

The IMF Crisis and the ROK's Trade (Summary)

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Since the 1997 financial crisis, the ROK's international trade balance has shifted into the black. The country has recorded a current account surplus in multiple years for the first time since the latter half of the 1980s, the era of the so-called "three lows economy". Whereas that surplus was caused by a combination of favorable conditions in the form of a weak won, a low interest rate and a low oil price, the economic turnaround following the financial crisis was mostly due to a sudden contraction in domestic demand. While the unit value of both exports and imports is continuing to fall, the actual quantities are increasing. With regard to the terms of trade, the net commodity terms of trade are deteriorating, but the income terms of trade are improving, due to the increase in the volume of exports.

Looking at the share of exports accounted for by each product, the share of products produced by the heavy and chemical industry sector is rising and has passed the 80% mark. Within this classification, the proportion of electrical and electronic equipment, including information technology and telecommunications equipment, has come to account for a share in excess of 30% of the total. The top three products are semiconductors, computers and cars, with the strong showing of computers a particularly noteworthy feature. The degree of concentration of the top products has increased annually and, at present, ten products account for more than half of all exports in this sector.

If we look at imports in terms of those destined for export and those used to meet domestic demand, we can see that the share of imports for domestic use fell significantly as a result of the financial crisis. Thereafter, this share has begun to recover due to the economic upturn, but it is still low in comparison with the level it occupied before the crisis. Moreover, the share of imports from developed countries for export purposes is relatively high.

With regard to the countries of origin of imports and the countries for which exports are destined, the shares accounted for by Japan and the US in both the export and import sectors are decreasing, while China's share is on the increase. In the sense that it avoids external trade friction, the diversification of export markets and the decrease in the ROK's dependence on specific countries for imports is a positive development. In particular, the share of imports from Japan has fallen due to the fact that domestic demand has not recovered to pre-crisis levels, while domestic production of machinery has increased.

The modalities of trade with Japan can be said to be the criteria for assessing the economy and trade of the ROK; going by the structure that has been in place hitherto, in which imports from Japan

were generated if exports increased and the economic growth rate rose, the change in the modality of trade with Japan after the crisis hints at the possibility that the trade surplus will continue in the future.

The balance of payments surplus reflects the savings/investment balance; this continued surplus can be ascribed to the decrease in the investment rate. It is difficult to forecast whether the surplus will continue if the investment rate increases again in the future. A deterioration in cash flow was the biggest factor behind the drop in exports immediately after the financial crisis. The ROK government took emergency measures and then deployed indirect support in order to promote trade, focusing mostly on finance and insurance. It is likely to devote its energies to building the foundations of and developing the trade environment, in addition to continuing to gather and provide information.

The issue facing the government is how to put the brakes on the fall in export unit values; furthermore, with regard to imports, the key factor will be how it controls excessive spending sprees. It must be unstinting in its efforts to improve the ROK's international competitiveness by internalizing the development and introduction of technology.