PROSPECTS STILL ROSY FOR THE KOREAN ECONOMY NEXT YEAR

A Look-back at This Year

This year, Korea has undergone remarkable political and economic development. On June 27, local elections were held in Korea for the first time in more than 30 years, attesting to Korea's firm drive to become an advanced democracy. In the economic sector, Korea broke the US$100 billion barrier in annual exports on October 28, which is all the more remarkable since it only reached the US$10 billion mark in 1977. In addition, per capita GNP, which was only US$1,000 in 1977, will reach US$10,000 by the end of this year.

There were other encouraging signs as well. For example, Korea will become the world's fifth largest automobile maker by the end of this year. During the first three quarters of this year, Korea produced a total of 1,880,945 units and is expected to produce 750,000 units in the final quarter. Korea has also fared well in the semiconductor industry. Its share of the world's memory chip market increased from 9.7 percent in 1990 to 21.6 percent in 1994. Nonetheless, Korea's overall semiconductor industry, lags far behind those of the advanced countries with respect to design, basics, material equipment and non-memory chip parts. More active investment in R&D is needed for the semiconductor industry to overcome these weaknesses.

Clouds on the Horizon

Despite the rapid growth in exports and GNP, there were some indications of economic trouble. Externally, the trade deficit continued to widen, while internally industrial bi-polarization between the light and heavy-petrochemical sectors has been deepening. The widening trade deficit was caused by structural problems such as a lack of adequate precision machinery and new materials as well as a shortage of natural resources. Eventually increasing exports will require more imported capital goods to produce commodities. Furthermore, difficulties in obtaining capital funds by small and medium-sized firms due to the inefficiency of the banking industry, the shortage of less-skilled workers and the low export competitiveness of light industry goods in comparison to other developing countries are causing a deepening industrial polarization in the Korean economy.

Nonetheless, from an overall point of view, theeconomy has experienced a high and steady growth expedited by brisk exports and substantial facility investment as well as a low inflation rate. Exports have been led by goods from the heavy-petrochemical and semiconductor industries, areas with particularly high facility investment.

What's in Store Next Year

Compared to the projected 8.8 percent GDP growth this year, the economy is forecasted to grow at an annual rate of 7.6 percent next year, mainly due to slowdowns in facility investment and exports. Facility investment will grow at an annual rate of 9.1 percent next year, down from an expected 17.2 percent growth this year. The slowdown in exports which has been anticipated for some time is causing most firms to decrease their facility investment next year. Instead, firms will focus on accelerating industrial restructuring and promoting the capital goods industry rather than expanding their production capacity.

Although price increases were not particularly worrisome this year, the inflation rate could become a cause of concern for next year. The projected boom in the real estate market due to the introduction of a global financial income taxation system, increasing public utilities rates and the upcoming national elections will raise expectations of inflation. The anticipated stable prices of foreign raw materials, especially oil, and a stable monetary policy, though, will ease further increases in price levels. All in all, consumer prices will rise around 5.2 percent next year, up from an annual increase of 4.7 percent this year. Thus, in order to maintain economic stability, trends in price levels need to be carefully monitored next year.

Other Economic Developments

The won's current appreciation against both the dollar and yen is expected to continue next year due to the influx of foreign investment capital into the Korean capital market and expectations of a narrowing trade deficit. We do not, however, believe that these exchange rates will abruptly or sharply change next year.

Lately, the money market has been enjoying abundant liquidity and low interest rates. The current downward trends in both short-term and long-term interest rates will last for the time being. The low and stable interest rates may help the Korean economy avoid a recession next year.

Trade friction with developed countries such as the U.S. and the EU member nations will most likely increase next year. Thus, the government should fortify its trade diplomacy by utilizing multilateral channels and regional cooperation to meet the challenges of the changing global economy. In addition, the diversification of import and export markets should be actively pursued.

The unemployment rates for this year and next year will most likely remain relatively low. Even small and medium-sized businesses are having difficulty finding less-skilled workers. Thus, it is recommended that better labor supply policies be implemented to stimulate more labor participants to enter the job market – for example, the elderly, young people and women. In addition, developing a foreign technical trainee system can help diminish the labor shortage.

From an Overall Perspective

Until now we have briefly examined the future performances of each sector for next year. Overall, expectations for the Korean economy next year are as rosy as they have been this year, and it is believed that the economy will make a soft landing in the first half of next year. However, even though the problems of the trade deficit and industrial polarization may abate somewhat next year, they will not be easily or completely resolved.

Finally, to hone the nation's competitiveness, the government should continue to expand infrastructure, nurture the capital-goods industry, develop technology and train the labor force with educational reforms. In addition, Korea needs to develop high value-added products and state-of-the-art goods to strengthen the competitiveness of domestic industry. VIP

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