

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

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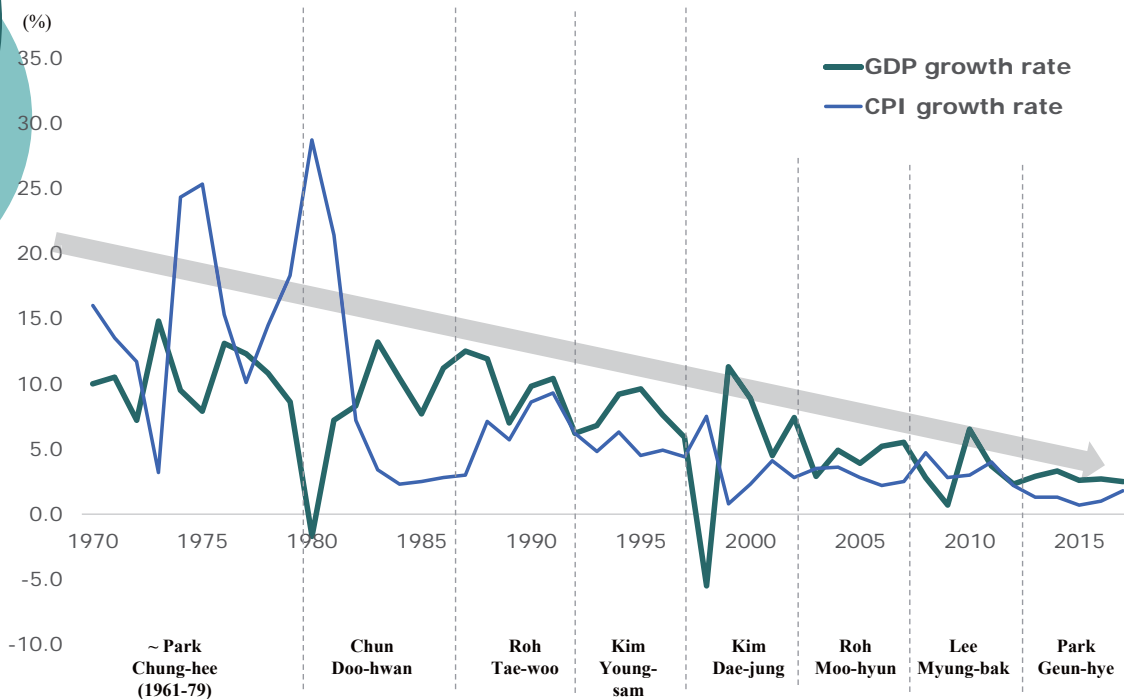


Outline

- Can South Korea Maintain Stable, Strong and Balanced Growth?
- Can Northeast Asia Strengthen Economic Integration and Cooperation?
- Can Northeast Asia Cooperate to Embrace North Korea For Regional Peace and Prosperity?

