

The Impact of the 2004 National Assembly Elections on the Korean Economy

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Introduction

According to an opinion survey reported in *Chosun-Ilbo* on May 10, 2004, 79.3 percent of the general public and 90.2% of experts viewed the existing economic situation in Korea as a crisis. However, the two groups' views differed substantially when they were asked how the 17th National Assembly Elections (NAE) held on April 15, 2004, would affect the economy. While the majority of the general public (56.8%) stated that the elections would have a positive effect on the economy, 48.7% of the experts said that the elections would have a negative effect. What explains such divergent views between the general public and the experts?

This negative outlook of the future of the Korean economy, as expressed by experts, is shared with government officials as well. Both the Vice Prime Minister of the Economy, Lee Hyun Jae, and the President of the Bank of Seoul, Park Seung, recently lowered their expectations of the strength of the 2004 recovery by downgrading the expected growth rate from 5.6% to 5.0% in the second half of the year. In addition, several members of the National Assembly (NA) openly talked about the "double-dip" (another recession followed by a small recovery) and the Japanese-style prolonged recession. It seems that expectations for a strong comeback with a growth rate of over 5% might have been overly optimistic.

This article attempts to predict the impact of the 17th NAE on the prospects of the Korean economy in the short run. To this end, it examines recent political events in the making of the current administration. In particular, it explains how the ruling Our Open Party (OOP) took the control of the NA so dramatically. It also considers the major policy agenda and the policy-making process of the current administration. The dismissal of the impeachment motion by the Constitutional Court on May 14 and the solid majority of the OOP in the new NA created a rare opportunity in recent Korean politics that allowed both the executive branch and the legislative branch of the government to be controlled by the same party.

In general, President Roh is supported by young (twenties through forties) reform-minded nationalists and socialists. In terms of regional backing, his main supporters are in the Honam and Chungchung regions. Honam support is directly inherited from the Millennium Democratic Party (MDP). About half of the MDP members defected to the OOP when the party split last year. Strong support by Chungchung voters is mainly due to the President's election promise and the ongoing planning for the relocation of administrative capital in the region.

Despite its strong initiatives toward long-term social and political reform and toward a social democratic and nationalistic bent (particularly against the U.S.), Roh's administration has not taken the same strong positions in economic policies to deal with the current economic recession. There have been few noticeable changes in economic policies and no major announcements regarding a recovery plan. Rather, the administration has focused its energy on long-term structural issues in economic, social, and environmental affairs. For example, there has been several major government initiatives such as balanced regional development, the Northeast Asia business hub, relocation of administrative capital, and measures to deal with chronic real estate speculation.

Many economists attributed the poor performance of Korean economy in the recent years to the global recession and the uncertainly surrounding the invasion of Iraq by the U.S. As of the summer of 2004, both of these elements have been removed. But the Korean economy is still in its doldrums. The problem of more than four million people defaulting on credit card loans is still unresolved. Domestic investment is at an all-time low, while many Korean firms continuously invest abroad, particularly in China. There is good news in the economy, however. Exports rebounded strongly after the second half of 2003 due to economic recovery in the U.S., Japan, and the rest of the world.

The next section discusses the political environment of the President's first-year experience and the changes in political situations made by the 17th NAE held on April 15, 2004. The third section describes the recent economic performance of the Korean economy. Then, some of the major policy initiatives that the Roh administration has pursued are discussed in light of the recent political environment. The Administrative structure and leadership style are also considered, as they have become major issues in formulating and implementing the policy initiatives.

Political Background

The first year of President Roh Moo Hyun's administration has been a difficult one. The Roh administration evolved from a minority party position in the National Assembly when Roh was elected in December 2002.¹ The successful election of underdog candidate Roh was a surprise to many observers of Korean politics, as his popularity had been consistently 20 percentage points lower than his major opponent, Lee Hoe Chang, until a month before the election. When he and the third candidate, Chung Mong Joon, successfully merged their campaign efforts, the picture changed dramatically. The merged candidacy suddenly assumed a formidable position, leading Lee in the opinion polls. Even the sudden and dramatic removal of Chung's support on the eve of the election was not strong enough to upset the small margin of Roh's victory.

During 2003, after the election, the New Millennium Democratic Party (MDP) went through a bitter division. Even though Roh was a favorite pick of ex-President Kim Dae Joong, Roh's strongest supporters were reform-minded younger voters whose political preferences were quite different from Kim's traditional supporters. Eventually the supporters of President Roh left the MDP and created a new party called Our Open Party (OOP). This division shrank the President's support in the NA even more, less than one-third of the total seats in the NA.

