

Interview with Ji-hyun Kim, Tokyo Correspondent for *The Korea Herald* in South Korea

The Growth Potential of the South Korean Economy

By Japan SPOTLIGHT

South Korea and Japan are facing some common challenges in their economies, such as the need to enhance entrepreneurship and female participation in their labor forces, both of which are expected to raise their economies' growth potential. Asia's trade and investment liberalization and regional integration efforts can also be considered as engines for raising growth potential.

Ji-hyun Kim is the Tokyo correspondent for *The Korea Herald* in South Korea. She was previously the business desk editor at the newspaper and a market writer for NHK World, as well as a regular panelist for South Korea's English radio broadcasts including KBS World and tbsEfm. We had a chance to get her views on the opportunities and challenges facing the South Korean economy.

Growth Potential of the Asian Economy

JS: How do you assess the growth potential of the Asian economy?

Kim: I think in light of Brexit there have been a lot of changes. But the bottom line has not changed, because when you look at the Asian countries, the fundamentals all seem to be in place. I think it is really different from the past, when we were very vulnerable to crises such as in 1998, 2008, or even 2011. Right now there is more room for growth. If you look at the figures, for South Korea the GDP growth projection has been slashed to 2.8%, but that is still not low when compared with European countries or the United States. Japan also has been seeing a lot of change and restructuring, and seems to be pretty solid right now; last year its GDP was also not too bad. In the end it may depend on China, whose official growth figure of 6.4% this year is a little low considering the past, but I do think Asia as a whole seems not as vulnerable as before and has a lot of potential right now.

JS: What kind of structural reform might be necessary to enhance this growth potential? Do you think the widening income gap between rich and poor, in particular in some Asian countries, might be an impediment?



Ji-hyun Kim, Tokyo correspondent for The Korea Herald

Kim: I do not know a lot about the other Asian countries, but in South Korea the income gap is pretty big. And there it is not just about the figures, there is an emotional dimension to it too. In South Korea in the past, even if you were among the lowest income bracket there was a chance for you to be able to jump to a higher bracket and become rich. But now structurally there is no way to do so: if you are born into a poor family you are just going to stay there. I think that is actually the biggest reason why people are so discouraged. Society is changing in that way; in the past there were rags-to-riches stories, the Miracle on the Han River, but now there is no real opportunity for people to jump to another bracket.

Having said this, I believe — and have seen this happen a lot — that one of the main reasons is that people are not in a position where they can take a risk, and

that is probably because there is no social safety net, and that means no room for startups. To get the economy going, it is not only about the top or the middle but also about having new businesses and new opportunities, and that is made up by the entrepreneurial spirit. And I think right now there is none of that, which perpetuates the situation where the income gap gets bigger and bigger.

There have been a lot of government policies in place to address this. In many cases these households are poor because they are house-poor, meaning that they have a lot of loans because of mortgages, which is still a big issue in South Korea. They have also passed laws to help reduce debt, for instance by cutting the interest rate and making loans more accessible for lower-income families.

Such policies are mostly on the fiscal side, but in my opinion it is not about just giving people funds, but really about changing the mindset.

JS: Japan is experiencing serious demographic challenges such as an aging society and depopulation, against a background of enormous fiscal debt and a labor market with lots of non-permanent workers whose conditions are not equal to those of permanent workers — all of which further affects growth forecasts and the income gap. Is South Korea facing such problems as well?

Kim: I think we are facing the same problems. Fiscal debt has been accumulating to astronomical figures, and there has been a huge growth of non-permanent workers, leading to a lot of labor turmoil — as you know, South Korea is famous for its demonstrations. That in turn shakes up the economy and there is a lot of uncertainty because of it. I was just looking up some figures, and found that in South Korea the household debt grew at the second-highest pace, right next to China, this year; that is also leading to a lot of problems for the middle class.

Women in the Labor Force

JS: Do you think raising the participation of women in the labor force could be a good way to mitigate the negative impacts of depopulation in Japan and South Korea?

Kim: In terms of fighting depopulation on the simplest terms — with sheer volume, yes, it would definitely help to have more women. That's just math. The problem is that this is not yet happening in South Korea. The average employment rate for women was around 55% in 2014. That put South Korea in 27th place out of 34 OECD nations. The rate for single women was 76%, but falls to 58.2% for married women. This compares with the 79.3% for single men and 93.5% for married men. Yes, in temporary positions, we are seeing more women. But not enough. As a working mother myself, I do understand and feel the pressure. But I also believe there is a limit to how much society can help in putting women back in the workforce. The women themselves need to change too and decide having a job is just as important. Unless this happens and we actually physically see more women in the workforce, we won't even have a chance to see how they affect social and economic problems like depopulation.

JS: In Japan there is a lot of discussion of quotas, such as for numbers of women board members. Would that work, do you think?

Kim: We do actually have some quotas. I think it might work, but then there is the problem of whether that is fair. Personally I would want to just compete fair and square instead of having a quota. And

also, I do not know about Japan, but in South Korea one of the big issues right now is that there is a big growing animosity between men and women, and we can see this struggle online. For instance, have you heard about the latest crimes being conducted against women? There are random men going around killing women, and when you ask them why, the reason is just because “she’s a woman”. And this is because there is a general feeling that men are being exploited: they need to have a good job, to have a house in order to get married and be stable, they do not see a lot of women working, it is mandatory for South Korean men to serve in the army — and they are directing that anger towards women. South Korea is also dominated by Confucianism, and among some people there is still that thought that men should be superior. So I think this is really turning into a social problem as well. So perhaps a quota may just exacerbate the situation.