South Korea's recent disappointing growth performance

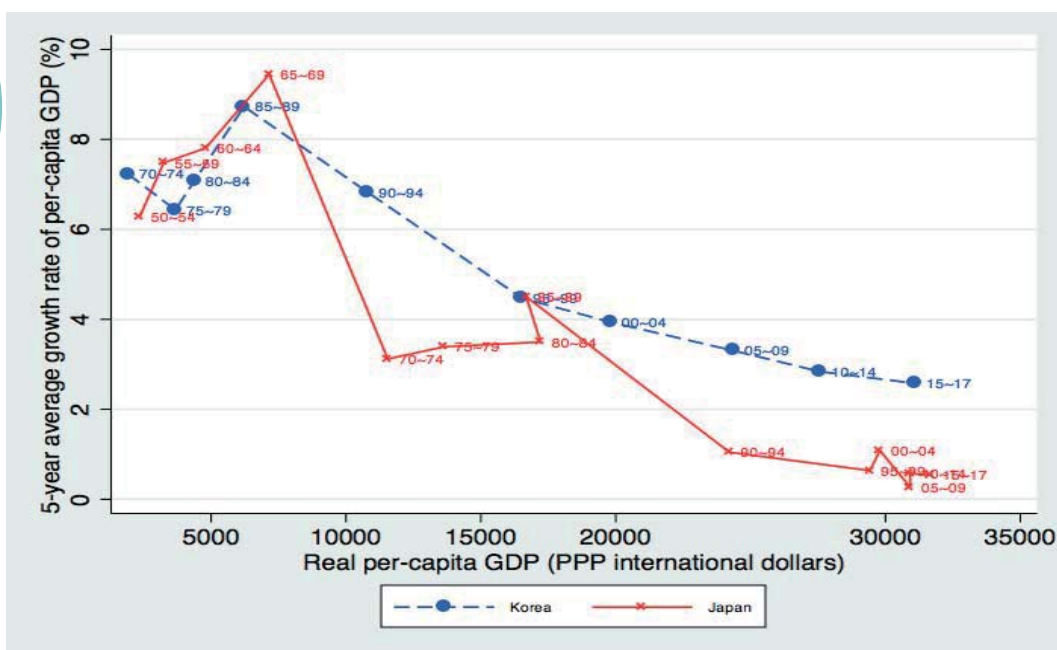
GDP growth and inflation in South Korea



Note: The figures for 2016 and 2017 are forecasts from the Bank of Korea (GDP growth rates 2.7, 2.5%, CPI growth rates 1.0, 1.8%)
 Source: Bank of Korea (<http://ecos.bok.or.kr>); Statistics Korea (<http://www.kosis.kr>)

Is South Korea turning Japanese?

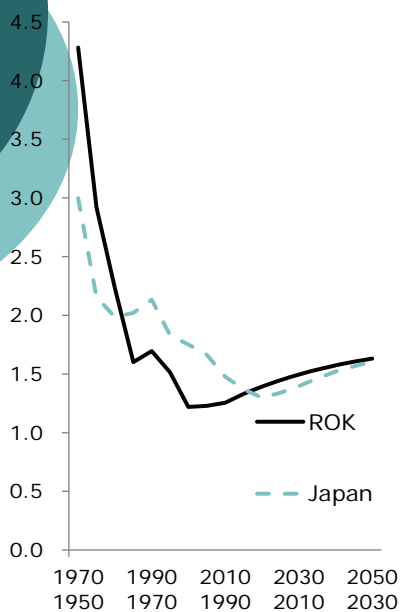
Per capita GDP level and growth rates of South Korea and Japan



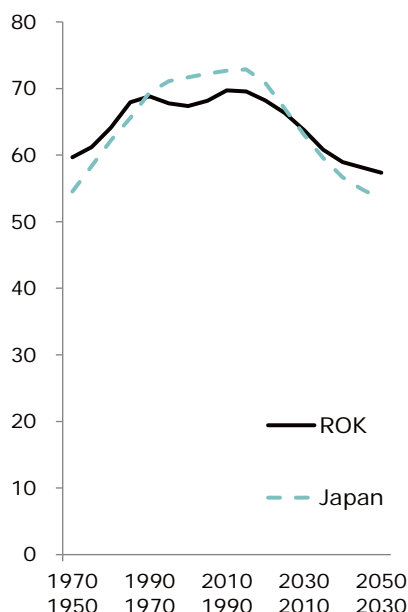
Note: GDP is the PPP adjusted figures of the Penn World Table 8.1 and the values of 2012-2017 is extended by using the IMF's World Economic Outlook Database and Bank of Korea's estimate for 2017. The GDP growth figure is the period average..