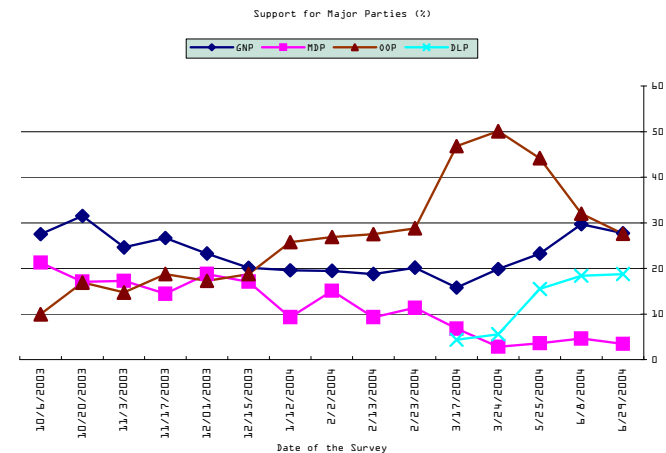
President Roh's support has gradually eroded since his inauguration in 2003. Corruption scandals regarding his close aids and his older brother damaged his reputation and lessened the chances of his fulfilling his promise of a clean government. More importantly, the continuing economic slump has increased the general public's dissatisfaction toward the new administration. At the end of the year, Roh's support was less than 30%. As the popularity of the President plummeted, the bitter emotional baggage of the MDP and the majority position of the GNP were strong enough to pass an impeachment motion that required two thirds of the vote on March 12, 2004.

However, the impeachment turned out to be the biggest blessing in disguise to the embattled President. While the coalition of Grand National Party (GNP) and the New Millennium Democratic Party (MDP) rammed through the impeachment vote in one of the last 16th NA sessions without much public debate, neither

party properly estimated the strength of the negative backlash their action would engender. The net result of the impeachment was that the popularity of each party plummeted, and, in turn, the OOP gained a substantial sympathy vote in the 17th NAE. The support for the MDP and GDP has decreased substantially (see Figure 1).

Since the election, however, the support for the OOP has decreased sharply, while backing for the GNP and DLP has climbed up. The OOP lost support by trying to be pragmatic on several issues, which disappointed the left wing supporters of the party. For example, the OOP decided to withdraw its support for cost disclosure for apartment buildings and to continue to support the sending of additional troops in Iraq. At the same time, the OOP disillusioned the reformers in the party. For example, OOP's recent support for the indemnity of a NA member for a criminal indictment infuriated them. It appears that the left-leaning supporters defected to the DLP, and moderate reformers defected to the GNP.

Figure 1



Source: Data based on the survey done by Korea Society Opinion Institute (<http://www.ksoi.org>) reported in various major daily newspapers including *Donga-Ilbo*, *Chosun-Ilbo*, and *Joongang-Ilbo*, and *Moonhwa-Ilbo* (various days).

The newly-charged support for the President was translated into strong results for the OOP in the elections. The OOP, the third largest party, which held 47 out of 272 seats in the previous NA, became the majority party, now commanding 152 seats out of 299 seats (see Table 1). On the other hand, the second largest party, the MDP, which used to have 61 seats, lost most of its seats, securing only 9 seats. Although the GNP lost its position of the largest party, it obtained a respectable 121 seats.

Table 1
Number of Seats by Party in the National Assembly

	GNP	MDP	OOP	LDU	DLP	Others	Total
16 th NAE (2000)	133	115	NA	17	0	8	273
District	112	96	NA	12	0	7	227
Proportional	21	19	NA	5	0	1	46
Since Division (Nov)	149	61	47	15	0	1	272
17 th NAE (2004)	121	9	152	4	10	3	299
District	100	5	129	4	2	3	243
Proportional	21	4	23	0	8	0	56

Source: Korea National Election Commission (<http://nec.go.kr>)

Joongang-Ilbo (various issues and <http://17.joins.com/>)

SBS news http://news.sbs.co.kr/election/material/material_LastResult.jhtml)

Another noticeable aspect of the 17th NAE has been the success of the Democratic Labor Party (DLP). The DLP is the *prima facie* pro-labor party, supported by the more radical trade union, Minjoonochong. It was not able to gain more than one seat in the previous NAE. The success of the DLP has been partly due to the general movement of Korean politics to change labor unions from an illegal anti-government labor movement to a political entity, and partly due to the change in the election law, which gives two votes to the individual voter: one vote for the local district candidate and another vote for the political party. In the previous system of one vote per voter, the support for a minority party would have been underrepresented, as many voters had voted strategically in order to elect a second-best-but-more-winnable candidate rather than expressing a true political preference.

