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Rm 4324
Korea

MEMORANDUM OF CONVERSATION

Participants: Korea: Lee Hahn-been, Deputy Prime Minister,
(also Director of Economic Planning Board)
Tchah Hwa-june, Assistant Minister for Economic Cooperation, EPP
Chung In-yong, Assistant Minister for International Finance, Ministry of Finance
Kim Yong-hick, Ambassador, Embassy of Korea

U.S.: G. William Miller, Secretary of the Treasury
C. Fred Bergsten, Assistant Secretary for International Affairs
Erland Heginbotham, Deputy Assistant Secretary for East Asia

TREA has not reviewed.
Processed IAW CIA TREA arrangement letter dtd 4/11/08.

Date and Time: Wednesday, February 20, 1980; 5:15 P.M.

Subject: Meeting with Korean Deputy Prime Minister Lee

Distribution: Treasury--Messrs. Bergsten, Nachmanoff, Pelikan, Barreda, and Simmons
State--Messrs. Heginbotham and Porter, U. S. Ambassador
Exec added Vance + Gleysteen

SECRETARY MILLER opened the discussions by asking Deputy Prime Minister Lee for a briefing on Korea's economy. DPM LEE replied with a sweeping summary of Korea's economic/political history from 1952 to the present. He said this extraordinary period could be summed up in two concepts: education and economic development, or the beginning of industrialization. He pointed out that Korea has gone through three periods of pain during that time span. The first was 1952-56 following the war and the second was 1960-61 during the student unrest and presidential transition. (LOU)

Korea is entering the third period, Lee said. After twenty years of high growth rates, the ROKG is adopting growth restrictive policies to curb unacceptably high rates of inflation. After stating inflation was 24 percent last year he pointed out that when the direct and indirect effects of oil prices are removed, the CPI would have been only 10 percent. In 1980, he said, the ROKG will maintain the stabilization policies begun last year and other measures have been adopted. The won was devalued by about 20 percent on January 12 and positive interest rates were restored when interest rates on time deposits were raised to about 25 percent. Lee said the ROKG was hoping the economy would

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begin to rebound later this year or early next, but the timing depended on two important unknowns; i.e., public reaction to austerity and economic growth in the U.S. and Japan. (LOU)

Lee then mentioned the political dimension associated with the present period of pain and pointed out that the "enthusiasm of the people was underpinning the orderly constitutional process". He also said the purpose of his visit to the U.S. was to explain this painful period of political and economic adjustment to U.S.G officials and the private community and seek their support during the transition. (C)

SECRETARY MILLER gave a concise and comprehensive presentation on the U.S. economy, its situation and outlook and a rundown on measures the Administration is pursuing against America's number one economic problem -- inflation. He pointed out that, unlike Korea where inflation may be licked quickly, the U.S. has no quick-fix measures because inflation is now deeply embedded with roots going back 15 years. In addition to macro economic policy measures, which he explained in some detail, he said the Administration is trying to build a "constituency" to support what he believes will be a long battle against inflation. Secretary Miller also reviewed the global and domestic energy situation. He concluded by saying the outlook for the U.S. economy in 1980 is a slow rate of real growth and the Administration does not intend to unleash stimulus until the rate of inflation is down. (LOU)

MINISTER LEE said that Korea's current economic policies are based on the assumption of a recovery in global markets late this year. He said that Korea will need to export more to the United States and requested that, at least for 1980, the U.S.G. "buy more goods from Korea" (read ease up on trade restrictions). (LOU)

ASSISTANT SECRETARY BERGSTEN said that part of our effort to combat inflation is to combat protectionist pressure, which the U.S.G. will continue to do. In this connection, he said it would be very useful to be able to tell members of Congress that Korea is playing by the rules of the trade game and has signed the Subsidies Code in Geneva. He said we are ready for Korea to sign the Code as soon as practicable. (LOU)

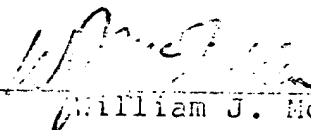
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MINISTER LEE said that Korea was ready to sign the Code. At this point he was interrupted by one of his colleagues who conducted a brief dialogue with him in Korean. When this dialogue was completed, the Minister said Korea "would sign the Code sometime this year" but "don't press us next month". (C)

The meeting ended. (U)



William J. McFadden

Approve:  _____

As Amended: _____

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