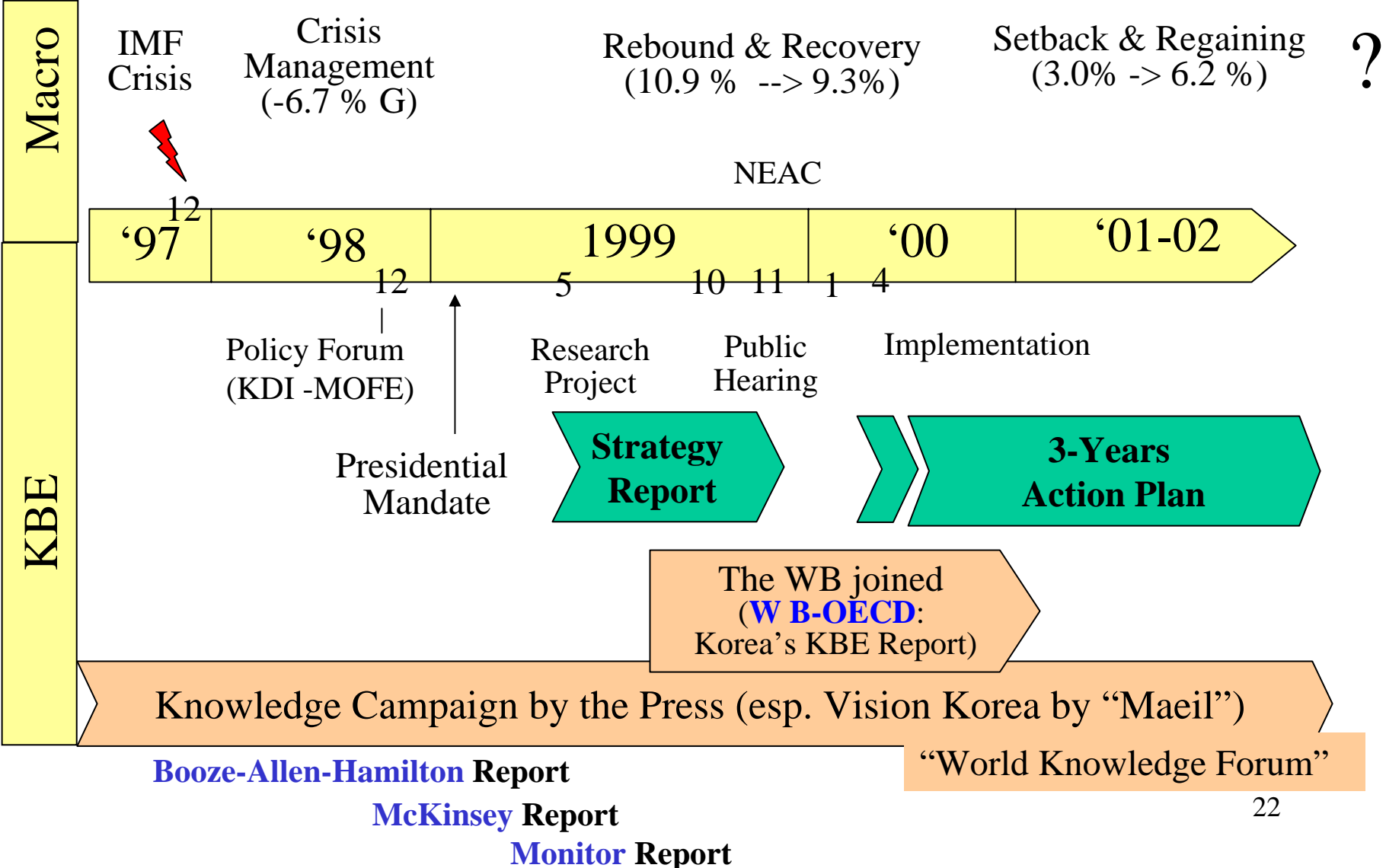
# **Part II: Korea and KBE: Synoptic Review**

# 1. Summary

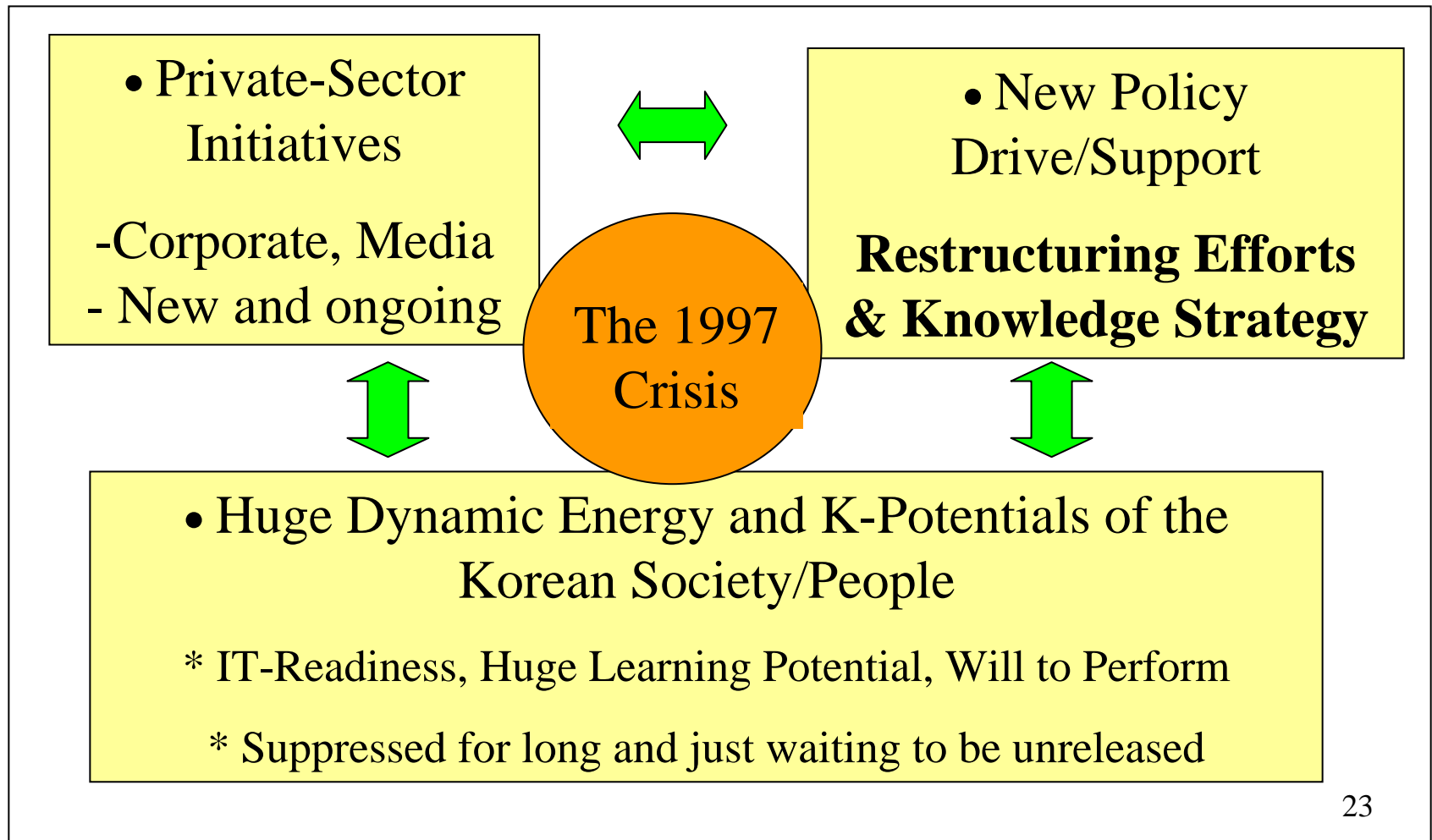
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- The Knowledge Strategy of Korea
  - Officially documented by
    - (1) **KBE Master-plan** (Strategy Report: MOFE-KDI 1999)
    - (2) **Three-Year Action Plan (NEAC 2000)**
  - endeavor to seek for & anchor  
'**New Development Paradigm**' for the Age of Knowledge Economy
    - \* - though not widely recognized among the general public, but
- Overall, many notable **attainments** but serious **limitations** as well
  - policy initiatives until 2002 ended up as an **unfinished mission**
  - engendering/confronted with a set of new overarching challenges
- 'Knowledge Revolution/Derive' stopped being a policy buzzword
  - But basic spirit/tenet carried over to the present government <sup>21</sup>

# Road to KBE: Background and Proceeding ( ~ 2002)



- **Since the financial crisis, Knowledge revolution set off & a strong move toward a knowledge-driven economy**
  - **Synergetic Interplay of the New Private-Public Initiatives => helped unleash the hidden energy and K-potentials of the Korean society**



# 2. The Strategy Report of 2000

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- 3- Strategic Thrusts

1. Reinforcing **Market Fundamentals**

- Thorough Reforms of 4 Major Sectors
  - \* Financial, Corporate, Labor, Public

2. **Full Opening-up/Liberalization**

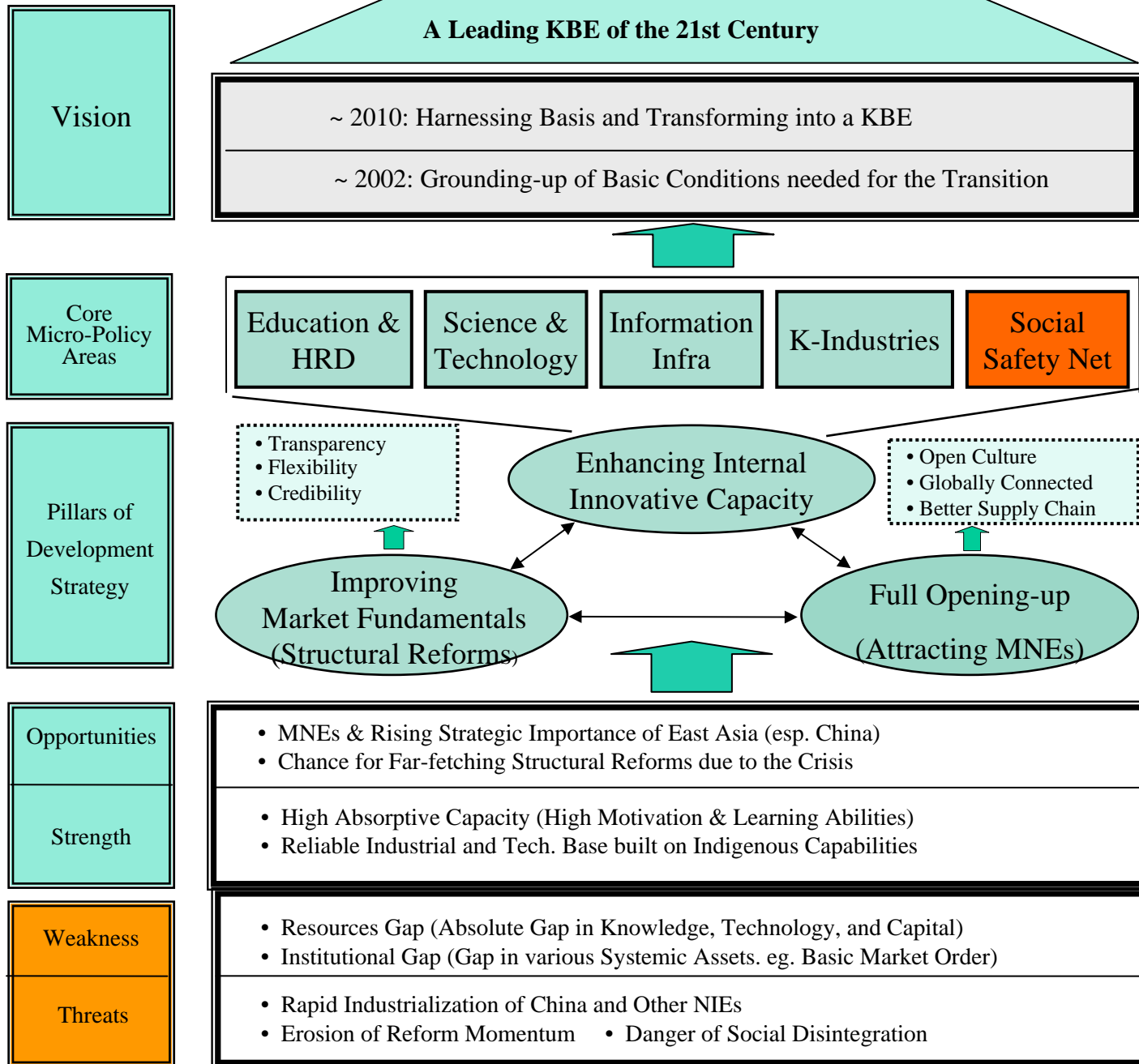
- Attract foreign MNEs (Aggressive, Proactive)
- Create New, Open Social/Cultural Environment
- Fusion of internal & external resources

