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Korea's Initiative for a Northeast Asian Business Hub

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I. Introduction: Beginning of a Vision

The idea of making Korea a Northeast Asian business hub, which had been discussed for many years among the scholars, was first adopted as a government policy in 2002. Following President Kim Dae-jung's New Year Address in January 2002, in which he announced the business hub plan, the Korean government has pursued the business hub policy. To this end, a "Draft Law on designation and administration of Free Economic Zone," a key legislation of the business hub plan, was passed at the National Assembly in November 2002.

President Roh Moo-hyun also chose a Northeast Asian business hub project as one of the top priority policies of his administration. However, President Roh's new business hub project differs from the previous business hub plan in several aspects, the most prominent difference being that the new business hub project stems from the much larger "Northeast Asia Grand Design."

At his inaugural speech, President Roh predicted an emerging era of Northeast Asia and underscored Korea's active role in the new era. In the past, Korea's geopolitical location at the center of Northeast Asia inflicted enormous suffering on the Korean people, frequently forcing them to become involved in many small and large regional conflicts. The gist of President Roh's Northeast Asian grand design consists of making Korea's geopolitical location an opportunity to contribute to building an economically prosperous Northeast Asia, expecting that the newly achieved regional prosperity will guarantee peace in Northeast Asia.

In fact, one of the key motivations for European integration was the prevention of another European war by strengthening regional economic cooperation, as regional peace is a necessary condition for the regional prosperity. Thus, recognizing that it is in the interests of all the Northeast Asian countries to create a virtuous circle of a prosperous regional economy and improved political relations among the regional countries, the grand design seeks to establish a "Northeast Asian Community of Peace and Prosperity."

A peaceful, prosperous Northeast Asian community will naturally have enormous positive ramifications for world peace and the global economy. In addition, given that the division of the Korean peninsula, located at the center of Northeast Asia, constitutes both a major impediment to economic cooperation and a main source of tension in the region, Korea's responsibility for building such a community seems quite evident.

In order to assume an active role in achieving the Northeast Asian Community,

President Roh Moo-hyun's government adopted the "Northeast Asian business hub initiative." The business hub initiative sets two goals: on the one hand, it strives to build cooperation frameworks in Northeast Asia, and on the other hand, it attempts to strengthen Korea's economic competitiveness.

The goal of building cooperative frameworks is to be attained by constructing infrastructure in Northeast Asia, such as energy and transport networks, and pushing forward regional economic integration, including the formation of regional trade agreements. To construct these cooperation networks, it is imperative to bring North Korea out of its isolation, while the Initiative regards a Korea-Japan FTA as the first step of Korea's region economic integration efforts.

With a view to strengthening Korea's economic competitiveness, the Initiative sets four targets: 1) to pursue a logistics hub in Northeast Asia; 2) to pursue a regional financial hub; 3) to build a national innovation system; and 4) to induce strategic foreign direct investment (FDI).

To push forward with the Initiative, the Presidential Committee on Northeast Asian Business Hub (chaired at the minister level) was established under the Office of the President in April 2003. The Committee consists of 25 members, including 11 minister-level government members, and formulates the basic strategy and major policy directions for the realization of the Northeast Asian business hub initiative.

The Committee also has five subcommittees: the Subcommittee for System Reformation; Logistics Subcommittee; National Innovation System (NIS) Subcommittee; Subcommittee for Foreign Investment Attraction; and the Inter-Korea and External Cooperation Subcommittee. These Subcommittees examine the detailed tasks needed to realize the Initiative. The Subcommittee for System Reformation covers the overall strategy of Northeast Asia business hub and focuses on building corporate management and the living environment to the international levels needed to realize a business hub, and especially a regional financial hub. The Logistics Subcommittee works on establishing a basic strategy and preparing detailed plans related to the proposed logistics hub. The NIS subcommittee sets up the national economic development strategy based on innovation clusters to expand the new growth vehicle. The Subcommittee for Foreign Investment Attraction establishes the basic strategy to attract foreign investment by creating a world-class investment environment. The Inter-Korea and External Cooperation Subcommittee works on economic cooperative projects for building inter-Korean and Northeast Asian economic cooperation frameworks.

