

March 1, 1972
**Letters between Ahmet H. Ozbudun and C.V.
Narasimhan**

Citation:

"Letters between Ahmet H. Ozbudun and C.V. Narasimhan", March 1, 1972, Wilson Center Digital Archive, "International incidents and disputes - Korea - correspondence (603.1)," Executive Office of the Secretary-General, S-0196-0006-04, United Nations Archives and Records Management Section (UN ARMS), New York, NY. Obtained for NKIDP by Charles Kraus. <https://digitalarchive.wilsoncenter.org/document/117637>

Summary:

Ozbudun sends Narasimhan a letter on representatives on UNCURK, new economic measures of the ROK, and working-level meeting of the North-South Red Cross Organizations.

Credits:

This document was made possible with support from Kyungnam University

Original Language:

English

Contents:

Original Scan

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c.c. Mr. L.N. Kutakov
Mr. R. Muller ✓

1 March 1972

Dear Ahmet,

I acknowledge receipt of your confidential letters
Nos. 79 to 82 inclusive and have taken note of their contents.

Yours sincerely,

C.V. Narasimhan
Chef de Cabinet

Mr. Ahmet H. Ozbudun
Principal Secretary
UNCURK
Seoul
Korea

Sincerely yours,
C.V. Narasimhan
C.V. Narasimhan
Principal Secretary

Mr. C.V. Narasimhan
Chef de Cabinet
United Nations
New York

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UNITED NATIONS COMMISSION FOR THE UNIFICATION AND REHABILITATION OF KOREA
(UNCURK)CONFIDENTIAL: No. 79

25 February 1972

REPRESENTATIVES ON UNCURK

Dear Mr. Narasimhan,

Mr. Herminio O. Gutierrez, the Alternate Representative of the Philippines on UNCURK is scheduled to depart in the next few days. I understand that his replacement is a Mr. Josue L. Villa whose credentials have as yet not been received at Headquarters. His exact day of arrival is not yet known.

I have also heard a report that the Turkish Government is about to name a new Ambassador to the ROK who would presumably be concurrently accredited as the Representative of Turkey on UNCURK.

With kindest regards,

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Ahmet H. Ozbudun".

Ahmet H. Ozbudun
Principal SecretaryMr. C.V. Narasimhan
Chef de Cabinet
United Nations
New York

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UNITED NATIONS COMMISSION FOR THE UNIFICATION AND REHABILITATION OF KOREA
(UNCURK)CONFIDENTIAL: No. 20

25 February 1972

NEW ECONOMIC MEASURES OF THE ROK

Dear Mr. Narasimhan,

The following report on new economic measures of the ROK was prepared by Mr. Pierre Hudicourt, our Economic Affairs Officer. His informal presentation at a Committee meeting was very much appreciated by the members. I am presenting the report for your information.

* * *

New measures proposed by the ROK

On 14 February, the Economic Planning Minister Tae Wan Sun announced a series of major economic policy measures to be implemented by the Government. The measures are designed to help the economy recover from the current stagnation, to improve the ROK's balance of payments position, and to stabilize price levels.

These policy measures principally call for the following:

Readjusting downward the internal tax revenue for the fiscal year 1972; extending ₩10 billion long-term loans to help business firms to reorganize; according more assistance to export enterprises; increasing the imports restrictions; releasing ₩30 billion for government projects to stimulate the economic recovery; controlling more strictly the rise in commodity prices. These new measures have to be integrated in an economic recovery programme to be implemented next month after further studies.

Since the beginning of the year, the Government had already taken several measures to counter the business stagnation: downward readjustment in the interest rates on bank loans and deposits; extension of ₩10 billion short-term loans to domestic enterprises to alleviate liquidity difficulties; control taken over insolvent enterprises by several banks, including the Korea Development Bank, by converting overdue loans in stocks.

Mr. C.V. Narasimhan
Chef de Cabinet
United Nations
New York

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Comments by ROK business circles

The ROK's business circles commented that these new measures are conflicting with the general economic policy adopted for 1972, which calls for a stabilized development with a particular emphasis on rural development, construction of heavy and petrochemical industries and promotion of exports. As stabilization measures, the domestic credit ceiling had been limited, after consultation with the IMF, to ₩15 billion monthly during the first half of 1972; and the increase of the money supply had been fixed to 20 per cent over 1971, for the whole 1972.

The Government already announced the implementation of an investment programme of ₩300 billion, including \$150 million of foreign capital, in agriculture and fishery development with the execution of a special programme of "new communities" covering 16,600 villages. Besides this, a large investment of several hundred billion of won and hundred million of dollars for the achievement of 43 big industrial projects during 1972. The exports goal for the year has been fixed at \$1,750 million and the imports goal at \$2,630 million. This reduces the projected trade deficit to \$880 million.

This programme of large investments means the continuation of a sustained growth rate policy: the 1972 GNP growth rate has been fixed at 9 per cent - despite the fact that the ROK's principal economic indicators, linked to the recent external political, economic and monetary developments, had pointed, months ago, to a dim economic outlook for 1972.

