A NATIONAL DRIVE FOR A HIGH-EFFICIENCY, LOW-COST ECONOMY

Government's Self-imposed Task

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As the current business slowdown might well extend through the second half of 1997, the Kim Young Sam Administration has been pushing its grand-scale business-boosting plans since September, aimed at relieving the current low-efficiency/high-cost structure of the economy. One may view this action by the Administration to take the task of boosting economy-wide productivity into its own hands as being too heroic and anachronistic. As Professor Jong-Suk Kim put it, this is more a government campaign than a government policy, since there are not many policy measures to help improve productivity in the short run. It could also be viewed as a politically calculated campaign foreshadowing next year's presidential election. Politically calculated or not, the government leadership and initiatives to alleviate heavy government restrictions, approval standards and regulations ordinarily have a great impact on a heavily regulated economy. Another way this kind of government campaign works to boost business is, of course, the government subsidizing business activities through various "cost-lowering support" measures. Lastly, the government initiatives could be well received by both management and workers to improve industrial relations. And what better time than now, when firms and labor unions appear to be making comfortable profits inside the protected domestic markets without pushing cost-saving movements as hard as their Japanese competitors have been for many years.

From the 1960s onward, Korean economic development plans tended to imitate Japanese collectivist development strategies, coordinated by a strong government with heavy regulations. Countries in the world would like to learn from the Japanese "High Efficiency" economy which emerged victorious out of crisis after crisis. Korea is supposedly in good position to successfully replicate the resilience of the Japanese economy and her past policy prescriptions in many ways, considering the many systemic similarities shared by the two countries. However, they seem to have rather different cultures with respect to industrial relations and the two countries are in different stages of economic development different times and different trade environments. Japanese collectivist "Empire-building" strategies, as Lester Thurow put it, may not remain very effective in the years of global-scale liberalization. Incidentally, the IMD World Competitiveness Yearbook 1996 report ratings on the need to restructure the domestic economy for long-term competitiveness were as follows: Korea was 32nd, Japan was even worse at 42nd, and China stood at 45th, almost at the bottom out of 46 countries surveyed. The Kim Administration now seems to realize that following Japan's footsteps too closely could incur more liabilities than assets, while it faces lots of liberalization issues and schedules whose implementation shall be reported to the OECD, to which Korea just virtually gained membership. What is right about the Administration's business-boosting policy direction this time is that it now focuses more on boosting competitiveness rather than just short-term cost savings, which are mostly government subsidies such as freezing prices on the goods and services from state-run enterprises and lowering the selling prices for the plant sites and industrial estates. It is now actually being termed as the "boosting competitiveness by over 10%"

movement and has now become a very broad government restructuring program detailed up until mid-1997. It combines numerous ideas from every government department and presidential commission, ranging from actively pursuing the national information infrastructure plans and lowering distribution costs through mega-malls, to improving the fair trade practices and wage structures. Deputy Prime Minister/Minister of Finance and Economy Han Seung-soo chairs the monthly meeting for the Competitiveness Boosting Action Committee

Much Ado about Nothing?

Fortunately for the nation, or rather unfortunately depending on the viewpoint, it is well "understood" that the national problem of the low-efficiency/high-cost economy goes far deeper than the current spells of downturns, which are said to have been led mostly by the slow sales of the four major export industries—i.e., semiconductors, steel, automobiles and petrochemical products. There have been many reports from the Bank of Korea and other private and non-private institutes confirming the suspected low-efficiency/high-cost structure. High financial costs, distribution costs, land costs and wage costs were labelled the prime evils, which business people have asked the government to drive away. Not surprisingly, not only are the government and labor are to blame, but adding to the list of inefficiency factors are the inefficient production capabilities of firms failing to invest, utilize resources and rationalize management more efficiently.

If the fear of national noncompetitiveness is well founded, then it is an unfortunate state for the nation. However, identification of the true weaknesses is the fortunate first step toward the betterment of the national economy. What is really that we have to fear other than fear itself?

