

LETTER FROM THE EDITOR

In “ The World in 2002 ” published last year by the Economist magazine, forecasts were made not only for events that could occur in the economy, but also in politics, society, culture, and science. The preface of the book, written by the editor-in-chief of the Economist stated that “ convalescence ” would be the key word for 2002. Indeed, the world economy has suffered from a sharp depression last year. However, the recession we experienced last year has a meaning beyond statistics and tables. Many economists worried that a few opinions on the “ New Economy ” for nearly ten years during the 1990 ’s were not only mistaken, but illusionary. In addition, there appeared a doomsday scenario in which the economic boom of the past decade may actually be a pathway to a bigger catastrophic event, a world-wide long-term depression.

According to the traditional theory of business cycle, this scenario somehow gains ground. In theory, the most important intrinsic factors beneath short-term or mid-term business cycles are interactions among economic mass such as production, consumption, and inventory. Last year ’s recession apparently possessed properties which fit into this category. Although global capacity in industries related to IT expanded enormously, demand ceased to grow. As a result, these industries accumulated a lot of inventory and a recession began. This phenomenon, which set forth in IT-related manufacturing, rapidly spread to the service sector and other manufacturing industries, which caused the hardship we experienced last year.

In addition, due to globalization of the world market, the major economic powers without exception went through economic downturns. This simultaneity of downturn and the “ aftermath ” nature of the overcapacity problem fueled worries for a deeper and more widespread recession. As a matter of fact, many economic historians agree that the global overcapacity problem in the leading-edge industries of the 1920 ’s, such as the automobile, radio, and telephone, contributed to the breakout of the Great Recession. Somehow, last year resembles the latter years of the 1920 ’s in this respect. The Asian economies, including Korea, are advanced in the IT industry and have export structures that are highly dependent on the world ’s largest market, the US. The very sharp decline in these national economies last year was due to the worldwide downturn in the IT industries. Therefore, experts currently state that inventory adjustment in the US should be observed to get a better idea of when the economy will recover.

If this is so, was the “ New Economy ” hailed by so many economists merely an illusion? Fortunately, we have more stories regarding business cycles that were longer than ten years. In theory, there are other factors that may determine a longer business cycle of thirty to fifty years or more. Technological advances, demographic changes, wars or even widespread diseases are those factors. It is not an easy assignment to judge whether or not the “ New Economy ” which is supported by technological revolution will strongly prevail after this short recession. Maybe we are between shorter waves of business cycles, which will shape into a longer upturn phase. In any case, what is obvious is that the world economy this year is very likely to get out of the recent downturn. The Korean economy, judging from its industrial structure and refreshing business atmosphere, as well as the US economy will benefit the most from the recovery phase. “ Convalescence ” will be the key word of the year for the Korean economy, more so than for others. Economists at the beginning of last winter should have questioned themselves “ If Winter come, can Spring be far behind? ” **VIP**