In the following section, this paper will present the contents of the Northeast Asian business hub initiative by examining basic strategy, policy directions and concrete

tasks for each target of the Initiative based on publications and materials issued by the Presidential Committee on Northeast Asian Business Hub and other government agencies. Then, in the final section, I will attempt to make an overall assessment of the progress the Initiative has made in the year since the Presidential Committee was launched and propose some tasks needed to realized the national vision of making Korea a Northeast Asian business hub.

II. Contents of the Northeast Asian Business Hub Initiative

1. Northeast Asian and Inter-Korean Economic Cooperation

Basic Policy Directions

Northeast Asian cooperation must be approached as follows:

- 1) Korea must assume a leadership role in Northeast Asia by proposing a vision of peace and prosperity, and by providing concrete tasks to achieve these goals;
- 2) Since peace and prosperity in Northeast Asia cannot be realized without a peaceful resolution of the Korean peninsula issue, realistic ways to guarantee peace on the Korean peninsula must be sought;
- 3) Given the different systems and disparate levels of economic development among the Northeast Asian countries, the ultimate goal of institutional integration based on comprehensive cooperation must be pursued gradually, starting first from easily achievable cooperation areas and projects;
- 4) Through increasing social and cultural exchanges, one must strive for expanding cultural similarity and identity because increased human interaction and Northeast Asian community spirit will serve as the basis of Northeast Asian economic cooperation.

Major Tasks

Based upon the belief that expanding mutual interdependence through expanding economic and cultural exchanges among the Northeast Asian countries will contribute to regional political stability and economic prosperity, the projects aiming to strengthening regional cooperation are as follows:

Construction of Northeast Asian infrastructure related to the promotion of regional peace

1) Develop and expand strategic points for inter-Korean economic cooperation

Given North Korea's open-door policy based on special economic zones, it is realistic for inter-Korean economic cooperation to start developing the Gaeseong industrial complex and the Mt. Geumgang special tourist district first, subsequently expanding to other neighboring areas along the East sea and the Yellow sea rims so as to link the Korean peninsula to Northeast Asia. In this regard, the Korean government must assume its role along with private sector and the international community, and government support must be based on national consensus.

2) Connect railroads on the Korean peninsula and Northeast Asia

One can start inter-Korean railroad transportation by connecting missing links between North and South Korea, then one can link the Trans Korean Railroad (TKR) to continental railroads such as the Trans Siberian Railroad (TSR) and Trans China Railroad (TCR) by modernizing North Korea's railroad system. This will certainly help Korea become a Northeast Asian logistics hub. However, despite economic benefits and symbolism of an "Iron Silk Road," the modernization of the North Korean railroad requires substantial investment, therefore a series of careful feasibility studies are in order.

3) Promote energy cooperation

Given the importance of energy in terms of economy, strategy and environment and the co-existence of a major supplier (Russia) and consumers (Korea, Japan, China), energy cooperation is regarded as a prime area of cooperation in Northeast Asia. In particular, the Russian natural gas development and pipeline construction project is essential for Korea to ensure a stable energy supply. Besides this mega-project, there are many promising areas of regional cooperation such as the purchase and reservation of crude oil. Therefore, it is important to establish a Northeast Asia energy cooperation body in which Northeast Asian countries can discuss such regional energy cooperation issues.

4) Set up an IT and science technology cooperation framework

By consolidating institutional frameworks at both government and business sector levels, one can activate IT and science technology cooperation in Northeast Asia, including the standardization of IT and other technologies, joint construction of super high-speed Internet and joint research for development of new technology. In addition, inter-Korean cooperation in IT standardization and joint software development can be pursued.

5) Seek development financing schemes

To meet the challenge of developing less developed areas in Northeast Asia, it is necessary to seek new financing sources by establishing a new institutional framework, such as a Northeast Asian Development Financing Council or Northeast Asian Development Bank, in addition to existing development financing schemes from international financial institutions and the private banking sector.

Promoting the formation of a Northeast Asian economic community

1) Pursue an active FTA policy

Regional trade agreements provide larger markets and help stimulate domestic economic reforms in participating countries. Apart from these economic benefits, regional integration also produces political and strategic benefits including reduced regional tension. Therefore, an active FTA policy must be pursued starting from a Korea-Japan FTA, which is already under official negotiation, then moving on to a Korea-China FTA, Korea-ASEAN FTA, China-Japan-Korea FTA, East Asian FTA and other FTAs in consideration of both benefits and limitations.

