

## ***The Mexican Peso Crisis and Its Implications for the Global Financial Market***

Thank you very much. It is a pleasure to be here today and to be back in Seoul. As Dr. SaKong mentioned, I had the pleasure to travel to this country many times in the 1980s and the honor to work closely with him. Sometimes, perhaps, he thought we worked too closely with each other, but, it is natural that there are different perspectives from time to time between government officials and the government. This, however, does not prevent eventual cooperation on important matters and this is what happened in the case with Dr. SaKong and I as well as between the US and Korea.

It is a special pleasure to represent for the first time the private interests, not the official interest of the US government. The organization I lead is an institute representing private banks around the world. We are the only global association of private financial institutions that reaches around the globe. We have 185 members and these include virtually all large commercial banks and many of the investment banks. In the past years, we have invited into our membership some of the fund managers which are increasingly important in flows to the emerging market countries. Corporations such as Fidelity Fund Management, George Soros Fund Management, Putman and Skutter and Stevens are some of our members that have had a major impact on the flows not only in Latin America, but, also in Asia.

One of the purposes of my visit here is that the Board of Directors of the Institute has authorized me as the Chief Executive along with my colleague, Mr. Reiffel, to invite selected Korean banks to become members of our institute. When I say we have 185 members, less than 20% of these are American banks. So, we are based in America, but, we are not an American financial institution; we are global. If there are any senior officers of banks interested in exploring membership with us, we would be pleased to follow up with you. And we can send you each a detailed confidential report which we have issued to our members on the Mexican economic program. It is a very detailed report and you will nevertheless find it of special interest as you consider here in Korea your own economic situation. This economic analysis was done very quickly by my staff over our New Year's holiday and we have made a presentation to our entire membership in New York.

May I also say a word of appreciation to Mr. SaKong and the Institute for Global Economics which already has considerable stature in the global financial community. I recall when our mutual friend, Fred Bergsten, created the Institute for International Economics some 15 years ago. It began very small, but through his own leadership it has become one of the leading research institutes in the world on international economic affairs. I would not be surprised if this institute follows a similar path in the many years to come.

I have read since my arrival in Seoul about globalization and its concept which your President is now encouraging. And, I understand it is more than opening up your economy. It is a process of developing a more global perspective on the world;

and encouraging your citizens to be more interested in the world outside Korea and to understand the benefits of strengthening ties throughout the world. This is not always an easy thing to convince people of.

I am reminded of the visit I made to Hungary a few years ago. The Finance Minister of Hungary told me about their efforts to promote internationalization which they viewed as a very similar concept. He said that part of this program was to encourage Hungarian citizens to learn foreign languages such as German, French and English and other languages of importance in the world of business and in the EC. He told me a story that the Hungarian citizens were very unconvinced about the benefits and told the government that they did not need to learn foreign languages. Two Hungarian farmers were arguing in the field one day when a German citizen drove down the road and his car broke down. So, he got out of his car to ask for help. He first said, "Sprechen Sie Deutsch?" to which the farmers said no. Then he asked, "Parlez vous Francais?" to which they shook their heads again. He then proceeded to ask the same question in Spanish, English and Italian to no avail. By that time, the German got very frustrated and threw his hands up and walked back to his car. At that, one farmer turned to the other and said, "I told you. It does no good, no good at all to learn foreign languages. This man knows 5 languages and look how much good it did him?" This is perhaps why it is not easy to convince people of the benefits of globalization.

You have here in Korea one of the largest, most dynamic world economies and I believe it is inevitable that Korea becomes a leader in the world, not just in trade, finance and

politics, but in other issues as well. Your application to join the OECD is a sign of that leadership, a recognition and indication of Korea's willingness to accept responsibilities that go with that leadership. And, I would strongly encourage Korea to pursue this course with the same determination that you have pursued your own development in the last few decades. I am reminded on every visit on just how impressive your economic performance has been, but the world economy is changing very rapidly. In order to strengthen Korea's position, the Korean economy, likewise, has to change rapidly. Old approach and old techniques will not work. While it is understandable that you will want to adhere to certain traditions in the way you approach life, nevertheless, it is critical that Korea integrates into the world economy in a steady pace.

Well, before I come back to this subject on the Korean economy, let me first talk about the recent events in Mexico which I know you're especially interested in hearing about and what I believe could be the effects of the Mexican crisis on all emerging markets around the world. First, it is important to understand the problems that led to the crisis in Mexico. It is important to realize that the problems are different from your situation here in Korea. I just came from spending a few days in the Philippines and there is a big debate about whether Mexico and the Philippines have certain similarities in their economic situation. In fact, we had lunch with the Finance Minister who was preparing for a cabinet presentation to his president on just this issue. Indeed, it is unfortunate that there are some similarities between the Mexico and the Philippines, although I would not wish to exaggerate the similarities.

However, I was somewhat surprised to find this issue debated in Korea because your situation is quite different. In fact, the problems which led to the crisis in Mexico have virtually nothing to do with the program of economic liberalization which they have pursued. Therefore, the crisis in Mexico, in my view, should not lead to one second of slowing down in the liberalization of the Korean economy. What did lead to the crisis in Mexico? There are, of course, many factors and I risk being overly simplistic, but I would like to draw your attention to four numbers which will directly lead to the points I want to make. The numbers are 60, 30, 8 and 6. What do these numbers have to do with Mexico?

