

FALL 'S BUSINESS KEY WORDS

Hong-Rae Cho
(hrcho@hri.co.kr)

For many Korean people, October and November are a time to prepare for the upcoming year. Businessmen should set up their basic plans for the coming year; meanwhile, school graduates are searching for their first jobs. Moreover, lingering recession requires additional caution from Korean businesses. Let 's see what the key words for Korean businesses are this season.

Cash Reserves

The Korean economy is witnessing an awkward case in which historically low interest rates are not helping businessmen expand facility investment. Even in their business plans for next year, one can hardly find bold investment aiming at larger market shares or new opportunities in high technology areas. To the contrary, experts are worrying that shrinking sentiment has already severely hampered this year 's original investment plans. Major big businesses including Samsung, SK, LG, and Hyundai are no exceptions to this phenomenon. Uncertainty in the business outlook and liquidity shortage prevent them from executing plans which were originally set up a year ago. So far, investment performance barely exceeds 70% of their original plans. Some companies carried out less than 50%, and cancellation of entire investment plans was not rare. Reserving cash and avoiding bold action seem to be the #1 motto that many CEO 's are sharing these days.

They surely have legitimate reasons for this negatively-oriented attitude. Due to the sluggish economy both at home and abroad, many companies are posting operating incomes and cash inflows that are significantly lower than last year 's. Next year 's business outlook, at least for the first half, is not much better. In addition, the bond market might face another tight season if investment companies refuse to roll over the matured bonds. Piling up more cash, if possible, thus becomes the foremost strategy of corporate risk management. Putting aside the fact that smaller companies lack operating funds, the excessive contraction of investment strategies by large companies will bring undesirable results. In the short term, the reduction in investment will lead to sluggish domestic demand. More importantly, it will lead to a lower rate of potential growth in the long run. If facility investment is sluggish, manufacturing industries will lose their chance to continuously foster their production capacity. In addition, if businesses cut back their investment for the future, there is the possibility that investment in R&D or human capital will be sacrificed. An urgent agenda for Korea 's businessmen this winter is to prevent this "cash reserve" management from hindering the path to a knowledge-based economy with sustained growth.

The Korean economy is witnessing an awkward case in which historically low interest rates are not helping businessmen expand facility investment.

Many companies are posting operating incomes and cash inflows that are significantly lower than last year 's.

If asked about the current economic situation, many laymen will reply that it is "even worse than the early stage of IMF era".

The bleak reality is that the number of new openings is prohibitively small.

This month, Korean companies work late nights on planning and coordinating.

Seeking Jobs

If asked about the current economic situation, many laymen will reply that it is "even worse than the early stage of IMF era". The problem faced by average households in Korea is not inflation or exchange rate forecasts, but unemployment. There are three main aspects to the unemployment issue. First is the literal loss of jobs, which has become a normal occurrence in the Korean economy. This is a side-effect of establishing a continual restructuring system. A second aspect is that even though a person is employed for the time being, nobody can guarantee her employment for good. This is a dramatic change considering the former structure of Korean or Japanese companies. In fact, recent statistics show the degree of employment instability; more than 50% of the employed workforce consists of temporary workers. This is an important reason why consumption sentiment is not reviving. The third aspect of the unemployment issue is currently in the focus of the media: the hardship of new entrants to the labor market. The annual number of students graduating from university and high school to enter the labor force exceeds 500,000. However, the bleak reality is that the number of new openings is prohibitively small. After posting a job opportunity advertisement for a handful of new workers, one can be easily buried in tens of thousands applications. Joining the army or going to graduate school has become a last resort for disappointed job seekers. A careful analyst should not be limited to superficially assessing that this problem was a result of the economic downturn. The fact is that the current lack of new hiring may leave one generation or more out of the Korean economy's workforce. Can an economy struggling for sustained growth afford this kind of deficiency?

Economic Outlook

Autumn has a unique meaning for most Korean firms. Companies that close their annual financial statements on December 31 usually review the current year's business performance and prepare new year's business plans by the end of October or sometime in November. Rest of the time until year-end is for revision of the plan and implementation of detailed action plans. Working on business goals and tentative numerical targets is apparently an important duty of a CEO. This month, Korean companies work late nights on planning and coordinating while finance departments are checking the feasibility of proposed new year's plans and figuring out necessary amounts for new businesses. At a time when a company's key members suddenly leave their current work for a while and begin to think of future, the most wanted information by them is next year's outlook for the macro-economy and related industries. As a result, economists draw more attention from businesses than in any other month. Unlike in other months, business people willingly listen to and sometimes make notes of whatever an economist says; her cliches and assumptions do not seem to bother them at least in this season. This is especially true at times when uncertainty and instability prevail in the market. Consequently, they like to hear any numbers about next year's economy from economists; in particular, about financial market indicators. Economists can enjoy this seasonal spotlight, indeed. **VIP**