

Second Economic Team: Can They Revive an Ailing Economy?

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Korea's economy has been deteriorating more rapidly than previously expected. The nation saw its first negative growth in more than 10 years in the fourth quarter of 2008, and export growth continues to plunge amid the global slowdown. Moody's Investors recently downgraded its projection for Korea's growth in 2009 from 2% (made in November) to a negative 2%, and this view is in line with a growing number of other analysts. Some analysts expressed concern that the nation's economic condition is worsening faster than it did during the Asian financial crisis in 1997. To weather the ongoing global financial crisis and its spillover to the real economy, the government introduced various stimulus measures and slashed interest rates to a record low of 2.5%. However, recent indicators show that the nation is falling deeper into recession and that the government needs to act quickly to restore confidence and revitalize the economy.

Reflecting the urgency of the situation, President Lee announced that he is setting up a war room, in an underground bunker in the Blue House, where his economic teams will closely monitor changing conditions and address urgent issues. The temporary council, chaired by President Lee, was established to help overcome the fear of recession. The council members include the Minister of Finance and Strategy, the Chairman of the Financial Services Commission (FSC), the Governor of Bank of Korea, the senior secretaries for economic policy and for political affairs, and two members of the National Economic Advisory Council. Furthermore, President Lee reshuffled his economic team with an emphasis on teamwork, expecting them to carry out the urgent tasks of revitalizing the economy, stabilizing the *won*, and accelerating restructuring.

Economic Policy during President Lee's First Year

When President Lee took office a year ago, he vowed to boost economic growth and jobs. His economic policy objectives were reflected in a plan called "Republic of Korea 7.4.7" that envisaged 7% growth for the next 10 years, achieving a per-capita income of \$40,000, and making Korea the world's 7th largest economy. To achieve his growth-oriented policy, President Lee appointed two bureaucrats and a private financial expert to the top economic positions. Kang Man-soo, a former vice finance minister during the Kim Young-sam administration, was appointed as Minister of Strategy and Finance, and Bahk Byong-won, a former vice finance minister under the Roh Moo-hyun administration before becoming Chief Executive Officer at Woori Finance Holding Co. as Senior Secretary to the President for Economic Affairs. Jun Kwang-woo, former head of Deloitte Korea, was named as Chairman of the FSC.

Kang was a main architect of 7.4.7 plan and a strong advocate of tax reduction and deregulation. Despite strong resistance, he succeeded in dismantling the comprehensive real estate tax, which he argued was a punitive system. He believed that the government should play a larger role in monetary and foreign exchange policies and was tasked with bringing economic policies back in line with market principles. Bahk became recognized for his proactive and balanced work as well as his adherence to market economic principles. He was mainly in charge of formulating economic policy at the finance ministry. Jun, a free market economy advocate, is a well-known

expert on international finance. He brought a wide range of experience in academic, political and private organizations to Lee's first year economic team.

Some analysts said that their different background was helpful during the first year of Lee administration in gathering opinions and that it was an appropriate combination of experts to carry out President Lee's economic agenda. Although the first economic team was credited for successfully signing currency swap deals with the United States, Japan, and China, they were subjected to some criticism on their policies regarding the *won* and real estate issues. Critics said that policies were excessively focused on growth and that they did not respond swiftly enough to the escalating financial crisis. Kang was criticized for weakening market confidence by first encouraging a weaker won to promote exports, but then spending billions of dollars of foreign reserves to strengthen the won after it nosedived against the dollar.

Priority to Revitalizing the Economy in the Second Year

In mid-January, President Lee replaced the key members of his economic team. The shuffle was largely welcomed amid hope that the new team will be able to work together to carry out the tasks of revitalizing the economy, stabilizing financial markets, and restoring market confidence.

President Lee named former financial regulator Yoon Jeung-hyun as Minister of Strategy and Finance. Yoon is a strong advocate of the market economy and supports deregulating financial markets. Often criticized as FSC chairman under the Roh Moo-hyun administration for being pro-*chaebol*, Yoon allowed life insurers to be listed on the Korea Stock Exchange after 30 years of debate. He is reputed to be a quick decision maker who spent most of his career in the finance ministry where he gained expertise in taxation and finance. At the press conference announcing his appointment, Yoon said, "The purpose does not justify the means. Justified means take time." Yoon promised that he will make every effort to prevent financial market failure from spreading to the real economy. Analysts anticipate that Yoon will approach major issues differently than his predecessor, who pushed ahead with policy changes despite strong resistance. The new Finance Minister is likely to pursue President Lee's policies of tax cuts and deregulation. As a strong advocate of the market economy, he is expected to minimize the government's involvement in the foreign exchange market. However, critics note that, when the nation was hit hard by the Asian financial crisis a decade ago, Yoon headed the finance ministry's financial market division and was one of those blamed for the need for an IMF bailout. Furthermore, critics assert that he could have regulated the financial industry better when he headed the FSC 2004–2007 so as to avoid the current problem of too many bad project-financing loans by banks. But optimists believe that the lessons he learned from previous mistakes could help him to speed up restructuring of the financial industry and revive the ailing economy.

Chin Dong-soo, the new Chairman of the FSC, comes with a wealth of experience and expertise gained in senior posts in the finance ministry and other government organizations. As a former vice finance minister, he was a chief architect of the real-name system and played a major role in enhancing transparency in Korea's financial system. He is known as an expert in corporate restructuring and was involved in the breakup of the Daewoo group as financial policy secretary to former President Kim Dae-jung. Chin stressed the importance of market-friendly policies and

said that he will introduce range of measures to stabilize the financial market and restructure businesses in a timely manner.

Yoon Jin-shik, former Minister of Industry and Commerce and President of Korea Investment Holdings Co., was nominated as Senior President Secretary for Economic Policy. Yoon has said that the government should refrain from intervening in the exchange market. While he was serving as the presidential secretary on financial policy under the Kim Young-sam administration, he was one of the first persons to alert the nation of the impending Asian financial crisis. During that time, other top economic policymakers had underestimated the seriousness of the situation and had said that the nation's economy was fundamentally sound.

Expectations for the New Economic Team

Analysts said that the appointment of such a distinguished and experienced economic team demonstrates the administration's determination to fight the looming recession. The new policymakers stressed the importance of inter-ministerial coordination and teamwork. They have previously worked together at the Finance Ministry. As the head of the international bureau at the Finance Ministry in 1994, Minister Yoon worked with Secretary Yoon in modifying economic policy. They believed that the Bank of Korea should play a major role in stimulating the economy. Minister Yoon and Chairman Chin also worked together in the Finance Ministry in formulating financial policy. Although the previous working relationships may help speed up the implementation of policies to fight recession, some observers expressed concern that bureaucrats from the same background with similar views and opinions may have limited understanding of macroeconomic policy. The new economic team is faced with the daunting challenge of overcoming the worse financial crisis in a decade. But most people have full confidence that they would be able to keep the nation from falling into a deeper recession.