

함께가는 희망한국



# VISION 2030

*Korea: a Hopeful Nation in Harmony*

2006. 12

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Representing the Joint T/F

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# **I. Background and Progress**

# 1. The Korean Economy Today : Attainments

## Remarkably fast growth in the world history

Time taken to attain per capita income 10,000 USD



UK

1769 (Industrial Revolution)

1987

218 yrs



US

1850 (Industrialization)

1978

128 yrs



Japan

1867 (Meiji)

1981

114 yrs



Korea

1962 (1<sup>st</sup> 5-Yr Plan)

1995

33 yrs

# 1. The Korean Economy Today : Attainments

**Remarkably fast growth in the world history**  
**Advanced stage in quantitative dimensions**

- **Nominal GDP('05) : global 12<sup>th</sup> (787. 5 bn USD)**
- **Trade Volume('05) : 12<sup>th</sup> (545.6 bn)**
- **DRAM sales ('05) : 1<sup>st</sup> (12.1 bn USD)**
- **Ship building ('05) : Global No 1~5 firms in Korea (in ordered tonnage)**
- **Broad-band Internet Penetration ('06.6) : 4<sup>th</sup> ( 26.4 per 100 persons)**

## 2. The Korean Economy Today: Challenges

- In the midst of “deep & fast” structural changes
- Severe confusion / disputes about the present and the future

### Internal Strains

- Sagging and **unstable economy**  
**Losing growth momentum**
- Losing industrial competitiveness
- Job instability (**Jobless Growth**)  
Increasing **disparity** (new divide)
- Fast aging cum low fertility

### External Pressure

- Globalization
- S&T revolution (IT, NT, BT etc)
- Surging-up of China & BRICs
- (+ DDA, FTA)

- **Fundamental changes under way**
  - Market and policy environments
  - **Industrial structure and leading players**
  - **Firm behavior/strategy and exterior interaction**

# >> Domestic Challenges (1) : Growth

<Sagging and unstable economy>

➤ **Growth performance:**

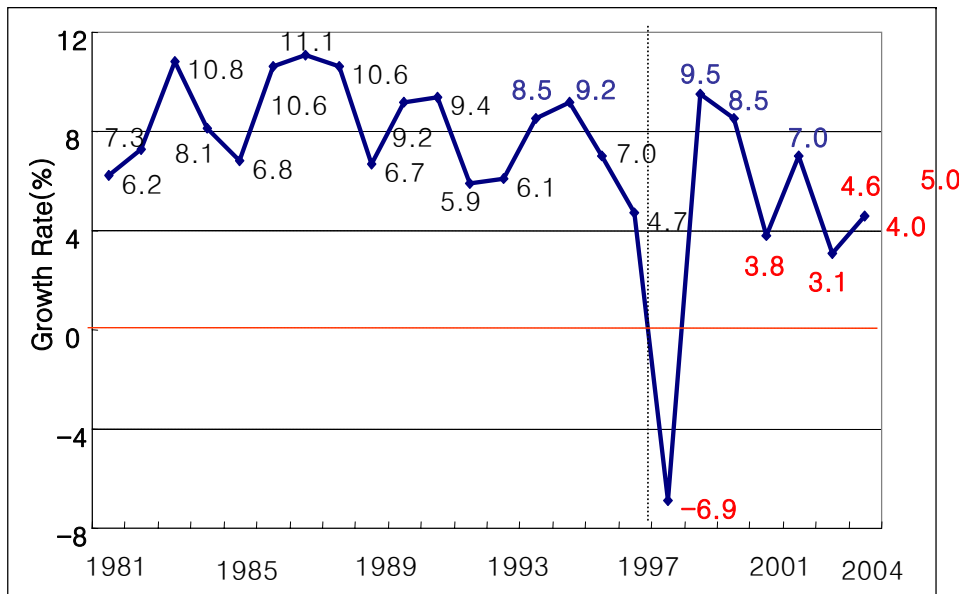
- more precarious since the 1997 crisis
- third business cycles under way now

<Losing growth momentum>

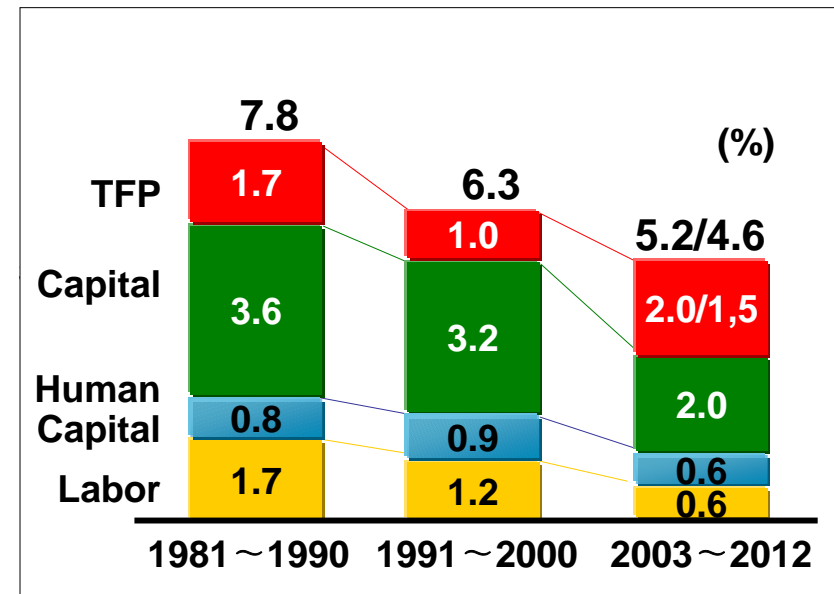
➤ **Long-term potential growth rate:**

- forecasted to fall steadily esp. due to shrinking labor force (**aging problem**)

**Growth Rate (1981-2004)**



**Potential Growth Rate (1981-2012)**



## >> Domestic Challenges (2): Jobs & Disparity

### New challenges arise in both “quantity & quality” of jobs

- ‘**Employment rate**’ remains low compared to advanced nations  
\* (‘96) 63.7 → (‘02) 63.3 → (‘03) 63.0 → (‘04) **63.6 %**
- Employment gains occurred mostly in the ‘**non-regular**’ jobs
- “**U-shaped job-creation curve**:  
\* Mid-level income jobs ↓, while low- & high-level income jobs ↑

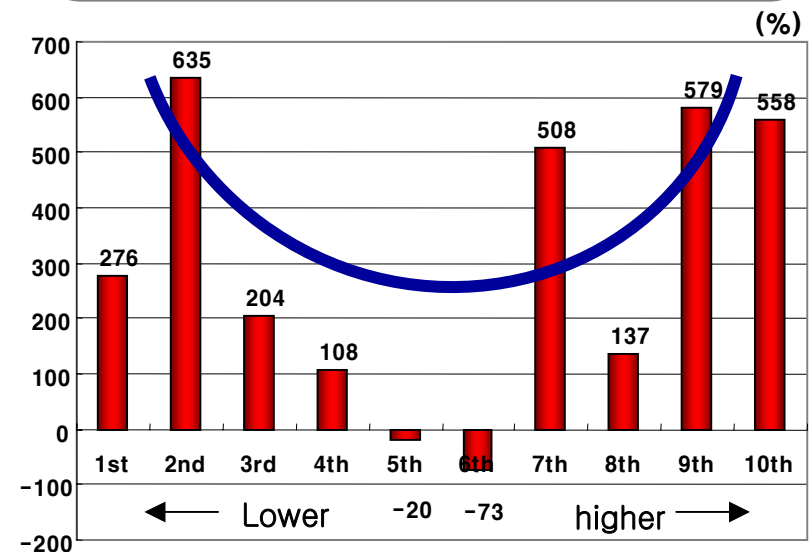
#### Total Employment & Non-regular Workers

(thousand persons, %)

	2001	2002	2003	2004
Employment	21,572	22,169 (2.8)	22,139 (-0.1)	22,557 (1.9)
Non-Regular	3,636	3,839 (5.6)	4,606 (20.0)	5,394 (17.1)

\* The figures in ( ) are the rate of increase (%)

#### Employment Changes by Income-Deciles Jobs Group (‘93~‘04)



## >> Domestic Challenges (2) : Jobs & Disparity

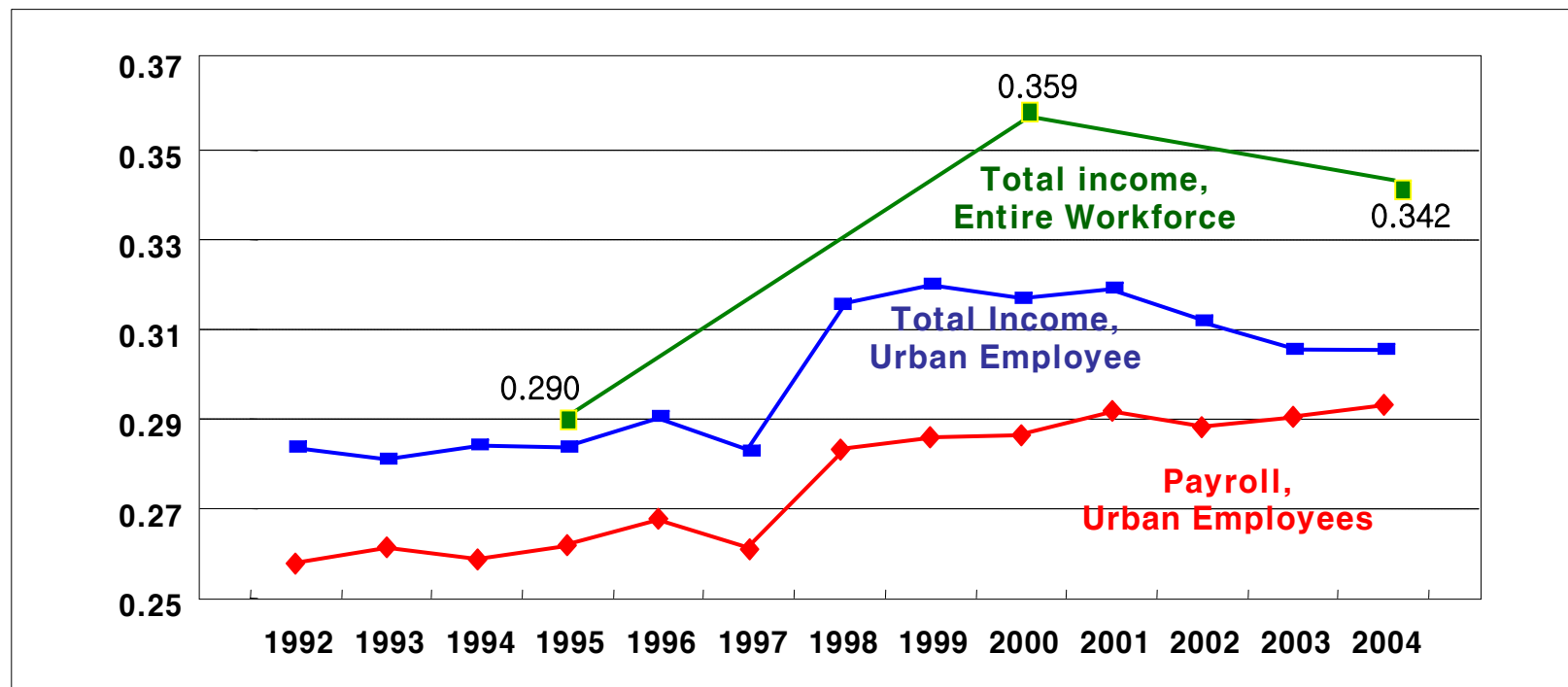
➤ Also, mounting concern over greater **income disparity**

\* Income gap among wage earners (2/3 of total workforce) +

\* among the whole workforce including self-employers and unpaid workers (1/3)

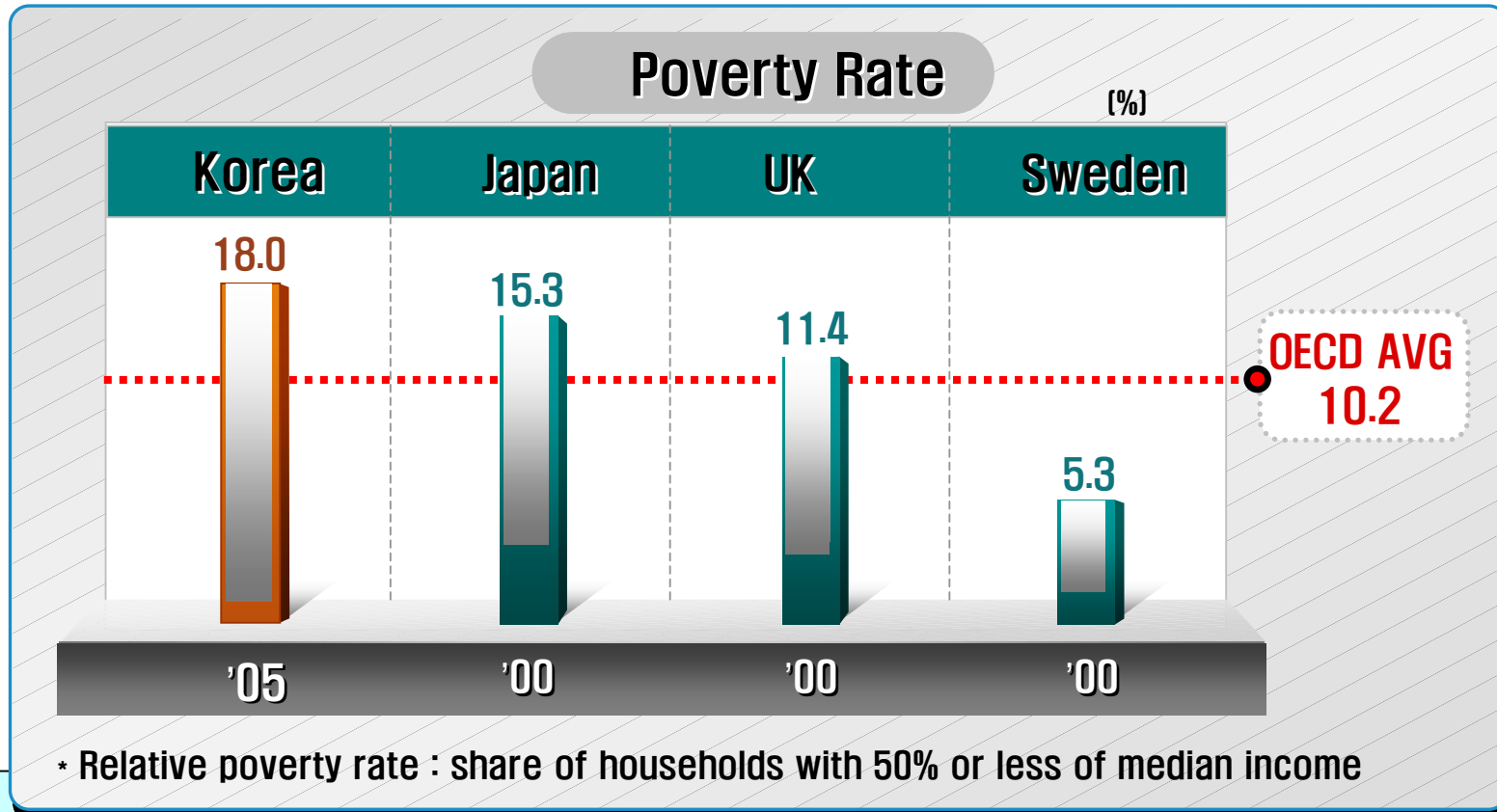
=> New **“Working Poor”** groups: **SMEs labor, self-employers, and temps**

Gini-Coefficients (1992~2003)



# [Box] Economic and Social Disparity

■ Disparity and poverty problems of Korea today:  
serious on international standard (levels close to the U.S.)



