



# **Korea's Initiative for a Northeast Asian Business Hub**

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## Beginning of a Vision

- ❑ President Kim Dae-jung's Northeast Asian business hub plan (2002)
- ❑ President Roh Moo-hyun's Northeast Asian business hub project (2003-)
  - The new business hub initiative stems from the much larger “Northeast Asia Grand Design.”
- ❑ Northeast Asia Grand Design
  - Establish a “Northeast Asian Community of Peace and Prosperity”
- ❑ President Roh's Northeast Asian business hub initiative was adopted to realize the Northeast Asia Grand Design.



# Northeast Asian Business Hub Initiative

- Build cooperation frameworks in Northeast Asia
  - Construct infrastructure in Northeast Asia
  - Push regional economic integration forward
  
- Strengthen Korea's economic competitiveness
  - Pursue a logistics hub in Northeast Asia
  - Build a national innovation system (R&D hub)
  - Pursue a regional financial hub
  - Induce strategic foreign direct investment



## Presidential Committee on Northeast Asian Business Hub

- The Presidential Committee was established in April 2003.
- Five subcommittees
  - Subcommittee for System Reformation
  - Logistics Subcommittee
  - National Innovation System (NIS) Subcommittee
  - Subcommittee for Foreign Investment Attraction
  - The Inter-Korea and External Cooperation Subcommittee



## Northeast Asian and Inter-Korean Economic Cooperation

### □ Basic policy directions

- Korea must assume a leadership role in Northeast Asia by proposing a vision of peace and prosperity as well as providing concrete tasks.
- Since peaceful resolution of the Korean peninsula issue is essential to the peace and prosperity of Northeast Asia, realistic ways to guarantee peace on the Korean peninsula must be sought.
- The ultimate goal of institutional integration must be pursued gradually, starting from easily achievable cooperation areas and projects.
- Through increasing social and cultural exchanges, Northeast Asia must strive for expanding cultural similarity and identity.



## Major Tasks

- ❑ Construction of Northeast Asian infrastructure related to promotion of regional peace
  - Develop and expand strategic points for inter-Korean economic cooperation
  - Connect the railroad on the Korean peninsula and throughout Northeast Asia
  - Promote energy cooperation
  - Construct an IT and science technology cooperation framework
  - Seek development financing schemes
  
- ❑ Promoting the formation of a Northeast Asian economic community
  - Pursue an active FTA policy
  - Boost regional financial and monetary cooperation
  - Enhance environmental cooperation
  - Promote social and cultural exchanges



## Northeast Asian Logistics Hub

- ❑ Strategy for becoming a logistics hub
  - Further develop the Incheon International Airport, the Port of Busan, the Port of Gwangyang and their surrounding areas as a Northeast Asian gateway for international cargo, information and people.
  - In order to achieve this goal, the government plans to develop the world's leading airport and harbors, including surrounding areas, and attract MNC logistic centers and regional headquarters.



## Major Tasks

- ❑ Adjust allocation of transportation facility investment
- ❑ Develop world-class logistics firms
- ❑ Make logistics transactions transparent
- ❑ Develop logistics specialists
- ❑ Improve logistics support systems and attract logistics firms
- ❑ Build a paperless logistics information system
- ❑ Construct a Northeast Asian railroad network





## National Innovation System (R&D Hub)

### ❑ Concept

- ❖ Building a creative NIS means building a system that continuously designs and commercializes new products.
- ❖ Korea needs to set up an innovation platform, strengthen the innovative competencies of individuals and rearrange related institutions.
- ❖ Effectively utilize foreign original technologies by attracting world-class R&D centers and constructing a global R&D network

### ❑ Current status

- ❖ At least in some fields, Korea is approaching the level of world leaders.
- ❖ Weak connectivity among innovative individuals, weak inter-firm cooperation and industry-academia-government cooperation, and lack of inter-departmental cooperation



# Strategies for Cultivating Innovative Clusters

- ❑ Strategic positioning
  - Priority to machinery, components and materials to China, and top-class products using Korea as a test bed
- ❑ Leapfrogging through technology fusion
  - Mix or fuse existing knowledge to create a new sector
- ❑ Promotion and expansion of pilot project
  - Identify feasible projects first, then promote them as pilot projects
  - E.g., the telematics industry as a strategic industry
- ❑ Formation of global human resources and a knowledge network
  - Establish the Northeast Asia Technology Institute (NATI)
  - World-class universities, foreign companies and research institutes