The 17th NAE recorded a strong turnout. Sixty percent of the registered voters turned out in the 2004 elections as compared to 57.2% in the 2000 elections. There has been a secular trend of decreasing turnout since the 1988 elections. The higher turnout is probably due to the public outcry over impeachment, which has

heightened interest in the elections (*Hangyoreh Shinmoon*, April 16, 2004). As usual, Chollanamdo recorded the highest turnout rate of 63.4%. On the contrary, Chungchungnamdo recorded the lowest rate of 55.7%. Traditionally, the reelection rate of the members of the Korean NA has been very low compared to other countries, such as the U.S. and Japan. The 17th NAE was no exception. One hundred eighty-seven of 299 members are first-time members (*Moonwha-Ilbo*, September, 25, 2004).

Table 2
Number of District Seats Won by Party in the 17th NAE by Region

	GNP	MDP	OOP	LDU	DLP	Others	Total
Total	100	5	129	4	2	3	243
Seoul	16	0	32	0	0	0	48
Pusan	17	0	1	0	0	0	18
Daegu	12	0	0	0	0	0	12
Inchon	3	0	9	0	0	0	12
Kwangju	0	0	7	0	0	0	7
Daejeon	0	0	6	0	0	0	6
Ulsan	3	0	1	0	1	1	6
Kyunggi	14	0	35	0	0	0	49
Kangwon	6	0	2	0	0	0	8
Chungbuk	0	0	8	0	0	0	8
Chungnam	1	0	5	4	0	0	10
Cheonbuk	0	0	11	0	0	0	11
Cheonnam	0	5	7	0	0	1	13
Kyungbuk	14	0	0	0	0	1	15
Kyungnam	14	0	2	0	1	0	17
Jeju	0	0	3	0	0	0	3

Source: SBS news (<http://vote.sbs.co.kr/main/main.html>)

The OOP gained a great deal of support in all regions except Kyungnam, traditionally the GNP's main stronghold. Table 2 shows that out of 48 seats assigned in Seoul, the OOP won 32. Similarly, out of 49 seats in the surrounding Kyunggi provinces, 35 seats were taken by the OOP. In the Chungchung area, out of 24 seats total, the OOP took 18. In proportional votes, the OOP won 37.7%, which is 2.4% points greater than the GNP (see Table 3).

Table 3
Vote Shares and Seats Won by Party in the 17th NAE by Region

	GNP	MDP	OOP	LDU	DLP	Others	Total
Total	35.3	7.0	37.7	2.8	12.9	4.3	100
Seoul	36.4	8.4	37.4	2.1	12.5	2.5	100
Pusan	48.8	1.9	33.3	0.7	11.9	2.2	100
Daegu	61.3	1.1	22.0	0.8	11.4	2.1	100
Inchon	34.2	5.3	39.0	2.1	15.1	3.1	100
Kwangju	1.8	30.8	51.1	0.3	13.0	1.8	100
Daejeon	24.0	3.1	43.4	14.3	11.7	2.4	100
Ulsan	36.0	1.5	30.8	0.8	21.7	8.0	100
Kyunggi	35.0	6.0	39.8	2.0	13.4	2.8	100
Kangwon	39.8	3.4	37.3	1.3	12.5	3.5	100
Chungbuk	29.7	2.1	43.8	6.2	12.8	3.6	100
Chungnam	20.8	2.8	37.2	23.3	10.2	3.6	100
Cheonbuk	3.4	13.3	66.1	0.9	11.0	3.7	100
Cheonnam	2.8	32.9	45.5	1.0	10.9	4.4	100
Kyungbuk	57.0	1.4	22.4	1.1	11.7	3.9	100
Kyungnam	46.4	1.4	31.1	0.8	15.5	3.0	100
Jeju	30.2	5.0	45.0	1.1	13.8	2.9	100

Source: SBS news (<http://vote.sbs.co.kr/main/main.html>)

The 17th NAE was a clear vindication, showing strong political support for President Roh Moo Hyun, who had been suspended from his official duty one month before the election. The legal vindication, however, had to wait until the Korean Constitutional Court decided on the impeachment case. While the nation held its breath, the Court announced the dismissal of the impeachment charges on May 14.

The impeachment fiasco and the subsequent 17th NAE have given President Roh's government clear political leverage in the NA. The MDP and LDU, the followers of Kim Dae Joong and Kim Jong Pil, have almost lost their footings with nine and four seats, respectively. On the other hand, the DLP, now the third largest party with ten seats, has become the legitimate voice for the workers and trade unions in the NA. The GNP, which used to be the largest party, has become the second largest.