Sixty billion is the total size of the short-term debt that the Mexicans had built up by 1994. This is a huge figure for any country. It is over 40% of the total foreign debt and all of that was 30-day money, 60-day money, anything under 1 year maturity. This is not the equity flows I am talking about. This is just the short-term debt in various short-term financial instruments which left Mexico very vulnerable to the changes in the mood of international investors.

Thirty. Thirty billion dollars in the forecasted size of their current account deficit in 1995; again a huge and unsustainable figure. On both of these figures, I would point out that Korea is nothing remotely similar. Yes, I realize that this country is moving into trade and current account deficit and to be sure this is something to be monitored. However, the scale and proportion of your deficits are drastically smaller in proportion to the Mexican deficit. Thirty billion dollars in a current account deficit brings me to the third figures, eight. Thirty billion dollars

is 8% of GNP and few economies can sustain a current account deficit of that magnitude, especially if it is financed on a basis of short-term debt.

The last figure is six. Six is the total size of Mexican reserves: six billion dollars. So, they had a current account deficit which was five times of their reserves. In this country, you probably have reserves which are almost five times the size of your current account deficit. So, it is almost the exact opposite, perhaps not quite. I believe your reserves are in the range of 24 billion dollars. Of course, these numbers tell only part of the story. But, if you look at 60 billion dollars in short-term debt, 30 billion dollars in current account deficit which represent 8% of GNP and only 6 billion dollars in reserves to defend the currency, then you have the makings of a crisis.

Of course, there is a history to this in Mexico which is also important. One of the friends at the table this morning said this seems to happen every six years. And, indeed, there is something to this point. I believe countries build up reputations in financial markets. They build up credibility or they build up doubt. In the case of Mexico, they have gained credibility during the presidency of President Salinas, nevertheless there was still a big doubt: Can they manage a transition without an economic crisis? Since 1976, in 1981, 1986 and this year, they have had a financial crisis. That history is something Mexico carries with them and sows the seeds of doubt. Korea, on the other hand, has used the 1970s, 1980s and 1990s to build its credibility and to demonstrate that you can implement a transformation from a very authoritarian system of government to a much more democratic system without losing your economic strength. This

is a major accomplishment. Of course, the story is not yet finished and I recall on my last visit to Korea some 4-5 years ago. There were many doubts whether you could survive this transition without a loss of discipline and competitive edge.

Indeed, it is important that the competitive edge of the Korean economy be preserved and I will return to this point later. However, I would first like to say that you have such a strong legacy here that the comparisons between Mexico and Korea are completely irrelevant because they had a growing and unsustainably large trade and current account deficits and an exchange rate which was increasingly overvalued. This current account deficit was becoming more apparent during the course of 1994 when they had to spend their reserves steadily in order to defend their exchange rate(see Figure 1). Mr. Rieffel, my colleague, has brought slides which we used in our presentation on Mexico. In that, you will find two slides which are particularly revealing. One of them shows the decline of reserves in Mexico from a level that was almost as large as Korea's today to a level of 6 billion dollars(see Figure 2). They were defending their currency by using their dollars on a regular basis in order to preserve the high value of the peso. They were intervening in the foreign exchange market and this is not liberalization; it is economic mismanagement. It is very important not to confuse what has happened in Mexico with the side effects of liberalization. To be sure, they opened their trade borders and imports grew. But, it could have grown more strongly if they had moved their exchange rate down at a much earlier stage to strengthen their competitiveness of the export sector. But, instead they chose to finance their deficits with

increasing dependence on short-term instruments. They, in effect, provided to foreign investors an instrument that guaranteed the investors against exchange rate loss. So, if the peso appreciated in value, the lenders would get more pesos in order to maintain the dollar value of his loan when it came due. Of course, this provided a false sense of security to the Mexican government, and it encouraged them to continue down the path they had chosen rather than to pursue a gradual course of balance of payments adjustment.

Mexico has strengthened their economy very much, but, there are other structural problems; in particular, the low savings rate. Again, let me provide a comparison. In Mexico, gross savings rates are 16% of GNP and investment was forecasted at 23-24% of GNP(see Figure 3). I have a chart here which shows South Korea as one of the largest emerging markets where its domestic savings — gross savings — and investment are almost virtually equal which is about 30% of GNP. This makes a dramatic difference which means that you can grow this economy at 6-7% without excessive reliance on foreign capital. This was not the case in Mexico. They can grow their economy and avoid dependence on foreign capital when they grow at 1-2%, but, they run into problems when they grow at 3-4% because their export sectors are not competitive enough to offset the demand of imports and they begin to finance the difference with foreign savings. I believe that one of the greatest strengths you have in Korea is to maintain the high level of domestic savings because this will enable your country to continue to grow well in excess of 5% without excessive dependence on foreign capital.

I should mention one structural problem in Mexico. This is



the politicized nature of the industrial sector. Mexico is a country where for many years the ruling party has had significant influence on the way business is run. Often business was not done on the basis of fair competition, but on the basis of political relationships. New entrepreneurs had much difficulty in establishing their businesses because old political ties created problems. It will be important as Korea proceeds down the road of liberalization that you avoid the problems of huge businesses such as the Chaebol discouraging new entrepreneurs from pursuing their business activities. I realize there are many differences between the political and commercial ties in Mexico and the political and commercial ties in Korea. These differences are especially clear now under the new leadership. I applaud the efforts that have been made to separate issues of political support and business decision-making and to let the business community go their own way while allowing small enterprises more room in your economy. This will be an important area that will need further changes in the years to come.

