

# THE SECRET OF KOREA'S SUCCESS

**Hur Kyung-Wook, CFA, talks about the South Korean recovery and how lessons learned from the 1997 Asian financial crisis helped the country deal with recent events**

BY JONATHAN BARNES



**HUR KYUNG-WOOK, CFA, IS A BUSY MAN THESE DAYS.** As vice minister of strategy and finance for the Republic of Korea, Hur has traveled the globe in 2009, helping to stabilize the international financial crisis. Representing Korea at meetings of the International Monetary Fund, the Inter-American Development Bank in Colombia, and the ASEAN Plus Three in Thailand, he has worked to strengthen fiscal coordination and has shared the insights that have positioned Korea as one of the first economies to enter a recovery. For the second quarter of 2009, the country's GDP grew 2.3 percent on a quarter-on-quarter basis.

Hur spoke with *CFA Magazine* about Korea's road to recovery, its economic vision for a "Green New Deal," and how the experiences of the Asian financial crisis in 1997 prepared the country for the challenges of today.

**The Korean economy grew in the first quarter of 2009. Can you talk about how your government's stimulus package is working?**

In our first quarter, we grew by a very small amount, but still, it's a positive number, close to 0.1 percent. What is more interesting is the second quarter. Looking purely at the numbers, the signs are that the recovery is getting stronger. But on the other hand, if you look at the forces driving this growth, you usually find that the major factor is the government's stimulus plan. So, the big question is what happens when the stimulus is over? But in the process, we are using the momentum to generate its own growth.

**How long will the stimulus funds last?**

The stimulus goes all the way to the end of 2009—that is how the fiscal policy is set up, as well as the monetary policy. Some people are already talking about an end to the stimulus. I think it's OK to talk about it, but I think it is too early to actually withdraw any of the stimulus, at least before the end of 2009.

**Are you surprised by the second quarter growth? Was that a larger figure than you had expected?**

It's a pleasant surprise. On the other hand, we have provided tax incentives for car purchases, and that increased domestic car sales significantly in May and June. That is probably the major cause for the surprise. The way it works is if you have a car that is more than 10 years old and then decide to buy a new car, then we provide a tax incentive. That's why people are beginning to make purchases.

**You've said that Korea's recovery will be one of the fastest in the world. What makes you so confident?**

A couple of things. One is just the economic numbers that you've already seen. Actually, in terms of numbers, we are the fastest country coming out of the crisis. Something that's really to our advantage is having gone through the Asian financial crisis 11 years ago, so people know what a crisis is like. The government knows how to deal with it, and the people in the market generally know how to cope with this crisis. So, that is a big advantage. Also, in the export market, we are very much export dependent, but our exports are very, very diversified in terms of products and destinations, so that is also another advantage.

About 70 percent of our exports go to developing countries, rather than to advanced countries. Generally speaking, emerging economies are doing better than the rest of the world in this crisis, so that helps. We are not dependent on any single product—it's all very diversified: shipbuilding, LCD monitors, all kinds of stuff.

**Where would investors interested in Korea want to focus? Are there certain sectors that are poised for growth?**

What I'd really like to emphasize is that the whole Korean economy is re-orienting itself toward a so-called low-carbon, green-growth strategy. That is our new growth vision—the Green New Deal. If you approach it from that angle, there are probably many products and industries that are interesting. Most recently I heard from one of the big investment banks in the United States (JPMorgan Chase & Co.). Their asset management group is coming up with a big plan, a big fund, to invest about US\$1 billion in the Korean green-growth industry.

**Let's talk about the Green New Deal. What sort of investments are being made, what type of things are being built?**

In terms of a definition, the Green New Deal is a combination of green and New Deal. So, this is partly green-growth strategy and partly job creation. We've said that between now and 2012, the government will put in about 50 trillion Korean won (approximately US\$39 billion) in green-growth projects to create almost 900,000 jobs. The largest project is the Four Rivers Restoration Project. There are four big rivers in the Korean Peninsula, and every year we suffer from flooding. Korea is actually classified as a water-deficient country. Partly to have enough water in our system—also to improve water quality and control flooding—we came up with the Four Rivers Restoration Project, which will employ a lot of people and improve the environment. That's our landmark project, but there are many other projects as well, of course.