Recent Performance of the Korean Economy

After the tremendous financial and economic shock of the Asian Crisis of 1997-98, the Korean economy bounced back successfully. The policy package of structural reform of the banking sector, high interest rates, and the reduction of liability of

the *chaebols* that was imposed by the IMF, foreign creditors, and the Korean government inevitably created a great hardship to many economic agents in Korea. Sudden and dramatic devaluation of the Korean currency severely reduced the purchasing power of the buyers of foreign exchange, such as merchandise importers and students abroad. High interest rates created a great deal of financial burden to many business firms that were highly leveraged. Many real estate projects went bankrupt. Loss of employment and rising prices of foreign goods reduced private consumption.

During the IMF crisis, as the corporate sector was riddled with low capacity utilization and high debt, credit was naturally diverted to the household sector. The industrial policy that had been used by the Korean government for many years called for subsidized low interest rates to large export businesses. Meanwhile, the household sector was denied access to the credit market. Consequently, households needed to rely on the curb market or *chonsei* housing finance system to meet their demand for consumer credits. The traditional imbalance (excess supply of credit for the corporate sector and excess demand for credit in the household sector) was manifested clearly in the IMF crisis: business firms had excess capacity with low return on capital and households could not get credit at the going interest rate. As the interest rates gradually came down, though, the large credit supply was naturally diverted to the household sector.

However, because Korea did not have a strong infrastructure for the bond market and the mortgage market, the bulk of bank credit was quickly channeled to unsecured household debts through credit cards. Such an expansion of consumer credit undoubtedly increased domestic consumption rapidly during 1999-2000. At the same time, depreciated won helped exporters. Also, the inventory ran out in 1999 because of low production the previous year. The end result was remarkable growth in 2000. However, in an attempt to boost domestic consumption, Kim Dae Joong's government relaxed consumer credit by eliminating the monthly 7000,000 won ceiling on cash loans. With easy money and without sustained income growth, many credit card holders could not pay back their purchases. The high default rates by these holders, particularly young consumers without secure jobs, worsened the cash flow of credit companies, which, in turn, threatened the solvency of such companies. For example, one of the largest card companies, LG Credit, was on the verge of bankruptcy,

and was forced to accept the government-sponsored workout plan in the spring of 2004.

Since the substantial depreciation of the won (800 won to a dollar before the crisis became 1200 won to a dollar after the crisis), Korean exporters have regained their momentum. The initial depreciation increased exporters' competitiveness. Moreover, the high growth of the Chinese economy increased Korean exports to that country, because Korea supplies a great deal of intermediate goods to the Chinese manufacturing sector. However, domestic investment and consumption in Korea have remained low for several years now. Common wisdom a year ago said that the Korean economy would regain its momentum of high growth as uncertainty surrounding the American invasion of Iraq was resolved and the U.S. economy began to grow again.

At this time, it seems clear that the Korean export sector is enjoying growth due to the expanding foreign market (see Figure 2 and Table 4). However, there are two concerns regarding the Korean export sector. First, an increase in exports in the Korean economy immediately creates increased imports, as many of the Korean export goods have large foreign contents. Therefore, into one dollar increase in exports does not translate to a one dollar increase in national income, but only a fraction of it. Second, the recent increase of direct investments by Korean businesses in China naturally increases exports, because the firms send unfinished parts from Korea to China for assembly there.

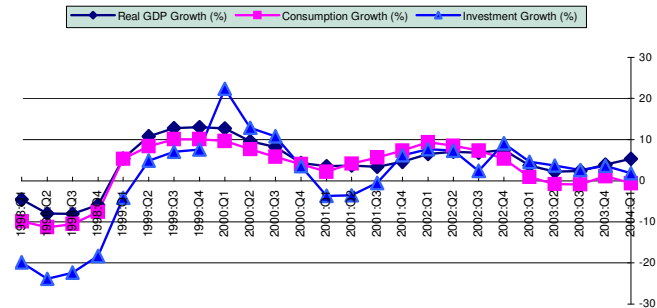
Table 4
Major Economic Indicators of Korean Economy

	Real GDP Growth (%)	Consumption Growth (%)	Investment Growth (%)	Trade Account (\$ Billion)	FDI Inflow (\$ Billion)
1998:Q1	-4.6	-9.9	-19.9	8.6	0.6
1998:Q2	-8	-11.3	-23.9	11.3	1.9
1998:Q3	-8.1	-10.5	-22.4	9	2.2
1998:Q4	-5.9	-7.6	-18.3	10.1	4.2
1999:Q1	5.4	5.3	-4.2	4.7	2
1999:Q2	10.8	8.4	4.9	7	2.5
1999:Q3	12.8	10.1	7	5.3	4
1999:Q4	13	10.1	7.6	6.9	7.1
2000:Q1	12.7	9.7	22.4	0.5	2.7
2000:Q2	9.6	7.7	12.9	3.6	3
2000:Q3	8.2	5.8	10.8	4	4.7

