

CRISIS MANAGEMENT IN PUBLIC POLICY
- Crisis management in Korea (1996 - 2000) -
Government leadership during the crisis

By

Alexandra Bertokova

THESIS

Submitted to

KDI School of Public Policy and Management

in partial fulfillment of the requirements

for the degree of

MASTER OF BUSINESS ADMINISTRATION

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ABSTRACT

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Looking back in the history of the world's happenings in the last two decades we have been witnesses of many disasters in many different areas; starting with Chernobyl, going on with Asian financial crisis and ending with Enron. The issue of crises arises constantly, anytime you watch the TV or read the newspapers some disasters are occurring. There has been an ongoing debate on the academic platform whether the number of disasters has been increasing or decreasing and the academics have presented theories such as:

Evidence for the significance of disaster clusters is difficult to find. This stems from the high consequence – low probability nature of disasters and resulting sparse data sets, and from difficulties in the interpretation of data is incomplete, prone to error and influenced by subjective factors.

We live in the times full of contradictions that we try to more-less successfully solve. The main contradictions are human and nature, human and technology, human and society, societies and societies. An adequate balance is necessary in the societies as well

as in nature and in the environment. The disturbance of this balance brings many risks that may be the cause of catastrophic appearances with a negative consequence to mankind.

People change the environment in order to change the appearance and use as much of the natural resources as possible. Nature has huge revitalizing capabilities but mankind has higher destructive power.

“Managers ... try to manage the environment so that corporate or governmental views dominate. These practices may be pathological for the ecosystem as a whole or for the constituencies with the organizations were created to serve... Understanding and appreciation of the views of critics and the alternative realities available can only lead to more intelligent management. Without more intelligent management, all forms of life may vanish from earth.”

The case study tried to briefly examine the internal and external causes of the Korean financial crisis and the response of the Korean government. Prior to the financial crisis the Korean government gave many advantages to the business sector which almost caused the country's economic collapse. The favors given had impact on the companies' decision making processes. The reaction of the market was predictable and led to limited competition for the big business. The result was low profitability and high leverage ratios. The situation got even worse for the Korean companies internationally, as the markets were entered by highly competitive companies from other East Asian countries such as China, Indonesia or Malaysia. Short after the beginning of the crisis, Korean government

has undertaken several very effective steps to overcome the crisis as soon as possible. It involved restructuring of the public and private sector, liberalization and opening of the capital markets for foreign investments and adjustments of the legal basis.

Unfortunately the restructuring process included disadvantages for the working class in the form of massive layoffs and rising poverty. To follow the advice of many international institutions Korean government tried to prevail over these unlucky circumstances with social protection system.

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Dedicated to my family

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Introduction

Mankind has come to reach the new millennium. We live in a new century that has brought us on one side of higher development and progress, on the other bigger suffering, starvation and poverty. Wars, national unrest and religious conflicts, increasing rate of unemployment, terrorism, organized crime, economical catastrophes; all of these are negative situations and tendencies that slow down the development of societies. Scientific and economical progress facilitates life for people on every step and at the same time it brings technological advances that threaten people. In order to make life easier mankind disturbs the balances in nature and environment.

We live in the times full of contradictions that we try to more-less successfully solve. The main contradictions are human and nature, human and technology, human and society, societies and societies. An adequate balance is necessary in the societies as well as in nature and in the environment. The disturbance of this balance brings many risks that may be the cause of catastrophic appearances with a negative consequence to mankind.

People change the environment in order to change the appearance and use as much of the natural resources as possible. Nature has huge revitalizing capabilities but mankind has higher destructive power.

The process of improvement of technologies is sustainable and dynamic. More advanced technologies create higher possibilities of crises. Humans should not act like supreme individuals and as the only entities on this planet.

The above stated contradictions; nature and economies are the sources of crises that more or less negatively reflect on the mankind development. To deal with these conflicts and problems, the society makes rules, laws and orders; duties and directives that every individual should live their lives by.

In the society, nature and in a business environment as well as the production processes, it is impossible to completely predict and remove the conflict points. The task of crisis management that works in the public policy is to create legislation, personal, material and technical conditions to prevent the societies and environment from disasters and to give effective solutions when predicaments appear.

1. Origins and development of crisis management

If we base our actions on the system development hypothesis, the theory of risks, from knowledge about mankind and nature development we have to be familiar with the reality that we exist in the environment with huge amount of uncertainty. Any human activity might be a source of possible crisis.

Special events and crisis phenomena has accompanied us and will always be a part of our every day lives. In our history there are several good examples of this statement and they prove that people have focused most of their attention on improving their living conditions but instead it has deteriorated their lives.

1.1 Review of facts that have accompanied the creation of crisis management

Earth which has existed for the last 5 billion years is actually very fragile and unstable planet. Mankind has lived and used its resources only a short period of time, approximately 25,000 years. Our lives here have been constantly influenced by its extreme weather conditions, depletion of the Earth's layers (earthquakes), and the possibility of colliding with other planets and last but not least people have threaten its own existence with activities that bring negative consequences.

To be precise, natural, social, military, political, technological and economical environment that men create and adjust are a source crisis phenomena. People have always tried to predict, eliminate and solve any kind of natural catastrophes and the more developed we were, we made more effective ways how to solve social, religious, military and political conflicts. In the 20th and 21st century we try to predict, eliminate and solve economical and technological problems.

Based on the mentioned facts we can state that crises situations:

- always influence concrete subject,
- arise in concrete environment.

During the crisis:

- the activities and actions don't have standard character,
- the activities and actions can't be solved and dealt with a standard processes and means.

To deal with the crises phenomena there must be a complex set of rules and laws formed which brings the need for:

- legislation,
- system of crisis management in the public/state policies,

- use of extraordinary forces, means and processes,
- partial limits to basic human rights based on the legal rules,
- cooperation with public. (Gozora, 2000)

People have slowly implemented these rules to their lives and more-less successfully used. By the end of 20th century in many countries arise efforts to make a complex system of preventions and solutions to these crises. People start to talk about crisis management and a group of specialized managers turned up who try to deal with crises and its essence, consequences and processes. The fact is that even if we take these actions as positive any manger, politician or leader hopes that they won't have to use any crisis prevention plans.

