

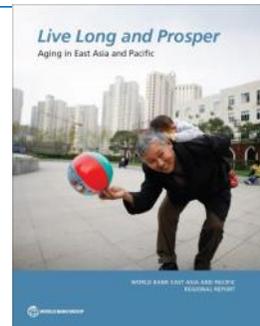
# World Bank Group Korea Office Newsletter



NOVEMBER/DECEMBER 2015

## World Bank Experts Discuss Korea's Rapid Population Aging

A roundtable discussion draws implications from the latest World Bank report, "Live Long and Prosper: Aging in East Asia and Pacific"



Population aging is one of the most fundamental, structural shifts happening in Korea, affecting the growth prospects of the country. A new World Bank report finds that Korea's decline in working age population is among the most rapid in the East Asia and Pacific region.

The report, "*Live Long and Prosper: Aging in East Asia and Pacific*" provides a comprehensive analysis on aging in the region, and discusses policy challenges and directions in the areas of labor, pensions, health, and long-term care.

On December 14, the World Bank Group Korea office hosted a roundtable policy discussion forum at the Korea Development Institute (KDI) in Sejong City to discuss the report's implications for Korea.

Sudhir Shetty, Chief Economist of the East Asia and Pacific Region of the World Bank, said the East Asia and Pacific region already has more elder people than any other region

globally and is aging at an unprecedented pace.

"By 2040, the graying of the population could shrink the number of working-age adults by more than 15 percent in Korea and more than 10 percent in China, Thailand and Japan."

Although challenges posed by rapid aging are real, he said the East Asia and Pacific region is better placed than most regions to manage rapid aging.

"The most pressing risks from rapid aging are fiscal and require urgent reforms in some countries in the region of pensions, healthcare, and long-term care systems."



Philip O’Keefe, World Bank Lead Economist and the lead author of the report said that Korea is in many ways remarkable for the proactivity with which it has addressed the aging policy agenda, but the living standards of older Koreans suggest that there remains an ongoing agenda to ensure that older people fully share the benefits of growth.

“Old age poverty in Korea is high and other non-income indicators like depression among older people are worrying. In healthcare and long-term care, there remain challenges in promoting effective models of coordinated care for the elderly.”

O’Keefe explained that Korea has been taking a range of measures to support productive

and longer working lives, including proactive efforts to move away from seniority-based wage setting and sustain attractiveness of older workers to employers.

He suggested that job services support for older workers and measures like talent banks are worth evaluating more thoroughly to look into cost-benefit and whether age-only or targeted group intervention is better for value for money.



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*“There remain challenges in promoting effective models of coordinated care for the elderly”*

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Pension is another issue that juggles between welfare support to elder workers and financial resources availability. O’Keefe said that while Korea introduced a national pension system relatively late in its demographic transition, Korea’s pension reforms to expand coverage through public subsidies provide lessons for other countries. He cautioned, however, that the challenges looking ahead will be to ensure adequacy of old age financial protection.

“The pension benefit for the current elderly cohort is modest, thereby exacerbating old age poverty. To reduce fiscal risks, it is recommended that retirement wage be extended and pension benefits be indexed to changes in prices, not salary.”

More information about the new World Bank report, “Live Long and Prosper: Aging in East Asia and Pacific” is available at <http://www.worldbank.org/en/country/korea>



## “There is a new Korean development model in the making”



Korea’s economic performance over the course of four decades remains a source of inspiration for many developing countries. The so-called export-led growth model of Korea served as the workhorse for policymakers from across the developing world.

For Shahid Yusuf, a world renowned economist with deep knowledge of and experience in Korea, there is a new Korean model in the making.

In a brown bag seminar held at the World Bank Group Korea office in Songdo, Yusuf gave a sneak preview of his new work, “*A Smart 21st Century Development Model in the Making: Korea Leads the Way*”, commissioned by the World Bank Group Korea Office.

Yusuf said the still embryonic ‘new’ Korean model is more compelling and relevant for middle-income countries several of which have completed the first stage of industrialization and need to move beyond assembly and processing activities to the production of complex products and services and to fostering home grown innovation.

“Korea as always an early mover has been searching for longer than other countries and although its emerging model is partially formed and yet to demonstrate its efficacy for the times, its principal elements deserve close attention.”

Yusuf explained the distinguishing feature of Korea’s development since the 1960s is the openness to ideas and to technologies and a readiness to pursue opportunities promising handsome returns over the longer term.