The final point I will make about Mexico is that sometimes it is not only what you do that is important, but, how you do it. The Mexicans did need to lower their exchange rate but they waited too long and the way they handled it was very very poorly done. They had a very inexperienced new economic team. And, they announced in complete surprise a new move to devalue their peso without any supportive fiscal and monetary policies. As those of you who are in the government know, if you wish to convince the market and the people that the government is taking serious economic measures to address a problem, the best approach is almost always an economic

package, a comprehensive policy. Sometimes comprehensive measure is half new policy and half old policy polished up. That is fine and is the way the world really works. What is important is that you develop a comprehensive policy and this was what I advised to the Philippine government to correct their trade deficit. The Mexicans, on the other hand, made the move to make a new monetary policy without any announcement about a new management of the fiscal policy. And, they simply blamed the exchange rate problem on the political problems at home. This was not only a rude surprise to the market place, but, more importantly not convincing. If you need major surgery you do not simply take to aspirin. You have to have major surgery and I am afraid that the Mexicans mismanaged the situation compounded by the political newness of President Zedillo who had difficulty following through on the time of his speech and again this matter is more important than you can realize.

Looking ahead I do believe that Mexico has a chance to repair the damage and to get back on the right course. But, they have no doubt damaged their credibility quite a lot in the eyes of the international financial community. I believe that some interest rate package of support was needed. However, the package proposed by the US is very large; larger than any package I ever put together when I was at the Treasury Department to support Argentina, Brazil or Mexico in those days. But, I also know the new economic team in Mexico quite well. The finance minister is a good friend of mine from his days on the IMF Board and is a competent economist. And, President Zedillo, I am sure, will gain experience politically.

Nevertheless, significant damage has been done not only to Mexico but throughout the emerging markets.

Let me spend a minute talking about the implications of Mexico for the rest of the world and then I will open up for questions. I see two issues which are debated today in Korea. The first issue seems to be: Are there any similarities between Mexico and Korea? To this, I would have to say virtually none and that it would be very unfortunate if anyone uses the excuse of Mexico to delay liberalization in Korea because I think that would be very misguided. But, there are implications for what was done in Mexico for Korea, and lessons to be learned.

We have a new generation of investors and lenders in emerging markets. They work in investment banks, in mutual funds or they manage pension funds or hedge-funds. And, they tend to have one thing in common: many have very little experience in dealing with emerging markets. They had not worked these markets during the 1970s and 1980s and they have not gone through the experience of many commercial banks having lost huge amounts of money. In 1994, we estimate total flows into emerging markets equals 166 billion dollars. How much of the 166 billion dollars came from the banking community? How much of that came from the experienced bankers who were not surprised when problems developed in emerging markets and who have lived through the pain of major losses in the 1980s and who have the experience to separate fiction from fact when it comes to looking in the future of emerging markets? Very little.

As you see, commercial banks provided only 32 billion dollars out of the 166 billion dollars total. The rest of this came from

others — equity investors. Now a significant proportion of equity investors, came from direct investment. That tends to be stable investment and investment that has been thought about a great deal before it is made just as companies establishing operations in Korea or in China think long and hard before actually establishing operational bases. But, other parts of this are equity flows in the portfolio markets and bond markets participants. They do not have the same experience. And, one of the reasons the situation in Mexico turned into such a great crisis was not only mismanagement but also that it was due to the fact we have a whole new generation of investors and lenders who do not have the adequate understanding of what risks and opportunities are all about in emerging markets. For three years, they thought it was mostly opportunity and any one who put one dollar of equity in Asian equity markets in 1993 ended up the year with a dollar and half, two dollars or maybe two dollars and a half for every dollar invested in 1993. Followingly, there was a surge of investment in the emerging markets — a new wave of enthusiasm. I think it would be different now and I think there is a lesson for the Korean authorities and for all other authorities in emerging markets. I believe that the investors have been hurt painfully by what happened in Mexico and they will probably be more cautious and more discriminating.

To a certain extent, discrimination may benefit Korea because if they begin to separate the true strength of the economies in the emerging markets and investors begin to educate themselves more fully on the balance between opportunity and risk, I suspect Korea would look better than most emerging markets.

At the same time, as investors become more cautious and, believe me there are many fund managers who have been seriously embarrassed by what has happened and who have had to do a lot of explaining to their depositors, managers and shareholders, they will hopefully try to better understand the risk in emerging markets. They will have to look beyond simplistic indication of credit worthiness such as rating agencies. I don't mean that ratings are not important, but, unfortunately in the last few years ratings in some parts of emerging markets have taken place for sensible, detailed analysis of risks in emerging markets. Too many pension managers, too many retail managers in the US and elsewhere had taken a complacent view on investing in emerging markets which now has cost them dearly. They have seen the blizt of emerging markets and felt they could put money into it even if the spreads were rather thin or even if the transparency in the local equity markets was rather poor.

