World Knowledge Forum 2012

Barry Eichengreen: Korea, Build a New Model
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On the third and final day of the 13th World Knowledge Forum in Seoul, Barry Eichengreen delivered a detailed analysis of the current state of the Korean economy and outlined the conditions that he saw as being integral to the nation's future growth.

"The current per-capita income in Korea is two-thirds that of the United States," said Dr. Eichengreen, Professor of Economics and Professor of Political Science at the University of California, Berkeley. He is the 2010 recipient of the Schumpeter Prize and is one of *Foreign Policy* magazine's "100 Leading Global Thinkers" in 2011.

Dr. Eichengreen said that the time needed for Korea to catch up to U.S. levels depends on how the nation deals with the challenges that it currently faces, such as deindustrialization, exports, and the numerous economic crises that it has confronted in recent years.

"Korea has been more crisis prone than other emerging markets," said Dr. Eichengreen. He said that while the crises are nothing new, the nation's growth rate is dramatically affected by these crises.

However, Dr. Eichengreen does not see deindustrialization as a major problem. While Korea has lost jobs in many sectors of the economy, he noted that its industrial sector continues to maintain a very large presence in the economy at large. "If Korea is distinctive in any way, it is that its industrial sector is too big," he said.

"Korea's export sector is less of a vehicle for employment than it was in the past," said Dr. Eichengreen. While he acknowledged concerns that the levels of exports have been dropping, he did not see cause for panic. Pointing to other countries with similar issues, he pointed out that "it is not a uniquely Korean problem."

Dr. Eichengreen also focused on Korea's future growth, noting that economic growth is "a central preoccupation" in Korea. He continued by saying that "If Korea grows two percent faster than the United States, it will take twenty years to catch up." However, he said that this should not be Korea's main preoccupation.

"This economic growth rate is acceptable for similar middle to high-middle countries," Dr. Eichengreen said. He also noted that the economic crisis that Korea underwent in the end of the 1990's occurred when per-capita income was at $14,000, exactly the same levels that Taiwan, Singapore, and Hong Kong were at when they experienced similar crises.

"The slowdown in growth in Korea is quite natural and healthy," Dr. Eichengreen said. He acknowledged that Koreans are fearful of a reduction in growth, but might be overreacting to recent events.

Dr. Eichengreen then analyzed the current economic situation in Korea and presented a model of what could be done to maximize growth. "Productivity will be the main engine of growth going forward," he said. He then outlined what Korea's growth potential could be. "Historically, Korea has achieved a productivity rate of 2.5 percent, and a four percent rate is possible," he said.

He then presented his six-point plan for maximizing growth, starting with the question of productivity and regulation. "The only way to increase growth is to boost productivity in the service economy," said Dr. Eichengreen. He then added that private sector deregulation, though unpopular, could serve as another direct route to improving growth.

Next, Dr. Eichengreen talked about harnessing the power of the *chaebol*, the large, family-owned multinational conglomerates. He emphasized the need for increased transparency, increased competition, and enhanced financing opportunites for smaller, emerging firms.

Third, he suggested that Korea focus on increasing the level of foreign direct investment and attracting more foreign talent. According to Dr. Eichengreen, foreign investors point to the continuing importance of family connections, the lack of transparency, unpredictability in the business environment, and strained labor relations as reasons for shying away from investing in the nation."

Dr. Eichengreen also emphasized that Korea needs to maximize its home-grown talent. He highlighted the fact that Korea has the most well-educated female population in the world, but ranks last in the level of female participation in the workforce. To redress this deficiency, he recommended easing work hours and making improvements in the nations policies regarding paternity/maternity leave.

Fifth, he argued that "Korea needs to improve its access to and efficiency of higher education." He talked about merging technology with academia, producing more e-textbooks, increasing research capacity in the nation's universities, and creating better conditions for the business community to forge tighter bonds with universities by pooling resources.

Finally, Dr. Eichengreen talked about "addressing pressing equity problems though better provisions." He noted that while Korea's population was relatively large, it has the second lowest tax collection rate among the OECD countries, with approximately fifty percent of residents paying taxes. He pushed for more efficient means of generating tax revenues as well as the redistribution of that income to governmental services to help university students and women.