1.1.1 Crisis appearances in the natural environment and its influence on crisis management

At the end of the 60th century a new work from James Lovelock was published where he stated that earth is self regulating nature and environment toward it own wellness. Basic principles of this theory are arising from the fact that earth is in balance which have existed between men and nature until the end of 19th century.

People have been influenced by negative natural elements which actions they could not predict and they did not understand its substance. They have been endangered by water, air, earthquakes, and eruption of volcanoes. Mankind could not predict any of these catastrophes in the past. At the beginning these catastrophes were solely caused by the nature itself but later people became the reason for many of these crises.

Catastrophes that were evoked on purpose are a part of another independent category which involves wars and lately terrorism or organized crime as well as epidemics.

It is well known that methods used to prevent and solve problems are adequate to the technologies and knowledge we have. People have taken as a first step avoiding places or time of possible problems; later on they built properties (for example fortresses, etc.) as an endeavor to hide themselves from unpleasant weather conditions. Lately, people have understood many causes of natural catastrophes and create systems to monitor risky factors which allowed people predict natural disasters and warned people in advance.

Biggest global problem of the last century is the changing climate conditions on earth. Higher concentration of power plants, air pollution and many new risky technologies are a part of the green house effect and tend to enlarge the hole in the ozone layer. In this case the mention theory Gaia (James Lovelock) seems not to be correct. Mankind has to look for ways how to organize global prevention and how to actively protect themselves in case of a crisis.

1.1.2 Armed conflicts and their influence on crisis management

The whole past of mankind has been a witness of military conflicts that can be tabled to the most serious crises. One of the biggest theorists in 19th century Carl von Clausewitz have written in his book “About war” that leadership in war is the arrangement and management of military activities that is made of different, separated

fights. [3] Based on these, he has defined tactics and strategy as the basic methods in the process of planning and directing war operations:

- tactics – theory about the use of military forces in the process of organizing and leading in specific conflicts and fights,
- strategy – theory about the use of fights, their connections and coordination in order to fulfill the goals of war. (Gozora, 2000)

The results of the Second World War have caused bipolar division of world. The western democracies started to look for a way to create a system of collective protection that have yield in NATO (North Atlantic Treaty Organization). The basic principles were included in the treaty signed by 12 states in Washington. In 1949, in Geneva were made rules about war and in 1977, two new protocols were added to the treaty defined as civil defense. It is defined to include all humanitarian tasks meant to protect public from the danger, such as:

- warning,
- evacuation plan,
- offering of shelter,
- rescue work,
- medical services,
- restoration of order in the effected areas, etc.

1.1.3 Economic development and its influence on crisis management

In the second half of 19th century the huge increase in production has been accompanied by new effective methods of managing economic organization and technological processes. At this time there is a new movement in organizations called “management”. It represents a method of managing organizations in new market economies which includes flexible structure, less restrictions to pricing strategies and effective allocation of resources.

Permanent crisis of regional and international economics has a number of concrete causes which is necessary to solve:

- global economic problems,
- problems caused by transformation from planned to market economies,
- large economic differences between regions,
- problems with resources such as oil,
- increasing unemployment,
- internal problems in countries,
- negative consequences of economic crimes, etc.

IMF and World Bank see the future of international economies in process of globalization which has gotten a lot of criticisms. World economists are trying to find solutions to economic problems on macro and microeconomic levels. They emphasize the necessity to find and recognize symptoms of an upcoming economic crisis, eliminate them minimize the losses. These tasks belong to the basic problems that economic crisis management deals with.

1.2 International experiences from creating concepts and structure of crisis management

The level of crisis management in Europe, USA and other developed countries varies. Generally there is a rule of separate solution of war and peace crisis situations with mutual use of resources. While for securities of countries are responsible governments of these countries, the solution of different defense strategies are responsible ministries of defense. Variable independent institutions and foundations are established to monitor and analyze crisis elements which are supposed to coordinate forces and means to resolve crises domestically and internationally.

Principles of crisis management are summarized in Strategic concepts of NATO established in November 1991. Later on NATO have activities of OSCE which focuses on peace containment and prevention of crisis situations. An important element and tool in directing and leading is a creation of effective legislation of crisis management. USA has a very good legislation system in case of a crisis, which they have been building since World War Second. It is considered to be one of the most successful in the world. Another country that can be proud of their crisis management system is Sweden. Swedish approach relies on the concept of “total security” which’s goal is to provide constant readiness and fast reaction to any kind of crisis threat. The protection in case of a catastrophe is the responsibility of police, fire department and hospitals.

In France the emphasis is put on the system of protection of people and property. Crucial tasks are given to the civil security service in which special professional rescue teams of firefighters, medics and technical support take part. In Germany the protection

of citizens is the responsibility of government that has established a law about war conflicts or other catastrophes.

It is necessary to stress at the end of this part that method of directing and managing of catastrophes and problems is based on the level of knowledge, experience, technical development and humanitarian values accepted and recognized by each community or state.

2. Crises, crisis situations and state of emergency

2.1 Risks and their appearance

Mankind is a part of nature and is dependent on it. Human knowledge, scientific, technical and technological progress does bring people new dimensions but on the other side bring many kinds of dangers and threaten our own existence. Because of our inadequate and irresponsible behavior endangering the environment has one of the most accurate problems in these times. Natural catastrophes has existed, exist and will exist in the future; but in their effects they accompany dynamically progressing crises caused by people and are becoming more destructive as never before.

Any activity of people in the nature/environment has a piece of uncertainty. Only rarely we can predict and plan any activity and completely influence the result and consequences of these actions. Elements and influences of the environment have most of the time stochastic and undetermined character, but it is impossible to say that there is no mutual relationship between cause and consequence.

Generally it can be said that every element, action or process happening under standard conditions, can be predicted, planned and described in advance. If we change internal or external conditions then certain elements of this action can start to behave differently and can cause imbalances in the following environment:

- political,
- military,
- social,
- humanitarian,
- ecological,
- technological,
- energetic,
- structural,
- informational, etc.

The creation of variable negative elements that can appear in life of societies may cause extraordinary events. In the society, in the environment and in technological processes the unexpected events may cause unwanted political instability, social troubles, and disturbances in the informational and structural establishments.

