

# SUSTAINED BUT UNBALANCED ECONOMIC RECOVERY

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## *Industrial Activities Prove Vigorous*

Industrial production in September rose by 18.1% compared to September 1998. The increase rate has slowed down from 29.8% of last August; however, considering that an exceptional variable, Chusok holidays, was included in this year's September and that the improvement of major statistics of real economy from August 1998 is decelerating the increase rate of statistics on a year-to-year basis, the recovery of real economy continues to post strong performance. Compared to September 1997, industrial output surged by 15.9%, which signifies that the economy has already regained the pre-crisis level.

Despite the slowdown in domestic demand, industrial production continues to show a considerable increase because export is recording high performance, led by soaring orders of semiconductors and computers. As production level steadily moves upward, the average manufacturing capacity utilization has reached 79.1%, stepping up by 0.5%p from August.

The decreasing trend of light industries up until the first quarter of this year on a year-over-year basis reversed its direction from the second quarter, confirming in part the expansion of economic recovery.

As a result of the sustained economic recovery, Korea's unemployment rate fell below 5% many months sooner than predicted. According to the National Statistical Office, the jobless rate recorded 4.8% in September.

## *Anti-Inflation Policy?*

With this higher-than-expected economic recovery, the Korean Development Institute (KDI) warned of inflation. The KDI held that if tightening policy is not be adopted in the near future and the ongoing reform efforts stall, Korea is likely to cope with high inflation in the years to come.

The possibility of inflation since next year cannot be dismissed completely. However, it is immature to argue over anti-inflation policies. Even though the government aims to resolve Daewoo-related problems and the financial difficulties caused by their exposure to Daewoo's breakdown and other non-Daewoo factors, uncertainty and instability still remain in the domestic financial markets. The financial markets, therefore, cannot afford a tight monetary policy within the next several months.

Moreover, consumer prices showed rises for three straight months, there appears to be no sign that things are building up for an immediate inflationary threat. This year will end up with a rise between 0.8% and 1% in consumer prices, which is within the government's revised target rate.

## *How to Approach Unbalanced Recovery in Industries*

Another shortcoming of recent economic recovery is that the growth patterns seriously differ by sectors.

The imbalance in production by sector continues to raise concerned eyebrows. Whereas the production level of heavy and chemical industry in September rose by 23% compared to September 1997, light industries have not yet recuperated the pre-crisis level of 94.5% in September 1997.

What is more alarming, however, is that the gap between different industries is widening more with the passage of time. In September 1997, the production index of light industries was 90.0, lower by 34.6p than the heavy and chemical industry's index. However, while the production index of heavy and chemical industry leapfrogged up to 153.1 in September 1999, the light industries' index nose-dived to 85.1, deepening the difference by 68.0p.

On the other hand, if there is a barrier between the specific sectors that limits the spillover effect of robust sectors on the depressed ones, and if such phenomenon is understood as a natural process of industrial

restructuring, then the this phenomenon should not be perceived as evidence of incomplete economic recovery.

Although there is a consensus that industries are showing different levels of recovery, the problem remains that there is no unified perception of the issue. This is a reason why one encounters "anti-inflation" story and arguments on policy direction among experts. Now is the time to induce a clear consensus on the desirable direction of macroeconomic policy-making.

Moreover, this illustrates how much significance industrial policies still hold for Korea. Under the WTO regime, the scope of industrial policy-making has certain limits. Nevertheless, Korea's industrial structure should be re-established so as to minimize damages from unbalanced growth.

One way to avoid this problem is for the policy-makers to work out and implement a set of sensible and concrete visions and targets of the industrial policy. **VIP**