Despite the suggestion of the ROK's business circles to revise the ambitious third five-year economic development plan, in the light of the recent developments, the Government went ahead, confident in its plans to overcome the forecast economic difficulties. Now, these business circles feel that the aforesaid new measures are not adequate to stimulate the economic recovery to a significant extent. These measures are contradictory since they call for the reduction of excessive private consumption as well as a stricter control of the rise in commodity prices; they are releasing ₩50 billion to "pump-prime" the economy without explaining how the Government should prevent these considerable funds from contributing to the increase of the private consumption, thus pushing up the rise in prices. Already, the Seoul consumer price index increased by 1.5 per cent in January 1972, due to the rise of some government-controlled prices, like the retail price of rice which reach in the Seoul markets for the first time to ₩10,200 per bag of 80 kilos just before February 15.

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Comments by press analysts

Press analysts commented that the newly announced measures (to improve the balance of payments position, to promote exports and restrict imports, and to stimulate the domestic production of raw materials and consumer goods) had been taken in the past, especially at the end of 1970 and in 1971, without producing the expected results. Indeed, the commodity exports have expanded strongly in the last five years. But the imports have also expanded vastly despite the restrictions. In 1971, the commodity imports, on customs clearance basis, increased by 20.8 per cent over 1970, leaving a trade deficit of \$1,326 million. The trade deficit reached the \$1 billion mark in 1968 and since, kept growing annually except for a slight decrease in 1970. In 1971, the raw materials imports increased by 21.3 per cent and the consumer goods, (food grains not included), by 31.9 per cent. These press analysts doubt that the new economic measures could easily reverse the trend.

Comments by the Opposition

The opposition New Democratic Party entertains similar doubts about the whole programme of new economic recovery measures, which it believes to be inadequate to solve the ROK's basic problems. It further holds that the government's diagnosis is wrong. The Party feels that the main problems are the growing foreign trade deficit, the rising prices, the bad management of business, the growing foreign debt service burden, and excessive investments. The NDP also states that the new measures, reducing tax revenues and releasing government funds to business and consumers, would result in a budget deficit to be filled with more foreign loans. The Party again recommends a revision of the Third Five-Year Economic Development Plan, cutting in the excessive investments or extending the final target year of the Plan.

* * *

Observations

To evaluate the aforesaid comments and to understand the concern of the ROK's business circles, the press analysts and the NDP, it is necessary to recall briefly some relevant figures of the 1972 economic year. According to Economic Planning Board sources, the projected GNP must reach ₩3,057 billion with a ratio of gross investment to the GNP of 25 per cent. Of this 10 per cent (about \$800 million) has to be provided in foreign exchange by external resources in public and commercial loans. The 1972 gross exports earnings will amount to \$1,750 million of which

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the repayment service of the outstanding foreign loans for the year - short and long term - will take \$400 million.

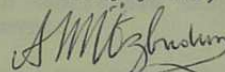
This situation is aggravated by the devaluation of the dollar-won exchange rate which, since the "floating" system once again adopted in December 1971, is moving down slowly, standing at ₩380 per dollar as of 15 February 1971.

If the devaluation is stimulating the exports, it is more likely pushing up the costs of the imported raw materials and increasing the foreign loans servicing burden.

In conclusion: The new economic policy measures, which would help to stimulate the economic recovery, are not the real solution of current economic difficulties. Such solution is more likely in the direction pointed out by business circles and the NDP: a scaling down of the Third Five-Year Economic Development Plan, and a subsequent reduction of the excessive investments projected for 1972.

With kind regards,

Sincerely yours,



Ahmet H. Ozbudun
Principal Secretary

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UNITED NATIONS COMMISSION FOR THE UNIFICATION AND REHABILITATION OF KOREA
(UNCURK)CONFIDENTIAL: No. 81

25 February 1972

WORKING LEVEL MEETINGS OF THE
NORTH - SOUTH RED CROSS ORGANIZATIONS

Dear Mr. Narasimhan,

As you will recall, at the 19th preliminary meeting held on 17 February 1972, the two Red Cross Organizations had agreed to establish a working committee charged with adjusting and arranging the wording and the order of agenda items for the full-dress negotiations.

Since then, the working committee met twice in closed-door session, on 21 and 24 February, with the participation of two representatives and three aides from each side.

After the 1st meeting the ROK spokesman reported that the two sides had exchanged views in a cordial atmosphere. He said that the 20th preliminary meeting would be held in accordance with the progress recorded at the working committee level.

After the 2nd working committee meeting, the ROK spokesman stated that participants had further endeavoured to narrow down differences on the agenda for the full-dress negotiations.

The 3rd working committee meeting is set for 28 February.

There was no announcement regarding the 20th preliminary meeting which would presumably be scheduled in the event of a deadlock or progress at the working committee level.

With kind regards,

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'Ahmet H. Ozbudun'.

Ahmet H. Ozbudun
Principal SecretaryMr. C. V. Narasimhan
Chef de Cabinet
United Nations
New York