Security/safety of citizens, society and state can be defined as a state when the risks are minimized or eliminated. On the other side, security of machines and technological process is a state when possible risks are accepted and recognized. Last but not least a state of security is reached when the subject is considered as not threatened from the point of view of its existence, interest and values.

Basic terms used to define the state and level of security in social, technical and technological processes are differentiated as follows:

- social processes:
 1. risk
 2. threat
 3. crisis
- technical (technological) processes
 - danger
 - threat
 - risk
 - extraordinary event (crisis)

The terms danger, threat and risk can be defined:

- danger: a potential ability of system, machine, material, technology or working activity to cause unexpected negative appearances or threats to human beings, material values or ecological environment. It is a hidden but crucial characteristic of material, technical equipment or working activity that can cause problems. Danger is a source of possible injury, a source of a threat. (11)

- threat: a state affecting human beings or the environment that is created in activities whose dangerous character has not been realized.

- risk: a quantitative and qualitative expression of threat, level or amount of threat. It is a probability of appearance of a negative element and its consequence. It is necessary to set a limit of potential danger and risk that can be excepted because no activity is completely without any danger or risk. (11)

The above mentioned terms should not be considered separately because they are three sides of the reality. Danger is a source of threat and risk is the level of this threat. That means they are mutually connected and determined.

Constant effort of people is to minimize and reduce the risks in any activity and in any environment. This process in the risk theory is called directing of risk. It contains concrete procedure beginning with an analysis of the risk, evaluation of risks and control of risk.

2.2 Crisis definition and classification

The term “crisis” has been a part a human life since the beginning of mankind. It has been known from the beginning. It focuses on need of the specific time, on the concrete time period, and a part of feelings about security.

Krisis – from Greek language, it meant a feeling about being insecure, looking for protection or prevention

Crisis – from Latin language means critical point, break point.

Recently this term has been used in all spheres of life. It became a part of internal, international and foreign politics, in culture, economy, military or religious, technical and social terminology.

Though crisis elements differ and vary in many terms, they all have certain things in common:

- moment of surprise at the time of its creation,
- lack of important information in the time when it is needed the most,

- over use of information system, while some information repeat,
- increase of different activities which causes that they become less controllable,
- threat to most important information about the crisis,
- intensive control of the society,
- activity under stress and time limitation,
- existence of panic, false information and alert information.

Crisis may be caused by:

nature

people

technological processes and equipment

Paradox of that most of the crises appears in the most developed countries (industrial catastrophes, fires, explosions and terrorism). These countries evoke in the international politics and economy success on one side, on the other they evoke certain group of people to corruption or terrorism. Developed technological processes and intensity of industrial activities are connected to high density of population and are the determinants of crises.

A lack of control is characteristic for nature, environment and the ability to predict and eliminate them. Therefore the appropriate reaction from the side of government and state is slower and less effective than the reaction to crises cause by the civilization.

The basic division of causes for crisis has been disappearing recently. Mud or any other natural catastrophes has been slowly changing its determinants with a growing civilization. Lately ecological catastrophes have been caused by mankind interference

into the ecological system or wrong use of technologies. Because of this reason, peoples perception of crises changes and forces people to evaluate their present knowledge about crises. On the other side the technological development such as satellite telecommunication allows people to increase the efficiency in eliminating them.

At this point it is important to mention another two terms that allows us to fulfill its meaning. Security and defense cooperate on complex safety of mankind:

Security – complex measures to stave off or limit harmful crisis influences and consequences of ecological catastrophes, furthermore consequences of war on the citizens, economy and nature

Defense – an active activity to stave off attacks or threats to state by external enemy, to keep independence and integrity of the state

According to the character of crisis phenomena and determinants that have caused them, we can distinguish:

Crises determined by natural elements

Crises caused by human activities

Secondary crises

Crises can be divided according many different criteria. The basic categories are following:

According the area:

Local

Regional

National

International

World

According to the level of threat:

Lower level of threat

Higher level of threat

Catastrophes

According to speed:

Slow

Fast

According to number of people involved:

Large

Medium

Small

Crisis of individuals

According to the object of crisis:

In economy

In public policy

In environment

In social, internal and external politics (Gozora, 2000)

Every crisis has its own process which is determined by the type of crisis, its intensity, area, and its internal and external conditions in which it acts. The course of crisis may have three variants which can be characterized by four stages:

- Symptoms of the crisis
- Accurate stage of the crisis

- Chronic stage
- Solution stage

During the symptom stage of the crisis, symptoms such as instability and lack of harmony in the planned progress of processing may appear.

In the accurate stage several negative things may appear such as lack of balance and harmony between the planned processes and real phase. Basic functions of the systems are disturbed therefore it is necessary to undertake immediate steps. These steps are to eliminate already existing damages and losses and the following facts should be respected. That:

- the functioning of the system itself is threatened
- decisions are made under pressure and lack of information. If the reaction to the decisions in the accurate stage is correct, the crisis can avoid the chronic stage.

Chronic stage appears in case of wrong decisions are made in the previous stage and the preventive actions are not successful. Though its partial improvement, the crisis determinants were not localized and paralyzed fast enough.

Crisis is solved in the last stage when the system in balance and ready to recover again. It allows an entrance to new strategies like recovery with several steps such as organizational, personal, and technological and other concrete measures to regain the stability and new quality of system.

Crises in nature, public sector and economy have several determinants and mechanisms that may yield in concrete crisis. In the past several decades we can stress specific problems and conditions:

- in processes in nature and environment:

- damaging of ozone layer,
 - acid rains,
 - presence of heavy metals in the air, water and soil,
 - appearance of electromagnetic in the air pollution,
 - meteorological anomalies,
 - potential catastrophes in nuclear power plants,
 - old technologies in chemic industries,
 - crashes in transportations of poisons, etc.
- in public sector:
- ethnic, religious and racial pressure,
 - high migration of citizens,
 - socio-political problems,
 - enormous growth of cities,
 - riots,
 - terrorism,
 - international organized crime,
 - dramatic political and institutional changes and conflicts,
 - political affairs,
 - drugs, etc.
- in economic sphere:
- sudden changes in the markets,
 - huge failures in the production,
 - failures in the communication systems,

- failures in the multinational economic projects,
- changes in the military industries,
- pressure and conflicts in management of the companies,
- restructuring and reorganization in industries,
- formal revitalization,
- existence of highly dangerous technologies,
- transportation of toxic and nuclear,
- economic embargos,
- sabotages,
- terrorism and kidnapping in the economic and financial spheres,
- lack of natural resources, etc. (Gozora, 2000)

Differences between the crisis elements in the nature, economy or in the public sector don't have to be strict and evident. Crisis of huge extent that appear in the economic environment reach dimensions that are typical in the public sector. Along physical damage their negative consequences concern especially economic growth and development, number of employees and domestic and international competitive abilities.

