Shared Growth and Korean Economy
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2017.07.12.

1. The Age of Transformation

1.1 Demand for Transformation in Economic Order of Neoliberalism

The first half of the 21st century is facing 'the demand for transformation.' Brexit and Donald Trump's election are such signs. It is unclear to what extent the policy response to the demand for transformation will be finalized, as it will depend on the circumstances of each country. However, the fundamental reason for the demand for transformation was the polarization and the lack of jobs due to accumulation of economic inequality.

The hierarchy that supports the Brexit and Trump is economically vulnerable. Many of them are the inhabitants of a declining manufacturing area, such as the central and northern industrial area of England, or the Rust Belt, which includes Ohio and Michigan in the United States. They believe that globalization and liberalization based on neoliberalism have eliminated their jobs. They support politicians who are not related to existing politics and claim protectionism, because the existing politicians have been pursuing neoliberal globalization.

Demand for transformation in the neoliberal economic order has been raised in various forms since the global financial crisis in 2008. While the Wall Street occupation protest in 2011 embodied demands from the bottom-up by the public, the 2012 Davos Forum, the theme of which was “The Great Transformation: Shaping New Models”, sought to revolutionize neoliberal capitalism from the top-down. However, even though Obama, the first African American president and political newcomer, was elected as
president, Wall Street did not show satisfactory changes, as it misused public funds. The result was Brexit and the election of Trump.

But when it comes to ‘protectionism', it is skeptical whether it will resolve economic inequality and create quality jobs, as hoped by those who support Brexit and Trump. Protectionism may temporarily increase jobs, but it cannot resolve economic inequality and polarization problems unless the operating principles of neoliberal capitalist economic order are modified.

1.2 Operating Principle of Society after Neoliberalism: Shared Growth

Historically, every society has had a central operating principle that characterizes its society. The operating principle of society affects the social behavior of members of the society, as well as the content of policies, institutions and laws.

Adam Smith has provided the essence of operating principles of capitalist society. In the 「The Wealth of Nations」, Smith argued that when each economic agent pursues self-interest, the "Invisible Hand" will maximize the social welfare. Human beings know what benefits themselves the most, and even if they pursue their own interests, they will increase benefits for the society as a whole by invisible hands. However, it is merely a distortion of Adam Smith's argument by the later generations.

In Adam Smith's 「The Theory of Moral Sentiments」, we need three virtues - prudence, justice, and beneficence - for economic and social development. The virtue of ‘prudence’ comes from individuals and their markets that pursue their own interests. But the virtue of 'justice' and 'beneficence' are achieved through the role of the government to create a fair society. Adam Smith observed that even though each economic agent was freely engaged in economic activity, the 'impartial spectator' inside the individual controlled his own infinite freedom by allowing the economic interests only within the moral limits of the society. Moreover, the role of the 'impartial observers' was enlarged, and the virtue of justice was that the government would intervene in unfair situations.
such as monopoly, profiteering, or market cornering. The virtue of the ‘beneficence’ is to actively support the underprivileged who are lack of the ‘freedom of economic activities’. Smith viewed justice as the pillar of economic society, and that the beneficence was its roof. If the pillars collapse, everything collapses, and if the roof is weak, stable life becomes vulnerable to the rainstorms.

In this way, Adam Smith argues that the operating principle of capitalism consists of two parts. First, all individuals freely realize their interests in the market, and second, the economic benefit of the individuals are allowed only within the moral limits of society so that self-interest and greed do not ruin the harmony and order of community society which is based on justice and beneficence.

The economic order of capitalism has evolved in various forms. However, the operating principle of the capitalist society, in which the two principles (free economic activity of the individual, and adjustment and control by the impartial observer) functioned as a foundation, persisted unchanged. The classic capitalism of the Adam Smith era has been transformed into a neoliberal capitalism that maximizes individual free competition through Keynesian capitalism which has extended the concept of individual's impartial observer to the nation. However, in 2008, the global financial crisis brought neoliberal capitalism to a crisis.

The crisis of neoliberal capitalism was due to its strong emphasis on ‘free competition of the individual’ while excluding the adjustment and control of individual selfishness by the impartial observer, among the Adam Smith’s two operating principles of capitalism. Clearly, freedom and competition have been the trigger for the transition from the mercantilist economic order, where only a few privileged were free, to the capitalist market economy, where everyone has freedom of economic activities. In addition, as J. Schumpeter pointed out, numerous innovative entrepreneurs enabled the dramatic development of the capitalist market economy through free competition, in comparison to other economic orders. Freedom and competition undoubtedly have been the
nourishment for development of capitalism.

However, human beings who only crave for ‘free competition' without the virtue of the 'impartial observer' view others as means to seek for their own desire, and thus 'materialized' to each other. Similarly, they regard the community society as means to achieve the their own interests. Therefore, there is no social justice in the neoliberal capitalist society. Only the pursuit of profit of capital determines the life and society of people, as the law of survival of the fittest is carried out in human society by the name of meritocracy. The result was deepening of economic inequality, and the polarization of 1 to 99.

