



# REFORM FOR ECONOMIC DEVELOPMENT

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# JAPAN'S REFORM AFTER MEIJI RESTORATION(1868)

◆ Objective: Industrialization by catching up western Europe

◆ Strategy

- Strong government initiative
- Close team-up of government and private companies

◆ Outcomes

- Start from textiles, fast move to HCs
- World's top manufacturing in 1980s

# JAPAN'S INDUSTRIAL POLICY

- Target industries: machinery, shipbuilding, steel, coal, chemicals, cars
- Policy tools
  - ✓ credit rationing, financial repression, entry barrier, import protection, export promotion
  - ✓ domestic saving, tech. import, cooperative labor relations, skilled manpower, investment promotion
- Japanese style corporate governance
  - ✓ lifetime employment, quality control, vertical supply-chain

# ABENOMICS AND REFORM

## ◆ Fiscal consolidation

- pro-growth, medium-term perspective

## ◆ Corporate governance

- Easy enter, easy exit (metabolism is up)

## ◆ Deregulation

- Special economic zone

## ◆ Corporate tax cut

- 35% → 32% ?

## ◆ Women participation in labor market

# KOREA'S REFORM

◆ 1960s-

➤ Government-led export-driven growth

➤ Why is it called government-led?

- ✓ Government set national agenda of “Nation Building by Export”
- ✓ G. mobilized peoples' energy and national resources for supporting export
- ✓ G. intervened in the market to allocate resources towards export
- ✓ exporters were private entrepreneurs. G. was problem-solver of mkt. failure

# KOREA'S INDUSTRIAL POLICY

## ◆ 1960s

- Export industry was decided by static comparative advantage → textile, wig,
- L/C financing, low i.r., no import tariff for intermediate, marketing (kotra)
- Strict enforcement of annual export target: Presidential Export Promotion Meeting (monthly)
- Moral boost for exporters: national award

# KOREA'S INDUSTRIAL POLICY

## ◆ 1970s-80s

- Picking the winner: steel, petrochemical, machinery, cars, non-ferrous metal, ship
- Allocate domestic saving to HICs
- Seek foreign debt-financing
- Import restriction, export promotion
- Tech. foreign licensing, domestic R&D
- Skill workers, engineer, scientist training and education
- Foster private entrepreneurs

# KOREA'S POST-CRISIS REFORM, 1998-

## ◆ Government-led → market-led

- Financial liberalization
- Labor market flexibility
- Privatization of state-owned companies
- Accountable and transparent corporate governance
- Import liberalization

◆ Reform fell short of freeing private sector from gov't regulations. Problematic even today.



# IMPLICATIONS FROM J-K-C EXPERIENCES

- ◆ Take-off stage from poor to middle-income level, political stability of long-term government regime is favorable to fast economic development
- ◆ Government initiative, leadership, and close government-business partnership is conducive to faster transformation into high value-added industries
- ◆ Shift to market-driven economy is difficult due to interest group resistance

# ASEAN IS DIFFERENT

## ◆ Initial conditions

- Richer natural resources, easier access to FDI, generous foreign aid → less capital constraint
- Political democracy → populism, in-continuity, inconsistency, hard to focus on priority sectors
- Deeper, broader globalization restricts ASEAN policy autonomy, including trade lib. , financial lib. and industrial policy

# CHALLENGES FOR ASEAN REFORM

- ◆ More market oriented → slower transformation into HCs and knowledge-based economy due to shorter time-horizon of market
- ◆ Multi-faceted objectives of economic policy
  - Inclusive growth, sustainable growth becomes global fashion. growth, distribution, environments conflict each other. needs to prioritize and balance.