2.3 Crisis examples

A. Natural crisis appearances

➤ Earthquakes:

- 7.12.1980 – Armenia, approximately 55 000 dead people, 500 000 people without households, 1 city has been completely ruined, etc.
- 28.07.1976 – China, officially app. 142 000 dead, unofficially up to 650 000 dead people
- 1556 – China, up to 830 000 dead
- in the documented history of mankind there have been 9 earthquakes where the number of dead people was more than 100 000.

➤ Floods

- 1887 – China, river Chang-che app. 2 million dead people
- 1931 – China, river Chang-che app. 3 million dead people
- 1938 – China, river Chang-che app. 500 000 dead people
- 1953 – England, 300 d.p., etc.

➤ Avalange

- 1970 – France, Valdesere, 120 people killed
- 1923 – Czechoslovakia, 18 people killed

➤ Fires

- 1985-86 – Portugal, 27 people killed
- 1975 – Germany, more than 2000 people stayed without their houses
- 1972 – USA, 12 000 dead people (Gozora, 2000)

Natural crisis situation arise in most of the cases independently from human mind and will. Humans can't usually predict nor influence the extent of the negative consequences on mankind, environment or any material values. The most problematic

category from these is the fires, which are up to certain point caused by human activities, by its insufficient attention, mistake or even on caused on purpose.

Earthquakes are according casualties, damages, losses and effected area as well as the complicated prevention, considered as one of the most terrible crises. As a big negative is the fact that people can influence the earthquakes because the determinants are invisible and stay deep under the surface and within several seconds it can cause huge damages.

Floods are objectively very dangerous problems in many countries such as China or even Slovakia. The biggest floods in Slovakia are connected to the river Danube. According to the historical data the worst year in the past was August 1501. That have happened centuries ago, unfortunately there have been very destructive floods not a long ago. In 1997 central Europe has been literally hit by huge floods, which had the most tragic consequences for countries as Poland and Czech Republic. Besides terrible material damages there have been many losses on human lives.

Volcanoes are caused by magmas that are erupting from inside of Earth and move tons of soil and heat energy. Many islands have been created by the volcanoes and many of them are still active, which is a source of permanent threat to the inhabitants.

B. Crises determined by human actions

➤ panic:

- 15.4.1989 Great Britain – 95 dead, 200 wounded on the football stadium Hillsborough when people have tried to get out after the match; the organizers of this event did not handle this situation at all

➤ terrorism:

- 1972 – Olympic games in Munich, Germany
- kidnap of Achille Lauro boat
- murders of innocent tourists in Luxor, Egypt
- 1988 Lockerbie, Great Britain – 259 dead in a plane crash caused by terrorist bomb attack
- 9/11 2001 USA – several thousand dead in NY

➤ industrial catastrophes:

- 1980 Baltic see – 123 dead, collapse of oil station due to damages on the constructions
- 9.12.1984 India – 2 - 4 thousand dead in the UNIO CARBIDE plant – leaking of organic pesticides
- 15.7.1976 Italy – 100 dead due to the leaking of dioxin
- 1985 Switzerland and Germany, river Rhyne – industrial crash, leaking of basic pesticides to the river (one of the biggest water catastrophes)
- 3.6.1989 Russia – 575 dead, 1218 wounded in an explosion of gas in the area of railroad while 2 trains passing by
- 1994 Baltic see, Estonia – 910 dead after a ship sank because of incorrectly closed front gate

- 3.6.1998 Germany – 100 dead and 300 wounded after a crash of intercity train

ecological catastrophes:

- 1952 Great Britain – 4000 citizens dead, negative impact of the NO, CO, ...
- 1989 coast of Alaska – due to navigation mistake a tanker EXXON VALDEZ crashed where 50 mil. Liters of oil have covered the coast
- 1991 Kuwait – Iraq have set on fire oil wells, huge ecological catastrophe

breakdowns of power plants:

- 1957 Great Britain
- 1976 USA, Three Mile Island
- 1986 USSR, Chernobyl – 31 dead and millions of people affected – indirect cause of many diseases such as all forms of cancer

➤ war conflicts:

- 1988 Iran – Iraq war conflict, 299 dead – American torpedo has shot cargo plane by coincident
- 2000 Yugoslavia – large area bombed by NATO with many collateral damages and property damages (Gozora, 2000)

One of the biggest phenomena these days is terrorism and organized crime. The threat to the lives of communities, society and its material values roots in individuals and groups that do not identify themselves with democratic values of western cultures. The most dangerous are the explosives that endanger innocent people in order to enforce their political, material, ideological and individual values, ideas or goals.

Terrorism represents politically and ideologically motivated violence committed by groups or individuals against political, economical or even environmental targets. Its main goal is mainly accomplishment of their demands by any means and under any circumstances. International terrorism is exceeds countries' borders and it becomes a tool for political extortion. USA is one of the countries that pursue strict antiterrorist policies that is based on the following general conditions:

- negotiating with terrorists as with criminals and punish them for their aggressive actions according to valid legal rules
- do not deal or make business with terrorists and their home countries
- giving strict political, economical and diplomatic sanctions on states that support terrorism (11)

C-7 countries and Russia have organized a meeting in 1995 in Ottawa on the minister level to deal with international terrorism. The conclusions of this conference have pointed out strategy of the fight against terrorism:

- to strengthen the share of information services on the fight against terrorism,
- to strengthen the security of nuclear, chemical and biological materials,
- eliminate the activities of terrorist groups, organizations,
- to eliminate the inflow of finances to these organizations,
- to improve the cooperation between countries regarding the fight against terrorism,
- strengthen the security in all forms of transportation,

- to improve the security of qualified documents and materials, money and bonds, etc.
- to gain maximum security for politicians,
- etc. (11)

Wars (armed conflicts), to be more precise, the confrontation of armed forces between states belongs unfortunately to the basic activities of human societies that cause huge losses and damages.

