

The National Conference "Learning From Korea - Sustaining Growth In A Dynamic Environment"

Sunway Convention Centre Bandar Sunway, Kuala Lumpur 10
October 2002

I would like to thank the NEAC and ASLI for inviting me today to speak on "Learning from Korea: Sustaining Growth in a Dynamic Environment". This topic is timely because Malaysia continues to explore better and more efficient ways of doing things in order to have a sustained high growth, given the current rapidly changing global scene. I understand that this Seminar is a part of our "Look East Policy", which was introduced in 1983, to share experiences with our East Asian neighbours on how to develop our economy and have effective social and national development.

2. When I visited Korea in May of this year, I saw a country that has recovered well from a devastating economic and financial crisis. It is now participating actively in the new economy, based on advanced technology and high-skilled activities. I also observed a country practising strong work ethics and culture and a hard-working population. These solid fundamental helped Korea leapfrog from a developing economy to a developed country status. Korea has transformed herself from an agrarian economy in the early sixties into a modern, vibrant and wealthy industrial country in the new millennium, a transformation that took about 40 years. It achieved one of the fastest rates of economic growth in the world. In 1960, GDP growth was only 1.1 percent but with the introduction of the First Five Year Plan (1962-66), the average growth for that period was at 7.8 percent. Between 1960 and 1996, its per capita income grew by leaps and bounds, from a mere US\$79 to US\$8,483. In fact, the per capita income soared to US\$10,603 in 1997 before succumbing to the East Asian Crisis. In 1996, Korea was admitted into the OECD.

3. The 1997 Asian crisis devastated the economies of Korea and Malaysia, which were both enjoying a high growth. As we all know, the massive outflow of foreign capital during that period caused the sharp depreciation of regional currencies and subsequently led to severe contraction in our two economies. What drove the attacks on these currencies was the opportunities for some speculators to make a lot of money. Unfortunately, our strong fundamentals were forgotten when funds were being pulled out. But, the quick recovery from the crisis has proved that our fundamentals are indeed strong.

4. For Korea, the 1997-98 devastation was the worst crisis since the Korean War. The Korean economy contracted by 6.7 percent in 1998, where unemployment peaked at 6.8 percent and

exports fell by 4.7 percent. Korea had to borrow US\$58.4 billion from the IMF to weather the crisis. But this only served to strengthen Korea's determination to regain their economic growth and to build a stronger future. The turnaround of the Korean economy came immediately. Its GDP growth rebounded to 10.9 percent in 1999, 8.8 percent in 2000 and it even managed to expand by 4.5 percent in 2001, despite the 11th September catastrophe. But what is most admirable is that despite the deep crisis, Korea was able to repay her IMF borrowing of more than 50 billion US Dollars.

5. Malaysia, which took a different route in responding to the crisis, also had a rapid recovery. The economic recession in 1998, where the gross domestic product declined by 7.4 percent was the worst we ever experienced. Private sector investment declined by 55.2 percent in 1998 and as a result the public sector had to take a leading role in reviving the economy. Through fiscal expansion, a stable domestic economic environment provided by pegging of the ringgit and the robust export growth, Malaysia achieved 5.8 percent GDP growth in 1999 and 8.3 percent in 2000. We have successfully removed non-performing loans from the banking sector and recapitalised some financial institutions. Fortunately for Malaysia, the social impact was not too severe. Inflation did not exceed 5 percent and unemployment was held below 4 percent. Equally important, social stability and cohesiveness were unshaken

6. Now that Korea and Malaysia have regained their direction, we are faced with the challenges of finding new sources of growth and enhancing our competitiveness. These tasks are made more difficult because of the ever-changing global environment. Challenges such as rapidly changing technology, volatile capital flows, globalisation, barriers to trade, shortage of skilled labour, the digital divide and so forth will determine our future. They must be dealt with as effectively as possible. Capital flows that have demonstrated their ugly side to us should come under some form of regulation as we try to bring about greater order in the global economic system. That is why Malaysia has so often called for a review of the international financial architecture, to ensure that the greed of a few does not jeopardise the livelihoods of many.