Quintile Ratio:	5.4	4.9	4.2	2.8	3.9
Gini	0.31	0.32	0.32	0.24	0.29

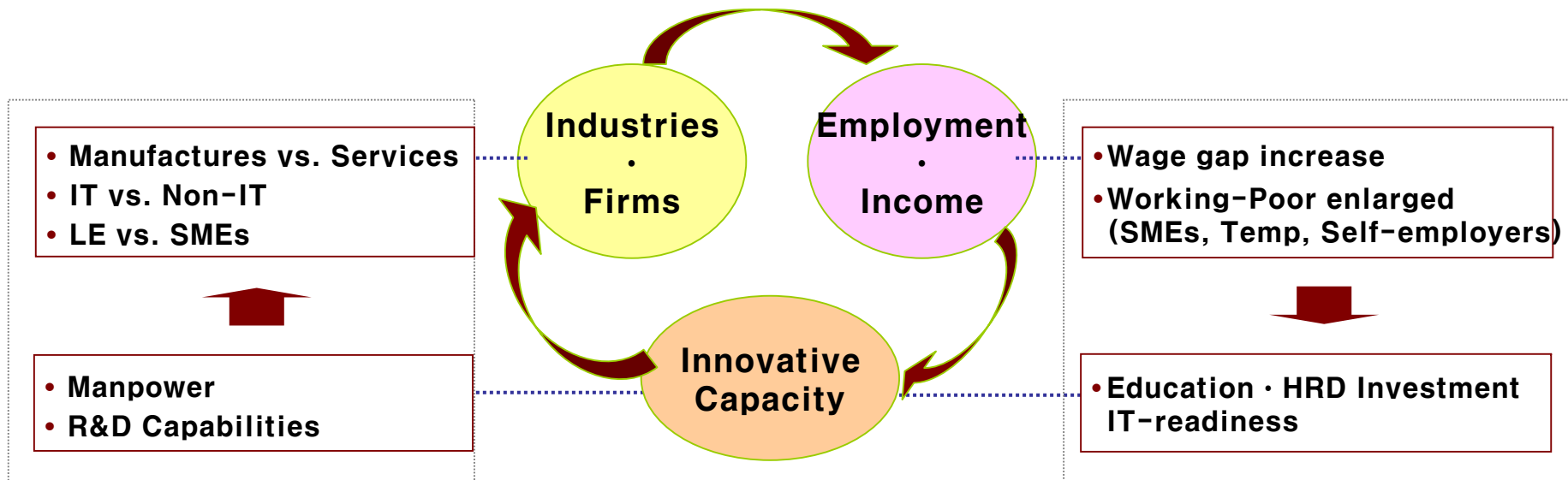
\* U.S. : Poverty Rate 17.1, Quintile Ratio 5.4, Gini 0.32

# >> Polarization in Korea

■ Drastic changes in economic environment,  
=> Rapid progress of **Polarization (Divide)**

- Put up steadily during 1990s + amplified during the recent recession
- Self-sustaining mechanism in effect

## Circular Structure of Polarization



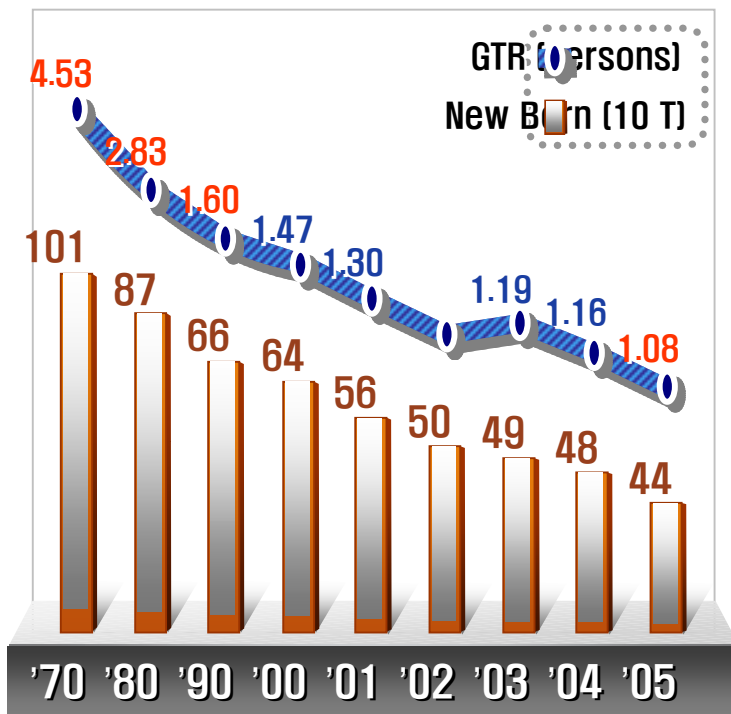
# >> Domestic Challenges (3) : Rapid Aging

## ■ Dramatic fall in fertility rate

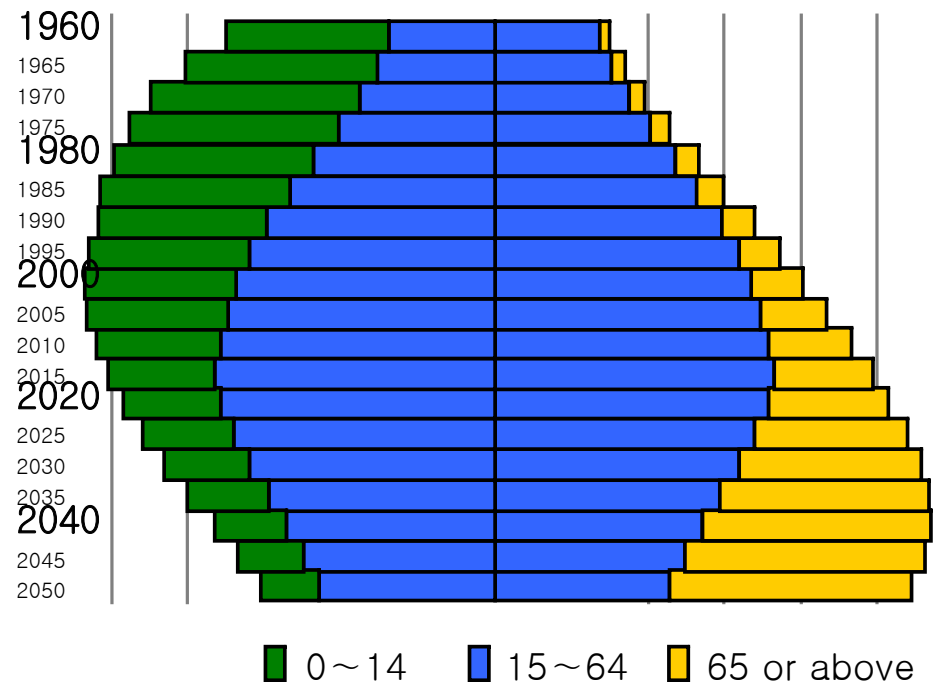
=> historically unprecedented, fast aging under way

- Labor force & population decline foreseen toward the late 2010s
- Burdens for old-age welfare programs rising up steep

Fertility Rate

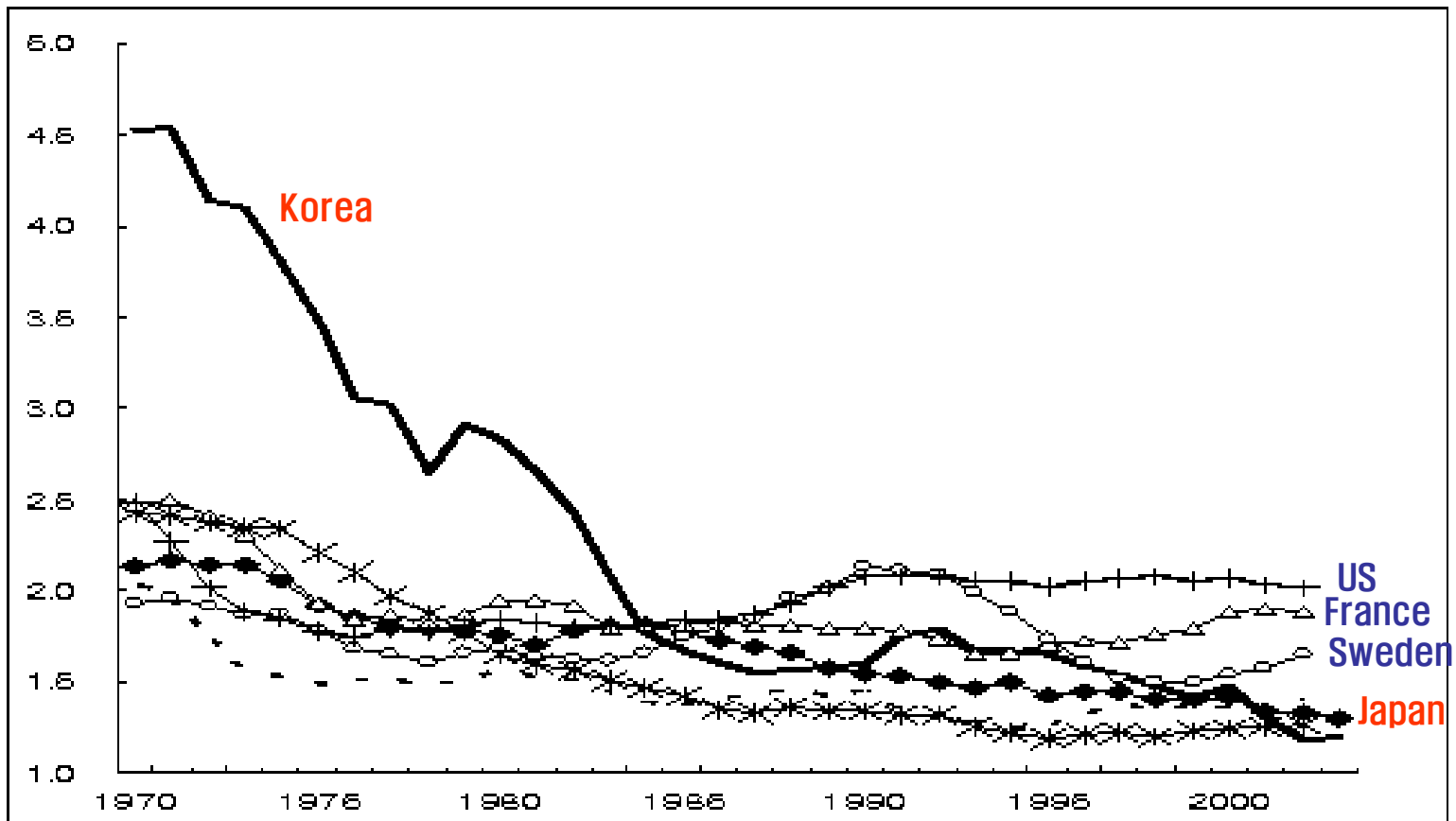


Demographic Structure



\* Statistical Office of Korea ('05)

