

EXPORT TRENDS AND PROSPECTS IN MAJOR SECTORS

Chang-Wook Kim
(cwkim@hri.co.kr)

Overview

Exports in the first quarter reportedly decreased by 5.6%, and those for April also dropped by 3.9%. Fortunately, the statistics for May and June showed an improved picture. Nevertheless, many experts agree that exports should replace consumption in leading the recovery.

In order to analyze the situation correctly, one needs to exclude some misleading factors. At the beginning of last year, exports were increased temporarily by some unusual factors such as the export of collected gold and also idle facilities. If these factors are excluded, the actual export growth rate of the first quarter is estimated to be 3.3%. Nonetheless, this export growth rate is still not very high.

Looking at the export situation more closely, the export stagnation does not extend to all of

the major sectors. While some sectors are indeed suffering from deep stagnation, others are enjoying rapid expansion. In other words, the export situation is polarized among the various sectors. Exports from January to May of this year increased by as much as 40.0% in the information and telecommunication equipment sector, by 10.9% in semiconductors, and by 4.9% in automobiles.

On the other hand, exports of steel decreased by 19.2% and that of petrochemicals also decreased by 10.7%. In the case of export-expanding sectors, their good performance was mainly due to internal and long-lasting improvements such as the opening of new markets and improved consumer appreciation of their goods. But in the case of export-contracting sectors, the reasons were mainly the result of negative external changes such as the tightening of import restrictions in foreign countries and a worldwide drop in prices due to oversupply.

Figure 1. Recent Trend in Exports

	Jan. 99	Feb. 99	Mar. 99	Apr. 99	May 99	Jan.~Mar. 99	Jan.~May 99
Amount	9,261	9,335	11,705	11,561	11,519	30,301	53,382
Growth rate	2.9	-16.7	-2.4	-3.9	1.9	-5.9	-4.0

Source: KOTIS

Figure 2. Export Growth by Sector (Jan. 99~May 99)

Automobiles	Semiconductors	IT Equipment	Steel	Petro-chemicals	Machinery
4.9	10.7	40.0	-19.2	-10.7	-3.5

Source: Ministry of Commerce, Industry and Energy

Automobiles

Automobile exports have been increasing continuously this year. In terms of volume, exports from January to April have increased by 8.1%. The main reasons for such an increase are the big increase in mini-car exports to Europe and the improved appreciation of Korean cars in the U.S. market. In addition, higher-end models, which had never been sold

In the second half of this year, automobile exports are expected to increase continuously mainly because of enhanced foreigners' confidence in the stability of Korean makers as the "Big Deal" process is coming to a close.

in foreign markets before, have begun to be exported in substantial scale by Hyundai Motors. In addition, exports to the U.S. are increasing rapidly, thanks to the improved quality of

newer models, aggressive marketing tactics such as extended warranties, and also the entrance of Daewoo to the U.S. market.

In the second half of this year, automobile exports are expected to increase continuously mainly because of enhanced foreigners' confidence in the stability of Korean makers as the "Big Deal" process is coming to a close. The introduction of new sub-compact models and RVs to the market and domestic makers' determined efforts to boost exports in light of the stagnation in the domestic market will help reinforce this confidence. However, negative factors such as potential trade conflicts and a drop in the won/dollar exchange rate could negate such an optimistic outlook.

Information and Telecommunications Equipment

This sector is exhibiting the most rapid expansion in exports. The explosive growth has mainly been driven by

mobile telecom equipment, exports of which increased by 86.8% in first quarter. This is the result of the fact that Korea has become the leading world wide supplier of CDMA equipment. In the case of computer systems, even though the overall amount of exports was relatively small, the growth rate was as high as 294.9%. Such a big increase was due to the great popularity of ultra-low-price PCs made by domestic firms in the U.S. market.

As is well known, the global information and telecommunications industry continues to grow very rapidly. At the same time, domestic makers are expanding their export horizons. In addition to traditional markets such as the U.S. and the EU, new markets such as China, Brazil, Hong Kong, and Japan are becoming of ever greater importance. In light of these factors, it is expected that the rapid growth of IT equipment exports will continue through this year and beyond.

Semiconductors

Since the end of last year semiconductor exports have rebounded, recording double-digit monthly growth rates until April. This rebound was mainly due to the upturn in DRAM prices since July last year. The spot market price of a 64M DRAM rose from \$7.50 in June last year to \$10.30 at the beginning of this year. In addition, this upturn allowed domestic makers to boost production, which had been constrained before. However, DRAM prices started to drop again in March this year. By mid-June this year, the price of a 64M DRAM had dropped to lower than \$5. As a result, the monthly export growth rate in May decreased to 2.5%.

Prices are expected to continue falling for the next several months and will be stabilized only in the fourth quarter. On the other hand, production of domestic makers will increase rapidly and the 128M market, where domestic

makers have taken the lead, will expand substantially this year. Therefore, exports during the second half of this year are expected to continue to increase in spite of the price drop. Furthermore, exports next year are expected to increase substantially as DRAM prices recover.

Steel

In the case of steel, exports have slumped heavily since December last year. The reasons for this prolonged decrease are the limited allocation of production to exports due to rising domestic demand and the tightening of import restrictions in the U.S. and China. Steel production is restricted by the facility capacity amount in its nature, and domestic demand is satisfied first, while foreign demand is met with remaining capacity. For this reason, if domestic demand increases, exports decrease. In addition, the U.S. recently imposed high anti-dumping tariffs on Korean steel and China has designated an import quota on Korea.

It is expected that exports will be restricted for the time being because of the above-mentioned factors. The domestic demand for steel will continue to increase, and the import restrictions of the U.S. and China are likely remain in place, if not strengthened. On the other hand, the slightly rising price of steel plates such as hot-rolled products may lead to a rise in other products' prices. However, this price increase is quite limited and not enough to compensate for the decrease in the export amount.

Petrochemicals

The petrochemical sector is also suffering from stagnant exports, largely for a similar reason as the steel

industry—the increase in shipments for domestic demand has suppressed exports. But the main reason for stagnant exports has been the fall in prices because of the worldwide oversupply. Even though the actual volume of exports increased, the dollar amount shrank. The main reasons for the lower prices were the decrease in demand by China and the completion of facilities in Southeast Asian countries.

For the time being, the low prices from oversupply will continue. If the economies of the Southeast Asian region recover, exports for the rest of this year should increase slightly. However, since the price of naphtha, the raw material of petrochemicals, is rising due to OPEC's production restrictions, the profitability of makers will be worsened.

Machinery

Machinery exports have decreased slightly. Even though the rapid contraction of the Asian market has stopped, the market expansion in the U.S. and the EU, which had driven the export growth until then, has slowed down. Machinery exports will continue to be determined by the situation of the Asian economies, which constitute the major part of demand, and the exchange rate, which will influence the price competitiveness in U.S. and EU markets. Given that the Asian economies will not improve much in the near future and the exchange rate will go down continuously, machinery exports will not grow for the time being. **VIP**

Machinery exports will continue to be determined by the situation of the Asian economies, which constitute the major part of demand, and the exchange rate, which will influence the price competitiveness in U.S. and EU markets.