

# BUILDING PUBLIC SUPPORT FOR GOVERNMENT DEVELOPMENT INITIATIVES (Part 1)

Case Study from the Republic of Korea



SESSION 2

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# ROK Economic Performances in 60s and 70s

- **Economic Growth:**

- Average annual growth rate: 10% during 60s and 70s
- Per Capita Income: from USD \$100 in 1960 to USD \$1,700 in 1979

- **Development Strategy:**

- Severely limited natural resources (100% dependency on imported oil)
- Severely limited financial resources with unskilled cheap human capital
- Export-oriented and yet closed economy with protective domestic market
- Implementing 3<sup>rd</sup> and 4<sup>th</sup> 5-year Economic Development Plans

- **Major problem with high inflation:**

- Chronic double-digit inflation between 1960s and early 1980s
- Ranked 11<sup>th</sup> in the WB World Development Report (1983)

# Why From Light Industries towards Heavy and Chemical Industries

- **Emphasis by the late President Park, Jung Hee**
  - Changes in geopolitical environment
  - Strong concerns for the national security
  - Amendment to Constitution in 1972 reinforcing President Park's control
- **Issues with the Industrial Policy of ROK in mid & late 1970s**
  - Over-investment with policy loans causing a vast amount of idle facilities
  - Distortion of Financial Market with negative real interest rates
  - Fiscal investments and loans through special funds, and various tax incentives
  - Monetary Expansion and the surge of inflation with price control system
  - Crisis in balance-of-payments vulnerable to oil price changes
  - Second Oil Shock in 1979 under the rigid exchange rate policy

# Korea's Stabilization Policy: A Paradigm Shift

- **Stability: away from economic growth to inflation control**
  - End of fiscal expansion to reduce budget deficit and public debt
  - Monetary policy focusing on controlling inflation
- **Autonomy: away from government-led to market mechanism**
  - Reforming financial system and industry
  - Restoring and strengthening market principles and mechanism
  - Reducing government-led industrial policy
  - Income policy and human resource development
- **Open Economy: away from closed-economy to open-economy**
  - End of protected domestic market with monopoly and oligopoly
  - Consumer goods

# Outcomes of Stabilization Policy from 1983

- **Double-digit growth rates**
- **Inflation: down to 3%**
- **Budget deficit declined to zero**
- **Decreased public debt to GDP ratio**
- **Current account surplus overcoming balance-of-payment crisis**

# Adoption & Implementation? A Political Suicide

- **Resistance within government**

- Economic Cooperation Bureau within EPB
- Blue House, economic policy advisors, & Prime Minister's Office
- Line Ministries such as the Ministry of Commerce and Industry, the Ministry of Finance, the Ministry of Agriculture and Fishery, etc.
- Political leaders and their parties
- Government think-tank

- **Resistance by various stakeholders**

- Lobbying by large business owners & wage workers
- General public, and farmers in particular

- **Initial Supporters**

- Opinion leaders & academics
- Media

- **Strong sense of economic crisis created policy windows.**

# Consensus-building Efforts by the EPB

- Initial Phase of consensus building: 1 full-year with piecemeals approach
  - Skepticism persisted until seeing things with Park's own eyes
  - Persistent oppositions from large & small businesses
- CESP under the economic and political chaos: Incremental approach
  - 2nd Oil Shock in 1979 & world-wide recession
  - Political upheaval leading to assassination of the President
- Full implementation of the Comprehensive Economic Stabilization Policy (CESP) only after the change in political power in 1981

# Initial Consensus-building Efforts by EPB

- Task force to prepare necessary facts, evidences, and arguments
- Started small with specific actors in mind (working level to key decision-makers)
- Study of best practices elsewhere (i.e., Germany and Japan)
- Utilizing informal small-group discussions and networking
- Recognition of the needs for strong public communications plan in late 1981



# Consensus-building Efforts by the President

- Public awareness building efforts began in early 1980
  - Building shared perspectives on the symptoms and structural issues of the Korean Economy
  - Printed slides: 'National Economy (that) We Should Think Together'
- Hidden opportunity:
  - Change in the political power
  - the National Security Council pushing reform agendas (and CESP)
- Public communications through media: The MBC
  - 'Inside Story of Inflation'
  - Documentaries on economic situations of five advanced countries with an economist
- Establishing 'Economic Policy Public Relations Planning Group' under EPB
  - Teaching the teachers
  - Through various channels and venues, including military training boot camps

# Conclusion

- Policy-makers' understanding about macroeconomic policy matters
  - Macroeconomic policies should be used for short-term stabilization only
  - Chronic inflation is not a necessary evil for long-term growth
  - Printing money does not add real resources
- Strengthen institutions that can protect sound macroeconomic policy
  - Reduce the influence by short-sighted political factors
  - Do not borrow from the central bank to compensate budget deficit
  - Conservative practice of government budget based on sound performances
- Communicate with the public
  - Engage early, Explain in details, Maintain transparency, & Use plain language
  - Goal: Build public trust for better governance