3. **Upgrading Innovative Capacities**

Education/Training, S&T/R&D, ICT, KBI

- \* Cope with the Impending **Threat of New Digital Divide**

# (2000 Strategy Report) Korea's KBE Vision & Strategy



### 3. The Three-Year KBE Action Plan (Apr. 00~02)

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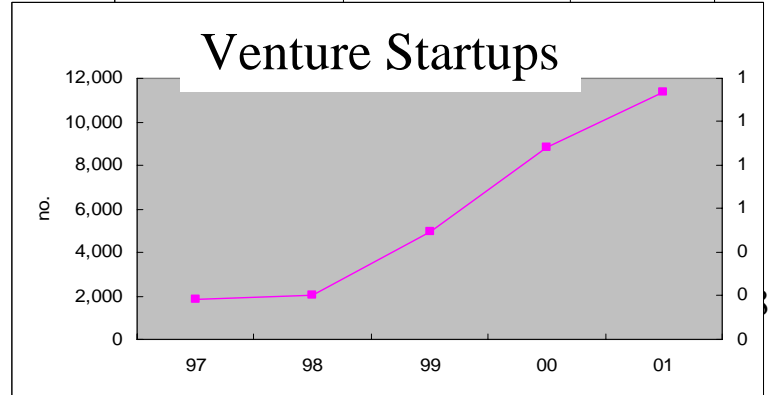
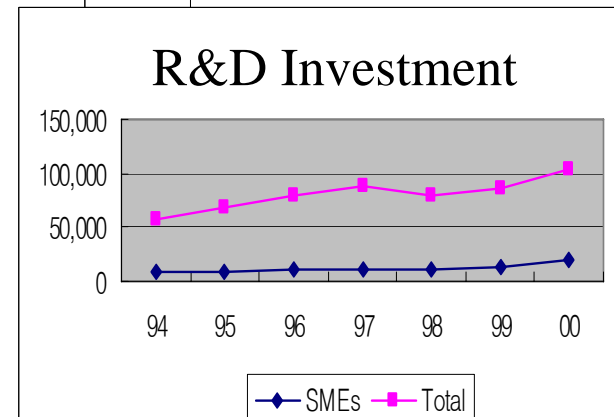
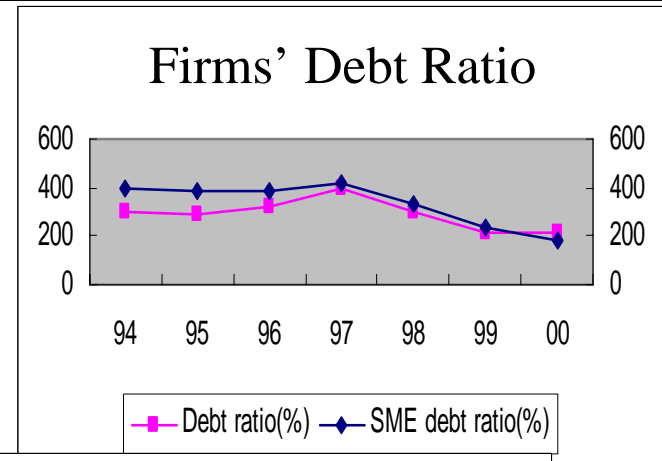
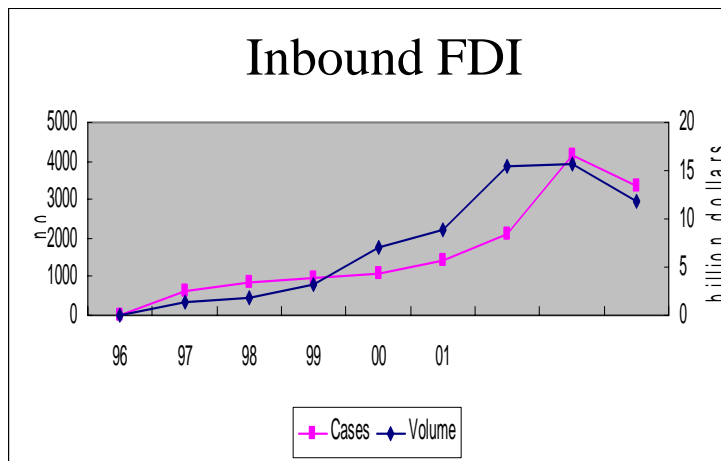
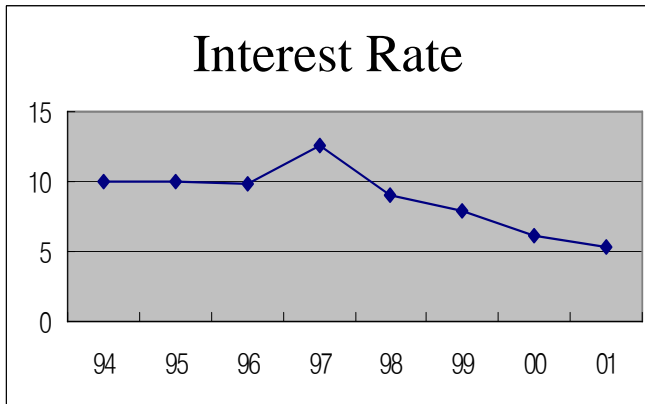
- **Scope:** Policy Actions for the **Micro-Part** of the Strategy Report
  - \* The other 2 parts left to macro-restructuring policy underway
- **Contents:** 5 Sectors, 18 Target Tasks; 83 Specific Tasks
  - 5 Policy Areas: Information, Education&HRD, S&T/Innovation, K-industries, Digital Divide
- **Goals**
  1. Leapfrog to **top 10** knowledge-information leaders in the globe
  2. Upgrade **educational environments** to OECD standard
  3. Harness **S&T base** to help reach **G-7 standard**
- **Implementation and Monitoring**
  - 5 Task Forces involving 19 Ministries; 17 Research Institutes
    - \* Each Task to be implemented by Relevant Ministry(ies)
    - \* all to be tracked and coordinated by MOFE (6th Task Force)
  - Report : the Private Committee of **NEAC** --> President
    - \* **NEAC** (National Economic Advisory Council)

## The Three-Year KBE **Action Plan**: Contents

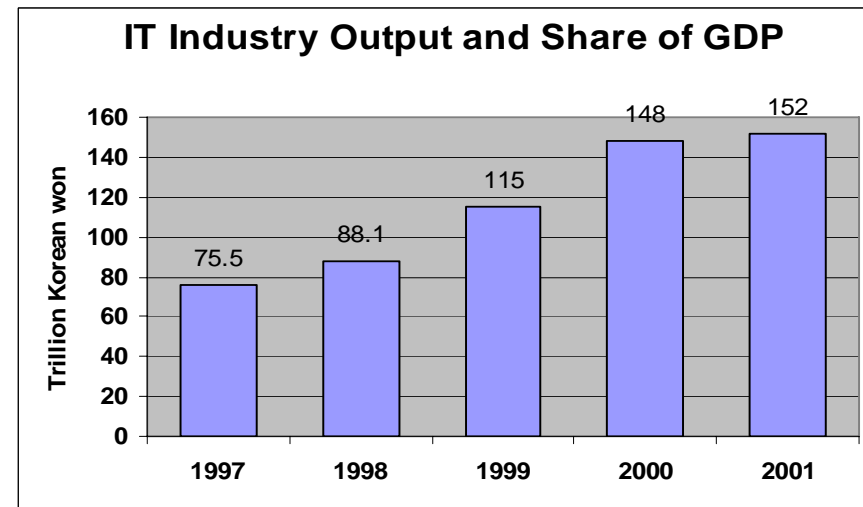
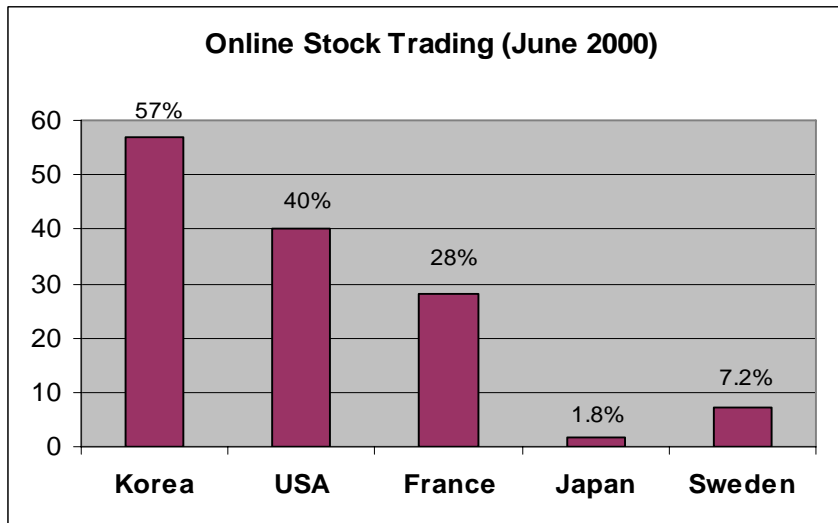
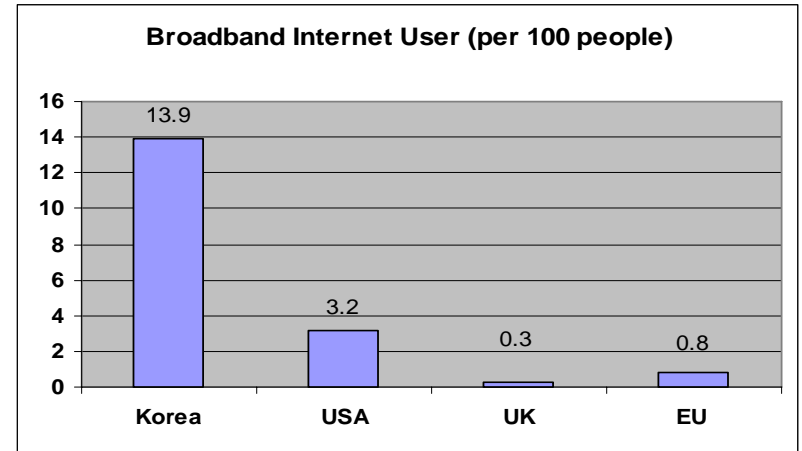
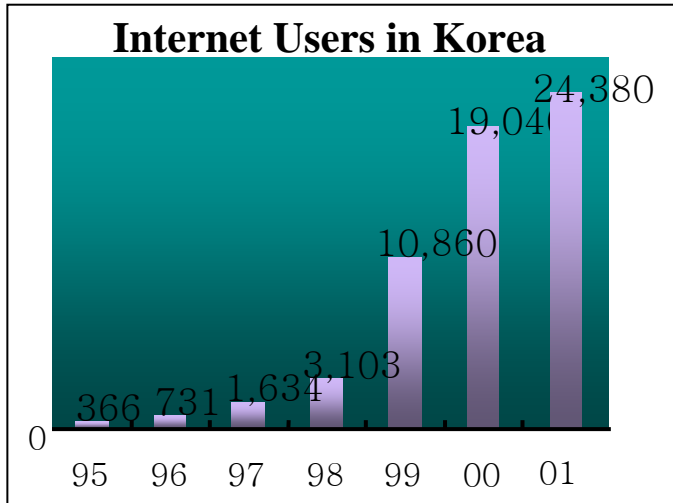
<i>Sector</i>	<i>Target Tasks (18 Total)</i>
Informitization (20)	<ul style="list-style-type: none"> <li>● Complete a basic info infra, such as an optic cable network</li> <li>● Foster an education information network</li> <li>● Manage a national knowledge/ information system</li> <li>● Build a cyber government</li> <li>● Change mindsets with respect to IT</li> <li>● Build a sound and secure knowledge society</li> </ul>
S&T/ Innovation (15)	<ul style="list-style-type: none"> <li>● Reinforce a strategic approach in R&amp;D investment</li> <li>● Facilitate industry-university- research centers cooperation</li> <li>● Build an efficient support system for research</li> <li>● Enhance an understanding of s&amp;T and scientists</li> </ul>
K-based Industries (16)	<ul style="list-style-type: none"> <li>● Build an industrial infrastructure for a KBE</li> <li>● Nurture a new knowledge-intensitve industry</li> <li>● Upgrade traditional industries through IT</li> </ul>
Education and HRD/HRM (19)	<ul style="list-style-type: none"> <li>● Reform education system for creativity and competitiveness</li> <li>● Revamp vocational training system</li> <li>● Build a sound system for a fair and efficient labor market</li> </ul>
Digital Divide (13)	<ul style="list-style-type: none"> <li>● Expand access to information and IT training</li> <li>● Empower the vulnerable and enhance their life quality</li> </ul>

# 4. Outcomes


- Dramatic Changes resulted
  - both in Macro- and Micro-Dimensions
  - All in the Desirable Directions



