

Towards a Truly Dynamic Korea

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Standing amongst thousands of enthusiastic Korean football fans before the World Cup showdown against Switzerland, I was again reminded of the much touted Dynamic Korea slogan. Without a doubt, Koreans drive and speed have been at the core of the country's miracle and continue to make an impact on the economy: witness the rapid uptake of new technologies, the apparent socio-economic changes over the past ten years and the Korean entertainment wave (hallyu) sweeping Asia. Koreans who have spent a few years abroad find it difficult to adapt because the country has changed so fast.

Yet with all this enthusiasm about Koreans dynamism, one tends to overlook a more fundamental question: is Korea's economy and society dynamic enough at its core to continue the country's transformation launched following the financial crisis?

Today, Korea is not facing another economic meltdown. Yet the country remains stifled by the same powerful interest groups that contributed to the financial crisis in 1997. More than 20 years ago, Mancur Olson published a book called *The Rise and Decline of Nations* which convincingly proves the impact of interest groups. His main conclusion is that distributional coalitions — Olson's definition of interest groups seeking their own narrow advantage — interfere with an economy's capacity to adapt to change. Thus, innovation is inhibited and growth potential reduced. Olson's theory not only provides a powerful explanation of Korea's rise (Park Chung-hee suppressed all interest groups to set up Korea's economic miracle). It also points to a potential decline of the country if it cannot break the power of entrenched government bureaucrats, chaebol owners and labor unions. Anybody reading Olson's book will quickly grasp the real challenge that lies ahead for Korea.

So how can Korea free itself from the throngs of these interest groups? Three areas seem particularly important: first, the need for more flexibility within organizations. Traditional Korean management style is hierarchical and top-down. Strict



formalities and regulations make for highly rigid structures and organizational cultures — an important barrier to true change. Second, the need for more flexibility between institutions, i.e. enhancing the ability to communicate, build trust and reach compromises. Countries with high collective productivity are among the most successful in generating sustainable growth. Yet Korea has turned into a fractured society, with various groups pursuing their own interests a low trust society, in the words of Francis Fukuyama. Trust in institutions is woefully low for example in government (only 15 percent trust the executive branch), and big business (13 percent). The lack of trust is notable even by international standards, as shown by cross-country studies. As Korea enters the annual summer strike season, Koreans' ability for consultation and compromises will be tested again.

The third way of overcoming Korea's interest group trap is to truly open up the country. By this, I do not mean the traditional definition of Korean style globalization or segehwa, i.e. reaching another export target, being the best, biggest, first in a particular industry or field. No, true globalization requires a recognition that opening up can result in a win-win — even though it may mean accepting global standards, playing by global rules of accountability and transparency or accepting a foreign owner or boss with a completely different background. Korea's FDI stock as a percentage of GDP continues to be woefully low, lower than any other OECD country except Japan. Opening up Korea's economy is the surest way of creating a truly dynamic country — overcoming outdated hierarchies, rigidities and relationships. After all, this is what Guus Hiddink (and to a lesser extent Dick Advocaat) did to the country's football team to unleash their full potential and enthusiasm. Korea has a bright future ahead — but only if the institutions at the core of its economy become as open and dynamic as its soccer fans. ❁

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