ASAN PLENUM 2014

Session Sketch

Asan Plenum 2014: “Future of History”
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Panel: Future of Asian Capitalism (Grand Ballroom III)
Date/Time: Wednesday, April 23, 2014 / 15:30-16:45
Speakers:
Mo Jongryn, The Asan Institute for Policy Studies, Moderator
Kang Dongsoo, Korea Development Institute
Steven Kargman, Kargman Associates
Khoo Boo Teik, National Graduate Institute for Policy Studies
Oh Suktae, Societe Generale

Rapporteur: Guillaume Darier, Seoul National University

Dr. Kang Dongsoo discussed how in the aftermath of the Asian Crisis, Korea eventually came out of the recession through massive restructuring schemes and bold reforms in the financial, public and corporate sectors. Consensus at the time was that Korea needed a more efficient economic system. Recovery in the early 2000s restored the country’s economic resiliency but also brought the side effect of a worsening income gap and economic polarization as Korea’s competitive environment and rising productivity kept real wage increases low. Public sentiment regarding the global financial crisis thus evolved differently, with many observers advocating fairer distribution rather than economic efficiency in dealing with the crisis. Dr. Kang warned against overregulation as policymakers adapt their discourse to public sentiment and advocated reforms targeting both efficiency and fairness.

Mr. Steven Kargman questioned whether emerging Asian economies would be able to deal with the sluggishness of the global economy and the slowdown in their own economies. Dealing with a potential tide of corporate default and mounting stock of non-performing loans in the financial sector will require market-oriented, globally accepted standards and best practices. Mr. Kargman argued that during the Asian Crisis emerging economies had too often retreated behind their national boundaries and kept their creditors and investors at bay by imposing restructuring agreements that did not meet international standards. Although all major emerging economies have gone global in recent years, it remains to be seen whether they will abide by global standards as they face challenges posed by slow economic growth or fall back to local practices and standards designed to protect domestic interests.

Dr. Khoo Boo Teik warned against categorizing economies under simplistic labels, which promote one-size-fits-all approaches to crisis resolution despite the fundamental differences between emerging Asian economies. Dr. Khoo regretted the discrepancy between how “Asian values” were blamed for the 1997 crisis, which indeed had originated from Asia, and how the crisis of 2008 had been labeled a “global crisis” despite its Western inception. While Asian countries were prescribed with wide ranging reforms focusing on accountability, transparency and governance standards after 1997, the global financial crisis questioned the assumptions of the Western model by demonstrating how its financial system had failed to learn from the

Asian Crisis and subsequently improve its own governance and best practices. Dr. Khoo also argued that economic liberalization and democratization in emerging Asian economies came with corruption so pervasive and endemic that curbing the power of local oligarchies is a much more pressing issue than pushing through further economic or social reforms.

Messrs. Oh and Kargman agreed that China had responded effectively to the global financial crisis by pumping liquidity into its economy and thus fostering demand. The stimulus led to an expansion of credit however – especially to local government vehicles investing into new infrastructure projects despite any real need for them. This has created conditions for a major challenge in the coming years as the stock of non-performing loans has grown dramatically. Mr. Oh Suktae argued that the global financial crisis had constituted an opportunity for Asian countries and regretted the introduction of new macroprudential regulation in South Korea, which strengthened the solidity of the financial sector but did so at the expense of growth. Mr. Oh called for deregulation to prevent undermining Korea's growth prospects. Dr. Kang noted how tougher regulation had improved the capital ratio of Korean commercial banks, reduced the risk of overleverage and contributed to the stability of the won. The trade-off has been indeed lower growth, which the government should mitigate by incentivizing investment.