

THE WAY TO OVERCOME THE CURRENT CRISIS

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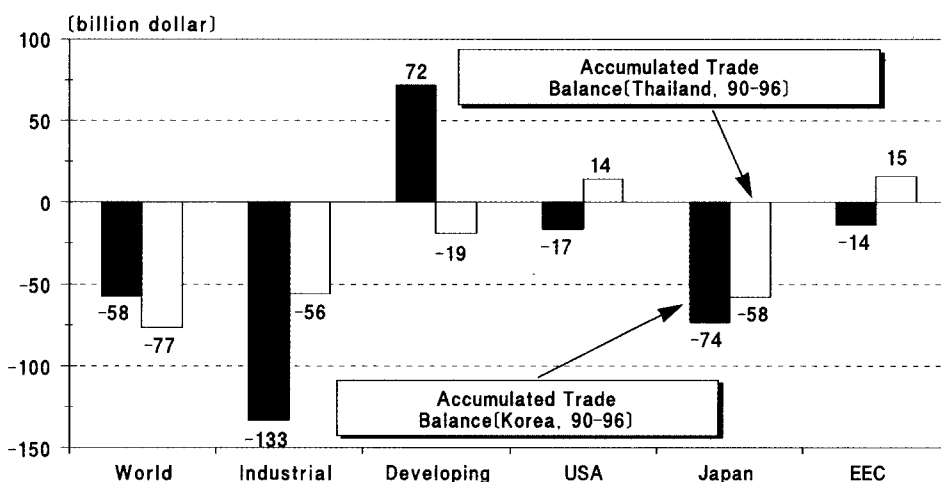
Korea and the IMF have agreed to readjust the nation's major macroeconomic targets, including growth, inflation and the money supply, reflecting harsher than expected economic conditions. And president-elect Kim Dae-jung has strongly signalled that he intends to do all that is necessary to both adhere to the IMF agreement and restore international confidence in Korea. Therefore Korea can be expected to suffer from the impact of economic shocks. The revised economic goals call for, among other things, lowering the growth rate to between 1 and 2 percent, from the earlier projection of 3 percent. The revision also aims at containing consumer price growth to 9 percent instead of the initial 5 percent. In order to ease the severe capital crunch among local exporters, the government and the IMF also agreed to boost the money supply by 14.9 percent from last year to 23.52 trillion won (\$13.06 billion) in reserve money by the end of March.

Strict Implementation Important

To overcome the currency crisis, Korea should faithfully implement the IMF-recommended reform programs and make continued efforts to regain international confidence. Concretely, the method of overcoming the currency crisis is as follows: First, to overcome the economic crisis, a grand social "compact" or agreement needs to be arrived at that will detail how the burden of economic retrenchment will be shared. This agreement have to involve the introduction of layoffs on the part of labor, continuing reform on the part of management, budget reduction on the part of government, and also rational consumption on the part of consumers. In other words, everyone needs to the share the burden.

Second, Korea needs stable political conditions and strong leadership to overcome the currency crisis. The Korean economy will begin its recovery only if the country succeeds in

〈Figure 1〉 The Accumulated Trade Deficits of Korea and Thailand



implementing its restructuring plan along with stringent financial and monetary policies. When the nation successfully pushes for drastic restructuring in line with the retrenchment policy, the country's gross domestic product (GDP) will increase gradually. As a result, unemployment will decrease as the growth rate increases. However, the Korean economy may seriously deteriorate if the government's stringent policy is not followed by industrial and financial restructuring. Therefore, to overcome the crisis, the reorganization and curtailment of government agencies, deregulation, rearrangement of insolvent financial institutions, disposal of non-competitive business sectors and the expansion of research and development (R&D) and investments are needed above all.

Third, we must identify the reasons of the crisis and never make the same mistake again. Among the many reasons for the crisis, the most important reason is that the accumulated trade deficit has increased continuously from 1990 to 1996. <Figure 1> shows that the representative countries of the crisis, Korea and Thailand, recorded accumulating trade deficits with deficits from 1990 to 1996 amounting to \$58 billion and \$77 billion, respectively. However, the more serious problem is that the trade deficits with industrialized countries increased by a lot recently. In particular, Korea's accumulated trade deficit with industrialized countries amounted to \$133 billion over the cited period, which breaks down to \$17 billion

from the United States, \$74 billion from Japan, and \$14 billion from Europe (EEC), respectively. The case of Thailand is the same as the case of Korea. The basic reason behind the recent crisis in Asia is the trade deficits, especially the trade deficits with the industrialized countries. Therefore, to overcome the crisis, Korea and other Asian country have to decrease the trade deficits by increasing the amount of exports.

Fourth, we need to restore international confidence in our economy. Last December, Moody's and S&P's lowered the nation's credit ratings by two to four notches to Ba1 and B, respectively, levels considered as junk bond status. These junk bond ratings resulted in a further worsening of the nation's crisis. Fortunately, S&P's latest adjustment of its prospects for Korea from "negative" to "developing" gave hopes of an actual upgrade of its credit ratings in the near future.

Fifth, Korea needs debt-restructuring, which includes the rescheduling of short-term debts into medium- and long-term ones, government payment guarantees over commercial bank loans, and conversion of short-term, private sector debts into long-term state bonds. <Table 2> shows that the structure of Korea's foreign debt is composed of a high ratio of short-term foreign debt, about 52.4%. This means that Korea is suffering from the pressure of debt payments in a short time. Therefore, Korea has to restructure its foreign debt by transforming short-term debt into long-term debt. VIP

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<Table 1> The Structure of Total Foreign Debt

	The Structure of Total Foreign Debt				Total
	General Foreign Debt	Offshore loans	Local loans		
Short Term	\$70.3 billion	\$9.4 billion	\$0.5 billion		\$80.2 bil(52.4%)
Long Term	\$48.3 billion	\$9.5 billion	\$15.0 billion		\$72.8 bil(47.6%)
Total	\$118.6 billion (77.5%)	\$18.9 billion (12.4%)	\$15.5 billion (10.1%)		\$153.0 bil (100.0%)
Total Debt		\$153.0 billion			

* Korean Government / IMF's statistics as of Dec 20, 1997