BELT-TIGHTENING FOR MORE COMPETITIVENESS

"In particular, the serial bankruptcies of major corporate groups such as Hanbo, Sammi, and Woosung have proven that Korea needs the reformation of a broad range of economic areas to improve its national competitiveness."

"This plan focuses on the stabilization of inflation rather than an artificial decrease of current account deficit."

According to the report on Korea's national account in 1996 released by the Bank of Korea, the GDP growth rate lowered to 7.1% from 8.9% in 1995. The private consumption rate also decreased from 8.3% to 6.9%, while investment dropped down to 8.3%, which is much lower than the 15.8% of 1995. As the domestic economy slowed down, exports and imports became inactive. The growth rates of exports and imports were 14.1% and 14.8%, respectively, in 1996, as compared to the 24.0% and 22.0% in 1995. The gap between investment and savings grew even wider. The gross investment ratio in 1996 was 38.6%, which is four percentage points higher than the gross savings ratio of 34.6%. This 4% gap is even bigger than the 1.2% gap recorded in the preceding year. This gap would imply a huge current account deficit, which is indeed one of the most serious problems of the Korean economy today.

The economy continues to worsen in the early part of 1997 without showing any sign of recovery. The recession persists, the current account deficit is getting larger and the financial market is becoming more unstable. The corporate bond rate has hiked up to 12.85%, and the exchange rate has climbed up to 884.40 as of March 20. The trade deficit during the first two months of this year totalled $ 5.5 billion, which is the biggest ever. The more pressing problem, though, lies in the structural inefficiency. In particular, the serial bankruptcies of major corporate groups such as Hanbo, Sammi, and Woosung have proven that Korea needs the reformation of a broad range of economic areas to improve its national competitiveness. Without the restructuring efforts, the Korean economy will dip down into a long recession which it has not experienced before.

The government revised its economic management plan for 1997 on March 20, when the newly-appointed Deputy Prime Minister/ Minister of Finance and Economy Kang Kyung-Shik held a joint press conference with the ministers of the other economy-related ministries. The core of the plan is "the reformation of the economy based on stability," which is similar to that of the former plan. To achieve this, the government is willing to endure a lower growth rate of even 5%. This plan focuses on the stabilization of inflation rather than an artificial decrease of current account deficit. Minister Kang announced that the government will do its best to keep the inflation level under 4.0%, even lower than the initially planned 4.5%. On the other hand, he did not suggest any specific target level for the current account deficit, as opposed to the $14~16 billion in the former plan, and just said that it would try to decrease the deficit as much as possible. The Government seems to recognize that there is no policy that will decrease the current account deficit dramatically, because it is hard to control exports and imports effectively in an opened world economy.

While the Government did not say how much the current account deficit will be reduced, it did announce how it intends to help to reduce it. One is tightening government spending, and the other is improving energy efficiency. The government plans to reduce its tax revenue by about $2.7 billion and limit its spending. The areas in which spending will be limited even include SOC investment, which is certainly one of the most important sectors in advancing the economy. The government is also planning to raise energy prices to induce efficient energy consumption. Gasoline prices have already climbed more than 30% from last December and prices for other forms of energy such as LPG and LNG will also be raised.

To strengthen the national competitiveness, the plan announced that the liberalization of economy will be pursued strongly. This plan includes not only the introduction of increased competition but also the encouragement of promising venture-capital firms. In particular, it will promote the reform of Korea's financial system based on the suggestions of Presidential Commission for Financial Reform. In addition, the authority for liberalization will be given over to the Fair Trade Commission to ensure a more systematic performance. Since the best way of improving competitiveness is to make the market more competitive, liberalization will be promoted in a broader range of economic activities: industry, government regulation, privatization of public service sector, and market opening, among others.

The plan shows that the government recognizes how serious the economic realities we now face are. Minister Kang admitted that the government is not able to resolve pending problems in the short term. Even though the base line of the plan, "the reformation of the economy based on stability," requires long-term hard efforts, it is the only adequate choice for the government. It will require some sacrifices like reducing economic growth and increasing unemployment. This kind of sacrifice is very unpopular especially during a presidential election year. It is possible that political logic will dominate the economic logic like before to delay unpopular reform efforts and boost the economy in the short term. However, the new economic team led by Minister Kang confirmed that they are not going to change their plan according to political concerns.

Given the economic management plan for 1997, firms will suffer from a serious recession in domestic market for a while. The most dramatic change will be in the financial market. Financial institutions will be actively restructured through M&As among them. Liberalization also will introduce the domestic market to a more competitive environment. Competition among domestic and foreign corporations will be more severe under rules which only guarantee fairness. It will be hard to expect strong government support like before to overcome the economic difficulties of the private sectors. This is the right time for Korean firms to improve their competitiveness and learn survival skills by themselves. VIP

(Tae-Yol Lee)

"It will require some sacrifices like reducing economic growth and increasing unemployment."

"Competition among domestic and foreign corporations will be more severe under rules which only guarantee fairness."

〈Table 1〉 National Account 1996

(year to year %)

	1995	1996				
		Total	1/4	2/4	3/5	4/4
GDP	8.9	7.1	7.8	6.9	6.6	7.2
Private Consumption	8.3	6.9	7.7	7.4	6.2	6.5
Equipment Investment	15.8	8.2	4.9	4.6	9.3	13.7
Export	24.0	14.1	20.3	10.0	8.2	18.5
(Product)	(25.3)	(14.5)	(23.0)	(9.9)	(6.5)	(19.8)
Import	22.0	14.8	16.3	12.5	12.6	17.6
(Product)	(21.3)	(13.9)	(16.1)	(11.2)	(12.2)	(16.2)
Gross Investment Ratio(%)	37.4	38.6	-	-	-	-
(Private)	(25.7)	(23.7)	-	-	-	-