

ECONOMIC CRISES AND STRATEGIES FOR OVERCOMING THEM: THE EXPERIENCES OF SOUTH KOREA AND TURKEY

Elyor Bakhtiyorovich Moyliyev

PhD Lecturer, Department of "International Economics and Management"

University of World Economy and Diplomacy

Contact Phone: +998 94 070 6740

Narzullayeva Maftuna Fayzullo kizi

Master's Student

University of World Economy and Diplomacy

Email: maftunanarzullayeva05@gmail.com

Contact Phone: +998 93 635 1405

ANNOTATION

This article analyzes the 1998 financial crisis in South Korea and the 2000s financial crises in Turkey from a historical and economic perspective, examining their recovery strategies through a comparative approach. The study evaluates the causes of the crises, the role of international financial institutions (IMF, World Bank), as well as the effectiveness of domestic policies and structural reforms. Drawing on practical experience and international literature, the article highlights the importance of post-crisis financial stability, institutional reforms, and economic diversification. The findings provide valuable insights for developing effective strategies to overcome modern economic crises for developing effective strategies to overcome contemporary economic crises.

Keywords: *economic crises, financial stability, macroeconomic policy, globalization process, international financial markets, inflation and deflation, state economic role, crisis analysis methodology, economic security, structural reforms, economic growth factors, international economic organizations.*

The response of countries to economic crises depends on various factors, including geographic location, level of development, population's financial capacity, and currency stability. Studying such processes is particularly relevant in the cases of South Korea and Turkey, whose economies are significant globally but show different sensitivities to crises. South Korea faced severe losses during the 1997–1998 Asian financial crisis, while Turkey experienced major setbacks during the 2001 banking crisis and the 2018 currency depreciation. This study analyzes the impact of these crises on welfare, employment,

social services, and macroeconomic indicators. South Korea’s experience highlights recovery driven by production and economic factors, whereas Turkey’s case emphasizes strategic decisions and their outcomes.

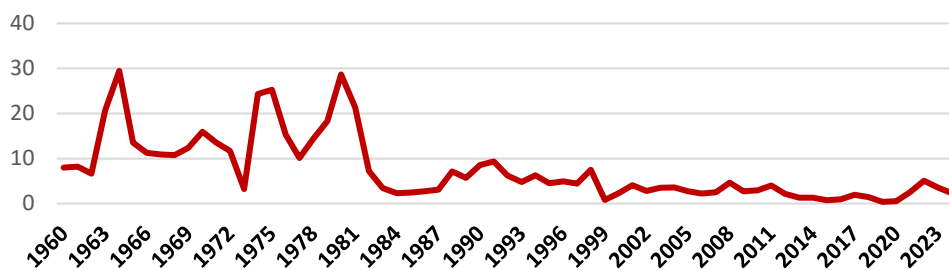
The 1997–1998 Financial Crisis in South Korea

In 1998, South Korea was one of the countries most severely affected by the Asian financial crisis. This vulnerability was largely due to the economy’s high degree of integration into international financial systems, the absence of a fully flexible exchange rate, the heavy reliance of the public sector and large corporations (chaebols) on debt, and the prevalence of short-term external borrowings¹.

Between 1994 and 1996, GDP grew rapidly, investment and exports expanded, unemployment remained around 2%, and public debt accounted for less than 11% of GDP. However, this growth was largely driven by the chaebols’ excessive leverage. Banks were also heavily exposed to the financial condition of these conglomerates, making the system highly susceptible to any financial shock².

By 1997, the crisis caused economic growth to halt sharply. Unemployment rose from 2.5% to 8.5% in a short period, the national currency depreciated by 33%, and inflation reached high levels. As a result, the South Korean economy experienced a period of severe financial instability.

**Annual Consumer Price Index (CPI) Inflation Rate for South Korea
 (Korea, Rep. – KOR)**



Social Consequences

As a result of the crisis, millions of South Koreans approached the poverty line. The most affected group was the low-income population, whose welfare declined sharply. The middle class also faced financial pressure, forcing many households to reduce consumption expenditures. Unemployment rose from 2.5% at the end of 1997 to 6.8% in 1998 and reached 8.5% at the beginning of 1999, marking the highest level in the

¹ Inhoe Kue “Social Welfare Reform Since the 1997 Economic Crisis in Korea: Achievement, Limits, and Future Prospects” 2007 // <https://onlinelibrary.wiley.com/doi/full/10.1111/j.1753-1411.2007.00003.x>

² The IMF Working Paper titled “The Korean Financial Crisis of 1997—A Strategy of Financial Sector Reform” by Tomás J. T. Baliño and Angel Ubide, published in March 1999, provides an in-depth analysis of the causes of the 1997 financial crisis in South Korea and the subsequent reform strategies implemented to stabilize and revitalize the financial sector.

country's history. Young people, women, and temporary workers were the most affected, leading to increased social tension within the country.



