

# [INTERVIEW] Reviving currency swap deal with US is matter of restoring trust: ex-FSC chief

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Institute for Global Economics Chairman and CEO Jun Kwang-woo speaks during an interview with The Korea Times in early May at his office in Gangnam District in southern Seoul. Korea Times photo by Choi Won-suk

## **Jun welcomes Korea's decision to join US-led IPEF amid emergence of economic security**

By Yi Whan-woo

The possible revival of a currency swap deal between Korea and the United States has emerged as a hot issue mainly due to concerns over the weakening Korean won against the U.S. dollar.

But it is also a matter of restoring bilateral trust, says Institute for Global Economics (IGE) Chairman and CEO Jun Kwang-woo, in the lead-up to the first summit between the leaders of Korea and the U.S. after President Yoon Suk-yeol took office on May 10.

Also a former Financial Services Commission (FSC) chairman and a former World Bank chief financial economist, Jun says such trust is becoming more crucial as the economy and national security are becoming inseparable.

Jun accordingly welcomes the new Korean administration's decision to join the U.S.-led Indo-Pacific Economic Framework (IPEF), aimed at strengthening economic cooperation in the region, including supply chain networks and infrastructure.

The IPEF is likely to be the top issue on the economic agenda to be discussed during Yoon's summit with U.S. President Joe Biden in Seoul, Saturday.

"I believe the Korea-U.S. currency swap was not extended but severed last year because at least in part, there was a crack in the trust of the bilateral relationship," Jun told The Korea Times in a recent interview to mark the beginning of the Yoon administration.

He was referring to the \$60-billion swap contract that expired under the previous Moon Jae-in administration in December 2021.

"And we're at the right time to revive the deal considering that the new Korean government is active in restoring mutual trust," he added.

The \$60-billion contract was credited with easing worries over a possible foreign currency crunch and financial instability, as Korea had been able to borrow dollars in exchange for the Korean currency at a pre-agreed rate.

The Bank of Korea (BOK) said in December 2021 that the expiration of the deal will not have much impact on Seoul's foreign currency market considering improved liquidity, a sufficient amount of foreign currency reserves and other financial conditions.

Yet the latest depreciation of the Korean won against the dollar has prompted the need to resume the currency swap, due to concerns that it otherwise will further destabilize the stock market, accelerate the outflow of foreign capital, jack up import prices and accordingly fan additional inflation.

Regardless of whether the currency swap is on the agenda of the Yoon-Biden summit, consolidating bilateral trust will be necessary in a broader economic perspective, Jun underscored, saying, "The mutual trust will ensure that the currency swap can be ready when an anchor currency is urgently needed, and therefore stabilize market sentiment."



Jun Kwang-woo, chairman and CEO of Institute for Global Economics, speaks during a press briefing at then-headquarters of the Financial Services Commission (FSC) in Seocho District in Seoul in April 2008 when he was the FSC chairman during the Lee Myung-bak administration. Korea Times file

Likewise, Jun assessed that the IPEF will be beneficial for Korea's strategic industries, such as microchips and secondary batteries, concerning the resilience of the supply chain, which has been disrupted due to China's COVID-19 lockdowns, Russia's prolonged war in Ukraine and other global economic risks.

The IPEF on the one hand is sparking concerns over a backlash from China, which views the U.S.-proposed framework as an attempt to lure countries in the region to decouple from Beijing in its prolonged trade war with Washington.

Against this backdrop, Jun called on the Yoon government to "clearly address Korea's national identity as a free market economy and liberal democracy" with regard to China relations.

"It's not for compromise even at a time when the economy and security are closely connected more than ever and Korea's national interests inevitably conflict with those of China," he said. "And I believe clearly defining Korea's identity will eventually lead to a mutually reciprocal relationship with China and a win-win situation."





Jun Kwang-woo, chairman and CEO of Institute for Global Economics, poses during an interview with The Korea Times at then-headquarters of the National Pension Service (NPS) in Seoul in March 2011 when he chaired the NPS, following his chairmanship at the Financial Services Commission. Korea Times file

## Flexibility needed to implement pledges

A seasoned economist, the IGE chairman shared his expertise on a range of economic issues addressed by the Yoon government.

Among them were tackling the country's growth slowdown and inflation at the same time, both of which determine the sizes of supplementary budgets and hikes in benchmark interest rates, the coordination of monetary and fiscal policies, softening the rules on mortgage lending, reform of the national pension system, and handling the dispute over relocating Korea Development Bank (KDB) and other state-run financial institutions.

Jun underscored flexibility in carrying out pledges in general, saying, "The economy is like a living

thing and because any related circumstances constantly change, keeping promises should be adjusted correspondingly in terms of timing, scope, etc.”

He called inflation “the most urgent task” to be dealt with, because a spike in prices “hurts the ordinary people most.”

He speculated that the BOK will decide on an additional hike at its next rate-setting meeting scheduled on May 26, noting that inflation has reached a 13-year-high of 4.8 percent, while the U.S. Federal Reserve is moving faster with the U.S. policy rate hike.

Jun expressed hope that Deputy Prime Minister and Minister of Economy and Finance Choo Kyung-ho and BOK Governor Rhee Chang-yong “have a common ground and understand financial aspects very well,” with regards to juggling growth and inflation simultaneously.

Jun pointed out that both Rhee and Choo served as vice chairmen of the FSC during the Lee Myung-bak administration (2008-2013), which embraced a market-driven economy as the Yoon administration does.

Rhee served in the post from 2008 to 2009 — when Jun was the FSC chairman — and Choo from 2011 to 2013.

Concerning the policy mix, Jun warned that the finance ministry and the central bank should have a consensus so that inflation “does not get out of control.”

Jun served as the chairman of the National Pension Service from 2009 to 2013, following his FSC chairmanship.

He said that an overhaul of the national pension scheme would be tricky because it involves politically sensitive decisions regarding the NPS' joint efforts with the Ministry of Health and Welfare and the National Assembly.

Still, he viewed that the time has come for an overhaul amid speculation that the pension fund will be depleted by the 2050s, with the country's population rapidly dwindling and aging.

As a possible solution, he suggested gradually raising the premium to the level of the OECD average of 15 percent under the condition that subscribers will receive a greater pension when they retire.

He also suggested a more efficient management of the fund to raise profits for the sake of those enrolled.

Regarding the Yoon government's plan to relocate KDB to Busan and other state-run financial institutions out of Seoul, Jun said, “It poses a dilemma for Korea's goals to become an international financial hub as well as bolster balanced regional development.”