Violence as physical, psychological, economical or organized armed forces does as mentioned before belongs to our lives. There are several theories that find many different reasons why people use violence to reach their goals. War represents the sharpest form of social conflict and therefore it is accompanied by political, economical and diplomatic fight. War as organized violence has existed, exists and will exist as between states as inside of a single state. Experts in this field claim that between the years 1945 – 1990 there have been up to 200 war conflicts with higher or lower intensity and approximately 30 million people have been killed (mostly civilians).

Political changes that have happened around the world in 90's of last century have lead people do decrease the possibility of any global war. Unfortunately the threat of global war has not disappeared yet.

C. Secondary crises

➤ Starvation:

- 1984 Ethiopia – climate changes, enormous population growth, distraction of natural environment and civil war have caused starvation which became mortal for thousands of people
- 1876 – 1878 China – 3 years of no rains were the reason for death of approximately 9-13 million people
- 1845 – 1849 Ireland – 1 million dead and 1 million immigrated to USA because the crop of potatoes was ruined by mould

➤ Epidemics:

- 1348 – 1350 Europe – 25 million dead, plague
- 1519 – 1540 America – death of many tribes were caused by chicken-pox that Europeans have brought to America
- 1831 England – 78 000 dead, cholera that have started in 1817 in Calcutta have reached England twenty years later
- 1918 different parts of world – influenza have killed up to 25 million people (Gozora, 2000)

Epidemics are not history in the past of mankind, with the arrival of new modern medicine, after finding antibiotics and new vaccinations against diseases it may seem that we have eliminated epidemics from our lives.

By the end of 20th century many other forms of epidemics appeared that the mankind was not ready for:

- enormous growth of drug addicted people
- appearance of new epidemics such as AIDS

founding of new bacteria which are immune towards our antibiotics
(professionals in this field suppose that in 20 years around 70 mill. People
die from tuberculosis)
epidemics in areas that have been under different natural disasters such as in
Africa where is lack of drinking water
mass infections in production of domestic animals (China and East Asia)
SARS, etc.

3. Activities, organization and tasks of crisis management in public policy

The end of 20th century has brought the tendency of weakening strict confrontation approaches in the process of reaching security levels in states and gradual increase in new co-operational approaches but on the other side it has brought huge growth of non military threats which's negative consequences is necessary to solve. Security of the state has become a complex problem that is required to be solved on political, economical, military and internal levels. Therefore it is crucial to identify the goals of society, general security risks and arising threats. On the other side it is important to state the long-term tasks and measures, and its goal is to create conditions for development and economic prosperity and accomplish security for citizens.

Above stated facts force people to look for ways that would have most universal character and would be effective in the process of crisis appearances and its prevention. One of these ways is crisis management which became a part of a broad management environment. This term has been for the first time used by the US president J. F. Kennedy

in 1962 during the Cuban crisis. Today the term “crisis management” has found its place in many different areas such as in politics, military, economics, banking, ecology and in social policies.

3.1 Management and its basic functions in specific environment.

To realize the fact that crises are a part of our lives and that they will be in the future and understanding the reasons why they appear is the first step to set the conditions to solve them. The second step is to create effective organizations with clearly set activities and tasks which will be supported by required legislation.

Every focused objective of humans that aims for creating values or fulfilling tasks concerning functioning of any organized society is reached through correct leadership. Leadership represents multitask creative activity in which the leading subject sets the goals, influences the methods, conditions and functioning of leading elements in the way so that the system will fulfill the given tasks and reached the given goals in the set time and quality. This process is accomplished through general function:

- aiming the goals
- realization of the goals
- evaluation of reached goals

According to the three above stated points leadership has following functions:

planning – deals with setting of goals and important tasks that are noted in
planning documents

organizing – deals with implementation of goals and tasks given by plans into the real life and with its help reaches concrete results

controlling – evaluation of results

In case of more complex systems or technologies we can use other supplement functions:

- decision making – goals and plans are prepared in advance
- regulation – implementation of goals and plans into practice while evaluating specific situations and changes (such as time, conditions and resources)
- coordination – coordination of all functions in time and space to make the system most effective and economic

Basic management tasks are:

- maximize output
- minimize input (Gozora, 2000)

Management is a process of searching optimal balance between inputs and outputs and the effort to maximize profit. This kind of management is usually connected to economic activities such as production, financial operations or transportation.

Management is leadership which can be described as:

➤ the optimization of:

human resources

information resources

material resources

financial resources

system made of institutions and managers that try to reach maximal effect, connections, relationships and competences set by legislative norms

mechanism that allows to fulfill planned tasks and reach goals

Planning, organizing, personal work, leadership and controlling are the basic functions of management which help to achieve desired goals. [11] Management is applied in economical, political or social environment, public policy, and other specific environments such as military or police.

Planning is the most important part of management. The main tasks and activities are set in the process of planning. A good plan is possible to create only after detail analysis of its components, recognizing real conditions and capacity of human, material, financial and other resources. In crisis management special crisis planning is necessary.

Second phase of management is organizing, in which managers together with resources coordinate activities of people in order to reach the set goals and fulfill planned tasks. Organization should bring balance and stability to the system. It has positive and negative sides. Well organized system determines conditions for sustainable fulfillment of tasks and goals. On the other side too bureaucratic organization gets closer to become conservative and in the unstable environment becomes inflexible and may threaten good functioning of the system.

Organizing can be described by five basis characteristics:

goals

specialization

coordination

legal power

responsibility

Well functioning organization has crucial impact in the time of crisis situation.

The most important is that every person, manger or leader knew:

- what are his/her tasks
- his/her responsibilities
- who are his/her subordinates
- what are the duties (Richardson, 1994)

Leadership is one of key activities of top management through which they coordinate and positively motivate subordinates in the process of fulfilling achieving the institutions goals and tasks. Very essential part in these processes is verbal and technical communication.

Controlling is a tool that is used to evaluate the level of attained goals and to set mistakes that have been done in the procedures. Stating personal responsibilities and setting the consequences is a part of controlling as well.