2) Boost regional financial and monetary cooperation

To prevent another Asian financial crisis and to utilize huge East Asia's regional foreign exchange reserves, East Asian countries have pursued regional financial and monetary cooperation and agreed on the Chiang Mai Initiative. It is necessary to continue to expend resources on financial and monetary cooperation through establishing surveillance mechanisms, stabilizing foreign exchange rates and creating an Asian bond market.

3) Enhance environment cooperation

To enjoy sustainable development in the region, environment cooperation is prerequisite. It is high time for the regional countries to share recognition on the importance of environmental cooperation and to set up an institutional framework that can produce binding decisions to push forward concrete environment cooperation projects.

4) Promote social and cultural exchanges

Raising mutual understanding among the Northeast Asians is a key element to building regional community spirit, and to realize this understanding, social and cultural exchanges among diverse groups of people, including NGOs and students, are needed. It is therefore necessary to create a supporting mechanism to bolster various types of social and cultural exchange among the Northeast Asian countries. In addition, since tourism can also contribute to raising mutual understanding among the people, in addition to producing economic benefits, it must be actively promoted.

2. Northeast Asian Logistics Hub

Concept and Feasibility

Logistics hubs connect with the global logistics system, thus providing logistics services to neighboring areas in the region. Thus, a Northeast Asian logistics hub means a Northeast Asian center (headquarter) or Northeast Asian gateway for global logistics. MNCs would set up a logistics center in the areas surrounding airports or ports within a Northeast Asian logistics hub using foreign and domestic parts, materials and finished goods, thus producing value-added logistics such as assembling, processing, packaging and labeling, and supplying the finished goods to other localities in Northeast Asia. Furthermore, if one country has such a logistics hub, it also helps attract other related centers such as a sales center, services center, call center, R&D center and business headquarters as well as financing, tourism and manufacturing activities.

Korea's chances of becoming a Northeast Asian logistics hub can be induced from the fact that Korea already assumes a very important role in logistics for Northeast Asia

The recently opened Incheon International Airport is serving Seoul. Since it has

51 cities with a population of over 1 million within a three-and-a-half-hour radius, it is well positioned to become a hub for air passengers and freight in Northeast Asia. In 2001, it ranked sixth in the world in terms of freight volume, realizing 1.87 million tons of freight. Additionally, the transshipment freights linking North America, China and Southeast Asia already represent 47 percent of total freight, therefore the Incheon International Airport can already be considered as a hub airport.

With Busan and the Port of Gwangyang as the two major ports, Korea ranks sixth in the world in terms of volume of container cargos. In 2002, Busan with 943 TEU ranked third after Hong Kong and Singapore. Korea's container cargo volume has increased by an average 13 percent annually due to the high growth of transshipment freight related to China's northeastern region and Japan's western region. It is expected that transshipment freight will account for 13 million TEU representing 44.4 percent of Korea's total maritime freight in 2011.

Strategy for Becoming a Logistics Hub

The Korean government plans to further develop the Incheon International Airport, the Port of Busan and the Port of Gwangyang and their surrounding areas as Northeast Asia's gateway for international cargo, information and people.

In order to achieve this goal, the government plans to develop a world-leading airport and harbors including surrounding areas as well as attracting MNC logistic centers and regional headquarters. It plans also to introduce advanced logistical systems, educate logistics specialists and help develop world-class logistics firms. It is also necessary to build speedy network linking Korea's airport and ports to major Northeast Asian cities.

Major Tasks

- 1) Adjust allocation of transportation facility investment
 - Increase investment for ports and railroads at the expense of roads
- 2) Develop world-class logistics firms
 - Devise a logistics development plan with the help of business associations
- 3) Make logistics transactions transparent
 - Promote third-party logistics firms

- 4) Develop logistics specialists
 - Designate and support logistics specialized universities
 - Establish a logistics graduate schools associated with the world's leading logistics schools

- 5) Improve logistics support systems and attract logistics firms
 - Improve related laws and regulations
 - Establish one-stop customs services
 - Attract at least two of the world's top logistics firms and Northeast Asian logistics centers for major MNCs

- 6) Build a paperless logistics information system
 - Improve existing logistics information networks and link them to finance, insurance and foreign logistics networks

- 7) Construct a Northeast Asian railroad network
 - Start a feasibility study for a Northeast Asian railroad network
 - Establish a Northeast Asian railroad council

3. National Innovation System

Concept and Current Status

Building a creative national innovation system (NIS) means building a system that continuously designs and commercializes new products. In order to build a NIS, Korea needs to set up an innovation platform, strengthen the innovative competencies of individuals and rearrange related institutions.

