

The Korean Economy: Hard crash or soft landing

Overview

The Korean economy has accomplished a remarkable performance during the last half century. For example, per capita measured by GDP (Gross Domestic Product) increased from \$70 in 1954 to \$10,163 in 1995. In spite of poor initial conditions - such as scarcity of natural resources, small domestic market and low savings - for economic development Korea is going to become a member of OECD which is a symbol of an advanced country. Highly educated human capital, entrepreneurship and able government officers contributed to economic development. The characteristics of growth in the Korean economy can be summarized as follows: condensed growth, unbalanced growth and extensive growth. The condensed growth means that economic development was achieved within short period relative to advanced countries by omission of the adjusting process in economic development. The unbalanced growth means that most efforts such as government policy and finance support were invested into particular economic sectors such as heavy and chemical industry rather than light industries. The extensive growth means that the economic growth was accomplished by input of hardware such as physical resource, labor and capital rather than productivity progress.

Current status: Hard crash or soft landing

As a result, the Korean economy has shown the bright and gloomy side. The bright side of the Korean economy was described as 'Miracle of the Han river' while the gloomy side was depicted as 'A paper tiger.' According to <Table 1> Korea experienced high economic growth accompanied by high inflation rate. This so-called 'a stylized fact' in the Korean economy has been changed since 1992 because of government's policy changes represented as microeconomic structural adjustment and macroeconomic stability policies. At that turning point, someone claimed that our economy is in a state of hard crash while others asserted that we are in a state of soft landing. That debate is resurrecting recently. What is the current status of the economy? It is very useful to take a close look at macroeconomic variables such as real economic growth, inflation rate and current account deficit so that we may diagnose the current status of the economy. In regard to macroeconomic variables in

<Table 1> the Korean economy does not appear to be troublesome except current account. But this does not imply that our economy does not have any problems. What is the problem with our economy? We can list lots of problems. In short, it could be summarized as 'high cost, low efficiency structure.' High wages, high land rent and high interest rates are big obstacles for Korean economy to make a sustained growth.

<Table 1> Major Economic Variables

	1990	1991	1992	1993	1994	1995	1996(1st half)
real GNP growth rate(%)	9.6	9.1	5.0	5.8	8.4	8.7	7.2
inflation rate(%)	8.6	9.3	6.2	4.8	6.2	4.5	5.0
current account deficit (thousand of million US dollars)	-21.8	-87.3	-45.3	3.8	-45.2	-88.2	-88.3

Twin reform

The new government introduced various types of economic reformation program such as real-name system for financial and real estate transactions, tax system on capital gains and liberalization of foreign and financial market. These institutional reformations aimed at curing the problem with our economy and reinforcing the competitiveness of the nation. It is too early to evaluate merits and demerits of these reformation programs. But we have some bad news. Despite of full-fledged implementation of the real-name system, the so-called 'private' money market has been diversifying and expanding according to a survey of the Korea Institute of Finance. The overall competitiveness of Korea ranked 24th among 48 countries in 1995 and 28th among 46 countries in 1996 according to *The World Competitiveness Report* published by International Institute for Management Development. The reason that our economy has yet to have a strong shape is not the lack of good institutional reformation programs but the absence of accompanying economic agents' willingness to accomplish them. The completion of these two reforms, I call it 'a twin reform', will guarantee the rose-colored future of our economy.

New paradigm

Korea will be one of the G-7 countries from an economic point of view by 2020 according to a report of Korean Development Institute. In addition, the

quality of life is also expected to be as good as other advanced countries. This vision of the Korean economy is hardly expected to be achieved unless the current paradigm is changed. Now we need to adopt 'a new paradigm' in order not only to survive but also to make an advancement. Then what shape of the new paradigm should be. Let me stress three points. First, the policy of economic growth should be converted from condensed, unbalanced and extensive growth to steady, balanced and intensive growth. Second, the economic policy should be designed not to control the short-term performance but to bring up potentiality of the long-term growth. Third, economic agents must be faithful to their duties: Consumers should keep rational consumption, business person must stick to seek innovation while government officers have to establish 'rules of game'. It may take a long time for this new paradigm to take an effect. At this point it will be very useful to ponder what A. Blinder, a professor of Princeton university, said: 'No technical problems stand between us and the hard-headed but soft-hearted policies that can make our economy work better. We need only the will to find the way.' Thus we, all economic agents, have to endure in finding the way for the success settlement of the new paradigm. The success of the new paradigm will guarantee the positive-sum game and thus shed a great light on the 21st century of the Korean Economy.

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