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Korea: Policy Reforms Since 1980

LEE TAE-SUP

The Korean government has undertaken wideranging reforms in politics and economics since 1980.¹ Nevertheless, certain fundamental goals and directions remain unchanged; and nowhere is this more true than in the area of economic policymaking.

Today, we Koreans are more eager than ever before to pursue the goal of high economic growth with stability and equity. And in reaching this objective, we are also more committed than ever before to relying on the mechanism of the free market and an outward-looking development strategy. This implies two things. Externally, Korea must further liberalize its policy on trade, investment, and technology transfers. Internally, the nation should promote competition throughout the economy, and equalize for all citizens the opportunity for participation in economic activities.

The process of liberalizing Korea's foreign economic policy is already under way. Current import policy calls for raising the import liberalization ratio from the present level of 74.7 percent to over 90 percent by 1986. By expanding imports in areas where the nation lacks comparative advantage, Korea can expect to achieve a more efficient allocation of resources throughout the economy. In addition, by exposing domestic producers to foreign competition, the nation can expect improvement in the quality of the products it produces.

As for Korea's policy on exports, the Seoul government plans to increase exports based on a new pattern of industrial specialization. In Korea's view, the expansion of exports based on intraindustry specialization rather than interindustry specialization will be less difficult for our trading partners to absorb. Consequently, the expansion of Korea's exports will face less resistance in the world market place.

Korea's policy on the inflow of foreign technology is also very liberal. In most areas, applications for technology import licenses are automatically approved. With regard to the patent rights of foreign suppliers of technology, the government will in the near future amend current rules and regulations so that more adequate protection is accorded those rights.

The Korean government has adopted a new policy on direct foreign investment in order to increase the share of foreign investment in total capital commitment from abroad. While retaining all the existing tax incentives and other privileges offered to foreign investors, the new policy allows a maximum foreign equity share of up to 100 percent in a large number of industrial fields. Together with the fact that wage levels in Korea are still competitive with other countries at a similar stage of development, this should make Korea an ideal place for overseas production of manufactures by export-oriented industries in the United States.

Korea is a country with few domestic energy resources. Therefore, the government is encouraging maximum savings in energy use by realistic energy pricing, and also by establishing strict industrial standards for energy use. At the same time, we are accelerating nuclear energy programs, encouraging industries to switch to coal, and stepping up R&D efforts for alternative forms such as solar energy and tidal power. Given these policy efforts in the energy field, there is much room for close cooperation between Korea and the United States.

The process of liberalizing the economy internally is also well under way. The government is currently strengthening the Fair Trade and Antimonopoly Act, the purpose of which is to minimize direct government control and promote competition throughout the economy. In order to increase the allocation of investible funds through the market mechanism, Korea is engaged in carrying out an extensive reform in the banking sector. For this purpose, the government has already begun to relinquish its equity shares in one of the nation's five major commercial banks, and will sell off its shares in the remaining four by 1986. In addition, the government has encouraged a joint venture in banking as a way of encouraging innovation among domestic banks. Under this policy, at least one joint venture between a US bank and Korean business interest will be formed soon.

Over and above all these reform efforts relating to particular sectors of the economy, the Korean government has already launched a program to eliminate all legal and other institutional practices

which stand in the way of the nation's effort to sustain another period of high growth.

I I

It may be useful at this point to give a picture of Korea's current economic outlook. Despite worldwide recession in 1981, the Korean economy registered 7.1 percent growth in real GNP, a significant reversal of the negative growth of the previous year. Commodity exports increased by 20 percent to \$21.0 billion, with the current account deficit reduced to \$4.7 billion from \$5.3 billion in 1980. More importantly, this recovery was not accompanied by an upsurge in inflation. Wholesale prices increased only 11.8 percent last year, compared with a 44.2 percent increase in 1980. Furthermore, it is expected that all of these improvements will continue into 1982, with GNP growth projected at around seven percent and the inflation rate falling to the seven-to-nine percent range. Our exports are expected to increase to \$24 billion, and the current deficit will be further reduced to \$3.5 billion.

As for our long-term growth prospects, the outlook is decidedly optimistic. Korea's labor force is expected to grow by about three percent annually, while its population will increase by 1.6 percent per annum. This means that the economy will still enjoy an abundance of labor; and given such a rapid growth of the labor force, the returns of capital and other forms of investment in Korea will continue to be high. Korea will also be able to increase its overall output by shifting labor from low productivity agriculture to high productivity industry. In this connection, it should be kept in mind that agriculture still accounts for some 34 percent of total employment in the nation.