So far, Korea's industrialization has depended mainly on imported advanced technologies and their improvement. However, given our level of development and difficulties in obtaining original technology, it is time to seek a creative NIS on the basis of our accumulated innovative competencies. In addition, efforts should be taken to effectively utilize foreign original technologies by attracting world-class R&D centers and constructing a global R&D network.

For the past 40 years, Korea has made enormous progress in the national innovation system. For instance, in 2001, Korea's R&D investment per GDP amounted

to 2.92 percent, ranking eighth in the world in terms of the ratio of R&D investment to economic size. In some fields, Korea is approaching the world leaders. However, Korea's NIS shows serious limitations, including weak connectivity among innovative individuals, weak inter-firm cooperation and industry-academia-government cooperation led by the business sector, and a lack of inter-departmental cooperation.

Strategy: Conversion of NIS through the Cultivation of Innovative Clusters

Korea aims to build a creative NIS based on designing and developing new products. Korea's NIS needs to convert from an imitative type to a creative type by securing and developing original technologies, expanding competitive cooperation among organizations, developing fusion and creative technologies, and fostering a creative human resource network.

To effectively convert to a creative NIS, it is important to develop innovative clusters based on Korea's potential and characteristics and to expand them continuously. Korea's innovative clusters will actively reflect corporate demand by encouraging private firms' active participation in the project while ensuring efficient and prompt project progress by securing a cooperative support system for central and local governments. In particular, core competences of large private companies developed through industrialization and informatization will be effectively integrated with the dynamic force of venture companies.

Through continuous cultivating innovative clusters, an open innovative technology network will be built in which large companies, venture companies, foreign companies, universities, research institutes and users participate. Thus, in an open environment where innovative individuals efficiently create and expand knowledge, a creative NIS will be formed in which development of original technology is stimulated.

Four strategies for cultivating innovative clusters

1) Strategic positioning

Given the dynamic changes in Northeast Asia, strategically positioning Korea is crucial. Opportunities and risks such as China becoming a world factor, the expansion of China's domestic market and Korea's rise as an IT power must be considered. Taking these factors into account, priority need to be given to projects such as the expansion of the supply capacity of machinery, components and materials to China, and the creation

of top-class products using Korea as a test bed.

2) Leapfrogging through fusion of technology

Korea's core competencies need to be utilized in making a leap forward to a creative NIS. In converting to a NIS, the following two approaches can be considered. First, a new market can be created through epoch-making inventions or discoveries based on R&D of fundamental science technologies. Second, existing knowledge can be mixed or fused to create a new sector. For Korea, the latter approach seems to be the most effective means to enable production of creative technology innovation patterns.

3) Promotion and expansion of pilot projects

As converting to a creative NIS is a very uncertain process, identifying feasible projects first may be an effective solution. One can then promote them as pilot projects and subsequently expand the new technological innovation patterns to other sectors based on the results. On July 30, 2003, the Presidential Committee on Northeast Asian Business Hub announced "Northeast Asia's New International Division of Labor and Korea's Strategies" in which it proposed the telematics industry as a strategic industry.

4) Formation of global human resources and knowledge network

To build a creative NIS, a global network of human resources and knowledge should be established linking world top class universities while leading strategic technological development and commercialization. In addition, foreign companies and research institutes that are complementary to domestic innovative leaders need to be identified and joint collaboration projects must be sought.

Major Projects for the Cultivation of Innovative Clusters

The Presidential Committee on Northeast Asian Business Hub seeks to establish three major innovative clusters: 1) a metropolitan innovative cluster; 2) a cluster of the areas surrounding the free economic zones; and 3) a cluster around the point of inter-Korean cooperation. In particular, these innovative clusters are being pushed forward to establish organic connections with local cluster projects initiated by the Presidential Committee on Balanced National Development. First, a comprehensive

plan will be set up for cluster projects within the metropolitan area including the Digital Media City in Sangam-dong of Seoul, Songdo of Incheon and Pangyo of Gyeonggi-do.