## Northeast Asian Financial Hub

- Korea's strong points
  - Relatively large real economy with the 12<sup>th</sup>-largest GDP in the world
  - Huge potential demand for asset management including pension funds and foreign exchange reserves
  - Strong demand for financial services specific to the Northeast Asian region such as restructuring and infrastructure development
  
- Weaknesses
  - The efficiency of the financial market, regulatory and supervisory system, and foreign language proficiency



## Korea's Strategy for becoming a Northeast Asian Financial Hub

- “Niche financial hub” targeting asset management
  - Develop asset management, which has high growth potential as the key driver
  - Enhance the attractiveness of Korea's financial markets in general by developing fixed income, equity and foreign exchange markets
  - Attract foreign financial institutions while reinforcing the competitiveness of local financial institutions
  - Co-exist in harmony by strengthening cooperation with other financial hubs in the region



## Major Tasks

- ❑ Develop the asset management industry as a key driver
- ❑ Develop the domestic financial market
- ❑ Develop specific financial services in the region
- ❑ Strengthen the global network of the financial industry
- ❑ Establish “Korea Investment Corporation (KIC)”
- ❑ Upgrade the financial regulatory and supervisory system
- ❑ Improve business and living conditions related to the financial industry



## Roadmap to Building a Financial Hub

- Execute the top seven tasks including developing a key driver industry (-2007)
  - Develop asset management as a leading industry and attract the world's top 50 asset management firms to set up their operations bases in Korea
- Establish a “Niche Financial Hub” (-2012)
  - Proactively attract the world's top 50 prominent foreign financial firms to set up their regional operations headquarters in Korea
- 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



# Strategic Foreign Investment

- ❑ Korea's new strategic FDI policy aims to boost Korea's competitiveness, whereas its previous FDI policies tended to focus on raising foreign funds.
- ❑ The objectives of Korea's investment policy
  - Promote cutting edge industries
  - Attract world major MNCs, logistics firms, their regional headquarters and R&D centers
  - Attract SMEs type investment with large spillover effects
  - Focus on investment related to inter-Korean economic cooperation and developing a network for Northeast Asian cooperation



# Improved Investment Environment

- ❑ Enhanced one-stop service system
  - Launch Invest KOREA, with appointment of a foreign head
  - Introduce Project Manager system
- ❑ Enlarged incentive systems
  - Introduce cash-grant system
  - Apply single income tax rate of 17% to foreign investors
- ❑ The five-year plan for improving the living environment
  - Six working groups: MOCIE in conjunction with Invest KOREA
  - All 102 recommended tasks are going to be implemented (2004-2008)
- ❑ Plan for improving the business environment for foreign investors
  - Four working groups: MOFE in conjunction with the FKI
  - 36 of all 49 recommended tasks are going to be implemented (2004-2008)





## Free Economic Zones

- “Law on designation and administration of Free Economic Zone”
  - Passed at the National Assembly in November 2002
  - Effective since July 1, 2003
  
- The Korean government designated:
  - Incheon Free Economic Zone on August 5, 2003
  - Busan & Jinhae Free Economic Zone and Gwangyang Bay Free Economic Zone on October 24, 2003



## Assessment 1: Comprehensiveness of the Initiative

### □ Strong points

- Northeast Asian business hub initiative = business hub concept + regional economic cooperation concept + concept of innovative cluster
- The Initiative is related to both domestic and foreign policies.
- Although it mainly concerns economic policies, it covers much broader issues than economics.

Therefore, it can be seen as “the National Agenda.”

### □ Weaknesses

- Unless the government gives it top priority, it is unlikely to be realized.
- The Initiative consists of two distinct concepts: cooperation concept and competition concept. Confusion may result from this.



## Assessment 2: Lack of Policy Priority

- ❑ The Initiative: one among many on the overall national agenda
- ❑ Existence of other Presidential Committees and goals
  - Presidential Committee on Balanced National Development
  - Achieving a national per capita income of US\$20,000
- ❑ The lack of clarity over the concept of the Northeast Asian business hub makes it hard to consider as the most important national agenda.



## 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 consensus on the issue within the government and the nation as a whole.
  
- Key policy directions
  - Giving priority to raising the level of national competitiveness
  - Adopting proactive liberalization policy
  - Educating creative internationalized specialists
  - Fostering an open and inclusive culture