

## V. Korea Economic Focus

### *Test for a Real Recovery?*

Lately, two main themes have emerged concerning the current business cycle of the Korean economy. One is the debate over how much the business cycle has truly entered into a recovery phase; in other words, even though most major economic indicators have apparently rebounded, the perceivable economic situation has not really improved. The other major issue is identifying the main constraints or hindrances preventing a full-fledged economic recovery. In fact, the two themes are closely related to each other. If we can properly identify or address these potential shortfalls, then we can abridge the gap between the movements of the "indicator" business cycle and the "perceived" business cycle.

### *Why is Consumption and Investment Sluggish?*

Looking at the actual economic indicators, we find that consumption expenditure and (facility and construction) investment remain sluggish. Many people are pointing to these components as the main culprits for the delay in the real recovery, but in truth they are merely reflecting other constraints or underlying problems.

First, the value of the yen has been falling. The lower yen has not had an immediate impact on Korea's exports yet, but it will definitely discourage the investment attitude in the business sector unless the won/dollar rate adjusts accordingly such that Korean products continue to have price competitiveness over Japanese products.

A second constraint is the cost of the banking sector restructuring and the resulting budget burden. The total amount of non-performing loans is estimated to be 150 trillion won, and the Korean government has already spent or is

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planning to spend 64 trillion won in order to clear them out, most of which is being financed by the issuance of new bonds. The repayment of the principal and interest will be a significant burden and a major constraint on government spending to boost the economy.

Another constraint is the official or conditional withdrawal of the two major labor umbrella groups, the Korean Confederation of Trade Unions (KCTU) and the Federation of Korean Trade Unions (FKTU), from the tri-partite commission to protest the unbalanced nature of the restructuring process and the inadequate social safety net. If they stay out of the agreement for an extended period of time, the Korean economy will undoubtedly see its credibility fall once again and present a dismal picture to foreign investors.

### *In a Different Light*

The main factors which will determine the future outlook of the Korean economy are how smoothly the current restructuring process will be completed and also how favorable the outside circumstances are to Korea. In light of this reality, it is much more critical to resolve the above constraints since they are the main components determining Korea's restructuring process and the favorableness of the outside conditions. In the next several months, the Korean economy will face a harsh test as to whether it possesses the willingness and capability to regain the momentum for a real recovery in every sector, not just for a technical rebound in mere numbers.

(Edward Park [parked@hri.co.kr](mailto:parked@hri.co.kr) ☎724-4028)