Ⅳ. Korea Economic Focus

A Year Since the IMF Bailout

It has been about a year since Korea was forced to go the International Monetary Fund (IMF) for a bailout. There has been much debate about the various causes of the crisis, but in the end, it was mainly due to Korea's growing lack of international competitiveness with its high cost-low efficiency structure combined with its inability to properly adapt to the rapid changes and trends in the global economy.

Since the bailout Korea has worked closely with organizations such as the IMF and the World Bank and with the advanced economies to get back on its feet and restore stability and confidence in the economy. By and large, their efforts have been successful. The immediate threat of a currency crisis has passed, and the won has stabilized back under 1300 won/dollar. Interest rates are dropping, and the stock market is reviving. In addition, foreign investment in Korea appears to be picking up, showing that Korea is regaining the confidence of international markets.

In retrospect, though, Korea's response has been far from perfect. Perhaps the biggest criticism is that some policy measures have been geared toward short-term, immediate ends and lack credible long-term vision. The contractionary monetary policy adopted immediately after the bailout and the resulting exorbitant interest rates may have been well intended, but in the end, they debilitated the real economy and weakened Korea's industrial foundation. At the same time, a detailed program for monitoring external debt, a key cause of the currency crisis, still has not been announced, much less implemented. Furthermore, the government seems to lack a comprehensive master plan for boosting Korea's long-term growth potential and maintaining social cohesion in the midst of the ongoing restructuring process and growing unemployment.

The Tasks Ahead

It is instructive to look at how other countries have managed to deal with and recover from their own currency crisis. In the cases of Sweden, Norway, Finland, and Mexico, all of them actively restructured their financial and corporate sectors, but at the same time, they also implemented economic stimulus measures to minimize the resolution costs. In addition, they also strengthened their social safety nets to facilitate labor-management relations and reduce social tensions.

Korea should take a lesson from their examples. In addition to vigorously pursuing financial and corporate restructuring, the Korean government should supplement its measures to boost the economy and help fuel what may be an imminent turnaround. At the same time, the government must also enhance its labor and welfare support measures so as to eliminate or reduce potential cracks in Korea's social consensus to overcome the crisis.

Also, the specifics of the Korean economy's situation mandate that a system be drawn up to monitor and regulate Korea's overseas debt, particularly in the private sector. This is needed to fullly ensure that the economy is insulated against a possible second currency crisis. From the longer perspective, the government should also develop a systematic plan to nurture or facilitate a shift toward a knowledge-based industrial structure, a key to Korea's survival and success in the 21st century.

It should be remembered that it will be some time before the effects or benefits of the current restructuring process are fully manifested. Even though the Korean economy is expected to turnaround in the first or second quarter next year, growth will be stifled by the lingering recession in Asia and the slowdown in the advanced economies. However, as Korea's competitiveness becomes enhanced and the world economy slowly begins to recover, the Korean economy should gain steam and return to a path of healthy, yet stable growth of 5% or more, moving beyond the $10,000 per capita income level once again around 2003 or so.

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