## GFR trends of Korea and other OECD countries (1970–2004)



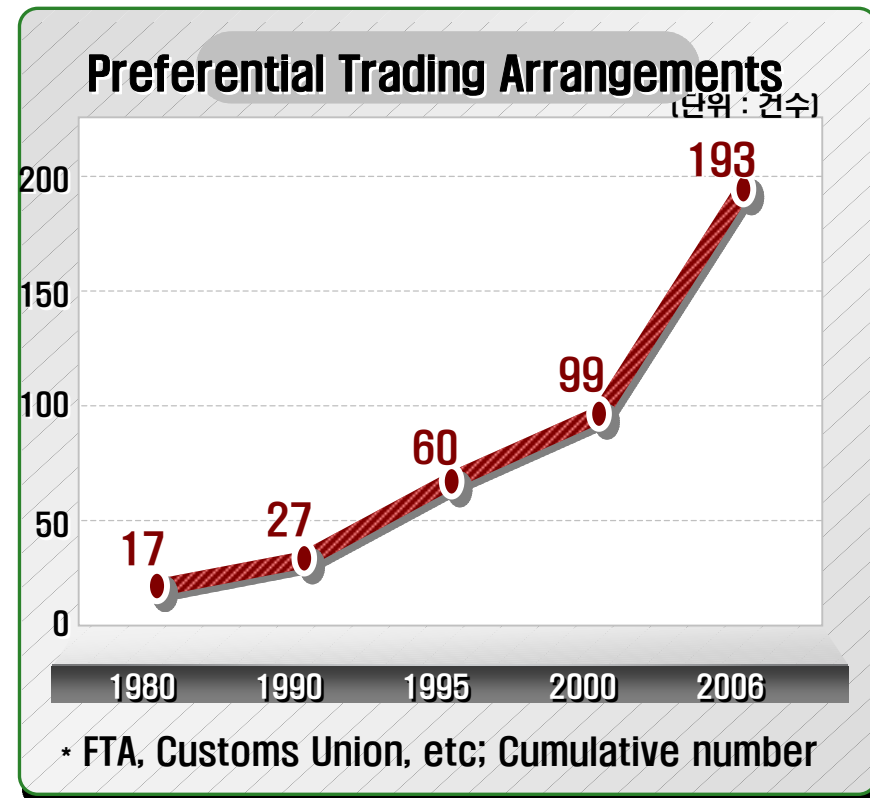
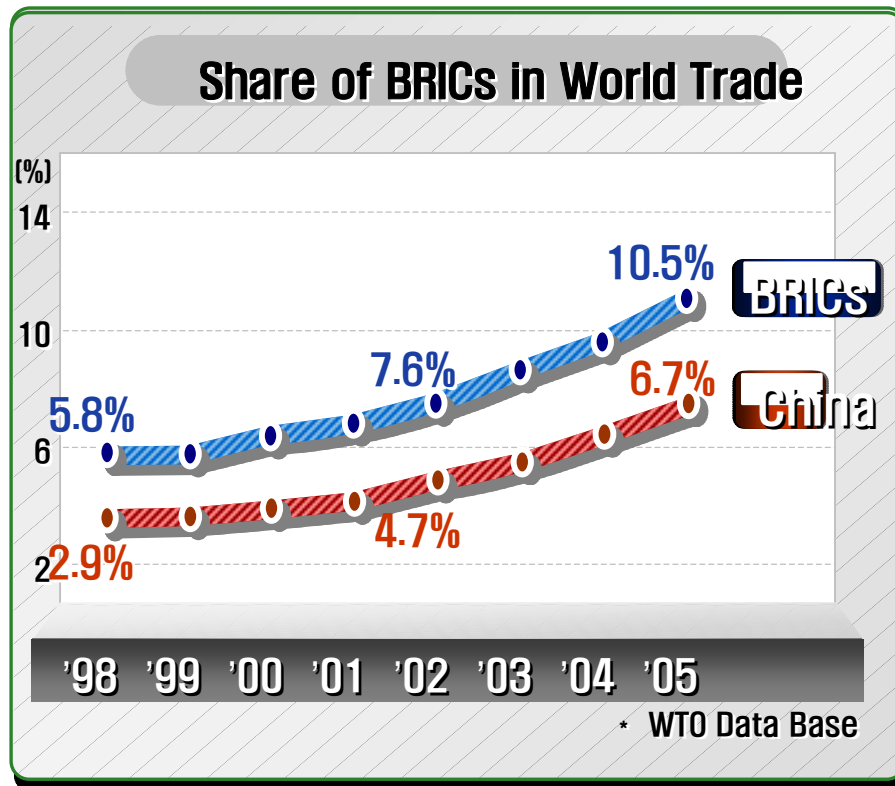
UN, *Population Perspectives*, 2004

## >> Global Challenges

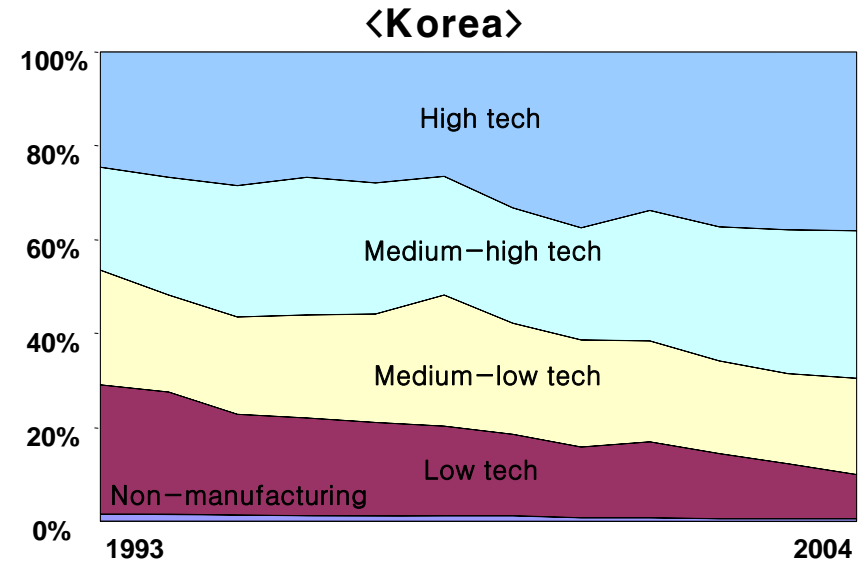
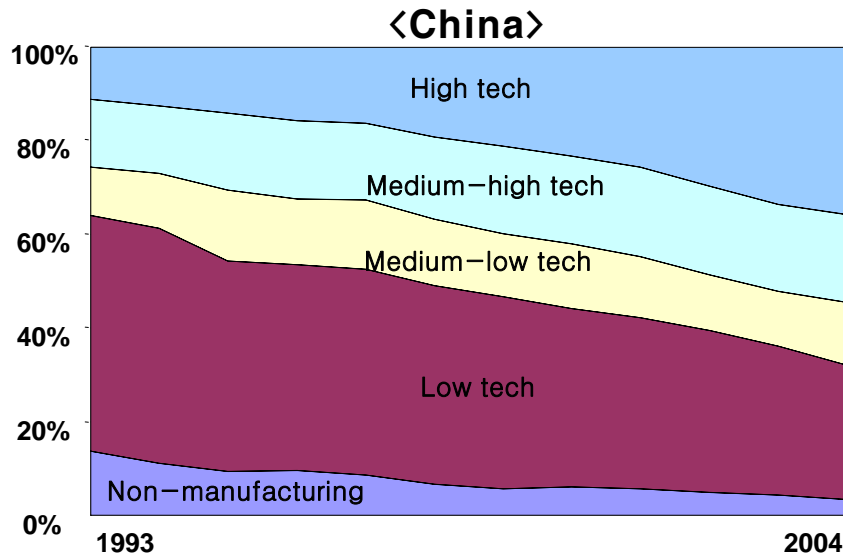


**Global competition intensifying & markets expanding**  
**<- New technologies, ascendance of BRICs, India etc.**

- Korea, not ready to capitalize on new opportunities fully**

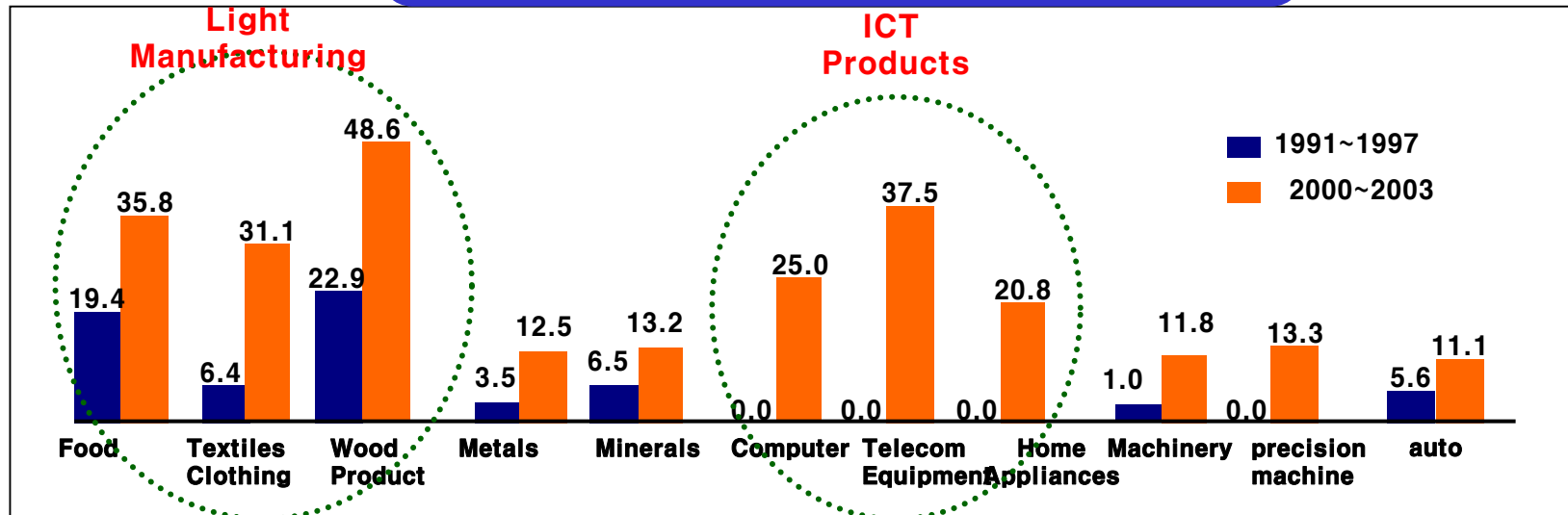


# China's export structure is rapidly converging with that of Korea.



Source: UNCOMTRADE

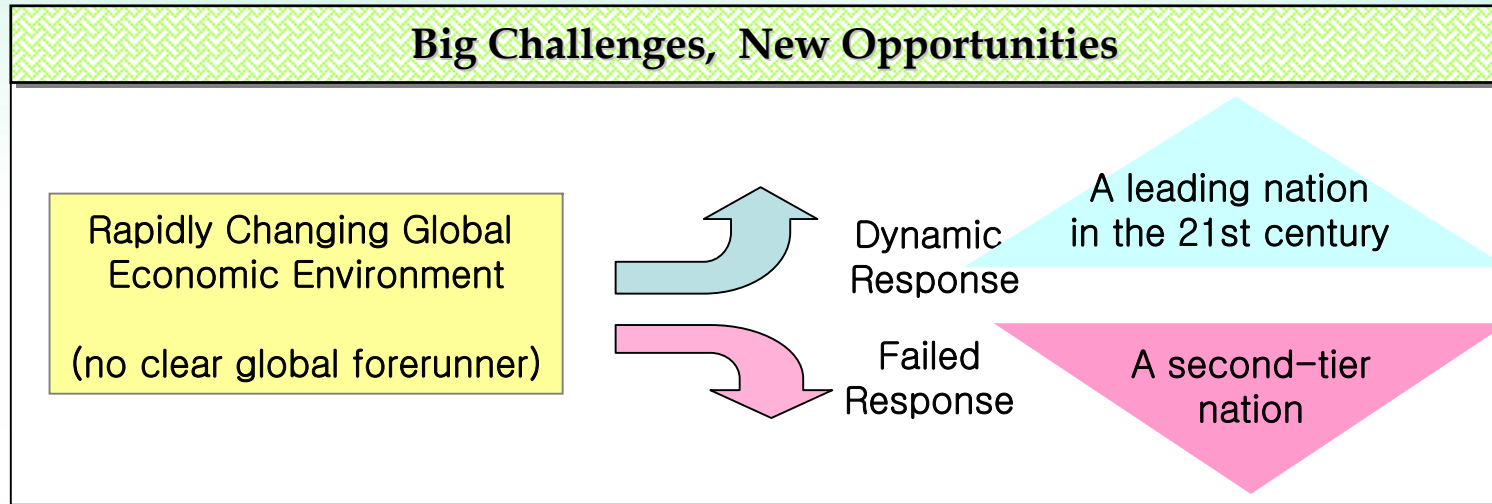
## Proportion of the Vulnerable Korean Firms (%)



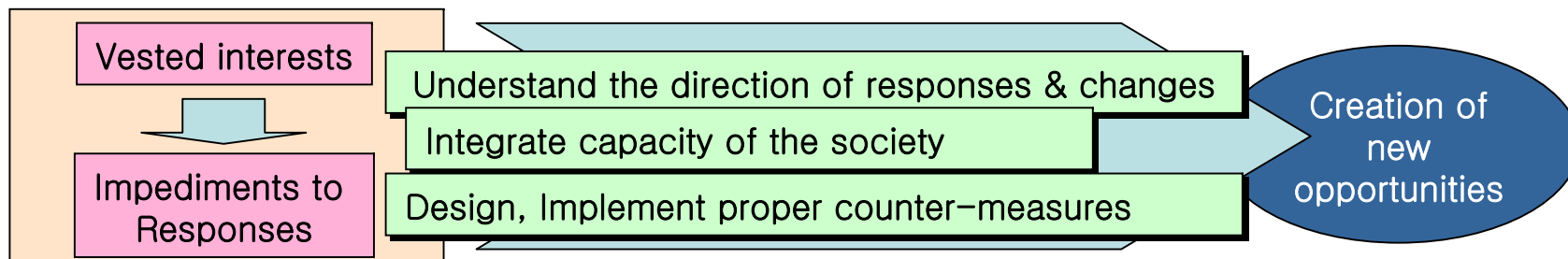
Primitive estimate by KIET (2004)

## 2. Needs for 'Vision 2030'

- **Korea, at another critical juncture in its development history**



- **Challenges demand proactive responses and decisive actions**



### 3. Vision2030: A comprehensive, Long-term Vision

**1** Greater uncertainty

To stay focused / on track, need a far-sighted steering (provision of **strategic information**)

**2** Compounding nature of Challenges

Disparate, ad-hoc responses will not suffice or be dangerous (e.g. delusion, political deadlock)

**3** Long policy lead times

Some counter-measures take 15–20 yrs of time (e.g. fertility/aging)

**4** Strategic Fiscal Policy & Public Support

Delayed response will cost huge (pension reform etc.)  
Complement the existing mid-term fiscal plan ( MTEF etc.)

