

DPM and Minister of Finance and Economy Lee Hun-jai
Speech at Korea Employers Federation Forum

1. Opening remarks

Mr. Soo-Young Lee, Chairman of the Korea Employers Federation and respected CEOs present here today:

Thank you for inviting me to this forum to share strategic vision that will guide the Korean economy for the next 10 years.

In 2004, the Korean economy was faced with a number of challenges, sluggish domestic demand in particular, amid adverse external conditions.

This year, however, the Korean economy is expected to regain momentum, as foretold from its favorable start. Although there are uncertainties associated with global oil prices and exchange rates, the slowing economic growth likely to occur in Korea's major trading partner countries is expected to be minimal, which will probably mean Korean export growth of more than 10 percent.

Similarly, it has been forecast that private consumption, which accounts for more than 50 percent of Korean GDP, will gradually recover this year.

Encouraging economic signs have been observed since the beginning of the year, including an increase in the use of credit cards at the 4th quarter of 2004 as resolution of household debt problems is making progress and subsequent improvement in sales at major department stores.

I hope these positive indicators will yield tangible results by allowing companies and households to regain confidence in the Korean economy this year.

2. Job creation and sustainable growth

The top economic priorities in Korea are job creation and sustainable economic growth.

An additional 400,000 jobs and at least 5 percent economic growth are needed every

year just to keep pace with the new workers entering the job market each year.

To achieve this goal advances are needed in the Korean economic system that move it closer to becoming a market economy based on private sector autonomy and creativity.

The government is willing to support the sector in the vanguard. Investment conditions are being improved via deregulation and R&D expansion and the private sector is being encouraged to demonstrate the full range of its creativity and capacities by responding to the increased competition more open markets will bring.

With regard to SMEs and the service sector that are somewhat more vulnerable but have outstanding employment-generating potential, policy efforts will be focused on increasing competitiveness to achieve growth potential and increasing the number and quality of jobs.

The government is also planning to frontload fiscal spending at the earliest possible time and push for implementation of the Comprehensive Investment Initiative this year to step up job creation by promoting corporate investment.

Similarly, the government is planning to extend eligibility for a temporary investment tax deduction by one year until the end of 2005.

Social cohesion will be maximized by expanding the social safety net for the segments of society that are most vulnerable to the impact of such competition and restructuring.

National rental housing will be expanded simultaneously as private sector rental housing construction is promoted to stabilize the livelihoods of the general population.

The Korean economy can also create more jobs via job sharing. A 40-hour work week will soon be the norm. These and other social and economic changes that promote job sharing will mean more jobs in Korea.

3. Response to a shifting paradigm

Economic paradigm shift

The global economy is now moving very rapidly toward a new digital paradigm of democratization, globalization and networking. This economic paradigm shift has accelerated in Korea since it joined the OECD and WTO. This shift can be summed up as requiring more external openness and intensifying internal competition.

Given this, reform could be fatal for Korea, which has few natural resources but is working to become an advanced economy, unless it adapts to external openness and catches up with global standards. A proactive approach to such challenges is, therefore, the only way to maintain corporate competencies and continue to identify sources of future economic growth in Korea.

However, we know the principle of competition does not solve all problems. The government will exert more efforts to deal with the information, technology and income gap inevitably occurring in the course of transiting to the market economy, and to provide equal opportunities for all.

The government's role is to encourage the market principles of openness and competition to take root, while market participants are left to monitor each other. It will exert more effort to build social safety net based on 'sharing and caring' and provide equal opportunities for all social classes.

As a primary source of production, employment, growth and income corporations should take a more aggressive and proactive role in this regard. They cannot and must not depend on the government any longer.

Market-friendly governance

The new paradigm has made dealing with governance issues all the more important. Market-friendly governance policies have to take changes such as these into account.

Since the Asian financial crisis of 1997, Korea has made various efforts to increase corporate transparency and accountability. It improved decision-making structures, including the one involving outside directors, advanced accounting systems and enhanced minority shareholder rights.

With ongoing efforts such as these, fairness and transparency will be enhanced, thereby contributing to corporate governance improvements by supporting market principles that allow the most suitable management techniques to operate.

Management right of public companies transcends the concept of private property, so it must be employed in reflection of the interests of shareholders, bond holders and employees all together.

Governance transparency is a prerequisite for rational labor-management relations. The Korean experience has been that transparent financial institution governance and open management policies have meant stability for labor-management relations.

The government is establishing a system whereby it only establishes minimum guidelines for corporate regulation. In this context businesses will be assessed in the marketplace on the basis of transparent disclosures, reasonable checks by interested parties such as shareholders to whom they will be held accountable for results.

Enhancing Productivity

Enhancing productivity is another issue of concern when responding to this paradigm shift.

In the long term, productivity enhancements will be the most crucial source of economic growth rate increases and living standard improvements across the nation.

The slowing rate of capital formation due to sluggish investment and of economic participation brought by an aging society is having an adverse impact on Korean economic growth potential. Warning signs have already become apparent.

