

KDI-OECD Conference  
**Making Reform Happen**

November 25~27, 2010

**Welcoming Remarks**

November 26, 2010

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President

KDI

The honorable Secretary General of OECD, Mr. Angel Gurría, Deputy Secretary General of OECD, Mr. Aart de Geus and the President of European Commission, Mr. José Manuel Barroso and distinguished participants

And Ladies and Gentlemen,

It is with great honor to welcome all of you to this timely conference on Making Reform Happen.

Foremost, I would like to express my deep appreciation to all participants who have joined us in this conference to share their valuable insight and knowledge. Also, I would like to thank OECD and KDI staffs for successfully organizing this important conference.

Korea has successfully navigated its way out of the recent global financial crisis, but obtaining new growth engines and taking off again will

substantially depend on the success of structural reforms in Korea's major sectors and not only managing a sound business cycle.

In Korea, there were many structural reforms that were carried out in the past before the crisis of 1997 as well as afterwards, and among those, some were successful and some were not. For most failed reforms, 'political economy' was mainly regarded as one of the main reasons for delays and abandonment of reforms. Such cases are easily found across various sectors, including labor, education, health, pension, welfare, and others.

Although these obstacles, in reality, emerged in various forms, many nations including advanced and developing nations have been equally influenced by the similar problems. Recognizing this, KDI is jointly hosting this international conference with OECD. We aim to seek solutions firmly based on academic backgrounds to overcome the obstacles and prepare for the future by undertaking joint efforts with OECD, a leading international institution in this MRH initiative and a number of leading experts from around the world.

Going back to the issue of 'political economy,' very often the inefficiency of 'political economy' system is ascribed as the core of the problem. Problems arising from this aspect are, of course, undeniable however, there are other problems that must not be ignored such as: The lack of knowledge as the underlying infrastructure of reforms. It is a pivotal force in

establishing reforms. Some are not sure of the objectives and expected benefits of reforms, in particular, they are uncertain about the personal gains that can be achieved from reforms and the government is also limited when it comes to having knowledge to resolve such problems.

Why are reforms needed? What are obstacles to reforms? Why so many reform efforts have failed in the past?

The knowledge to answer these questions is often lacking in a particular country and Korea no exception. In reality, the time and diligence needed to answer these questions are also lacking. In particular, in the areas where there are no global standard, such as education, pension, medical, and others, it is most important to thoroughly understand country-specific institutional and cultural factors in order to develop custom-made reform policies.

The basis for developing such policies is to study a wide-range of experiences of other countries. What reforms have succeeded or failed in what country and what are the reasons for their success and failure should be carefully reviewed in in-depth studies in order to draw lessons and gain insight.

In a global perspective, by discussing each country's reform experience and success factors as well as failures, this MRH conference holds a great

meaning in resolving the knowledge gap which any particular country might have when launching a reform. I understand that this conference includes many case studies of reforms in OECD member countries as well as Korea. These findings will, no doubt, contribute to expanding the capacity of future reforms.

Now, let me briefly introduce the story of Korea's past and present MRH. Korea is a society that experienced incessant changes. As you are already aware, Korea has started a drive for industrialization in the 60s. During the past 50 years, Korea has experienced continuous transformation in a deep and fundamental way. When you look at the past 10 years of Korea, particularly after the Asian financial crisis of 1997, Korea has implemented many constructive reforms in the financial, corporate, public, labor, and social welfare sectors. Korea, which you see today, is not the same Korea of yesteryears.

However, reforms in Korea are still ongoing and we still have many challenges to overcome and tasks to be solved. In struggling to strike a balance between strengthening global competitiveness and firmly establishing advanced social safety net, Korea is faced with newly arising problems such as the aging population and South-North Korea relations amid the new nuclear threat.

Problems such as these are the new challenges that face Korea head-on as Korea is heading toward to become an advanced nation. In order to sustain, Korea must engage in various ways to improve the current status but, it is not an easy task. I would like to point out two problems.

First, there is the problem of understanding the discord. In the past, under the pretense of benefitting the national economy, most of the reforms are carried out although there were many undissolved disagreements. As such, Korea has chosen to support reforms that will benefit the country as a whole while foregoing individual benefits. I believe the attitudes of the Koreans were one of the underlying forces for the unprecedented economic development of Korea in the past.

However, as Korea gradually becomes prosperous and a more democratic society is being firmly rooted, the past circumstances no longer hold true. Asking for personal sacrifices in order to achieve a nation-wide collective efficiency gain cannot be expected. With this backdrop, encompassing contradicting opinions and carrying out reforms needed for the nation as a whole arise as a critical issue.

In other words, “Are the benefits of the country beneficial to individuals?” is the key question that stands out but, Korea, thus far, does not have the answer to this question.

The second problem is establishing a right direction for reforms. In the case of Korea, reforms implemented right after the Asian financial crisis were focused mainly in the financial, corporate, and macro-economy sectors and this was mostly possible by adapting to the global standard. During the crisis, most citizens complied with the situation and thus, building national consensus was done relatively quickly without noticeable opposition. However, the current situation is far from the past conditions. As the urgency has subsided, most citizens do not often consent to the solutions that were presented by the global standard. The KORUS-FTA is a good example. In 2007, FTA between Korea and the U.S. was signed on a government level, but there were many oppositions and social disputes surrounding the issue. In this regard, the Korean government has been trying to learn policy lessons on a trial-error process.

In addition, many of the problems that Korea has do not have the global standards, in particular, areas such as education, pension, medical, SMEs, environment, etc. are the case in point. Under the circumstance where there are no global standards and best policy practices, it would be most difficult to establish a needed reform direction and to gain public consensus. As result, although the will of the government is strong and the desire for reform is high, the end results are never satisfactory. In such a case, reform attempts will create confusion leading to reform fatigue among the

stakeholders and the reform momentum will be weakened.

Here, I must emphasize that it gets all the more important to thoroughly grasp the knowledge on MRH under country-specific institutional backgrounds, in particular, in the areas where there are no global standard, such as education, pension, medical, and others. Furthermore, this type of in-depth country-specific MRH studies would, indeed, produce truly meaningful lessons for other countries as well since underlying human interactions are often universal though disguised by institutional surface.

Although I have been, so far, focusing on the challenges Korea currently faces within the context of MRH, it is safe to say that Korea's past reforms have been relatively successful. In fact, many developing countries look to Korea as a model case when executing reforms in their countries and even among OECD member countries Korea's experience in education, science & technology, and SOC have gained much attention recently.

However, the experience of Korea has not been thoroughly documented and the detailed outlines and generalization of sector-specific policy studies have not been well conducted although demands for them are overwhelming. I truly feel the need for Korea to accelerate its efforts to organize and publish such information.

Recently, recognizing such need, Korea has taken on the task to strengthen

the international knowledge cooperation in an astounding manner. Hence, this conference holds a special meaning in that this is also a part of Korea's effort to step up its system in internationalizing our knowledge network. This conference will surely be the stepping stone for Korea to build a global knowledge network on reform policy debates.

In conclusion, the success of a reform depends on knowledge. The so-called "problems of political economy" also often arise from lack of knowledge.

I believe it is timely to organize a conference relating to the issues at hand. I am most eager to hear about the findings that will be presented during the three days of this conference in hope that the information shared during the conference will indeed be an invaluable knowledge in further pushing reforms in Korea as well as other countries.

In closing, I would like to once again thank all the participants in the conference. I hope that this conference will prove to be both insightful and beneficial to each and every one of you. Thank you.