

Trade Deficit with U.S. Nearly Doubles Last Year

Korea's trade deficit with the United States nearly doubled last year to \$11.58 billion. According to the Korean Customs Service (KCS), this figure constitutes half of Korea's total trade deficit, which amounted to \$23.08 billion last year. Exports from Korea to the United States decreased by 10 percent from the previous year, while imports from the U.S. jumped 9.5 percent during the same period.

The price drop in dynamic random access memory (DRAM) chips was credited as the main culprit of Korea's export woes last year. In fact, total DRAM exports decreased some \$1.4 billion, constituting 59.3 percent of last year's decrease in exports. Light industry product exports, such as clothing and footwear, also plunged sharply, illustrating Korea's lack of competitiveness against cheaper and similar quality products from developing countries, especially China, in the large U.S. market.

Imports of non-durables, such as cosmetics, cigarettes, clothing and footwear, soared 52.2 percent, as did imports of durables, such as automobiles, kitchenware, and golf clubs, which rose by 8.8 percent from the last year. Imports in sectors that deal in capital concentrated materials, especially those in the information and communications industries, increased by 12.7 percent.

Korea To Utilize WTO Settlement Procedures This Year

Korea will positively utilize WTO (World Trade Organization) procedures this year to settle pending issues with the United States, according to a seminar sponsored by the Korea Chamber of Commerce and Industry.

Han Young Soo, director-general for bilateral

trade affairs at the Ministry of Trade, Industry and Energy said that Korea's trade policy this year will focus on making good on existing trade pacts between two countries, but also that Korea will resort to the WTO dispute settlement procedures if bilateral solutions become difficult.

At the seminar, Wang Yoon-jong, a fellow at the Korea Institute for International Economic Policy (KIEP) contended that Korea needs to set up a working-level dialogue channel with the United States to smoothly solve bilateral trade issues through negotiation. He also predicted that the United States is likely to take an all-out offensive stance on market opening during the WTO multilateral trade talks on communications, finance, and information technology this year.

Banks' Credit Ratings Suffer in Wake of Hanbo Collapse

In the wake of the insolvency of Hanbo Iron & Steel Co, Hanbo's creditor banks are likely to suffer a considerable drop in their international credit ratings. Recently, the U.S. credit-rating company, Moody's Investors Service Inc., placed Korea First Bank, Cho Hung Bank, and Korea Exchange Bank on its watch list. These banks have outstanding loans to Hanbo ranging from about 450 billion won to 1.1 trillion won.

At present, Korea Exchange Bank, Cho Hung Bank and Korea First Bank have ratings of A3, A3, and BAA1 on Moody's scale, respectively.

Besides the watch list, Moody's will soon dispatch a fact-finding mission to Korea in order to obtain a clean picture of the present situation of Hanbo's creditor banks. Even third-party Korean banks, which have very few loans to Hanbo are suffering from the fallout among its foreign partners. A German financial institution recently rejected Hanil Bank's application for swap trading, citing the uncertainty of the Korean market.

KOTRA Agree to Emphasize "Export First Policy"

The heads of the overseas bureaus of the Korea Trade-Investment Promotion Agency (KOTRA) agreed to make exports their top priority in 1997. Kim Eun-sang, president of KOTRA, said that the organization had decided to turn back the clock to the 1960s when the nation's motto was "Export first."

KOTRA held its annual KOTRA Directors' Meeting in Cairo, Paris, and Moscow, January 12-19, respectively, bringing together the heads of some 46 overseas bureaus in the African-Middle East, European and East European regions.

The regional bureaus in Africa and the Middle East reported encouraging prospects in the utilities export sector, particularly, in the polypropylene and polyethylene product manufacturing industries. Utilities exports have an added advantage in that foreign buyers are likely to ask Korean exporters for the raw materials to be used in the manufacture of the products.

The European bureaus, determined to invigorate decreasing Korean exports to the region, are studying alternative products that will appeal to the local consumer. KOTRA had attributed the decline to the region's weakening economic conditions. As a result of a sluggish economy, consumers are turning to cheaper products of passable quality. In line with this, sales of Korean automobiles and personal computers have been steadily on the rise.