In order to breakdown any systematic barriers to cultivating innovative clusters, measures will be implemented to steadily improve related laws and regulations. Furthermore, planning is underway to establish the Northeast Asia Technology Institute (NATI). NATI will propose policy recommendation regarding the innovative clusters and supply needed human resources.

4. Northeast Asian Financial Hub

Assessment on Potential as a Financial Hub

Korea has some strong points to become a financial hub: 1) a relatively large real economy with the 12th largest GDP in the world; 2) huge potential demand for asset management including pension funds and foreign exchange reserves (Korea's pension fund and foreign exchange reserves represent about US\$92 billion and US\$150 billion, respectively); and 3) strong demand for financial services specific to the Northeast Asian region such as restructuring and infrastructure development. On the other hand, business-related infrastructure, including the efficiency of the financial market, regulatory and supervisory system, and foreign language proficiency, are cited as weaknesses compared to other international financial centers.

Strategy

Korea will foster the financial industry as the new growth engine driving the development of the Korean economy in the 21st century. Korea's strategy for becoming a Northeast Asian financial hub consists of "niche financial hub" targeting in asset management. First, Korea plans to develop the asset management industry, which has high growth potential as a key driver, and enhance the attractiveness of Korea's financial markets in general by developing fixed income, equity and foreign exchange markets. In doing so, Korea expects to attract foreign financial institutions while reinforcing the competitiveness of local financial institutions, thus establishing a standing as a financial hub. In addition, Korea will devise plans to co-exist in harmony with other financial hubs in the region (that is, Tokyo, Hong Kong and Singapore) by strengthening cooperation.

Major Tasks

The Korean government put forward the top seven tasks for becoming a Northeast Asian financial hub and plans to ensure that they are fully implemented through strong leadership and the proactive participation of market players.

1) Develop the asset management industry as a key driver

The Korean government will increase the demand for long-term asset management through public sector initiatives, for example, by increasing the proportion of outsourcing for asset management of pension funds and measuring performance on a long-term basis (more than three years). In addition, it will restore the credibility of the asset management industry and strengthen competitiveness by completing the restructuring of investment trust companies as early as possible, easing regulations on product development, introducing a retirement pension plan and devising incentives to attract foreign asset management firms to the local market.

2) Develop the domestic financial market

To develop a fixed income market, it is necessary to focus on strengthening market foundations and attracting more foreign players to the local market. For instance, one can foster the long-term bond market by increasing the ratio of 10-year maturity treasury bond (20 percent→30 percent), issuing mortgage-backed securities (MBS), encouraging foreign investment in bonds by promoting trade in derivatives and improving the withholding tax system on interest income of bonds. One can also promote bond issuance through non-residents by bringing bond issuance procedures in line with international standards.

For developing the equity market, focus needs to be directed to enhancing the transparency and efficiency of transactions. In order to do so, one must improve the corporate governance by strengthening the role of institutional investors, reducing transaction cost and establishing a user-friendly market structure by integrating the KSE, KOSDAQ and KOFEX, as well as forging a strategic alliance with key stock exchanges elsewhere in Asia.

To develop a foreign exchange market, it is crucial to ensure substantial foreign exchange liberalization and improve the efficiency of transactions. To achieve these objectives, one must shift the paradigm in foreign exchange policy by further facilitating the inflow and outflow of foreign capital, enhance the efficiency of transactions by changing foreign exchange market trading hours to 09:00-16:00 without a lunch break, promoting the participation of foreign exchange brokerage companies and eliminating red tape that is not directly related to the stability of the foreign exchange market.

3) Develop specific financial services in the region

Korea must lead the restructuring market in Northeast Asia by, for example, disposing of non-performing loan, expanding the participation of local financial institutions in infrastructure development projects in the Northeast Asian region by facilitating project financing techniques and promoting the market for financing shipbuilding and marine transport projects.

4) Strengthen the global network of the financial industry

It is necessary to attract prominent foreign financial institutions to the domestic market by increasing the attractiveness of the domestic market, developing world-class financial infrastructure, providing incentives to attract domestic entry and improving financial regulations. It is also important to strengthen the competitiveness of domestic financial institutions by encouraging them to expand the scale and scope of their businesses while encouraging domestic financial institutions to compete in foreign markets. Eventually, one must pursue the development of a financial hub that promotes the co-existence of domestic and foreign financial institutions.