Low fertility and rapid population aging

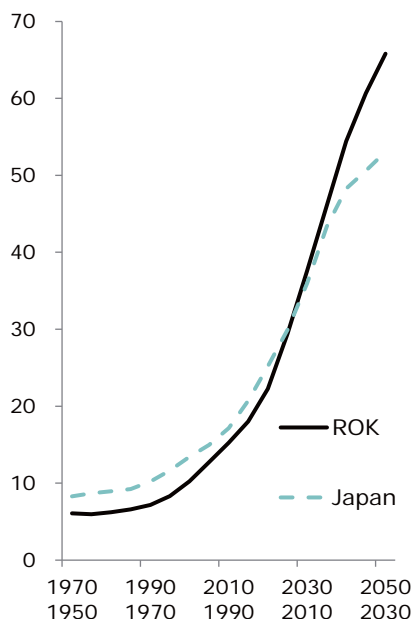
Fertility rates



Working-age Population



Population over 65

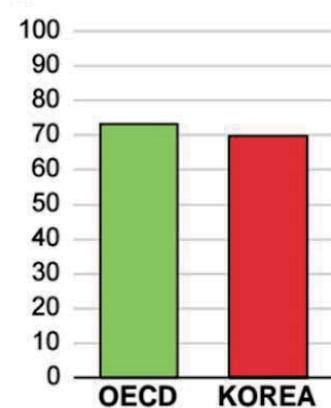


Source: UN, World Population Prospects, the 2015 Revision, 2015

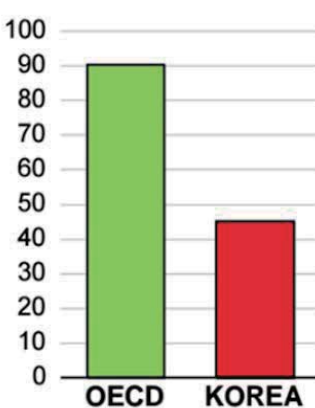
Low productivity in service industries and SMEs

Gaps between services and manufacturing sector

Services' share of employment

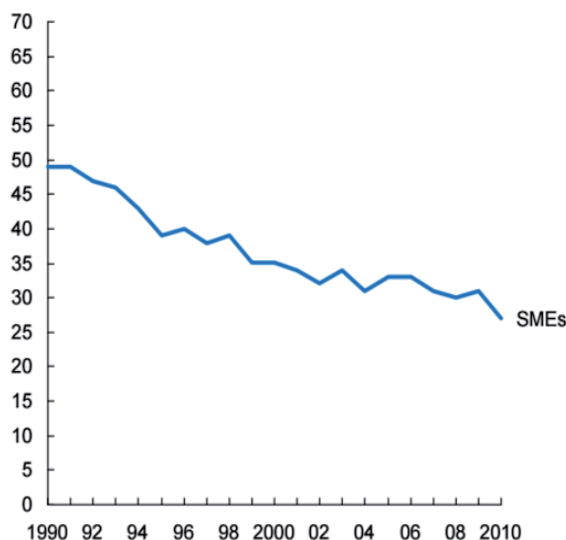


Productivity relative to manufacturing



Source: OECD, Economic Survey of Korea 2016

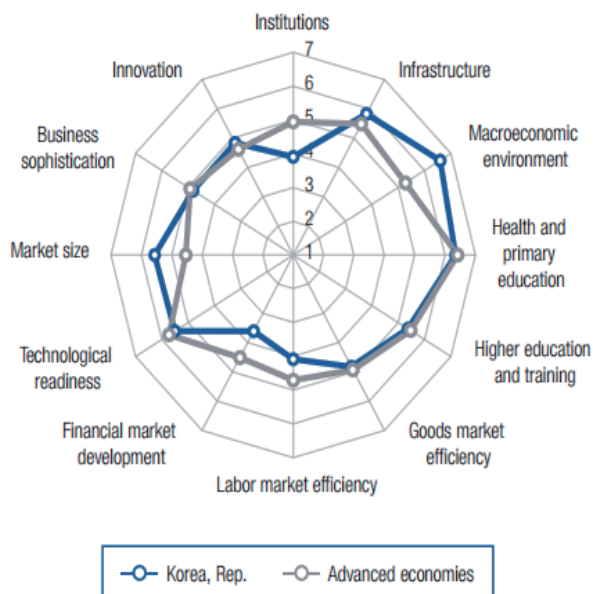
Labor productivity of SMEs relative to large enterprises



