

# Global slump drives new South Korean stimulus package

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South Korea's recently elected right-wing president, Park Geun-hye, last month approved a 20.3 trillion won (\$17.9 billion) stimulus package in an attempt to counter the deepening impact of the world economic crisis, particularly the sharp drop in the Japanese yen, the US slump and the slowdown in China.

The latest package is specifically designed to bolster export firms, as well as cover local government revenue shortfalls. It comes on top of last September's 5.9 trillion won (\$5.2 billion) package, delivered by Park's predecessor, Lee Myung-bak. Taken together, the two packages almost match the scale of the 28.4 trillion-won measures adopted by Lee in the immediate wake of the 2008 global crash.

Heavily-dependent on exports, South Korea's economy grew at its slowest pace last year since 2009, expanding by less than 1 percent a quarter for seven consecutive periods. Fearing rising social unrest, Finance Minister Hyun Oh-seok claimed that the package could create 40,000 jobs and generate 3 percent growth in the second half of 2013.

The package is comprised of a 17.3 trillion-won supplementary budget and 3 trillion won from public funds. Ninety percent of the supplementary budget is to be raised through the sale of government bonds, raising debt and shifting the burden of repayment onto the working class.

According to the International Monetary Fund (IMF), the national debt was 33.46 percent of gross domestic product (GDP) in 2012. While this remains lower than the Organisation for Economic Cooperation and Development's (OECD) average of 108.7 percent, South Korea's public debt has been growing since the Asian financial crisis of 1997-98.

In 2011, the LG Economic Research Institute (LGERI) said debt had grown over the previous decade

by an annual rate of 13.7 percent; nearly double the 6.9 percent annual GDP growth. Last year, the LGERI warned: "Korea has all the hallmarks of what caused the Japanese fiscal crisis." Japan has one of the highest government debts in the world, or 240 percent of its GDP, following two decades of stagnation since the collapse of property and share process in the early 1990s.

The Japanese government's deliberation devaluation of the yen has compounded a slump in Korean exports. Since Japanese Prime Minister Shinzo Abe came to office last September, the yen has fallen by about 20 percent against the US dollar, and some 23.5 percent against the won. This has undercut Korean sales, especially in areas of direct competition between the two countries, such as electronics, auto and shipbuilding.

In February and March this year, South Korean auto exports fell by 21.9 percent and 16 percent respectively from last year. In March, the Korea Institute for Industrial Economics and Trade (KIET) warned that the depreciation of the yen would hurt vehicle, steel, home appliance and textile exports.

Finance Minister Hyun recently gave voice to the alarm in South Korea's corporate elite over Japan's "currency war," saying its effect exceeded the danger of a conflict with North Korea. Speaking in Washington before last month's G-20 meeting, Hyun stated: "Compared to the North Korea risk, a sliding yen is having a considerable impact on the real economy of South Korea."

South Korea had hoped that the G-20 summit would help arrest the fall of the yen, which is being precipitated by Japan's "quantitative easing" policy of expanding its money supply. Lee Sang-jae, an economist with Hyundai Securities, told the media:

“South Korea wants the G-20 to help curb or at least slow the yen’s decline. However Japan is trying its last resort and big powers such as the US and Germany see little reason to put a brake on Japan.” He added: “South Korea’s exports may decline in the second half of this year unless the US economy rebounds significantly, which is unclear for now.”

As well as the US recession, China’s slowing economy is causing serious concern in South Korea. From January to March, GDP growth was only 7.7 percent in China, a decline of 0.2 percent from the previous quarter—failing to match predictions of 8 percent growth. Daewoo Securities economist Suh Dae-il stated: “It suggests China is unlikely to spur economic growth with a stimulus package as in the past. It’s obvious that Korean exporters, especially those who sell industrial materials such as steel and chemicals, will be affected directly.”

Sales to China, which accounted for 24.5 percent of South Korea’s exports in 2012, had been helping to prop up the economy while trade with other nations declined. Exports to the European Union fell by 11.4 percent last year, for example.

China, however, is only a giant assembly line within the slump-ridden network of globalised production. Most South Korean exports to China consist of semi-finished industrial inputs that are re-exported, via finished products, to the major Western markets, which are mired in the deepest economic breakdown since the 1930s.

As a result, Park’s government, which took office in February, already faces rising joblessness and social tensions. Unemployment, while officially low (at around 3.2 percent), is about 11 percent when under-employment is taken into account.

As economic conditions worsen, the government is planning to expand the police force by 20,000 officers over the next five years, in a clear sign of preparations to deal with an upsurge in strikes and protests by workers.



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