Nearly Halfway Through Her Term, Park's Chance to Improve on Lee's Economic Record is at Risk

By Evan Ramstad
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As South Korean President Park Geun-hye nears the halfway point of her five-year term, the country’s economy for the second year in a row is being weighed down by an unexpected event. Last year, it was the sinking of a ferry that resulted in the deaths of more than 300 people. Today, it’s the onset of a deadly disease that, six weeks after its arrival, is getting controlled.

Government officials acted more quickly to acknowledge and counter the negative economic effect of the spread of MERS, or Middle East respiratory syndrome, than they did the sinking of the Sewol ferry. They encouraged people to keep up their routines and to not let fear drag down the economy.

Their efforts, at best, produced mixed results. Tourism has been gutted, schools and after-school cram centers were closed and restaurants emptied. (As after the ferry sinking, mom-and-pop owned businesses fared much worse than the country’s manufacturers and big companies.) And when the Bank of Korea’s policy-making committee met in mid-June, it decided to cut the nation’s interest rate for the second time this year, citing the effect of the disease. The rate is now at a record low of 1.5 percent.

The effect of MERS and the ferry sinking aside, the performance of South Korea’s economy under Park has been disappointing. At the start of her term, it seemed likely Park would become the first South Korean president since its late 1980s democratization to preside over higher growth than her predecessor. Now, it appears that could be a challenge.

Growth has slowed as the country has become more prosperous, of course. During the Roh Tae-woo presidency, South Korea grew an average of 8.6 percent annually. For Kim Young-sam’s term, it was 7.4 percent. Kim Dae-jung’s presidency, hurt at the start by the currency crisis, saw 5.1 percent growth. Roh Moo-hyun had 4.5 percent and Lee Myung-bak, with the global downturn early in his term, had a five-year average of 3.2 percent.

In the first two years of the Park presidency, South Korea’s economy grew 3.4 percent but this
year is likely to be below that. The BOK forecast is 3.1 percent and the finance ministry near the end of June lowered its outlook to that level as well. Some outside economists expect less than 3 percent.

Unfortunately for Park and South Koreans, conditions outside the country have been unfavorable during much of her term. At the moment, most other Asian countries are, like South Korea, enduring their slowest growth since the 2008 global downturn. South Korea’s economy has increasingly become tied to China’s, where the government has engineered a slowdown. Were Beijing to change course and stimulate its economy, South Korea’s outlook would immediately brighten.

The BOK’s interest-rate decision came after several weeks of public feuding between the central bank and the Park administration, a conflict with some precedent in earlier administrations but that was unusual nonetheless. The bank’s cut is now the most that outside economists expect to happen this year. At the end of June, the National Assembly and Park agreed to $15 billion in new government spending as a stimulus, a 4 percent addition to its $360 billion budget.

Even before the onset of MERS, Finance Minister Choi Kyung-hwan had signaled interest in a supplemental spending package. His worry: deflation. Consumer price inflation was at its lowest in the first quarter in more than a decade. Some economists have noted that South Korea and China have been experiencing ultra-low inflation for more than three years, longer than any Asian economy except 1990s Japan since World War II.

For a few weeks this spring, it seemed South Korea’s lackluster growth was going to be a political issue. In late March, with a month to go before the election for four parliamentary seats that was the main political event this year in South Korea, an unusual thing happened: Moon Jae-in, the chairman of the main left-wing party, started talking about growth and what should be done to boost it.

Typically, candidates and leaders of the party, now in the opposition and going by the name New Politics Alliance for Democracy, on economic matters made a priority of equality rather than growth. Moon appeared to be changing the paradigm by moving onto ground long associated with the ruling conservative party.

Just when his criticism of the Park administration started to get interesting, a political scandal emerged: a politically influential businessman killed himself. And once again South Koreans were distracted from an important economic debate.

Moon’s party lost the by-elections anyway, hurting his chances to repeat as the party’s presidential candidate in 2017. And for a few weeks until the arrival of MERS, South Korea’s public discussion about its economic challenges shifted back into worries about the yen-won exchange rate and fears of capital outflows when the Federal Reserve begins to lift the U.S. interest rate.

Those worries have eased as investors have been taking money out of emerging markets at a steady rate during the first half of the year without creating the dislocation seen in 2008. As
importantly, the Fed itself has signaled that it is unlikely to begin raising rates until much later in the year and, when it does, it is likely to do so slowly.

Looking past short-term issues, Park in her New Year’s speeches this year and last year identified many of the challenges to the country’s mid- and long-term growth – as well as some solutions. But her government has made little progress toward them.

An effort to make it easier for companies and the government to fire people was stopped by unions. The administration and National Assembly were, however, able to undertake some reforms to the national pension system. Park’s ideas about changing the work culture so more people advance on merit rather than seniority appear stalled.

All of that is another reflection of the inability of South Korean leaders to reframe the public conversation about the economy -- and to keep people focused on it. For years, this has hindered the tackling of problems that have slowed it down. This spring and early summer, the hand-wringing that emerged again in Seoul over things like Fed rates seemed more out of step with ideas emerging from places like the U.S., Japan and China. In those countries, the leveling of economic growth has led economists and policymakers to wrestle with new ideas and buzzwords like “secular stagnation,” a “new normal,” or the “great reset.”

As American economist Tyler Cowen summed up recently on the New York Times’ Upshot website: “The debate over the economy these days isn’t just about income inequality and what should or should not be done about it. Perhaps the most crucial issue is whether economies will return to normal conditions of steady growth, or whether we are witnessing a fundamental transformation, unveiled in bits and pieces.”

Some of these ideas have surfaced in South Korea, but they haven’t started to animate public discussion or the making of policy. Before South Korea accepts 3 percent growth as a new normal, policymakers should ask themselves: have we really done everything we can to encourage the animal spirits of the South Korean people, particularly the groups who are at the margin of the economy – women, young adults and senior citizens?

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