

South Korean president reshuffles cabinet after by-election defeats

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South Korean President Lee Myung-bak carried out a cabinet reshuffle on May 6 after the ruling Grand National Party (GNP) suffered significant losses in by-elections on April 27. The defeats primarily reflected growing anger over rising prices and household debt, which have undermined the living standards of many working people.

Lee removed five ministers, the most important being Finance Minister Yoon Jeung-hyun, who was replaced by Labour Minister Bahk Jae-wan. Announcing the adjustment, the president, a former Hyundai CEO, claimed that his administration was not favouring the major corporations at the expense of working people. The cabinet reshuffle is widely believed to be cosmetic, however, with no major changes to economic policy expected.

In the by-elections, the opposition Democratic Party (DP) took two of the three national assembly seats being contested. Party leader Sohn Hak-kyu won Bundang with 51.8 percent of the vote and Kim Seon-dong won Suncheon. Both seats were considered GNP strongholds. The Democrats also won the only gubernatorial race, for Gangwon Province.

Sohn's victory strengthened his position as the DP's likely candidate in next year's presidential election. He is a former GNP member who left the party in 2007 to join what was then the United New Democratic Party. Sohn quickly became its leader but stepped down after the party's disastrous showing in the 2008 national assembly elections. He pulled out of politics until late last year, when he was elected as the DP leader.

The election result is another sign of growing opposition to the Lee administration. The president's approval rating has fallen to just 30 percent, down from 50 percent late

last year, when South Korea hosted the G20 summit. Lee has already suffered electoral setbacks in 2009 and 2010. Within his own party, he is likely to face a challenge from Park Guen-hye, the daughter of former dictator Park Chung-hee, who is positioning herself to become the GNP presidential candidate.

In the aftermath of the by-elections, the GNP established an emergency council to deal with the inner-party conflict. Emergency council leader Chung Ui-hwa called for party unity, declaring: "If this power struggle continues in the party, and if we fail to unite, the situation will become really complex and the GNP will face a much deeper crisis."

The vote for the Democrats had the character of an anti-GNP protest. The DP's approval rating has made only a modest revival, from 26 percent in March to 34 percent in May, placing it slightly ahead of the GNP. Younger people in particular voted for the Democrats. According to Gallup Korea, 83.9 percent of voters in Bundang in their 30s voted for Sohn, along with 58.5 percent in their 40s.

Underlying the election outcome are sharpening social tensions. GNP candidate Kim Tae-ho, who won the seat of Gimhaem, told the media: "I learned that we should try more to understand suffering by middle class people over livelihood matters." Among South Korean conservatives, the term "middle class" refers to the working class.

Professor Lee Sung-yoon told the *Diplomat* magazine: "South Koreans are particularly sensitive to inequality. It resonates quite strongly there, maybe more than in other developed democracies." He attributed the GNP losses to "the perception among many South Koreans that life is harder today than it was three or four years ago".

Lee won the 2007 presidential election for the right-wing GNP, promising to revive the economy and living standards. During his populist campaign, he put forward his so-called “747” plan—that is, to achieve 7 percent annual growth, annual per capita income of \$40,000 and to make the country the world’s 7th largest economy.

Amid the ongoing global economic crisis, Lee’s grand plan is in shambles. The finance ministry is due to release its twice-yearly economic outlook next month and is widely predicted to revise the growth forecast for this year downward—from 5 percent to 3 percent.

Officially, youth unemployment is now 10 percent, with the overall jobless rate 4 percent. One third of the workforce is now in casual, low-paid jobs, and most are young people. A study last month by the *Hankyoreh* newspaper found that the profits of the conglomerates had risen 73 percent since Lee came to power, while the income of workers had increased by just 1.3 percent.

To placate public anger over social inequality, the government earlier this month announced that it would halt plans to cut corporate and income taxes. It also declared that 10 trillion won (\$US9.2 billion) would be allocated to subsidise school tuition, child support and low-income housing. Newly installed Finance Minister Bahk declared: “I want to give all I can without preconceptions to ensuring the lives of the working people are stable and to creating jobs.”

However, Bahk is no more capable than his predecessor Yoon of overcoming the impact of the worldwide economic turmoil. In order to boost exports, Yoon kept down the value of South Korea’s currency, the won. While the weak won contributed to last year’s growth of 6.2 percent, it also led to sharp rises in prices and household debt. South Korea depends heavily on imported raw materials, particularly oil. The annualised inflation index surged to a 29-month high of 4.7 percent in March.

Despite pressure to increase interest rates to curb inflation, the Bank of Korea unexpectedly kept the rate at 3 percent on May 13. Any rate rises will only compound the difficulties facing many households that are already struggling to repay their debts. Total household debt reached \$863.1 billion at the end of 2010, up 8.9 percent

from 2009. The indebtedness of South Korean households, as a ratio of disposable income, is now second only to Britain among the industrialised countries.

A recent Bank of Korea poll showed that 13 percent of the households defaulted on their interest payments in the second half of 2010—mainly due to falling incomes. Some 93.5 percent of households believed inflation was too high. A quarter of the respondents singled out food purchases as the biggest component of their spending.

Sharply rising tensions with North Korea following the sinking of a South Korean warship last year, allegedly by the North Korean military, have also contributed to public hostility to Lee. With Washington’s backing, South Korea mounted a series of provocative military exercises after an artillery exchange in November that killed several soldiers and civilians on the South Korean island of Yeonpyeong. The prospect of a full-scale war on the Korean peninsula further undermined Lee’s standing, including among sections of the corporate elite.

Since the beginning of the year, Lee has called for dialogue between the two Koreas, but on terms that Pyongyang is unlikely to accept—that it apologise for the sinking of the South Korean warship and the shelling of Yeonpyeong. The clearest indication that Lee has no intention of adopting a softer approach to North Korea is his retention of Hyun In-taek as minister of unification in the cabinet reshuffle, even though Hyun was widely tipped to go.



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