The Won's Value Has Become a Crutch on Which South Korean Leaders Can Blame All Kinds of Economic Difficulty. Time to Let It Go.

By Evan Ramstad
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In early October, the New York Times published a story about the Obama administration's quiet acceptance that policymakers in Europe, Japan, China and elsewhere were relying on fiscal stimulus and weak currencies to get their economies going, moves that would come at the expense of U.S. exporters selling their goods with a strong dollar.

That same week, South Korean newspapers filled with stories citing local economists and market analysts worried about the won's weakening against the dollar.

It was a whiplash moment. Suddenly forgotten were three or so years of hand-wringing and worrisome remarks by South Korean political officials, business leaders, economists and journalists about the strengthening of the won against the dollar and the yen. Finance Minister Choi Kyung-hwan brought it up in media interviews as recently as the G-20 finance ministers' meeting in Australia during the third week in September.

Instead, the weakening won had become the problem. The news stories blamed it for a drop in the KOSPI below the 2,000 level on Oct. 1, a decline that has gone further since then amid a global selloff of equities this month.

Anyone doing business with South Koreans quickly learns that the country's reliance on exports means they have an outsized focus on exchange rates. Almost anyone in the country, it seems, can cite the won's current value against the dollar and nearly as many people know how it is faring against the yen or yuan. But the latest, knee-jerk change is a sign that this single-mindedness has become mindless. No matter what direction the won is going, the message seems to be that South Korea is being hurt.

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It's time for South Koreans to stop concentrating so much energy on the won's value and for government officials to stop taking short-term actions around it. There are two reasons. First, exports continue to grow no matter what the won is doing. Second, the intense focus on the won steals attention that should be paid to the other challenges to South Korea's growth and overall economic performance.

On the first point, there was a time when the quality of South Korean goods was so low that a weak currency helped them find buyers anyway. But that hasn't been true for many years now. In 2006 and 2007, when the won was very strong against the dollar and the yen, much stronger than it's been last year or this year, exports grew and they did so because Korean products were worth it.

And from 2008 to now, when the won was considerably weaker, exports also grew. In that time, the only notable period of lower exports for South Korea in the past decade came at the end of 2008 when the entire global economy seized up. There are some individual months of declines – in August, South Korea's exports fell 0.2% – but they are usually related to a difficult comparison, sometimes because of a one-off event like a big ship delivery or a smartphone rollout. Last month, South Korea's exports were up 6.8%.

Meanwhile, the persistent discussion of the won's value keeps leaders in companies and the government from thinking about and tackling more difficult issues. Particularly since Japanese leader Shinzo Abe efforts to weaken the yen began last year, it has become all too common to read comments from Korean politicians and corporate executives blaming the shrinking difference between the won-dollar and yen-dollar exchange rates for the broader difficulties of the South Korean economy.

Those rates affect competition between Korean and Japanese exporters, though, again, the broad data suggests Korean exporters seem to be doing just fine. But they have no effect on the nation's structural economic problems. For instance, they have no effect on South Korea's domestic spending. They have no effect on the chronic underemployment of the young, women and old in South Korea. And they have no effect on the regulations that constrain labor flexibility and entrepreneurs who try to turn their small businesses into big ones.

There are signs that a growing number of South Koreans are tuning in to these bigger, unaddressed challenges. Four years ago, for instance, the only people talking about the country's unmet, and also slowing, economic growth potential were at the South Korea Chamber of Commerce and Industry. And during the presidential campaign two years ago, the only candidate to focus on the issue was Ahn Cheol-soo. Now, the topic comes up regularly in the media and with Finance Minister Choi, who has proposed several reform measures that are stuck in the National Assembly that is bogged down in a blame game over the Sewol ferry sinking.

Meanwhile, prominent figures like Sakong Il, the 1980s-era finance minister who is still perhaps the most widely recognized Korean economic spokesman in the U.S., and others are regularly speaking about the need for South Korean businesses to employ more women and welcome more immigrants.

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President Park is a mere 18 months into her five-year term but, if the past is a guide, she has less time than the calendar suggests to get some meaningful work done on the economy. At this same point in the presidency of Lee Myung-bak five years ago, the G-20 had become more powerful than the G-8 and Lee had just learned that South Korea's 2010 turn to host the group would produce a summit of leaders, not just finance ministers. The Lee administration built its agenda for the year around hosting the G-20 event, creating the impression that it was doing more in the way of economic reform than it actually was. Little happened on Lee's economic agenda in 2011 except for the fractious passage of the free trade agreement with the U.S. And in 2012, Lee rode out his lame duck year.

Park and her team, and the nation more broadly, can't keep letting the hard stuff slide. The administration doesn't have the luxury of an event like the G-20 summit to turn people's attention away from their inaction. More importantly, they don't have the luxury of time. The country is just two or three years from its peak in working age population. It is not the prospect of a Japan-style "lost decade" that South Korea is facing, as some Korean politicians and media are now saying. It is the prospect that South Korea will never reach Japan's level of prosperity.

In facing up to the economic challenges in South Korea, the next step to take is to realize the value of the won isn't one of them.

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