

## INCREASING DEPENDENCE ON EXTERNAL FACTORS

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The Korean economy has experienced a continued slump due to external factors, especially a decline in exports. The export decline was due to a fall in unit price of semiconductors and IT-related products. In addition, the decreased exports were followed by a fall capital goods imports, which may lead to weakening of Korea's industrial structure.

### Economic structure depends on external factors

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Due to the US economic recession and fall in semiconductor prices, Korea's exports continued to decline and the economic stagnation is expected to continue in the second half of 2001. As Korea's export dependence increases, the country's economic health in the second half will depend on its major markets such as the US and other advanced countries. In particular, the business cycle is expected to reach its trough when semiconductor prices stop falling. Compared to advanced countries, Korea has a small open economy with a high level of external dependence that is highly sensitive to changes in foreign economies. Korea's trade dependence (the share of exports and imports in total demand) and import dependence (import intermediate goods/total input) are also relatively high.

Table 1. Trade Related Statistics(%)

	Korea			Japan		US		Britain	France
	('90)	('95)	('98)	('90)	('95)	('90)	('97)	('90)	('90)
<b>Exports/Total demand</b>	11.1	11.7	17.1	5.3	4.7	5.1	5.7	11.4	11.8
<b>External dependence</b>	23.2	24.9	30.7	10.4	9.1	10.9	12.1	25.3	23.6
<b>Import coefficient</b>	12.1	13.2	13.6	5.1	4.4	5.8	6.3	13.9	11.9
<b>Import dependence</b>	10.7	10.9	13.1	3.7	2.9	2.9	-	9.2	7.6

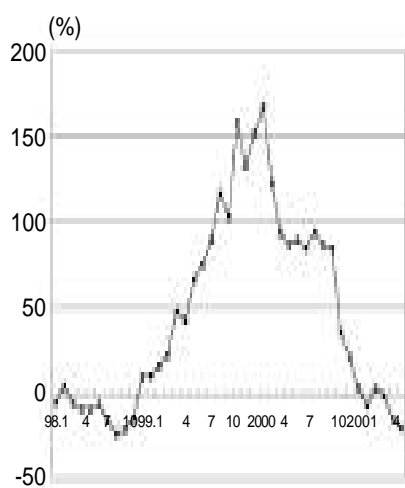
\* Source : Bank of Korea

**Will the semiconductor shock continue?**

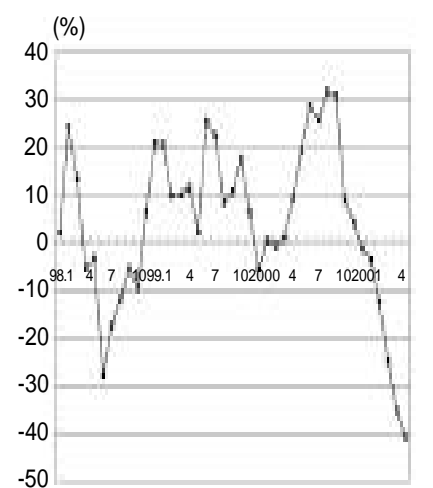
The growth rates of IT and semiconductor exports, which accounted for 14.0% and 15.1% of total exports in 2000, are expected to continue falling in 2001. Semiconductor exports in particular are expected to see a steep decline. Although IT exports declined since 2000, the decrease rate is not expected to be as steep in 2001. Semiconductor exports however, began to decline in the second half of 2000 and continue to fall in 2001, having a significant dampening effect on total exports. In June, the export growth rate was -30% for IT products and -40% for semiconductors.

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**Figure 1. IT Export Growth Rate**



**Figure 2. Semiconductor Export Growth Rate**



Semiconductor prices continued to fall due to factors such as the sagging IT industry. In late June, prices of 64M and 128M DRAM recorded 0.98 dollars and 1.93 dollars respectively. Recovery in semiconductor and IT industry exports is not

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**Table 2. Semiconductor Prices**

			(dollars/unit)				
	1999	2000	2001				
			February	March	April	May	June
<b>64M DRAM</b>	8.86(-15.1)	3.07(-65.3)	2.06	2.31	1.97	1.40(-54.8)	0.98(-68.1)
<b>128M DRAM</b>	18.98(-)	6.64(-65.0)	3.99	4.86	3.90	2.53(-61.9)	1.93(-70.9)

Note: Figures in parenthesis indicate percentage change

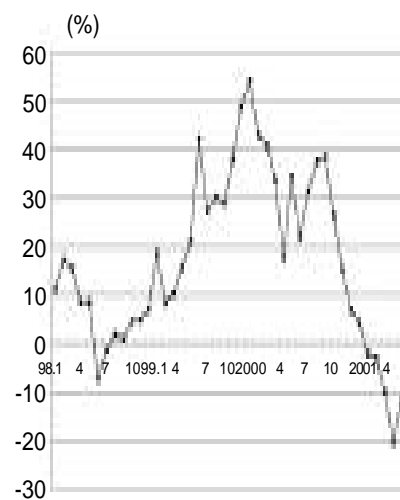
expected until after October.