## 4. the 'Vision 2030' project : Progress



### Kick-off

- ▶ Launched in Jul. 2005  
(several foundation works undertaken before)  
Gov't-Private Joint T/F (led by MPB & KDI)



### Activities

- ▶ Opinion Survey (Dec. '05-Feb. 06) .
- ▶ Seminars, workshops, road-shows  
(60 times in total )
- ▶ 1<sup>st</sup> Official Draft released (Aug. '06)



### Main Features

- ▶ Integration of economic & social policies
- ▶ Longest time-horizon ever (25 years)
- ▶ Fiscal plan incorporated as an integral part



## 5. Vision & Strategy around the World

Stepped-up efforts to prepare for future

UK

Opportunity for All

Japan

A New Era of Dynamism  
(2030)

Ireland

Sustainable Growth

Singapore

Dynamic Global City  
(2018)

China

Comfort society (小康)  
(2020)

India

Innovative Nation(2020)

# [Box] Vision & Strategy of Major Economies

## Key Strategies

## Vision

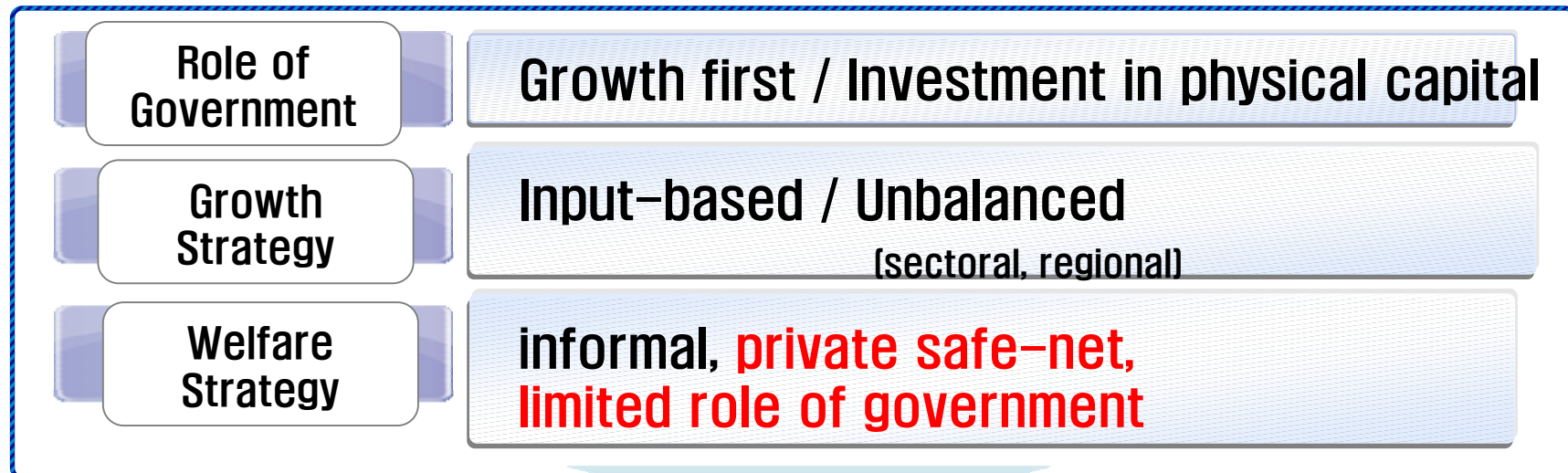
UK	<ul style="list-style-type: none"> <li>▶ Promote regulatory reforms and enhance competitiveness</li> <li>▶ Improve IT manpower and reform vocational training system</li> <li>▶ Identify and support successful industrial clusters</li> </ul>	Opportunity for All
Ireland	<ul style="list-style-type: none"> <li>▶ Provide adequate training suited for the market</li> <li>▶ Improve budget allocation to balance regional development</li> <li>▶ Increase welfare budget</li> </ul>	Basis for Sustainable Growth
Netherlands	<ul style="list-style-type: none"> <li>▶ Lower corporate tax rate, reform corporate governance, and facilitate new businesses</li> <li>▶ Deregulate public procurement market and professional service sectors</li> <li>▶ Invest more in HK, and induce greater participation of foreign &amp; female workers</li> </ul>	Continuous Economic Development
Singapore	<ul style="list-style-type: none"> <li>▶ Strengthen economic cooperation and pursue FTA with China</li> <li>▶ Freeze wage and reform pension scheme</li> <li>▶ Attract professional foreign workers and strengthen retraining programs for workers</li> </ul>	Remaking Singapore
Taiwan	<ul style="list-style-type: none"> <li>▶ Foster e-generation workforce and promote creative cultural businesses</li> <li>▶ Establish Taiwan as a R&amp;D base and induce MNEs to establish regional HQs</li> <li>▶ Pursue political, administrative, and financial reforms</li> </ul>	Green Silicon Island



## **II. New Development Paradigm : Broad-based Growth**

# 1. The Old Paradigm

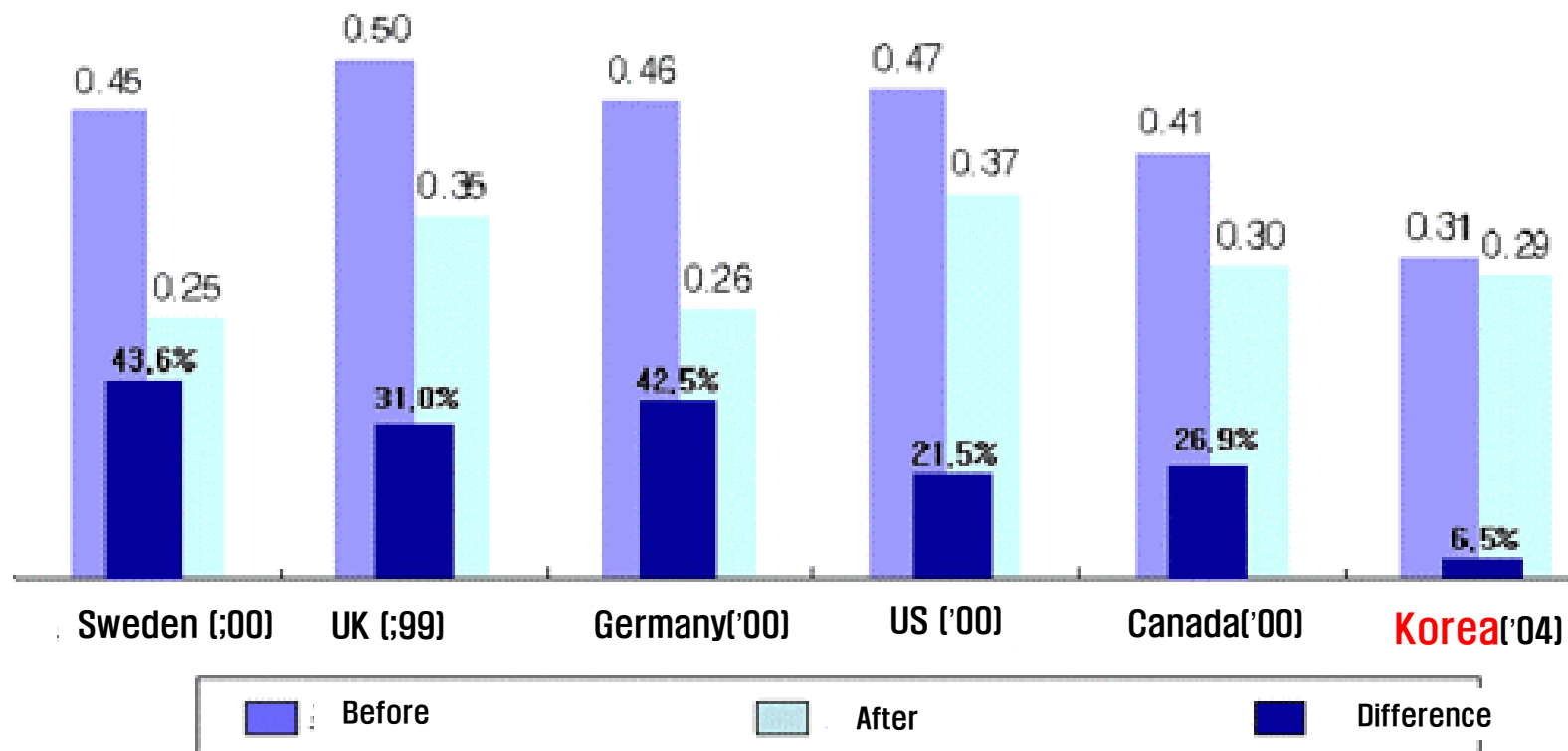
**Growth-tilted, Monolithic Approach**  
(growth can take care of everything, including welfare)



Low quality of life.  
Social risks beyond individual control & responsibilities  
Growth bottlenecks

- In Korea, investment in social welfare programs is limited
  - Total public social expenditure (GDP share, %)
    - \* Korea 9.4, Japan 16.9, US 14.8, Germany 27.4 Sweden 28.9, OECD 21.2
    - \* Pension coverage (< 33%), Private burden of childcare costs (65%)
- **Income distribution effect of the fiscal policy is very limited**

### Gini-coefficient before and after government tax-transfer



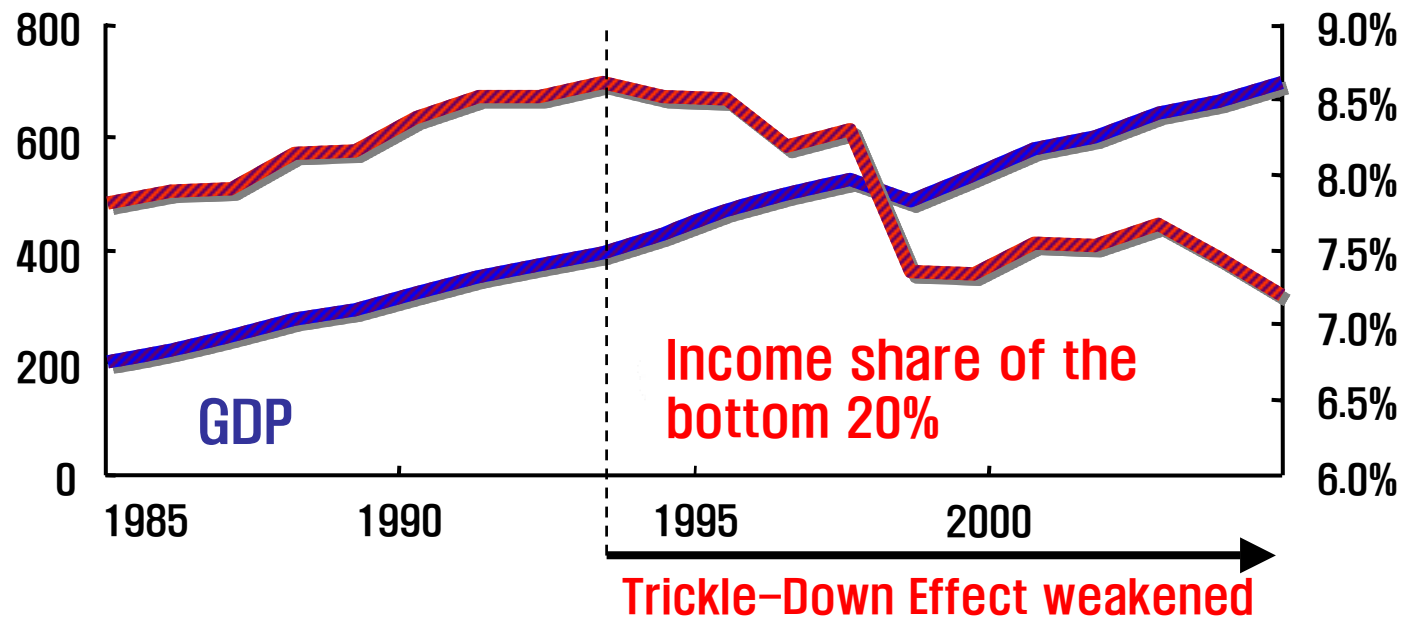
## 2. Limitations of the Old Paradigm (1)

■ Linkage between growth & welfare weakened  
(since around the mid 90s)

● Higher growth not necessarily resulting in lower disparity / poverty

### Weakening of Trickle-Down Effect

(TN Won, constant)

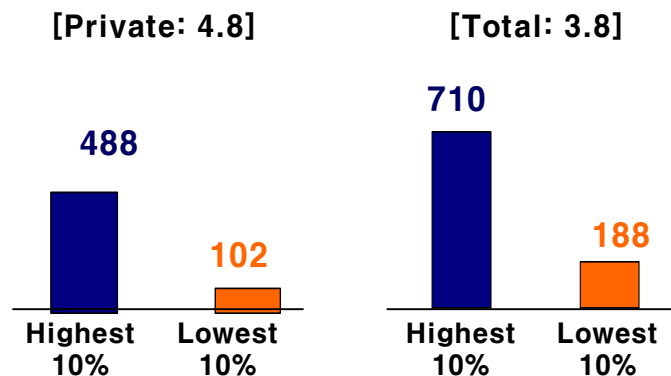


# >> Inter-generational Poverty Traps

- Gaps in educational investment / Unequal access → **Inheritance of poverty over generations (Inter-generational Social Mobility Issue)**

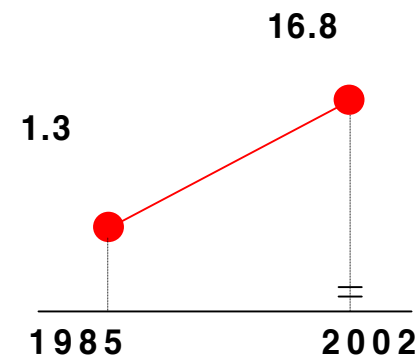
## Gaps in Educational Investment and Outcome by Family Background

