Are Korea’s Export Markets Really Recovering?

According to Professor Shin Se Don, Korea's public and private market must work together to put the country's export market back on the right track.

At last, Korea’s monthly exports showed a positive growth rate (vis-a-vis last year) of 2.6 percent last August. Export growth rates have been in the negative territory for 25 consecutive months since July 2014. Never before has it shown such a prolonged decline. The previous record of consecutive negative growth rates were 13 months from March 2001 to March 2002 and 12 months from November 2008 through October 2009. This 2.6 percent growth in August 2016 has put an end to the longest streak of negative growth in the export market, and there are high expectations that Korea’s exports are finally back on the right track. But are we sure Korea’s exports have regained their momentum?

Before answering that question, one point should be made clear to avoid possible confusion and misjudgment. Usually, monthly statistics are too erratic to base long term forecasts upon. For example, monthly export statistics could easily be distorted by the number of working days or holidays, which could differ by two or three days, and sometimes up to four or five days for months with longer holidays. One way to correct this deficiency may be to convert the monthly export data to daily equivalent statistics by adjusting the amount of non-working days. To calculate daily export statistics, Sundays and holidays are usually excluded and Saturdays are noted as half days. When applying this method, August 2016 had 22 working days and four Saturdays, while there were 20 working days and four Saturdays in August 2015. Because there were two more working days in August 2016 than in the same month the previous year, the daily equivalent of exports in August 2016 is actually USD 1.67 billion, while that of August 2015 was USD 1.78 billion. With this modification, exports in August 2016 did not see an increase of 2.6 percent, but rather a decrease of 6.2 percent. Another way to overcome this pitfall of month-to-month irregularity is to use quarterly statistics. The diagram below shows the recent trends of quarterly export growth rates, which has been in the negatives for eight consecutive quarters (from the third quarter of 2014 until the second quarter of 2016). The surprising fact about the diagram is that quarterly exports showed double-digit negative growth rates for six consecutive quarters (from the first quarter of 2015 until the second quarter of 2016). With this prolonged decline in exports and the daily equivalent export growth statistics still in the negatives, it might take some time before Korea’s exports markets see more positive growth.

A number of incidents in Korea, including the recent Hanjin Shipping crisis and the massive recall orders of the Samsung Galaxy Note 7 have become stumbling blocks for the Korean economy. Knowing that export is a critical element of Korea’s economic growth, what should then be done?

First, Korea has to rebuild its competitiveness. Domestic firms have to try hard to successfully outperform their main competitors like Apple, Toyota or Merck. They need to be constantly looking out for what their competitors are researching on and find out how they are marketing their products, instead of meddling with domestic issues. When the cost of labor was the main source of competitiveness, Korea was at an advantage because of its low wages. But it’s a different story now. In an era of highly advanced technologies, corporate executives, employees, governments and bureaucrats all have to come together to make the economy competitive and creative. This is exactly why Germany and China have been so deeply concerned with the fourth industrial revolution, and Korea is no exception. I believe Korean firms and entrepreneurs are wholeheartedly dedicated and committed to doing so. The real challenge, however, is how seriously and actively public entities would take part in this endeavor.

Secondly, the country’s business regulatory environment should be renovated entirely. Fierce competitiveness in the global markets, along with unreasonable and unfair domestic regulations can serve as obstacles for companies. Without deregulation, domestic companies could lose their competitive edge in the long run and eventually move their plants overseas. Whether you want to call this overhaul ‘restructuring’ or a ‘reformation’, no one can dispute their importance.

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