Here is where shared growth is needed. In contrast to the neoliberalism, shared growth sees individuals as members of a community with interrelated relationships, and establishes the relationship between them as a 'partnership'. Partnership is a relationship where each other lives on equal footing. Thus happiness and freedom that individuals can realize are influenced by the happiness and freedom enjoyed by other people with which they have partnership, and by the happiness and freedom embodied in the community. In other words, shared growth is based on altruistic selfishness, does not seek to separate individuals and societies, but pursues happiness of individuals, community members, and the community. This is the value of growing and sharing together. Based on these values, when social systems, laws, and policies are created and implemented, individual and individual, individual and society will move to a shared growth society where mutual happiness is promoted. Therefore, 'shared growth' is not a mere technical concept of policies or systems that define the behavior of members of the community in a certain way. It also does not imply any particular community society formed by the accumulation of such policy and institutional outcomes. Shared growth is for 'growing and sharing together' and refers to the value of a sustainable community society as well as a behavioral standard for governments, corporations, and individuals who are members of the community society. So why do we need shared growth in our society?
2. Korean Economy Requires Transformation

In the economic sector, Korean society has both bright and dark sides.

On the bright side, Korea is one of the seven countries that has more than 50 million people, and per capita income of more than 30,000 dollars. The other six are the United States, Japan, Germany, the United Kingdom, France, and Italy.

The dark side is represented by low economic growth rate and polarization. Economic growth, which was 8.6% in the 1980s and 6.7% in the 1990s, declined to 4.4% in the 2000s and has recently fallen near to 2%. Income distribution has also worsened and the chaebol dependency has increased. Per-year combined revenue of the four major chaebols such as Samsung, Hyundai, LG and SK is close to 60% of Korea's GDP. This figure was only 20% in the early 1980s. As such, the economic power is shifting towards one side and the vitality of the economy as a whole is falling. The symbolic expression of 'Dynamic Korea' seems like an old word. Without transformation, the economy will get weaker, and someday, the whole society will lose its unity and be swept up in uncontrollable confusion.

The bright side of the Korean economy should be made brighter and the dark side should be made less dark. Let us first look at the factors that have greatly contributed to the Korean economy.

First, emphasis on education and human capital investment was important. Korea has neither major natural resources nor accumulated capital. Thus, it has had to rely on highly educated labor force to promote economic growth.

The second factor of the development was "Can Do" spirit. In the course of rapid industrialization, many Koreans have made dedicated efforts to relieve themselves, their families and their communities from poverty. Our young people have developed not only the local economy but also the Korean economy by moving away to other countries.
wherever jobs were available. Brothers, sisters, and children were able to study with the money that they received from miners, nurses, and construction workers in the Middle East and West Germany.

It was because of the bright hope that we could build a better future society with such devoted efforts. Since we shared the belief that we all could live better future lives, a strong national unity was born. Koreans shared hope and grew together.

Then, where does the dark side come from?

Since the implementation of the government-led economic development plan in the early 1960s, export-led economic growth centered on chaebols has been the basic strategy of economic policy. Korea has relied on this imbalanced ‘Growth First, Distribution Later’ growth strategy, a so-called ‘Trickle-Down Effect (Top-Down Track)’ model, in which certain sectors, such as heavy chemical industries, are first developed as leading sectors, and their performance was expected to spread throughout the economy. Maximizing the growth and efficiency was a ground goal, and distribution and equality were secondary considerations. Of course, this asymmetric growth strategy may be very effective in the early stages of economic development, but it cannot be effective forever. As a result of the unbalanced growth, the industrial structure concentrated on a few large conglomerates became fixed. Also, the SMEs, which are in charge of the employment and income of the majority of the people, became in a position to take an unfair deal in vertical relationships with the large corporations.

In addition, as the Korean economy and the corporate sector have experienced polarization since the 1997 financial crisis and after the 2008 global financial crisis, the problem of distribution continued to deteriorate. More specifically, in Korea, the top 1% of income earners earn 15% of total income, and the top 10% earn 47% of total income. Internationally, this income concentration problem is at a severe level coming after the United States. In addition, income of the top 10% has increased very rapidly, from 30% in 1995 to 35% in 2000 and to 43% in 2008. One of the causes of the bias in income
distribution is the concentration of benefits of economic growth to firms. Between 2000 and 2007, the economic growth rate was 5.5%. However, the household income growth rate was 3.6%, and the business income growth rate was 8.1% which was 2.2 times the household income growth rate. Even between 2008 and 2014, the period when the global economy was affected by financial crisis, the economic growth rate was 3.3%, the household income growth rate was 2.4%, and the business income growth rate was 5.0% which is still twice of household income growth. As a result, in 2016, the in-house reserves of the 30 largest conglomerates amounted to 478 trillion won and the cash assets amounted to 126 trillion won, while the household debt exceeded 1,300 trillion won. In the background, there was not enough job creation and companies were wary of raising wages so that the problem of ‘growth without wage increase’ was warned beyond the problem of ‘growth without employment’. In consequence, household debt and SMEs’ insolvency have become the two major problems of the Korean economy. This is the key backdrop in our society, where it is hard to expect growth anymore without improving the fairness of distribution.

Due to the high level of household debt, everyone has had to tighten their budget. SMEs and self-employed businesses were hurt as a consequence of fall in domestic demand. At this time, the excellent export performance of large corporation was not helpful either. In the last four and half years, the rapid liberalization and informatization of the world and Korea’s ‘Gap-Eul’ or boss-subordinate relationship have resulted in the breakdown of the linkage among the domestic industries. The virtuous cycle, in which export of large conglomerates creates employment and income in domestic economy and SMEs, has been greatly weakened. The warmth of the lower floor is not transmitted to the upper floor.