7. Technological advancement requires a high level of knowledge, innovation and creativity, which are directly related to the level and type of education and learning. Korea has succeeded in enhancing technological capability through education and skill training. We in Malaysia feel the same compelling need to remain competitive.

8. Technical progress and reductions in transport and communication costs have made a more interdependent and competitive world. Nowadays investors seek first-mover advantages, speed to the market, and first-rate access to customers and sources of information. The rapid development of information and communication technology (ICT) and the Internet has exposed inefficiencies in the functioning of markets, firms and institutions. It also put downward pressure on prices and continuously reminds us of the need to restructure and adapt to changing conditions. ICT can also improve the efficiency of interaction among government agencies and the delivery of government services, as well as being a channel for communication with the public. This will bring the re-organisation of administrative and political institutions and dramatic reductions in the cost of delivering services. In addition, new ways and means of networking will change social patterns of work, shopping, learning and leisure.

9. As a country that is well integrated with the global economy, Malaysia can look at Korea's success in penetrating the international market. Korea is the eleventh largest trading nation in the world and is home to the world's largest steel producer. It has created global brands, for example, LG and Samsung are household names in electrical and electronic goods, while Hyundai and Kia are popular cars in the U.S. and Europe. Korea has become the world's fifth largest automotive producer rising from tenth position just ten years ago.

10. But the Korean achievements are not only on the economic front. It successfully hosted the Olympic Games in 1988 and more recently co-hosted with Japan the football World Cup.

11. Obviously many factors have combined well together for Korea to be where it is now. So, our main task today is to know what these factors are, analyse how they were developed and how they function and finally, what lessons Malaysia can learn. But most important of all, the challenge for Malaysia will be to translate these learning experiences into policies and strategies, to make the Korean experience work for us too.

12. What have been the underlying factors that generate this kind of success? It is well known that Koreans place a premium on education and strongly believe it to be a key to success. Korea has the highest per capita number of Ph.Ds in the world, so we can expect its level of thinking, creativity, productivity and innovation to reflect the knowledge contained within the society. As part of its push to improve human resource development, the Korean Government is promoting virtual universities, technical education and lifelong learning.

13. Human resource development in Korea has put great emphasis on skill training to produce skilled labour. For example, engineers in Korean automotive companies have gone beyond re-engineering to achieve by the 1990's true technological independence.

14. Increases in scientific and technological capability and very rapid advances in ICT means that knowledge and information are the key to Korea's competitiveness. Steps were taken to increase the ICT infrastructure. Korea has completed its optical cable network programme in 107 of 144 major targeted regions. Korea also has taken measures to make available computers to the majority of the population. Malaysia has also embraced this strategy through its policy of "one-home one-computer". We need also to maintain Korean discipline and diligence.

15. These efforts resulted in the successful development of Korea's information society. Korea ranks sixth in the world in terms of the number of internet users, with the nation's on-line financial trading system among the most advanced. The Internet penetration rate by household increased from 45 percent in 1998 to 71 percent in 2000.

16. In light of the global and domestic challenges and the Korean experience, Malaysia needs to examine her position critically. Creating a globally competitive work force is undoubtedly the key to enhancing competitiveness and to attract new investments. We can no longer be competitive in attracting "low tech" investments and depending on low cost labour. Under our Second Industrial Master Plan (1996-2005), we have shifted our focus to capital-intensive industries with higher technology content, thus reducing the need for unskilled or low-skilled workers. The Plan is also to strengthen our export competitiveness through new export products and new markets and to compete on quality and service

17. So what do we have to do to ensure that we achieve our Vision 2020 of being a developed country? Our strategies include building a domestic economy that is robust and resilient and to also be globally competitive. These strategies are focused on three areas; education, technology and strategic global and regional integration

