Promoting Economic Cooperation between Korea and Thailand

by

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Thailand and Korea experienced serious blows during the financial crisis which erupted in Southeast Asia at the end of the 1990s. Faced with similar economic conditions, both Korea and Thailand are exerting all-out efforts to ride out the crisis under the IMF program. I strongly believe that our two countries can overcome the current hardship through mutual cooperation, and let me further note that our mutual cooperation will serve the best interests of our two countries well into the future.

When the financial crisis first erupted in 1997, the IMF injected bailout funds into Thailand, Indonesia and Korea. Both Thailand and Korea are fully complying with the IMF-led programs. According to the program, Thailand and Korea have pursued greater opening of their economies, not to mention belt-tightening retrenchment measures. At the same time, in an effort to overhaul their economic structure, both our countries have launched restructuring programs for our financial and public sectors. The corporate sector is no exception either, and non-viable companies are now being evicted from the business arena.

Nevertheless, until the end of 1998, the economy was not showing any definite signs of recovery. Though the foreign exchange market was somewhat stabilized, the dollar-denominated exports were continuing to decline and foreign capital was running below our expectations. There were two notable causes for the lagging recovery. One factor the IMF program overlooked was that the economic development of Asia, especially of Korea and Thailand was fueled by businesses. In turning the agrarian countries

of the 1960s into industrial ones, investment by businesses was the main engine of rapid growth, and development in both countries would not have been possible without it. As a result, firms in both Thailand and Korea to relied heavily on borrowing. As times changed, the debt ratio had to be lowered, or gradually ameliorated. The IMF's response was to change such practices all at once, leading to the suffering of even the financially sound companies of both countries.

Another problem was that the IMF stressed the opening of economies without fully understanding the interdependency of Asian economies. The exemplary success cited by the IMF was Mexico's recovery from its financial crisis in the mid-1990s. In the case of Mexico, however, its neighbor the United States was behind the recovery. When Mexico reduced its budget deficit and adopted a high interest rate policy, the United States lent a helping hand. In Asia, Japan was expected to assume such a role; but what Japan did only served to aggravate the crisis. Faltering Japanese banks were too concerned about withdrawing loans from Asian countries, and lack of government leadership fanned the fluctuation of the Japanese yen, which in turn resulted in growing volatility in the foreign exchange markets of Asian countries. As Asian countries reduced imports by adopting policies to hold down aggregate demand, export-driven countries such as Thailand and Korea came to suffer greater difficulties.

At this juncture, it is time for the creation of a consultative body in which the business communities of Thailand and Korea can meet together to discuss common issues, and coordinate their policies.

The second subject concerns industrial cooperation between the two countries. Although Korea and Thailand have achieved rapid growth and successful recovery, there is a serious vulnerability in the industrial structures of both countries; it is our heavy reliance on Japan for

machinery and components. In the industrialization of both countries, Japan played a tremendous role, but this backfired into a growing economic dependency on Japan and widening trade deficits. Asian countries developed their economies by hosting the industries that were being relocated from Japan during the process of the so-called "flying geese" development strategy. However, Japan adopted a policy of transferring its uncompetitive industries while holding back its core technologies. As a result, it will be difficult for both Thailand and Korea to fundamentally resolve the problem of their trade imbalances with Japan.

Thailand conducted a probe into the 1997 economic crisis and published the results under the title "Nukul Report." Also, though speculative attacks from the beginning of 1997 are believed to have triggered the attack, we cannot overlook the fact that Thailand's current account deficit reached almost 8% of GDP in 1996. During its industrialization, Thailand did not sufficiently accumulate self-made technologies and a huge trade deficit undermined the country's economic fundamentals leading to the speculative attacks. Korea had a similar experience of chronic trade deficit, primarily with Japan. Considering that the economic crisis was ignited by the speculative attacks preying on unstable macroeconomic factors, as long as we maintain trade deficits with Japan, we will always be vulnerable in the real sector and might even face another outbreak of crisis.

While exerting efforts to remedy our trade deficits, we might be able to locate potential sectors for mutual cooperation. For example, the implementation of a joint project in the components and parts industry might be a good example. Although Korea adopted industrial technologies from Japan and the United States, we made necessary adaptations to suit the Korean environment, which is characterized by an ample workforce. Korean businesses were able to create improved technologies that were better geared to the real situation of Korea. Accordingly, such technologies will

be more appropriate for Thailand, which also has an abundant workforce, than the technologies of Japan or the U.S. Korean companies would be able to make investments in Thailand in the future, sometimes under agreements to buy back those quality products, whereas Thailand might consider directing investments to Korea in the agribusiness sector in which Thailand enjoys competitive technology. Such an expansion of bilateral investments would lead to an increase in bilateral trade.