In the end, the contraction in domestic consumption and investment led to worsening in growth and polarization. This implies that the vicious cycle of ‘deepening polarization’ → ‘household debt and accumulation of SMEs’ insolvency’ → ‘sluggish domestic demand’ → ‘slowdown of growth’ → ‘deepening polarization' has been repeated in the
Korean economy.

Polarization has already been structured across the entire society beyond the economic sphere. Social polarization and market inequality can reduce the dynamics, efficiency, and productivity of society and create a vicious circle that can drive the whole society into crisis. However, it is not easy to resolve the structural economic inequality and the resulting polarization in Korea’s economic growth process. Moreover, the fundamental solution requires a lot of time and effort. However, whether rich or poor, big or small, everyone can together lose all if they keep missing opportunities, because they are together onboard the ship called ‘Korean Economy’. The shared growth idea came from the awareness of this problem.

3. Economic Policy Tasks to Become a ‘Shared Growth’ Country

3.1 What is Shared Growth

Shared growth refers to the basic operating principles of society that grow and share together. It is to create a ‘partner’ relationship between individual and individual, group and group, and country and country that make up the human community and operate them sustainably. Therefore, the shared growth pursues a ‘cooperative competition’ in which all participants are given a fair share, eliminating the ‘winner-takes-all competition’ in which only one party benefits. In shared growth, ‘to share together’ does not mean to steal from the rich and give it to the poor. Rather, we should make a bigger pie of the whole economy, but change the rules of distribution a bit. Let’s say that Korea’s GDP is 100, 50 for the rich and 50 for the poor. For example, GDP is raised from 100 to 110. The pie of 110 is divided between 55 and 55 in the current situation. In shared growth economy, the division becomes 54 to 56 or 53 to 57. The rich and the poor all gain the fruits of growth, but the increased gain of the poor is greater than that of the rich.
There is also a rebuttal that shared growth is against capitalism. Some claim that shared growth argument does not allow profit maximization while capitalism should guarantee profit maximization. Ensuring individual freedom to pursue profits is at the heart of capitalist thought. But it is ‘greed’ that it is possible to do anything for profit. It is not the true form of capitalism. It is also important for companies to maximize their share prices through maximizing profits and to maximize shareholders' profits in short run, but shareholders are not the only entity that directly or indirectly participate in business activities. Among those engaged in business activities, there are workers, suppliers, cooperator companies, and customers. The value of the company will be maximized if both the interests of the shareholders as well as other engaged entities’ interests are maximized.

It is hard to imagine maximizing the profit of the company at the expense of workers, suppliers, cooperator companies, and customers. Even if it can happen over a short period of time, it cannot last long. Maximizing short-term profits is an important aspect of corporate activities, but it is only a fragmentary idea to think of it as the whole of corporate goals. Capitalism in Korea should be abandoned from a way of thinking that maximizing profits is the sole corporate goal. This is being exploited as a theory that justifies the unfair practices of small and medium businessmen by large corporations. It is a new look for Korea's capitalism to make it worthwhile for customers, workers, and cooperator companies.

I believe shared growth is the only way to overcome Korea’s economic downturn. Even without discussing the prisoner’s dilemma of game theory, which shows that it is more beneficial to share interests with others, a lot of research in the human history and economics show that it is more profitable for participants when collaborating than participating in infinite competition. Therefore, it is necessary to build broader and deeper culture and institution to cooperate, although ‘free competition’ between economic agents is still important for establishing desirable economic order. The 21st century's 'impartial observer' is the 'companion consciousness' that emphasizes growing
and sharing with one another. I believe that it is an alternative way to the economic rebound that overcomes the anxiety of today's households and persists the happiness of the members of the community.

This shared growth is very broad in its concept. It is broad not only in terms of shared growth between large enterprises and SMEs, but also between rich and poor, between urban and rural areas, between metropolitan and non-metropolitan areas, between men and women, and between the countries. For example, the Kaesong Industrial Complex has a symbolic meaning of shared growth between the two Koreas, and the regional balance student selection system adopted by Seoul National University is a consideration for shared growth among regions. The FTA is not a panacea, but it is an example of shared growth between countries.

### 3.2 Virtuous Circle of Shared Growth and National Economy

In the capitalist market economy, mechanical equality is neither possible nor desirable in some sense. If there are rich people, there will be poor people. If there are large enterprises, there will be SMEs. If there is a growing industry, there will be a fading industry. You can not make everyone the same. The task is that the growth effect of one field should be spread out to other fields without being limited to that one field. The economy is a circulation. It is the core of shared growth that each sector that constitutes the national economy should be closely linked to each other to make a virtuous cycle.

If we can visually express the virtuous cycle of the national economy, we can distinguish it into two flows.

First, the growth effects of leading companies such as rich, large corporations, and growing industries should flow down well. It is the top-down track. Over the past half-century, the Korean economy has pursued an unbalanced growth strategy of ‘Growth First, Distribution Later’. As a result, the links of the trickle down (top-down) track were broken. These broken links should be re-established. Measures such as chaebol reform
and the elimination of unfair subcontracting transactions by large corporations should be specifically addressed.

