

PERSPECTIVES FOR KOREAN INDUSTRIES IN 1996

The Following presents outlooks on Korea's major manufacturing and construction industries in 1996.

Steel Industry

The domestic demand for steel products in 1995 is estimated to rise by 10.4%, a fairly strong growth rate, while its supply will post a 8.7% increase, helped by the expansion of production capacity. Consequently, the stringent market situation in 1994 which resulted from a steep increase in demand and a supply shortage improved greatly this year. In 1996, the demand for steel products from domestic industries is expected to rise at a mere 6.2% rate, as the overall economy is expected to undergo a 'soft landing.' Meanwhile, a slight excess in supply is likely to appear in the international market. As a result, the excess demand in the domestic market will continue to lessen in 1996. However, the sub-markets of high quality products such as plates, hot coils, and products for automobile and shipbuilding industries will still experience supply shortages. Therefore, next year's primary concern within the industry is how to secure imports of these high quality products. In the long run, however, producers should seek to continuously expand their production capacity or to enhance their productivity in order to effectively avoid the chronic shortage in the domestic market.

Petrochemical Industry

The year 1995 has been very good for Korea's petrochemical industry. In spite of a disappointing performance in China, a major

export market, Korean firms will record big profit gains due to significant increases in both domestic demand and exports. Several factors have enabled this spurt in 1995: booms in domestic forward industries, an expansion of production capacity, a demand increase from southeast Asian countries, and the price advantage gained from the high yen. Though some analysts speculate the so-called 'early depression scenario' regarding the market situation within next several years, the petrochemical industry is generally expected to show solid performances until 1997, when the newly constructed plants in the southeast Asian countries begin full-scale operation. In 1996, however, the overall macroeconomic downturn and the highly appreciated Korean won are likely to moderately pull down the growth of the petrochemical industry.

Semiconductor Industry

Sales and exports of semiconductors in 1995 continued to sky-rocket. The export growth rate in 1994 was 61.7% and is estimated to be 67.7% this year. This super-boom situation will continue in 1996. HRI expects increases of 51.6% and 50.3% in exports and production, respectively. The optimistic prospects are based on the expectation that the growth of demand for memory chips will remain steady in the years to come. In fact, many analysts agree that the widespread use of Pentium chips and the sales of 'Windows 95' will trigger a replacement and upgrading boom in the PC market. Another

reason supporting the bright view for 1996 is the home PC market's expansion backed by the emergence of multimedia peripherals markets. Also, from 1996, 16M DRAM chips will begin to replace 4M DRAM chips in many market sectors. As long as Korean firms dominate the world's 16M DRAM market, they will maintain high export growth. Despite the Japanese and Taiwanese plans to expand their production facilities, the overall outlook for the Korean industry is bright in the near future, because of the rapidly growing demand for various kinds of semiconductors.

Automobile Industry

Domestic sales are expected to hit 1.55 million units this year, a drop from last year's performance. Though the domestic market will pick up slightly to 1.62 million next year, this generally low growth trend will continue for a few more years, because Korea's domestic market is already saturated. What is worse for the Korean automobile industry is the rapid expansion of import car sales. Meanwhile, exports have fared reasonably well this year, and next year the export figure will reach 1.3 million cars, recording a 26% increase. As the domestic market is limited for the time being, Korean automakers should make use of more aggressive marketing strategies in foreign markets. In particular, they need to cut down the costs of parts supply and to develop new models aimed exclusively for foreign markets.

Shipbuilding Industry

From the beginning of this year, the 'super yen' and the aggressive marketing strategies of Korean shipbuilders helped to pick up new orders from foreign shipping firms. By the end of this

year, total new shipbuilding orders will amount to 6.5 million GT (gross tonnage), which would be slightly more than Japan's total of shipbuilding orders for this year. In the world's shipbuilding market (20-25 million GT per year, on average), where Korea and Japan share more than 60%, the relative price advantage between Korea and Japan is primarily determined by the exchange rates of the Korean won and the Japanese yen. But since the yen has ceased to rise and the Korean won began appreciating in August, next year's outlook for Korean shipbuilders' new orders is not as bright as in 1995. With a substantial amount of backlogs, however, sales and exports will show a steady growth in the next year. But the new shipbuilding orders are expected to remain just below 6 million GT in 1996.

Construction Industry

The growth rate of new construction orders is estimated to drop from previous year's 24.4% to 16.2% this year. In particular, the second half will post a mere 14.1% growth for several reasons, including the introduction of a real name real-estate transaction system, the accumulation of non-sold apartment units, and unsuccessful private financing schemes for major SOC construction projects. Forecasting the growth rate at around the 15% level which is below this year's, experts think that this situation will continue in 1996. Moderate expansion of public SOC projects is likely to make up for the generally sluggish private sector and will lead next year's construction industry. In the private sector, residential construction will be better off than this year's while the overall downturn of the macroeconomy will primarily damage commercial building construction. **VIP**

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