**Preponderance of regional exports**

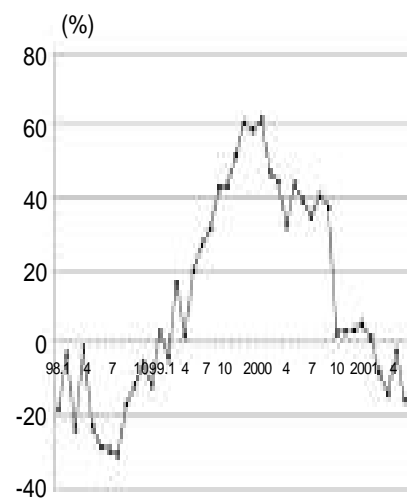
*Exports to the US and Japan, continued their decline in 2001, which led to decreased total exports.*

Exports to the US and Japan, which accounted for 21.8% and 11.9% of total exports in 2000, continued their decline in 2001, which led to decreased total exports. US-bound exports began to decline rapidly in the second half of 2000, and this trend continued into 2001. Although the fall in exports to Japan moderated slightly in the second half of 2000, the negative trend still continued in 2001. Regional exports fell steeply in the second half of 2000, but the decline is expected to soften in the second half of 2001.

**Figure 3. Export Growth Rate to the US**



**Figure 4. Export Growth Rate to Japan**



**Exports will be still weak**

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Negative export growth, which began in March (-1.8%), neared double-digit levels in April (-9.9%), but fell back in May (-6.9%). However, exports in June (on a customs basis) decreased by 300 million dollars from the previous month to 13.2 billion dollars, increasing the annual negative growth rate from -7.7% in May to -13.4% in June.

Exports to most regions such as the US, Japan, and Southeast Asia were stagnant, except for exports to China. By product, exports of wireless telecom devices, autos, and machinery saw improvement but most other categories, including

semiconductors and computers, continued to be stagnant.

After three months of negative export growth, some observers predict that the export downturn will not be as steep in the future. However, it is unlikely that exports will begin an actual recovery in the near future, as internal and external conditions have not shown clear improvement, and there are still potential factors of instability (such as trade frictions or semiconductor price shocks).

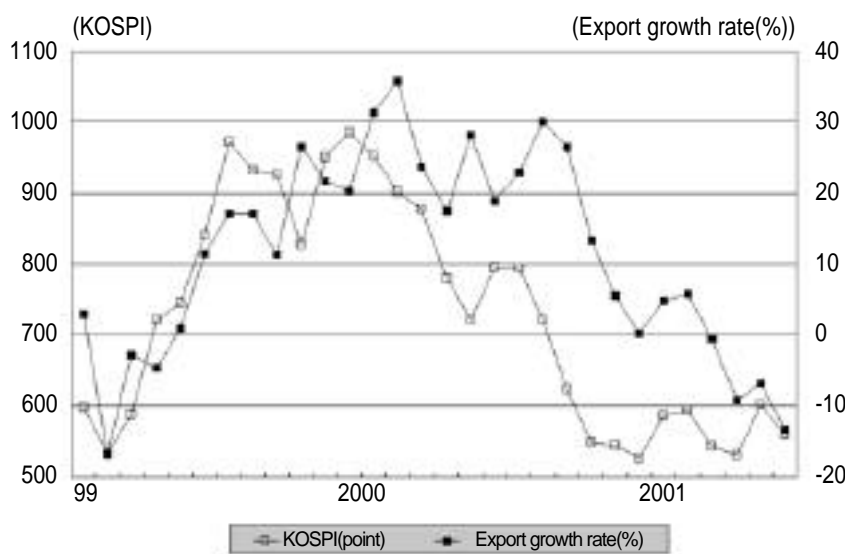
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**The recovery will be depend on exports**

Looking at the relation between stock prices and export growth rates, one can see that they have moved in the same direction. As the export decline has slowed down, the government hopes that exports will slowly recover in the second half with the possible US economic recovery and revived demand in the IT industry.

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**Figure 5. Recent KOSPI Trend and Export Growth Rate (%)**



In particular, the computer market is expected to recover in the fourth quarter with an overall shift to newer models, and semiconductor, LCD, and video display exports are expected to benefit from this recovery. The overseas markets for digital TVs and PDP, which are intensely contested, are expected to aid in a second half export recovery. **VIP**