2000:Q4	4.3	4	3.5	3.8	5.3
2001:Q1	3.5	2.2	-3.7	2	1.5
2001:Q2	3.7	4.2	-3.5	3.9	2.2
2001:Q3	3.4	5.7	-0.5	1.4	3
2001:Q4	4.6	7.3	6.2	2	5.1
2002:Q1	6.5	9.4	7.7	1.9	2.1
2002:Q2	7	8.5	7.3	3.1	2.6
2002:Q3	6.8	7.3	2.4	2.4	2.5
2002:Q4	7.5	5.3	9.1	3	1.9
2003:Q1	3.7	0.9	4.6	-1.2	1.1
2003:Q2	2.2	-0.8	3.7	4.3	1.6
2003:Q3	2.4	-0.9	2.6	4.9	2
2003:Q4	3.9	1.1	3.6	7	1.8
2004:Q1	5.3	-0.6	1.8	6.7	3

Source: Available at *Korea Insight* (various issues) published by Korea Economic Institute (www.keia.org). The original data available by Bank of Korea, Ministry of Finance and Economy, and Ministry of Commerce, Industry, and Energy)

Figure 2
Growth Rates of Output, Consumption, and Investment



Source: Table 4

Macroeconomic Policy

Macroeconomic policy has traditionally been formulated by the Bank of Korea and the Ministry of Finance and Economy. These two organizations have been relatively conservative and the most market-oriented among government agencies. Also, they have been relatively insulated from politics so far. The top leaders of the

macro policy are appointed from academic and/or high level career bureaucrats who have strong, practical financial backgrounds. Consequently, the domestic and foreign financial markets have favorably evaluated these leaders' capability in handling the insolvency of credit card companies. Moreover, through the topsy-turvy experience of impeachment and the dramatic changes in the political scene, financial markets have been relatively calm. Because of the low interest rates in international markets and domestic recession, Korea has maintained low interest rates while the initial shock of the IMF crisis has subsided. The low interest rates have not been helpful in increasing the level of investment. However, they have raised the liquidity level in the market, which has rapidly appreciated in the real estate market.

Macroeconomic authorities have recently been trying to balance their two competing goals: to control the real estate bubble and to encourage investment. So far, the government has been favoring the low interest rate policy and relying on real estate regulations and tax policies in order to control real estate bubbles. Historically, real estate has produced high return in Korea, given severe restrictions on land supply and large scale government-led land development projects. Also, as the land holdings in Korea are severely skewed, there is widespread social dissatisfaction against those who seemingly have benefited from the rapid appreciation of real estate values. The biggest dissatisfaction has been channeled into the social antagonism against the Kangnam area in Seoul, whose residents include most of who's who in Korea. The current administration sometimes shows overt hostility toward this group, and the real estate policy sometimes specifically targets this area. Given the priority that the Roh administration has given to real estate speculation, it is unlikely that the government will push the interest rates lower to boost domestic consumption and investment.

Industrial Relations and Labor Market Policy

Korea has been known to have one of the most rigid labor markets and rocky industrial relations among OECD countries. The number of work days lost in Korea due to strikes far exceeds those in other OECD countries. According to the IMS of Switzerland, which became famous for its annual World Competitiveness Index, Korea stands at the bottom from the perspective of labor market flexibility.

Because of the success of the DLP and the ideological inclination of the majority party (OOP), labor issues will likely be on top of the agenda of the new NA. The advancement of the labor party is unprecedented in Korean politics, as the labor movement, particularly activities by the more radical Minjoonochong (Korean Federations of Trade Unions), had been oppressed by the government for many years under earlier dictatorial regimes. Ever since democratization, Minjoonochong has gained legal status as a recognized trade association. However, the Korean labor movement as led by them has been very confrontational. In contrast, the influence of the more moderate trade union, Hankoognochong (Federation of Korean Trade Unions), is likely to be diminished, because the Green Social Democratic party, which has been supported by FKTU, has not been able to secure any members in the NA.

Currently, there are several hotly-debated labor issues. They include irregular workers (temporary and part-time workers), severance pay, minimum wage, whether to permit labor unions for government workers, and the sub-contract system. Over the years, Korea has developed the Tri-party Commission, composed of labor, management, and government. However, Minjoonochong has refused to participate in the Commission, preferring to have civil confrontations. Also, Korea has traditionally developed strong individual unions so that centralized agreements may not be enforceable. The advancement of Minjoonochong to the NA will propel them into mainstream negotiations. If so, the Commission will gain more legitimacy, and it is possible that negotiations will take place in meeting rooms rather than in the streets.

