

HOW TO KEEP THE GROWTH MOMENTUM

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Continued Growth Is Expected

These days, many economic research institutes at home and abroad are working on the Korean economy's year 2000 forecast. According to them, the real GDP growth rate will hit the 6% level or higher. Coupled with this year's growth of 8%, another 6% growth means that the economy will fully rebound to the pre-crisis level at least in terms of absolute size. In fact, this encouraging story is based on a set of solid developments in Korea's macroeconomic indicators as well as on favorable assumptions of the world economy. Among the domestic economic indicators, consumption will sustain its rising pattern even though with slower pace, while facility investment will assume the leading role in the recovery process. In spite of some worried voices over fast buildup of imports and relative slowness in exports, the current account will manage to post a surplus of \$8 billion to \$10 billion. Even construction investment, the most severely stricken component of GDP will bounce back to the plus side.

Beside the good news, what is the bad news? The most worrisome factor may come from home. Side effects in the course of restructuring can shock the economy and then hinder the better-than-expected rapid recovery. In fact, no one can say for sure that shocks from Daewoo's workout program completely disappeared from the scene. The problem is that situations of this kind may well occur again. In the year 2000 the favorable factors may offset the negative effects from the unfavorable factors. Interestingly, however, more uncertainty lies in the unfavorable factors than in the favorable ones. That is to say, no

one knows for sure whether or not negative occurrences would materialize or how large the effect, if any, would be. This is the reason why economists and policy-makers in Korea should pay more attention to and thus restrain unfavorable factors, especially the domestic ones, next year.

How to Deter Panic Psychology

A close look into the nature of bad factors and the channels through which they can affect the economy would reveal that more often than not psychological factors aggravate a situation. It was "panic psychology" that worsened the bond redemption rush upon Daewoo's disintegration first broke out, not to mention the massive capital outflows which triggered the Asian economic crisis two years ago. An important part of stabilizing the economy, therefore, is to deter this kind of panic psychology.

How can the panic be prevented from occurring? A simple but very efficient way for policy-makers is to use a 'vis-a-vis' strategy: clearly and repeatedly denying the possibility of negative events. The 'vis-a-vis' strategy is necessary and there is a sufficient condition as well. That is, the government's announcement and actions should be "credible". The panic psychology can be deterred not only when the market trusts what policy-makers say but also when it realizes that policy-makers have enough means to fight back and offset an unfavorable situation for an extended period of time. Bearing in mind 6%-plus forecast for next year, policy-makers should check if they have appropriate ways and means to make such forecast to come true. **VIP**