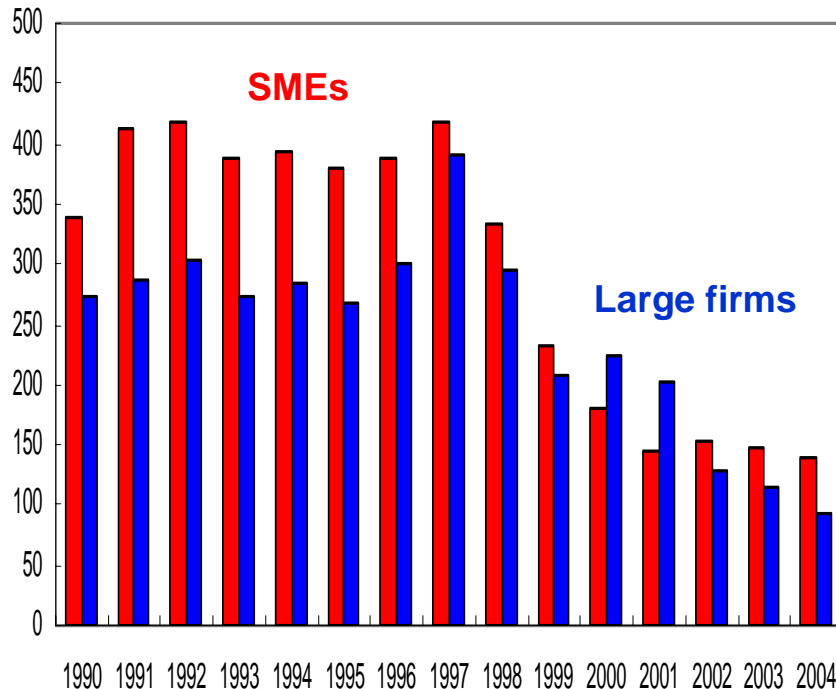
- IT Revolution ⇒ a New Global IT Powerhouse



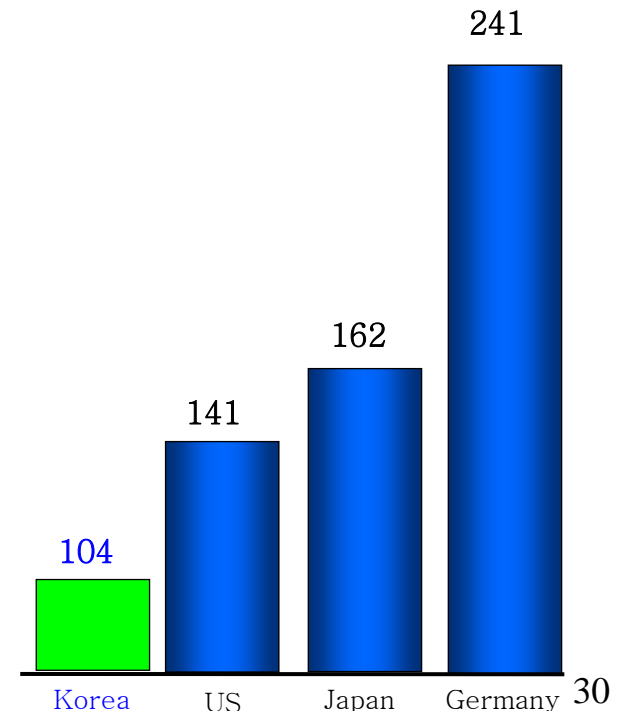
## >> Some changes to the point of excessiveness

 Successful corporate and financial market reforms => **Korea firms' debt-equity ratio has become even lower than those of advanced countries.**

Debt Equity Ratios for Firms :  
Large firms vs. SMEs



Int'l Comparison of Debt-equity ratio (%)  
(the end of 2004)



\* Figures for Japan and Germany are the end of 2002.

## 4. Lessons of the Korean K-Model : Bright Side

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- **Strong Supports from the Top Leadership**

- Crisis and new Millennium: need a new initiative/hope

- \* helped by private-sector champion group (Media)

*“In today’s global world, all citizens must become the next generation’s intellectuals,* Kim Dae Jung (former president of Korea)  
cited by Kochan of MIT in his recent book

- **Timely and Due Regard to Digital Divide**

- rural area; disadvantageous group; under-attended/tapped groups

- addressed at national welfare policy level

- **Dual Monitoring System (Strong & Weak points)**

- **Micro**-areas addressed by 3-Year Action Plan

- **Macro**-areas addressed by the Crisis-Management/Restructuring Plan

- **Micro-Dimensions: Private + Public Initiatives well Matched**
  - existing/latent private-sector demands supported/bolstered the gov't
    - \* ICT, Venture startup
- **Proper Policy Mix (for IT) : Supply-side + Demand-Side**
  - Supply Side : distribution of low-priced PC, building Infra(high-speed internet), support for venture startups (KOSDAQ) and e-business
  - Demand Side : offering massive computer training, mandating S/W purchase to all government institutions
- **Tapping onto and collaboration with external expertise**
  - Collaboration/alliances with WB-OECD (Foreign consulting firms)
    - \* WB-OECD report: complementary to Strategy Report and 3-year Plan

## 4. Lessons of the Korean K-Model : **Deficiency Side**

### >> Limitations/Problems of the 3-Year KBE Plan

- **Deficiency in Implementation Strategy**

WB-OECD(2000) says:

- KBE requires an **integrated systemic approach** because of interactions among policies & actors across traditionally disparate areas of policymaking
- Undertaking key **inter-linked reforms** requires:
  - \* buy-in from stakeholders and population at large
  - \* **coordination** and setting of monitorable goals
  - \* **monitoring, evaluation & constant adjustment**(Feedback mechanism)
  - \* institutionalizing the process so that it **spans changes in government**

## In Korea,

- **Poor coordination** among government agencies yet
  - \* though improving gradually (NS&TC, HRD Committee)
- **Insufficient public consultation and consensus building** process
  - strong legacy of **top-down, centralized** approach
  - main policies vulnerable to **political cycle**
    - \* problematic esp. in major micro-reform issues such as education
- **Inadequate/Insufficient Monitoring of Implementation**
  - Poor performance evaluation/monitoring mechanism/capacity
  - NEAC-directed monitoring process did not work (self-complacency) .
    - \* No effective feedback from anywhere
    - \* Mechanical compilation of line ministries' reports
- Limitations of the first round of Korea's K-model became highly visible around 2003, and with the coming of the **new Roh government**
  - => searching for a new, more comprehensive strategy that encompasses not only **economic but social & political dimensions.**

# 5. New Vision & Strategy Work (2004)

## >> Socio-economic Environment of the Roh Administration in 2003

- The Roh administration was inaugurated under a **mandate for change**
- However, the new administration faced internal and external challenges

### Mandate for Change

- Create **new political culture** governed by rules and justice
- Regain growth momentum and economic vitality
- Alleviate **regional disparity**
- Resolve **tension on the Korean Peninsula**

### Internal Challenges

- **Economic slowdown** due to a sharp decrease in domestic demand
- **Continued financial market uncertainties** due to the SK Global incident and credit delinquencies
- **Labor disputes** and other **social conflicts**

### External Challenges

- Increased world economic and political uncertainties caused by the Iraqi war
- Potential downgrade of sovereign credit rating due to the **North Korean nuclear impasse**
- Slowdown of exports to Asia due to the outbreak of SARS

# >> Challenges to the Korean Economy

❖ Diagnosis: Problems are **structural in nature** and due to **continuing challenges**

Slowdown in  
growth  
momentum

- Reduction in labor and capital inputs
- Inadequate technological and institutional capabilities

Increased  
social tension

- Intensified conflicts across regions, genders, generations and income groups
- Insufficient social safety net for the unemployed, and worsening income distribution

Rapid  
globalization

- Financial and corporate sectors under-prepared to meet “global standards”
- Increased pressure to liberalize agricultural and service sectors (DDA, FTA)

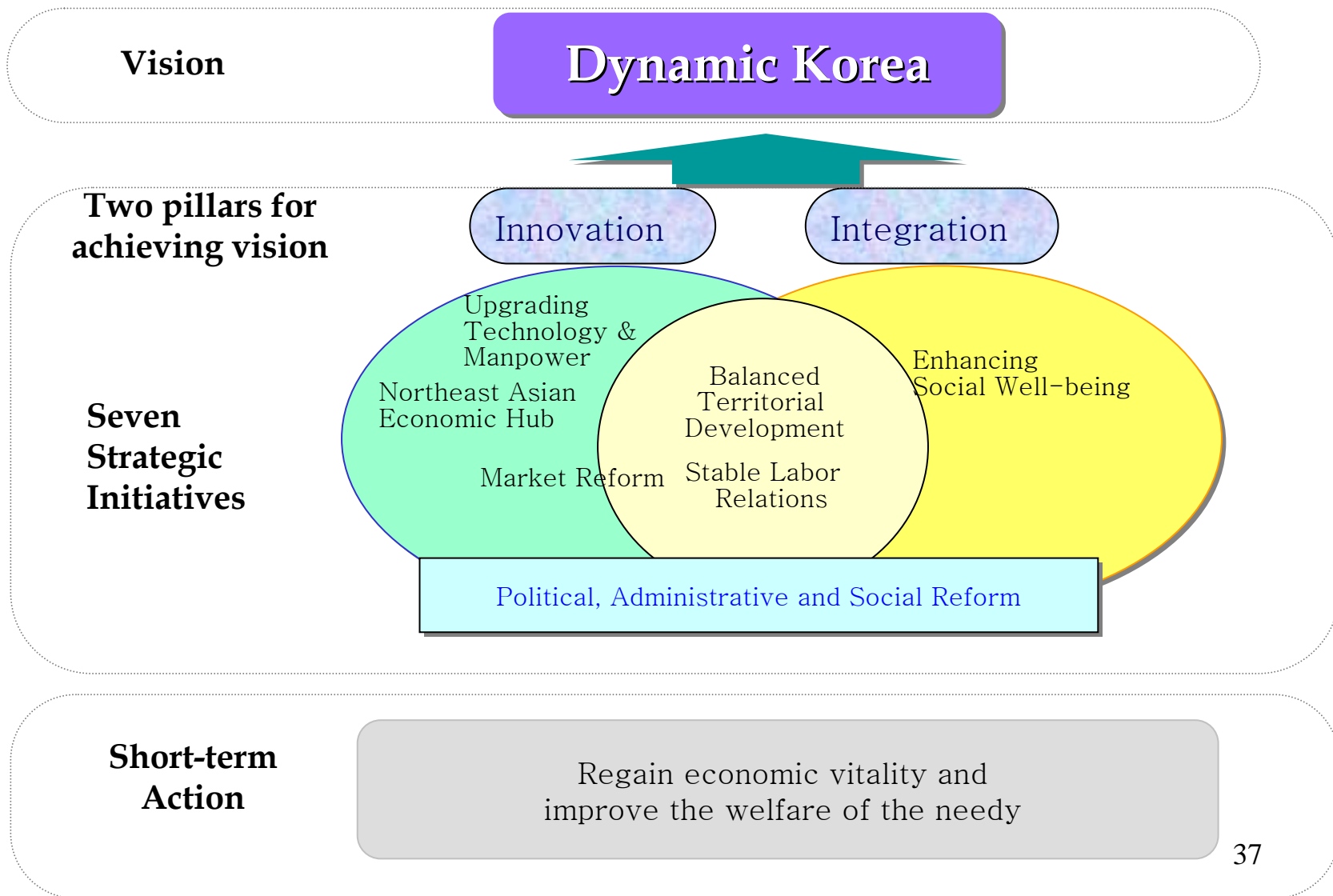
Emergence of  
China

- Fast growth of China in both traditional and hi-tech sectors
- China’s increasing share of foreign investment into East Asia

Tensions on the  
Korean Peninsula

- Increased systemic risk due to political uncertainty in the Korean peninsula
- Intensified geo-political complexity in Northeast Asia

# >> Basic Scheme of the New Vision - Dynamic Korea: a Nation on the Move -





**Part III:**  
**The Korea Economy: Challenges**  
**From Long-term, Structural Perspective**

# 1. Summary

- **Korea continues to undergo “deep & fast” structural changes**
- **Mired into severe confusion / disputes about the Present and the Future**

## Internal Strains

- **Sagging and **unstable economy**  
**Losing growth momentum****
- **Losing industrial competitiveness**
- **Job instability (**Jobless Growth**)  
Increasing **disparity** (new divide)**

## External Pressure

- **Globalization**
- **S&T revolution (IT, NT, BT etc)**
- **Surging-up of China**
- **( + DDA, FTA)**

- **Fundamental changes under way**
  - **Industrial structure and leading players**
  - **Market and policy environments**
  - **Firm behavior/strategy and exterior interaction**
  - **Polarization across/ within industries and firms**

## 2. Growth : Low, unstable trajectory

<Sagging and unstable economy>

### ➤ Growth performance:

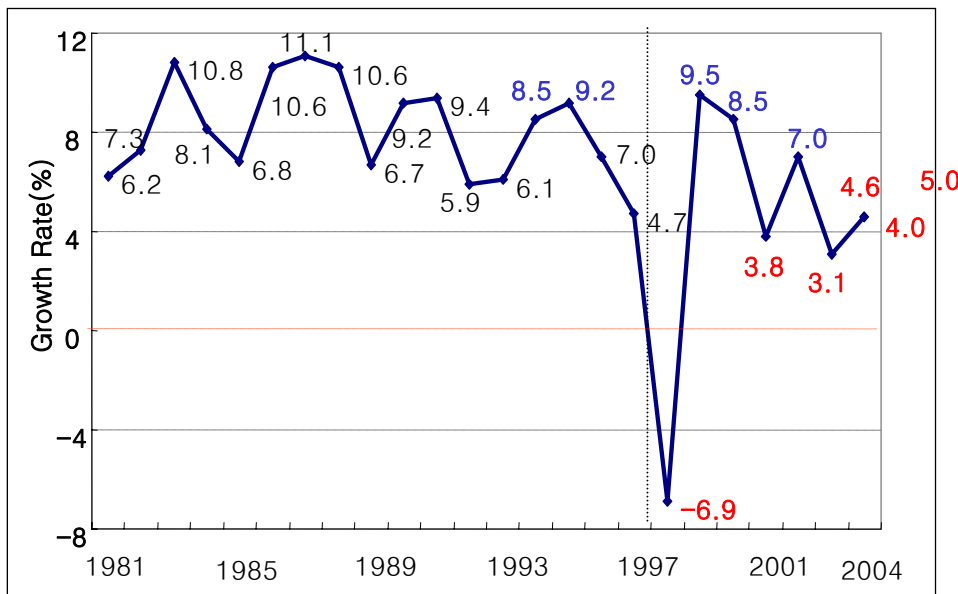
- more precarious since the 1997 crisis
- third business cycles under way now