At the stage of low development, growth-oriented strategies can be the best welfare policy. As the Korean economy experienced in the 1960s and 1970s, selecting a small number of leading sectors, providing limited resources and even allowing a certain amount of exploitation of loopholes in the law would not only promote growth, but also increase employment and ultimately raise the standard of living of majority of ordinary people. But the Korean economy has already passed that stage. Now, we must not allow any illegal acts and establish fair competition order.

For this, 'Chaebol Reform' is required. The governance structure of large corporations should be made transparent and excessive concentration of economic power should be restrained. It is also necessary to eradicate unfair trading practices such as forced slashing of supply prices and technology stealing in subcontracting transactions between large and small companies. Efforts should also be made to protect alley businesses and to designate industries suitable for SMEs. In our society, there is still a negative view that the shared growth is a destruction of the market economy principle. It is not like that. Illegal acts and abuse of economic power are the factors that destroy the market economy. A fair market can be made with a strong rule of law and a fair competition order that gives equal opportunity to all citizens.

Secondly, it is necessary to actively support economically underprivileged class such as subcontracted SMEs, temporary employees, and small self-employed workers. This can be called the ‘Trickle-Up Effect (Bottom-Up track)’. The increase in the income of the economically underprivileged, in turn, leads to an increase in demand for goods and services produced by large corporations. Normalization of the trickle down effect is an important task, but this alone is not enough to overcome the problems of polarization and low growth that the Korean economy is facing. No matter how fairly the market works, there are people who are left out of their capacity or lack of luck. Moreover,
structural barriers are set too high as a result of the imbalanced growth strategy implemented in Korea for the last half century. Therefore, it is necessary to concentrate policy efforts to increase the employment and income of the lower and middle class people. This will have a direct effect not only on stabilizing the lives of ordinary people but also indirectly on accelerating growth by stimulating employment and investment of SMEs and self-employed workers through expansion of domestic demand.

Shared growth is made up of virtuous circles of this trickle-down and trickle-up effects. In the conservative camp of our society, there is a tendency to emphasize only the trickle-down effect unilaterally. However, as a result of pledging allegiance to the growth-first belief, fair market competition was collapsed and vested interests of powerful people became more and more fixed. On the other hand, it is also true that the progressive camp of our society tends to emphasize only the trickle-up effect unilaterally. However, this may undermine the people’s will to do economic activities, and the dynamism of the market economy, thus, ultimately overburdening the postal distribution through welfare policy. The shared growth can not be attained only by one track of either trickle-down or trickle-up effects. You should combine the trickle-down and trickle-up effects to create virtuous cycles.

Of course it is not easy. It is a challenging task to change individual consciousness and behavior and to innovate the legal system, institutional and cultural practices of our society. But there is no other way. Only our shared growth that combines the effects of trickle-down and trickle-up is our way to survive. Now, we will present concrete alternatives for the shared growth of our society.

3.3 Three Short-Term Policies for Competitiveness of Korean Economy

The economic downturn we are experiencing is not one of the phases of the business cycle, but a structural problem. The situation like this, in which competitiveness is continuously weakened throughout the entire industry and every company requires a
detailed strategy. In order to stimulate the Korean economy, it is necessary to push forward the necessary policies fast to strengthen the stamina and build the foundation. Also, it is required to restructure the order of the Korean economy slowly but broadly and systematically.

We need three short-term growth policies as a first step to overcome low economic growth, deterioration of potential growth, and worsening of polarization. (Excess) profits sharing system, legalization of industries suitable for SMEs, and institutionalization of direct ordering of SMEs in government projects. These three short-term policies can be implemented effectively in a short period of time if the government has a strong will. This will be an effective way to strengthen the Korean economy and alleviate polarization.

Profits sharing refers to a system that allocates a portion of target-exceeding profits earned by large corporations to partner SMEs, thereby encouraging SMEs to pursue technological development, overseas expansion, and employment security. This is not benevolent. It is a reward system. It is because a certain amount of excess profits must be due to unfair transactions such as forced slashing of supply prices.

The legalization of industries suitable for SMEs is to prevent large companies from expanding their business to every industry. At present, large companies in Korea are well taken care of by the nation. During the process of industrialization, the nation and the people have provided numerous legal and institutional benefits and concentrated resources to large corporations as a 'selection and concentration' strategy. Behind that, there was an intention to make Korean companies compete in the world market and lead the economic growth. However, as the ownership of large corporations was inherited from founders to their offsprings, the entrepreneurial spirit of founders has lost. As a result, the chaebol leaders of Korea constantly disturb the alley business and the economic ecosystem. In addition, large corporations are losing their competitiveness in the global market, but resting in the Korean market which is thought to be a good place
to do the business. Paradoxically, policies that are good for business have inclined toward in favor of large corporations, consequently reduced large corporations’ incentives to enter and compete in the world market. Therefore, it is necessary to induce large companies to go to the global market through legalization of industries suitable for SMEs. At the same time, it is required to ensure the SMEs to gain competitiveness.

