

## Korean Economy's Real Turnaround Possible?

: 'New hope for an economy recovery is emerging,  
but turnaround has yet to come'

Government policymakers are apparently excited with news concerning signs of a recovery of the Korean economy, but many economic pundits are taking a "wait-and-see" attitude as to the question on whether the domestic economy is about to enter a path toward an economic turnaround.

Cheong Mun-kun, head of the Economic Research Division of Samsung Economic Research Institute, said "Some leading indices now show positive signs of an improvement, but we see that it is too early to conclude that the economy is turning around in a full-fledged manner."

Executive Managing Director Cheong echoed Bank of Korea Gov. Park Seung's remark that "daehan, the coldest one of the 24 zodiac subdivisions of the seasons, has been over, but spring (a full recovery) has yet to come."

"Unlike the second half of last year, the economy has shown evident signs of positive changes starting late last year," Cheong said in an interview with NewsWorld.

Stock prices have surged by considerable margins following the doldrums the stock market underwent, and domestic consumption, which witnessed a minus growth in the past two years in the wake of the blast of the credit card bubble, is now coming to life, said Cheong, adding that the Business Survey Index is improving at a fast pace, consumer and corporate investment sentiment indices are on the rise and housing prices of apartment redevelopment areas in Gangnam, south of Seoul, are showing signs of rising.

One of the positive signs Cheong sees is a reduction of uncertainties surrounding government policies with the government focusing on an economic recovery and creating jobs, staying away from four reform bills. The psychological sentiment has also improved following an ideological strife between liberals and conservatives.

Cheong with a doctorate degree in economics analyzes that there are positive signs that the economy is bottoming up and coming into the recovery stage. He cautioned that it is too early to say that the economy is definitely turning around, however. The reason he cited is that external unfavorable factors like the appreciation of the Korean currency against dollar and structural woes still exist.

Whether Korea could attain a real turnaround of the economy or not depends on how well the country can manage such external factors.

The international financial market maintains the so-called Balance of Financial Terror, a terminology made by Lawrence H. Summers, compared to U.S. confrontation surrounding a possible nuclear war during the Cold War and its relevant "doomsday scenario."

The central banks of four Asian countries have huge foreign currency reserves - Japan with \$800 billion, China with \$600 billion, Taiwan with more than \$200 billion and Korea with \$200 billion. They now play a key role to stabilize the international financial market by absorbing half of the U.S. current deficit standing at \$650 billion, said Cheong. Any move by one of the central banks could have an impact on the international financial market, as shown by a recent episode regarding the Bank of Korea. A BOK report that the central bank could diversify its foreign currency reserves roiled the market. As the foreign currency rate once shattered the 1,000-won exchange rate per dollar, the first time in several years, the Bank of Korea hurriedly denied it in a bid to calm down the international financial market.

Even if a weak dollar is a trend, he said, Korea needs to manage the Korean currency so that the steep appreciation of won would not affect the Korean economy unfavorably compared to those of its rival currencies, yuan and yen. In reality, about 65 percent of Korean products put on the international markets are competing with Japanese counterparts. They include home appliances, semiconductors, automobiles, shipbuilding products. Korean companies are required to analyze tastes of consumers in advanced countries to cope with competition with Japanese counterparts in terms of quality, price and competitive edge.

Korean exporters, which had to grapple with woes surrounding foreign exchange losses in the wake of the 1997 Asian financial crisis, are taking steps to minimize the losses stemming from the steep appreciation of the Korean currency.

The optimum foreign exchange rate varies according to industries. Companies in the IT industry are considered to better cope with an appreciation pace due to their technology development than conventional industrial fields. Garment and textile industries are demanding for more devaluation than the current level.

A survey by the KITA shows that a majority of Korean SMEs are predicted to fail to make profits if the foreign exchange rate falls below the 1,060-won level per dollar. Korean companies are likely to feel the effects of the appreciation of won from the second half of the year in earnest and they will have to give up exports if the foreign exchange rate reaches the 900-won level, he forecast.

Prospects of the domestic economy also hinge on how to handle the side-effects, brought on by crude oil and raw material price hikes. Crude oil prices, which had been on a decline, have returned to an upswing, with the Dubai oil prices surging to the \$42 level.

Korea has undergone two bubble blasts - those on IT and credit card usage - in the past seven years. The problem is that the ample money liquidity has not channeled into industrial funds. Corporations have stockpiled profits they reaped last year as reserves. Internal structural woes standing in the way of corporate investments may be a hindrance to a full recovery.

In the long-term perspective, the Korean economy will have strong fundamentals on the part of corporation and financing, which had broke down since the financial crisis. Corporation, financing, labor and government and other factors have been struggling with their reform efforts under the market economy regime since the financial crisis. Corporations have been forced to undergo restructuring with rescheduling debt services and restructuring of core businesses. Only 10 percent of top 30 Korean listed corporations are found to have managed to meet global standards on credit ratings.

The domestic financial sector needs to be upgraded and streamlined so as to lead a virtuous cycle of money flow, and an overhaul of financial systems has to focus on how technology innovation can be made and SMEs can be restructured.

Cheong said he doubts that the U.S.-style financial-market-dominated systems could be feasible to Korea, and he said he believes that for Korea, the banking and financial market systems need to be complemented in consideration of the size and institutions' leeway for investments.

Regarding the strengthening of competitive edge, he said, Korea has made strides by turning to a system of producing, assembling products with foreign technology, and the nation should create big markets by developing and exporting new products to become a world-class or top-class powerhouse, rather than resorting to a method of following others and copying others' technology. To this end, he said, the government will have to employ differentiating strategies designed to spur technology innovation and human resources development, saying that the days has come when one talented person could give jobs for tens of thousands of people.

The U.S. dawning of the digital era and a decade of booming is attributable to accumulation of technology, in which the U.S. government has considerably taken the initiative. U.S. support for projects in a space exploration competition with the formerly Soviet Union and decades of R&D investments in collaboration with such institutions as NASA and universities have enabled IT innovations, thus overriding the chase of the Japanese industry. The United States has managed to maintain its global hegemony for long as on top of principal infrastructure for education and technology and investments, it has reached a political consensus on policies based on neoliberalism - deregulation, privatization and financial liberalism - leading to the boom of the new market economy

Unlike the United States where U.S. venture companies have evolved on the strength of their original technology and the matured financial market, he said, Korea needs to have its own technology development strategy. Chung cited that Korea succeeded in commercializing of CDMA (code division multiple access) for the first time in the world and creating its own cellular phone market, with the government and business community collaborating.

Asked about the prospects of the government-initiated next-generation new growth engine industries, Cheong said, Korea will have to beef up its capabilities of creating such new industries as stem cell and other bio technologies.