<Losing growth momentum>

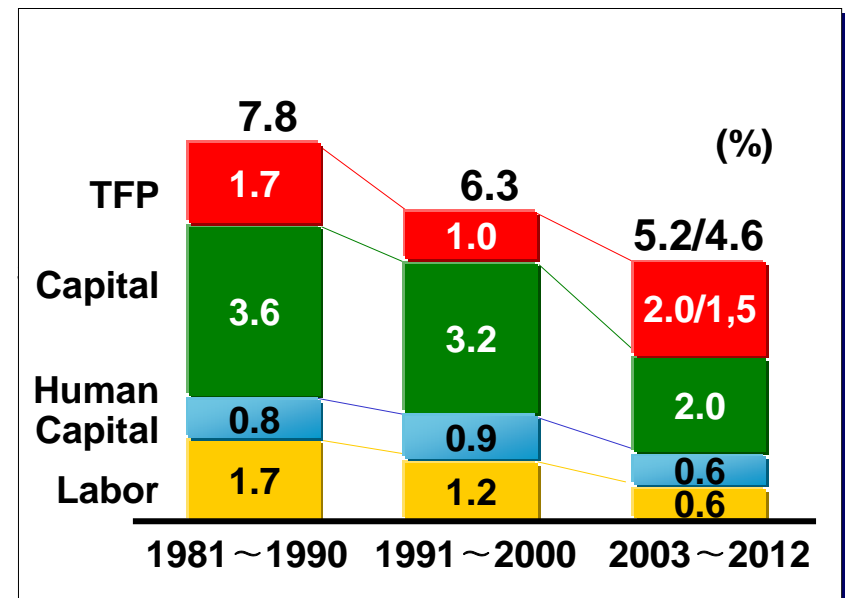
### ➤ Long-term potential growth rate:

- forecast to fall esp. due to falling labor input (**aging problem**)

Growth Rate (1981-2004)



Potential Growth Rate (1981-2012)

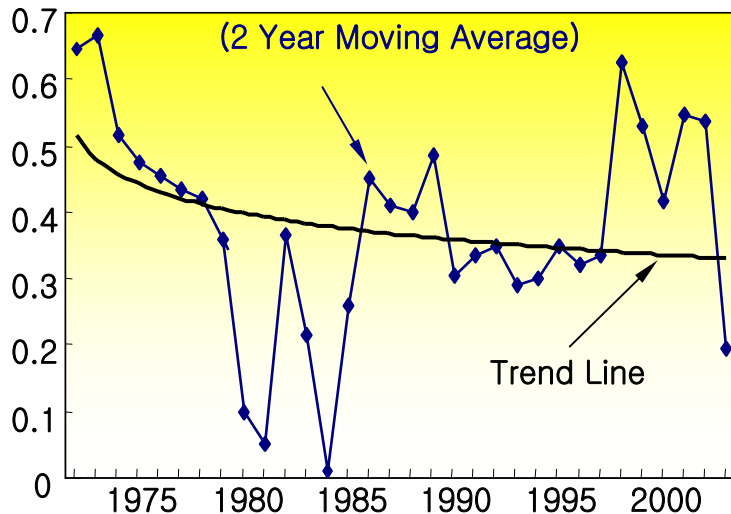


## 2. Employment and Jobs

### <Growth with Jobless employment>

- On top of precarious and low growth, a concern is rising over the sign of “**Jobless Growth**”

#### Employment Elasticity (1970-2002)



Source: KDI

\* Employment Elasticity =  
Employment growth Rate / Economic Growth Rate

#### Current Situation and Issues

- The elasticity changes erratically, but appears to fall below the long-term trend lately
- Source of Problems
  - ▶ **Business downturn**
    - Rapid **contraction of the service industry**
  - ▶ **Reduced labor demand in the manufacturing sector**
    - Rapid **decline of labor intensive industries**, occupied mostly by SMEs
  - ▶ **Inflexible labor market**
    - labor unions in public sector and large firms
    - Restrictive lay-offs and hiring practices

## <Growth with Jobless employment>

### New challenges arise in both “quantity & quality” of jobs

- ‘**Employment rate**’ remains low compared to advanced nations  
\* (‘96) 63.7 → (‘02) 63.3 → (‘03) 63.0 → (‘04) **63.6 %**
- Employment gains occurred mostly in the ‘**non-regular**’ jobs
- “**U-shaped job-creation curve** :  
\* Mid-level income jobs ↓, while low- & high-level income jobs ↑

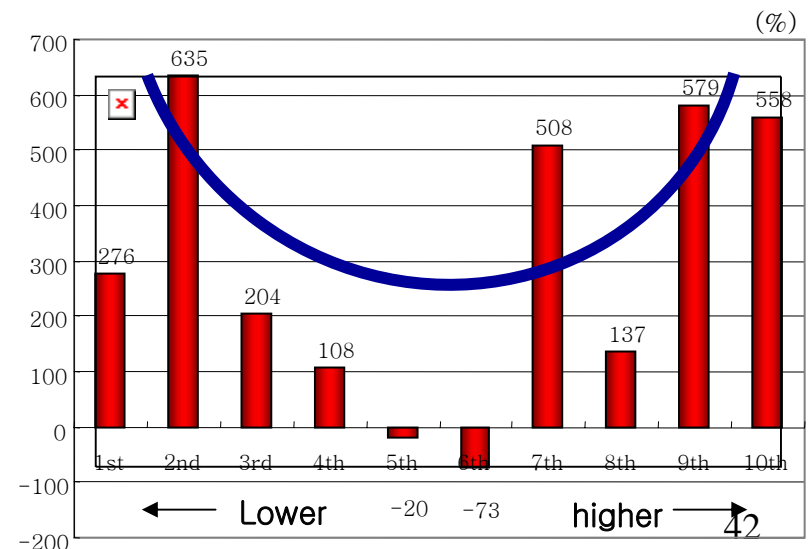
#### Total Employment & Non-regular Workers

(thousand persons, %)

	2001	2002	2003	2004
Employment	21,572	22,169 (2.8)	22,139 (-0.1)	22,557 (1.9)
Non-Regular	3,636	3,839 (5.6)	4,606 (20.0)	5,394 (17.1)

\* The figures in ( ) are the rate of increase (%)

#### Employment Changes by Income-Deciles Jobs Group (‘93~‘04)



# 3. Economic and Social Disparity

## < Rising Income Disparity >

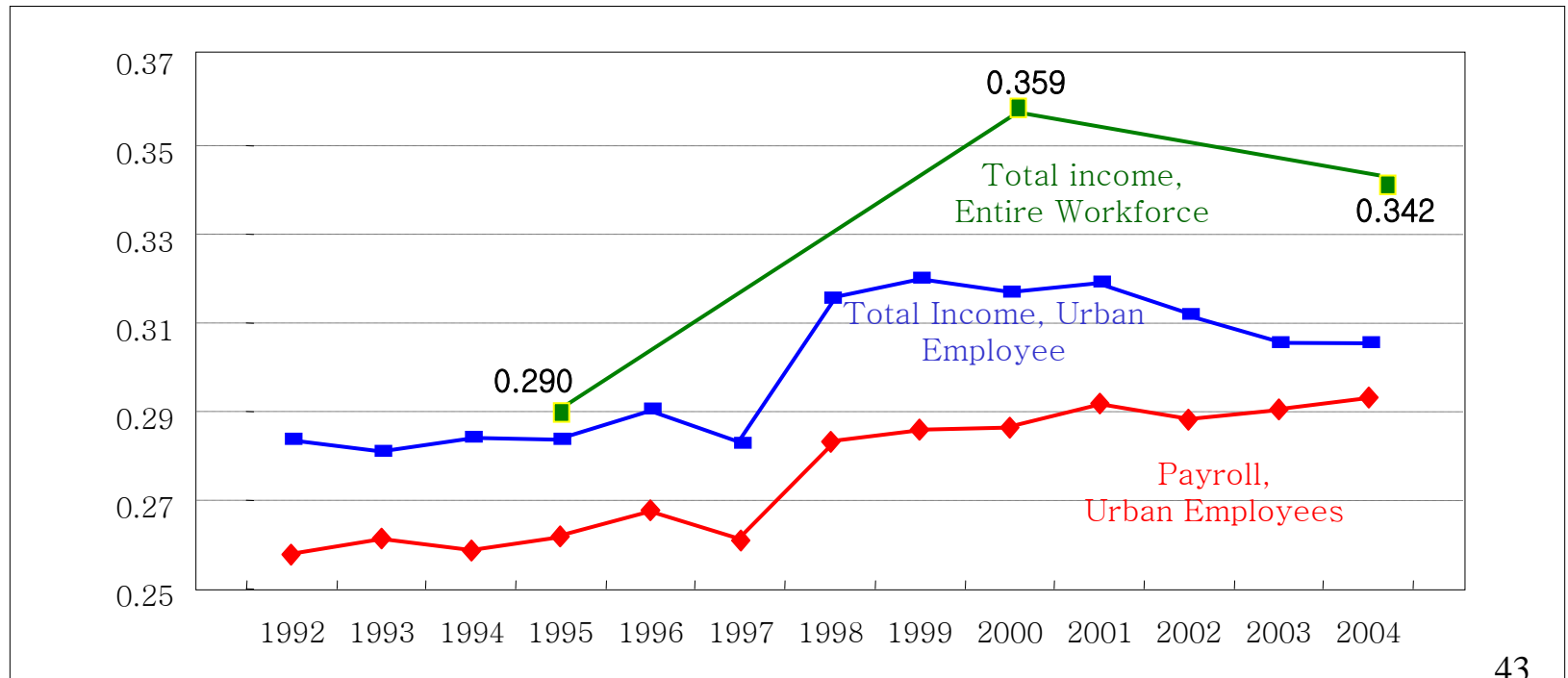
➤ Also, mounting concern over greater **income disparity**

\* **Income gap among wage earners (2/3 of total workforce) +**

\* **among the whole workforce including self-employers and unpaid workers (1/3)**

=> New **“Working Poor”** groups: **SMEs labor, self-employers, and temps**

Gini-Coefficients (1992~2003)

