

Opinions


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Order of the Day: Create a Business-Friendly Environment



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The selection process for the president-elect's cabinet is nearly complete. While the candidates chosen must first pass through confirmation hearings and be approved by the National Assembly, this group will become the ministers for the new administration, barring the unforeseen. The most obvious feature of the latest selection process has been its emphasis on expertise and stability. This is most likely based on the perspective that expertise is a precondition for a clear conviction and vision regarding policies of the respective ministries. It is also in line with conferring more power to the cabinet ministers, which was one of president-elect Park Geun-hye's campaign pledges.

Given the present circumstances facing Korea from within and abroad, the Korean economy stands at an important crossroads. The nation's potential growth rate continues to decline while household debts have risen past the 1000-trillion won (approx. USD 1 trillion) mark; severe weakening of the middle class has led to a general increase in social conflict. It should be noted that Korea is 100% (as a percentage of GDP) dependent upon the outside world, and this has given rise to worries that the trend of low growth might become firmly entrenched amidst deterioration of the external economic environment. The general public's expectations, in terms of direction of governmental policy, for new and groundbreaking solutions, can be understood in this context.

Unfortunately, every regime transition in the past was marked by fractious debates over whether policy priority should be placed on growth or spreading the wealth in the form of social security. It is a debate that is both fruitless and nonsensical. Spreading the wealth and funding social security is impossible without growth. On the flip side, growth cannot be sustained without a more equitable distribution and solid social security. Needless to say, achieving a proper balance between growth and distribution/social security is arguably the toughest task for the new administration.

The general outline of important policy directions in the new administration is already out in the open. It involves job growth by revitalizing the potential growth rate, democratizing the economic process in order to nurture small and medium firms, thus alleviating economic polarization and rebuild the crumbling middle class. These policies are underpinned by the firm determination to re-establish the economic safety net and restore livelihoods. The new administration has thus made its economic philosophy and visions clear to everyone, and the relevant ministries will be fully responsible for drawing up specific measures for putting them into action. This is what meant by conferring greater power to the respective ministers.

While laying down detailed plans for economic democratization and stabilizing livelihoods are certainly welcome, there must be equally detailed plans for stimulating growth as well. As increased domestic demand and overseas exports constitute the twin engines that drive economic growth, growth would require meticulous strategy for nurturing new industries, and especially for raising the competitiveness of Korea's services industry. It is for this reason that the resurrection of the Office of the Deputy Minister for Economy and creation of the Ministry of Science and Innovation, along with adjustment of the functions of the Ministry of Industry, Trade and Energy; is receiving a

great deal of attention – due to the importance of achieving a proper balance between growth and social security.

All of this ties in with obtaining the necessary funds and budgets. The announcements and reports up to this point indicate that the funds for implementing campaign promises will come from tax hikes (through raising economic transparency and efficiency) and restructuring of government spending. It must be pointed out, however, that the amount of tax money raised is directly related to economic growth. While it appears that how the funds will be spent has been outlined in detail, how the money will be raised has not. Even with efforts to minimize waste spending, crack down on tax evasion and differentiate tax rates by income levels, there are limits to the amount of funds that can be generated.

No one can disagree with the fact that creating a business-friendly environment, through increased investment and new jobs, is the best method for securing sufficient funds in a stable manner. In that sense, democratizing the economic process is no doubt the right thing to do. But instead of undue pressure or attacks on big business, democratization should be achieved, again, through creation of a favorable environment for business and implementation of institutional reforms.

The single most important word to describe the task ahead for the upcoming administration is harmony – between economic growth and social security, domestic consumption and overseas exports, and between big business and small/medium businesses. With the beginning of the new presidency right around the corner, we sincerely hope that those tasked with the economy can handle policy with a sense of balance and savvy, as they envision a bright future for Korea.

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