Source: OECD

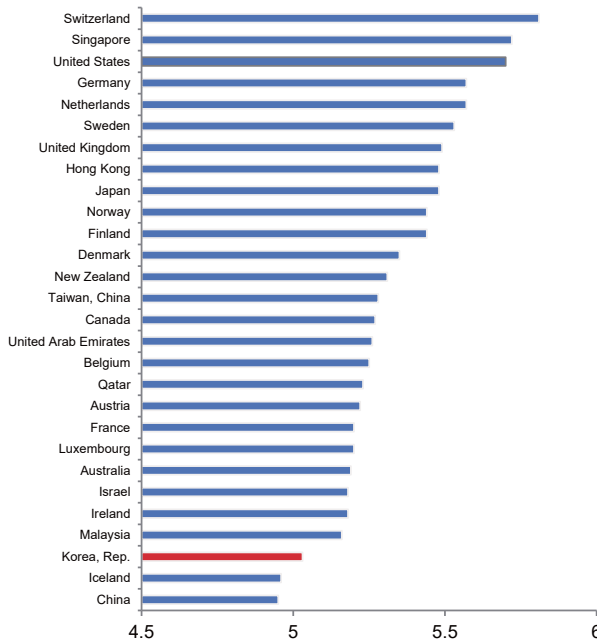
Lacking institutional quality and innovative capability

Global competitiveness index



Source: World Economic Forum, The Global Competitiveness Report 2015–2016

Global ranking in innovation and business sophistication

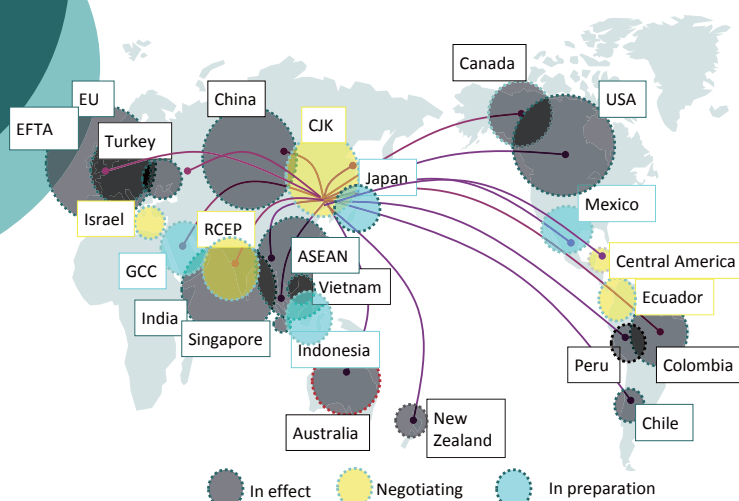


Source: World Economic Forum, The Global Competitiveness Report 2015–2016

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Can South Korea continue to rely on export-orientation?

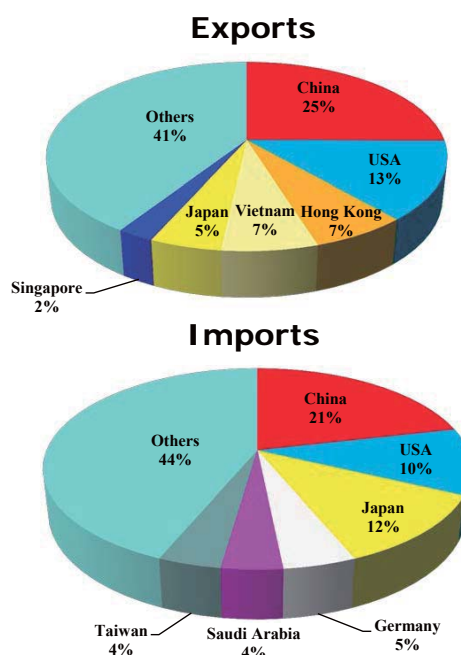
FTA Network



(Jan, 2017)

Source: Ministry of Trade and Industry and Energy

Share of Exports and Imports by Country



Note: Annual cumulative data, Dec 2016
Source: Korea International Trade Association(KITA)

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Eurasia Initiative with no fruits



1. Tasks

- 1) Building & Facilitating networks for Economic Cooperation
- 2) Creating Foothold for Economic Cooperation
- 3) Establishing the basis for Economic Cooperation



2. Key Projects

- 1) Silk Road Express
- 2) ICT Network
- 3) Electricity Network
- 4) Developing Industrial Complex
- 5) Establishing institutional infrastructure & mechanism for industrial cooperation
- 6) Improving Trade Environment



3. Goals and Objectives of Eurasia Initiative

One continent
Creative continent
Peaceful continent

Source: Presidential Office and Korea Institute for International Economic Policy

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Policies and reform agenda for stable, strong and balanced growth

- Improve macroeconomic and financial management
- Safeguard mid-term fiscal sustainability
- Establish a system for a more creative and innovative economy
- Improve efficiency in labor and financial markets
- Promote SMEs and modern service industries
- Improve governance and institutional quality
- Reduce income inequality
- Improve social welfare spending
- Promote environment sustainability

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Can Northeast Asia strengthen cooperation?



