

Abstract: Currency Crisis and International Trade: the Case of Korea by Hojin Kang

Korea experienced a sudden reversal of international capital flows during the currency crisis in 1997 and 1998. The shift from capital inflows to outflows after currency crisis had to be matched by current account balance moving from deficit to surplus. So Korea needed to run substantial current account surplus from 1998.

In this paper, we investigate what are the differences between normal trade surplus and forced trade surplus achieved by Korea after the currency crisis from trade viewpoint by comparing the behavior of trade variables in two different periods of current account surplus. We focus on the behavior of trade variables such as volumes of exports and imports, quantity and unit price of exports and imports.

Currency crisis induced current account surplus was achieved mainly by drastic reduction in imports. Current account surplus in the 1980s was achieved by increase in exports. While both exports and imports increased, exports increased a lot faster than imports.

There was also different pattern of the terms of trade movement. During the current account surplus period in the 1980s, the terms of trade improved significantly. Current account surplus was achieved by more rapid increase in both quantity and unit price of exports relative to imports. On the other hand, current account surplus after the currency crisis, there was a continuous deterioration of terms of trade. We note the following two trends. Deterioration of the terms of trade began before the currency crisis in 1996 and continued through 2002. Deterioration of the terms of trade was the cause of a huge current account deficit in 1996 and 1997. We also note that unit price of both imports and exports started to decline since 1996. The terms of trade worsened because the decline in the unit price of exports were faster than imports. The current account surplus after the currency crisis was achieved by a decrease in investment while the current account surplus was achieved by a more rapid increase in savings in the 1980s. Finally, it does not appear that currency crisis affected the pattern of comparative advantage changes of Korea. It appears that Korea continued to transform itself into an economy where more capital- and technology-intensive industries tend to have comparative advantage.

