
Manufacturing in 2001: Prospects and Tasks

In the coming year, the manufacturing industry faces bleak prospects. The main reason for this is slowed growth in the domestic economy. In 2001, domestic demand for manufactures is expected to fall, and the iron and steel, as well as the petrochemical industries, are forecast to contract further. The prospects for exports are also uncertain. Although Korea's main export markets such as Europe and Asia are enjoying economic resurgence, trade frictions are expected in key industries such as iron and steel, shipbuilding, and autos. In addition, it is feared that the rise in oil prices, value of the won, and interest rates will undermine price competitiveness.

Within the overall slowdown of manufacturing, performance will continue to vary by industry. Conditions in the semiconductor and information technology industries are expected to remain relatively favorable although growth will probably slow down. Domestic demand and exports for autos, iron and steel, and shipbuilding is forecast to contract. Meanwhile, the domestic construction and petrochemical industries may stagnate even further.

The semiconductor industry, which enjoyed a boom in 2000, is expected to see moderately slower growth next year. Although manufacturers are forecast to increase their production, semiconductor supply is not expected to exceed demand. Exports and production will continue their strong performance, but the rate of growth will probably fall. Because DRAM chip prices are not expected to rise much, export growth may slow, but the likely increase in demand is predicted to keep the export growth rate over 20%.

Another industry that boomed this year was the information technology industry, which is expected to maintain stable growth in 2001. While the slowdown of the domestic economy, a saturated market for telecom equipment and computers, and the recent high prices of mobile phones have dampened domestic demand, factors such as the spread of the Internet and continued expansion of e-commerce are expected to keep demand on the rise. Exports are forecast to maintain their boom with the worldwide spread of the Internet, e-commerce, and CDMA technology.

The auto industry, which recorded strong growth in both domestic and export markets this year, will probably see a fall in domestic demand while export growth

remains steady. The main reasons for faltering domestic demand include the business cycle downturn, rise in energy prices, possibility of higher interest rates, and a maturing Korean auto market. Factors that will buoy auto exports include recovery of the developing economies, and improved competitiveness and aggressive marketing.

While the shipbuilding industry saw an explosive increase in orders this year, orders are expected to taper off in 2001, while export value increases. Despite the continued increase in world orders for seagoing vessels, Korean shipbuilders already have two and a half years of orders to complete, and in the future, are expected to focus on high value added products rather than quantity.

The iron and steel industry, which saw a boom of domestic conditions in 2000, is expected to slow down in 2001. The main reasons are the flagging economy and reduced demand from related industries. Exports are also expected to slow down, because of continuing trade frictions, reduced rate of price increase, and accumulating inventory.

The petrochemical industry, which saw good domestic conditions this year, is forecast to face a downturn in 2001. The contraction of domestic demand, including the slowdown of facility investment and weakened growth of related industries, is the main factor. Despite the recovery of the Southeast Asian economies, exports will not rise by much to these countries, because they are increasing their facility investment in petrochemicals.

The slump in the construction industry will probably continue in 2001. In the private sector, due to the business cycle downturn, construction orders will decline while tougher regulations on semi-agricultural land will decrease orders even further. In the public sector, infrastructure investment in 2001 will remain at this year's level, while investment in North Korea will rise marginally. The big problem for the industry is that the fate of some large ailing construction firms is uncertain.

To reduce the shock of the industrial contraction expected in 2001, the most urgent task is to stimulate the construction market, by measures like creating funds to help construction subcontractors, or increasing infrastructure spending. In addition, the corporate sector should cooperate with the government to cope with expected trade frictions, and create policies to increase the competitiveness of the country's key industries. ▲

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