Liberalization, Painful But Needed

Clearly the national worries do not merely stem from the judgment that the projected annual growth rate of 6 to 7% for this year and the next would be unbearably low for the Korean economy per se. It is more from the recognition that liberalizing all protected domestic markets is imminent and that it would reveal Korean firms' inability to survive the price competition in domestic markets, which in turn would reduce their chances to succeed in the competition abroad. Some say on the contrary that liberalizing the protected domestic markets would not wipe out a whole lot of domestic firms, big and small, with their established pre- and post-sales transaction networks. However, there is no denying that the nation would have to go through a painful restructuring process of leaving domestic markets unprotected, meanwhile losing a significant number of jobs and businesses to foreign competitors. As it is often cited by the U.S. trade representatives, the American automobile industries went through a vast transformation to survive the unprotected global competition victoriously. One can hardly deny that such liberalization pains are necessary to mature the national competitiveness to the global level.

Why Subsidize the Uncompetitive Industries?

This being the case, then the deregulation part and infrastructure building in the competitiveness-boosting measures are most justifiable, but soothing the uncompetitive industries with pain-relieving subsidies seems to imply further complications. Improving competitiveness while giving subsidies is no substitute, as it distorts fair distribution of national resources and wastes resources on lobbying for

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subsidies. Couldn't the administration just cut away from the old-fashioned subsidizing and opt only for the deregulation and the longer term measures? The question is: how much pain is too much to be constructive in the long run? Korea, along with other similarly industrialized countries, will attempt to shape up the consensus level and speed of liberalization. Then Korea, keeping the pace of liberalization similar with other industrialized nations, may not suffer too much from too fast a restructuring process, even if there sometimes may be bilateral trade pressures outweighing the multilateral trade agenda. Therefore, Korea will take its share of suffering during the liberalization process, but will certainly not be isolated in facing the task of uneasy liberalization. However, gaining the OECD membership probably played a role in accelerating the liberalization. Thus, this could be the last good time to play the good old tunes once again.

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Ironically, the current resort to old-fashioned measures could have resulted not only from the expectation of the fast shocks to the system due to the OECD membership, but also from the expectation that Korea could face greater liberalization pains than average industrialized countries. Certain barriers to liberalization could make her more unfit or less efficient in transforming herself toward the global competition system: again, the IMD reports rated Korean internalization as 43rd, indicating heavy protectionism against foreign goods and investors, among other things. In terms of protectionism Korea ranked 39th and Japan, the bottom at 46th. About the national culture being closed to foreign cultures Korea ranked the worst 46th, Japan at 45th. As was already mentioned, the same report rates Korea 32nd and Japan 42nd in terms of the need for restructuring of the domestic economy for long-term competitiveness. The situation is like the question of whether to eat more before arduous excercise or not with no obvious answer to that.

The Matter of Long-term Competitiveness

Is the economy doomed with respect to long-term competitiveness? The IMD World Competitiveness Yearbook 1996 rated Korea's national competitiveness as 27th out of 46 countries it covered. It was 26th in the world in 1995. Considering that its per capita GDP ranked no better than 27th in the world in 1995, this is certainly not indicative of any national competitiveness declining fast. There are areas where Korea ranked worse than 27th in the world such as internalization, protectionism, the national culture being closed to the foreign cultures, etc., as mentioned above. However, we should take note that every country has its own strengths and weaknesses and if we take IMD reports seriously, they only reveal that liberalization could possibly affect Korea and Japan more than other countries. However, Korea and Japan certainly have other strengths that could meet the imminent challenges.

Interestingly some people have raised the question if the current feeling of competitiveness crisis comes from the international status gap—i.e., Korea's total GDP level is 11th in the world and the total value of exports of goods and services is 13th, but its per capita GDP and competitiveness are around 27th, which creates somewhat of an international status gap. A heavily populated country such as China would also experience a similar status gap with its competitiveness 26th and its total GDP level 2nd. Koreans might be having a hard time acknowledging that they have a long way to catch up with the productivities of the fairer and far more productive nations in the world, and have yet to figure out which road to take toward both liberalization and rationalization. VIP

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