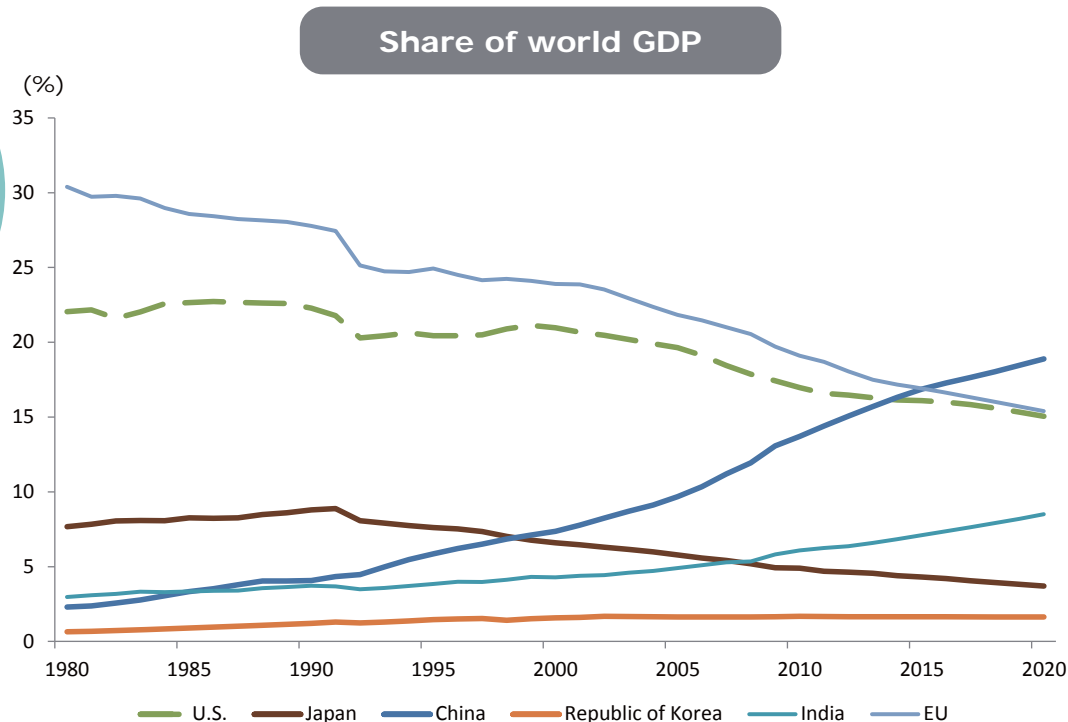
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Rationale for regional economic integration and cooperation

- **Benefits from connectivity**
 - Gains from freer and less costly movements of goods, services, capital, information, labor
 - Benefits with a large market due to scale economies and network externalities
 - Gains from comparative advantage and efficiency
- **Managing cross-border issues**
 - For example, negative spillovers from epidemics, natural disasters and pollution
- **Promotion of regional peace and stability**
 - Deeper economic integration helps to reduce the likelihood of political and military conflicts

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Rising Asian economic power



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Constraints and challenges to regional cooperation

- Economic and political diversity
 - Heterogeneous preference, asymmetric power
- Strong influence of outside actors
- Rising nationalism and territorial disputes
- Difficulties in building political consensus
 - National sovereignty
- No clear vision and strategy for Northeast Asian integration
- Lack of political leadership
- Compatibility of sub-regional, regional, and inter-regional institutions