He stressed that managing and greening urbanization are now integral to Korea’s development strategy and the Songdo smart city, where the World Bank Group Korea office is located, is a lens for visualizing the urban future for Korea and other countries.

“A knowledge-based, productivity enhancing approach that exploits the potential of ICT and green technologies is a preferable approach for all economies and necessary to secure the future of the planet.”

# Forum explores the critical roles of the creative economy and innovation policy



In recent years, Korea's economy has slowed and the country stands to lose a significant part of its working force due to a rapidly aging population. China, Korea's biggest trading partner and a far larger economy, also faces its slowest economic growth in decades.

Innovation and creativity will be essential for Korea and China to overcome such challenges. The "Policy Forum on Innovation Policy and Creative Economy" recently held in Seoul focused on the actions businesses and gov-

*"Innovation policy and creative economy are very critical for sustainable economic growth in the era of global economic slowdown for not only developing countries but also advanced economies"*

Organized by the World Bank Group's Leadership, Learning, and Innovation (LLI) unit, the KDI School of Public Policy and Management, and the Chinese Academy of Governance (CAG), the forum featured internationally acclaimed professionals in the field who discussed the evolution and growing significance of the creative sector in both countries. More importantly, it demonstrated that the 21st century increasingly depends on knowledge generation through innovation.

In many countries, the creative economy is defined by a convergence of science and technology with industry as well as the fusion of culture with industry. Dong Soo Kang from KDI noted that in Korea, the creative econ-

omy agenda is related to macroeconomic phenomena since the decline in GDP is inevitable due to a shrinking labor force.

There are good examples of Korean innovation at work. Korea's gaming industry is a fast growing creative activity catering to demands from urban consumers. Supported by innovation in hardware, software, services and industry policies, it recorded export earnings of \$3.2 billion in 2014. The industry, the world's fourth-largest in revenues, employs a total of 87,000 workers across production, distribution and in arcade rooms.

"The Korean gaming industry is a successful, creative, and urban-centric activity relying on product and ser-



vice innovations” said Shahid Yusuf, World Bank expert on the Korean economy. For Yusuf, the country’s advantage lies in urban innovative, creative industries such as multimedia, green and cultural, that combine manufacturing and services. The Seoul metro area provides a diverse base of activities and scale economies, with a market hungry for innovation.

As much as the creative economy has been at the center of Korea’s transition to an advanced innovation-driven economy, China’s industrial sector has been pushing for innovation in recent years. As it transitions to a knowledge-based economy, China has intensified its pursuit of technological breakthroughs, increasing spending on R&D from 1.39% in 2006 to roughly 2.10% in 2013.

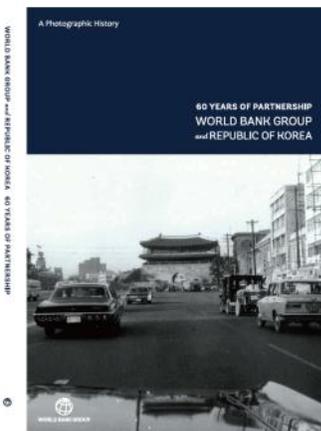
KDI School professor Shun Wang stressed that the heavy capital investment and labor force expansion that fueled China’s rise over the past two decades cannot be sustained indefinitely. “The Internet will not only be a

source of much-needed momentum for China in the years ahead, it will also change the very nature of growth.” For him, the next wave of digital developments will have an even deeper impact on China’s economy—contributing not only to GDP growth, but growth that is based on productivity, innovation, and consumption.

“Innovation policy and creative economy are very critical for sustainable economic growth in the era of global economic slowdown for not only developing countries but also advanced economies,” said Boe Ine Lee, World Bank Senior Economist and head of the knowledge exchange with KDI and CAG.

“Given that there is no one-size-fits-all policy for innovation, building innovative ecosystem for SMEs, fostering STEM skills and continuous support to R&D activities even in basic research are partial answers to the challenges ahead. Government’s consistent long-term vision for implementation is also important to make these happen,” he said.

## Korea Office publishes a special photobook to commemorate 60 years of strong partnership



The year 2015 marks the 60<sup>th</sup> anniversary of the strong bond and close cooperation between the World Bank Group and Korea. In December, the World Bank Group Korea Office commemorated this important milestone of partnership by publishing a 70 page photobook. This book illustrates Korea’s incredible economic and social progress, and its role as a unique development partner with photos drawn from the World Bank Group’s Archives unit.

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