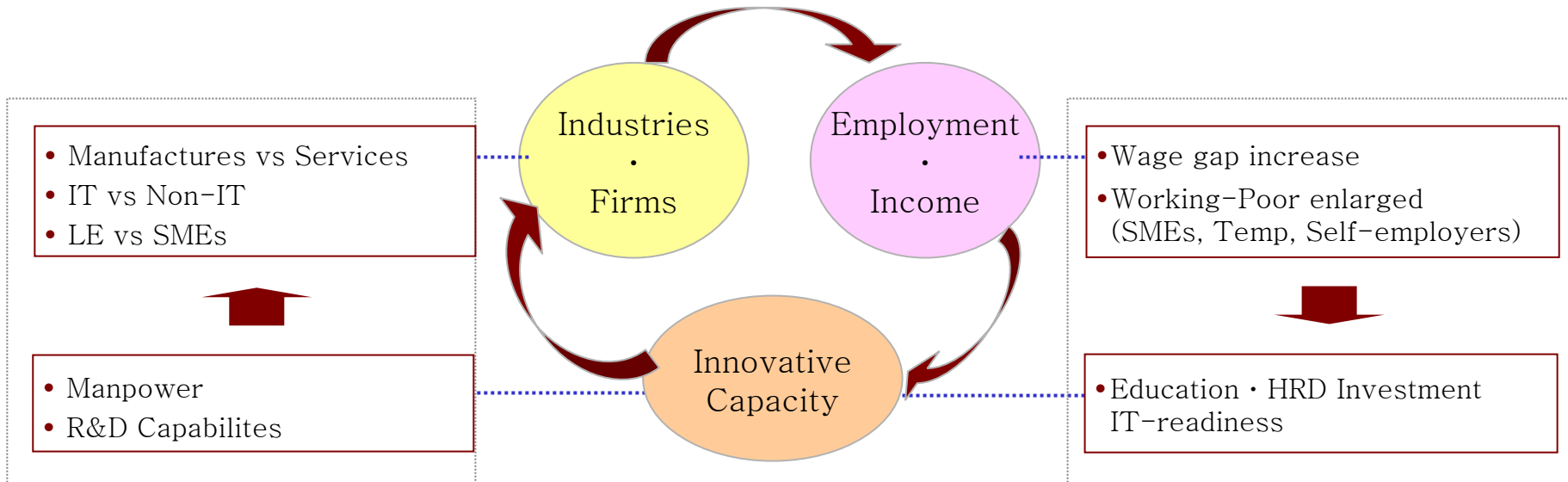


# <Ref.> Polarization in Korea

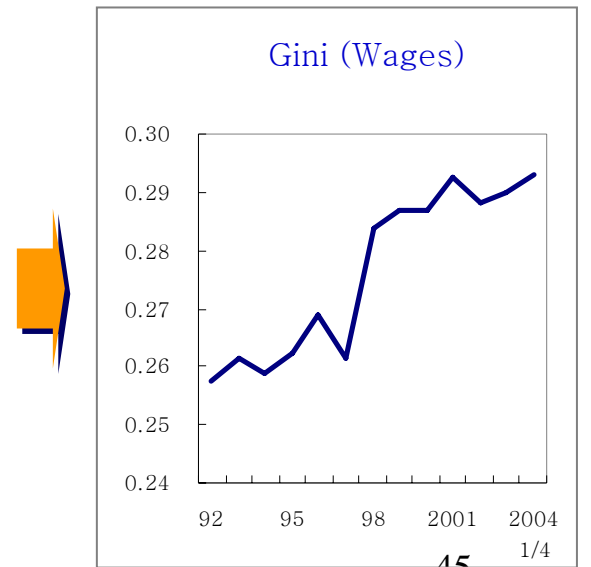
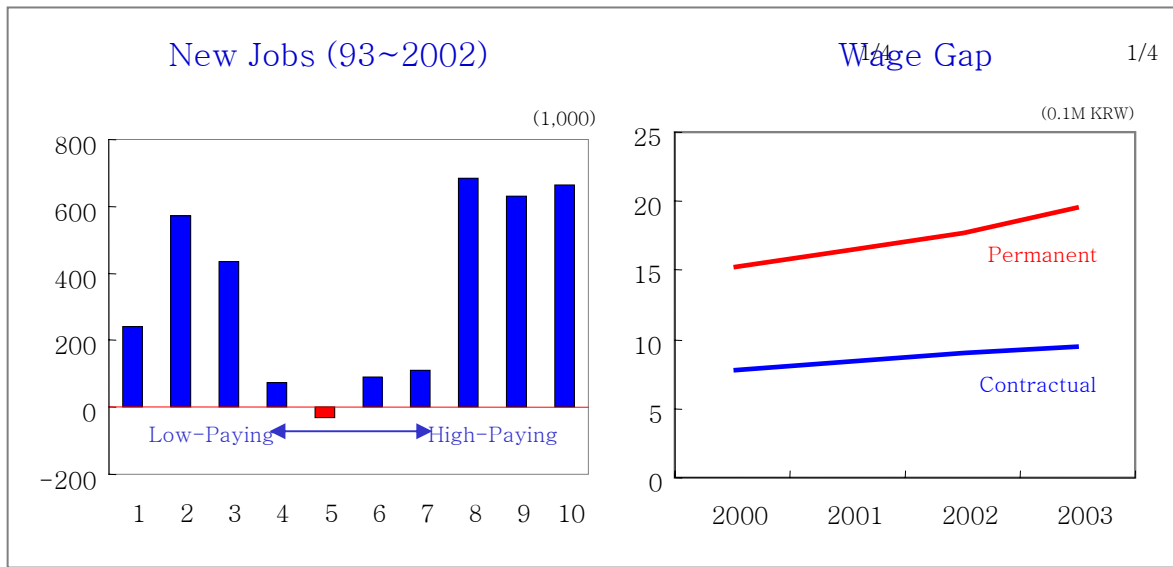
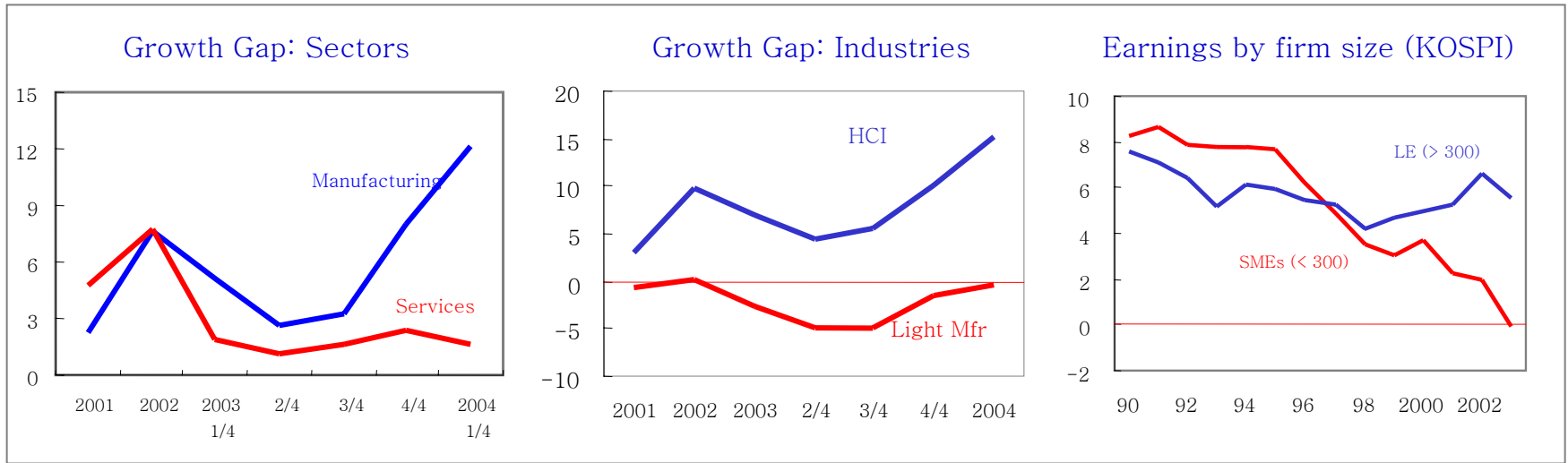
■ Drastic changes in economic environment,  
=> Rapid progress of **Polarization (Divide)**

- Put up steadily during 1990s + amplified during the recent recession
- Self-sustaining mechanism in effect

## Circular Structure of Polarization



# >> Cutting Dimensions of Polarization



# 4. Industrial Restructuring and Competitiveness

*< Deep and wide structural changes under way >*

## Change in Industrial organization

- dominance of the domestic conglomerates → **tripod** structure
  - \* domestic conglomerates (**Chaebols**) + **foreign MNEs** + new technology-based SMEs (**NTBFs**)
- subcontract relation btw large companies and SMEs changing

## Upgrading of Firms Activities

- focus shifting from production to R&D, sales, the other higher VA activities
  - business streamlining, spin-offs and labor shedding by big companies
- emerging **innovation networks** (still undeveloped)
  - increased cooperation among firms, university and research institutes

## Polarization

- a few Korean MNEs in electronics and automobile sectors soaring
  - laying down a foundation for a dynamic, and innovation based growth
- But, **most SMEs** and general products **losing competitiveness**
- **Services** absorbing more labor, but **performance sagged** relative to mfr. etc

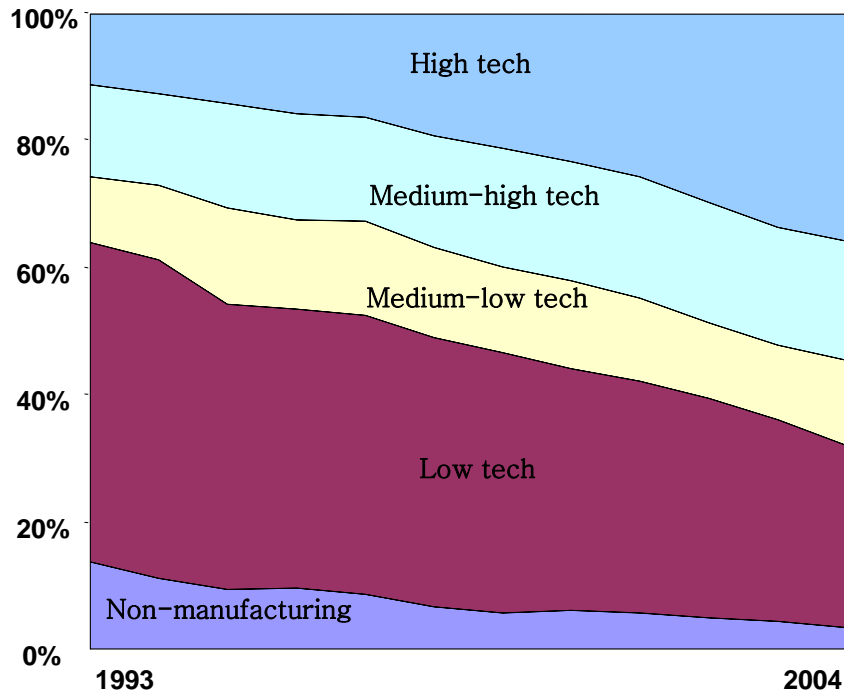
## < Loosing Industrial Competitiveness : China Shock or Effect? >



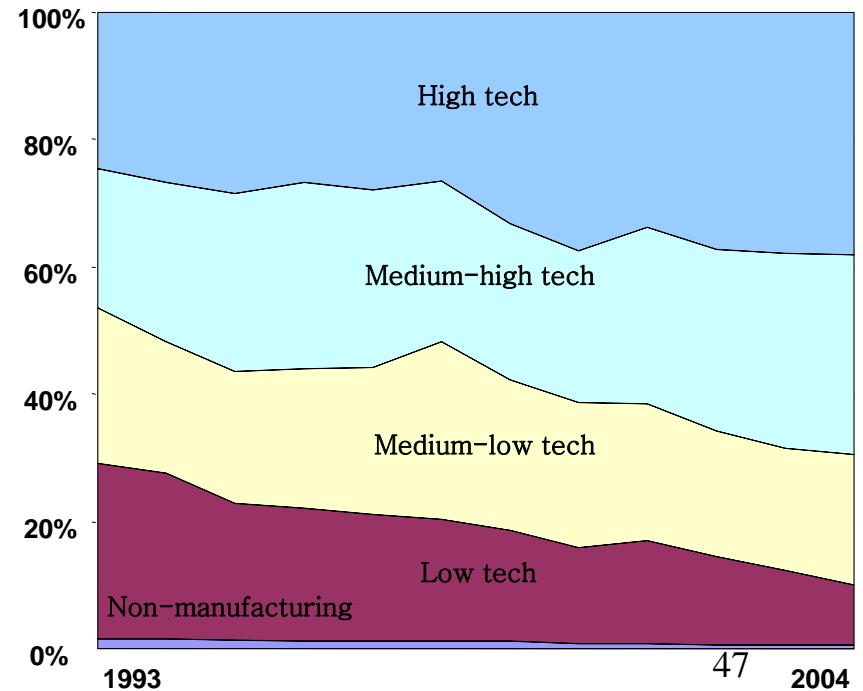
**China's export structure is rapidly converging with that of Korea.**