3.2 Principles of management and their importance for crisis management

Unity of management –

- crisis management should (in public policy) function as a centrally directed system
- solving of crises requires central control

Centralization of all activities with one common goal –

- activity coordination of rescue units

- common goal – rescue of lives and material values

Authority and responsibility –

- legislation based on authority and responsibility for managers
- important for higher quality of organizing working force and conditions during the crisis

Distribution of work –

- effective distribution of tasks
- building of team for creating crisis plans
- complex organization of force units

Order –

- it is crucial that in crisis management to keep systematic approach

Discipline –

- necessary during any rescue activities

Initiative –

- is individual and depends on the level of motivation
- during emergency tends to increase

Generally it can be concluded that management in public policy takes main part in increasing efficiency in the system especially in:

- formulating and achieving the goals of the public policy
- rationalization
- widening the information basis
- increasing the level of decision-making processes
- stimulating of people in their working processes

- increasing of control
- fastening of processes of any kind, etc

The goals of crisis management:

- evaluation of probable risks
- analysis of conditions before the crisis emerges
- description of expected or unexpected crisis/problems
- stating of possible solutions and alternatives to the crises
- get the crisis under control and minimize losses (Richardson, 1994)

4. Case study: Crisis management in Korea (1996 - 2000)

Government leadership during the crisis

Introduction

Looking back in the history of the world's happenings in the last two decades we have been witnesses of many disasters in many different areas; starting with Chernobyl, going on with Asian financial crisis and ending with Enron. The issue of crises arises constantly, anytime you watch the TV or read the newspapers some disasters are occurring. There has been an ongoing debate on the academic platform whether the number of disasters has been increasing or decreasing and the academics have presented theories such as:

Evidence for the significance of disaster clusters is difficult to find. This stems from the high consequence – low probability nature of disasters and resulting sparse data sets, and from difficulties in the interpretation of data is incomplete, prone to error and influenced by subjective factors. (1, p.44)

4.1 Defining a crisis

What characterizes a crisis depends on variables such as the nature of the disaster, the industry, organization, place, time or number of people affected. Generally a crisis can be defined as an event that is threatening either the viability of the product, service and organization or the safety of employees, customers and public. These events vary from the everyday problems that the manager must deal with, they are affecting larger portions of the human, financial and time resources of the organization and have a deeper impact on it. Once the crisis started the managers must respond quickly but not without thinking and previous preparation. The simple and fast response might not and usually is not the adequate reaction to the problem. The decision making in such situations requires coordinated, multifunctional and complex efforts of the whole organization.

Defining crisis management

According to Ch. Pearson, crisis management refers to mindsets and processes that, on a daily basis, drive the company's decisions and actions. It must be the company's or management's capability and will to predict, prevent and solve problems

before they reach the point when they turn to crisis. It also reflects the company's and management's ability to react and adequately respond to the situation when the crisis has started.

4.2 Types of crises

An organizationally/institutionally induced crisis is a crisis evoked by the organization itself and threatens the strategic goals of that organization.

- Ecosystemic disasters – a clear and simple example is Chernobyl. The adequate response to a disaster by the manager or a leader has been described by Gephard:

“Managers ... try to manage the environment so that corporate or governmental views dominate. These practices may be pathological for the ecosystem as a whole or for the constituencies with the organizations were created to serve... Understanding and appreciation of the views of critics and the alternative realities available can only lead to more intelligent management. Without more intelligent management, all forms of life may vanish from earth.”

- Sociotechnical disasters happen under specific conditions and usually involve a collateral damage and massive economic and social costs. These types of disasters mainly arise when the break-downs in the management control and technical-operating systems appear.

- The most frequent disaster is business economic failure which may be determined either by the external market conditions or internal management failures.
- The last and least common is sociopathic attacks on the organization, which involve complex personalities of dangerous people like kidnappers, blackmailers or political terrorists. (Richardson, 1994)

The above mentioned include factors such as industrial and business environment, organizational and political control systems, technology, people, societies which are on their way to increase their quality of life and management in organizations. (Richardson, 1994)

4.2.1 Korea before the crisis

Many experts have tried to diagnose the causes of the Korea's economic crisis in the 1997 and they came up with number of internal and external factors which had either direct or indirect impact on the economic happenings within that year.

It is important to mention and analyze Korean economic development lead by the Korean government during the last 40 years. Political and economic accomplishments in the second half of the century have had certain amount of influence on the events that occurred in the end of the 90's.

In the 60's Korean government have implemented several policies to start up the economy. It began with the process of immigration of the population from rural areas

which was accompanied by another highly influential factor, the industrialization. 60's are characterized by a strong shift from agricultural policy focus of the government to new industrial production policies predominantly the outward oriented light and heavy industries. This shift has brought a dramatic change in the composition of industries, change in the ratio between agriculture and industry, change in proportion of people working in industries, change in the structure of the occupations, inflow of new technologies and production process, increased the number of the goods available for the consumers, change in the transportation and infrastructure and a tremendous growth of the IT technologies.

Both of these movements have caused a rapid growth of cities such as the capitol Seoul or Pusan, Taegu and Ulsan. The growth of these cities has had two major determinants, the first was mentioned before as the in-migration of the people from the rural areas caused by the increased industrialization policies of the government and declining agricultural activities and the second determinant, influencing the growth primarily in the 50's and 60's, the natural increase of the population. The new policies of the government has opened door for plenty of job opportunities in the cities and the mass movement of labor has resulted in providing the market with a cheap but disciplined and educated labor.

1970's represent a continuous efforts of the Korean government to push forward the economy. Number one priority became heavy and chemical industries in order to increase exports and maximize the profits. The result of this strategy has been half successful. The country has developed very flourishing business in automobiles, ship

building and electronics. On the other side the government went into too many projects that have started to exceed the country's capability to manage. (Chang, 2004)

In the following decade government and major companies have tried to correct the distortions created before and have directed a new target policy priorities. 1980's were characterized by liberalizing the economy and remodeling the industries. Unfortunately this has brought disadvantages in the form of ever fiscal contraction, little industrial achievements and inefficient dealing with imbalances. (Chang, 2004)

Looking back in the last 40 years of Korean economic development we can find many advantages and disadvantages in the policies that Korean government was proceeding. The main success was the establishment of strong advanced industrial economy focused on the ship building, automobiles and electronics with the orientation toward export.

