

## **Seung Park : Nepalese economic development in the light of Korea's experience**

Keynote speech by Dr Seung Park, Governor of the Bank of Korea, at the workshop on "Managing Non-Performing Asset" hosted by Nepal Rastra Bank, Kathmandu, 12 November 2003.

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### **Opening remarks**

Let me begin by expressing my deep thanks to Dr. Tilak Rawal, Governor of Nepal Rastra Bank, and to all persons concerned for having invited me to address this workshop.

Nepal is well known to Koreans as a country of splendid natural beauty, largely made up by the Himalayas, which include the world's highest peaks such as Mount Everest.

I am aware that nowadays the Nepalese people are trying to achieve a dramatic economic leap forward. They look to Korea as a country that transformed itself from 'The Land of Morning Calm' to a dynamic industrial nation, now the world's 12th largest economy in GDP terms. In this context, I believe, Nepal Rastra Bank has invited specialists from the Financial Supervisory Commission and the Korean Asset Management Corporation and myself to today's workshop.

As Governor of the Bank of Korea and scholar of economic development theory, I would like to share my thoughts with you about the economic development of Nepal in the light of our experiences in Korea.

### **Korea's experience in economic development**

Korea's past history had involved a constant struggle against poverty. In Korea, mountains make up some 70% of the total land area - not so very different from Nepal. Korean people lived out their lives on this narrow cultivable land for a long time. We could not escape from the enduring state of extreme poverty because of a lack of natural resources, perennial floods and droughts, and so on.

However, during a period of less than half a century, Korea's story has changed from one of poverty to one of economic success. Per capita income, no more than 80 dollars in 1960, reached 10 thousand dollars last year. In the course of this change, Korea has transformed itself from a closed farming country to an open industrial nation. It now exports many high-tech IT products such as semi-conductors, communication devices, computers, and LCDs.

In the 1960s, the early stage of economic development, we mainly produced labor-intensive goods for export. Korea had been unable to accumulate capital and obtain the raw materials needed, let alone the technology. Worse still, the domestic market was limited. The only domestically available resource was a good-quality labor force.

In this situation, we brought in foreign capital and built factories with it. We also imported raw materials and technology. Low-waged domestic labor, our only resource, was recruited by these factories that manufactured light industries products. These were then exported and the foreign currency earned was reinvested in domestic industry. With the repetition of this cycle, a snowball effect started to operate and this accelerated as time went by. As a result, most of the problems of extreme poverty had been solved by the late 1970s.

Subsequently, economic development led by labor-intensive light industries began to reach its limits. We, therefore, started to build up heavy industries on a full scale, such as steel, petro-chemicals, automobiles, and shipbuilding. This policy obtained excellent results and Korea was able to become a member of the OECD, the so-called rich countries' club in 1996.

Meanwhile, the growth environment had changed greatly. We had moved from a low-waged to a high-waged, from a government-driven to a market-centered environment, and from closed protectionism to openness and competition. The Korean economy, however, failed to adapt promptly to these environmental changes and consequently suffered a foreign currency crisis in 1997.

However, Koreans were never wholly downhearted because of this crisis. In some way, it was an opportunity to solve the accumulated structural problems. Taking the suffering in their strides, both

government and people supported bold structural reforms covering all aspects of society including firms, financial facilities, public services, and labor market.

In consequence, Korea was able to overcome the foreign currency crisis earlier than expected and was held up as the model pupil of the IMF's structural adjustment program. In the course of this drive, Korea acquired a new economic structure, capable of responding flexibly to the changing growth environment.

### **Necessities for economic development**

Korean economic development was even termed a miracle by some because it was achieved within a very short period. Many underdeveloped countries, in particular, have pondered over its main driving forces.

It is often said that there are certain prior necessities such as an abundance of either natural resources or capital, and wide markets, without which economic development seems unlikely. There are, nevertheless, quite a few examples of successful economic development being accomplished without these advantages.

As well as Korea, Singapore, Hongkong, and Taiwan all achieved brilliant economic development in spite of their unfavorable starting conditions. The question of whether a certain economy develops is determined more by how its government and people act, than by its physical endowment. In this context, I think three factors are essential for the progress of the Nepalese economy.

First of all, it is vital that there should be a firm will for economic development and the resolution to carry it out. The Nobel laureate Arthur Lewis pointed to "the will to economize" as the most important motivation for economic growth. No matter how great a country's natural resources, no matter how wide its markets, without a strong will to develop and back-breaking efforts, economic development remains a distant prospect.