18. Human capital is key to our future and for this we have to leverage our capacity on education. Education in the ICT era will be very different because it is going to shift from merely book-based learning to web-based learning. Science and mathematics have been the core drivers of technological change and so must be emphasised and given prominence. Malaysia is going a step further by opting to teach these two key subjects

in English. We realise that learning from the web requires a good command of the language because more than 70 percent of the web content is in English

19. And now perhaps we should study what is being taught in Korean schools, understand their values and spirit and examine the basis for transformation. We have sent our people to be trained in Korea and to date 317 government sponsored students have graduated from the Korean system either in academic or technical subjects. Today another 131 students are in Korea undergoing training in technical fields, so crucial in current technological development. But perhaps to create critical mass faster, we should consider training our people here in Malaysia but adapting the Korean formula to suit our environment and objectives

20. I think we could have joint venture skill training programmes to enhance the development of our human resource skills. This is what we have been doing with Germany, France and Britain. We should also build our own universities into world class ones. Another method is to forge alliances with world-class universities, acquiring knowledge through the exchange of professors and students, and conducting joint research projects

21. Technological development depends very much on R&D capacity. We see in Korea the existence of a close nexus between government and the private sector. This co-operation on R&D has become a key strategic competitive advantage for any country that aims to participate in the new economy. The private sector supports the government initiatives to develop technological capacity by investing in R&D. This is because the private sector can best identify what research needs to be done. Businessmen have the motivation, capital and know-how to commercialise research findings

22. Internal efforts to generate growth are sometimes insufficient and must be complemented by linkage with the global economy. For an open economy such as Malaysia, securing export markets and attracting foreign investment are essential parts of its economic growth. Therefore, to generate higher growth in the East Asia region, we must work at intra-regional economic relationships in trade, investment and cooperation. The concept of ASEAN+3 means the ten ASEAN countries need to have closer relationships with Korea, Japan and China. Together, ASEAN+3 have tremendous human resources of about 1.9 billion people while Europe has 590 million and North America has 400 million people. In terms of share of global GDP, the North East Asian economies contributed 20 percent in 1999 and this is expected to reach 30 percent by 2020. This is the market that we need to engage.

23. ASEAN+3 or EAEG was mooted some time ago but the response was lukewarm. But now, the market has recognised the inter-linkages between these economies. It was demonstrated only too well by the regional contagion effect of the 1997 crisis in East Asia. More positively, in the first half of 2002, when the US and EU economies did not perform well, growth for East Asian countries came from trade within our region. This shows that the future success of East Asian nations will have to rely on themselves

24. The ASEAN+3 have pushed ahead on their agenda of regional economic integration. Partial regional integration is in hand with China and ASEAN having agreed to establish a free trade area in ten years. Japan and Singapore have already concluded their negotiations for an Economic Partnership Agreement. Japan is also seeking greater cooperation with the rest of ASEAN under the Closer Economic Partnership plan. Steadily, the momentum for East Asian regional economic integration is growing. But I hope these separate regional integration initiatives will converge, to achieve a comprehensive and consistent regional integration

25. Against the backdrop of a deepening global slowdown, structural reforms and revitalisation of Asian economies cannot be delayed. East Asia must reduce its dependence on exports outside the region. It must base its economic growth more firmly on domestic and regional demand. To stimulate regional demand, the reduction of barriers to cross-border movement of resources will be critical, thereby integrating long-fragmented regional markets. This in turn, will enhance the profitability of businesses serving the regional market. But, unfettered liberalisation can also cause instability. To avoid this we should take into consideration each nation's national objectives in the liberalisation process to ensure that economic growth and national development are sustained.

26. In conclusion, Malaysia and Korea have some common experiences in our development process. Both our countries have progressed from agriculture to industry and now we are entering the next stage of services and a knowledge-based economy. We have learnt many lessons along the way that we can share with each other. What is important is that we should work together and develop our shared Asian dream. We will co-operate and prosper together.