From April 1996, falling semiconductor prices in international markets led to a significant deterioration in South Korea's terms of trade. This decline continued through the end of the year, resulting in a 20% drop compared to the previous year—the largest decline in trade terms Korea had experienced in the past decade. The following graph illustrates changes in South Korea's terms of trade between 1997 and 1998.

The 2001 Economic Crisis in Turkey

A similar situation occurred in 2001 when Turkey faced a severe economic crisis, caused by weaknesses in domestic financial management, political instability, and problems within the banking sector.

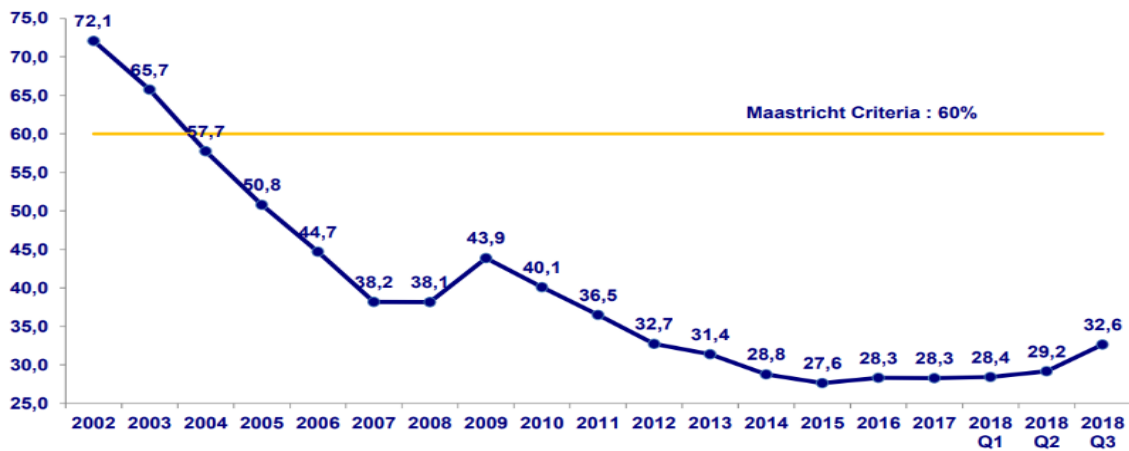
In February 2001, Turkey experienced one of the deepest economic crises in its history. As a result, the country's GDP fell from USD 201.4 billion in 2000 to USD 148 billion in 2001. The crisis was further exacerbated by disagreements between political leaders—the President and the Prime Minister—and by increasing external pressures on their policy decisions³.

Additional factors that intensified the crisis included excessive debt burdens, a weak banking sector, lax fiscal discipline, and systemic corruption. During the 1990s, Turkey had financed budget deficits through short-term external borrowings, mainly domestic bonds with high interest rates. By the late 1990s, rising interest payments, increasing budget deficits, a growing public debt-to-GDP ratio, and overreliance on short-term domestic debt instruments began to destabilize the economy.

³ Based on Fevzi Okumus, "The Impact of Economic Crisis: Evidence from Turkey" and Walker, K. (2002), *The Consequences of the Economic Crisis in Turkey*. Working Paper, 13th Meeting of the EU-Turkey Joint Consultative Committee, Erzurum.