- **Particularly, China achieved a large increase in the export of IT products**

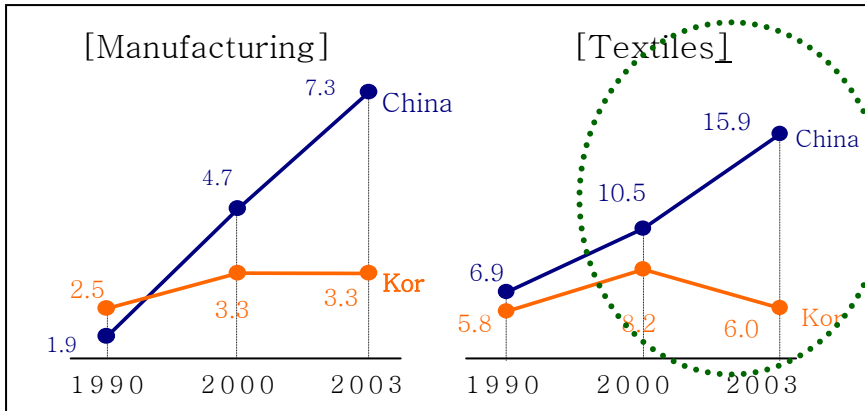
<China>



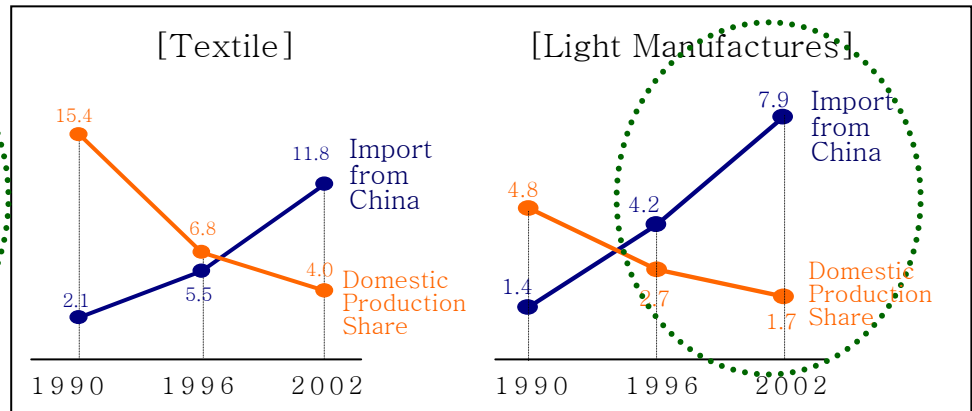
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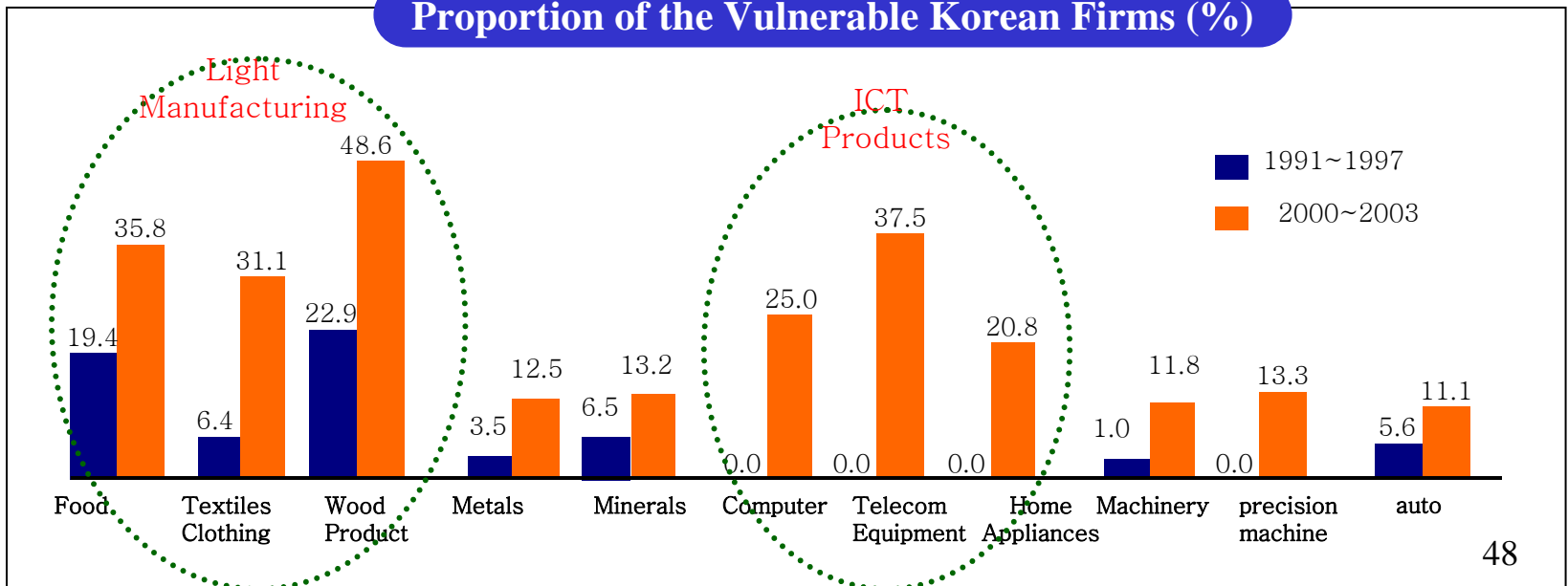
## China vs Korea in Global Export Market



## Crowding-out by Imports from China



## Proportion of the Vulnerable Korean Firms (%)



Primitive estimate by KIET (2004)

## < SMEs in Korea >

### ➤ Notable positive changes, but most SMEs remain inapt and vulnerable

- \* **'Passive'** or **'Reactive'** in overall business orientation and capabilities
  - unable to proactively respond to rapid structural changes under way
  - accustomed to survival under government protection/support
- \* especially **weak in technological (R&D) capabilities**
  - SMEs with technological innovation capabilities: **18.1%**  
(higher than in the past way, but still below advanced countries (30~40%))
- \* also weak **in other upstream and downstream activities**
  - design, marketing (esp. international), brand-exploitation etc.
  - requisite professional business services market under-developed

### ➤ As a result, **widening gap** as against big leading firms

- \* Productivity differential increased
  - Especially in technology-intensive industries such as IT equipment and parts

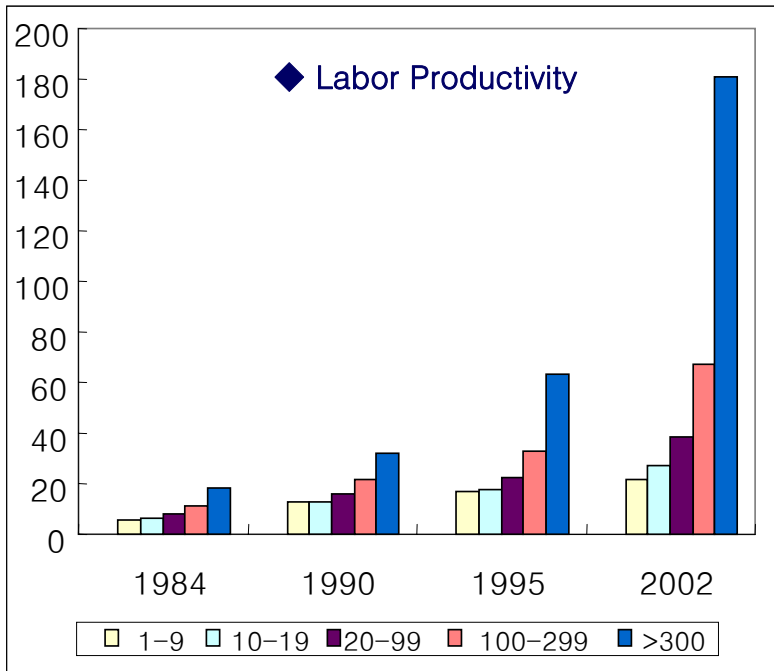
## >> Productivity Gaps (1)

➤ Increased across industries and among firms since the crisis

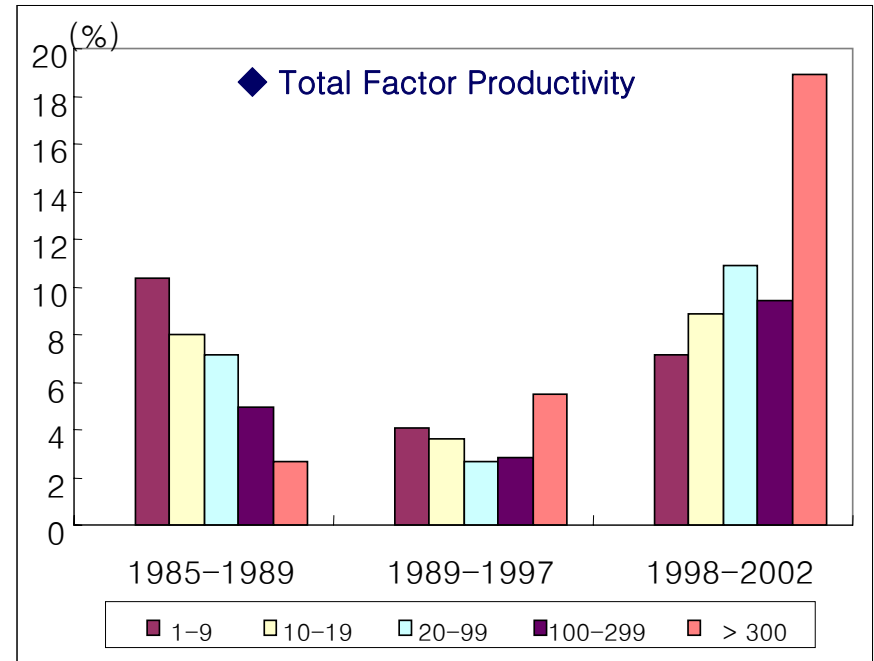
\* labor productivity: SME's gap against large firms enlarged steadily

\* TFP: SMEs once outperformed large firms -> reversed during 90~97 -> gap widening  
 - TFP growth during 1998~1991: SMEs 8.87 vs LEs = 15.21

### Productivity Gap against Large Firms



Size groups are in number of employees



## >> Productivity Gaps (2)

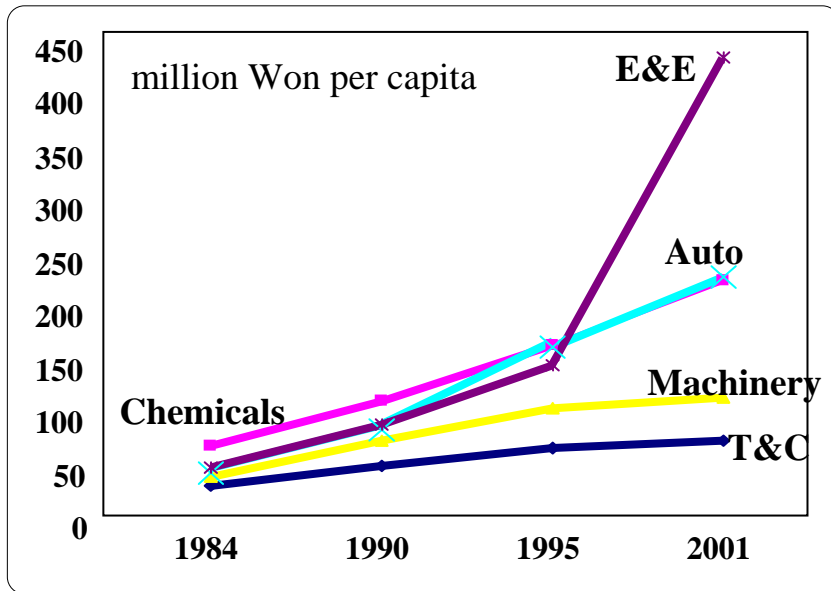
➤ Increased gap between SMEs and large firms is driven by quantum leap of Korea's vanguard firms in Electronics

\* Productivity of EE, esp. IT equipment, electronic parts, quantum leaped since mid 90s (led by Korea's vanguard companies such as Samsung, LG, Hyundai etc.)

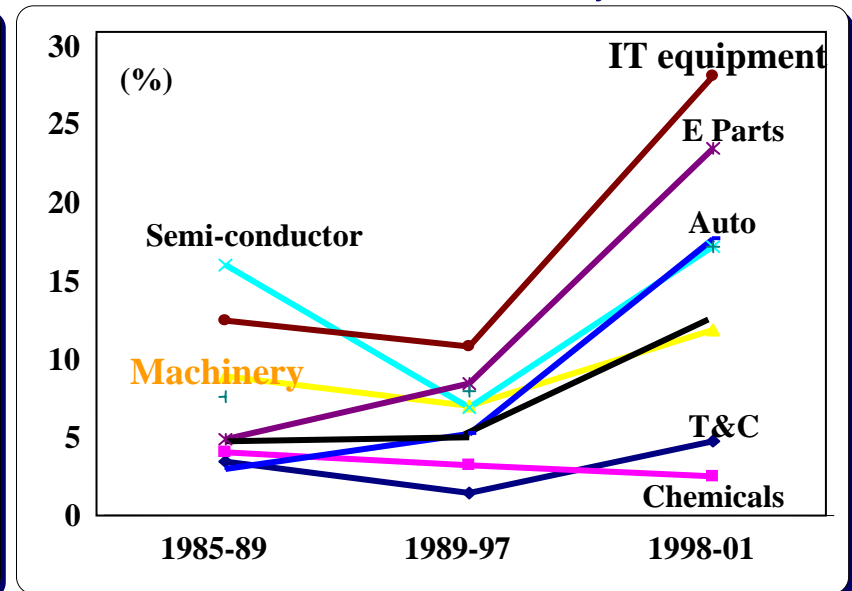
\* In 2001, Productivity of EE is ten times higher than T&C

### Changes in Productivity by Industries

◆ Labor Productivity



◆ Total Factor Productivity



## [Parts, Materials, and Machinery Industries]

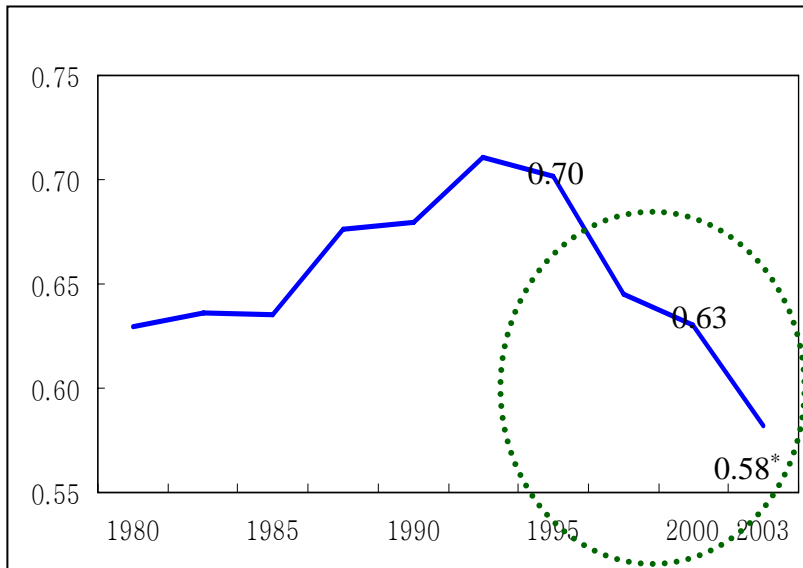
➤ **Weak competitiveness taxing Korea more and more → Polarization btw Exports-Domestic Demand (recession)**