5) Establish the “Korea Investment Corporation” (KIC)

The government plans to establish KIC as the main body to effectively manage public funds such as excess foreign exchange reserves and pension funds, thus developing it into a prominent investor in the international financial markets, expecting that it will have comparative advantage in Northeast Asia, including comparative advantage in restructuring. The KIC Special Act will be established in 2004 and KIC will be launched in 2005. At the first stage, KIC will start its operation with foreign

exchange reserves of US\$20 billion by investing in foreign currency denominated assets and mostly outsourcing to prominent foreign asset management companies in its initial stage. KIC will be guaranteed independence and commerciality, and its management will be selected through a strict and transparent process, regardless of nationality.

6) Upgrade the financial regulatory and supervisory system

The government will focus on improving practices in the regulatory and supervisory system, and by doing so, make regulator sufficiently flexible and light for the facilitation of market forces. In order to revamp the financial regulatory system, the government plans to examine the adequacy of the current regulatory and supervisory system prior to reorganizing the financial law system to a “Negative System” and establishing a market-friendly regulatory system. Furthermore, to seek marked improvement in the financial regulatory and supervisory system, the government plans to motivate the supervisory agencies to be service-oriented by specifying “service obligations” in their codes of conduct, and establish an efficient off-site surveillance system that examines the risks of financial institutions through data analysis to bring on-site examination practices in line with global standards by conducting preventive and risk-based examination. A task force mainly consisting of the private sector will be launched in 2004 to examine the adequacy of the current regulatory and supervisory system.

7) Improve business and living conditions related to the financial industry

To attract and nurture the talent pool for the field of finance, improving living conditions (for example, educational, medical systems) is a prerequisite.

Roadmap to Building a Financial Hub

Stage 1: Execute the top seven tasks including developing a key driving industry (-2007)

- Develop asset management as a leading industry and attract the world’s top 50 asset management firms to set up operations bases in Korea

- Achieve an advanced financial market by improving the transparency and efficiency of the equity market and fostering the long-term bond market
- Develop Korea Investment Corporation into a global asset management firm

Stage 2: Establish a “Niche Financial Hub” (-2012)

- Proactively attract prominent foreign financial firms to set up their regional operations headquarters in Korea
 - * Emerge as the major asset management center in Asia by proactively attracting the world’s top 50 asset management firms to set up their regional operations headquarters in Korea
 - * Expand the role of foreign financial firms in other areas (e.g., investment banks)
- Some leading domestic financial institutions will emerge as regional champions

Stage 3: Develop into a major financial center serving Asia (-2020)

- Develop into a more advanced financial hub such as a mixed form of a niche and global hub
- Successfully attract large-scale commercial banks and investment banks to set up regional operations headquarters in Korea

5. Strategic Foreign Investment

Concept

Korea’s new strategic FDI policy aims to boosting Korea’s competitiveness, whereas its previous FDI policies tended to focus on raising foreign funds. Korea’s strategic foreign investment also means overall management of a series of processes: objective setting of investment policy; choosing priority areas; investment inducing activities; efforts to improve investment environment; and monitoring of invested

projects.

The objectives of Korea's investment policy are as follows: promoting cutting edge industries; attracting world major MNCs and their regional headquarters for a business hub; attracting top class logistics firms and regional logistics centers for a logistics hub; investment related to inter-Korean economic cooperation and developing network of Northeast Asian cooperation; and investment linked to regional clusters.

To highlight the symbolic image of the Northeast Asian business hub, top class MNCs, regional headquarters and R&D centers need to be attracted. Attracting these companies will contribute to enhancing Korea's image on top of their economic spillover effects. SME-type investment with large spillover effects will also be given priority. Precision machinery, fine chemicals, component materials and transportation machinery component sectors belong to this category. For LCDs, telecom equipment, digital home appliances, telecom machinery and an advanced semiconductor sector, in which Korea has production competitiveness and mature markets, investments such R&D centers and design centers that can induce new functions are to be welcomed. In addition, the automobile industry (where Northeast Asian cooperation is possible), logistics centers including transshipment, warehouse, transportation and courier services, and infrastructure construction are also targeted industries.

More targeted IR focused on priority areas will be pursued to attract investment, and regarding investment environment, improvements and incentives will be devised for specific priority areas. In order to improve monitoring systems, proactive management can prevent problems from happening and encourage additional investment. Korea still lacks investment assessment indices. To effectively assess the comprehensive impacts of foreign investment, both quantitative indices including ratio of fixed capital formation and qualitative indices such as production, export, employment, produced value added must be reinforced. In this regard, statistics systems must be developed based on data collected regularly.

