

IS KOREA REALLY COMPETITIVE?

The World Competitiveness Report 1995

Steady but Strong Potential

Korea is ranked 24th out of 48 major industrialized countries in economic competitiveness by *The World Competitiveness Report 1995*. Despite its strong industrial strength and economic growth, the inefficiency of its social and political system holds it to the same position as last year. A more disappointing result is that it is still the lowest among the so-called four dragons; Singapore/(2nd), Hong Kong/(3rd), Taiwan/(11th), as well as Korea. However, the report stresses strong potentials in areas such as industrial production, employees, investment, exports, and R&D.

Since 1981, *The World Competitiveness Report* has been published annually by the International Institute for Management and Development (IMD) located in Lausanne, Switzerland. This Institute defines world competitiveness as the ability of a country or a company to, proportionally, generate more wealth than its competitors in world markets. To measure this broad concept, IMD analyzes not only economic data but also data regarding politics, education, infrastructure, and the value system of people, etc. It evaluates 234 hard data and 130 survey data categorized into 8 broad fields: namely, domestic economic strength, government, internationalization, finance, infrastructure, science & technology, and people.

How About the Rest of the World?

Trends in world competitiveness shown in this year's report reveal a strong showing of the U.S. and many Asian countries, but a relatively

weak showing by Japan and E.U. The U.S. economy has been improving, supported by the huge domestic market and strong technological leadership in computers, software, and telecommunications. It held on to the first position and increased its lead over the second position.

In contrast, Japan, the 8-time winner until 1993, did not seem to have recovered from domestic problems, such as the aftermath of the 'bubble economy' in the 1980s, the earthquake in Kobe last year, and on-going political instability. Its crisis is reflected in its 6th rank in finance and its 4th rank in domestic economic strength, which were respectively third and second last year. More seriously, its position in the government field, second in 1991, was ranked 27th which is lower than China/(22nd) or Korea/(24th).

European countries continue to be dispersed widely: i.e., Germany/(6th), Switzerland/(5th), Netherlands/(7th), Denmark/(9th), Spain/(28th), Italy/(30th), Portugal/(31th), and Greece/(43rd). This huge regional gap is going to make it difficult to merge the European economies.

The report showcased the successful economic activities of the Asian countries, which occupied seven out of the top ten positions in domestic economic strength. The energy of these heavily populated countries is so strong that it leads the growth of the world economy. However, the countries in this region have many areas that they need to work on, especially fundamental factors such as finance, government, infrastructure, and internationalization.

What is the Next Step?

Korea is a typical example of Asian economy with an inefficient social system. The 6th place-ranking in domestic economic strength does not seem to fit its 34th ranking in finance, 34th ranking in internationalization, 30th ranking in infrastructure, and 24th ranking in government. In order to overcome its short modernization period, Korea has concentrated its limited resources to sectors giving short term results. This strategy has been successful in overcoming extreme poverty and maintaining high economic growth, resulting in rapid industrial development, but not the healthy development of the whole society.

As the Korean economy grows, society also moves forward. Even though the government has announced the improvement of society as a whole, it is hard to find any visible sign of it. Government intervention in the private sector is still excessive, and the business activities of foreign firms are, in many ways, restricted. The growth of energy consumption is surpassing the capacity to

supply, and the education system is not adequate to meet the needs of society. The IMD report indicates all these factors as major problems which limit the nation's further development.

Competitiveness, as IMD defines it, is even broader than the traditional definition. The IMD definition measures a nation's ability to sell goods in foreign markets or maintain national growth. Therefore, more efforts are required by every sector in society to catapult the nation to a higher level. This report provides a valuable lesson to Korea that may be unbalanced but energetic about what it needs to do for the future.

So far, Korea's ambitious investment and high-quality human resources have fueled continuous growth of the economy, but this growth will not continue indefinitely. Now, we need to put the fundamentals of our economy in order and focus our effort on economic growth. This is the only way to win in the new international economic competition epitomized in "Globalization." VIP

(Lee Tae-Yol)

Rankings by Country and Factor

	U.S.A.	Singapore	Japan	Germany	Taiwan	Korea	Spain	China
Total Ranking(1995)	1	2	4	6	11	24	25	--*
(1994)	1	2	3	5	18	24	25	--*
Domestic Economic Strength	1	2	4	8	7	6	32	12
Internationalization	1	2	9	5	14	34	19	27
Government	6	1	27	13	5	24	40	21
Finance	2	12	28	11	29	30	25	45
Infrastructure	2	12	28	11	29	30	25	45
Management	1	5	4	14	15	25	31	47
Science & Technology	1	10	2	3	8	15	25	26
People	10	1	6	9	18	21	28	40

* China was not ranked in the 1994 report.