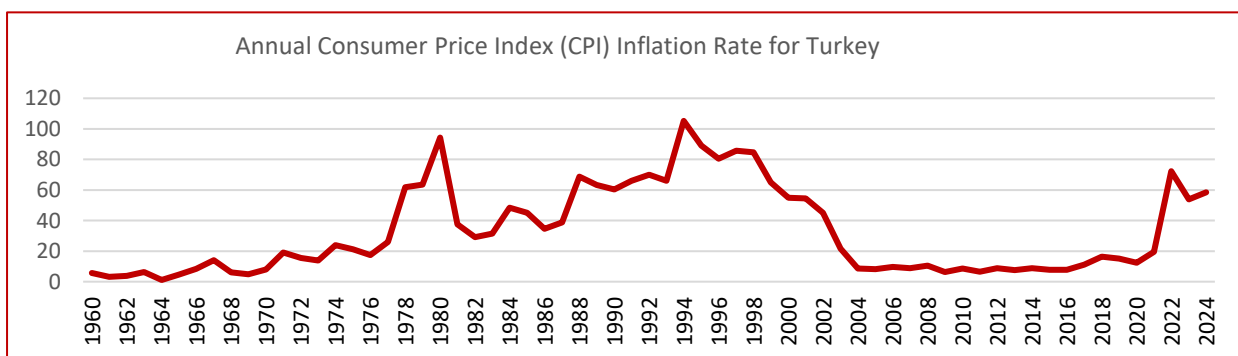
Available at: <https://pmc.ncbi.nlm.nih.gov/articles/PMC7148811/#bib30>

Total Government Debt (as a Percentage of GDP)⁴



Banks had been financing the government through investments in government bonds, which weakened their connection with the real sector. Although the 2000 exchange rate stabilization program signed with the IMF aimed to reduce inflation, political conflicts and internal government disagreements undermined investor confidence. The political crisis in February 2001 sharply intensified pressures on the financial system, forcing Turkey to move the national currency, the lira, to a floating exchange rate. These measures, however, only worsened the situation. Government expenditures increased but were not fully covered, leading to a further rise in the budget deficit.

Socially, the crisis hit the most vulnerable groups, particularly low-income households. Rising inflation significantly increased the prices of essential goods, such as food, medicine, and utilities. As household budgets contracted, funding for healthcare and education services declined. According to World Bank data, in 2001, real Gross National Product (GNP) fell by 7.4%, consumer price inflation rose to 54.9%, and the national currency (Turkish Lira, TL) depreciated by 51% against major foreign currencies⁵.



⁴ Republic of Turkey Ministry of Treasury and Finance 'Debt Indicators' 2019 Report, page 4

⁵ Based on reports focusing on the inflation reduction program and the subsequent crisis, see: Akyüz & Boratav (2004); Ertugrul & Yeldan (2003); Yeldan (2002); Independent Social Scientists Alliance (2006).

Based on the following table, the characteristics of crises in the two countries during different periods are analyzed in detail. The table illustrates the interconnections between the economic and social conditions during each crisis.

Comparative Analysis of the Causes of Economic Crises in South Korea and Turkey

Table 1⁶

Category	South Korea (1997–1998)	Turkey (2001–2018)
Causes of Crisis	- Excessive expansion of chaebols based on debt- High level of short-term external debt- Strict control over exchange rates- Strong integration with international financial systems	- Political instability (President-Prime Minister conflict)- Political influence over banks- Excessive reliance on government bonds- Programs implemented with IMF and foreign banks
Financial Consequences	- Currency depreciation \approx 50%- Decrease in foreign reserves- Problems with external debt repayment	- Lira depreciation \approx 100%- Decrease in foreign reserves (\approx \$7.6 billion USD)- Sharp increase in exchange rate
Macroeconomic Indicators	- GDP growth in 1998: -5.8%- Unemployment: 2.1% \rightarrow 8.5%- Inflation: 7.5%	- GDP growth in 2001: -5.7%- Unemployment: 6.5% \rightarrow 10.6%- Inflation: 52.5%
Social Consequences	- Middle-class income pressure increased- Youth employment sharply decreased- Small enterprises closed- Expenditures for education and healthcare decreased	- Real incomes sharply decreased- Poverty increased- More than 20 banks liquidated- Informal employment increased, regional inequalities intensified
Banking Sector	- Direct link between chaebols and financial institutions- Risk concentration in credit and securities	- Political interference in major banks- More than twenty banks were closed or taken over by the state

⁶ Based on the Author's Analysis of the IMF Assistance Program

Crisis Recovery Strategies

South Korea's recovery from the 1997–1998 Asian financial crisis stands out in the history of the global economy not only for its speed but also for the depth and breadth of the reforms implemented. This experience serves as an important model for developing countries seeking effective crisis exit strategies.