Office of National River Restoration

**According to Hur Kyung-Wook, CFA, Korea's "Green New Deal" combines economic stimulus with a "green growth" strategy. The photo above left and the artist's interpretation above right show the proposed transformation for one site included in the Four Rivers Restoration Project.**

**What parts of the rivers are being restored?**

If you've seen the Han River in Korea, or really any of the rivers, the water flow has been pretty shallow through the years. Now we plan to make the water flow much deeper and build small dams here and there, but more importantly, we will come up with an underwater reservoir system. So instead of losing our water to the sea, we can keep it in the system. Previously, we had restored some parts of the Han River, which makes Seoul look very beautiful, and now we are going to make it nationwide.

You have to understand that the Korean economy, in terms of energy, is very dependent on foreign sources of energy—97 percent. With global climate change and oil prices as high as US\$150 [a barrel], we have no choice but to lower our energy dependency. In doing so, we see a new opportunity for green growth. The World Bank and other international organizations have estimated that the green-growth market will triple in 10 years. So, for these reasons, we want to put it as a national vision at the top of all our programs. By early July, we are going to come up with a master plan that will show, up to 2050, what our targets are.

So, we're talking about how to build a low-carbon society. We're talking about the CO<sup>2</sup> goal—how much we are going to reduce the CO<sup>2</sup> emissions. Another focus is self-sufficiency, building our atomic energies and renewable energies (for example, solar cells), what they call the carbon capture and storage (CCS), and hybrid cars. We want Korea to set the example for green growth, because we're confident that this will be the new paradigm of growth in the coming decades.



**What kind of experience did Korea gain in the Asian financial crisis of 1997? How do those experiences apply to the current crisis?**

When we had the crisis 11 years ago, we took the opportunity to really push structural reforms, so some people still call it a painful blessing in disguise. What we learned is that it's very, very important to have fiscal soundness, because that is the foundation that can eventually absorb all the shocks. The second thing we learned is the importance of foreign reserves and of avoiding a maturity mismatch—that was the major and immediate reason for the crisis 11 years ago. So, after that, we built up our reserves, our matching reserves, and now we have more than US\$210 billion in reserve. This time around, that has helped quite a lot. The third thing we learned is the importance of having low leverage. At the time of the Asian financial crisis, the level of corporate leverage was about 400 percent, and now it's about 100 percent. Also, about half of the banking sector at the time collapsed because there was a very low BIS (Bank for International Settlements) ratio, but now we have a 13 percent BIS ratio as an average.

All of this has helped us quite a lot, but perhaps most simply in terms of the psychology, when the current crisis came, we knew we had gone through it before and we could overcome it again. So, we have this confidence in ourselves.

**Why did leverage come down? Did the government regulate leverage?**

After the crisis, the government did regulate, but now we no longer regulate. It's more like companies learned their lessons. They began to gradually lower their leverage. The companies with higher leverage were all going down at the time—among the top 30 conglomerates, about 15 were gone, and so the remaining companies learned the importance of keeping the low leverage.

Unfortunately, there is another aspect. If you look at the Korean corporate sector now, they are sitting on around 80 trillion won in cash (approximately US\$62 billion), because they learned that keeping cash and keeping low leverage is important in the time of uncertainty. So, they are sitting on the cash without making big investments at this time. That is delaying the recovery a bit. We want to encourage them to make investments.

Seoul, Korea's capital city, and the Han River will undergo considerable changes as the country tries to transition to a "low carbon" economy. JPMorgan has announced plans to invest US\$1 billion in Korea's green-growth industry.

**Korea's president, Lee Myung-Bak, wrote an editorial (27 March 2009, available at [online.wsj.com](http://online.wsj.com)) in which he discusses exit strategies for government takeovers of failing companies. What's your view about the process unfolding in the United States, where the government has big stakes in several large firms?**

What we found is that government takeover is inevitable in difficult times, but what is important is to get out of it as soon as possible. It's important to come up with a very comprehensive timeframe at the beginning—"By what time are we going to sell impaired assets?" and things like that. But frankly speaking, it's not that easy, because there is a conflict between two goals: one is the recovery of our investment value and the second is to exit at the earliest possible time. Sometimes the stock market doesn't recover, and so when you sell, you have to realize some losses on your taxpayers' money. That was the most difficult part.

**Looking at AIG, Citibank, and General Motors in the United States, would you have done things similarly or taken a different course?**

It's hard to say, because we don't know all the details, particularly for AIG. In terms of banking, our experiences 11 years ago were much more direct. Basically, we combined recapitalization with bad asset purchases, and in that process, we actually closed down some banks so they could be taken over by others. The United States hasn't gone so far, probably for its own reasons. The principles need to be tailored to each specific situation. So I'm not saying "We have done it right, the United States has done it wrong," but rather that the basic principle is the same and that Korea approached the situation in a more exhaustive manner at the time.