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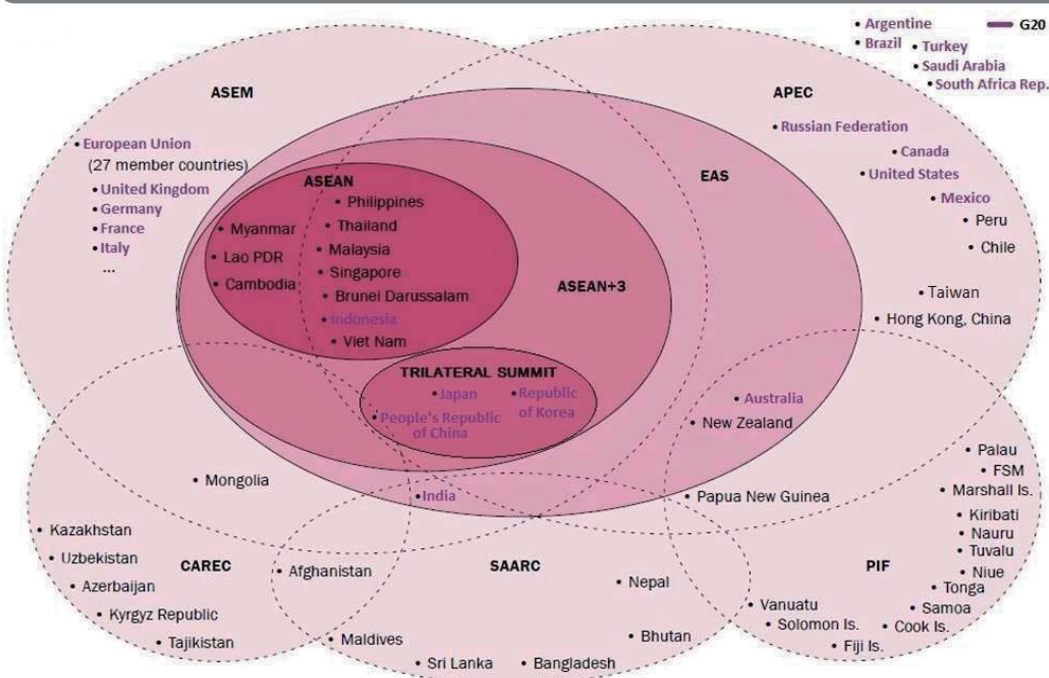
Chinese dream: One belt, one road



Source: Asia Pacific Intellectual Capital Centre Ltd; South China Morning Post

Multi-layered regional architecture

Regional, Subregional, and Transregional Forums in Asia and the Pacific



Notes: APEC = Asia-Pacific Economic Cooperation; ASEAN = Association of Southeast Asian Nations; ASEAN+3 = ASEAN plus three countries, as shown; ASEM = Asia-Europe Meeting; CAREC = Central Asia Regional Economic Cooperation; EAS = East Asia Summit; FSM = Federated States of Micronesia; G20 = Group of 20; PIF = Pacific Islands Forum; SAARC = South Asian Association for Regional Cooperation. ASEM includes also the European Commission as a member. For CAREC, the People's Republic of China's membership is focused on the Xinjiang Uygur Autonomous Region.
Source: ADB, *Institutions for Regional Integration*, 2010

Agenda for strengthening regional economic cooperation

- Need stronger institutions to complement market-driven integration
- Implement a flexible and pragmatic approach with proper sequencing
 - An immediate leap to European-style institutions is unlikely and unnecessary.
- Establish effective institutions to broaden and deepen integration process and maximize benefits from integration
- Address various cross-border issues in Northeast Asia
- Build up political commitment and national consensus toward a Northeast Asian Economic Community (NAEC)

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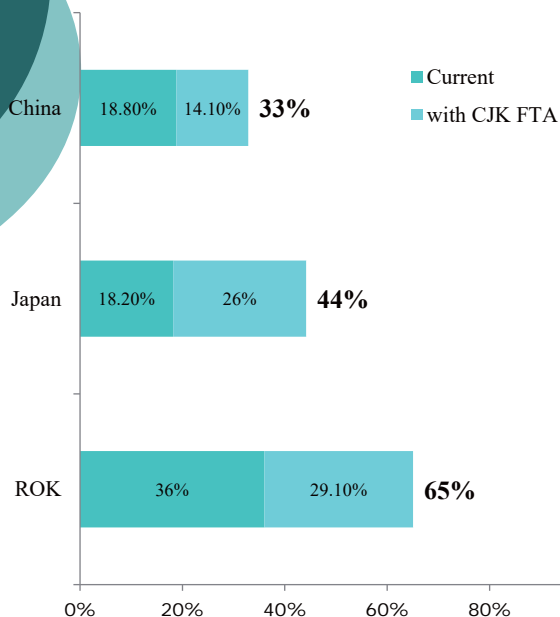
Strengthening institutions in Northeast Asia