The system that directly orders government projects to SMEs is also related to large corporations. Currently, most of the government-ordered projects are ordered to large companies, and these large companies subcontract the projects to SMEs. As a result, it is the SMEs who do all the works, but it is the large companies who take the most of the profit. It is a structure in which capital, human resources, and technology can not be accumulated in SMEs. Therefore, when the government procures goods or services through the Public Procurement Service, it is necessary to make an effort to order more than a certain percentage directly to the SMEs.

This three short-term policies will lead to the rational flow of the money. Money that had been flowing into large enterprises due to unfair game rules will flow to SMEs. Then, what is good when the money flows to SMEs?

Let’s take one example. For a nation’s economy to continue to grow, on the macroscope, the enterprises should actively invest in capital, so that the production capacity continues to expand. On the other hand, consumption of households, investment from enterprises and exports to the outside world should continue to increase. In particular, investment is related to both supply and demand. Corporate investment does not only increase the production capacity, but also increase aggregate demand because it also means the purchase of capital goods from other companies.

The reason why the Korean economy has faced an economic downturn with growth rate close to 2% should be related to the sluggishness of facility investment, consumption, and exports. Exports still look brisk, mainly in semiconductor industry. But consumption and facility investment have been frozen for ages. Household income
The growth rate is only one-third of corporate income growth. In addition, the household has a debt of 1,360 trillion won. It is difficult to expect consumption to increase in this situation. Of course, consumption growth policies such as income increase policy and debt relief policy can be used. However, it is difficult to achieve great results in the short term.

Investment has been sluggish over the last four presidential regimes in Korea. It is the same for both large companies and SMEs. Large corporations have plentiful of funds in terms of in-house reserves or cash reserves. But the investment is sluggish. It is because the large corporations are overly cautious after the IMF bailout. However, there is a bigger reason that they do not have the right to invest. Korea’s large corporations often invest in cutting-edge and core technologies. But Korea lacks these top-level technologies. Research and development (R&d) spending in terms of absolute level is the fifth or sixth largest in the world, and the first in terms of GDP adjusted level. However, the reason why advanced and core technologies are not enough in Korea is that R&D spending is mainly focused on development (D), and basic research (R) is not done much. Moreover, some underestimates Korean economy, saying that Korea’s ‘R’ is often a ‘Refinement’ of others’ ideas, rather than a real ‘Research’. The solution for this problem is the structural transition from development to research (D->R), and from refinement of others’ ideas to full-scale research. But this requires time.

How about the SMEs? They have a lot of places to invest, but have no money. After the IMF bailout, corporate income that has not flowed into households has mainly remained in large corporations, and SMEs earn only one-third of their profits. One of the main reasons for this is large corporations’ unfair behaviors towards SMEs, especially the forced slashing of supply prices.

Therefore, large corporations have a lot of money but if they do not invest it, it would be better to induce these money to legally flow to SMEs. Then, this will create a link of ‘increase in SMEs’ investment’ -> ‘increase in production’ -> ‘increase in income’ ->
‘increase in consumption’ -> ‘alleviation of economic downturn’ -> ‘recover of economic growth’. And since the centripetal actor of this link is SMEs, the gap between the SMEs and the large companies can be reduced. The possibility of shared growth between large and SMEs opens up. In addition, income inequality will be eased as more than 99% of Korean companies are SMEs, and SMEs account for more than 88% of employment.

This is why I have been insisting on the three short-term shared growth policies for the last six years.

3.4 Mid-Term Policies for Alleviation of Economic Inequality and Sustainable Growth

In the mid and long term, we need to resolve two problems to create a happy society for each of our community members. First, we must alleviate economic unfairness and excessive inequalities, which are the causes of many of our current problems. Second, we must create a society capable of sustainable growth. This is because a society that stagnates without growth continuously deteriorates the quality of life of the members of the society, and eventually reduces the actual freedom of the members. We need to create a society where sustainable growth is possible for expansion of freedom of individuals.

In order to alleviate economic inequality and sustain growth, it is first and foremost necessary to nurture SMEs. It is necessary to transform the economy management and policy trend that have been in favor of large export-oriented enterprises over the last 50 years into a shared growth economy system. In shared growth economy system, large companies and SMEs, and export and domestic demand are balanced so that the fruits of growth can be evenly distributed. To achieve this, the following SME development and support policies are needed.

First, the most needed thing for SMEs is ‘people’. SMEs should be made into attractive jobs where young people want to work. There are many reasons why young people avoid SMEs, but the most important ones are the wage gap and poor welfare provision.
According to the Ministry of Employment and Labor, Korea’s SME employees’ wage in the first half of 2016 is only 61.6% of that of large corporations. If including temporary employees and employees of small businesses with less than five workers, the percentage drops to 49%. On the other hand, the US and Japan’s levels are near 75%, and 80% for Germany. Therefore, to make young people willing to work at SMEs, the wage gap should be reduced first, so that the wage level can increase up to 75 ~ 80% of that of large enterprises. However, the wage increase of SMEs should be carried out in the long term, considering the conditions of each SME. In the meantime, government support such as reductions in social insurance premium by state finances and provision of scholarships to students conditional on employment by SMEs are necessary. For long-term employees of SMEs, it is also necessary to support welfare programs such as school tuition subsidies for children and preferential rent housing. In particular, providing scholarships conditional on employment by SMEs in cooperation with local SMEs will help foster local SMEs, and will prevent the leakage of local talent.

