

Book Reviews

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Korea's New Economic Strategy in the Globalization Era.

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Reviewed by
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Numerous researches have investigated and analyzed the miraculous economic growth of Korea in the past four decades to draw lessons and develop growth strategies for developing economies. On the other hand, many papers have been put forth in the aftermath of the currency crisis in 1997 to discuss the fundamental weaknesses of the Korean economy of the present. However, very few studies have explored the challenges and the changing economic strategies of Korea in the period where the growth paradigm shifted from government-led to market-oriented growth leading up to the globalization and information era in the 1990s. This book does a remarkable work in giving the audience a comprehensive look at wide variety of issues concerning Korean economy undergoing a dramatic transition from the past growth strategy.

The book comprises of papers contributed to a conference held in 2001 discussing the broad spectrum of issues regarding Korea's new strategy in the globalization and information era. The fourteen papers dealing with different dimensions of the Korean economy all depict the government-led interventionist strategies of pre-1990 period and a rapid evolution into a

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market-oriented economy based on liberalization and deregulation in the 1990s in the face of globalization efforts of the international environments and internal setbacks such as economic crisis in 1997. In Chapter 1, Lim and Ro examine geopolitical and economic roles of Korean Peninsula and further discuss international and regional development in the post-Cold War period with the objective of unification. Cooperation and collaboration involving both Koreas and the regional four competing powers are emphasized. Particularly interesting is the proposal of the regional business center on the peninsula. In Chapter 2, Lee and Yoon review the past and current inter-Korean economic relations and argue for the stronger bilateral economic relations between two Koreas which may be the only door to solve the poverty trap in the North and the stability and economic breakthrough for the South.

In Chapter 3, Kwon proposes an economic policy for Korea in the globalization era where government replaces its dirigist economic policy with an open policy to improve social infrastructure, enhance transparency and accountability in order to attract FDI and promote competition. In Chapter 4, Lee, Choi and Kang describe recent success in Korea's trade policy toward liberalization. They suggest that Korea should contribute to economic integration through more liberalization and deregulation taking a multi-track approach toward WTO's Doha Development Agenda, free trade agreements and bilateral investment treaties. In Chapter 5, Kim and Kim document the drastic liberalization in the service sub-sector during the 1990s as a result of Uruguay Round talks and accession to OECD. They provide empirical evidences showing that the service sub-sectors have experienced increases in sectoral total factor productivity following the service sub-sector liberalization.

In Chapter 6, Jwa proposes a new framework for government-business relations where the government should uphold "rules of the game" and focus on exogenous environmental and institutional factors. It is recommended that government should establish appropriate institutions to enhance the market's monitoring and discriminatory functions to effectively select the

viable from non-viable firms through competition, while leaving the endogenous business decisions to the internal market players. In Chapter 7, Bishop evaluates Korea's policy in liberalizing FDI and presents a particular dilemma that other East Asian economies are facing in their decision to liberalize FDI. FDIs may be beneficial as they provide external finance and foreign technology to assist development process, but liberalization may lead to negative consequences such as elimination of local firms, chronic trade deficit and failure of absorbing foreign technology. Political consideration as well as the external forces of globalization will influence these countries' decision. In Chapter 8, Jwa and Hahn distinguish between Anglo-Saxon 'market-based' financial system and 'bank-based' finance in Germany, Japan and Korea. They propose an open-ended policy where Korea should move toward adopting stronger global standards to achieve economic efficiency and to accommodate the demands of external market forces, but should also take into consideration of the country-specific institutional environment and financial-market players when envisaging financial reforms. Deregulation of bank ownership and universal banking system under effective prudential regulatory system may help overcome Korea-specific financial system weaknesses.

In Chapter 9, Yoo ascribe the declining relative importance and lack of competitiveness of the agricultural sector to the industrialization strategy from the 1970s. Facing inevitable forces of liberalization in the agricultural sector, the Korea's position in Doha negotiation is evaluated and creative policies are proposed to make rural communities viable. In Chapter 10, Bang and Chung describe the ongoing transition of government-directed central planning system to a decentralized market-oriented system in the Korean energy sector by facilitating competition among sellers and buyers which will induce adoption of more efficient and flexible supply contracts. Inter-regional cooperation and strategic alliance in the Northeast Asia are proposed for energy procurement.

In Chapter 11, Lee and Lee document the significant steps that Korea has taken since 1987 to move labor standards toward international norms under a

new model of negotiated partnership while weathering confrontations between business and trade unions and also coping with economic crisis at times. In Chapter 12, An and Choi emphasize the need for distinction between short-run demand for welfare focusing on reduction of unemployment, poverty and inequality and long-run demand for welfare aiming at enhancement of quality of life. This distinction will help efficient allocation of welfare funds. They propose principles of social welfare funding in relations with target efficiency, structure of government expenditures, support from and harmonization with other policies.

In Chapter 13, Pai, Park and Chang assess the Korea's drive towards knowledge-based economy and propose government's active role in providing information infrastructure, upgrading the education system, improving the innovation system and implementing institutional reforms. They suggest further reforms such as streamlining the outdated regulatory and legal structure, deregulating and diversifying the education system and strengthening the systemic linkages in Korea's innovation system for the progress of the sector. In Chapter 14, Yoon and Sonn describe the Korea's policies on informatization and consequent establishment of CYBER KOREA 21 which has greatly improved the information infrastructure of Korea. They argue that upgrading business practices and social systems, legal and institutional reforms, and maximizing the use of information technology will help enhance the overall national productivity.

Overall, the book gives us a comprehensive and in-depth look on the dramatic transition of the Korean economy in the 1990s. Although the unprecedented post-war growth of the economy has been widely viewed as a miracle, we find a greater miracle in that how rapidly Korea was able to liberalize its economy and adapt to internal and external challenges by discarding its past growth strategies to adopt new ones and yet maintaining sustained economic growth. As path-dependency dominates all aspects of the economy, the policy recommendations presented in the book are very timely considering the fact that Korea is on the crossroad to determine its long-run economic goal. Whether or not the Korean economy succeeds in

adopting these recommendations and goes through a successful transformation to an advanced economy remains to be verified in the coming years, but many predictions and points made in the book are very relevant and may serve as an astute guide to deal with the current issues.