

The Bulldozer Moves In: Lee Myung-bak is Inaugurated as the Republic of Korea's President

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On February 25, Lee Myung-bak was sworn in as the President of the Republic of Korea. In front of a crowd of some 60,000 gathered, including U.S. Secretary of State Condoleeza Rice, four former Korean presidents, the presidents of Uzbekistan and Mongolia, and the prime ministers of Cambodia and Japan, having “heard the call” of the Korean people, President Lee presented a brief outline of his goals for his five-year term—streamline the government, revitalize the economy, and lay a foundation for Korean unification. While none of this is a dramatic departure from policies of recent administrations, the new Lee administration is seeking to distance itself from the policies of the last ten years, which he says left Koreans “faltering and confused,” and move instead toward “the age of pragmatism.”

Streamlining the Government

Lee’s advisors and cabinet appointees have spoken publicly about his plans to realize the aforementioned goals; however, even the best laid plans cannot be implemented without the scrutiny of the opposition. In the first major battle of his administration, President Lee had to defend his choice for Prime Minister (Han Seung-soo)—who was finally cleared by the National Assembly on February 29—and to accept the resignations of the initial nominees for environmental minister (Park Eun-kyung), unification minister (Nam Joo-hong), and minister of gender equality (Lee Choon-ho). President Lee himself was being challenged prior to his inauguration based on allegations of stock manipulation and was cleared only four days prior to his installment.

In an effort to streamline the government and increase efficiency, Lee proposed a massive reorganization of government ministries and agencies. His most controversial proposal—to incorporate the functions of the Ministry of Unification into those of the Ministry of Foreign Affairs and Trade—did not make it past the opposition in the United Democratic Party. The compromise allowed progress on other aspects of the proposal, including: the establishment of a Ministry of Strategy and Finance, which includes the duties of the Ministry of Finance and Economy and of the Ministry of Planning and Budget; the Ministry of Knowledge-based Economy, which will encompass the missions of the Ministry of Commerce, Industry and Energy, the Ministry of Science and Technology, and the Ministry of Information and Communication; and the Financial Affairs Commission, which will take over operations of the Financial Supervisory Commission. Because of the overhaul of many of the government’s key operations, the appointment of the cabinet and naming of advisory officials was delayed.

Economic Revitalization

President Lee’s “747” economic plan—originally explained as achieving 7 percent growth and \$40,000 per capita income, and making Korea the 7th largest economy in the world in the next decade—was clarified to indicate that the medium-term goal is 6 percent growth. Indeed, incoming Finance Minister Kang Man-soo has stated that deteriorating economic conditions will keep growth under 5 percent in 2008. Nevertheless, President Lee maintains that “economic revival is [Korea’s] most urgent task.” Critics say that the most difficult task facing President Lee is to live up to the expectations the Korean people now have for him. Since the global economy has turned down further since the campaign promises were first made, the challenge of revitalizing Korea’s economy according to the “747” plan is even more daunting.

However, he and his nominated presidential secretary for economic policy, Kim Choong-soo, maintain their pledge to cut taxes, reduce regulations in order to encourage more investment, promote market competition, create jobs, and strengthen growth potential through increased investment in R&D. President Lee cites corporate tax cuts as key to assisting businesses in their expansion and in creating jobs. During the inaugural address, President Lee referred to corporations as “the source of national wealth and the prime creator of jobs.” Similarly, during the campaign, he pledged to cut corporate taxes by 5%, and to encourage small and medium-sized businesses to grow in size and to compete with large corporations. Kang Man-soo, the new Strategy and Finance Minister, said on March 3 that the government would consider establishing a system enabling *chaebol* to calculate their taxes on a consolidated basis, rather than separately for each subsidiary, and would cut the minimum corporate tax rate from 25 to 20 percent over the next five years. With regard to reducing the regulations seen as excessive enough to discourage foreign investment, President Lee, in an interview with the *Wall Street Journal*, distinguished between “simple capital investment, and the other [which] acquires management control as well.” He indicated that for “simple capital investments” there could be restrictions on ownership so investors will not just “sell their stake when the stock price goes up.”

In order to bolster domestic economic growth further, President Lee intends to place caps on the prices of new apartments to help curb speculation, and he will also lower capital gains and transaction taxes. The Strategy and Finance Ministry announced a proposal to reduce the capital gains tax rate, but a plan to reduce transactions taxes, which are local rather than national taxes, is being delayed until a policy to deal with the loss of tax revenue is formulated. The administration will also develop plans to make the medical and tourism sectors more competitive, to compete for growing numbers of Koreans seeking medical services and leisure activities abroad. Privatization, another key aspect of President Lee’s economic plan, will begin with privatization of the state-run Korea Development Bank (KDB). The process will be determined by a task force to be established this month, with a relevant law revised and passed by the National Assembly in June.

President Lee favors free trade agreements. Despite lack of progress on ratification by the National Assembly and U.S. Congress, President Lee has promised to pick up the baton and move forward with ratification of the agreement.

Foreign Policy

President Lee’s nominees for his foreign policy team are: Yu Myung-hwan, foreign minister; Kim Ha-joong, minister of unification; and, Kim Byung-kook, foreign policy advisor. Once approved, these nominees, in concert with President Lee, are expected to exercise a foreign policy that is focused on further strengthening Korea’s bilateral relationships. Even before taking office, President Lee sent envoys to each of Korea’s allies in the six-party talks, and he has said that he is willing to meet with Kim Jong-il. While the details of President Lee’s policy toward North Korea remain to be worked out, he maintains that he will not accept a policy of unconditional support/aid for the regime, but rather favors a policy of assistance to North Korea—touted to increase per capita income in North Korea to \$3000 within a decade—which is entirely conditioned on the North’s abandonment of its nuclear weapons program. He also says that he will consider human rights issues in his dealings with the North. This policy, along with his economic policies and international outreach, has ingratiated President Lee with the U.S. administration and many members of Congress; he will travel to Washington for an official visit in April. Additionally, President Lee sent a strong message to his allies when he hosted Japanese Prime Minister Fukuda as his first guest in Seoul. Fukuda was only the fourth Japanese prime minister to attend a South Korean presidential inauguration.

President Lee also intends to expand Korea’s percentage of overseas development assistance from 0.1 percent of the Gross National Income to 0.2 percent. He has indicated that Korea will offer increased

manpower and resources to United Nations' peacekeeping operations and, based on these increases, is set to become one of the top ten contributors in the world by 2012.

The comprehensive economic/political initiative, called "Global Korea," calls for the creation of a peace regime; practical commerce diplomacy and active-market opening; an advanced national defense; and an eco-friendly business environment. This involves signing additional Free Trade Agreements with the European Union, Canada, India and Mexico, as well as domestic projects such as the cross-country waterway, efforts to combat climate change, reforming the education system, improving military welfare, expanding pension benefits for the elderly, and creating more jobs for young people.

In sum, President Lee has advocated an ambitious set of goals for his five years in office. With the mandate of his country, as well as international support from his allies, he has a good set of tools and a solid platform on which to begin.