

## ONE YEAR OF DJNOMICS

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### *Significance of DJnomics*

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Even before President Kim Dae-jung took office a year ago, the foremost duty of his administration had been pre-determined and was clearly understood by everyone both inside and outside Korea: to overcome the foreign exchange crisis and to reform the entire economy into an advanced economy. In order to solve this difficult problem, the President needed basic principles that could guide the government's overall economic policy. One such basic principle is to exert democratic rules in economic affairs as well as in politics. Another is the principle of a market economy, which by definition means the elimination of the government's intervention in economic activities. As is widely known, "DJnomics," or President Kim Dae-jung's economic policies, is based on the concurrent implementation and enhancement of these two principles.

In fact, the combination of liberal democracy as a political philosophy and capitalism as an economic principle is a consequence of historical development. The modern history of the Western world verifies this. Therefore, it is more than natural that concurrent (or parallel) development in both politics and in economics should be a definite goal of a capitalistic free society. During the past 50 years of Korea's economic history, however, the Korean people had little experience of a "true" market economy, and above all, many Koreans still remember the years of the "Asiatic Dogma," when the fulfillment of democratic values could be post-

poned or even sacrificed for the benefit of economic development. The historical significance of DJnomics, therefore, is twofold: it is the first time that Korea has employed the two components (principles) at the same time in its economic activities; at the same, DJnomics must inevitably play a central role in solving the unprecedented economic difficulties. After a year of this historic experiment, a tentative evaluation should be made to help bring about a better second year of DJnomics.

### *Achievements and Shortcomings*

The most recognizable achievement under DJnomics during the past year is that Korea has returned to the international financial markets as an "investment" country. In other words, encouraged by the record high foreign exchange reserves and mounting current account surplus, Korea seems to be free of the foreign exchange shortage and re-possesses the capability to repay its foreign debts. This is best reflected in the recent upgrades of its sovereign credit rating by international rating agencies. Another achievement has been in the domestic economy. DJnomics, guided by the IMF, the World Bank, and advice from other advanced nations, has successfully provided a comprehensive set of reform (or restructuring) policies for almost every sector of the economy, although the degree of progress has differed by sector. At the least, though, DJnomics has successfully introduced a set of new rules and legal infrastructures for the reform. From now on, the key question is whether or not the new

reform policies can be properly implemented into the current system and thereby result in improved performances. The newly introduced regulations on corporate accounting systems and on corporate governance are expected to enhance the transparency of Korea's business groups; in addition, the tri-partite agreement should guarantee a peaceful "pain-sharing" among labor, the government, and businesses.

In addition to the achievements of DJnomics, the shortcomings or the undesirable by-products should be properly identified at the same time. Above all, Korea's general public as well as experts feel that reform of the government and in the public sector is substantially retarded relative to the progress in other sectors. Unbalanced reform of this nature could hurt the entire process of reform. Another concern is the government intervention. In the process of reforming the banking sector and the corporate sector, the government should not depend on old-fashioned direct intervention. Reform or restructuring, by nature, takes time, and the results may not be noticeable in only a year. For the best outcome of the overall reform policies, the government should stick to a basic principle of DJnomics—the market economy. The final concern is how to cope with potential social instability resulting from the mounting unemployment. This year's economic policies, therefore, should focus on stimulating the economy at the macro level and providing an adequate social safety net and supporting the middle income class at the micro level.

### *DJnomics in the 21th Century*

From a longer perspective, DJnomics should evolve into an ideology which provides a new vision and new strategies for a Korean

model of economic development in the 21th century. This is because the Korean people need a new philosophical base or a new "value" for their economic activities after the crisis is over. In fact, since the outbreak of the Asian financial crisis, there has been constant question as to whether the American-style (or Anglo-Saxon-style) financial capitalism will be sustained as it has until now or somehow modified to address the global economic problems. With respect to resource allocation and social efficiency, the market economy or market principle which is the essence of the American-style capitalism is superior to any other social system that mankind has witnessed. In the process of exerting the principle within an economy or throughout the world, however, it often brings about tension, conflict, and (even worse) crisis among different social classes and among nations of different development stages. The new millennium's economic environment requires every economic agent to be accustomed to several key concepts: unlimited competition, co-existence, and strategic alliances, among others. The rationale of unlimited competition seems to be compatible with market principle, while the concepts of co-existence and strategic alliances are not necessarily so. Recently, as a matter of fact, there have been efforts to get rid of these chasms. Pursuing the "Asian Values" in several Asian countries and seeking a "Third Way" to address economic and social agenda in Western Europe are some examples. In a similar way, DJnomics in the 21th century needs to comprise a new essence besides democracy and the market principle. Its function must go far beyond a mere policy guideline to overcome the current economic hardships. **VIP**

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