The reverse side of these policies brought obstacles to grow for the small and medium firms, too much confidence in the management of the Chaebols as well as too much power to the owners of these companies.

4.2.2 International situation – indirect causes

At the beginning of 1997 Korea belonged to the top 5 producers and exporters of computer memory chips, semiconductors, cars, and electronics and was the largest steel producer; though the international environment has become very antagonistic in the later 1990's. One of the reasons was Japan's new trade policy that tried to minimize trade conflicts with the US by heavily investing into Thailand, Malaysia and Indonesia. The result was that these countries became as much export oriented as Korea. Furthermore

these countries became a growing competitive threat due to their cheaper labor costs. Another country following the example of export oriented policy was China which also had the advantage of cheap labor costs and quality. (Hart-Landsberg, Burkett, 2001) The result of his tough and constantly strengthening competition was that Korea's exports have declined from 30% in the mid 1990's to 5% in 1997.

4.2.3 Global financial system

Koreans sometimes call the crisis from 1997 the "IMF crisis" because the IMF was closely involved in the process of overcoming the collapse. The main purpose of the IMF according to its official web page is: "to promote international monetary cooperation, exchange stability, and orderly exchange arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease balance of payments adjustment." (www.imf.org)

Some authorities and experts in the field of macroeconomic policy such as Joseph Stiglitz argue that the IMF -which's original responsibility, is to ensure the stability of the global financial system- has failed its main mission and even made the situation worse. (Stiglitz, 2003) He offers several examples in which the IMF and the US Treasury were convincing developing countries about the security and stability of markets that are open to short term speculative flows, which is exposing these countries to higher risk than they are able to handle. The other reasons are that countries like Korea had to bear the brunt of exchange rate and interest rate fluctuations (Stiglitz, 2003)

According to IMF official press releases the main causes of the crisis were as follows:

- Fragility of financial sector as well of economic structures
- Lack of information and transparency
- Improper corporate governance system
- Centralization of power to few companies (chaebols) and government
- Decrease in credibility
- Large debts of the chaebols (www.imf.org)

4.2.4 Global reserve system

One way to protect or insure a country against several financial crises like a decrease in global foreign direct investments or a drop-offs in international demands for exports is the global reserve system. Countries usually tend to put aside a certain amount of money in the form of US Treasury bills or gold every year which is supposed to be used in the time of the crisis. The disadvantage of this system is that the cost of this procedure is too high for developing countries. Stiglitz argues that when the return is 1.25 % a negative real return rate it is very profitable for the USA and US Treasury but it hardly promotes any growth for a developing country. Furthermore for a developing country the annual amount can be higher than the financial aid the country gets in the time of the crisis. (Stiglitz, 2003)

4.2.5 Direct external shock factors

According to experts such as J.K. Kim the ‘deteriorated terms of trade and current account deficit’ and ‘contagion effect of currency crisis in Southeast Asia’ had a direct negative impact on Korea. The first argument is connected to the increase of competitiveness of other Easter Asian countries in the area of heavy and chemical industries which had a direct negative influence on the prices of these products. Furthermore the depreciation of Japanese yen was also inflicting on Korea’s exports and more obviously on the corporate profit. (Kim, 2003) In Korea’s case the export decreased by 15% in the 1996-97 and the statistics shows that in approximately 75% countries in which the currency crisis has occurred the decrease in export have been more than 10%. (Caprio & Klingebiel, 1996)

4.2.6 Domestic situation – direct causes

There have been ongoing debates about what was the main internal factor that has caused the crisis. Opinions vary. According to Kim the causes were several, to mention some: non-viability of corporate sector, high portion of short-term debt (also one of the arguments of Stiglitz), weak financial supervision system and structure of excessive dependence on foreign debt. (Kim, 2003) According to other researchers we can add also the high leverage ratios and low Return on Equity compared to the average interest rates. (Lee, Kang, Park, 2002) From the perspective of the organizational behavior another reason can be added, which is the ‘agency theory’. This states that the lower the

percentage of shareholdings by owner-managers, the lower the value of the firm. (Cho, 1999) The problem was that Chaebols' investments were influenced by personal motives, which led to several wrong, non-profitable investments with no or negative returns.

The problem with Chaebols was their close connections with the government and banks. They were allowed to borrow huge amounts of money at low interest rates even though they invested into projects that did not bring the expected returns. The question is, how was this possible, how could the government allow their loans? There are several answers. One of the reasons is based on biases of all involved parties: they thought that the Chaebols are just too large to get bankrupt. (Kim, 2003) The other reason is once more connected to the agency theory: the decisions were strongly influenced by connections and the power certain managers and politicians had. If the above mentioned arguments hold true the unlucky relationships of major shareholders, management and government officials have caused the bankruptcy of almost 50% of all larger companies.

4.3 Stabilization of the economy after the crisis

The Korean economy has been stabilized very quickly and extremely efficiently. There have been several measures undertaken by the government and managers to get the country out of the crisis. The success has been determined by huge restructuring in the private sector and broad legal restructuring under the bankruptcy law.

Korea has been internationally recognized as one of few countries that in the time of crisis was able to quickly respond and make successful financial sector restructuring to

eliminate the insolvency and strengthen the competitiveness of the companies on the international markets. The government took the following actions:

- Closing of non-viable financial institutions
- Up to 30 banks were suspended in 1997 including Daedong, Dongnam, Dongwha, Kyunggi and Chungchung
- Until 2000, 390 financial institutions were suspended or closed
- The corporate and financial sector had to agree on external audits from international accounting firms

The Korean government realized and pursued that the large corporations and Chaebols need to increase the transparency in their investments and overall accounting system.(Kim, 2003) It has insisted on constructing consolidated financial statements such as Statement of cash flows, Income statement, etc. The audit of these companies was supposed to be done by foreign accounting companies from 1999 on. This system of checks has proved that the companies have had huge debts which they were not able to pay back.