### Edu. expenditure (2003, 10T)



- Gaps more pronounced in private education than in public education

### Entry to Top Uni. (SNU) (Ratio :High income / Low income)



- Entry share of high-income family students rose sharply during 1985~2002

## 2. Limitations of the Old Paradigm (3)

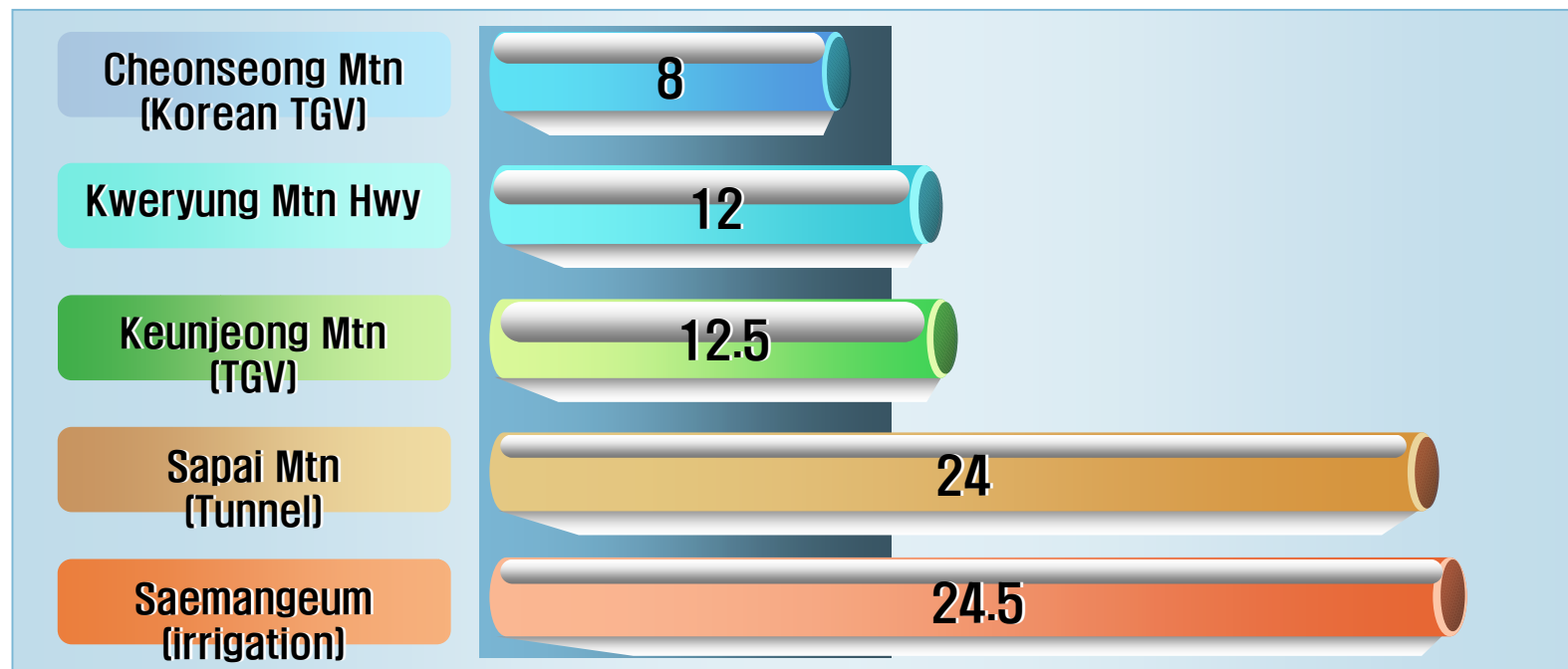
- **Korea, lagging in many social, soft dimensions**
  - **quality of life, national image, social cohesion etc.**

	Index	Ranking
Welfare	Public social expenditure ('01, % of GDP)	29/29
	Total health expenditure on public('03, %)	26/28
	Relative poverty rate('00, %)	25/26
	Quality of life (IMD, '05)	41/60
Quality of Institutions & System	Freedom of Economy (CAT0)	35/127
	Transparency Index (TI)	40/159
	Social justice (IMD, '05))	35/52
	National Image (IMD, '05)	34/60
	Efficiency of Government (IMD, '05)	31/60

## >> Social conflicts

- Social costs engendered by prolonged economic/social conflicts (Labor, environmental, regional etc)
- Low trust in public institutions => Loss in collective efficiency (TFP)

### Interruption of major SOC projects due to conflicts (months)



### 3. Toward a New Paradigm



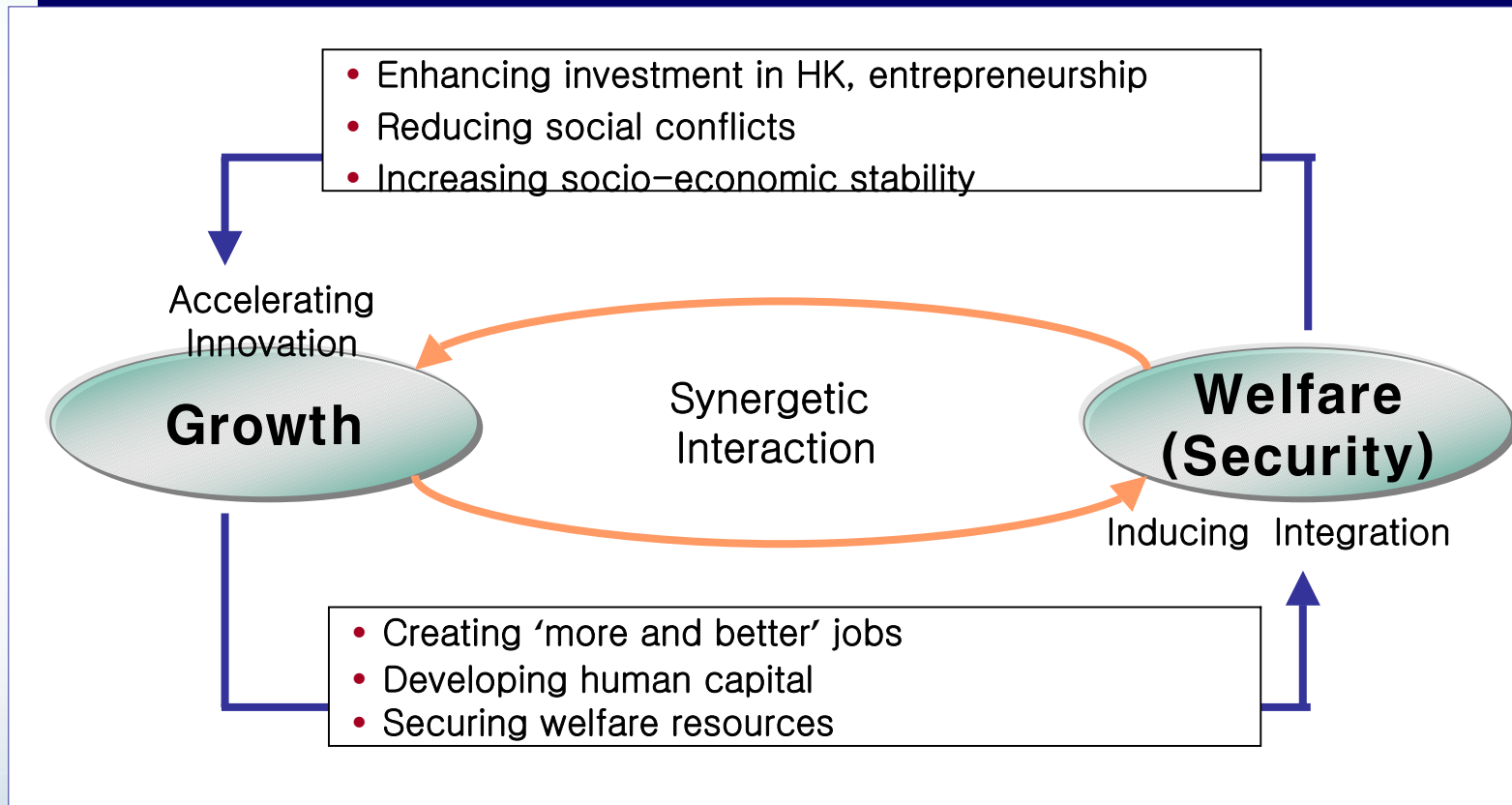
#### Balanced Development ?

- Eyes on virtuous, cross-hauling relation btw growth and welfare
- focuses on human-embedded (HK) investment (the ultimate future assets)
- Enhance social mobility, ensuring second chance for the vulnerable

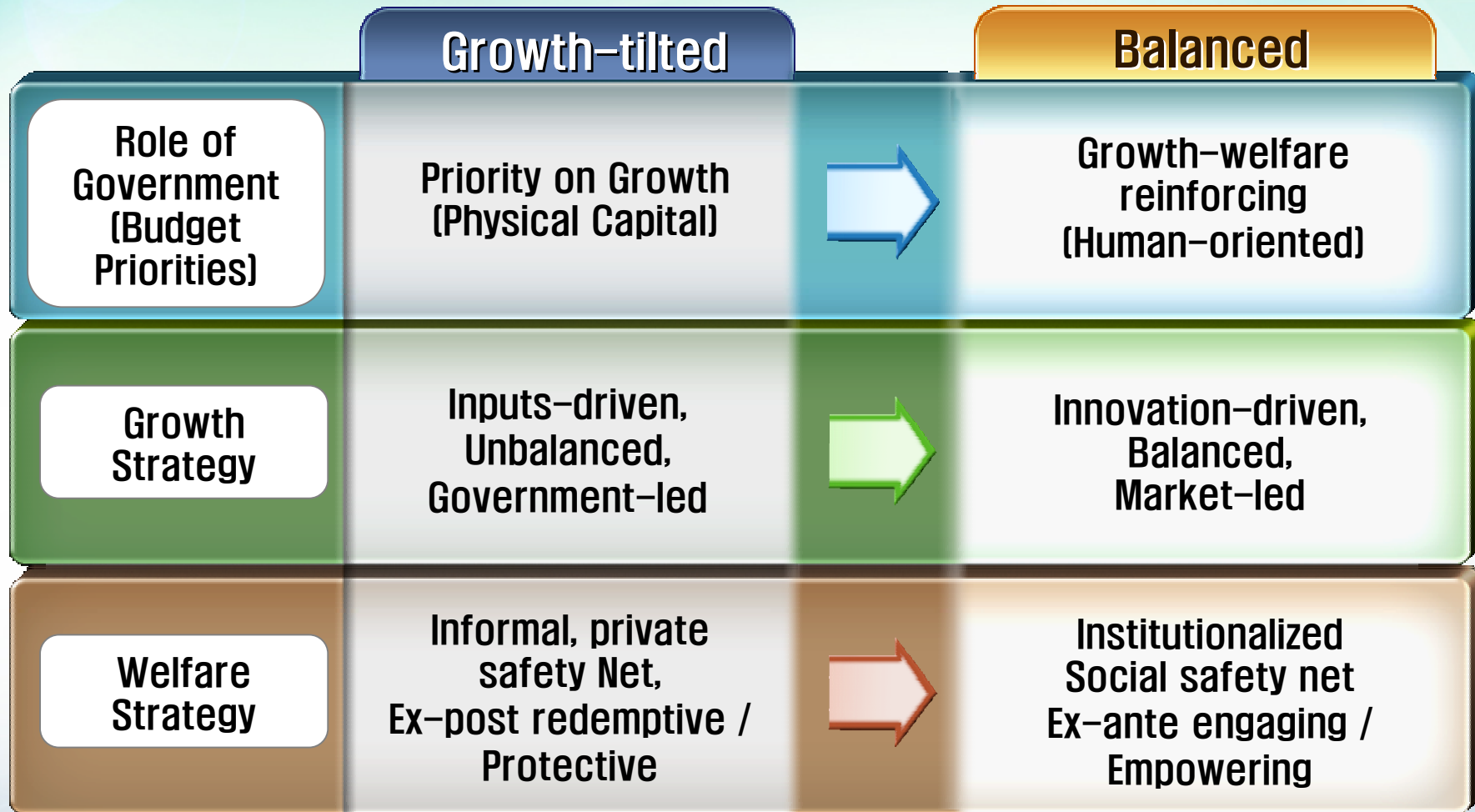
# 3. Toward a New Paradigm

- New system for synergic interaction between growth and welfare

## Virtuous Relation between Growth and Welfare



### 3. Toward a New Paradigm





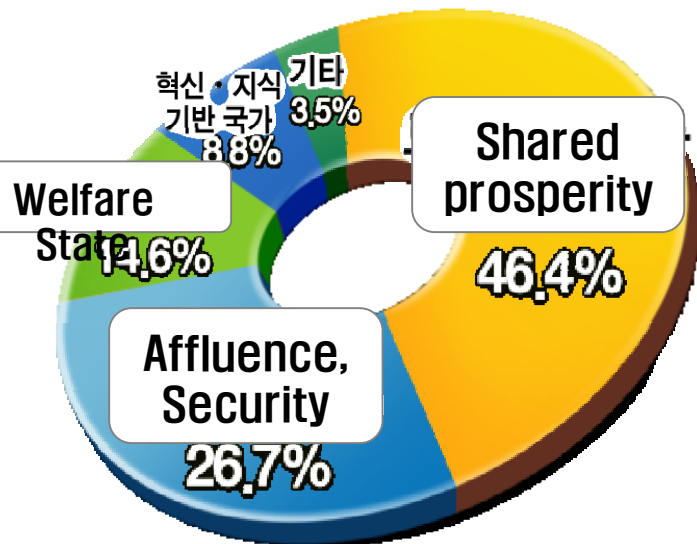
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## **III. Vision, Strategies and Core Policy Agendas**