Improved Investment Environment

Enhanced one-stop service system

- Launch Invest KOREA, with appointment of a foreign head
- Introduce a Project Manager system

Enlarged incentive systems

- Introduce cash-grant system
- Apply a single income tax rate of 17 percent to foreign investors

The five-year plan for improving living environment

- Six working groups: MOCIE in conjunction with Invest KOREA (education, medical services, housing, transportation, immigration, culture and telecommunications)
- All 102 recommended tasks are currently underway or going to be implemented (2004-2008)

Plan for improving the business environment for foreign investors

- Four working groups: MOFE in conjunction with the Federation of Korea Industries (FKI) (labor, taxation, finance and foreign exchange, administration procedures)
- Of the recommended tasks, 36 of all 49 are currently underway or going to be implemented (2004-2008), while six of the 13 tasks that have not been accepted will be further studied

Future Plan

The Korean government plans to raise the satisfaction levels of foreign investors through continuous improvement of the investment environment. The government will systematically manage all tasks and set up action plans for early implementation under the supervision of MOFE and MOCIE while conducting further discussion and organizing task force teams on unresolved tasks.

Furthermore, meetings will be held biannually, presided over by the President, to monitor the progress of improvement measures under the supervision of the Presidential Committee on Northeast Asian Business Hub. The committee is to monitor all tasks on a quarterly basis and identify additional tasks for implementation on an on-

going basis.

6. Free Economic Zones

The “Law on designation and administration of Free Economic Zone,” which was passed at the National Assembly in November 2002, became effective on July 1 2003. The Korean government designated the Incheon Free Economic Zone on August 5, 2003, and the Busan & Jinhae Free Economic Zone and Gwangyang Bay Free Economic Zone on October 24, 2003.

These FEZs will provide foreign firms with convenient and efficient transport systems, top class IT infrastructure, convenient living conditions and business-friendly environments.

Incheon FEZ is the most advanced one of these three. It consists of the Songdo, Yeongjong and Cheongna districts. Songdo plans to host international business and act as a high-tech mecca, as it plays host to the regional headquarters of MNCs and global companies related to IT and biotechnology. Yeongjong is to be an air logistics base, as it includes the Incheon International Airport and adjacent port areas as well as an international freight terminal and industrial site, while Cheongna plans to be a new cradle of international finance and entertainment, with a sports and leisure complex, theme park and other recreational facilities. In addition, both the Busan & Jinhae FEZ and Gwangyang Bay FEZ plan to host logistics centers, advanced industrial complexes and leisure facilities.

III. Assessments and Future Tasks

1. Assessments

Comprehensiveness of the Initiative

As mentioned earlier, President Roh Moo-hyun’s Northeast Asian business hub initiative was adopted to realize the “Northeast Asia Grand Design.” Therefore, in addition to the business hub concept, it contains a regional economic cooperation concept. It also includes an additional concept of national innovation systems based on innovation clustering, which goes beyond the traditional concept of a business hub.

The essence of a traditional business hub strategy can be defined by two

characteristics. It harnesses the business opportunities of the neighboring countries and it aims to produce high value-added goods and services by bringing world-class MNCs, foreign capital and technology, as well as foreign specialized professionals, into its own territory.

Thus, this new enlarged concept of the business hub is much more comprehensive and richer than the traditional business hub concept. It is related to both domestic and foreign policies. Furthermore, although it concerns mainly economic policies, the initiative covers much broader issues than economics. In fact, it is also linked to international politics as well as all the issues associated with raising national competitiveness. Therefore, the concept of this business hub can be seen as a national agenda.

On the other hand, the comprehensiveness of the Initiative could easily become a weakness, especially, when it comes to implementation of the Initiative. Implementing such a vast project will involve special efforts, so unless the government gives it top priority, such a project is unlikely to be accomplished. In addition, the vastness of the Northeast Asian business hub initiative can result in confusion. The Initiative consists of two distinct concepts: that is, the cooperation concept and competition concept, and confusion may result from this. In particular, confusion may arise when the term “Northeast Asian business hub initiative” is used as a synonym for “Northeast Asian Grand Design.”