Chaebols involved in the crisis have undertaken the restructuring by deliberation with the group of bondholders. Restructuring had three forms in general; agreement on a stay of nonpayment, bank trust system and workout. (Lee, Kang and Park, 2002)

The most frequently used procedure was the workout. It involves both parties; the debtor company and the creditors for voluntary restructuring in the event of contractual default in order to avoid legal bankruptcy. In this procedure the company needs to find an

outside funding, usually a bank. Several large companies have undertaken the workout; one of them was the KOHAP Group. (Lee, Kang and Park, 2002)

Besides the restructuring activities, another important policy that government has implemented was opening of the capital markets and measures to attract foreign investments. The strategy was to open the stock market, bond market and short term capital market. Furthermore the limitations on foreign equity ownership and the ceiling on individual foreign ownership of listed stocks were abolished and foreign investors were allowed to acquire all kinds of securities. (Kim, 2003)

The opening and liberalization of the capital markets was accompanied with changes in the monetary policy, which targets were moved from monetary aggregates such as M2 to short term interest rate. (Kim, 2003) This included as it was mentioned before making the capital markets independent together with monetary policy as well as opening the entire financial market. (Kim, 2003)

The Korean government has also adopted certain changes in the interest rate policies as it was recommended by IMF. The government had to respond immediately to prevent capital outflows and obviously to attract capital inflows. One of the strategies was to raise inter-bank call rates to more than 30% to quickly stabilize the exchange rates. (www.imf.org)

Impacts of the government restructuralization and adjustment of laws have been very significant especially on the working class. According to the Korea Herald: “the number of irregular workers, which includes part-time and short-term employees whose

contracts run for a year or less, has rapidly grown since the currency crisis in 1997 sent the unemployment rate to a record high ... As of June (2000), irregular workers made up 53 % of the nations 13.3 million paid workers.” This has been partially a result of the law changes that the tripartite (government, management and labor) had agreed on. Since 1998, according to the law layoffs due to managerial or company difficulties were allowed, allowances for extended work times, prohibition of wildcat strike and the right to substitute workers in the time of labor strike has become officially legal.(Hart-Landsberg, Burkett, 2002)

This police has indeed improved and in certain cases solved complicated situations in many companies but had huge negative social impacts.

Therefore the government has undertaken several steps to improve the unemployment problems and offered several projects such as:

- ✓ Early implementation of public works projects
- ✓ Increase major SOC investment projects
- ✓ Job creation with support of major companies
- ✓ Increase unemployment benefits
- ✓ Increase social safety net such as loans for minimum living expenses

(Kim, 2003)

The costs were too high for the working people even though the government statistics show and interpret the data different. First of all the government data shows that there has been a large increase in the full time workers wages since the crisis but the

pitfall of this theory is that the improvement is smaller compared to rapid decrease in the number of full time employees.

The government also states that there was a significant decline in the official unemployment rate since the crisis, which again can be interpreted differently. For example the government statistic is adding part time workers to the overall. (Hart-Landsberg, Burkett, 2002) These new social policies have had a direct impact on widening the gap between poor and rich. The country's Gini index has shown an increase in 1998-2000.

4.4 Public funds

Last but not least factor that have helped Korea were the public funds. The funds were used in supporting financial institutions and depositors to overcome the financial problems. (Kang, 2004) The most crucial stage was in the years 1998 – 2000. The government and Bank of Korea have used adequate size of public funds to ease the problems in the financial sector. They have disposed distressed assets expeditiously and established loss sharing rule among stakeholders by market discipline. (Kang, 2004)

In order to precede this there had to be certain institutional arrangements made. A Restructuring Planning Unit inside of Financial Supervisory Unit was established. This new crisis management team a specific purpose: directing technical matters in financial and corporate restructuring. (Kang, 2004) The implementation agencies were KSS (supervising all financial institutions), KDIC (resolution of financial institutions),

KAMCO (disposition of distressed assets from all financial institutions) and CRCC (mediation of participating financial institutions in the agreement). (Kang, 2004)

4.5 Leadership of Korean government

Korea has been through a very hectic and difficult period of time during the crisis but it has managed to overcome the problems and restart the economy. So who is responsible for such an enormous success and achievements? The Korean government has been given the credit not only from the Korean society but also it has received huge applause internationally.

According to Kim the main roles of the government were: mobilization and allocation of resources, stabilization of the economy and promotion of technological development. Followed by:

- ✓ Guardian of political stability
- ✓ Provider of development funds
- ✓ Major investor in industries of the country
- ✓ Investment decision for private enterprise
- ✓ Main motivator
- ✓ Preservation of law and order
- ✓ A strong agent of social change
- ✓ Protector of social security

(Hyun, Oh-Seok, 2003)

The most important factor was the government's quick and effective response to the emerging problems. It had stabilized the macro and micro economic environment and offered strong legal background to the country. It has also promoted an export oriented trade policy, opened the capital markets and gave relatively low price distortions policies

The government also led a market friendly view which was accompanied by rapid growth. In this context "market friendly policy" describes the support of investing into human resources, ensuring competition on the domestic market, ensuring competitiveness on the international markets and maintenance of openness to international investments. (Hyun, Oh-Seok)

The Korean leadership's commitment to development and changes played a great part in the stabilization process. The president, the government and the Economic Planning Board have been responsible for planning, implementation and evaluation of the successful measures for the economic development in Korea.

4.5 Conclusion

This case study tried to briefly examine the internal and external causes of the Korean financial crisis and the response of the Korean government. Prior to the financial crisis the Korean government gave many advantages to the business sector which almost caused the country's economic collapse. The favors given had impact on the companies' decision making processes. The reaction of the market was predictable and led to limited

competition for the big business. The result was low profitability and high leverage ratios. The situation got even worse for the Korean companies internationally, as the markets were entered by highly competitive companies from other East Asian countries such as China, Indonesia or Malaysia. Short after the beginning of the crisis, Korean government has undertaken several very effective steps to overcome the crisis as soon as possible. It involved restructuring of the public and private sector, liberalization and opening of the capital markets for foreign investments and adjustments of the legal basis.

Unfortunately the restructuring process included disadvantages for the working class in the form of massive layoffs and rising poverty. To follow the advice of many international institutions Korean government tried to prevail over these unlucky circumstances with social protection system.

As H. Heine said: "Experience is a very good school, but the tuition is too high." The Korean experience during the crisis has been very painful as for the government as for each individual, everybody had to give up something in order to triumph over later on.

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