

IV. The Korean Economy This Week

President Kim Dae-jung's Special Press Conference

Improving the Basic Structure and Boosting the Economy

On Monday, September 29, President Kim Dae-jung held a special press conference and announced that the Korean government's economic policies from this point onward would center around improving the economy's basic structure along with boosting the economy.

To improve the basic structure, reforms will be expediently pushed in the financial, corporate, labor, and public sectors. In the financial sector, the first stage of restructuring is scheduled to be completed by the end of September, and attention will now be placed on resolving the brutal credit crunch. The government will be much more active in buying financial institutions' bad loans and injecting new capital in order to normalize the restricted flow of money. In order to relieve credit worries and uncertainties, the government will provide support to superior and viable small and medium-sized businesses, as well as big businesses in the process of restructuring. At the same time, credit analysis will be improved by rationalizing the loan decision making system and the financial supervision and regulation will be made more transparent.

To stimulate the economy and increase employment, the government will employ a flexible monetary policy and increase the budget deficit. To normalize banks' currently inadequate function of financial intermediation, the money supply will be expanded and interest rates will be lowered. The larger budget deficit (the IMF has already agreed up to 5% of GDP or 20 trillion won) will be used to focus on social overhead capital, information systems, and future-oriented industries.

To deal with the rising problem of massive unemployment, the government policies will focus on sustaining employment, industrial training, job creation, and improving the social safety net. The service industries will be fostered to create new jobs. A total of 10.7 trillion has been budgeted for unemployment policies.

In addition, President Kim dismissed the possibility of a second currency crisis, citing the drop in the percentage of short-term debt among overall debt, the

lower bond rates, and the comparison of debts due this year and next year compared to the available foreign reserves.

The Implications

The President's announcement came at a timely moment, with the current economic problems seemingly getting worse and some beginning to feel that the government's policies are losing momentum and direction. His message was intended to calm the people and lift their flagging spirits, especially before the Chusok holiday. With his candid statements, the President has properly recognized the crisis nature of the economic situation and the need to share the pain and emphasize patience. At the same time, his intent is to build up the momentum and drive needed to kickstart the economy, in the realization that the economy must be boosted to a certain degree to facilitate the restructuring process and ensure that Korea's manufacturing base is not permanently crippled.

However, there are some problems with the announced plans and policies. The government is optimistic that restructuring will be completed according to the announced schedule, but does not seem to fully recognize the magnitude of some of the remaining obstacles and lacks specific plans to overcome these. These problems include fully clearing out the bad loans in the financial sector, effectively weeding out or implementing workouts for failing companies, and privatizing and downsizing of public firms. Also the government does not fully comprehend that restructuring is a three-stage process: setting up the proper legal systems or institutions → implementing the new system → having the results materialize. It is unrealistic to believe that the results of restructuring will materialize starting from the end of this year, as the government seems to think.

Furthermore, the government does not seem to adequately recognize that no matter how stable the internal circumstances are, the external circumstances will still greatly affect Korea's situation. Notwithstanding President Kim's announcements, outside turmoil could indeed set off another wave of a regional currency crisis, which would inevitably impact Korea. The Korean government needs to develop better policies to prepare for this possibility and deal with the growing uncertainty in the international capital markets after the Russian crisis.

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