

Challenges to the Republic of Korea's Sustained Growth and Northeast Asia Cooperation

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South Korea's recent growth performance has been disappointing. The country's average gross GDP growth was an astonishing 7.9% from 1960 to 2000, but dropped to 4.1% in the period between 2000 and 2010 and further to 3.1% between 2011 and 2016. The Bank of Korea expects the economy to grow 2.5% this year.

Of hot debate is whether South Korea's current slowdown is a harbinger of an economic debacle comparable to Japan's "two lost decades." Despite the differences between the two countries, South Korea has been undergoing almost the same ills Japan did in the early 1990s—rapid population aging, huge household and corporate debt, inefficiency in labor and financial market, and low productivity in the service sector. With a total fertility rate of 1.2, one of the world's lowest, the South Korean economy loses vitality due to a shrinking working-age population and growing social burdens to support the increasing elderly population.

South Korea's rapid economic transformation and growth since the 1960s is attributed to strong manufacturing exports backed by government support. Various incentives were given to keep large manufacturing firms competitive in the global market. As a consequence, chaebols play a dominant role in the South Korean economy. They produce almost two-thirds of the total exports of South Korea. The largest chaebol, Samsung, alone accounts for 20% of the country's exports. However, as a side effect, the economy's over-reliance on large manufacturing exporters hinders the developments of smaller companies and service sector.

South Korean government must continue structural reforms to improve the vulnerabilities of large household and corporate debt, the labor and financial markets, institutional quality, and productivity in its service sector. The country should foster an efficient economic system to breed creative talents and innovative enterprises. It also needs to provide a better environment for child rearing that ensures flexible working environments, affordable and good quality childcare, and both paid maternal and paternal leave.

For South Korea, stronger integration and cooperation with its neighboring countries in Northeast Asia, especially China and Japan, is essential for its future. Over the past years, South Korea and its neighbors endeavored to establish strong economic and political bonds. Despite its high economic and political dependency, however, the region has not yet built a strong sense of unity, due to persistence of the region's rivalries for hegemony, territorial disputes, and historical resentments.

Strengthening regional economic cooperation and integration will also benefit the whole Northeast Asia. This will let the region to have a stronger voice in the international community as well as offer economic benefits for individual countries. The region itself is a large market which expands rapidly. Amid an emergence of nationalism and anti-globalization in the Western countries, intraregional trade and investment in Northeast Asia becomes more important than ever.

Given that the integration among the North Asian countries has mostly been a result of market force, the region can consider establishing effective institutions in order to deepen and broaden economic integration and build a more durable cooperative framework that maximizes mutual benefits. Many cross-border issues, such as growing regional trade disputes and macroeconomic spillovers, justify deeper policy coordination.

Such institutional framework includes a single market with common regulations and substantial freedom of movement of workers, especially skilled ones. China, Japan, and South Korea can strengthen efforts to establish a CJK FTA, which then expands to invite other Northeast Asian nations as well as other nations in Asia-Pacific.

Northeast Asia countries can also pursue a joint action to develop more crisis resilient financial markets and strengthen supervision, surveillance, and dialogue on financial markets. Forums and dialogues on regional public goods could also prove valuable by promoting cooperation in dealing with cross-border issues including epidemics, natural disasters, and environmental degradation. Moreover, the region can cooperate in the sharing of technological and scientific knowledge as well as experiences of successful economic and social policies.

Northeast Asia can work together to promote peace and prosperity on the Korean peninsula, which would also serve the best interests of neighboring countries. The sudden collapse of North Korea or a military conflict on the peninsula would threaten regional security and prosperity, not to mention burden its neighboring countries with millions of refugees and hundreds of billions in reconstruction costs. If North Korea, with its potential for growth, adopts comprehensive market-oriented reform and opening, it will have an opportunity to display dynamism. There is a need in the region and international community for deepening economic, political and security cooperation to make North Korea abandon nuclear programs and take reforms toward a more market-oriented and open economy.

South Korea's economy has reached a pivotal moment. Given current economic and social conditions, it is hard for South Korea to draw out a rosy future. To avoid the economic debacle and move toward stable, strong and balanced growth, South Korea should continue its structural reforms. At a time of great economic interdependence, the neighboring countries in Northeast Asia, especially China, Japan and South Korea, can benefit tremendously from close cooperation. They must cooperate and set up a shared vision alongside good strategies for the establishment of a Northeast Asian Economic Community toward peace, stability, and prosperity in the region.