**You've been active in the international community, in terms of encouraging financial coordination. Has there been enough coordination in the handling of the current crisis?**

I think the coordination is very high. We've already had two G20 summits, one in Washington and a second in London, and the third will be in Pittsburgh in September. The G8 has been wonderful for advanced countries, but advanced countries alone cannot pull the world economy out of its problems. So this time, the G20, which comprises all the major emerging economies, has been playing an essential role.

A second important part of coordination is aimed at Asia. Finally, we've been able to come up with a regional reserve pool called the Chiang Mai Initiative. I think it's quite an achievement. We're going to launch it by the end of this year, and that will make Asia a lot less dependent on foreign resource fluctuations. So, that is a big advantage. The third level of the international cooperation is bilateral swaps, and we've been able to come into contracts with the United States, China, and Japan that have been very helpful.

I think Korea has a unique role to play. Because of the crisis 11 years ago, we have a special vantage point, a particular experience to share. That's what prompted my president's article about how to deal with impaired assets. And not only is Korea a G20 country, but we are part of the so-called troika, the countries that chair the G20 over a three-year period (Brazil in 2008, the United Kingdom in 2009, and South Korea in 2010). So, we're playing a role in preparing the next summit. We're trying to work as a bridge between the advanced and the emerging economies.

**Tell us a bit more about the bilateral swaps.**

From an Asian country's point of view—or Korea's point of view—in times of crisis you need an insurance, and the most important insurance is the reserve. So, there is a tendency in Asia to have a high reserve as an insurance policy. But if you have bilateral swaps with countries with full convertibility, like the United States or the European Union, then you are less reliant on your reserves. You have less incentive to rely on the export market. You have more incentive to boost up your domestic market because you know that if you don't have enough reserves, you can tap the bilateral swaps. I think there is room to expand—and if possible, perpetuate—these bilateral swaps.

**Can you speak about the U.S.–Korea Free Trade Agreement (FTA)? What is the viewpoint from Korea about its status?**

I think the FTA is beneficial for both countries. That is why they agreed on this deal. On our side, almost all of the procedure is done. The deal was passed through the subcommittee at the National Assembly. So, on the Korean side, there is no problem. The only potential problem is on the U.S. side. I know there are some concerns about the U.S. auto industry, and some people are talking about renegotiating. But I think it's not a wise action, because the agreement

covers a whole range of issues, and if you want to touch one issue, then you have to touch all of the issues. That is how the balance was struck from the beginning.

**Do you have a vision of how stability in the international financial community could develop in the coming years?**

I think that after this crisis, there will be a major revision of all of the supervisory rules and particularly those that generate high leverage, those that amplify the swings, and when those things are finally revised, I think the international markets will be much more stable but will not grow as fast as they used to.

**How do you feel about slower growth?**

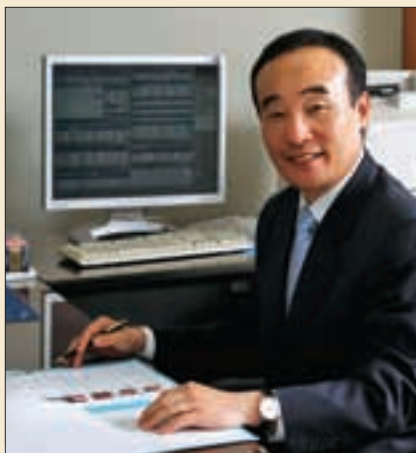
A stable world, even though it grows a little slower, is a good option, particularly for emerging economies. Another implication is that from now on, U.S. consumers will no longer be the consumer of last resort. So, Korea, China, and other countries will have to do more to cultivate their own domestic markets.

**What inspired you to pursue the CFA charter?**

After the last crisis, I wanted a little deeper understanding of the financial markets. I have an MBA background, but I wanted to use the opportunity to study financial markets because,

after all, that is where the crisis started. At the time (I think it was 1998), I was the first CFA charterholder in the Korean government. Including the private sector, I was something like the 22nd or 23rd charterholder. Now there are more than 700; it is increasing every year. //

*Jonathan Barnes is a journalist in the Pacific Northwest.*



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