Through the nationwide Saemaoul movement, or "new village" movement, Korean people strengthened their resolution for a better life and their self-confidence through a 'Can-do-spirit'. Everyone worked hard. Preparing for the future, they became accustomed to habits of thrift and saving, and were able to accumulate capital.

Nepal, like Korea in the early stage of development, suffers from a lack of capital. However, where the government and people share a firm will for development and a spirit of self-sacrifice in enduring today's hardship for tomorrow's prosperity, there is already a store of mental capital that compensates for the lack of physical capital.

Secondly, Nepal should make good use of the given economic environment and, especially, maximize the benefits flowing from the progress in the openness of the world economy. Thanks to the tidal wave of openness, huge amounts of capital now move across borders and multinational enterprises are transferring production facilities to more advantageous regions. This means that if investment conditions are suitable, there should not be too much difficulty in raising the needed capital.

Accordingly, I think it is reasonable for Nepal to adopt a development strategy similar to that of Korea in the past. This involves importing capital and technology from abroad while utilizing the relatively cheap and abundant human resources to the utmost. For this, Nepal should improve the institutional infrastructure and conditions steadily so as to attract greater capital inflow from foreign financial institutions and more foreign direct investments. In addition, in order to overcome the weakness of its narrow market, Nepal should constantly expand its foreign trade.

Lastly, I think that the roles of the government and the central bank are also important. One of the factors impeding economic development in underdeveloped countries is the weakness of the market mechanism. Therefore, in the early stage of development, it is important for the government to allocate the limited resources in an efficient manner with a well-prepared plan. That is to say, it is necessary for the government to act as 'a visible hand', complementing 'the invisible hand' of the market.

In this way in Korea, the government set up economic development plans, and presented its vision to the people. In the course of economic development, it induced foreign capital inflows and boosted exports by providing financial support and tax incentives. Nepal also has limited resources and, so far, the market mechanism has not been working to the full. Thus, it is preferable for the Nepalese government to complement the function of the market.

There is, at the same time, concern over the worsening of inflationary pressures and the current account position in a rapid drive for development. If such internal and external disequilibria are deepened, sustainable economic development is unlikely. Therefore, the central bank should devote intensive efforts to achieving price stability. From this point of view, it is of great importance to secure the central bank's independence. To put it briefly, while the government strives to increase production and investment, the central bank should conduct monetary policy consistently to avoid erosion of the basis for price stability.

### **The direction of economic development in Nepal**

Admittedly Nepal faces a number of particular problems in economic development. Its landlocked situation hampers trade and there are some weaknesses in terms of capital and technology.

However, we should never underestimate Nepal's inherent resources. Besides low-waged labor, Nepal has a vast potential for hydro-electric power from its rushing waters, so Nepal can acquire the energy essential for industrial development with relative ease. In addition, Nepal is blessed with a magnificent environment with the Himalayas forming the "Roof of the World". This means there is a tremendous potential for the growth of the tourist industry. Besides this, it borders China and India, which are the largest and most rapidly growing markets in the world.

Therefore, Nepal's future looks very promising, provided the government and people can unite in their determination for betterment and pursue a plan for economic development in line with the changing global environment.

In particular, Nepal, like Korea before, will be able to grow within a short period by exploiting the advantage of imitation as a follower, which was emphasized by economic historian Alexander Gerschenkron.

This is termed as "the relative advantage of backwardness". The idea is that late developers can save time and costs by learning from the pioneer's experience and following in their footsteps where they took the right path. In addition, because followers leapfrog some steps in the course of economic development, they can achieve compressed growth and develop faster than the vanguard.

In this respect, as Korea is presently ahead of Nepal in economic development, I think that we are in a fortunate position to give a lot of help. If you wish, the Bank of Korea will be happy to further expand our cooperation and friendship with the Nepal Rastra Bank.

### **Closing remarks**

Thanks to advances in IT technology and transport, Nepal and Korea are now closer together than before. Many Korean trekkers visit Nepal every year and thousands of Nepalese are working in Korea. Besides this, nowadays, pashmina shawls woven in Nepal are becoming very popular in Korea.

It is my profound hope that this workshop will offer a useful opportunity to deepen still further the excellent relationship between Nepal and Korea and to help Nepal's economic development and financial reform.

Thank you for your listening so attentively.