Past and Current Lessons from Korea's Experience

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Korea's success in hindsight

In retrospect, it is clear that a specific combination of political and economic elements have been the key drivers behind Korea's development success. Conventional factors that are often cited as significant contributors to the country's growth include prodigious savings, a focus on exports, investment in human and infrastructure capital, strong macroeconomic policies, and a capable government with a long-term development vision. In addition to these traditional elements, new factors are increasingly being recognized as playing an equally important role. These include effective economic planning, strong business-government links, investment in research and development, global branding of chaebols, adaptable economic policies and an emphasis on tertiary education. Not all of these strategies have been without controversy, however. Some of the more contentious actions have included direct lending, industrial policy, and chaebol policy. More widely accepted, and potentially replicable strategies, include strong macroeconomic management, a strong national vision, well aligned economic policies, effective policy implementation, and monitoring for impact.

Korea's accomplishments are many

Korea has enjoyed an unparalleled rise in income and the quality of human welfare. The country has nurtured world-class industries, which are characterized by its dynamic manufacturing and technology sectors. It ascended to the OECD in 1996 and a decade later initiated actions to join the OECD's Development Assistance Committee, thereby making a swift transition from a debtor to a creditor nation. Now, at the helm of the G20, Korea continues to press forward as a new international leader.

From developing country paradigm to OECD role model

The first phase of Korea's ascension on the world stage began in the 1990s. During that decade, Korea pursued a traditional growth path based on an export-oriented economy with strong macroeconomic fundamentals, which was only briefly interrupted by the 1997-1998 Asian Financial Crisis. Korea became a poster child for the open trade model and was consistently ranked highly in the World Bank's Doing Business Indicators. The country established new institutions, including a stock market, a competition agency and a financial supervision agency. Small and medium enterprises were fostered, which generated significant job creation. This, along with a focused education policy, prepared human resources to engage in higher value added economic activities.

The second phase of Korea's growth began after the 1997 Asian financial crisis and involved some fundamental restructuring of institutions and a greater role for regulation and oversight. A little over a decade after its recovery from the liquidity crisis of 1997-1998, faced with the global economic crisis of 2009, the country demonstrated exemplary crisis management skills and quickly mobilized its large fiscal surplus to boost economic demand and lower interest rates to increase liquidity. The government used public sector banks to access credit and active reserve management that included the Central Bank swap arrangements to add to its strong reserve position as well as other safety net measures. Looking beyond the crisis, Korea's new Green Growth agenda will provide the country with an opportunity to deal positively with global climate change via new technologies, exports and jobs. This concrete initiative is coupled with long term goals, such as doubling per capita income to $40,000.

What we can learn from Korean policy actions of 2009?

The world will likely see that a quick and coordinated policy response, which has long been a hallmark of Korean policymakers, will work yet another time. Korean policymakers were able to swiftly implement a counter-cyclical stimulus bolstered by a strong initial fiscal position. Excessive reserve holdings paid off, as did a diversified export strategy. This helped the Central Bank to provide a needed boost to liquidity. Throughout this time, consumer confidence remained steady, despite turbulence abroad. In 2010, Korea has experienced a classic v-shaped recovery. The government has been able to contain the damage to the financial sector and maintain stable employment levels. The Central Bank's ability to reverse quantitative easing leaves room to consider interest rate adjustment once growth is restored and credit rollovers assured.

What can we learn from the Green Growth Package and Program?

Korea's Green Growth initiative combines short-term fiscal stimulus with a longer-term agenda that was well articulated publicly by President Lee Myung-bak. It sets out ambitious goals and concrete targets, and provides a national vision for how the economy will adapt long term. Big corporations view the program as an opportunity to invest in green technologies, giving Korea a chance to establish global leadership in these areas, especially in electric car batteries, wind turbines, and solar cells. The Green Growth package is composed of internally aligned policies that are supported by both public and private investment. Implementation will be monitored for effectiveness.

Characteristics of public policy in the post-crisis environment

Going forward, public policy will need to focus on new job creation given large labor market dislocations. Policymakers must also examine fiscal incidence since income distribution has worsened in many places. Government spending will need to crowd in private investment since the tight fiscal space makes efficiency of expenditures a major priority. Bridging short term and long term policy goals is paramount, and this appears to require a viable planning mechanism. It is note-worthy that the Green Growth Agenda revolves around a Five Year plan of

Actions, reminiscent of the EPB monitored economic development programs of previous decades.

How has Korea managed to move successfully in the public space?

A critical component to Korea's successful use of public policy is its meritocratic bureaucracy. External learning is encouraged and the knowledge base strengthened by the return of expats. Even within the general population, higher education is fostered and excellence encouraged. Social consciousness of the need for good governance is more pronounced in Korea due to the proximity to one of the world's most closed societies immediately to the North. Bad policy ideas are simply abandoned, and the policies that are carried out enjoy national credibility.

What can Korea do better?

There are certainly tradeoffs between economic gains, and welfare and happiness. While Korea was able to act quickly to stabilize its economy during the economic crisis, it has been slow to resolve lingering gender issues. Furthermore, demographics will take its toll unless retirement ages are raised to cope with a longer-living population. Service sector productivity must reach levels close to those in manufacturing. Global leadership doesn't end with the G20.

What Can Others Learn from the Korean experience?

There is much that developing countries can take away from the Korean Experience. The first is that economic fundamentals matter, not just to satisfy donors, but to actually position the economy to be better managed for the sake of progress. Second, the distribution of income and social programs are important, again, not to satisfy donors, but to maintain broad-based public support for reforms. Third, the private sector need not necessarily fear the role of government, especially if the actions of government and business can be aligned. Fourth, paying taxes finances social infrastructure and replaces aid, while contributing to build the social contract between citizens and governments; as such it should not be a central element of public policy. It is critical that governments solicit taxes from their citizens and that citizens demand quality government services in return. And fifth, government-led economic planning has been the template for all East Asian success stories and has the potential to prove similar results in other countries.

What can donors and the international aid agencies learn from Korea's story?

The primary take-away for donors and aid agencies is that substantial transfers of resources are a waste of money without building up the domestic institutions to be able to handle and disburse funds efficiently, fairly and effectively. This goes hand-in-hand with promoting country ownership of development strategy, with benefits accruing to all sectors. Foreign funds must come in large doses and matched by domestic savings and tax collection efforts. Paradigms do require substantial customization, however.

What additional actions can Korea take as G20 leader to help developing countries?

Korea can significantly influence the G20 agenda on behalf of low and middle income countries, as well as be an example to these countries on how to move forward on current international agenda items. Korea can combine its increase in ODA with green technology transfers to foster sustainable growth. It can mobilize developing countries to take up the Doha mantle. Lastly, Korea can share its economic planning experience with respect to infrastructure spending and public-private coordination in order to build capacity and improve practice elsewhere. As a survivor of the last major crisis in 1997 and now as an exemplary manager of the 2008-2010 crisis, Korea has earned the right to speak out forcefully in favor of global solutions based on strong domestic economic manageent.