

Korea to Go Online

By Alvin Toffler

Almost from the start of its drive to industrialize, exports have played a dominant role in Korea's development strategy. The great chaebols geared themselves to export and such names as Hyundai, Samsung, Daewoo and LG soon became household words around the world.

But in an era of "export overload", with increasingly intense competition from China and numerous other countries, Korea needs to shift its export strategy and change the role exports play in the economy as a whole. It must move to higher value added exports and increase its export of intangibles. Although Korea maintains an overall trade surplus, it has recently been a net importer of services. To move forward, Korea must capture its share of the rising trade in global services, a crucial component of a knowledge-based economy.

Services increased from a quarter of world trade in 1975 to more than one third in 1993. According to the World IT Services Association, spending for IT services alone could reach \$476 billion in 2001. In addition to providing services directly, Korean firms can benefit from the 25 percent of this total that will be outsourced. This means there will be over \$110 billion in play. Yet only 1.6 percent of the software produced in Korea is exported. This picture leaves an enormous potential for Korea to strengthen and diversify its economy.

Exports will remain an important part of the Korean economy. But rising competition, unpredictable economic cycles, and global "contagion" effects present risks even for exports of high technology, services and intangibles.

To some degree, Korea is over-dependent on the sale of goods to other countries, hence dependent on what happens to the American and European economies. Stronger domestic markets for goods and services could help protect Korea from downturns and unpredictable shocks due to political or technological disruptions. Relevant ministries should survey the domestic market for opportunities, and adjust tax and tariff policies to encourage growth of domestic markets.

In short, Korea needs these and more innovative measures to reduce the current over-reliance on the ups and downs of the export market.

FDI Provides A Welcome Boost

Until very recently, Koreans were much less tolerant of foreign ownership of financial and industrial assets. After the financial crisis, the Foreign Investment Promotion Act liberalized FDI, and capital inflows surged. There is still room to liberalize investment in the service sector and venture businesses.

Investment introduced new ideas and processes, but also makes some groups, such as unions, uneasy. The tradeoff of an extensive reliance on FDI can't be denied. Industry in Korea 2000 observes: "In general, foreign direct investment enables the domestic economy to secure sufficient foreign capital, improve management transparency, acquire advanced management expertise, expand markets, and create new jobs. In addition, the increasing weight of foreign invested companies is accelerating the globalization of the Korean economy and forcing the adoption of the United States-style market economy. On the other hand, competition has become fiercer even in the domestic market, and the distinction between the domestic market and the overseas market is gradually disappearing."

It is perhaps worth noting that when the U.S. needed to build its infrastructure for industrialization in the late 1800s, it was done with the aid of foreign investment by the British, Germans and other Europeans.

Before long, as a result of economic vicissitudes, the infrastructure was owned by Americans.

Ownership, however, is often less important than the net benefit host economies receive. The changing global economy has eroded traditional notions of Sovereignty, while increasing the benefits of cooperation between companies.

Building capacity in emerging sectors such as biotech can require both large infusions of capital and know-how, which can take years to develop in isolation. Foreign direct investment provides a welcome boost.

The lesson from Ireland is that a public-private partnership such as Ireland's Industrial Development Agency can attract targeted investment to promising sectors. Investment in pharmaceuticals, semiconductors, and PCs created a knowledge-driven boom in Ireland unsurpassed in Europe. It has attracted both multinationals and overseas Irish, who had been emigrating in large numbers in search of work.

Beyond Digital Divide

The value of economic and technological change depends on how much it improves the quality of life of all Korean people, not just business. In too many countries a wide gap exists between rich and poor in terms of access to the Internet and other productive new technologies.

This access-gap will narrow over time for two reasons.

First, the cost of digital technologies and services are plummeting, and new, cheaper forms of access to the Web and other services are becoming available. Because of technological convergence, many believe the Web will soon be as accessible as television is today.

Second, it is strongly in the interest of major corporations around the world to make this happen. To narrow the gap more quickly, however, the Korean government has trained housewives, soldiers, farmers, fishermen, and prisoners to use the Internet. One hundred large post offices will be centers for learning about computers and the Internet. As a result of the government's aggressive outreach

program, plus Korea's relatively low communication costs and Korea's egalitarian nature, the Digital Divide, while significant, is already much smaller than in most countries.

But the rich-poor dimension is not the only important divide. The Digital Divide can be a matter not just of socio-economics but also of generation, location, or sector. Are only young people taking advantage of it? Is access easier or less expensive in some parts of the country than in others? Do people dependent on one sector of the economy have more access than in another? One hundred percent equality of access is neither possible nor practical. Some services are faster, better or more versatile than others, and not everyone needs access to all of them. Some levels or types of service will inevitably cost more than others to provide.

But the lower the barriers that stand in the way of access, the better.

Moreover, there may also be a Utilization Divide separating those who, even with easy or equal access to the Web, make little use of it. Individuals, of course, should have the right NOT to go on-line.

On the other hand, even though Korea already leads the region in Web use, more can be done to eliminate unnecessary barriers. Through reducing licensing requirements, increasing incentives, and increasing training or subsidies, Korea can further encourage all sectors of society to use IT more productively. It is useful to identify these gaps by tracking Internet and wireless use by gender, income, and region, and make this information widely available.

The government, meanwhile, can encourage private services to target marginal users, with price and technical information for small farmers and fishermen, or expanded small-scale loan services for entrepreneurial borrowers. It could, for instance, promote (and perhaps insure) small-scale investment circles.

The Internet, and more broadly the entire cyber-infrastructure, is not magic, and its use is not, in and of itself, either good or bad. But their existence is the ticket of admission to the world economy of the 21st century. Together they are one of the most powerful new tools available to the human race for the creation of wealth in many forms. Korea needs to extract every bit of economic value from them that it can as the new economy spreads across the planet.

This is the sixth 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 21st century and Korea's place in it. -ED