I believe one of the lessons for South Korea and other leading emerging markets is that they cannot take for granted that the world will continue to be enthralled and impressed by the economic and financial opportunities of emerging market countries such as Korea. Certainly, there are many strengths in your economy, but it is important that the government not become complacent. And, this is one of the lessons of Mexico: Complacency costs dearly. Your situation is very different and yet there are some signs of concern in the macroeconomic scene which is not the same with Mexico. But, I would say that the biggest question mark on your horizon is whether the economy needs to slow down just a small amount in order to avoid

renewed inflationary and wage pressures. I am pleased to see that the economy is robust again, but is it a little too robust for your stage of economic development and would a growth rate of 7% be more sustainable than a growth rate of 8-9%? I believe the government must ask this question and try to answer it. And, if it needs to pursue somewhat more restrained policies at the margin, I don't mean a radical change in policy approach, to avoid renewed inflationary pressures then, I would encourage them to take a careful look at the need for some restraint.

At the same time, I believe that it is imperative that the government pursue financial and economic liberalization steadily, and in some areas more quickly. I recognize that Korea has moved steadily to deregulate interest rates, and I applaud the progress. Korea has also moved to open its financial sector to foreign participation. And, I again applaud this progress. But, there are still areas in which limitations which seem to me are a bit excessive at this stage of economic life: The limitations on foreign investment in your securities market; restrictions in the insurance business; lack of full convertibility of your currency. These are areas, in my view, which could merit further action and attention on the part of the government. Nevertheless, I believe that Korea has a solid track record to manage your economic problems efficiently. But, I believe it would be important to avoid the wage-price spiral which hit this country four or five years ago creating a period of disturbance. And, when I look at the strength of your economy today and the boom of investment in 1994, I think perhaps there is a case for some moderation in the rate of economic activity.

Finally, I would strongly encourage the continued globaliza-

tion not only of your economy but of the entire attitude. I strongly support the approach that has been taken along with the obvious efforts of the new government to reduce the role of the bureaucracy. I see the merging of your Economic Planning Board and your finance ministry as a move in the right direction, but only if it leads to greater efficiency in the staff of the two agencies, not simply in the overlapping and the internal competition between bureaucrats. But, the efforts to reduce the role of the government is a healthy one.

If I may, I would like to conclude on a personal note, Dr. SaKong. As you know from my earlier visits with you, I have the pleasure of having a young 10-year-old daughter who was born in Korea and spent most of her life with my family in the U.S. When I told her that I was coming out here she had two reactions. First, she expressed her desire to come with me, but, I explained that it was the middle of the school year and perhaps we could come when she is older and when the weather is a little more inviting. But, then she turned to me and said, "You know I studied the Korean economy in my school and you realize, of course, that it is a very strong economy, don't you, Dad?" And, if my ten-year-old daughter is aware of the strength of this economy then I think we can take some comfort that the "Tequila Effect" will never come to Seoul, Korea.

Thank you very much.

〈Table 1〉 Macro-economic Indicators of Mexico

	1990	1991	1992	1993	1994
Real GDP Growth (percent change)	4.4	3.6	2.9	0.6	3.2
Real Domestic Demand (percent change)	6.5	5.3	5.9	-0.3	3.9
PSBR (percent of GDP)	3.4	1.5	-0.5	1.7	4.4
Current Account Deficit (\$ billion)	-7.5	-14.9	-24.8	-23.4	-29.4
Consumer Prices (average percentage change)	26.7	22.7	15.4	9.8	7.0

〈Table 2〉 Mexican External Debt

(unit : \$ billion)

	Dec. '93	Sep. '94
Total External Debt	153.6	165.3
Medium- and Long-term ( Brady Bonds )	99.7 (31.6)	108.3 (31.9)
Short-term ( Government Securities ) ( Mexican Bank Liabilities )	53.9 (21.9) (20.4)	57.0 (24.6) (21.3)



<Table 3> Current Account of Mexico

(unit : \$ billion)

	1993	1994	1995
Trade Balance	-13.5	-18.4	-4.1
Exports	51.9	60.2	71.9
Imports	-65.4	-78.6	-76.0
Services and Other Income	-9.9	-11.0	-10.9
Tourism	0.6	0.4	1.8
Interest Payments	-10.5	-11.9	-14.4
Current Account Balance	-23.4	-29.4	-15.0

<Table 4> External Financing of Mexico

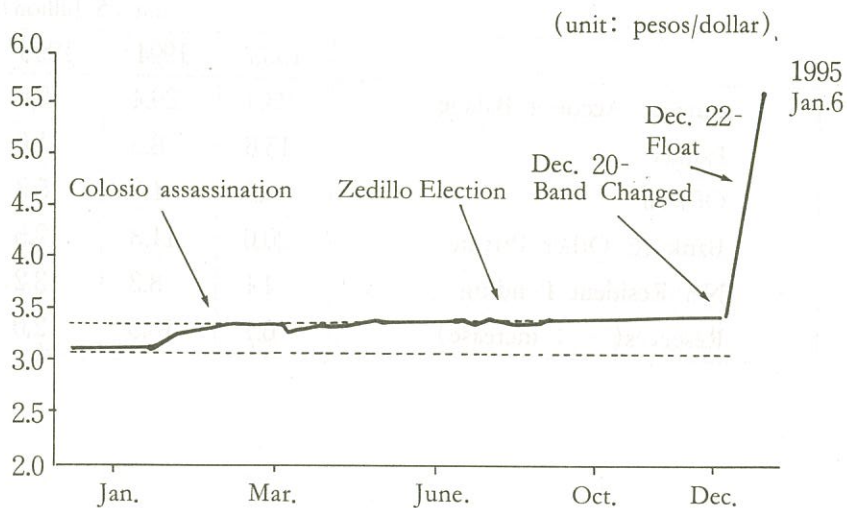
(unit : \$ billion)

