

CLOUDY HORIZONS FOR THE NATIONAL ECONOMY THIS YEAR

*Strong Won Causing Trade Deficit to Increase*

Through February, the trade deficit, calculated on a customs-cleared basis, stood at \$3.57 billion, compared to a deficit of \$2.67 billion during the same period last year (Jan: \$1.98bil., Feb: \$1.59bil.). February's exports marked a growth of 17.2 percent from a year ago to reach \$9.88 billion, while imports did a 15.9 percent gain to reach \$11.47 billion due to increases in the import of private consumption commodities and decreases in export prices of semiconductors.

Furthermore, the steady appreciation of the Korean won and depreciation of the Japanese yen against the U.S. dollar will force domestic firms to lose their international competitiveness in major overseas markets. In addition, a large amount of foreign capital funds will flow into the Korean stock market this year due to the government's planned expansion of foreigners' stock investment ceiling (April: 18% , end of this year: 20%). This

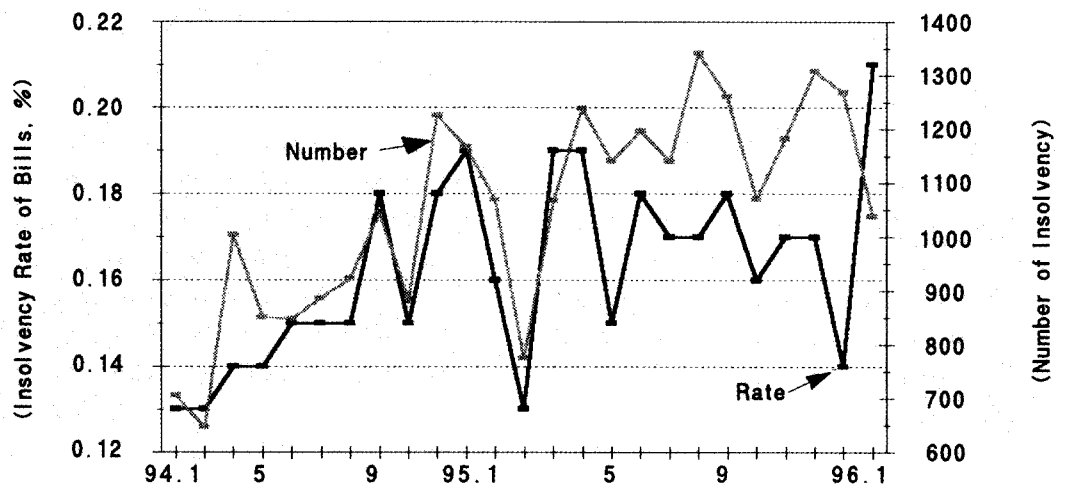
massive inflow of foreign capital into the nation will further appreciate the Korean won against the dollar and lower the price competitiveness of Korea's products in the world markets, resulting in a snowballing trade deficit. Thus, this year's trade deficit will surpass the early projections of most institutions unless exports are boosted by the depreciation of the Korean won.

*Sharp Rise in the Insolvency Rate of Bills*

The insolvency rate of bills issued by domestic companies stood at 0.21 percent in January 1996, compared to 0.14 percent from a year ago. That is, the number of bankrupt companies increased from 775 to 1,038 during the cited period. In addition, non-Seoul-based firms (0.59 percent) suffered a higher rate of bills dishonored than Seoul-based firms (0.15 percent).

January's sharp increases were caused by the

*"This year's trade deficit will surpass the early projections."*



recent industrial bipolarization between light and heavy-chemical industries and the bankruptcy of Woosung Construction Ltd. The increases in inventories from the second half of last year and inactivity of the construction business have also affected most firms, especially small and medium-sized manufacturing firms and construction companies.

The recent rise in the insolvency rate reflects the slowdown in the national economy as well as the transition of the industrial structures. For example, the core of the manufacturing sector has moved from the light industries—for example, textiles and shoes—to the heavy-chemical and high-tech industries. Thus, small and medium-sized firms are finding it hard to escape the present situation unless they make specialized items.

*This Year's Wages Not Settled Yet*

Every spring, wages should be determined by the labor representatives and management of each company. To avoid labor disputes, delegates for both labor and management have proposed average wage increase rates, as has the Labor Ministry. The Federation of Korean Trade Unions (FKTU) has asked for an average wage increase of 12.2 percent; however, the Korea Employers' Federation (KEF) has responded with 4.8 percent.

The Government has suggested a wage increase guideline ranging from 5.1 percent to 8.1 percent (5.1%~6.6% for large businesses, 6.6%~8.1% for small businesses). Furthermore, the newly organized labor delegate, the Liberal Federation of Korean Trade Unions (LFKTU), has requested an even higher rate of 14.9 percent. Because of this large discrepancy among these delegates, reaching a wage accord this year will most likely be difficult, although labor disputes are unlikely to happen.

The unemployment rate recorded an all-time low last year and it will remain relatively low this year as well. The import of foreign technical trainees from abroad which was initiated in 1993 is likely to increase this year due to the shortage of workers in small manufacturing sectors.

The increase rate in private consumption in January only marked 5.3 percent, as compared with the 8.7 percent of December 1995, and the increase rate in inventories increased by 1 percent. Unstable consumption prices and the import price of oil could further aggravate the economy.

Thus, with such clouds on Korea's business horizons, it is difficult to say much about this year's economic performance until the first half of this year. The present bear market also shows that most investors are having a hard time predicting the national economy well at this time.

VIP  
(Chan-Jin Kim)

*"Reaching a wage accord this year will most likely be difficult."*

Table I : Korea's Export Distributions by Area(Weight : 0~1)

Area	Year	1990	1991	1992	1993	1994	1995
Developed Countries		0.70	0.62	0.56	0.52	0.51	0.50
	U.S.	0.30	0.26	0.24	0.22	0.23	0.19
	Japan	0.19	0.17	0.15	0.14	0.14	0.14
	EU	0.14	0.14	0.12	0.11	0.11	0.13
Developing Countries		0.30	0.38	0.44	0.48	0.49	0.50
	China	0.01	0.01	0.03	0.06	0.06	0.07
	ASEAN	0.08	0.10	0.11	0.11	0.12	0.03