The problem of irregular workers has been one of the thorniest issues in the Korean labor disputes. More than 50 percent of Korean workers are considered "irregular." They are either temporary or part-time workers. Not only do they have lower job security, but they also work in inferior working conditions and receive lower wages. Labor unions have pushed for better job security and working conditions and higher wages for them by pressuring management to convert irregular workers into regular workers. They have also sought to increase the minimum wage to the level of one-half the average wage, which is about a 35 percent increase from the current level. Since July 2004, a 40-hour-and-five-day work week has been implemented in large establishments with more than 1,000 employees (about one-fifth of the total

employment). However, the agreement includes the vague phrase “equivalent level of compensation,” which can be interpreted as either meaning previous total compensation or previous wage level.

Korean workers are not highly unionized. Fewer than 13% of the workers belong to trade unions. However, union memberships are concentrated in large firms, particularly in export-oriented manufacturing firms such as automobile, shipbuilding, electronics, steel, and petrochemical industries. Union membership is also high in some service industries such as banks and transportation. Teacher unions are also strong. Despite their limited memberships, labor unions have successfully pushed their agenda, including relatively high raises in wages. Therefore, the gains for union members directly result in comparative losses for non-union workers. For example, job security and high wages in the protected union sector reduces the labor demand for additional workers, as management seeks alternatives to control costs. Currently, strong and confrontational unions often are likely to cause job exports to other countries, particularly to China. However, because of the advantage of protected unionized workers, it is unlikely that confrontational labor relations are going to change in the near future.

Relocation of the Administrative Capital

The idea of moving most of the functions of the central government is certainly not new. After many years of planning, ex-president Park Chung Hee developed a pretty detailed plan for moving the capital to a Chungchung province in the 1970s. The main justification of that relocation plan was the security of Seoul, which can be reached by North Korea’s big artillery weapons situated on the north side of the De-Militarized Zone (DMZ). After a decade of contemplation, the idea was finally scrapped because of cost concerns that arose when the Korean economy suffered from the oil shocks, starting in 1974.

The Roh Administration’s relocation idea was formed rather suddenly in March 2004, as an election promise by then-candidate Roh. The promise was clearly an election strategy to woo voters in the Chungchung provinces, as it had not been discussed publicly by forum since the idea was abandoned more than two decades earlier. The Chungchung provinces contained a substantial number of swing voters in the 2002 presidential elections, as the Youngnam region supported Lee Hoe Chang of the GNP and the

Honam region overwhelmingly supported Roh. The promise was effective in attracting many voters from the Chungchung region, and the election outcome might have been different without the promise.

Promising to move the capital gained substantial momentum. Based on the government’s proposal, the NA passed the law that allowed the move in 2003. Although several members from the Seoul region expressed strong opposition to the law, the GNP never established an official position, as it did not want to provoke the voters in the Chungchung region in the upcoming NAE. The NA was putting most of its attention on the impeachment attempt. After the dismissal of the impeachment motion and the establishment of the 17th NA, the Roh administration pushed hard for the relocation plan. The site was selected on July 6 among the four potential sites that had been announced several months before, in order to keep the land speculation minimal. Ironically, the chosen site of Buyeo-Yeonki is the same site that was chosen during the Park administration.

However, more systematic opposition to the plan have been organized recently. Seoul and Kyunggi province have expressed official opposition. The GNP has asked for a new evaluation of the idea and a nationwide referendum. Many non-governmental-organizations (NGO) have shown political opposition toward the plan. The rationale behind the opposition is two fold. First, there is a concern for the procedure. The opposition contends that the plan to relocate the capital was simply an election promise proposed at the heat of competition, and that there has not been enough systematic, nationwide debate by experts or the public on such an important issue. Opponents argue that because the process of actual construction and relocation would take more than one presidential term, nationwide support for the action is required in order to sustain the long run effort. Therefore, a nationwide referendum on the issue is required.

Proponents argue that the nationwide agreement was achieved with the election of President Roh, who promised the plan, and confirmed by the enactment of the law. Therefore, no more superfluous debate is needed. The nation, argue proponents, should rally to make the plan work most effectively. However, the issue has recently become one of the most divisive issues. According to the Hyundai Research Institute, 51.0% of the respondents surveyed opposed the plan, while 40.9% supported it. However, there is

general skepticism about the workability of the plan: 58.3% think the government would not be able carry out the relocation according to current plans, while only 27.4% believe they will be able to. Even the majority (54.6%) of the residents in the Chungnam region, who would benefit most out of the relocation, believe the plan will not be carried out (*Donga-Ilbo*, July 7, 2004).