South Korea's Recovery Strategies:

1. Cooperation with the IMF

South Korea received USD 58 billion from the IMF and strictly adhered to the conditions. While this caused short-term social hardships, it was essential for long-term recovery⁷.

2. Financial Sector Cleanup

Between 1998 and 2000, the government allocated funds equivalent to 32% of GDP to restructure the banking system. Non-performing loans were offloaded through KAMCO, and financial institutions' capital was strengthened⁸.

3. Chaebol Reforms

Under the “Five plus Three Principles”⁹ program, conglomerates refocused on core areas, debt guarantees were canceled, and transparency was improved. The share of independent directors increased from 25% to 50%.

4. Social Protection

Unemployment insurance coverage expanded from 5.7 million to 8.7 million workers, and benefit amounts increased. KRW 2.5 trillion was allocated for public works, and social expenditures rose from 0.6% to 2% of GDP¹⁰.

5. Export and Technology Promotion

The export-led growth model was maintained, and technology and IT sectors were developed, allowing rapid benefits from global economic recovery.

⁷ **Korean Crisis and Recovery**—Papers Presented at a Conference held in Seoul, Korea May 17-19, 2001 Editors: David T. Coe and Se-Jik Kim // <https://www.imf.org/external/pubs/nft/seminar/2002/korean/>

⁸ “The Role of KAMCO in Resolving Nonperforming Loans in the Republic of Korea” prepared by Dong He September 2004 6-7 betlar IMF <https://www.imf.org/external/pubs/ft/wp/2004/wp04172.pdf?utm>

⁹ Republic of Korea Economic and Policy Developments // <https://www.elibrary.imf.org/view/journals/002/2000/011/article-A001-en.xml?utm>

¹⁰ IMF. (2000). *Korea: Economic and Policy Developments*. IMF Country Report No. 00/11

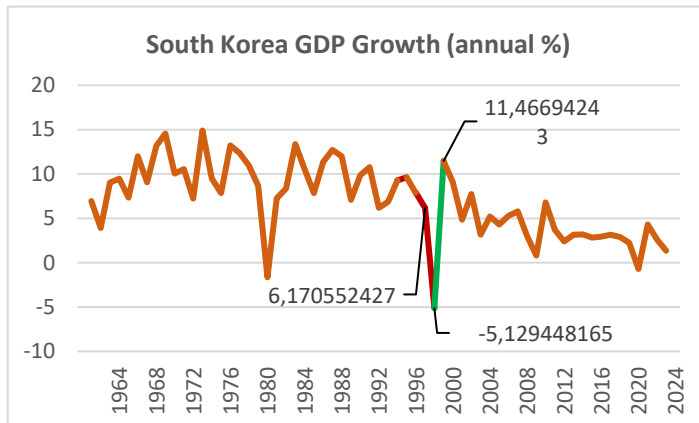


Figure: South Korea GDP Growth (annual %)¹¹

This graph illustrates the changes in GDP trends before, during, and after the crisis.

Turkey's Recovery Strategies

Turkey implemented a recovery strategy with its own characteristics while incorporating additional elements inspired by the South Korean experience.

1. International Assistance

Turkey received USD 19 billion from the IMF and USD 6.2 billion from the World Bank. The funds were used to stabilize the banking sector and strengthen fiscal discipline¹².

2. Central Bank Independence

In 2001, the central bank was granted legal independence, and from 2002, an inflation-targeting policy was introduced. As a result, inflation fell from 70% to 9.3% by 2004¹³.

3. Bank Sector Restructuring

Through the BRSA and SDIF, 21 banks were brought under supervision and recapitalized, ensuring the stable functioning of the financial system.

4. Fiscal Discipline

Government expenditures were reduced, taxes increased, and privatization accelerated. Consequently, public debt decreased from 74% of GDP to 45%¹⁴.

5. Improving the Investment Environment

Bureaucratic barriers were reduced, and the legal framework was strengthened. Foreign direct investment increased from 0.4% to 3.6% of GDP.

