



Book Review

Korea's New Economic Strategy in the Globalization Era

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Korea's New Economic Strategy originates in papers written for a conference at Griffith University, Brisbane, Australia, in September, 2001. Its 14 chapters assess South Korea's geopolitical situation and its strategies for trade, business/finance/investment, primary industries, labor relations/social welfare, and for developing an information society/knowledge-based economy. Although coverage is extensive, the six parts share a concern for appropriate structural response required by globalization and by Korea's '... national drive to develop an information- and knowledge-based economy' (Introduction, p. xvii).

Readers might dismiss all this as impossibly ambitious, given the political stasis and weak implementation that often inhibit existing policies, let alone new ones. Or they might conclude that strategy considerations in Korea are not relevant elsewhere. They would be wrong on both counts. All countries are affected by globalisation and new information technologies. Although most may not emphasise economic development as much as Korea does, or share its political and bureaucratic responsiveness to external changes, they still face many of the same issues when dealing with trade, business, and the rest of the strategic matters dealt with here.

One subject is unique to Korea, however. The Republic of Korea shares the peninsula with North Korea, a failed economy mired in what the authors call a 'poverty trap'. Although Koreans may dream of future unification, the immediate issue is how to expand inter-Korean economic relations when trade is dominated by 'non-transactional' considerations (eg, relief for starving North Koreans) and when any inter-Korean issue involves Russian, Chinese, Japanese, and American geopolitical interests as well as those of the two Koreas. Unification is not such an issue elsewhere; other countries are not the objects of such major power interest.

The title of this book inspires the question of why should globalisation require a new economic strategy. A partial answer is that new strategies, which mark a shift from '...extensive government intervention to a market-oriented paradigm...' are needed for '...securing Korea's international competitiveness...' (p. xvii). Globalisation, which currently features



outsourcing of economic activity, presumably raises the level of international competition. And competitiveness is thought to be better served by market solutions than by inherently less efficient government intervention.

To what extent has Korea adopted new strategies or a 'market-oriented paradigm'? Policy has certainly been *dirigiste* in Korea, but intervention focused mainly on establishing new heavy, chemical, and electronic industries during the 1970s. Since then policy has been more market oriented, though it is as yet unclear to what extent policymakers have adopted a 'market-oriented paradigm.' In Bernie Bishop's chapter on foreign direct investment, for instance, he finds that Korea leads other Asian countries in liberalisation, but that this was due as much to manufacturers achieving international competitiveness and to external circumstances – such as IMF rescue conditions and OECD membership requirements – as to purposive liberalisation.

The second link of interest is that between market orientation and international competitiveness. A chapter by June-Dong Kim and Jong-Il Kim presents new evidence on the impact of service trade liberalisation on productivity and, hence, international competitiveness. The Kims found that service inputs in other sectors like manufacturing were too small to generate a significant impact. There were, however, significant increases of productivity in 1990–1997 after liberalisation of imports in services like distribution and transport/communications. Productivity dropped in finance, which had not been liberalized.

Most of the book illustrates the shift from interventionist to market-based strategies for standard sectors like trade, business, labour, etc. The last part is different, because the new strategy for 'an Information- and Knowledge-based Economy' follows from the financial crisis of the late 1990s and growing evidence that the established strategy, in which growth was input driven, was increasingly limited by decreasing returns to additional inputs. According to the authors, a knowledge-based economy requires a substantial information infrastructure, skilled and creative human resources, better science/technology capabilities, and increased emphasis on knowledge-intensive activities like finance, communications, and high-tech manufacturing (p. 215). Of particular interest is the important role of government in fulfilling these requirements. This includes unexceptionable goals like promoting competition and entrepreneurship and modernising the legal and institutional infrastructure. But government is also charged with coordinating research activity, which is overly compartmentalised and hence limited in diffusion effects, with raising relatively low public investment in education that '... keeps the Korean public education system weak' (p. 222), and even working with society at large to change '...cultural attitudes toward failure' that now



inhibit innovation (p. 228). Evidently, the old strategy's interventionism persists in Korea's new strategy for a knowledge-based economy.

This last point is hardly surprising since competing explanations for Korea's highly successful economic development call for different strategies for the future. For instance, a neoclassical explanation associated with the World Bank emphasised the role of market solutions and outward-looking free-trade policies. Since 1993, with the publication of *The East Asian Miracle: Economic Growth and Public Policy*, the Bank has modified its view to recognise the importance of government intervention to offset market imperfections. This brings the Bank closer to the political-economy or institutionalist approach, which stresses the role of intervention to initiate and promote the new organisational and institutional arrangements needed for development. A third explanation, which might be called the 'technological-capability' explanation, emphasises the role of public policy in promoting the mastery and diffusion of new technology. Elements of all three explanations can be found behind the proposals advanced in the present collection.

This reviewer would encourage anyone interested in strategies for dealing with globalisation and increasingly important information- and knowledge-based activities to read this book. I cannot do justice to the myriad of subjects or details of analysis in a short review, but I can say that readers will not find mere laundry lists of proposals or superficial analyses. They will appreciate, if they do not already, how little formal theory has to offer policymakers. They will also find a wide-ranging exploration of current issues and a generally thoughtful approach to the many practical and theoretical considerations posed by Korea's new economic strategy.

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