- **CJK (China, Japan, South Korea) FTA** to build a single market with free trade and labor mobility
- **Financial stability dialogue** among the region's financial authorities to promote regional financial system stability and prevent a crisis
- **Effective Regional public good's forum** to deal with issues such as natural disasters, environmental problems, and health concerns
- **Dialogues** to share successful economic and social policies and technological and scientific knowledge

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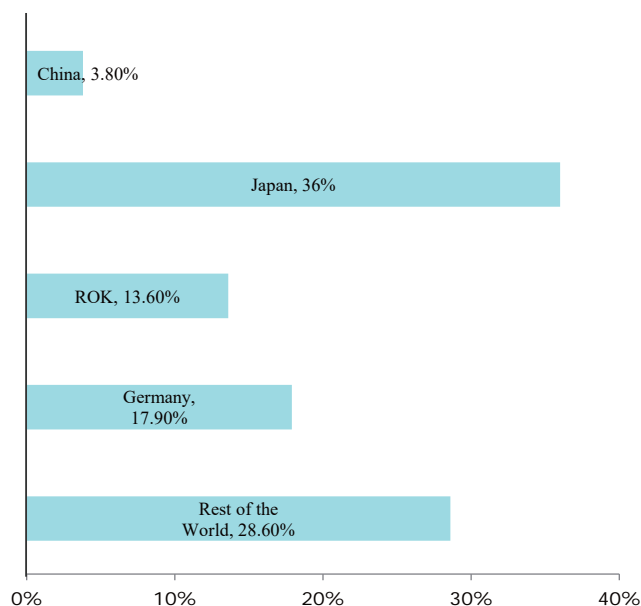
CJK FTA to promote regional and global trade

FTA coverage ratio



Source: Trilateral Cooperation Secretariat

The Share of the value added in the manufacturing process of iPhone 3G



Source: Trilateral Cooperation Secretariat; Xing, Yuqing, "How the iPhone widens the US trade deficit with China" Vox.EU 10 April 2011

Can two Koreas move towards peace and reunification?

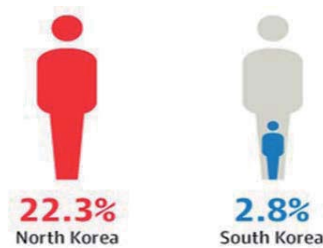


Source: Huffington Post
http://www.huffingtonpost.com/2014/02/25/north-korea-at-night-photo_n_4851929.html



1,390 North Korea
 29,680 South Korea

Per Capita National Income (1,000 won)



22.3% North Korea
 2.8% South Korea

Military expenditure 2008 as a percentage of GDP

North Korea and Northeast Asia Cooperation

- Northeast Asia must work together to promote peace and prosperity on the Korean peninsula.
- The sudden collapse of North Korea or a military conflict on the peninsula would threaten regional security and prosperity.
- North Korea should abandon nuclear weapon and missile programs and embark on far-reaching reforms toward market economy and open trade regime.
- If North Korea takes market reforms and opens up, it can achieve high growth, as China and Vietnam did.
- A Northeast Asian Economic Community (NAEC) may evolve by including a more open, market-based North Korean economy.

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Concluding remarks

- South Korea needs to improve institutions, productivity of its services sector and SMEs, build up creative talents and innovative enterprises, and provide a better environment for child rearing.
- Northeast Asia needs to build stronger and more effective regional institutions to promote cooperation in trade, investment and finance, and deal with cross-border spillovers and regional public goods.
- The region should set up a shared vision alongside good strategies to establish an Northeast Asian Economic Community (NAEC) for the region's peace, stability, and prosperity.

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Thank You

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