

Jun Il Kim: Achieving balanced growth and promoting economic development

Opening remarks by Mr Jun Il Kim, Deputy Governor of the Bank of Korea, at the International Seminar 2012, hosted jointly by the Bank of Korea and the Daegu-Gyeongbuk Development Institute, Daegu-Gyeongbuk, 14 November 2012.

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Good afternoon.

Distinguished speakers, participants, and ladies and gentlemen,

It is a great pleasure for me to speak at this international seminar hosted jointly by the Bank of Korea and the Daegu-Gyeongbuk Development Institute. I am very grateful to all speakers, particularly those who traveled from abroad to attend this seminar, and President Seong-Keun Lee of the Daegu-Gyeongbuk Development Institute.

I find this seminar is quite timely, and addresses very topical issues that we should tackle to achieve balanced growth. Balanced growth has received a great deal of attention not only at the national level but also at the international level. Global imbalances were at the root of the global crisis.

The euro's fragility as a common currency also stems from the growing imbalances within the euro area, particularly between the core and the periphery. Indeed, the central theme of the G20 process is to achieve strong, sustainable and balanced growth.

Balanced regional growth is an imperative from Korea's perspective, given its far reaching implications on economic resilience and social cohesion. For instance, uneven economic development across regions over the past five decades or so has resulted in too much concentration of economic activities in the Seoul Metropolitan area and therefore too little utilization of available resources of other regions.

Such regional disparity has then undermined social cohesion, political unity, and economic competitiveness of the national economy. Moreover, it is never optimal from the efficiency point of view because the marginal return on investment is far from being equalized across regions.

Daegu-Gyeongbuk region is a victim of such regional disparity. At present, it accounts for about 10 percent of national GDP and population, down from above 12 percent two decades ago. It was a home of Korea's prospering textile industry until the 1980s but gave its way to China afterwards. This region has struggled since then to find a new engine of growth, despite some limited success in attracting investment in mobile electronics and steel industries.

I believe that key to successful regional economic development is the quality of less mobile production factors such as government services, institutions, human capital, and natural environment, among others. The quality of less mobile factors of a region will determine the extent to which it can attract mobile factors for production such as physical capital and finance.

In this respect, the recipe for success is very much the same between regional economic development within the national border and globalization beyond the national border. In a globalized world, economic success of an individual country would be determined largely by how much productive investment and finance it can attract. And the abundance or lack of its own mobile factors would be neither a constraint nor an advantage that a country would face in its economic development.

Likewise, regions within a country are competing with each other for investment resources available domestically or internationally, and their success depends on how attractive they

are as the destination of investment. As such, the essence of such competition should focus on how to upgrade the quality of less mobile factors of each region.

In this light, I should emphasize the leading role of local governments and also the central government in promoting regional economic development. To be specific, local governments should provide a clear vision and framework for sustainable development with detailed strategies to support business and human capital development. Deregulations, supportive tax system, and administrative services would then be designed within the framework.

The central government could incentivize regional development by delegating more authorities to local governments for their autonomy and, more importantly, by prioritizing the allocation of fiscal resources among local governments according at least in part to their supportive performance in regional economic development. It would be ideal if regional development strategies are closely nested with national development strategies in the first place.

Ladies and gentlemen,

Promoting economic development is always a highly complex task. It requires a myriad of inputs including knowledge, information, network, dedicated efforts of the people, and good luck as well. And we all know that economic development is an evolutionary process of learning and adaptation.

Today's seminar is particularly meaningful in that we will learn from the rich experiences of our advanced peers, especially Germany and Japan. I believe that learning from others' experiences is as important and productive as learning by doing. And I am sure that this seminar will offer very useful guidance to our long journey to rebuild this region's economy.

I look forward to your active exchange of ideas and in-depth discussions.

Thank you once again for joining us today.