Second, the innovation capacity of SMEs should be improved. Although the amount of capital is lower than that of large corporations, SMEs can have superior innovation capacity to utilize capital efficiently. The value added of revenue is evidently higher for the SMEs, and the contribution to household income of value added is much higher in SMEs than in large corporations. SMEs pay much more tax per unit of revenue. Of course, it is also necessary for SMEs to move away from management strategies that depend only on support from large corporations and the government, or on price competitiveness based on low-wage labor. They must improve competitiveness through innovation, such as improving quality through technological development, securing skilled workers, and pioneering global market. In order to increase the technology of SMEs, it is required to change the recipient of government’s R&D funding from large companies to SMEs. In addition, government-affiliated research institutes, universities, and companies should cooperate in more effective and continuous ways.

Third, the profit created by SMEs should be transferred to SMEs through the
settlement of fair trade between large companies and SMEs. For example, if a commodity price rises above a certain level, the 'commodity price - supply price correlation system' will be introduced to obligate the price to be reflected in the supply price, so large companies and SMEs will bear the burden of rising raw material prices together.

Fourth, we need to build a market that allows free competition. Currently, there is no free market competition between large companies and SMEs in the Korean market. There only exists 'Gap-Eul' or boss-subordinate relationship. This is because the concentration of economic power towards chaebols is excessive and there is a lack of laws and institutions that regulate unfair practices. As a result, entrepreneurs are constantly failing to empower the economy with creative destruction through innovation. If you take a look at top-ranked companies with most aggregate value of listed stock, you will see mostly the companies younger than 15 years in the United States. But for Korea, you will mostly see chaebol companies who are over 50 to 60 years old.

The second important task for alleviating economic inequality and sustainable growth is the normalization of the labor market. The labor market is made up of a dual structure of full-time and temporary workers, and their wage gap is very large. In the long run, the dual structure of full-time and temporary workers should be resolved. There are many unstable employment classes in Korea including temporary workers. According to the OECD report, the proportion of temporary workers in Korea is about twice that of the OECD average in August 2013. According to the statistics released by the Korea National Statistical Office in 2015, the number of temporary workers is 6.27 million, accounting for 32.5% of all waged workers. Particularly, unstable employment of young people causes frequent changes of jobs and hinders their skill formation, which is a crucial obstacle to human capital accumulation of future generations.

And in the long run, 'equal pay for equal work' should be institutionalized. It is a violation of Article 11 of the Constitution to prohibit wage discrimination for the same work based on the type of employment. Until 'equal pay for equal work' is
institutionalized, working conditions of temporary workers should be improved. Employment practices that produce temporary jobs result in unfortunate consequences of making two types of people within one country. Therefore, the public sector should take the initiative to establish and implement a plan to convert temporary workers into full-time workers, and ultimately, to provide fiscal and tax incentives for private enterprises to promote efforts to convert temporary positions to full-time ones.

The third policy task for alleviating economic inequality and sustainable growth is the minimum wage increase. The most effective poverty reduction and social integration policies implemented in the United States and Europe since the 2000s were the minimum wage increase. Looking at the minimum wage level relative to the median or average wage, Korea is ranked at the bottom amongst the OECD member countries. The minimum wage in 2016 is 6,030 won per hour, and the minimum wage in 2017 is 6,470 won. Efforts should be made to raise the minimum wage to a certain percentage of the average wage by setting a time limit of five years. At the same time, supervision on employers should be strengthened to prevent blind spots of the minimum wage law. Although there is a claim that raising minimum wage may reduce the total employment by SMEs, and this can negatively affect the low-income earners. However, many empirical studies suggest that the increase in wage of high-consumption class can stimulate the domestic demand and can positively affect the growth of the economy as a whole. At the same time, small businesses, which are negatively affected by the minimum wage increase in the short-run, should receive financial and tax support measures.

4. Long-Term Tasks to Become a ‘Shared Growth’ Country

4.1 Social Innovation

The reason why our society has fallen into the trap of polarization is not simply a
matter of economic growth strategy. More fundamentally, the order of our society has gradually collapsed. I see the injustice and wrongness at the very bottom.

The disappointment, frustration, and anger that people felt during the frequent crises, including the Sewol ferry and MERS incidents, were representations of the government that did not work properly, the society in which common sense did not work, and corruption spreaded all over its underside. The politicians that pursue their own interests, the press and academic community that tightly hold vested rights, the judiciary that ignores justice, the educational community that pursues higher status and competition, and the entrepreneurs that bribe to public officials who take those bribes, these are the reflections of our society. Many public officials set aside the privileges that they earn from managing a large number of affiliated organizations, and enjoy those privileges after they retire from their positions. This phenomenon is now so prevalent that it is impossible to judge where to fix it first. Repeated disasters in Korea have just shown the tip of the iceberg.

Such corruptions are not just one-time incidents but they form a huge food chain. This structure seeks injustice for the stronger rather than justice for the weak. It also pursues 'living by ourselves' rather than 'living together'. The old consensus of our society, 'better future, better society' has disappeared, and it has turned into 'society for the rich and society without emergency exits’. This means that our young people are losing their dreams. Young generations are frustrated by the fact that it is difficult to get married or employed no matter how much they try. As they become frustrated and sick, the future of our society does so as well.