The second line of opposition focuses on the desirability of the project. Some argue that the money for building the new capital can be spent on other things.² Others argue that it will increase the fiscal burden of the government and that new capital will contribute little to dealing with stated objectives of the balanced growth of regions, as other regions such as Honam, Youngnam, and Kangwon will be hurt by the new capital.

The administration recently used fairly strong words in condemning the opposition. The attack was directed at two major daily newspapers (*Chosun and Donga*), upper class elites (presumably residing in Kangnam, Seoul), and the opposing GNP. Meanwhile, many NGOs and local and provincial governments in the Seoul metro area openly oppose the plan and are calling for a halt. In fact, a group of NGOs recently filed a lawsuit in the Constitutional Court, to stop the planning, and the debate is likely to go on for some time. At the same time, speculation for real estate in the designated region has opened up, and the government has started another round of the cat and mouse game of trying to control the speculation.

Despite of the public discourse, the inertia of planning will generate large speculative activities in the Chungchung region. The increasing land and housing prices in this region may be strong enough to divert speculative money to the region and to put a brake on the rising housing prices in the Seoul metropolitan area. Recent evidence suggests that the rising costs of housing in the Seoul metropolitan area has slowed down. However, without a specific implementation plan by the government, the private sector will just be reluctant to start construction around the proposed area. Until then, there will simply be speculation without any real construction boom.

Erosion of the U.S.-Korea Alliance

To many observers, recent incidents indicate that the military relationship between the U.S. and Korea has been eroding. The massive rallies and candle light vigils against SOFA (Status-of-

Force Agreement) and in memory of the two schoolgirls killed by U.S. servicemen during a military exercise went on for more than a year. Since the incidents, anti-Iraqi War protests and opposition to the deployment of Korean troops to Iraq have occurred. The recent reduction of the U.S. Army in Korea, President Roh's emphasis on self-reliance in security and defense, and the increasingly conciliatory posture against North Korea in Seoul's dealings with their nuclear program all indicate that U.S. interest in the region and the Koreans' desires for the future may diverge substantially in the years to come.

So far, the apparent schism in foreign policy and the bilateral relationship between the two countries has not markedly affected the Korean economy. The two countries have been very large trading partners. Although the U.S. recently became the third largest exporting market, as Korea's export volume to China exceeds exports to the U.S., the bi-lateral trade is still strong. In 2003, trade to the U.S. was about 15% of Korea's total trade. In terms of direct investment, the U.S. maintains a much higher proportion of trade. The total foreign direct investment (FDI) in Korea is about 70 billion dollars, out of which 30% is from the U.S. Also, the U.S. has maintained a substantial portfolio investment since the 1997 IMF crisis. Out of 150 trillion won of foreign investments in the Korean stock market, the U.S. investment takes up more than 50%. Therefore, it is conceivable that a sudden change in the security perception on the Korean peninsula can cause serious and sudden negative financial and economic consequences for South Korea, although at this point such a change in perception seems unlikely.

Roh's Leadership Style and the South Korean Administrative Structure

Roh has been a very controversial leader. For one thing, during the Presidential election his support by the party as well as by the general public was not solid. The lack of support within the party and his confrontational style eventually split the party after the election. Although he enjoyed an initial honeymoon immediately after the election, his public support eroded continuously until the impeachment issue intruded. He enjoys talking to the public directly, in many instances, with great candor. Often, his remarks are strong, colorful, and directed to specific persons or groups. In the beginning, such a style was regarded as refreshing, particularly

to many young people, as it represented a departure from the authoritarianism of previous presidents. Also, it mirrored on characteristic of the 386 generation, which fought for its freedom and democratic rights.³ However, many now regard his style as reckless, impulsive, and divisive.

To a large extent, his personal style permeates the governance structure. His core political supporters are formed around internet sites which advocate his political agenda. He is willing to use these supporters rather than the existing channel of command in government bureaucracy to push for certain policy initiatives. This personal infrastructure has been effective in mobilizing resources to influence public opinion. However, in some cases, it creates an inner circle of informal confidantes. The recent scandal involving the president of *Seoprise*, an internet political magazine, shows the influence of the inner circle.

