

the cry went out on Wall Street, "Buy dollars! The recession is here!" But would a downturn in the American economy eliminate major liquidity demands in the entire sphere of dollar credit? Not necessarily. The effect on the rest of the world, including on the current-account positions of countries heavily dependent on exports to the United States, would likely outweigh the reduction of inventory-related lending stateside. It was not so long ago that Japan ran up a \$35 billion short-term borrowing tab to meet internal cash flow requirements in the corporate sector. The LDC's (See *Executive Intelligence Review* April 10-16) require major debt refinancing.

Particularly since the West Germans agreed to put off the birth of the European Monetary Fund until 1981 under Anglo-American pressure, the pattern of the world credit picture points towards major economic dislocations in many sectors at once. The results of this are entirely unpredictable. Lazard Freres is already advising investors to "write off the United States" and prepare for capital controls. "Smart" money is already banking on a new dollar crisis three to six months down the road.

This background puts into perspective the widespread predictions of a new ratchet-turn of credit restrictions in the United States. If Fed Chairman Miller takes seriously what the monetarists are recommending, the swing towards illiquidity will hit with shockwave force. Much more than the performance of the American economy in the medium term is at stake in this. Possibly this is why Economic Advisor Charles Schultze and Treasury Secretary Michael Blumenthal have invited every reporter with whom they are on speaking terms in for a "background briefing" on their support for a restrictive policy. The banks may have more trepidations about this route than they are advertising. If Miller sits on the monetary aggregates, the world banking system may be in for the type of crash the British financial press is fond of predicting.

—David Goldman

South Korea challenges the U.S.

South Korea's Commerce and Industry Minister Choi Gak-kyu livened up an otherwise businesslike luncheon of the U.S.-Korea Economic Council this week with a challenge to the United States to stem the growing tide of world protectionism with a concerted effort to industrialize the developing countries.

"A more fundamental solution to idle capacity and unemployment in advanced countries would be to create the demand for capital goods and advanced technology abroad," the minister said. "Such demand, as is well evidenced by the Korean experience, can best be created in the process of industrialization in developing countries." Choi added that Korea and the United States could enter into a new era of economic cooperation by jointly sponsoring industrialization projects in the developing countries.

Minister Choi is in the United States as the leader of a high-powered purchasing mission, comprising some of Korea's leading businessmen. The mission was dispatched under pressure from the Carter Administration, which is seeking to reverse Korea's trade surplus with the United States of the last three years (after some 20 consecutive years of deficits with the United States). The U.S. has been imposing a combination of import barriers and special measures, such as government-backed bilateral trade missions. It is expected that

will be purchased by the Korean mission during its two-week tour in the United States.

In his speech on April 8, Minister Choi reviewed in detail his country's efforts to maintain its remarkably high rates of growth in the coming years, and explained the enormous opportunities that exist for American companies to export to Korea. He warned, however, that protectionism—"one of the most alarming international developments in recent years"—is "gaining a foothold in the United States," a development that can only exacerbate the problems in the world economy. "Protectionism accorded to a particular sector of an economy not only penalizes the consumer who has to pay high prices for inferior, protected products, but by suppressing import demand abroad for high technology goods, reduces the export potential of efficient sectors as well," the minister said. And, in a not-too-veiled warning, he added, "It also risks producing reciprocal protectionist measures."

"Whatever the political and economic justification for the practice of protectionism, it has a most discouraging effect on the developing countries which hope to industrialize their economies and improve their standards of living," Choi said.