

## Special Panel Discussion on Growth

Q 3 : What is the effect of trade liberalization on income inequality and how can benefits from trade liberalization be shared equally and accelerate poverty eradication? What will be the likely effects of green growth policies on economic growth, inequality and poverty eradication?

### 1. Effects of Trade Liberalization on Income Distribution

*(S.W.C)*  
✓ There is no clear-cut answer to this question. But, ~~I think~~ Korea's experience could provide some food for thoughts in <sup>seeking the answer</sup> discussing this issue, so let me tell you briefly what has happened in Korea, *first*.

- In the 1960s, as part of systematic efforts to jump-start the economy, Korea actively promoted exports and achieved a higher growth than those countries that took a path toward import substituting industrialization in the same period. For a country like Korea endowed with extremely limited resources, expanding the pie through export-driven economic growth was the only way to address income inequality, and in this way, Korea was able to get out of absolute poverty in the 1960s. In the 1970s, Korea pushed a full-scale drive toward Heavy and Chemical Industries (HCI drive) which ushered in a decade of steady high economic growth, but this strategy of unbalanced growth brought about widening income gaps between the workers in the heavy and light industries and between the high and low-skilled workers. This <sup>trend</sup> was reversed in the 1980s when the Korean government pushed hard with across-the-board market liberalization program.
- [The Heckscher-Ohlin model and Simon Kuznets' "inverse U hypothesis" are, by and large, applicable to Korea's

experience in the 1960s through 1980s.]

However, in the 1990s especially in the wake of Asian financial crisis in 1997; income distribution deteriorated again, and with the expansion of the knowledge-based economy and globalization in the 2000s, income inequality has further widened, leaving low-skilled workers at a greater disadvantage.

## 2. Lessons from Korean Experience

*then*  
What kind of lessons ~~then~~ can we learn from the Korean experience? A relevant question here is not whether trade liberalization always has positive impact on income distribution, but rather how effectively the developing economies could be integrated into the global economy through international trade, increasing their competitiveness in the global market. Korea's past experience provides a kind of, ~~if not perfect,~~ answer to this question. The export-led industrialization policy and aggressive trade liberalization program exposed Korea's domestic industries to international competition, stimulating innovation and technological progress and encouraging the reallocation of resources from less to more productive sectors.

I think the concerns of many developing countries about adverse effects of trade liberalization are legitimate, but it would be a better strategy for them to actively promote exports and pursue a gradual <sup>export-led</sup> trade liberalization, the phasing-out of import restrictions, in line with their respective domestic conditions, while preparing themselves with appropriate policies and action programs to cope with the challenges it will bring about. We in Korea have successfully transformed our economy into a more open, competitive, and advanced one through aggressive trade liberalization, but by single-mindedly marching toward a higher economic growth, we failed to fully prepare ourselves for the challenges ahead, which led to the financial crisis in late 1990s. Bipolarization of the society in the aftermath of the crisis is still a lingering socio-economic

problem in Korea today.

### 3. A Strategy for an Inclusive and Equitable Growth

This leads us now to the question of how to ensure an inclusiveness and equity while continuing to promote economic growth. We can easily agree that it is difficult to catch both at the initial stage of economic growth. The issue then boils down to the question of how to make a virtuous cycle between a quantitative growth and an inclusive and equitable growth.

This is where social policies come into play. A greater access to education, a more inclusive labor market boosting the employment of youth, women and the elderly, a more advanced social welfare system and better health care services are what should be done in parallel with a quantitative economic growth. In the case of Korea, education, among others, has served as a crucial link bringing in a virtuous cycle between quantitative and inclusive growth, <sup>or one step behind</sup> providing a momentum for greater social mobility and income equality. Education policy has been an integral part of the national development strategy and, combined with Korea's long tradition of putting the highest priority on education, played an important role in not only achieving a rapid economic growth, but also moving toward a more inclusive and equitable growth.

### 4. Green Growth Strategy and Equitable Growth

Let me now turn to the second part of the question. Green growth is a new paradigm where "green" and "growth" go together. It is not an idea that is aimed at environment-friendly growth only. It is a new growth paradigm that is based on an assumption that it will open up new sources of growth if "investment" and "innovation" are made in the green sector.

To be successful, however, green growth needs to be global, bringing the developing countries on board. Whether or not this

new growth paradigm is applicable to the developing countries is a subject that needs further study. But it is clear that there is no "one-size-fits-all" prescription for green growth. It should be tailored to each country's unique set of circumstances. Accounting for the distributional impacts of greening growth will also be crucial for its public acceptability.

According to the recent report on Green Growth Strategy by the OECD, there are complementarities between green growth and poverty reduction that include, among others, bringing more efficient infrastructure in such areas as water and transport, alleviating poor health associated with environmental degradation and introducing efficient technologies that can reduce costs and increase productivity, while easing environmental pressure. Green growth will also see new jobs created, including skilled jobs in emerging activities for green innovation, if compensatory policy measures are introduced to ensure that workers and firms are able to adjust quickly to changes brought about by the greening the economy, ~~including by seizing new opportunities.~~

In the aforementioned report, the OECD also highlighted the need to ensure that the development prospects of low-income countries are not undermined through the potential spill-over effects of domestic trade and investment measures. There are already concerns that trade and investment could be affected if the green growth policy agenda were captured by protectionist interests.

Creating a global architecture that is conducive to green growth will require enhanced international cooperation. ODA could play an important role in creating enabling conditions for green growth. As we are still at the initial stage of elaborating on this new paradigm for growth, the OECD is now taking an initiative for establishing the global policy network that goes beyond its traditional membership and we expect that it will continue to work on the issues of concern to many developing countries.

The Global Green Growth Institute created last year with its headquarters in Seoul will also play a pivotal role in helping the developing countries establish their own green growth strategies.

~~[As the originator of the idea, Korea has been moving rapidly toward a greener society in recent years, allocating 2 percent of annual GDP to green growth programs with its 5-year National Plan on Green Growth. As a result, over the past 3 years, Korea's renewable energy sector grew six fold, and green investment by the Korean companies increased by 74 percent annually. I think other developing countries could also start with their own programs for green growth focused on the areas of their comparative advantage and strength, for example, the solar and geothermal energy for African countries.]~~

