Worldwide Revolution

By Alvin Toffler

Ever since the Asian financial crash starting in 1997, Korea has been struggling through a painful period of reinvention and reform. The crisis revealed that what many regarded as strengths in the Korean economy had, in fact, turned into disadvantages.

Its financial structure, for example, was weak and squeezed by an alliance of government and the chaebols, making it difficult to allocate capital independently.

The result was a lack of democratic access to capital, an over- concentration of investment in a relatively small number of giant firms, the investment of huge sums in projects and companies that were hopelessly unprofitable, and corrupt paybacks to politicians and others who kept the system going.

These practices may have worked during Korea's period of industrialization, when global competition was low - when China and Southeast Asia exported little and offered little competition to the Korean industry. They do not work in today's hyper-competitive world economy in which currencies and investments cross borders instantaneously, technology becomes obsolescent overnight, and when finance itself is going through a profound technological upheaval.

As companies around the world struggle to keep up with today's massive, ever-accelerating changes, even giant family-dominated firms must turn to the outside world for capital. But investors, both Korean and foreign, have more options than ever before and now demand more transparency in the internal arrangements, cross-holdings, and accounting methods than ever before.

In this 21st century world, companies must be capable of instant adaptation to changes in customer needs, technologies, finance, taxation, markets and other variables. Survival depends on extreme flexibility at every level from engineering and marketing to manufacturing and distribution. They need management flexibility. They need technological flexibility. They need financial flexibility. And they need informational flexibility - impossible without advanced telecommunications and information technology. They also need to shift jobs around and, all too often, to close operations in one place and move to another.

The social costs of such flexibility are painful. But collapse or bankruptcy of whole sectors of the economy clearly would be worse.

These problems are not exclusively Korean. They confront companies in all the industrialized nations. Nor is it only business that faces fundamental change.

The same is true for governments. Around the world, bureaucratic governments, often corrupt and inefficient, need wholesale overhaul. Like businesses, they, too, need to apply advanced information technology to help them de-bureaucratize, service their citizens, and make better, faster decisions.

As a result of these new pressures, and the obsolescence of old methods, Korea today is going through a difficult process of reform. Unless this process is completed, its economy and social life are destined to grow worse, not better, in the years and decades ahead.

New Economy

Starting with the first commercial uses of computers in the United Sates in the mid-1950s, a new kind of economy has been growing up around the world.

This ``New Economy'' is based on the changed role of knowledge in the creation of wealth, and how Korea reacts to it will determine Korea's economic future.

Recent events in world financial markets, beginning with the crash of the dot-coms and, more recently, the high-tech sector generally, have led some economists and management theorists to suggest that the ``New Economy'' is dead or that, indeed, it never existed. We believe this view to be wildly mistaken.

To say that the New Economy is dead is the equivalent to insisting in the early 1800s, that the entire Industrial Revolution was over because some textile manufacturers were going broke in Manchester.

Not only has the New Economy not died, there is strong reason to believe that it is about to advance to a completely new stage that will carry some countries' economies to higher levels of profitability and productivity than ever known before.

Korea should position itself to be among them.

Revolution Is Not Over

An August 2000 Goldman Sachs analysis compared the arrival of the Internet to the arrival of electricity. With a few exceptions, individual firms did not profit greatly from the new source of power in terms of revenues or valuation.

However, productivity, wages, and the standard of living all increased.

Economist Jeffery Sachs makes a similar prediction for the New Economy: ``Even though productivity gains are likely to be substantial, most benefits will accrue to consumers in the form of lower prices, or to workers in the form of higher wages relative to prices, rather than to firms in the form of higher profits.''

For Korea, too, the gains may come less in the form of a sudden increase in profits and stock prices, than in overall gains to the economy and society, higher employment and lower prices of consumer goods.

A successful transformation to a knowledge-based economy is needed to assure that Korea avoids being caught in the downward spiral of competition from lower wage countries. That competitive rivalry could come from China in the near future or perhaps from Africa, after a decade or two, as they shift from peasant agriculture to factory-based economies. Indeed, China's leaders are hoping to leapfrog elements of Second Wave industrialization.

They are investing heavily in Third Wave technologies in the hope of skipping some of the steps taken by Korea and earlier industrializing states.

What Obstacles Is Korea Facing?

In Korea, an e-commerce boom is materializing, with sales estimated at $15.2 billion for 2000. Perhaps even more encouraging is that they are adapting their business model to

Korean culture. Many of the sites offer a plan allowing customers to pay for products purchased over the Internet after they have received them.

However, Korean firms face special obstacles in developing B2B electronically.

Among these are a reluctance of companies to share information, a top-down relationship between the chaebols and their vendors, and inadequate standardization. For these reasons Korean companies should certainly not rush in to such B2B exchanges or invest blindly in retail level electronic sales without clear business models that stand up to close scrutiny by skeptics.

But no company can afford to ignore fast-changing developments in these fields, and every company of any size, must be ready to move aggressively when ``second round'' e-commerce business models have proven to be successful. That could occur much sooner than hardline traditionalists suspect.

At a minimum, government can, and should, encourage the shift to e- commerce by systematically reviewing and eliminating tax and regulatory policies that discriminate against service and knowledge-based business: by putting strong privacy and consumer protection policies in place: by supporting access to encryption, authentication and certification technologies: by policing and protecting intellectual property rights and by promoting revision of accounting methods biased toward the old industrial economy.

This is the second in a series of articles based on excerpts from a paper published by well-known futurist Alvin Toffler and an independent advisory group, Toffler Associates, at the request of the Korean Information Society Development Institute (KISDI) about the emergent global economy of the twenty-first century and Korea's place in it. -ED