	1993	1994	1995
Current Account Balance	-23.4	-29.4	-15.0
Equity	15.6	8.5	11.0
Official	-0.9	-1.3	5.3
Bank & Other Private	20.6	11.8	-2.5
Net Resident Lending	-4.1	-8.3	3.2
Reserves( - : increase)	-6.1	18.9	-2.0

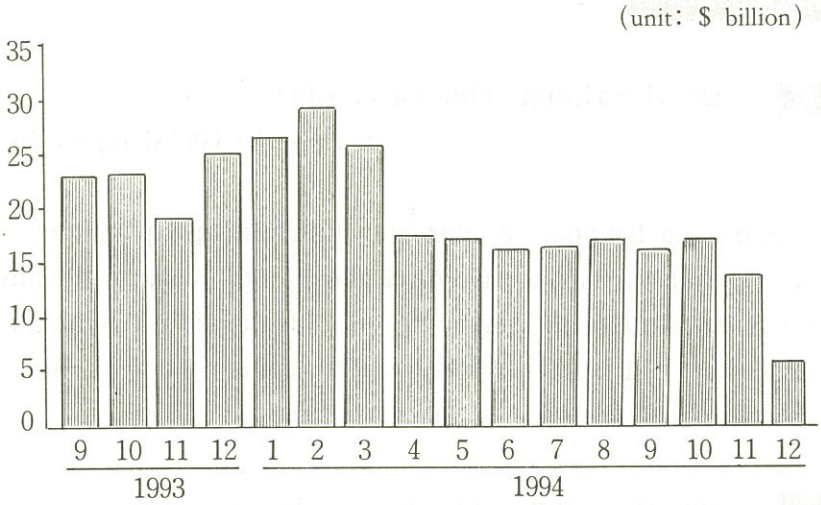
(Table 5) 1994 Quarterly External Financing of Mexico

	Q <sub>1</sub>	Q <sub>2</sub>	Q <sub>3</sub>	Q <sub>4</sub>
Current Account Balance	-6.9	-7.4	-7.8	-6.8
Direct Investment	1.0	1.6	2.4	2.0
Portfolio Investment	3.5	0.2	0.7	-3.7
Government Securities	1.5	0.0	1.1	-2.8
Resident Capital Movements	-4.2	-3.5	3.8	-3.9
Reserves(- : increase)	-0.8	9.4	0.1	10.5

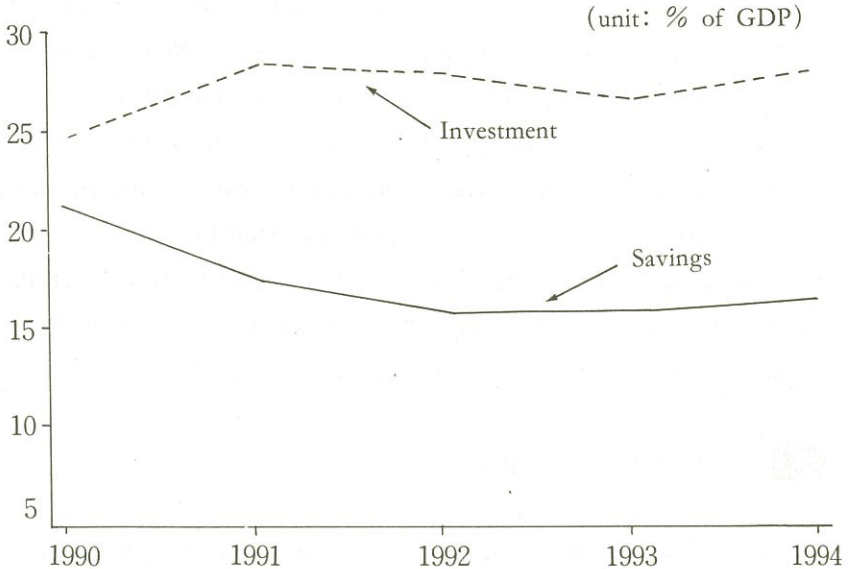
[Figure 1] Exchange Rate Change in 1994



[Figure 2] International Reserves of Mexico



[Figure 3] Savings and Investment



## Discussions

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**C** Dr. Il SaKong (Chairman & CEO,  
Institute for Global Economics)

Thank you for your succinct and illuminating explanation of the Mexican crisis and its implications for Korea. I am sure your explanation and views will clear up hanging doubts and concerns here in Korea. However, there may be some who might want to pursue points you made further.

**Q** Dr. Sang-Joon Jun (Research Fellow,  
Hyundai Research Institute)

As Mexico attracted foreign capital and curbed inflation to sustain their over-valued peso, recently Korea's Won value has been rising rapidly and the government is letting it take its course. Some businessmen think that the Won value is rising too rapidly hurting their export competitiveness and are pressing the government to take some action and stabilize the exchange rate. Do you think it is desirable for the government to intervene in the foreign exchange market to stabilize the exchange rate or should it follow its due course and appreciate?

**A** Dr. Charles Dallara

The exchange rate policy is always a very delicate issue in any government. I don't remember a time in the last 15 years

when the Korean business did not want the Won to be weaker. This is a common refrain. To be quite honest, we have looked at this and we are not especially concerned about the value of the Won at this stage.

