

Korean Politics

June 2008 - Author: Adrian Cowell, Director & Fund Manager

Commodity price rises and inflation, natural disasters and ongoing fallout from the credit and liquidity crunch around the world may have been the preoccupation for many over the last month, however, South Korea has witnessed seemingly extraordinary scenes of mass candle lit vigils in the centre of the country's capital city, Seoul, over beef.

Throughout the month of May these vigils have gathered momentum driven initially by widespread opposition to new President Lee Myung-Bak agreeing hastily to resume importing US beef into Korea after a hiatus of several years due to mad cow disease. This decision was taken immediately prior to meeting G.W.Bush in the United States, the issue being a stumbling block in negotiating a bi-lateral Free Trade Agreement (FTA). Korea is of course a very significant exporter to the United States. The protesters, or their various spokespersons, claim that Lee's decision was taken without a grasp of the facts and in ignorance of the will of the people. They have a point. The protest agenda has widened and, apart from voicing anti-Americanism, is now a criticism of Lee's autocratic, non-consultative style. He was known as "Bulldozer".

Things have become highly charged emotionally and typically, melodramatic. It is nevertheless a perfect illustration as to the volatility of domestic politics, possibly far greater than any volatility in the financial markets.

In the course of 2007, Lee Myung-Bak was selected as the presidential candidate for the conservative Grand National Party (*Hanaradang*) in a very closely fought primary, just defeating Park Geun-Hye, the daughter of Park Chung-Hee, the hardline general, who took power in a coup in 1961, and was President until his assassination in 1979. He industrialized Korea, but at some cost.

The latest Presidential election was held on 19th December 2007, with Lee presenting a conservative probusiness can-do image in marked contrast to the populist and distributive regime of predecessor Roh Moo-Hyun, and the successor candidate Chung Dong-Yong (a former news anchor) of the United Democratic Party. Whilst a student leader, Lee had become known to then President Park Chung-Hee, had impressed and been employed as a tutor to the president's son. Proximity to the President in turn brought Lee to the attention of the business world, and Chung Ju-Yong, founder of the Hyundai Group, hired Lee. Lee quickly rose to become the youngest president of Hyundai Engineering & Construction (at the time Korea's largest). He subsequently entered politics and as Mayor of Seoul, presided over the restoration of the Chongnyechon Stream through the centre of the city. Such are his credentials as a businessman and an administrator.

These credentials secured a landslide victory in the Presidential election polling 48.7% of the vote, with rival Chung Dong-Yong getting 26.1%. Another 15% of the vote was won by an aging right wing politician. After ten years and two left wing Presidencies, the nation had nostalgically swung back to the right. Lee's economic promises, referred to as "MBnomics" after his two initials, were rather grandly and simplistically summed up as "747"; 7% GNP growth, US\$40,000 per capita income, and Korea as the world's 7th largest economy.

Lee was inaugurated President on 25th February and ran into some difficulties in selecting his team of advisers and aides, and Ministers for the government, having fallen out with the party faction led by Park Geun-Hye. He has been accused of elitism in his nominations, some of which have proved clumsy and ill-advised.

Another political test was the National Assembly election in early April where the Grand National Party repeated its success winning an absolute majority of 153 seats out of the 299 seat Assembly. The scene was set for Lee to implement his agenda! Or was it?!

The US beef decision has put the nation on the streets. Central to his economic plan was construction of the Grand Canal linking two major rivers, thereby building a cross country waterway of debatable merit linking Seoul in the north west to Busan in the south east. This is now, for the moment at least, on hold. Lee's personal popularity rating has collapsed from 80% to 20%, and this is in just 100 days.

Will these political developments impact the markets? We should recall that his predecessor as President Roh Moo-Hyun was impeached in the early stages of his Presidency, and the country was ruled by the Prime Minister for several months until the Supreme Court squashed the impeachment.

Year to date, the leading stock market index, the KOSPI, is down 2.38%.