We are, therefore, no longer able to depend on manipulating certain factors to sustain growth. This can instead only be achieved by increasing productivity.

Although investments in information and communication technologies (ICT) were made around the world in the 1990s, this in and of itself does not increase productivity or economic growth. The more important point is whether ICT is being incorporated into all phases and sectors of production.

The U.S. has been able to achieve remarkable increases in productivity, for example, in comparison to European countries by virtue of better and wiser ICT usage. The U.S. has more flexible labor and product markets. In addition to this advantage, U.S. systems investments have included improvements in employee training and management systems that maximize the advantages of ICT.

Korea can learn a lot from the U.S. experience.

Although technological innovation via aggressive R&D investment is an important productivity improvement objective, that alone is not enough.

Priority must be given to creating conditions that allow new technologies to take root and be applied in all sectors of the Korean economy.

The corporate role must be to make wise technology investment choices.

Employees must be able to adapt to new work environments and learn to how to use new technologies.

The government is working to create such conditions for productivity enhancements. It is going to expand educational and training opportunities and ease labor, product, and capital market regulations.

Making advances in labor-management relations

With regard to labor-management relations, the practice of depending on the government must be abandoned. Market-friendly practices, regulations and institutions that make autonomous resolutions between the parties involved a fundamental principle, must be established.

The government's role in labor relations will be the same as it is in the market. It will adhere to its role as a strict enforcer of laws.

Now that Korea is a member of the OECD and WTO, it is becoming an open market economic system. Direct government intervention in labor-management relations is out of step with global standards. The government role also has limitations.

I understand government regulations and a lack of flexibility in the labor market are often mentioned as barriers to investment-generated job creation.

While the government is making proactive deregulatory efforts, companies can no longer rely on the government to resolve labor disputes, simply because establishing reasonable labor-management relations is the responsibility of companies themselves.

Corporations cannot remain competitive without increasing productivity which is based on work force efficiency resulting from reasonable employee relations.

Companies must review their policies by asking themselves whether they are merely seeking to avert conflict rather than making an effort to establish positive labor-management relations based on mutual trust and a sense of common goals.

Labor unions have to modify their approach by helping workers achieve their potential and adapt to changing market conditions and demands rather than continuing to operate simply as a special interest group.

As Mr. Alvin Toffler has pointed out, the cause of decreasing unionization in the U.S. and Europe was that the unions failed to help workers adapt to a knowledge-based economy. This is certainly a lesson worth heeding.

The government is working hard to improve labor laws and institutions within the Tripartite Commission framework, which includes labor, management and government representatives.

A number of companies have demonstrated that improvements are even possible under current laws and institutions, when labor, management and the government are willing to make concessions and compromise.

It is in this context that the government will do all it can to establish labor-management relations based on legal principles within the existing framework, while efforts to improve laws and institutions continue.

4. Closing Remarks

The Role of Business Groups

In the past, the government set the direction for Korean economic growth and business groups defined their own roles.

The Korea Employers Federation (KEF) has helped companies establish reasonable labor-management relations, and the Federation of Korean Industries (FKI) has served as a bridge between the government and business community to facilitate policy discussions.

Times have changed. A political, economic and social paradigm shift is taking place. Companies are now setting the direction for future economic growth in Korea and as such are at the forefront of free competition and market openness. It is now time that the role of business groups also has changes.

KEF can no longer say it has done its best as long as it continues to play a passive and defensive role when it comes to dealing with labor issues. It must be more proactive to preempt labor disputes by offering labor relations and personnel management consulting services to companies that experience frequent problems with workers.

FKI cannot remain a mere interest group that seeks to obtain support and protection from the government. It must instead consider the role it will play in the future in making frameworks and regulations that enhances Korean people's understanding of the market economy, ensure a soft landing of market economy and thus sustains economic growth.

Business groups and the government should work together to find ways to resolve issues they are currently confronted with like an aging society, corporate transparency, and employment stability.

They have to simultaneously establish more constructive and cooperative relations when coping with a changing global environment that includes free trade agreements and the Doha Development Agenda.

The government promises to do its best to make institutional framework and system advances.

Requests for Businesses

Companies have recently tended to avoid investing aggressively as uncertainties mount and domestic economic circumstances change rapidly.

In retrospect, there were a lot more uncertainties back in the 1960s and 70s when Korea was less developed. One could say there were many more opportunities at that time.

Korean companies have demonstrated their latent capabilities and did not hesitate to

take risks and challenges despite seemingly poor prospects.

Not long ago First Deputy Managing Director of the IMF Ms. Anne O. Krueger praised the Korean economic vitality which made it possible for the country to achieve remarkable economic growth and overcome the 1997 financial crisis in just two years.

The corporate governance and financial structures of Korean companies have been improving steadily since the 1997 financial crisis. Investment decision processes have become more transparent and rational. They are now financially healthy enough to invest without relying on banks as much as in the past. Risk management capabilities have also improved.

I firmly believe if the business community once again takes a creative and entrepreneurial approach to managing these healthier companies, new opportunities will certainly come into view.

The government promises to do its best to support your efforts.

Thank you.