**Q** Dr. Sangjoon Jun

Do you think it is overvalued or should it appreciate further?

**A** Dr. Charles Dallara

I think it is very difficult for anyone to have a firm sense whether a currency is under- or over-valued. I would say, however, that we don't see major signs of the Won being over-valued. Of course, you have shifted from surplus into deficit, but this is in the face of a huge boom in investment and growth in import. I think continued import liberalization and some restraint in fiscal and monetary policy is probably the course to follow at this stage, not trying to address the problem particularly with an emphasis on the exchange rate.

**Q** Mr. Jai-Woong Lee (President & CEO,  
Coryo Research Institute)

You gave a very excellent explanation on the Mexico crisis and maybe you could make some points on the US interest rate, especially the high interest rate and NAFTA participation of Canada. In relations, I would like to know why Mexican peso and Canadian dollar are depreciating so much. In addition, the

Federal Open Market Committee will be held from January 31 through February 1. Do you foresee with the change in the world economy that the Federal Reserve will push up interest rates once again to make a difference between federal fund and re-discount rate? Lastly, about Deng Xiao Ping: some sources give him 3-4 months to live and others even less. When Deng passes away, what would be the international market's influence and emerging market's influence on monetary and fiscal markets?

**A** Dr. Charles Dallara

I think I need not only one crystal ball, but three to answer your questions. I will try perhaps with some humility. All of these are very difficult question. I do think you have touched upon three key issues that I did not speak too directly for lack of time. One key point here is that the mood in international capital markets toward emerging markets will be effected by US monetary policy. And, this was the case in 1994 and may be the case additionally in 1995. Not just the US policy, but in 1995 the economies of the G7 are growing more rapidly as a group than they have in many years.

This will mean greater need for capital in this countries and greater opportunities for return. If investors are somewhat frightened with Mexico, they may not only look at other emerging markets; some may say that they had enough with emerging markets for a while. What about a 5-year treasury bond? Doesn't it look pretty good? This points out again the need for Korea and other countries to avoid complacency. I

believe that indeed there is a real prospect, as you read in the newspaper, of tightening in the US monetary policy and it is very hard to know how the market will react. One viewpoint is that long-term interest rates will continue to go up for much of 1995. Another viewpoint, however, and this is one I personally have some attraction to, is that interest rates may go up for a time but if the Federal Reserve Board acts with determination and decisiveness and the US economy begins to show moderation in the strength, then maybe market-based long-term rates may come down.

I am not sure what to make of the mutual weakness of US and Canadian dollar and the Mexican peso. Certainly, we have been through a long period of dollar weakness which reflects a number of problems including the fact that the US again is getting into trouble in its trade and current accounts. But, it may well be that we are approaching a time when the dollar is bottoming out and the scope for further decline may not be so great. If long-term rates peak in the US then fixed income investments in the dollar will be relatively attractive again because you will be facing relatively high rates in the prospect of capital appreciation in your long-term bond holdings and medium-term bond holdings in the US.

Finally, on the issue of Deng Xia Ping which seems to be the most difficult of all; US monetary policy seems simple compared to the future of China. I would say that China has, I am afraid, been misunderstood by many investors. And, I say this because I am shocked that lenders would provide 10-year money to China at one hundred basis point over the base rate LIBOR. To me, this doesn't reflect the 10-year risk in China. I

also believe that most of the equity money moving into China in the last two or three years has not really understood some of the structural weaknesses in the Chinese economy. Don't misunderstand me. I recognize the tremendous strength and dynamism of China today, but it is also very important to recognize the structural problems in that economy: the disparities between the urban centers and the rural areas; the high inflationary pressures which are not under control; problems of inefficient parastates.

Why do I mention these when you ask about Deng Xia Ping? Because it may be that the international community will suddenly become more aware of the economic problems of China and I believe this is already happening in the last 6 months. I went to Japan in June of 1994 and everyone was very bullish about China. I went to Japan in December and all the Japanese bankers were telling me about their concerns about China. The mood I think is changing a little in New York and London and if there is political instability this could compound the problem. Of course, the real issue is not the death of Deng Xia Ping, but how the transition takes place; whether it is a smooth one and whether it is one committed to continued economic reform. We must look very carefully because I am not yet convinced that the path of economic reform is irreversible. The path of economic liberalization may be irreversible in the real economy but the policy of the government may be changed. This poses a risk for all of Asia.

China has become a symbol of dynamic emerging markets, notwithstanding the fact that the Korea was a strong developing economy when China was still completely controlled which was



only 10-12 years ago. But, I would just say that all of Asia must be alert to the potential negative effect of a bumpy transition in China and again Korea must take all the steps here to strengthen your economic position as developments proceed beyond our control in China.

**Q** Dr. Myung-Guk Doh (Chief Economist,  
The Korea Stock Exchange)

I would say that the Mexican government should not be solely blamed for the crisis; rather the US and the German governments should because of their high interest rates policy to oppress their domestic inflation pressure, rising from their economic recovery. At this moment, I am not interested in who is responsible for the crisis, but rather very much concerned about where this hard money ultimately goes — the bond market or the stock market. Thank God if it goes to the bond market because then I would expect the high interest rate to be driven down and the international financial crisis will be soon over. However, if it goes to the stock market then the disaster will continue and the emerging markets will suffer. Now, my question is what will be the direction? Please give your opinion on this.