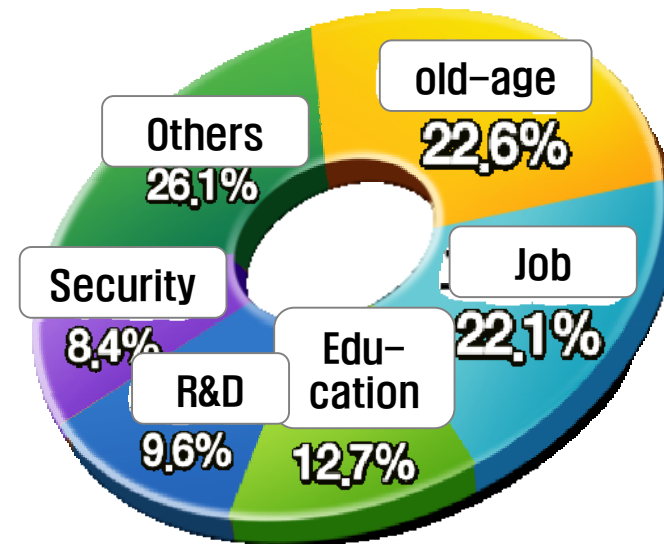


# [Box] Survey: public perceptions

## Vision slogan



## Top Priorities



# 1. Overall Scheme of the Vision

Vision

**Korea: A Hopeful Nation in Harmony**

Goals

Innovative, vibrant  
Economy

Safe, equitable  
Society

Stable, posed  
Nation

Strategy

Maintaining  
Growth  
Momentum

Upgrading  
Human  
Resources

Advanced  
Social Welfare  
System

New  
Social  
Capital

All-out  
Globalization

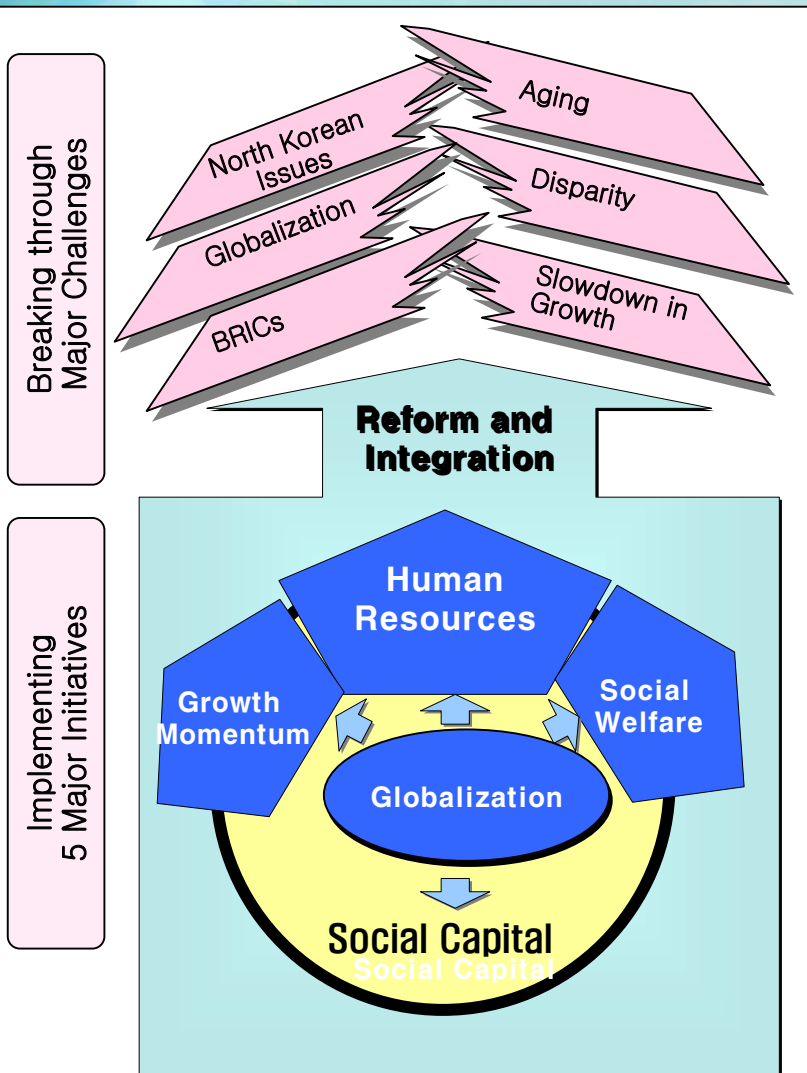
Vehicles

**Institutional Reforms**

**Proactive Investment**

**Vision Action Plan**

# 1. Five Strategic Initiatives



## Effects of 5 Strategic Initiatives

► Each initiative serves to overcome more than one challenge. For example:

- Proactive globalization : effective in coping with rise of BRICs, Slowdown in Growth, and North Korea Issues
- Human Resources: Effective in coping with growth, disparity and aging problems

- **Social Capital** : Effective in overcoming growth momentum, disparity, and social tension problems

► Strong synergies are expected among 5 strategic initiatives to cope with challenges. For example,

- **Human resources**: enables all initiatives by providing adequate manpower

- **Social Capital** : enhances collective efficiency and serves as the platform for all other initiatives

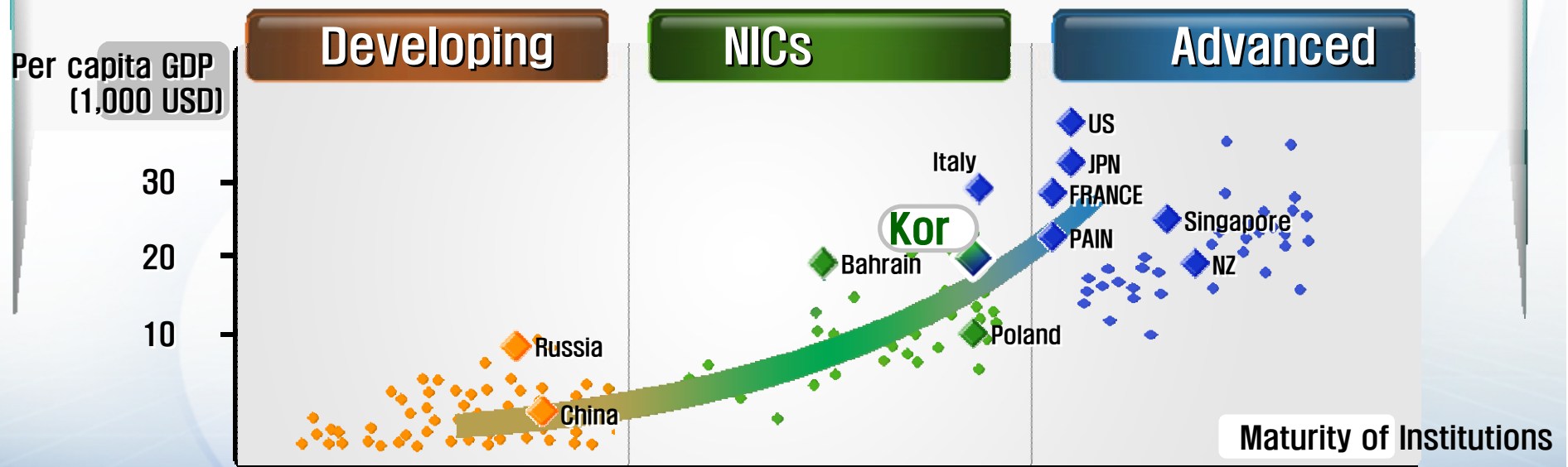
- **Proactive Globalization** : Maximizes individual & social learning while providing external anchoring for major reforms

## 2. Two Key Vehicles of the Vision (1)

Institutional Reforms

Proactive Investment

- ▶ **Backward institutions** (Pervasive, substantial) => **must be tackled first**
  - Education, R&D, SME support, pension & other welfare programs
- ▶ **More spending w/o institutional reforms :**  
**ineffective & just undermine fiscal soundness**



source : IMF

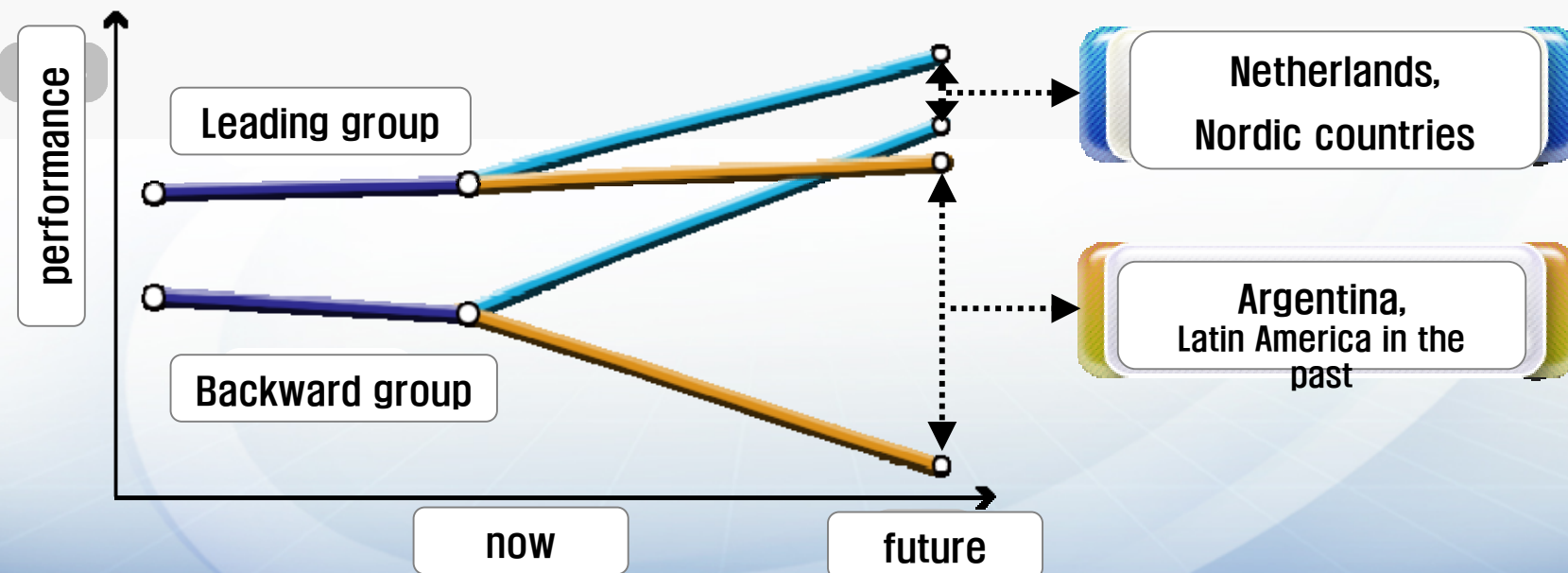
## 2. Two Key Vehicles of the Vision (2)

Institutional Reforms

Proactive Investment

▶ on Growth & Innovation base:  
(R&D, Higher Education etc)

▶ On Welfare and social safety Net  
– pension, health, childcare, housing, security etc



### 3. Vision Action Plans (VAPs)

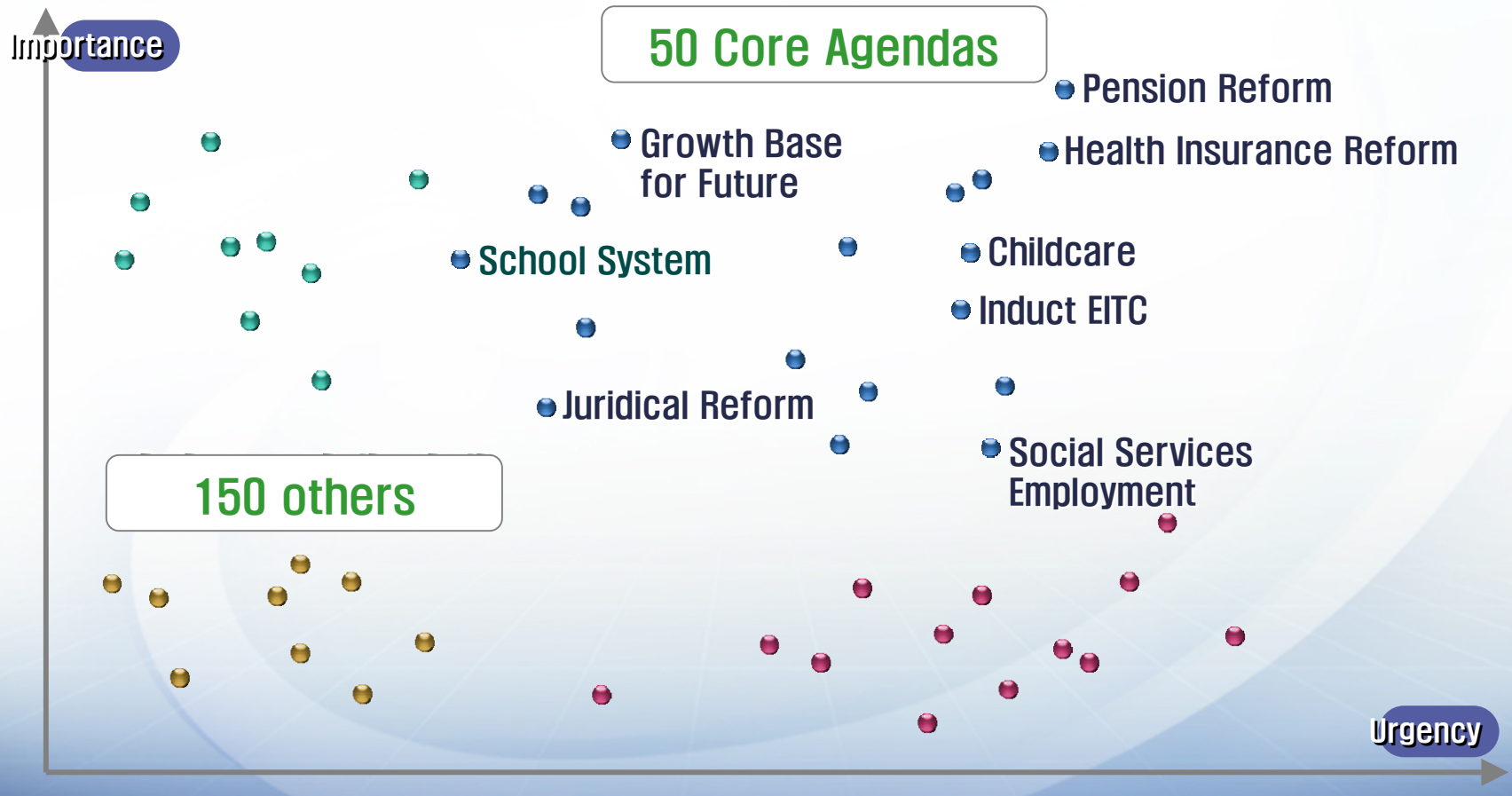
- Set forth concrete goals, action programs, and targets for each of 5 Strategic Areas  
(benchmarked the National Action Plan of **Netherlands**)