The KOTRA bureaus reported that exports to the East European region look the most promising, with Korean exports to Russia, for example, jumping by 50 percent last year. The East European region is one of the few regions where Korea is recording trade surpluses. In particular, Korean exporters should take advantage of Russia's privatization plans, target utilities and

machinery exports and consider jumping into the ever-widening scope of the distribution industry in this country, according to a KOTRA report.

The overall emphasis of each meeting was on strategies to increase exports in each region. Each regional bureau decided to draw up a list of promising products manufactured by small- and medium-size industries, which contribute most to increasing overseas exports.

Over-Regulated Financial Market

The U.S. Securities Industrial Association (SIA) evaluated some of Asia's major financial markets, including Korea's, as yet over-regulated and urged U.S. trade officials to eliminate the barriers during the World Trade Organization negotiations scheduled to start in Geneva this April. According to a report by the SIA, despite moves toward deregulation, there remains strong regulatory control of all aspects of business in Korea.

The SIA cited complex licensing issues, limited transparency and the protection-oriented government as major investment barriers in Korea. They added that despite the continuing deregulation drive, market restrictions are expected to be lifted gradually to avoid upsetting the economy.

The report analyzed the financial sectors of 10 major Asian countries, such as Korea, China, Hong Kong, India and Taiwan. It outlined key barriers in those markets that obstruct U.S. investors seeking investments.

In addition, the report said that despite limited access to these markets, the United States invested some \$35 billion in equities in the 10 Asian nations from 1990 to 1996. The amount constitutes 13 percent of the total U.S. overseas investment during the same period. **VIP**

Solving the Trade Deficit Problem - cont'd

(Lee and Yang)

firms will have to worry more about market performance and less about the government rationing of financial resources. In principle liberalizing the real sector will also help eliminate the inefficiency of the protected markets; however, the completion of that process might take, if anything, more time than financial liberalization alone, as it involves many more political dimensions to it. Therefore, financial reform could be a more viable and less painful method to restructure the economy.

Even though the financial reforms should directly lower the enormous financial costs of Korean firms and indirectly induce more managerial accountability to the stockholders by firms, there are reasons for skepticism as well. The government has sung about financial reforms for ten years or so, with little significant progress made so far. Therefore, as skeptics argue, only a big bang-type reform will do the trick, which implies a lot of political risks and uncertainties. However, any other measure will involve no less political problems. Besides, since there is the OECD agenda of financial liberalization quickly being carried out, there is not much time left for procrastination. In whatever form, therefore, we can probably expect some major economic reform on the horizon. In the meantime the trade deficit problem is here to be with us at least for years, but hopefully in a more manageable way. **VIP**

From Rivalry to Co-Development - cont'd

(Oh)

Given the lack of mutual understanding and the common frame of discussion, and with the prospects of survival of the Pyongyang regime, Seoul needs to adjust its policy toward the North. It cannot expect one day for the Pyongyang

regime to fall apart and the people in North to be willing to come to the DMZ for aid. Even in the case of internal disruptions in the North, the possibility is that the chaotic situation may not be handled by the sole hand of Seoul. Core communists and armed forces will ask for support from China and China's response could be different from that of Gorbachev's Soviet Russia toward GDR. Thus, a likely scenario is a multinational consortium, comprised of the U.S. Japan, Russia, and China, as well as South Korea, taking care of the things that would be occurring in the North. Seoul might have to make some promises to these countries on the future policy after the unification in a way to bind the freedom of action as an independent country. To prevent this undesirable result from occurring, it might be more prudent to support the North's economic development and expect the totalitarian grip of the Pyongyang regime to loosen in the wake of a new and modern way of life. For this to come true, Seoul may have to endure its evil brother's awkward arrogance for the moment.

It may be better to divide the political and economic arenas in a way that the political does not affect the economic in dealing with the North. Many have pointed out that the anti-leftist stance against the North has helped the conservative governing party to win in elections. It is undeniable that confrontation with Pyongyang was used to mobilize the conservative vote in the South. To safeguard the peace and stability and ensure a smooth transition in the North's economic system, we may as well adjust our goal from victory in the contest of wills to co-development with the North for the time being. Reunification in Korea might follow the still-forming Chinese style, rather than the German style, where political tension coexists with economic cooperation. In addition, this co-development strategy seems to be a much better option to taking over a devastated economy as a result of the improbable sudden collapse of the North. **VIP**