My second question is about the institutional aspect. As one way to solve the peso problem I would suggest the currency board which has the sole objective to stabilize the currency at a specific exchange rate vis-a-vis an anchor currency. Hong Kong and Argentina and most recently a former Soviet Union republic introduced the currency board and succeeded in

promoting financial stabilization and economic recovery. How would you think about those issues?

**A** Dr. Charles Dallara

I would have to give you a brief response for that thorough question. Just briefly, I would agree that the US and German monetary policy had some effect, but that effect was on all the merchant market countries and it is only one country that has run into a crisis. So, I think it is very hard to say that the US and German monetary policy was the main factor behind the Mexico crisis because this crisis has been focused on one country which allowed its trade position to deteriorate too rapidly and its currency to become overvalued. Certainly, it is worth looking into the currency board arrangement, but, I believe one of the problems in Mexico is that they stayed to a certain exchange rate policy too long and didn't devalue when they should have at an earlier stage along with the supportive fiscal and monetary policies. The policy in Argentina is much more than a just currency board. It is a very different kind of convertibility in which any dollar or any peso created in local Argentina currency must be backed up by a dollar in reserves. It's worth to look at currency board, but, I think the problem is an excessively low domestic savings rate which is not going to be corrected by a currency board problem and the need for boosting domestic savings so that the economy can grow at 4-5% without a current account deficit of 8% of GNP.

**C** Dr. Il SaKong

To underscore one of the points made by Mr. Dallara, I think it is important for us to recognize that the Mexican crisis coincided with political changes. We should give special attention to this particular aspect of the Mexican crisis because we are scheduled to have local elections in June, congressional election next year, and then presidential election in the following year. It is important to remember that if any economic policy is influenced more by political reasoning rather than economic logic, to be problems.

One of the lessons we should learn from the Mexican experience is that as politically motivated economic policies always end up with some kind of disaster.

I am sure that many of you have already read this week's Newsweek cover story which quoted Dr. Dallara in which he commented on the issue of IMF's role in relations with the peso crisis. As you all know, last year the Bretton Woods institutions celebrated its 50 years anniversary and people came up with various new ideas of managing the world exchange rate system. One of the ideas was described as the flexible exchange rate band based on major currencies such as the US dollar, Japanese yen and German Mark. I suppose this Mexican crisis might give another impetus for revising the world financial system and particularly strengthening the IMF's role.

**A** Dr. Charles Dallara

I would just say two final thoughts. First, to underscore what

Dr. SaKong has said, during the campaign leading up to the Mexican elections, fiscal spending did increase quite heavily, particularly through the development banks which was an indirect way of providing credit to the private sector. In fact, the credits of development banks in Mexico to enterprises in Mexico almost exploded during the course of 1994. There is, in any country that has political electoral system, pressure to use the period leading up to elections to strengthen political relations, shall we say, and this can be very dangerous. So, to underscore what Dr. SaKong has said, I want to stress again the importance of maintaining sound economic and financial policy as you move forward and not allowing these policies to become too politicized. But, I would end on a positive note that in mentioning Mr. Hong whom I had the pleasure of working with when he was assistant minister, that you now have in the Deputy Prime Minister the latest in a long series of very able and competent leaders of economic and financial policy. And, it is this strength of competence and leadership, along with the discipline of the Korean workforce, which is the key to your further progress.

Dr. Charles Dallman

## 국문요약

### 멕시코 페소貨 위기와 세계금융시장 동향

멕시코 外換危機에 영향을 준 요인은 많지만 그 중에서 600, 300, 8 및 60이라는 네가지 수치와 관련되는 것 부터 설명하기로 한다.

이 네가지 수치는 멕시코 외환위기와 어떤 관련을 갖는가?

첫째, 600이란 수치는 1994년까지 누적된 멕시코의 단기성 외채규모인 600억 달러를 나타낸다. 단기성 외채는 1년 이내에 상환해야 하는 채무를 의미하는데 이러한 단기성 외채가 멕시코 총외채의 40% 이상을 점했다. 둘째, 300이란 수치는 1995년에 예상되는 경상수지적자 규모인 300억 달러를 나타내는데 이것도 지탱할 수 없을 정도의 큰 규모였다. 셋째, 8이라는 수치는 300억 달러의 경상수지적자가 GNP에서 차지하는 비율(8%)을 나타내는데 어떤 나라 경제도 이 정도의 경상수지적자를 지속적으로 유지할 수는 없는 것이다. 특히 경상수지적자를 주요 단기외채에 의해서 메꾸는 경우에는 더욱 그러하다. 끝으로 60이란 수치는 멕시코 外換支拂準備金(외환보유고)인 60억 달러를 나타낸다. 이것은 멕시코의 경상수지적자가 외환지불준비금의 5배에 해당함을 보여준다. 이런 수치들은 외환위기의 전부를 설명하는 것은 아니지만 확실히 위기의 중요한 원인을 제공했던 것이다.

멕시코 위기에는 역사성도 있다. 멕시코는 1976년 이후 1981년, 1986년과 금년에 금융위기를 경험하였는데 이 연도들은 대통령선거가 있는 시기였다. 멕시코는 살리나스 대통령 재임시에 국제적 신뢰를 얻었지만 이런 역사성으로 인해서 경제적 위기를 수반하지 않고 지도자의 교체가 이루어질 수 있을 것인가에 대한 의문이 계속 제기되었던 것이다.