Mutual cooperation in the heavy-and-chemical industries is also recommended. Thailand has embarked on investments in iron & steel, petrochemicals, and cement led by entrepreneurs from the late 1980s. That was, of course, understandable because the need for import substitution was running high amid chronic trade deficits. Also, rapid industrialization was spurring growing demand for industrial materials, offering a chance to venture into heavy-and-chemical industries which enterprising businessmen could not refuse. As a result, Thailand is predicted to join the ranks of major petrochemical-producing countries in the world in the near future.

Thirdly, there is the potential for cooperation on joint projects in Indochina. As mentioned earlier, a major reason that Asia is still mired is the shortage of aggregate demand intra-Asian region. In reality, it is investment that can supplant exports to create demand, though investment can hardly be spurred when consumption is depressed.

To vitalize regional economic cooperation, we might consider a kind of New Deal policy in which our countries jointly invest in social infrastructure projects in Indochina. We can consider massive investments in least-developed areas that need social infrastructure investments. Indochina, including the Mekong River area is one place where the businesses of our two countries can jointly participate in the development program.

Korea's construction industry, especially in civil engineering, boasts internationally renowned technology. Already quite in the past, Korean companies have constructed expressways in Thailand. Also in the 1970s, Korean construction companies accumulated ample experience in the deserts of the Middle East. On the other hand, Thai businesses are knowledgeable about conditions in Cambodia, Laos, and areas north of Thailand. Thus the prospects for bilateral cooperation are excellent.

If Korea and Thailand could pursue joint projects in Indochina, it would not only achieve political and economic development in the least developed areas of Asia.

The fourth subject is cooperation in the service industries. Up to now, our cooperation agenda only covered the areas of industry, trade, and investment, focusing on the manufacturing industries. However, in order to ensure sustained economic development, we need to continue hatching high value-added sectors. In this sense, cooperation in the tourism, finance and service industries is also important. Especially, Thailand is more advanced than Korea in tourism and tourism-related service. Korea is endowed with poor natural resources and military conflicts with North Korea have prevented the development of the tourism industry in Korea in spite of many excellent tourism resources. Meanwhile, Thailand has most successfully developed its tourism and service industries, especially the hotel industry in Asia. At the governmental level, we could collaborate in promoting tourism, but in doing so, we must maintain mutual exchanges of tourism know-how among small companies at a private level. Especially, Korea is now in a position to strengthen its tourism-related service industries in order to create more jobs.

Both countries are suffering from economic difficulties, but this is the

best time for bilateral cooperation. First, Korea's next government and Thailand's Thaksin government share a lot in common in terms of economic philosophy, and the personnel of the two governments maintain close relations. In this respect, it is likely that private businesses will get the utmost support from both governments when they launch new projects. Second, the current economic chance is forcing us to take a renewed look at the existing development scheme or philosophy. In the past, we achieved rapid growth through the assembly industry without developing our components or intermediary industries. Now, we need a more balanced growth, and our two countries may be able to complement each other in this regard. Third, we can further expand our areas of cooperation into the non-manufacturing sectors. The development of joint projects in Indochina over the long term, and cooperation in the tourism and service industries will solidify the economic structures of the two countries.

Some of suggestions might not be possible to implement right away. However, I believe that they are absolutely necessary in order for us to ride out the current crisis and get back on the track of growth on a sound footing instead of a wobbly one like in the past.

Trend in Korea's Trade with Thailand

(unit: million US$)

	1997	1998	1999	2000	2001	2002(1~10)
Export	2,243	1,540	1,735	2,015	1,848	2,002
Import	1,284	809	1,068	1,631	1,589	1,417
Balance	959	731	667	384	259	585

Source: KOTIS

Thailand is the 13th exporting country of Korea (2002.10)
21st importing country of Korea (2002.10)

Korea is the 14th exporting country of Thailand (2001)
21st importing country of Thailand (2001)

Korea's Investment to Thailand

	1996	1997	1998	1999	2000	2001	2002 (1~2)
No. of Projects	17	13	7	13	18	19	24
Mil. US$	27.2	188.3	106.8	6.0	32.8	30.8	16.8

Source: Korea Exim Bank