In order for our society to develop, first we have to break the structure of corruption that are spreaded throughout the society. Many people think about the politics when they hear the word corruption. However, in addition to politics, many private educational foundations have long been enjoying the unlimited power. The educational field that should be the most liberal and democratic has turn to be the most authoritative and
hypocritical. Several large law firms have accumulated power and wealth that are no less than those of chaebols. When judges and prosecutors enter a large law firm after their retirement, they earn billions of won in less than a year. All of the presidential regimes that tried to reform this structure had faced violent resistance.

From now on, in order for our society to become one community, these structures of corruption must be eradicated. In that way, people can truly reconcile and combine efforts together for the development of our society.

### 4.2 Educational Innovation

The driving force of Korea’s high economic growth in the past was the talents customized for industrialization, who were massively fostered with investment in education. But the core competencies that will lead the future growth are flexible and creative talents. So how do we cultivate these core talents? The answer lies in good education.

First, it is very important for students who are stressed to have a healthy mind and body. Students should train their mind and body so that they can enjoy studying and have self-confidence.

Second, creativity must be cultivated for the new generation. Creativity, which refers to the ability to think differently and new, is the core competence, especially for the R&D sector. Isn’t the R&D essential for the design and implementation of investment projects for cutting-edge technologies?

During my tenure as the president of Seoul National University, I reduced the pupil to professor ratio by reducing the number of students to provide a high quality education. In the past, education in Korea was focused on quantitative growth like the economy. In fact, there are currently 200 four-year program universities and 160 two-year program universities in Korea, and college students account for 4% of the total population. It is
among the highest rates in the world. Korea’s college education has grown too much and too fast like an industry that can no longer produce superior products. One of the reforms necessary for education is to reduce the number and size of universities. Only then will we be able to expect quality, creative and innovative university education.

In addition, creative thinking requires an atmosphere and an environment that actively accept diversity. Only those who are accustomed to various cultures and experiences can think flexibly and creatively based on their rich imagination. While I was working as president, I introduced a regional balance student selection system so that the entire student can evenly represent all areas of Korea by selecting one-third of freshmen evenly across the country. This system can enrich students and faculty with a broader indirect experience. It is a different and new idea that causes creative thinking of individuals, and ultimately transforms the university from the transferor of knowledge to the creator of knowledge, and a broad indirect experiences can stimulate this process. When universities function as creators of knowledge, they can supply the level of talent that companies demand.

Third, the good education also fosters future leaders with the ability to adapt to unfamiliar situations and crises, and the ability to overcome adversity. We must ensure that future leaders learn confidence and flexibility in their early age through new challenges. Confidence and flexibility are the factors that enable them to achieve success in a rapidly changing world environment.

Finally, you should always keep in mind that raising a good talent is the same as raising a good person. Knowledge that does not seek for a way to live like a human being is nothing more than a consumed goods. If an individual does not learn how to live along with others, no matter how good he is, he will become a subject of jealousy and rejection, and can never be a respected leader anywhere.
5. Future of the Korean Peninsula: Share Growth System for South and North Korea, and for Northeast Asia

5.1 Shared Growth System for South and North Korea

A new growth engine is needed for South Korean economy, which is experiencing a declining growth potential. However, the tensions of inter-Korean relations stemming from the North's nuclear weapons add to our geopolitical risks and are a great burden on South Korea's economic rebound. That is why it is necessary to establish stable inter-Korean relations. Such stable relations is also desperately needed by North Korea, because North Korea can open up opportunities for economic growth. Without reform and opening up its door, regeneration and independence of the North Korean economy is impossible. As a result of long isolation, it can not be solved by mere commodity trading. A full-scale economic redesign for North Korea is needed. However, according to the experience so far, South Korea is the only country that has incentive to actively participate in the change of the North Korean economy, aiming at a unified economy. Over the past two decades, economic sectors have been the most active and substantial sectors of inter-Korean exchanges and cooperation. Four economic cooperation agreements including Investment Guarantees Agreement, as well as practices between the two Koreas to support their implementation, and domestic laws and institutions were created. As a result, in 2011, just 10 years after the 6.15 declaration, inter-Korean transactions have expanded to more than 30% of North Korea's total trade. This shows that trade between North and South is a win-win game.

Unification is a long journey. In the process of deepening and broadening inter-Korean relations, unification should be made naturally. It is the theory of 'unification as a process'. The basic principle of unification as a process is that even if the government is changed, the inter-Korean relations should be consistently maintained, so that it will become a little closer to unification. Therefore, it is necessary to divide the North Korea policy into 'the project to build a foundation for unification' and 'other projects'. The
project for building foundations for unification means a project that helps the North and South during the unification process or after the unification. The economic burden that may occur in the process of unification can be reduced, and post-unification economic growth can be boosted through this kind of projects. There are also other projects such as cultural projects that reduce the feelings of heterogeneity of North and South Koreans due to long division. Joint research projects on ancient history of the Korean peninsula, and humanitarian assistance projects can be such examples. The National Assembly must agree on these projects to create a foundation for unification, and it should ensure the projects to continue even if the presidential regime changes.

The economic projects for building foundations of unification aim at the inter-Korean economic community based on the premise of ensuring free movement of goods, services, capital, manpower and related information. It is to make North and South Korea a single economic territory.

