

**Because Innovation Is Very Important:
"[Korea] Should Be Upgrading The Innovation Framework,"
OECD Sec-Gen Johnston**

Question: Mr. Donald Johnston, Secretary General of the OECD, what is your purpose here in Korea at this time?

Answer: It is not a very official visit, but a semi-official visit. I was originally going to sign a memorandum regarding the opening of an OECD center here in Seoul. It is not quite ready yet for signature. During my stay in Seoul, I will meet Ban Ki-moon, Minister of Foreign Affairs and Trade. After meeting with him, I will go to Japan for the opening ceremony of the World's Fair.

Q: Who did you meet there and what did you talk about in China?

A: In China, I participated in the Chinese Development Forum, which takes place every March. I was one of lead speakers, which was very flattering, because there were many distinguished economists from all over the world, like from China and Korea. We met Mr. Lee Tae-hee who is the Korean ambassador to the OECD.

At the conference, he made a very good presentation and participated on conference held on March 20~22. We also had the pleasure of meeting with Bo Xilai, Minister of Commerce, who was responsible for the OECD relations. China is not a member of the OECD, but we had a lot of activities with Li Zhaoxing who is the Minister of Foreign Affairs, including Premier Wen Jiabao. We had a good discussion with senior levels of the Chinese government, as well with a number of vice ministers.

I thought the forum was quite excellent. The title of the forum was "China in the World Today - What is the impact of China in the world economy? What are the challenges facing China?"

The result of the conference led to a better understanding of what is happening in China, and a better understanding of the Chinese of what the rest of the world has been thinking of China's development. The OECD is presently conducting the first-ever economic review of China. It is a country review of China which is being conducted in association with the Chinese authorities.

Q: How do you foresee the Chinese economy this year?

A: It will be strong in terms of growth. The growth numbers are still very positive in the 8-9% range. The problems in China are regional and income disparity. The very large

difference between urban and rural incomes is a big problem. That is the question: "How should and how quickly can China urbanize and develop a higher standard of living for everyone and reduce the number of people's level in rural communities?"

If migrants commute to the cities for jobs, they have to have skills. It is very important to have more education for the rural population for them to have better access to health and social support systems.

Q: How do you foresee the Korean economy this year?

A: It looks like the economy is starting to pick-up, from what I have been reading. I think the forecast is that the government is looking to have an output growth of 5%. The Central Bank expects a bit less than that. I haven't heard the OECD express an opinion on it, but I suspect that it will support somewhere between 4~5%.

The Korean review is being done and will come out later. There are some real challenges here. A number mentioned was upgrading the innovation framework, because innovation is very important.

This is the issue of making sure that the universities, industry and private sectors are able to maximize and research institutes' innovation, along with the issue of decentralization, which is still very much part of the policy, the challenges associated with different levels of government, and the necessity of improving the functioning of the labor market.

The OECD thinks that perhaps there are too much part-time contractual workers that there is not enough permanent employment. Part-time work is attractive to the industry because it gives much more flexibility. Of course, there are still issues remaining in the restructuring of the corporate sector.

Korea has been doing very well except at consumer demand, with the credit problems tended to fall. Fortunately, exports to China, in particular, remain very strong and very good. Consumer confidence is re-turning, so the consumer demand should pick-up.

Q: What is the prospect of the American economy this year?

A: I listened to a presentation by Martin Feldstein, who is a very prominent American economist and the president of the National Bureau of Economic Research in the United States. He was very optimistic and was asked many questions about the double deficit. In fact, the budgetary deficit now is about 3.5%, which is too high. According to his assessment, it can be brought down to perhaps even 2% through a combination of growth, a solid growth of about 4%. If you get growth at 4%, then you have got better tax revenues. It is also going to require cuts in the discretionary spending.

Some spending is not discretionary, but further can be consummated discretionary spending. Feldstein thinks that it could be done. He believes that the budget deficit can be brought down, and that the current account deficit will start to re-adjust. It is obviously much too

high at 6% of GDP, but he feels that in turn, it will re-align.

Q: What is the prospect the Euro economy in the European Union?

A: There are many countries which are doing well within the Europe area, not necessarily in the Euro Zone. On the general challenges for Germany, France and Italy, there are structural reforms under way. There seems to be growing business confidence in Europe. In February, the economics department, in an interim assessment, said that the growth in the Euro area at large has not been very impressive and unemployment has failed to fall from relatively high levels.

It has been uneven across countries. In some, the modest expansion of GDP was pulled through external demand. Germany's export demands have held up. Domestic demand has been weak in the 4th quarter, and they are hopeful that it will gather strength as we move forward this year.

Now, business confidence exceeds historical means. That is done by polls. Business confidence is good and there are scattered signs of investment revival, especially in Germany, which is good. Consumer sentiment (index) is creeping up towards long-term averages despite the labor market problems. Against this backdrop, they say that GDP growth can be expected to inch up towards this potential. This is not a bullish assessment, but it's not a pessimistic assessment either.

Q: Will you explain about the new role of OECD in the future?

A: The role of OECD, I believe, has to be expanded to engage more aggressively some of the other major economies. That is my view and the OECD membership has to decide. It was clear with my experience with China that anyone dealing with the global economy today has to have China at the table for discussions.

China is not pressing for membership in the OECD, but it is becoming more engaged with the OECD in various ways. The OECD is absolutely critical that China must be engaged. It is very important that we call the BRICS. They consist of Brazil, which cannot be ignored; it would be a growing force with Russia, which we still are very much engaged with, and India and China. The "S" of BRICS stands for South Africa; we always felt that there should be some strength in the OECD from South Africa. South Africa is so essential to the development of the southern African region south of the Sahara.

Q: Are the members of the OECD increasing? How many members are there in the OECD now?

A: There are now 30 members. It hasn't increased a great deal since Korea joined. We have only added Slovakia. I am trying to remember whether Poland came before Korea or after.

Korea, Poland and Slovakia came in under my tenure.

Q: What is the main work of the OECD?

A: It is essentially to pursue a balanced economic development on a global basis that requires keeping economic development in balance on one hand, and the distribution of the products of economic growth to societies as a whole of the other.

That means very strong good governance that can make those linkages work within countries. On a global basis, we have to accomplish the same thing. This would be the developing world. We cannot have a world where literally, very large population lives under poverty and the rest of us live in rich communities. That has to change and that is one of the major challenges for the OECD.

Q: If one would like to be a candidate to be the secretary general of the OECD, would one need recommendation from the government or just personal?

A: You have to have the support of the government. The OECD secretary general is selected by the all its members' agreement. It is a unanimous decision.

Q: What is your plan after you finish your term?

A: I am trying to develop one, but I am not sure exactly what I am going to be doing. I would like to spend time in Korea. I like Korea very much. It has been a great joy to watch Korea's development. I want to spend all my time in any one country, but I would also like to spend some time here. I thought the possibility of doing some teaching, working maybe in the investment field, perhaps doing some work as a corporate director if possible. I am just, at the moment, haven't decided. It is not my decision. It is what other people would like me to do.