THE WHITE HOUSE

WASHINGTON

MEMORANDUM OF TELEPHONE CONVERSATION

SUBJECT: Telcon with Kim Young-sam, President of the Republic of Korea

PARTICIPANTS: The President
South Korean President Kim Young-sam

Interpreter: Tong Kim

Notetaker: Pat O'Shaughnessy, David Higgins, Cindy Lawrence, Jim Smith

DATE, TIME AND PLACE: December 12, 1997, 9:44 - 10:04 p.m. EST
Residence

President Kim: Is that President Clinton? (U)

The President: Yes, President Kim. It's nice to hear your voice. (U)

President Kim: First of all, President Clinton, I thank you very much for your support and concern you showed the last time about the Korean economic situation. We reached an agreement with the IMF. However, the economic situation has not turned for the better yet, so I have made this emergency phone call to you to discuss this matter. ~~(C)~~

As you know very well, we have been implementing the agreement with the IMF to keep our promise. In some political circles in Korea, there have been voices raised for renegotiating with the IMF and there have been some critical thoughts about the IMF agreement. However, it is our firm position that we will abide by the agreement with the IMF, because it is an international agreement, and if there are any unsatisfactory aspects regarding our compliance with the IMF agreement in the international market, then certainly those will be corrected. ~~(C)~~

This morning, I had a chance to meet with the three key presidential candidates at the Blue House. We discussed ways to implement the IMF agreement, and all three agreed that they support the agreement with the IMF. So, even after one of them becomes President, the agreement will be faithfully implemented. I have signatures of all three candidates that they will comply with the agreement. ~~(C)~~

The President: That's great news, and I believe it will have a great impact with the markets in the next few days. ~~(C)~~

President Kim: I'm going to consult very closely with the president-elect after the 18th of December -- the date of our Presidential elections -- so that our promise to the IMF is implemented without any interruptions. According to the agreement with the IMF, we have raised the interest rates on money markets to 25 percent, opened capital markets, suspended the operations of 14 merchant banks and 2 brokerage firms, and we are going to pass laws related to our financial reforms in our assembly later this month. However, we are still concerned, because despite our decision on assistance from the IMF on 5 December, confidence in the won in foreign currency markets remains unchanged. Our Korean currency, called the won, has been devalued to about 45 percent to the U.S. dollar since October. This radical depreciation has almost collapsed our foreign currency market. ~~(C)~~

We think the main reason is that although we are pushing ahead with financial structural adjustment, we still have not restored confidence in the international financial community about the Korean financial system. It is our judgement that the first financial assistance from the IMF is not enough to calm down the situation. So, in order to stabilize our foreign currency market and to resume financial assistance from the international financial community, we should ensure that Korea obtains an adequate amount of foreign currency holdings to cover our international financial obligations. ~~(C)~~

Currently, we are expecting to get US$ 9 billion from the IMF and US$ 2 billion from the World Bank, rather the Asian Development Bank. However, this is not enough. We think early implementation of the IMF assistance program is necessary. So, I would like to ask you to support our position in consultations with the IMF on such early implementation and also please to help us with getting agreement in consultations with your Treasury Secretary, Robert Rubin, and our Deputy Prime Minister.

I would like to ask for your understanding and cooperation once again on this issue. ~~(C)~~

The President: Thank you, Mr. President. First of all, I think that what you have done is very good. Aside from the IMF agreement, getting the other presidential candidates to implement the IMF plan is a very wise thing to do. I have been getting reports on the situation in South Korea several times a day, as I am very interested in it as I am sure you know. ~~(C)~~

Some of our people in the Treasury Department and in large investment houses here in America who have a big stake in what is happening in Korea, are afraid that if we provide more money now it will raise doubts in the international financial markets of the adequacy of the current program, and there could be an even greater withdrawal of funds. Since the perceptions of the investor community are so important, what I would like to do in response to this call is to consult with some eminent private financiers on the subject and suggest you do the same. I will consult with Robert Rubin, who I know is working with your Deputy Prime Minister. Also, our good friend, former Ambassador Laney is coming to Seoul, and I would like you to meet with him. However, we don't want to do anything that suggests to the markets that the measures we have taken are inadequate, because I think they are very impressive. ~~(C)~~

President Kim: Mr. President, I will be very happy to meet former Ambassador Laney when he visits this country. I would like to emphasize that we are making every effort to faithfully implement the agreement with the IMF, and if there are any unsatisfactory aspects of the implementation, we will certainly correct them. ~~(C)~~

The President: Let me say again that I will do whatever I can to help you. You have done exactly what I asked, and it is the best thing for your country. However, I do want to make sure that whatever we do doesn't make the situation worse. I am glad you will see former Ambassador Laney. I think it would also help if you instruct your Deputy Prime Minister to make some calls to international financial investors with whom you deal to assess the situation. We will be back in touch with you in a day or so, shortly. ~~(C)~~

President Kim: Well, thank you very much Mr. President. I will instruct my Deputy Prime Minister to contact international investment leaders, and I will meet former Ambassador Laney. I assure you we are trying very hard to implement the agreement with the IMF, and I'm pleased to tell you that all three key presidential candidates have signed an agreement to meet IMF obligations, which we will publicly announce. This will contribute to Korean credibility in international financial markets. ~~(C)~~

The President: There is no question about that, Mr. President. That is great news, and we will be back in touch. I am really pulling for you, and we are going to get through this. ~~(C)~~

President Kim: Well, thank you very much, Mr. President. I expect to talk to you again in the next few days. ~~(C)~~

The President: Thank you. We will. Good night Mr. President. (U)

President Kim: Goodbye. (U)

The President: Thank you very much. (U)

-- End of Conversation --