1994년에 멕시코는 경상수지적자가 지속되는 가운데 자국의 환율을 방어하기 위해 외환지불준비금을 계속 사용해야 했다. 즉 페소貨가치의

유지를 위해서 정기적으로 보유하고 있는 달러貨를 지출해야 했던 것이다. 또한 멕시코정부는 외환시장에 개입했는데 그것은 자유화가 아닌 경제운영의 과오를 의미했다.

이와 아울러 멕시코에는 두가지 구조적인 문제가 있었는데 그 하나가 낮은 저축률이다. 멕시코의 총저축률은 16%이었으나 총투자율은 23~24%정도 되었다. 이런 낮은 저축률로는 外資의 도움 없이는 1~2%정도 밖에 성장할 수 없었으며 따라서 경제가 3~4%씩 성장할 때는 문제가 야기될 수 밖에 없었다. 왜냐하면 수출부문에 경쟁력이 없어 수입수요를 상쇄시킬 수 있는 정도로 수출을 증대시키지 못하고 따라서 그들은 수출입의 차를 해외저축으로 충당해야 했기 때문이다. 또 하나의 구조적 문제는 멕시코 산업과 정치의 유착관계이다. 멕시코에서는 기업활동이 공정한 경쟁을 기초로 해서 이루어지지 못하고 정치적 유착관계에 따라서 좌우되는 경향이 있다.

멕시코 위기의 원인으로서는 언급할 최종적 사항은 정책의 시행도 중요하지만 그보다는 그 정책의 집행방법이 더욱 중요하다는 것이다. 멕시코인들은 그들의 환율을 낮출 필요가 있었으나 너무 오래 지연시켰을 뿐만 아니라 평가절하를 하는 방법도 아주 졸렬했던 것이다. 평가절하는 경험이 없는 새로운 경제팀에 의해서 행해졌는데 그들은 평가절하를 포함하는 종합적인 재정·금융정책도 마련하지 않은 채 폐소貨 절하 결정을 기습적으로 발표했다. 정부가 어떤 문제를 해결하기 위한 심각한 경제적 조치를 취해야 할 경우 최선의 방법은 종합적인 패키지의 경제정책을 마련하는 것이 일반적인데 멕시코의 경우는 그렇지 못했던 것이다.

앞으로 멕시코는 자국이 입은 국제적 신용면의 손실을 회복할 기회가 있을 것으로 믿는다. 하나의 금리정책 패키지가 필요한 것으로 보인다. 미국이 제안한 패키지도 기대했던 것보다 훨씬 방대하다. 또한 멕시코의 새로운 경제팀도 문제를 잘 풀어나갈 수 있을 것이다.

그러면 멕시코 위기가 한국에게 시사하는 바는 무엇인가? 우선 문제가 되는 것은 멕시코와 한국의 유사성에 관한 것이다. 나는 멕시코와 한국간에는 유사성이 전혀 없다고 보며, 따라서 멕시코 위기를 구실로 해

서 한국이 자유화를 지연시킨다면 이는 정책의 잘못을 가져올 것이라고 생각한다. 그러나 멕시코 위기에서 한국이 얻을 수 있는 교훈은 있을 것이다.

開發途上國 금융시장에는 새로운 世代의 투자가들과 貸出者들이 등장하고 있는데 그들은 투자은행, 투자신탁기금, 年金기금 또는 헷지·펀드 등의 업무에 종사하고 있다. 그들의 공통적인 특징은 開發國市場과의 거래 경험이 별로 없다는 것이다. 멕시코 사태가 커다란 위기로 발전된 데는 정책운영의 잘못도 있지만 개도국 금융시장의 위험도와 기회에 관하여 정확히 이해하지 못하는 새로운 세대의 투자자들과 대출자들이 있다는 사실도 관계가 있었다. 개도국 시장에 대한 투자 열가가 있었지만 멕시코위기 이후에는 달라질 것으로 본다. 즉 멕시코 사태로 인해서 투자자들은 고통스러운 손해를 보았기 때문에 그들은 앞으로 보다 조심성 있고 또한 차별적인 투자행태를 보일 것이라는 점이다.

어느 정도 차별적인 투자는 한국에 유리할 지도 모른다. 그 이유는 투자자들이 개도국 시장에서 여러 나라의 진실한 경제력을 평가하기 시작하고 또한 기회와 위험간의 균형에 대해서 보다 완전하게 파악하게 된다면 한국은 대부분의 개도국시장보다 유리해 보일 것이기 때문이다. 동시에 그들이 보다 조심성 있는 투자가가 된다면 그들은 개도국 시장의 위험도를 보다 잘 이해하게 될 것이다.

한국과 다른 주요 개도국 시장에 대한 교훈 중의 하나는 세계가 한국과 같은 개도국들의 경제적 및 금융적인 여러가지 기회에 계속 매료되고 감동되어 있지는 않을 것이라는 점이다. 확실히 한국경제는 많은 장점을 갖고 있다. 그러나 중요한 것은 정부가 자기만족을 해서는 안된다는 것이다. 즉 멕시코 위기가 우리에게 던져주는 교훈 중의 하나는 자기만족은 값비싼 비용을 치르게 된다는 것이다. 한국의 상황은 멕시코와는 매우 다르지만 그래도 거시경제적 측면에서 관심을 가져야 할 약간의 문제는 있다.