JS: What do you think about entrepreneurship in South Korea, including women’s role?

Kim: I think the government has been really pushing for more startups to get the economy jump-started. But that is the problem: entrepreneurship cannot be top-down. Right now in South Korea there is not much from the bottom, even though there are a lot of laws in place, such as on access to low interest rate loans or places you can get help. Starting a startup is still considered very risky. We do have specific funds given only to women, though, and a lot of really detailed incentives, also as part of South Korea’s fourth industrial revolution which outlines women’s participation in all areas of the economy, especially startups. So there is a lot of interest in that area, that is true.

Trade Policy & Regional Integration

JS: What do you think about trade liberalization in Asia, such as the TPP and RCEP?

Kim: Well, my opinion is that there is actually no other strategy to pursue right now: South Korea cannot stand alone, especially geographically, and there is also the North Korean issue and risky geopolitical situation. RCEP has seen little progress, although the TPP has been moving along, so we will have to see. But I think Brexit also changed the dynamics a little bit. We are seeing some countries moving away from bloc economies, and I think it is because the global economy is slowing down, meaning that trade is going to slow down too. So there is no real profit gained from bloc economies now, and I think the rest of the world is seeing that.

But for Asia, especially for South Korea and also Japan and Southeast Asian countries, I think this is probably the only way to go for now. Britain could perhaps afford to leave the EU, but South Korea could not afford to leave an economic bloc, even though it is a powerful economy, because it is so dependent on trade: we depend for about 80% on exports. We are in a position where we cannot say no or yes, and just have to try and find the best economic bloc to

become a part of, while not really having a say in what arrangements are better or worse, because that is just not how our economy is built.

JS: Today foreign direct investment (FDI) is considered an important locomotive for growth. To encourage FDI, perhaps there should be some sort of international regime to address it. Do you think regional schemes like the TPP and RCEP should be considered important in that light?

Kim: Of course, those kinds of frameworks encourage investment, and show investors that there is a safety net. But I do not think they are going to play a really big role: Brexit again has been shocking because it shows that just as you can create an economic bloc you can also come out of it. While the TPP can create a kind of framework to encourage investment, especially for Asia, I think that with Brexit that confidence or trust has been eroded, because we see that these frameworks are not lasting. I think eventually what might happen is that each country will be on its own, and they will learn that if you want an FTA you might not have to do it with, say, the EU, but might want to consider having an FTA with each country. That could result in the weakening of these economic blocs in general, which is definitely not good for Asian countries.

JS: Regional integration has both political and economic aspects. How do you assess the political impediments?

Kim: I think in the case of Asia it is probably more economic issues that are hindering regional integration. There is such a big gap economically between all the Asian countries: look at China and Japan, Japan and South Korea, South Korea and Cambodia, South Korea and other countries, or even Taiwan and Hong Kong. Closing that gap will be really difficult, and South Korea is in a unique situation because it also has North Korea to contend with. And there is also China, which also has interests in North Korea. When you take these into consideration, I think it will be very difficult to create working and viable integration in Asia. I also think South Korea, Japan and China will play a critical role in whether or not the bloc can perform in a positive way.

JS: To help overcome these impediments it might be good for Asian countries to start discussing common social and political challenges too, such as disaster mitigation, human security and environmental cooperation. Do you agree?

Kim: I would say so, definitely. This is just one example, but especially when you look at China and pollution: that is one area where China really has to step up. And you cannot do that economically: political leaders have to come together to get the Chinese factories to stop emitting so much pollution. Corruption is

another such issue, because it is still so prevalent and is keeping investors out. These are all issues that have to be resolved together with political circles.

JS: Do you think women might play a key role in these kinds of issues?

Kim: Absolutely. I think in the past, economics was kept separate from politics and these issues you just raised, and it was mainly a boys' club. But these are areas where women would be very good in negotiating and mediating between countries, which would be one of the biggest issues, as these are all problems that do not have a single answer. You need a lot of discussion and communication, and I think for women that is a great opportunity.

Social Issues as New Challenges

JS: Do you think dialogue among the Asian countries on social issues such as income inequality or poverty should also be on the agenda?

Kim: Yes, I fully agree. When you look at surveys there are a lot of middle-class people who say they are unhappy, not because they are lacking in money, but because they are generally unhappy with life. They do not want to spend all their money trying to buy a house, or on education, which happens in a lot of Asian economies. These are all common problems, and discussing them might actually help more than increasing trade or growing the economy more. Obviously the Asian economies are not doing that bad, but despite it, for instance, South Korea has the highest suicide rate in the OECD, and the world's highest or second-highest divorce rate, and so on. And Japan is in some ways similar, and in Southeast Asian countries I am sure there are a lot of similar issues. Corruption too, of which South Korea is seeing a lot, means that even if the pie is getting bigger, it is not being distributed fairly. So we could discuss and share our experiences in how to eradicate corruption.

Aside from GDP, there are global indicators for happiness such as the suicide rate and measures for overall quality of life. But it might be good to have a separate index just for Asia, concerning the main issues there such as corruption, education fees, the income gap and women's rights, for example. I think right now what the world economy needs is not a new way to suddenly make growth or trade explode, because there is just no way we can do that anymore. Social issues are coming to the fore — we are becoming more concerned about whether people are happier. It is a more mature kind of growth that we are seeing right now, a kind of post-crisis situation where we need people who can manage the economy as opposed to keep pushing it forward. In that respect, I think women as excellent communicators could play a really big role. **JS**

Written with the cooperation of Chaobang Ai, a Tokyo-based editor and blogger.