\* **Import-dependency keeps rising (equipment machine:94 ('98) ↗ 137 ('03))**

\* **Spillover of exports falling since mid 90s (esp. in IT sector)**

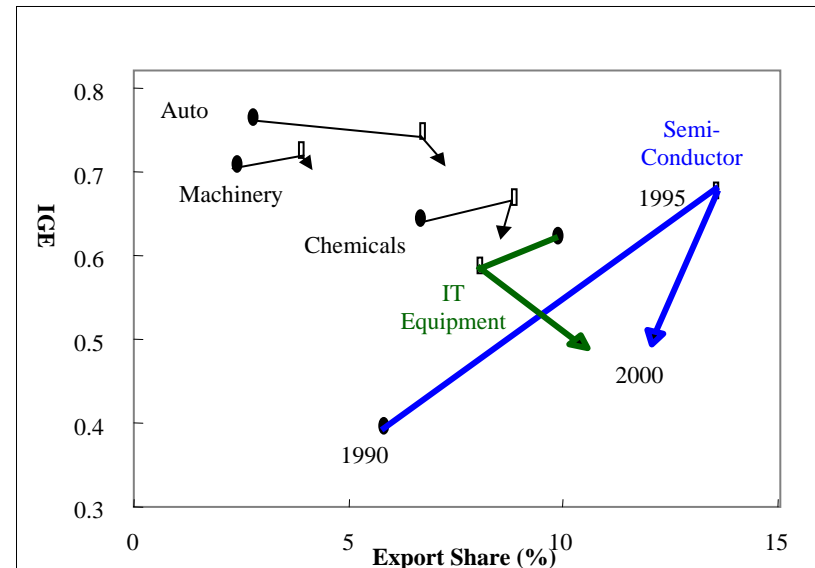
- **employment creating effect : 25.8 ('95) ↘ 15.7 ('00)**

Income generating effect of exports( $\Delta$ GDP/ $\Delta$ export)



\* Figure for '03 is estimate

Export share & Income-generating effect



※ Income-generating effect of advanced nations: Japan 0.89 ('00), US 0.91('90)

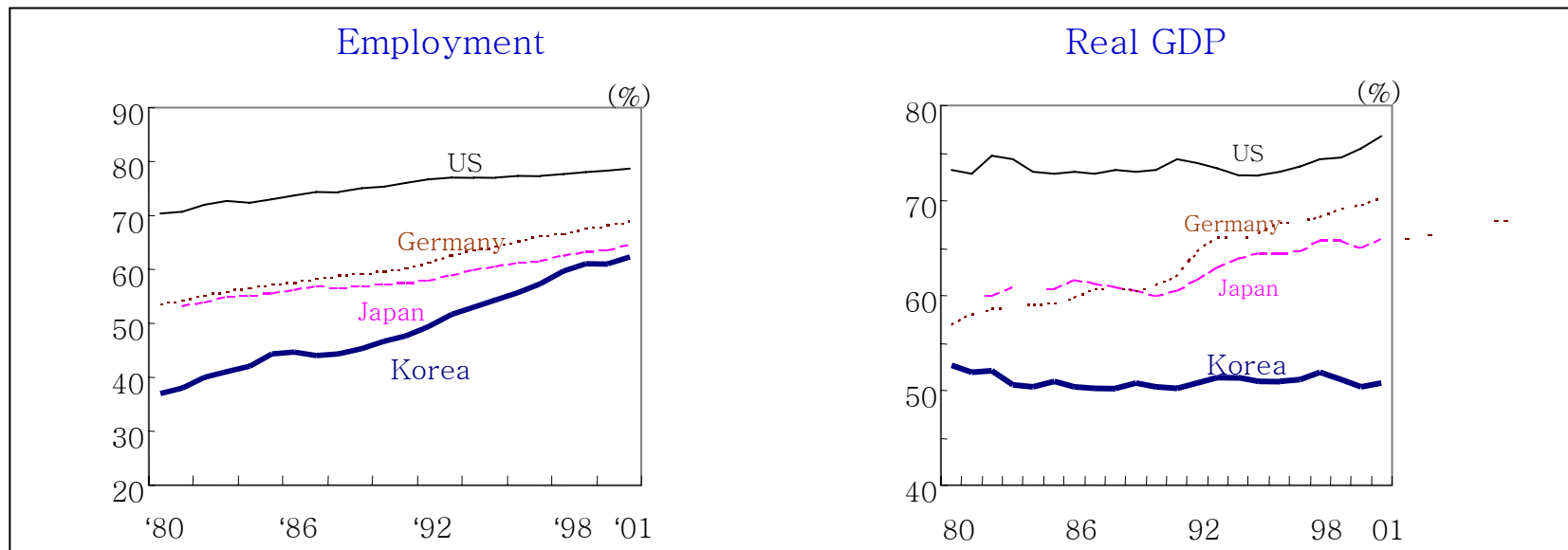
## < Under-developed Services Sector >



**“Job quality & income disparity” largely reflect Korea’s undeveloped service sector**

- **Service sector** has expanded steadily in employment while **Real GDP** has remained stagnant at 50~52% ↔ **Low-productivity** in Korean service sector

### Share of the Service Sector

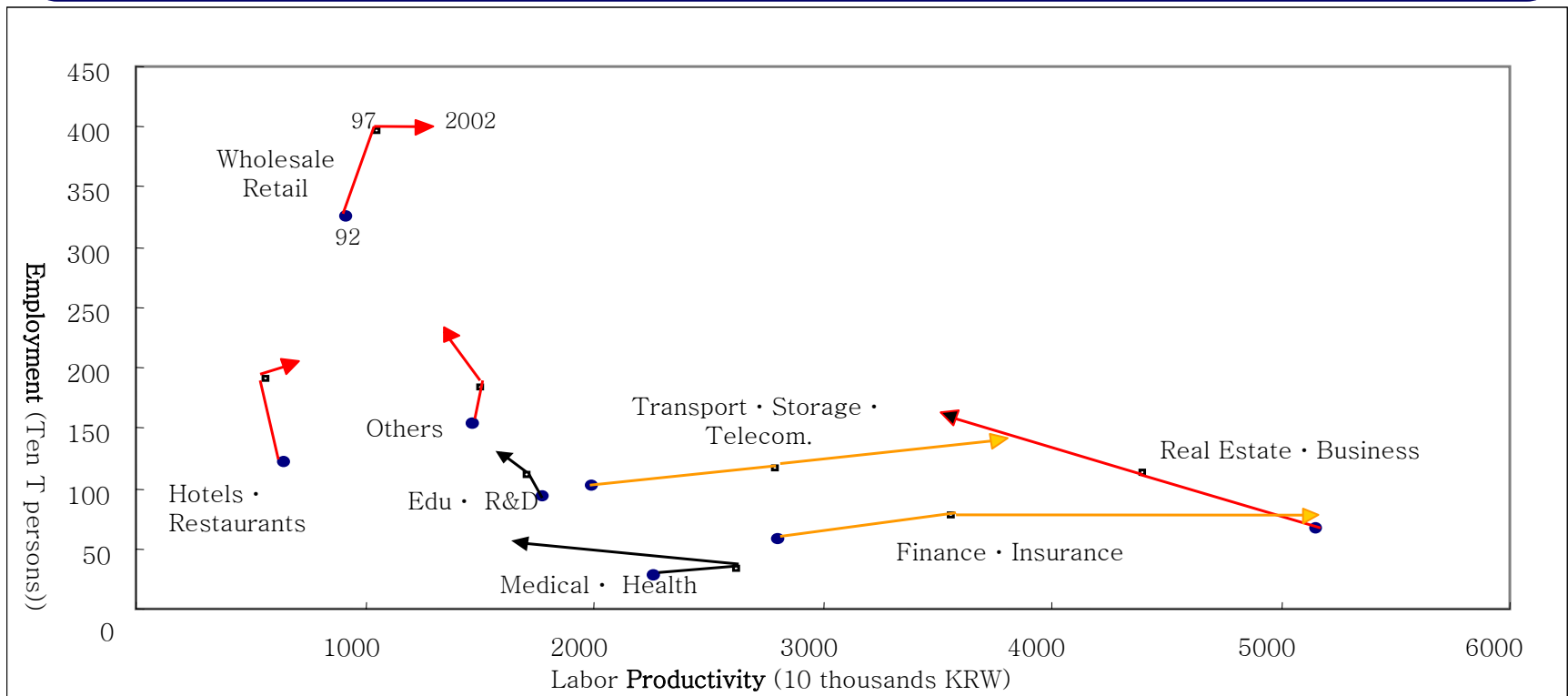


## < Under-developed Services Sector >

Most of employment gain in service sector since 1990 occurred in low-productivity traditional service sector

- Employment in high-productivity sectors has been stagnant/shrunk  
\* **traditional services** : wholesale/retail/restaurants/hotels

Productivity & Employment Changes in Korean Service Sector ('92, '97, '02)

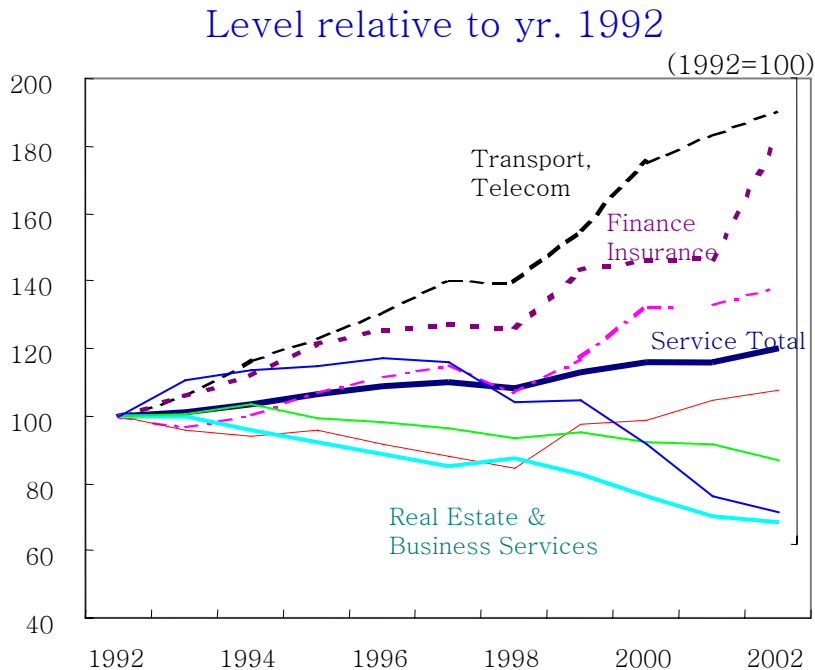


# >> Emerging Trend in Korean Service Sector

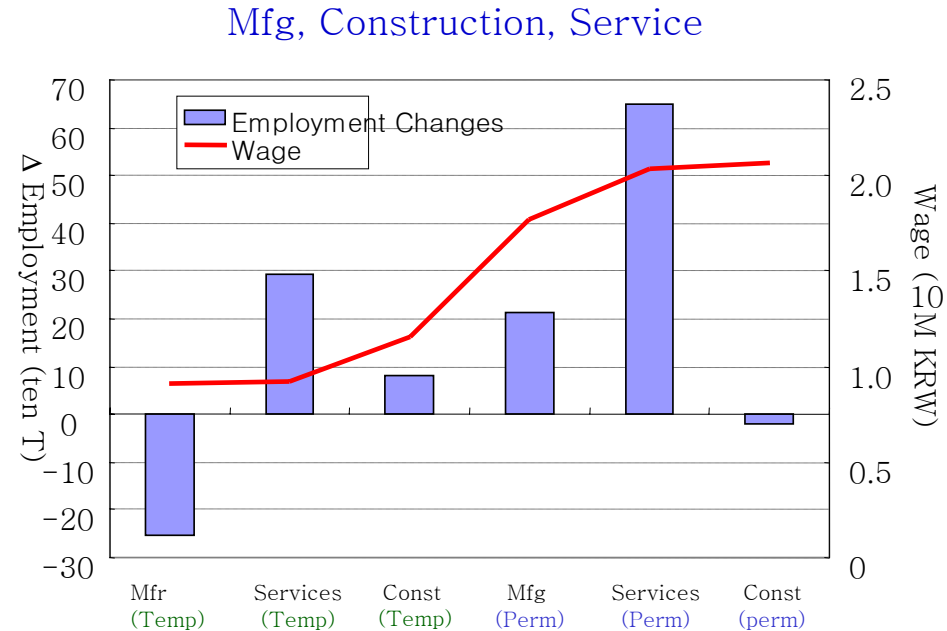
**Toward late 1990s, a new trend appears to set in.**

- The modern **business-related sectors** started to pick up in **productivity**, compared to traditional sectors
- After 2000, the **service sector** created most high-paying permanent jobs

Productivity Changes in Service since 1990



Jobs Creation by Work Type & Industry



## < Underperforming FDI & the Threat of Hollowing-out >

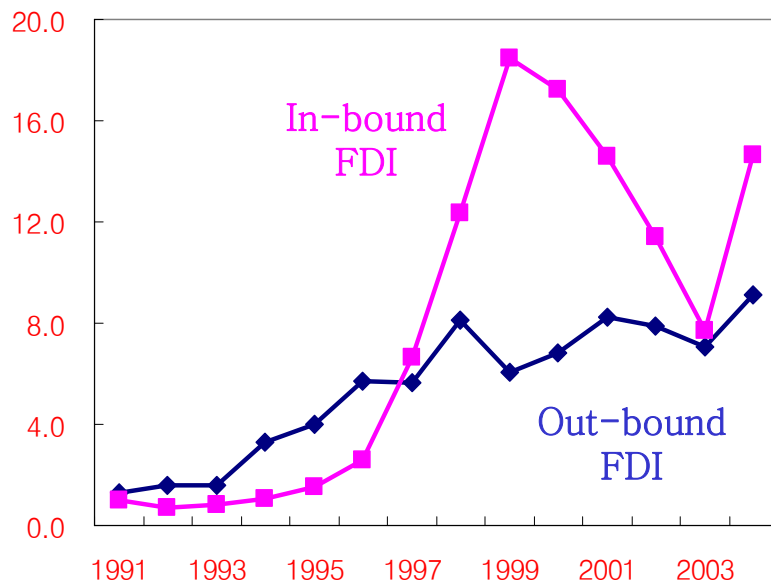


**Korean out-bound FDI has been steadily increasing, whereas in-bound FDI has been sluggish after peaking in 1999.**

- **As for manufacturing, the amount of out-bound FDI has exceeded in-bound FDI during 2001-03.**
  - The pick-up of in-bound FDI in 2004 was mainly due to technical factors such as introduction of shortened tax-exemption period (from 10 to 7 yrs) beginning January 2005.