Strategy Area	Goals	Action Programs	Index	Targets				References
				'05	'10	'20	'30	
Social Welfare	Ensure Adequate Old-age Income	<ul style="list-style-type: none"> <li>• Universal Pension</li> <li>• Pension Reform</li> </ul>	<ul style="list-style-type: none"> <li>• Public Pension Coverage (%)</li> </ul>	16.6	30.4	47.0	65.5	<ul style="list-style-type: none"> <li>• US 93, UK 91, JPN 84('03)</li> </ul>
	Lower Child rearing Costs	<ul style="list-style-type: none"> <li>• Free nursery for Aged 4</li> <li>• Kindergarten Reform</li> </ul>	<ul style="list-style-type: none"> <li>• Services Coverage (%)</li> </ul>	47	65	67	74	

# 3. Vision Action Plans (VAPs)

## Action Agendas

- ▶ Out of 200 candidate agendas set forth
- ▶ 50 core agendas with utmost importance and urgency



**50  
Core  
Agendas  
Of  
Vision**

	Institutional Reforms (26)	Fiscal Investment (24)
Growth Momentum (9)	<ul style="list-style-type: none"> <li>• Service sectors</li> <li>• SME support system</li> <li>• Cultural Industries promotion</li> <li>• New Adm. Capital, Balanced Territorial Dev.</li> </ul>	<ul style="list-style-type: none"> <li>• Social Services</li> <li>• R&amp;D</li> <li>• Energy</li> <li>• Next-generation industries</li> <li>• Parts &amp; Intermediate products</li> </ul>
Human Resources (9)	<ul style="list-style-type: none"> <li>• University evaluation</li> <li>• National univ. restructuring</li> <li>• Mandatory retirement &amp; peak wage</li> <li>• Academic advancement system</li> </ul>	<ul style="list-style-type: none"> <li>• ALMPs</li> <li>• Industry-academia linkage</li> <li>• Youth labor</li> <li>• Devolved welfare &amp; education system</li> <li>• Overseas brain network</li> </ul>
Globalization (6)	<ul style="list-style-type: none"> <li>• FTA</li> <li>• Free Economic Zone promotion</li> <li>• Foreign labor policy</li> <li>• Logistics &amp; Financial Hub</li> </ul>	<ul style="list-style-type: none"> <li>• ODA</li> <li>• Re-unification infra</li> </ul>
Social Welfare (18)	<ul style="list-style-type: none"> <li>• Pension system</li> <li>• Health Insurance</li> <li>• Upfront public adm. services</li> <li>• Medical payment system</li> <li>• Non-regular workers</li> <li>• Social insurance adm. integration</li> <li>• Minimum insurance</li> <li>• Real estate stabilization</li> <li>• Small traditional business</li> </ul>	<ul style="list-style-type: none"> <li>• After-school activities</li> <li>• Nursery and Child-care</li> <li>• Food &amp; Drug security</li> <li>• EITC)</li> <li>• Comprehensive welfare for the Disabled</li> <li>• Public housing</li> <li>• Old-aged healthcare insurance</li> <li>• Infra for better Living environment</li> <li>• Rural areas support</li> </ul>
Social Capital (8)	<ul style="list-style-type: none"> <li>• Conflict Resolution system</li> <li>• Juridical system</li> <li>• Public institutes governance</li> <li>• Sub-national Adm system</li> <li>• Community-based Informal welfare</li> </ul>	<ul style="list-style-type: none"> <li>• National defense system</li> <li>• E-government</li> <li>• Re-functioning of public servants</li> </ul>

# 4. Key Policy Agendas (1)

## Growth Momentum

### Direction

**Broader and deeper Innovation base,  
Greater roles of the private sector**

### Goals

**Global  
Business  
Environment**

**Advanced  
Tech-Base**

**Strategic  
Industries**

**Competent  
SMEs**

### Action Agendas

- **Regulatory Reform** (Startup · Financing)
- Enhancing Managerial Capacity

- R&D promotion & rationalization
- Next-generation Tech & Industries

- parts & Intermediate Products Industries
- **Knowledge-intensive Services**

- Innovative SMEs
- Co-operative relation with large firms
- consolidate support system

## 4. Key Policy Agendas (2)

### Human Resources

#### Direction

Secure both quantity & quality to cope with new market and demographic environment

#### Goals

Upgrade  
Higher  
Education

Reform  
Academic  
System

Promote  
LLL &  
VET

Pursue  
ALMP  
(Job- strategy)

#### Action Agendas

- Restructuring
- Autonomous National U.
- Special promotions (BK21, NURI etc.)
- New evaluation system

- Charter schools
- 5-3-4-4 system
- Fall calendar-year system

- Customized learning programs
- HRD award system

- Mandatory retirement
  - peak wages
- New non-regular workers policy
- The vulnerable groups (female etc)

## 4. Key Policy Agendas (3)

### All-out Globalization

#### Direction

Revamp institutions, social norms, and mindsets to accommodate and capitalize on globalization

#### Goals

Extensive  
**FTA**  
Networks

**Logistics**  
Hub of  
Fareast Asia

Regional  
**Financial**  
Hub

Extensive  
Overseas  
**HR Network**

#### Action Agendas

- conclude **FTA w/ US**
- extends with other countries in Europe, Latin America, and East Asia

- Airport, port & background facilities
- Experts manpower
- Free Economic Zone

- Regulatory reform
- Lead business e.g.. (funds managements)
- Managerial · living environments

- new management system
- manpower exchange
- Attract global-leading institutes/firms

# 4. Key Policy Agendas (4)

## Social Welfare System

### Direction

New human-oriented investment system for greater security and equity in opportunities

### Goals

Growth-friendly Investment

Strategic Handling of Aging Issues

Efficiency Reform

Health & Safety Insurance

### Action Agendas

- Child-care & After-school Activities
- Induct EITC

- Comprehensive plan to handle low-fertility & rapid aging

- Pension & health system
- Integrated adm. For social insurances
- Upfront civil services & delivery

- Life-cycle medical check-up
- FDA consolidation
- Emergency handling

## 4. Key Policy Agendas (5)

### Social Capital

#### Direction

Advanced civil society based on participation, cooperation, and trust

#### Goals

New  
Conflict  
Resolution

More Credible  
Public  
Institutions

Third-sector  
social  
security

Pluralistic  
Social  
Culture

#### Action Agendas

- specialized institutions & experts
- civic education

- public institutions governance reform
- Juridical reform
- E-government

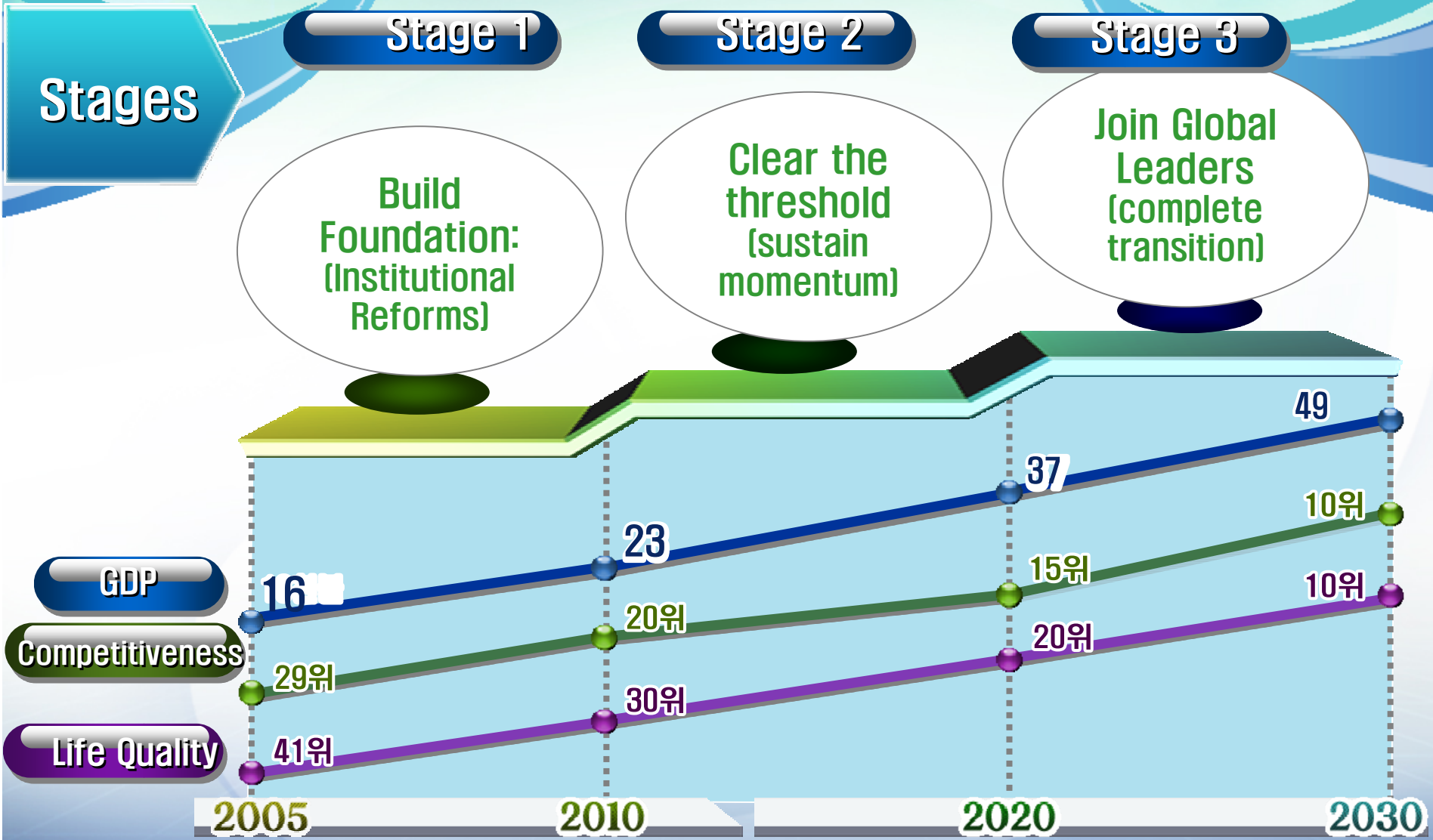
- Best-practice dissemination
- Voluntary services campaign

- Anti-discriminatory laws
- affirmative actions for ethnic minorities



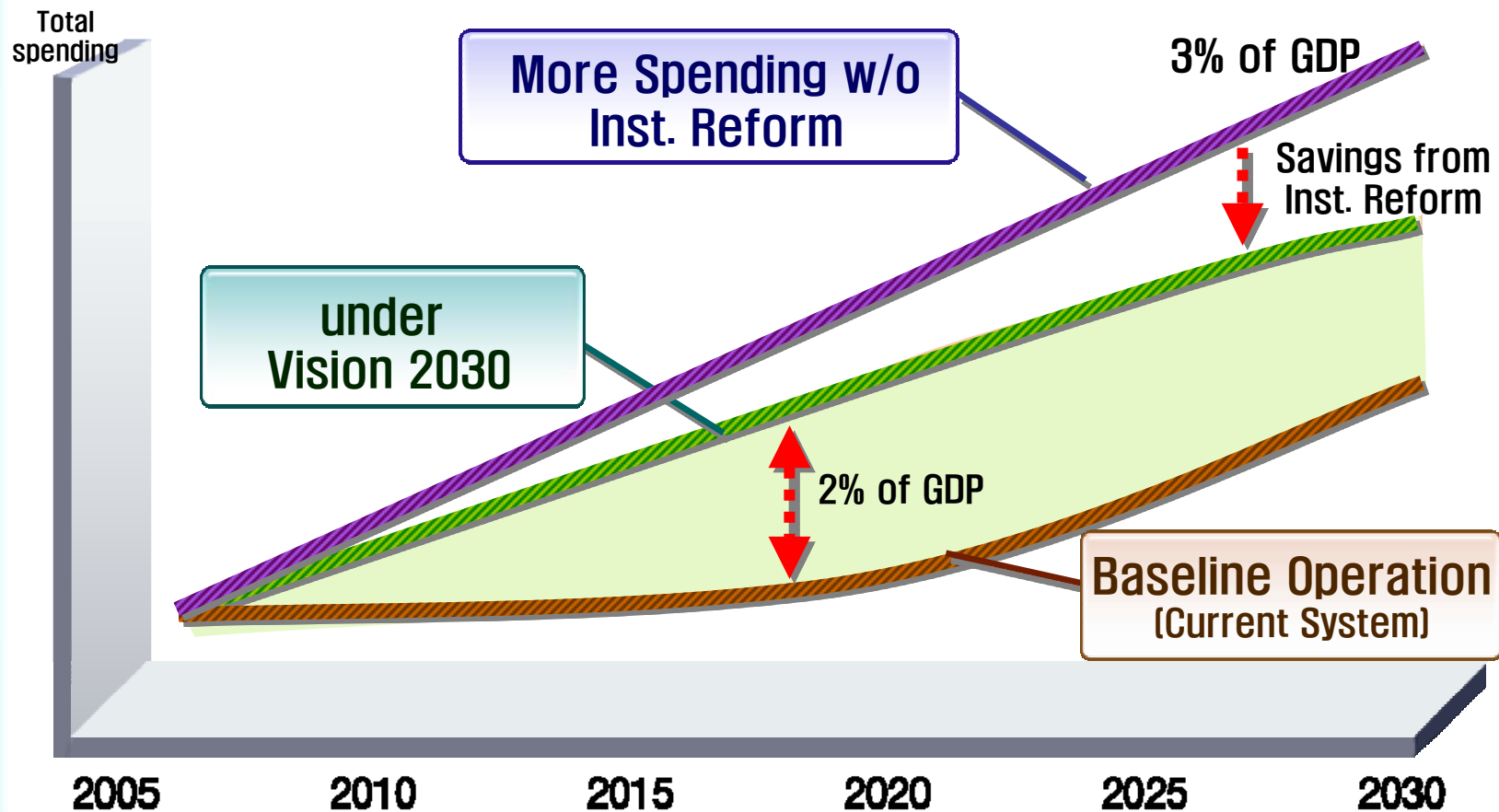
# IV. Fiscal Outlook & Challenges

# 1. Goals & Progression toward 2030



## 2. Fiscal Outlook (projection)

Extra resources needed : 2% of GDP (AVG till '30)