¹¹ <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=KR>

¹² Based on the IMF press release: <https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr0207>

¹³ Based on World bank press: // <https://data.worldbank.org/indicator/FP.CPI.TOTL.ZG?locations=TR>

¹⁴ Based on [Foreign direct investment, net inflows](https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=TR)
 // <https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=TR>

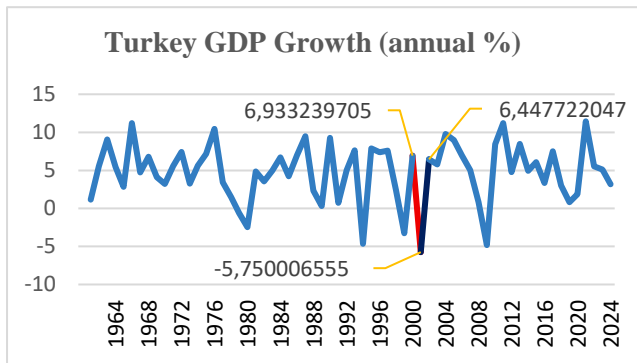


Figure: Turkey GDP Growth (annual %)¹⁵

This graph illustrates the changes in GDP trends before, during, and after the crisis.

Lessons from South Korea and Turkey

The experiences of South Korea and Turkey demonstrate that international assistance plays an important role in overcoming severe economic crises, but the main determinant of success is the depth and consistency of domestic reforms. Comparative analysis of the two countries' experiences leads to the following conclusions:

- **International cooperation is necessary but not sufficient.** Financial support from the IMF and other institutions provides short-term stability, but the primary source of sustainable growth is domestic reform.
- **Prompt and decisive actions are crucial.** Political will and timely decision-making accelerate the recovery process.
- **A comprehensive approach yields effective results.** Combining macroeconomic stabilization, financial sector strengthening, structural, and social reforms simultaneously is essential for crisis recovery.
- **Financial sector reform is a priority.** Restructuring the banking system and cleansing non-performing assets form the foundation of economic recovery.
- **National characteristics must be considered.** Each country must design strategies suited to its economic structure and capabilities.

For other countries today, the following recommendations remain relevant: preparing in advance and creating institutional buffers, strengthening financial system stability, enhancing social protection measures, diversifying exports, and building effective state institutions.

¹⁵ <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=TUR>

References

1. Kue, I. (2007). *Social Welfare Reform Since the 1997 Economic Crisis in Korea: Achievement, Limits, and Future Prospects*. Retrieved from <https://onlinelibrary.wiley.com/doi/full/10.1111/j.1753-1411.2007.00003.x>
2. Baliño, T. J. T., & Ubide, A. (1999). *The Korean Financial Crisis of 1997—A Strategy of Financial Sector Reform*. IMF Working Paper, March 1999.
3. Okumus, F. (2003). *The Impact of Economic Crisis: Evidence from Turkey*. In Walker, K. (2002), *The Consequences of the Economic Crisis in Turkey*. Working Paper, 13th Meeting of the EU-Turkey Joint Consultative Committee, Erzurum. Retrieved from <https://pmc.ncbi.nlm.nih.gov/articles/PMC7148811/#bib30>
4. Republic of Turkey Ministry of Treasury and Finance. (2019). *Debt Indicators* (p. 4). Retrieved from <https://ms.hmb.gov.tr/uploads/sites/2/2019/01/DEBT-INDICATORS.pdf>
5. Akyüz, Y., & Boratav, K. (2004); Ertugrul, A., & Yeldan, E. (2003); Yeldan, E. (2002); Independent Social Scientists Alliance. (2006). Reports on inflation reduction program and subsequent crisis.
6. Coe, D. T., & Kim, S.-J. (Eds.). (2001, May 17-19). *Korean Crisis and Recovery—Papers Presented at a Conference held in Seoul, Korea*. Retrieved from <https://www.imf.org/external/pubs/nft/seminar/2002/korean/>
7. He, D. (2004, September). *The Role of KAMCO in Resolving Nonperforming Loans in the Republic of Korea* (pp. 6–7). IMF. Retrieved from <https://www.imf.org/external/pubs/ft/wp/2004/wp04172.pdf?utm>
8. IMF. (2000). *Republic of Korea: Economic and Policy Developments*. Retrieved from <https://www.elibrary.imf.org/view/journals/002/2000/011/article-A001-en.xml?utm>
9. IMF. (2000). *Korea: Economic and Policy Developments*. IMF Country Report No. 00/11.
10. IMF. (2015). *Press release*. Retrieved from <https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr0207>
11. World Bank. *Foreign direct investment, net inflows*. Retrieved from <https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=TR>