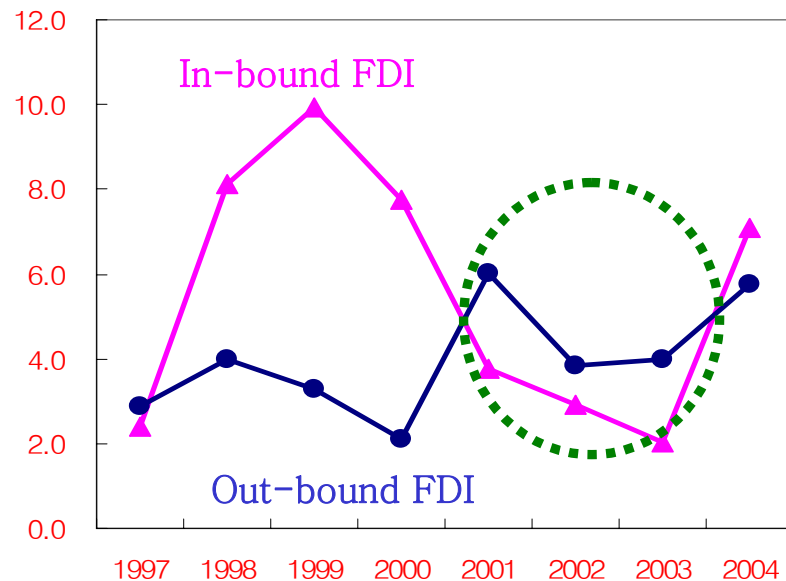
< All industries >

(Trillion won)



< Manufacturing >

(Trillion won)





**Part IV:**  
**Prospect and Key Policy Agendas**

# 1. Vision '2030' : A New Korea for the New Future

Project: National Vision and Long-Term Fiscal Strategy (MPB-KDI)

\* Launched July 2005 (now underway)

- ❑ Design a vision plan with long-term well-calibrated financing strategy
  - ensure **implementability of the plan**, spanning political cycle
  - prepare for the distant, but anticipatable future (2030)
    - esp. tackling “**Aging, Social Cohesion, the Korea Peninsula**” Issues
- ❑ 1 year budgeting → 5-years rolling plan → long-term planning
- ❑ Spending within revenue → **strategic/pro-active fiscal policy**
- ❑ **6 Policy Areas**: Growth momentum, HRD, Social welfare, Globalization, **Social Capital, Governance**
- \* Social capital & National Governance added as two keystones
  - Specialists on S&TE, Sociology, political science, public administration etc joining T/F
- ❑ Vision : Prosperous and Decent Korea :
  - whether **to co-prosper or to co-perish?**

# >> New Agendas and Mandates

## 1. Reform to Secure Extra-financial Resources

Overhauling of taxation system : Property tax, service sector

New Budget allocation Rule among Big Budgets Sectors

- Education vs S&T vs ICT vs SME vs social welfare

## 2. Decentralization/Regionalization

- Korea too big to make a single unit of big policy experiments

- Implementation/Experiments at Sub-national level desirable

\* Needed for Edu&HRD, R&D/Innovation, Social Welfare etc.

\* Induce constructive competition among Regions

## 3. New Leadership & Conflict Resolution Mechanism/Capacity

- New Government Leadership

\* Market vs Government

- ‘**Social Capital**’ (Was the “**Red Devils**” Syndrome Dream?)

## 2. Policy Focus 1 & 2

### Upgrading Technology & Manpower

- Establish an advanced national system for technological innovation
  - Increase R&D investment, Integrate technological, human resources, and industrial development policies
  - Establish a new system for industry-academia collaboration
- Education reform
  - Increase diversity and specialization through **decentralization & deregulation**

### Enhancing Social Well-Being Net

- Ensure minimum living standard for all, and encourage sound economic activities
  - Stabilize **real estate market**: Implement comprehensive measures, Rationalize tax code, etc.
  - Expand the **social safety net**: Extend the coverage of welfare, Reinforce welfare **delivery system**, etc.
  - Promote social equality: Enhance female participation and representation, etc.

▶ **Huge hindrances & mounting skepticism for problem solving**

The Case of **Education**: **Suggestion for Possible Solution:**

- Big Deal to Ride out of the Policy Deadlock Situation
- New alliances & compromises among various key players

## **The Magic Triangle to Revitalize Korea's Education & HRD**

### **2) Small Institutional Reform**

- Tighten Performance Monitoring
- \* budget as an investment not expenditure
- Information Disclosure
- Deregulation (esp. concerning the usage of school properties/ facilities)

### **3) Big Institutional Reform**

- Educational Administration
- Governance of Universities
- Equalization Policy
- Tax System

### **1) Increase Budget (Strategic Fiscal Plan)**

- esp. on higher education & pre-school sector
- to help the needy students/family

### 3. Policy Focus 3 : FDI & FTA

#### Strategic inducement of In-bound **foreign direct investment**

- **Lift** remaining **restrictions**, Improve **investment incentives**
- **Strengthen** internal capabilities for a logistical, financial and R&D hub in the region

#### Korea has far under-performed in its potential as a destination for FDI.

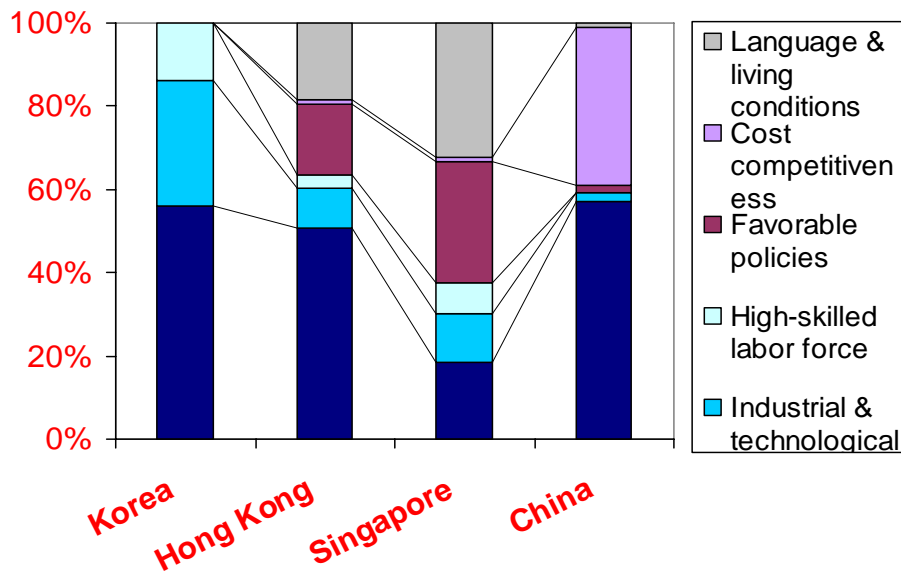
- During 2000-02, Korea was ranked **18th** out of 140 countries in potential for attracting FDI, but
- Korea's actual total in-bound FDI ranked **107th** (UNCTAD,2004)

# [Ref.] Factors behind Decrease in In-bound FDI (1/2)

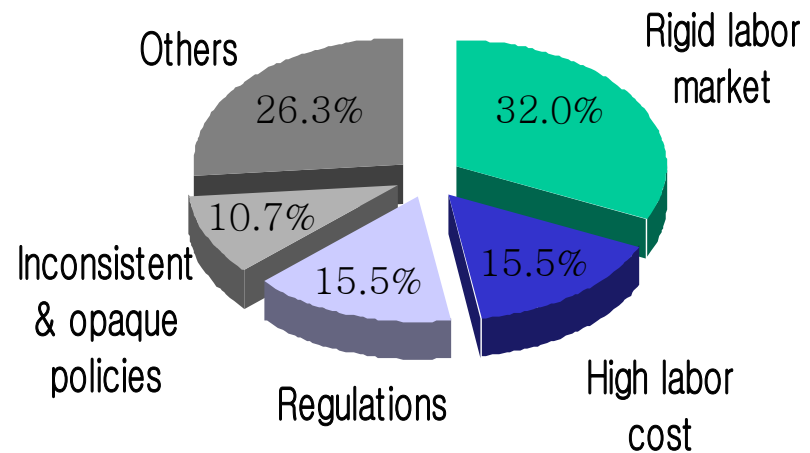
▶ According to KDI's survey of foreign investors, Korea offers competitiveness in market size, industrial and technological base, and high-skilled labor force.

- However, rigid labor market and regulations act as barriers.

< Competitive factors in attracting FDI by country >



< Discouraging factors in doing business in Korea >

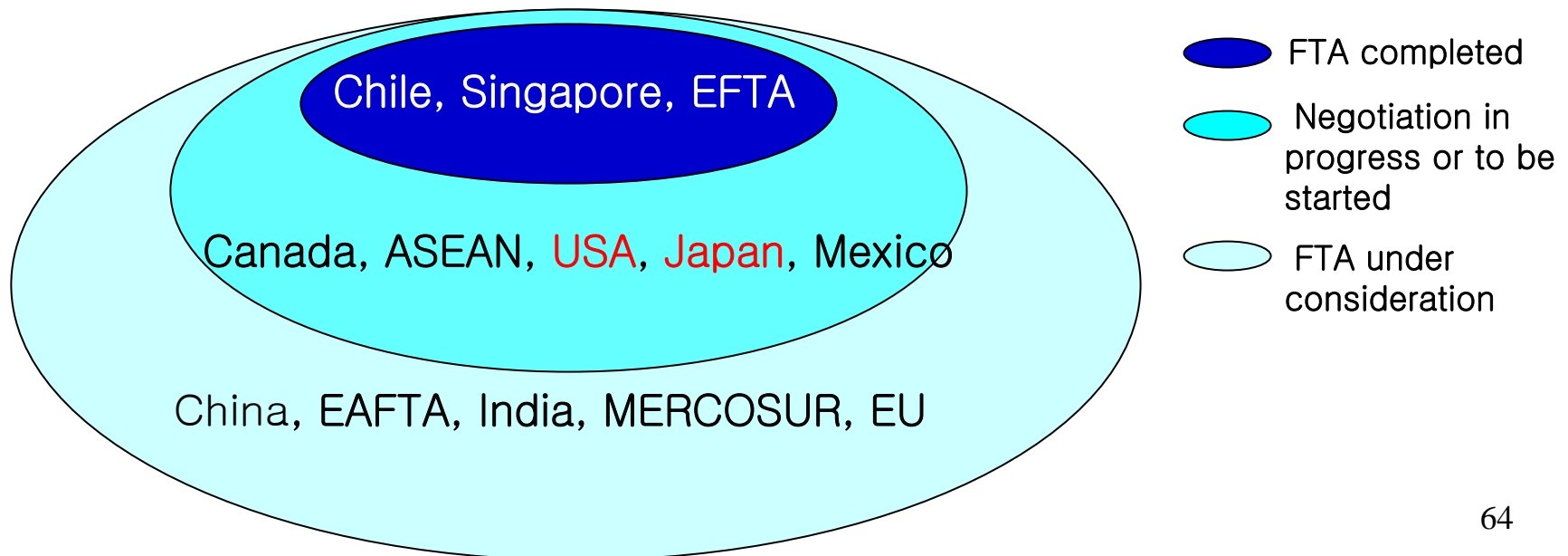


# >> Policy Focus 3 : FTA

## ▶ FTA : Asia and Beyond

- **Korea seeks to be a global partner through FTA and initiative to be a Northeast Asian Economic Hub.**
  - Korea aims to enhance regional cooperation and become a R&D, logistical and financial services hub in Asia.

### Korea's Promotion of FTA



## To Conclude:

- The 1<sup>st</sup> round of Knowledge Revolution over with Korea
  - essentially vital early awakening stage
  - successful awakening of substantial some, invoking of new energy and momentum, and phasing in new policy initiatives,

- The 2<sup>nd</sup> round of Knowledge Revolution yet to come
  - from “awakening” of “some” to the awakening of “all”, &
  - from “phasing-in” to more difficult task of “rooting down” and routine change management
  - will take more robust government leadership matched by broader private support and participation (engagement of all)