\* Extra resources = Gov't expenditure – Gov't revenue – surplus from social insurance programs

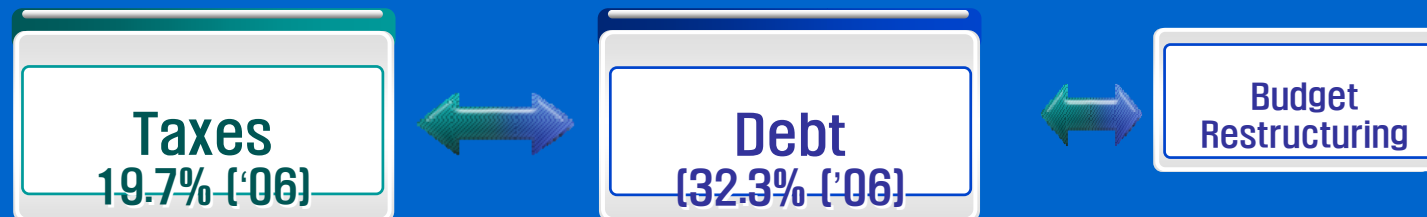
## 2. Fiscal Outlook (projection)

### Resource Needs

- ▶ '06~'10 : no significant costs (6 bn USD; focus on inst. reform)
- ▶ '11~'30 : 2% of GDP on average (total = 1.2–1.8 tn USD, '06 constant)

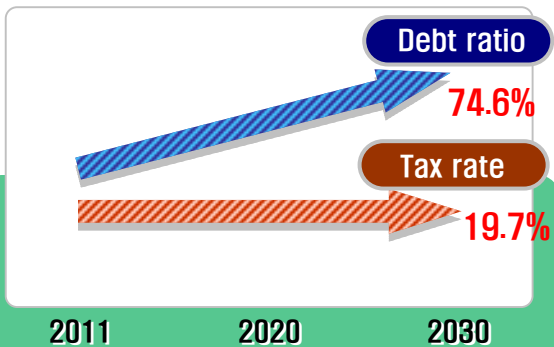
### Financing Plan

- ▶ Until '10 : no tax increase (Re-prioritize spending, tighten taxation etc.)  
(actions taken already in 2006)
- ▶ **After '11** : Need to choose among alternatives  
(public consent needed)



# 3. Choices for Fiscal Plan after 2011

## 1. Debts



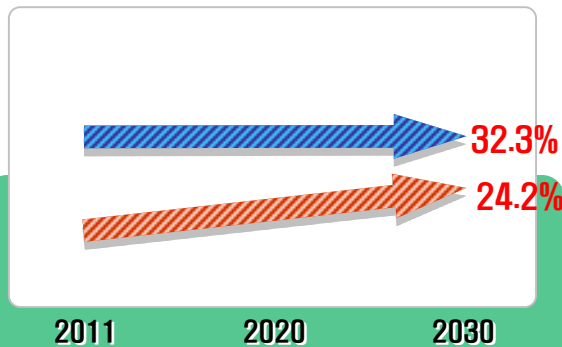
Burden transferred to future generation



Japan

Debts 168%, tax 15.6 % ('03)

## 2. Taxes



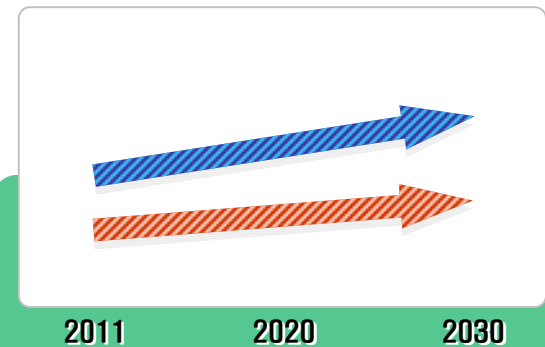
Burden undertaken by present generation



New Zealand

Debts 35.4%, tax 15.6 % ('03)

## 3. Debts + Taxes



Shared burdens across generations



Germany

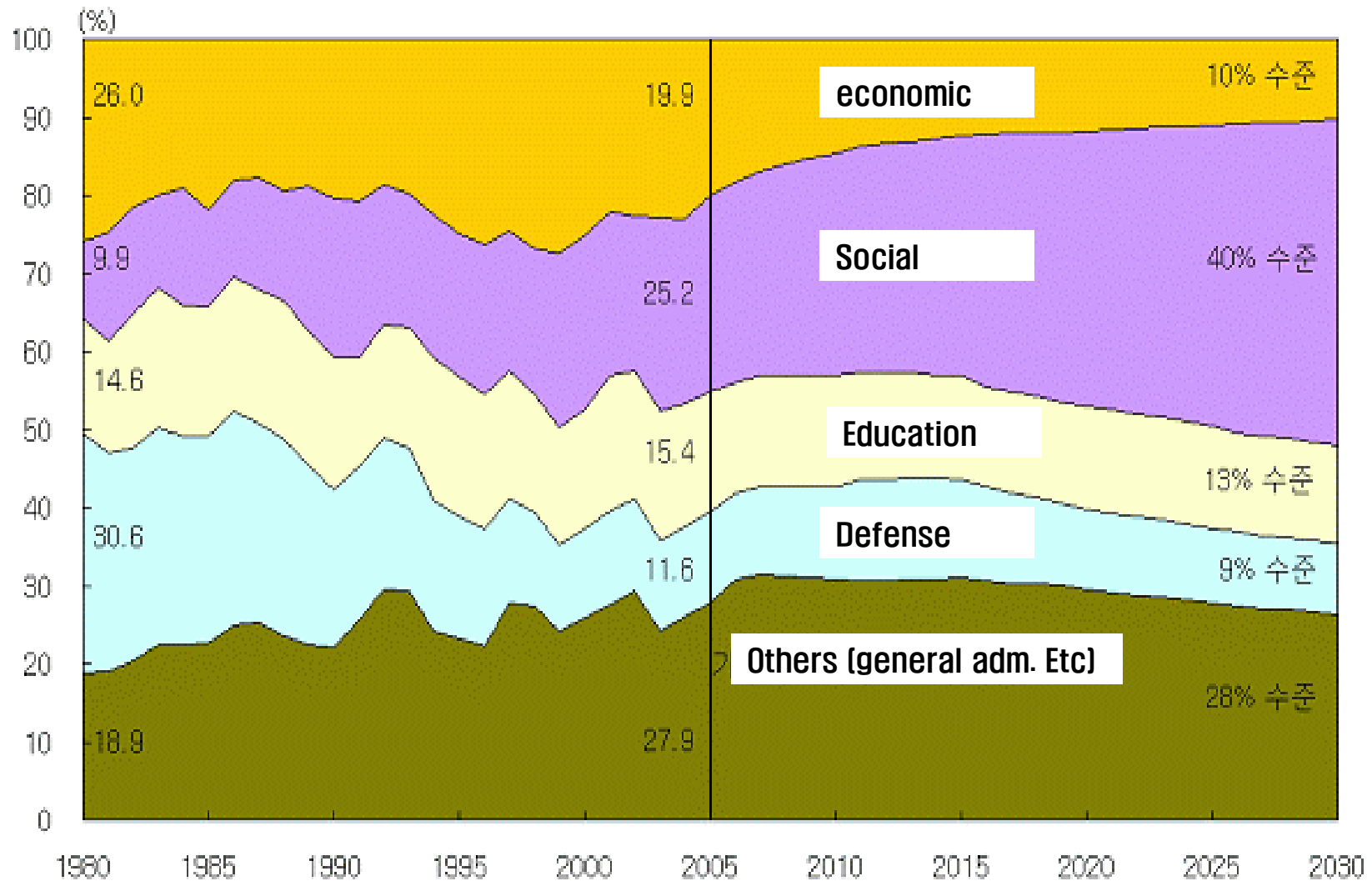
## 4. Long-term Budget Allocation Plan

- **Social programs: steadily increase up to 40% (25.2% ['05])**
- **Economic programs: steadily shrink down to 10% (19.9% ['05])**
- \* **OECD average : social 54.7%, economic 9.1%**

• **Government Budget Size (GDP %): 27.7% ['05] → 40% ['30] (OECD Avg = 40.8)**



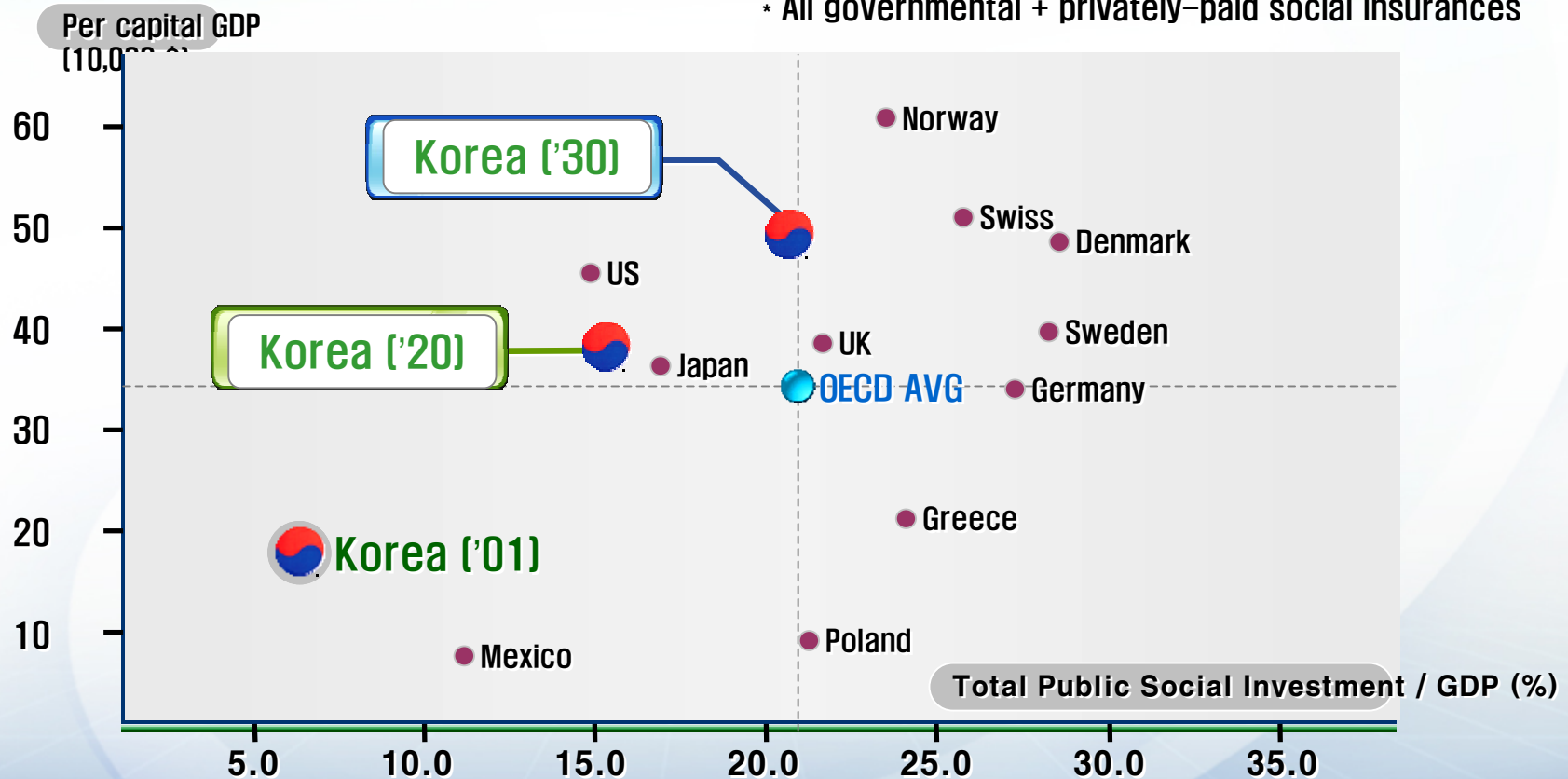
# Structure of fiscal expenditure in Korea



## 5. Korea's future in int'l perspective

- **GDP: 3.8% growth per annum ('06-'30)** [4.8% (-'10), 4.3% ('10s) 2.8% ('20s)]
  - Per capita GDP will approach current levels of Japan (by '20) & Swiss (by '30)
- **Public social investment\* (GDP %): 9.2% increase per annum**
  - approach current levels of US (15%, by '20) and OECD AVG (21%, by '30)

\* All governmental + privately-paid social insurances



source : OECD

## >> Some criticisms on Vision2030

1.

### Timing of the work

- limited term for the incumbent gov't (hard to survive political cycle)

2.

### Priority compared to

- Prolonged recession, weak recovery
- Real estate market problem
- North Korea issue

3.

### Basic Orientation

- Too liberal vs. too conservative vs. Centrist
- “**Big gov't**” or “**welfare state**” models outdated or unaffordable for Korea
- Fiscal danger underrated

**Thanks !!**

*VISION 2090*