Korea also has an outstanding capacity to absorb high technology from abroad. Each new generation of our people is better educated. Korea's dynamic entrepreneurs can surely be counted on to adopt new technologies resulting in overall productivity improvement.

Korea's share of world trade is still relatively small. Hence there is room for continued expansion without running into serious protectionist resistance. In addition, Korea plans to expand exports through greater geographical diversification of markets and by producing a greater variety of export commodities. Even more important, the domestic market can now serve as a "second engine" of growth, especially when the external economic climate is unfavorable. For the next several years, the role of this "second engine" is expected to be even greater as Korea undertakes invest-

ment in housing, mass transit, and site preparation for the Olympic Games in 1988.

One of the most important reasons for optimism regarding the long-term prospects for the Korean economy has to do with the dynamism of the Korean people and their desire to improve their standard of living. The Korean people still remain committed to hard work. Moreover, the Korean people and government have always shown a capacity to do what is required of them.

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Korea has always considered itself fortunate to have had the opportunity to develop close economic relations with the United States. Today, the volume of two-way trade is more than \$11 billion, with the United States having a slight export balance in its favor. Among US trade partners, Korea currently ranks about tenth; and the US Department of Commerce estimates that Korea will be among the top eight trading partners of the United States by about 1983, surpassing countries such as France and Italy.

Regarding Korea's imports of US capital goods, there is no question that during the Fifth Five-Year Economic and Social Development Plan period (1982-86), Korea will continue to emphasize the development of heavy or technologically sophisticated industries; and this, in turn, will necessitate the importation of capital goods on a large scale. As indicated above, Korea intends to meet a large part of its energy needs in the form of nuclear power. Thus the country will import more nuclear power plants and uranium enrichment services. In addition, Korea will need from the United States substantial amounts of bituminous coal for industrial use, as well as agricultural products like cotton, corn, wheat, rice, and soybeans. Considering all these import needs, the United States should be able to maintain its share in Korea's total imports at the present level of about 23 percent.

The prospect for greater cooperation in loans and investments is also promising. The US share in Korea's total foreign loans has been about 31 percent and its share in direct foreign investment about 23 percent, making the United States the second largest investor after Japan. Korea's need to import foreign capital continues. Indeed, given the unusually high return on capital invested in Korea, and its relatively low debt-service ratio (about 13 percent), it makes sense for Korea to keep importing more foreign capital by incurring current account deficits. The average annual current account deficit for the 1982-86 period is expected to be about \$4.7 billion.

Science and technology are also fields in which cooperation between the United States and Korea has been highly beneficial for both countries. Korea's technological needs will be particularly acute in the areas of energy development, machinery, metallurgy, fine chemicals, and environmental control equipment. In addition to these hard technologies, Korea is much in need of soft technology and know-how in fields such as multinational business management, international marketing, and modern banking.

Over and above these traditional areas of economic cooperation between the United States and Korea, there is still another important area where the two countries can work together to realize immense benefits, not only for themselves but also for others. This area relates to the development of the Pacific Basin and Korea's strategic location within that basin. By taking advantage of Korea's new foreign investment policies, US firms can make use of its strategic location as an offshore export base for such products as electronics, electronic components, machinery and machine parts, automotive parts, fine chemicals, and building materials. In addition, US and Korean firms can undertake joint ventures in many Pacific Basin countries by combining their respective strengths. For example, US firms might supply engineering and marketing services, while Korean firms provided construction and manufacturing services in such joint ventures.

The Korean people have never been more outward-looking than at present; and Korea is now entering a period in which the Korean Peninsula will be increasingly valued as a vital center of commerce and industry not only for Northeast Asia but for the entire western Pacific. The US commitment to Korea's economic development is more promising than ever before.

During the past 30 years, Korea has been at the center of US military strategy in Asia. In the years ahead, Korea will become the center of US economic strategy in the region as well.

We have come a long way in the hundred years since diplomatic relations were first established between our two countries, both as comrades in arms and as partners in world trade. And I believe that in the next hundred years, our partnership—in whatever cause—will grow even stronger.

NOTE

1. This article is adapted from an address given by Chairman Lee in New York on May 13, 1982. The Editor takes full responsibility for the accuracy of this version of his remarks.