There are two ways of economic cooperation of South and North Korea.

The first way is economic cooperation through trade. At present, the primary products of North Korea are mainly traded, but it should be extended to the secondary industry in the long run because of the differences in economic level and technology between South and North Korea. Through such inter-Korean trade, North Korea can promote the development of specialized industries and South Korea can provide a stable demand for North Korean products, thereby enabling the two Koreas to pursue common interests.

The second way is an expanded version of the Kaesong Industrial Complex model, which is designed to make the industrial complex specialized in the region. It will diversify the industrial sector by combining South Korea's capital and technology, North Korean manpower and resources, and utilize the existing infrastructure by North Korean regions to develop various industries that match the characteristics of the region. If the existing Kaesong Industrial Complex just brings technology, capital and intermediate goods from the south and simply process them by the North Korean manpower, the
second and the third Kaesong Industrial Complex will provide various cooperation models from processing North Korea’s agricultural and marine products to development of various natural mineral resources and mineral processing.

The inter-Korean economic cooperation is not only about the profit that involved company earns. The main part is to develop the North Korean economy through continuous trade enhancement, and to induce North Korea's reform and opening, and ultimately to bring about changes in the North Korean regime. Of course, it is clear that it will also help South Korean economy. The first thing we need to do is to respect and practice the existing inter-Korean agreements. Ignoring existing agreements and making new offers requires harder negotiation process and makes it more difficult to build trust. In this sense, it is time to gradually release of the '5·24 measures' that have been going on since 2010. Also, the Kaesong Industrial Complex, which was interrupted through dialogue between the two Koreas, should be restarted.

5.2 Shared Growth System of Multipolar Cooperation in Northeast Asia

With the rise of China, the balance of power in Northeast Asia has changed, and the situation has become complex as the four major powers, the US, China, Japan, and Russia, cooperate or conflict with each other. Unlike the previous Cold War models, the principle of balance of power is prominently operating in Northeast Asia. South Korea is in a position to attract both the 'US of Security' and the 'China of Economy'. The stability of relations with the four countries, the US, China, Japan, and Russia, is also an essential condition for peace settlement on the Korean peninsula. Fortunately, these four nations do not want the disruption caused by the sudden collapse of North Korea. There are both geopolitical limits and opportunities. It is therefore important that the four major nations have a position that the establishment of a peace treaty on the Korean Peninsula is more beneficial to the national interests of their own countries than the current tensions. One of the ways is 'Shared Growth System of Multipolar Cooperation in
Northeast Asia' which can share political and economic interests by utilizing geopolitical positions. This multipolar cooperative Northeast Asian shared growth is another axis for promoting the establishment of inter-Korean economic community, which is the goal of inter-Korean economic cooperation, with shared growth between the two Koreas.

There are three ways for multipolar cooperative Northeast Asian shared growth, participants countries of ▸ South Korea - North Korea - China, ▸ South Korea – North Korea - Russia, and ▸ South Korea - North Korea – China - Russia. The examples are the connection projects of the Trans-Siberian Railway (TSR), the Trans-China Railway (TCR) and the Trans-Korea Railway (TKR). They are also related to ‘RCEP’, a multilateral free trade agreement of 16 countries including Korea, China and Japan, ‘The Belt and Road’ project by China, and ‘Eurasian Economic Community’ led by Russia.

These Northeast Asian economic cooperation projects have several advantages. First, it can be maintained regardless of the political and military changes of the two Koreas. Therefore, South Korean companies participating in Northeast Asian economic cooperation projects can do predictable management without any harm. Second, it can serve as a buffer to mitigate military tensions between the two Koreas. Third, by establishing long-lasting trust with China and Russia, we can lay the foundations for securing their understanding when the unification comes nearby.

5.3 Concluding Remarks: The Road to Unification in the Age of Uncertainty

The Korean economy should develop the inter-Korean relations and cooperation by wisely riding on the wave of international politics in Northeast Asia and increasing uncertainty in North Korea. Diplomacy with the four neighboring countries and North Korean policies should not be intertwined or played separately. Above all, we must not repeat the trial and error from the past, which cuts off all inter-Korean relations due to North Korea's nuclear and missile issues.

The new unification policy can be started only after the existing 'cold war' and
'reasons' are overcome. In order to do that, inter-Korean economic exchanges and cooperation need to persist stably regardless of the political situation. Therefore, it is necessary to enhance the level of national consensus and strengthen the foundation for the inter-Korean exchanges so that at least the 'economic cooperation project for building the foundation of unification' can be consistently pursued. Also, unification should go in a way that the South and North pursue mutual benefits together. This is why the shared growth of the two Koreas should be the main topic at the discussion of unification rather than political system, ideology, or national identity. South Korea should play a role in ensuring that North Korea achieves a significant level of economic development before unification becomes viable. Then the burden of unification costs will be reduced accordingly. In the process, the South Korean economy will gain considerable benefits.

Clearly, unification has more benefit than the cost. If we manage the process of unification well while pursuing shared growth, it will help solve the problems of low growth and polarization. Moreover, unification is not simply a return to the period before the national division. It should be a process of constructing a new nation that contributes to the economic prosperity, the sophisticated society, and the world civilization.