Another, more formal departure, is the proliferation of Presidential advisory committees within the administration (*Donga-Ilbo*, September 15, 2004). The standing committees in the executive branch of government are certainly not new. Some government functions, particularly the ones related to more than one line of ministry, have been delegated to standing committees composed of delegates from several ministries. For example, the Tri-party Commission, which deals with industrial relations, and the Financial Supervisory Committee are composed of outside experts and government officials from several ministries. However, the Roh administration set up a dozen additional committees, ranging from poverty elimination to sustainable development, and from capital relocation to balanced regional development—all of which report directly to the president. These additional committees are typically headed by outside experts (mostly university professors), while several high-ranking government officials, sometimes even ministers, serve as members of the committees. Apparently, the governance structure seems to be such that these committees are expected to formulate long-term policy roadmaps, and the line ministries are expected to execute the policy goals established by committees. However, most of the major policy initiatives of the administration come out of these committees, bypassing the usual channel of ministerial policy formulation. The end results are that many half-baked, large-scale policy initiatives are announced without much preparation by line ministries and without much coordination among them. Sometimes other ministries object to the

publicly-announced policy by one ministry, and the general public is left surprised and confused.

Conclusions

Although the signs of recovery in the Korean economy are overdue, the current economic malaise is likely to continue. The main cause of this recession is not the external environment in which the Korean economy is situated. The worldwide recovery (U.S., EU, and Japan) along with the strong growth of the Chinese economy gives substantial external stimulus. Consequently, the Korean export sector has been doing well. Unfortunately, the rise in exports does not seem to help either domestic investment or consumption, because the major causes of current economic problems in Korea are due to domestic difficulties.

The Korean economy has not been able to create enough jobs to absorb the bulging labor supply. The female labor force has been gradually increasing over the last twenty years. Improved health care and better nutrition has prolonged life expectancy, and the number of workers in the labor market has increased. Given the rapid expansion in the education sector, more and more young Korean workers are finishing degrees at universities and expect to secure professional jobs after schooling. However, with the failure of job creation along with the strong protection of regular jobs, it is likely that labor growth will stagnate. The prevalence of irregular workers provide much needed but unfair flexibility of the labor market, resulting in relatively low unemployment rates compared to other OECD nations. However, because the majority of the employed workers in the irregular sector are in temporary or dead-end jobs, the low unemployment rate does not fully reflect the tightness of the labor market.

The administration simply does not provide enough positive signals to economic agents. Firms are not motivated to increase investment, and households refrain from spending. The victory of the OOP in the 17th NAE has provided the Roh administration with a great deal of leverage. While the goal of promoting economic growth with equitable social policies is considered desirable in the long run, the administration has been giving mixed and confusing signals. In social policy, the administration has focused on equitable growth by promoting balanced regional development, providing resources outside the Seoul metropolitan region, and limiting the growth of the region.

However, because of the concentrated social and physical infrastructure and the agglomeration economy, the region has the highest growth potential. Therefore, the promotion of equity will undoubtedly sacrifice efficiency and growth.

The wider support in the National Assembly for the OOP victory in the 17th NAE will enable the Roh administration to pursue more political and social reforms without giving much attention to economic growth. However, there will be considerable pressure on the administration to promote growth. The first pressure will be from members of the OOP itself, who will face reelection in four years. Since the low performance of the economy will work against the party in power, OOP members are, in fact, more interested in boosting the economy than the President, who is not allowed to run for reelection. In fact, a substantial portion of the OOP is moderate and less ideologically driven than Roh. However, it remains to be seen how much this faction can influence the policy initiatives until the President becomes a lame duck.

The second group feeling pressure to promote economic growth will be the government bureaucracy. Over the years, the most influential Ministry of Finance and Economy has been very pro-market and pro-growth. The chief of the Ministry, Vice Prime Minister Lee, has often criticized the power elite of the administration, opposing its anti-market-anti-growth stance. High level bureaucrats in the Ministry are likely to propose pro-growth policies. However, under the current administration, such policy initiatives are likely to be muted.

As the current administration puts more emphasis on political and social reform and a long-term structural roadmap, it is unlikely that the government will effectively create a strong growth message. At best, because the two groups described above will not be able to operate freely in the short run, it is likely that the government's messages will be mixed and confusing to most economic agents. In this environment, low interest rates are unlikely to provide enough incentives for further investment and consumption. Rather, they will create only a real estate bubble that will upset the social fabric even more in terms of legitimizing the equity-oriented social policy. The administration's ambivalent economic policies, along with equity-oriented social policies and socialistic political reform, are likely to suppress entrepreneurship, which is essential to provide growth and job creation.

Endnotes

¹ The asynchronous timing between presidential and parliamentary elections is due to the fact that the term for the President is five years without the possibility of reelection, while the term for NA members is four years. The term limit for the President was adopted to prevent any long-lasting dictatorships.

² The government estimated 45.6 trillion won will be spent on the project, out of which only 11.3 trillion will come out from the government's treasury.

³ "386 generation" refers to a group whose ages are in the thirties, who entered college in the 1980s, and who were born in the 1960s. This generation was the main force in the fight against the new regime of Chun Doo Hwan. Therefore, this generation is the epitome of a successful anti-establishment which questions authority.