



TALKING POINTS

Asan Plenum 2013: "New World Disorder"
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Panel: The Impact of Crisis on Asian Capitalism (Grand Ballroom I)

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Talking Points for: Mo Jongryn, Senior Research Fellow, The Asan Institute for Policy Studies; Vice President for International Affairs, Yonsei University

When Park Geun-hye took office on February 25, 2013 as the 18th President of the Republic of Korea, she gave an unusual speech, unusual in that she used her inaugural to declare the beginning of "a new model of capitalism." It is one thing for a new president to offer his or her economic vision, goals and action plans, but it is quite another to call for a sweeping reorientation of national political economy.

President Park gave a largely visionary speech and did not offer many specific policy proposals. Notably absent was any mention on macroeconomic performance targets as her predecessor, Lee Myung-bak, did five years earlier. President Lee in 2008 made the famous "7-4-7" promise that the Korean economy would grow at 7 percent a year, Korea's per capita income would rise to 40,000 dollars, and Korea would become the 7th largest economy in the world during his term.

President Park's outline of the new capitalism consisted of three parts, economic security (welfare), a creative economy and economic democratization. Economic security and welfare is her first pillar of the new capitalism. She believes that people need economic security to pursue true happiness. She said, "a genuine era of happiness is only possible when we are not clouded by the uncertainties of aging and when bearing and raising children are truly considered a blessing." Tailored welfare, support for education and child care, merit-based opportunity, safety infrastructure, and the rule of law would be her priorities in building strong economic security for ordinary people.

Although she did not mention in her speech, her government would monitor two statistics,

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employment ratio and middle class size, as the most important measures of the people-oriented new economy. President Park promises to increase the employment ratio to 70 percent from the current 60 percent and the size of the middle class from 64 percent in 2012 to 70 percent.

At the same time, President Park rejects the crude form of market capitalism, the one that emphasizes "the rudimentary expansion of existing markets." Instead, she wants to create new markets and new jobs with a "creative economy," which she defined as "the convergence of science and technology with industry, the fusion of culture with industry, and the blossoming of creativity in the very borders that were once permeated by barriers." Leading the transformation of the Korean economy into a creative economy would be the ICT industry, a new entrepreneur class, and small- and medium-sized enterprises.

The last pillar of President Park's new economy is economic democratization. In this economy, "a fair market is firmly in place" allowing people to "work to their fullest potential." She apparently believes that unfair trade practices are pervasive in the Korean economy, especially harmful to the development of strong small businesses and small- and medium-sized enterprises. In addition to strong enforcement of fair trade law, the Park government promises to strengthen corporate governance law, get tough on economic crimes, especially those involving chaebol owners, and limit the influence of financial companies on their non-financial affiliated companies.

What happened? Gone from President Park's rhetoric were usual inaugural promises of high economic growth, price stability, and international competitiveness. Also missing were references to industry competitiveness and market reforms such as privatization, deregulation and trade liberalization. The word "international competitiveness" was mentioned only once and in passing in her 3,000 words speech. Especially surprising was her complete neglect of the phenomenon of globalization and its impact on the Korean society.

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In this essay, I offer an analysis of the political origins of Geun-hye-nomics, President Park's economic philosophy and approach. The best framework for understanding her progressive and inward-looking economic vision is the comparative-historical analysis of the political discourse on Korean capitalism, especially, the impact of the 2008 financial crisis on the policy rhetoric and ideas of conservative politicians and intellectuals. President Park, like other conservative leaders and thinkers, has reinvented herself in react to the 2008 financial crisis. Her campaign platforms and inaugural speech are a product of this reinventing.

From my analysis, I draw three conclusions on the meaning and impact of a "paradigm shift" in Korean economic thought as we see in Geun-hye-nomics. First, the 2008 financial crisis has significantly moved conservative policy rhetoric and ideas to the center. Keywords of economic policy have changed to welfare, economic democratization, jobs, middle class, and small and medium size companies and a creative economy from national competitiveness, trade liberalization, privatization, and deregulation. The era of neoliberal reform that began after the 1997 economic crisis appears to have ended; it is hard to find conservative thinkers and policy makers still supporting neoliberal policy ideas in Korea.

Second, the most important impact of the paradigm shift will be political. The 2008 global financial crisis laid open the failures of the old social contract in Korea. Redistributing the benefits of growth the traditional way, that is, through investments in education and rural development no longer works, as it has failed to stem the growing economic inequality and the decline of the middle class. Political leaders need to find new ways, many of which will require more welfare spending, to restore the political foundation for economic growth. The main challenge for the new Korean welfare state is to manage the costs of welfare and avoid European mistakes.

Third, the changed policy rhetoric and re-orientation are not likely to transform the basic tenet of Korean capitalism which is the commitment to export promotion. Korea has always pursued export-led industrialization strategy since the early 1960s. Strategies for supporting

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export industries may have changed due to changed domestic economic conditions (e.g., changing comparative advantage and democracy), external pressure (e.g., IMF conditionality) and obligations (e.g., WTO rules), and the influence of neoliberal ideas (e.g., American-trained Korean economists) over the years. But in the mind of the Korean public, export occupies a mystic status. It remains the most legitimate measure of successful economic performance as well as the most effective policy tool for generating growth.

One can even argue that Korea's commitment to export-led growth has actually strengthened since 2008. Faced with the unstable and stagnant post-crisis world economy, Korean leaders feel that they need a sizable trade surplus to protect the economy from financial tumult. Neither is a recession a good time for political leaders to introduce painful reforms and experiment with new and unfamiliar models. Most importantly, the legitimacy of American-style capitalism has eroded considerably. Before 2008, Korea and other East Asian countries had at least accepted the need for market reform and made efforts to open their economies to market forces. The prevailing sentiment now is that East Asian countries must search for their own models instead of emulating the Anglo-Saxon model. In an age of uncertainty, East Asian leaders are unlikely to leave their "comfort zone" of export-led growth.

The implications of the further retrenching of the export-led growth model in Korea are the rise of an active and pragmatic state (for jobs, welfare and industrial policy), closer business-government relations (business support for government policies in return for protection and promotion), and the continuation of an undervalued currency policy.

(Excerpted from a longer essay, "Park Geun-hye's Economic Policy in Historical Perspective")

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