Lack of Policy Priority

In spite of the launching of the Presidential Committee on Northeast Asian Business Hub and the substantial performance for past one year, the agenda for a business hub is one among many on the overall national agenda. In fact, there are other Presidential Committees, including Presidential Committee on Balanced National Development, and there are also competing goals such as “achieving a national per capita income of US\$ 20,000.” Consequently, one may fear that Northeast Asian business hub initiative may lose momentum. Evidently, the lack of clarity over the concept of the Northeast Asian business hub initiative makes it hard to consider it as the most important national agenda.

Misconceptions

There are several misconceptions regarding the Northeast Asian business hub

initiative. First, some consider that the initiative focuses too much attention on Northeast Asia and that is time to go global. As mentioned earlier, the essence of a Northeast Asian business hub strategy is harnessing the business opportunities of Northeast Asia while inviting all the firms and people from all over the world. In this sense, the concept is closer to globalization than regionalism. Furthermore, for Korea to become a Northeast business hub, Korea must liberalize its economy. Therefore, Korea needs to form an FTA with its neighboring countries, but it is also crucial to form an FTA with world major economic players such as the United States and the EU. Second, with regard to the means necessary to build a business hub, many people tend to overemphasize the importance of hard infrastructure, while soft infrastructure such as laws and regulations, labor relations, language abilities and culture is usually more important.

2. Future Tasks

Making the Initiative “The National Agenda”

Given the comprehensiveness and importance of the Northeast Asian business hub initiative, it must be adopted as the National Agenda after building a consensus within the government and the nation as a whole on the issue.

Key Policy Directions

Giving priority to raising the level of national competitiveness

To push Initiative forward as the National Agenda, it needs a clear focal point. Although the Initiative has many dimensions, in my view, the gist of the Initiative can be contracted into “raising national competitiveness.” Therefore, in essence, the Initiative is to create the most efficient business environment for both foreign and domestic companies and the most comfortable living conditions for both foreign residents and Koreans.

Adopting proactive liberalization policy

We should not neglect that the underlying philosophy of the business hub strategy is openness and liberalism. Therefore, to become a business hub, Korea must

adopt a proactive liberalization policy. In particular, a proactive FDI policy will be the cornerstone of the business hub strategy.

In addition, alongside active participation in the DDA (Doha Development Agenda), Korea must also pursue an active FTA policy vis-à-vis its major trade partners, including the United States, Japan, China and the EU.

Educating creative internationalized specialists

An abundant labor force with foreign language proficiency is a prerequisite for a business hub. English has become the international business language, and to become a Northeast Asian business hub, proficiency in Japanese, Chinese and Russian is an additional requirement. Therefore, early foreign language programs such as English immersion programs must be introduced at the elementary school level. Furthermore, English-speaking international high schools open to Korean students must be established, and foreign language programs, especially Japanese and Chinese language programs, at the high school level must be expanded and upgraded. In addition, the establishment of English-speaking universities or academic programs conducted in English must be encouraged.

Specialists in international business, trade, finance and logistics have to be educated. To do that, the Korean government and local governments must strive to draw in internationally renowned universities, business schools and other specialized institutions of higher education.

Furthermore, since creativity is the ultimate resource in the knowledge-based economy, the education system must change accordingly. Individual creativity should be encouraged.

Finally, to meet these challenges, a radical educational reform including opening of education market is needed.

Fostering an open and inclusive culture

International business people will not be satisfied even if we provide a well-developed hard infrastructure, efficient and transparent soft infrastructure and convenient living facilities. They must also feel comfortable and be attracted culturally. Consequently, Korea must build an open international community where Korean culture co-exists and prospers alongside other cultures.

Foreign broadcasting channels must be more accessible in Korea.

Establishment of foreign cultural centers must be encouraged, and international cultural activities such as foreign cultural festivals can be jointly sponsored by the Korean and international business communities supported by Korean and foreign governments.

Country-specific cultural districts, such as “Little New York,” “Little Paris” and “Little Tokyo” in which country specific cultural and business activities take place can be established in Seoul and other cities.

Proliferation of diverse international cultural activities will certainly make foreign business people more comfortable and make Korea more attractive to them. However, the introduction of such varied international cultures to Seoul and Korea will also contribute to changing the nationalistic attitudes of Koreans, making them more cosmopolitan.