IMF presses for more job destruction in South Korea

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Despite an estimated annual economic growth rate of 9 percent for this year, the South Korean economy is far from healthy. Consumer demand is set to fall or remain stagnant, corporate bankruptcies will continue and social unrest is growing as a result of the job destruction flowing from the "restructure" of the corporate and public sectors.

Although South Korea has the highest growth rate of the South East Asian economies, the forecast for the coming year is gloomy, with some analysts estimating a fall in growth to around 4 percent.

The expected downturn is due to the slowdown in the US economy, high oil prices, a slump in computer chip prices and falling domestic demand. Domestic consumption remains low with workers in particular concerned over job security, given the corporate and public sector restructuring that is being pushed ahead under pressure from international capital.

In a recent article, the *Australian Financial Review* noted: "Export growth, according to government figures, is expected to halve this year to 10 per cent... Exports of chips, which account for more than 15 per cent of the country's total exports, have slowed and are hurting the bottom line at some of the nation's biggest companies such as Samsung electronics. Demand for mobile phones and other products has also dropped."

And in an article entitled "Markets point to a new Asian crisis," the paper's Asia Pacific editor Peter Hartcher pointed out that economic growth rates in South Korea and other countries in the region were not a true indication of the strength of their economies.

According to Hartcher, an examination of the stock market and its banking sectors in the countries of South East Asia shows conditions similar to those which preceded the crisis of 1997-98.

"If you had tried to predict the Asian crisis of 1997-98, you would have found no clues in the place where most economists looked—the economic growth statistics. They showed nothing but strength. But you would have found a clear warning if you'd checked the stock market. Thailand stock prices were down by 70 per cent before the crisis hit. So, where should we look today to divine the regions immediate future? Once again, countries, which were hit by the crisis, are clocking strong economic growth figures of 5 percent to 10 percent. But their stock markets are down by 40 percent to 50 percent so far this year."

The South Korean stock market is down by 50 percent this year.

Hartcher noted that three years after the onset of the Asian financial crisis, the collective economy of South East Asia was still smaller than before the problems of 1997-98 and the region's financial sectors are wracked by bad debts and non-performing loans.

"The victims have been so slow to restructure that they are still staggering under impossible loads of dud bank loans. These are world class problems—the bad debt burdens in Thailand, South Korea and Indonesia are bigger, proportionately than the one imposed on Japan at the very worst of its banking crisis or the United States in its savings and loan debacle. ...

"The foreign capital that gushed excitedly back into East Asia last year concealed the depth of the damage to its economies. Now that it is gushing out again, it is exposing starkly the battering below the waterline."

Hartcher concluded his article by referring to comments by Jim Walker of Credit Lyonnais Securities Asia, one of the few economists, he claimed, to have foreseen Thailand's 1997 crisis. Walker suggests that the three best warning lamps for imminent trouble are the onset of economic slowdown, stockmarket decline and problems with export receipts. East Asia has them all.

An article in *Asia Pulse* warned of troubles in the South Korean economy due to the expected slowdown in the US. In particular, the information technology industry, which accounts for nearly 10 percent of the nations total production, will be affected.

"Should the IT-led US economy keep sagging, Korea could be dealt a harsher blow than other countries. The noticeable decrease in the growth of exports last month displays the nation's vulnerability."

The threat of a downturn is being accompanied by stepped up pressure from the International Monetary Fund and other financial institutions to close down unprofitable companies.

An article published in the *Los Angeles Times* last month

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declared: “This country (South Korea) was the model student of the International Monetary Fund, praised around the world for bouncing back so quickly from the Asian economic crisis of 1997. Now, it is in danger of flunking out of school. Despite all the pledges for reform, the nation still balks at closing assembly lines and shutting factories in the face of rampant overcapacity, no matter how unprofitable or debt-laden they may be.”

The Korean International Business Council, representing foreign companies operating in Korea, also called on the government to step up the restructuring process or face a second crisis on the scale of 1997.

“Corporate reform, in the labour, enterprise, banking and public sectors is the most urgent task facing Korea, as the delays in restructuring have amplified concerns over a possible second crisis,” the council said.

“Korea may suffer costs in the process of carrying out corporate reform, including layoffs of workers and more use of public funds. But the benefits will cover appropriate profit sharing and ensuring a balanced budget and sound financial system, stabilising the national economy,” Jacques Beyssade, president of the European Union Chamber of Commerce in Korea, told the press.

Kim Chul Jung, an analyst at Jardine Fleming Securities warned: “It's crunch time now. The market wants to see real liquidation, otherwise we could face ‘Japanisation' of the economy—a 10-year recession with no significant recovery in sight.”

IMF representative, Ajai Chopra, has called on the government to take a tougher line on restructuring, particularly in allowing debt-ridden companies to go to the wall.

“Much of the corporate sector remains highly leveraged by international standards and continues to suffer from low profitability, indicating more needs to be done. The focus of attention should now shift towards greater reliance on court supervised insolvency,” Chopra said.

The Korean government won praise from financial markets and international investors for allowing the Daewoo Motor company to be placed in court-appointed receivership last month. Thousands of jobs were destroyed, with the crucial assistance of the union leadership. Not only at Daewoo itself but many jobs will be cut from Daewoo's former 9,000 suppliers and subcontractors that employ 600,000 workers.

However, in the same breath, the government was severely criticised for propping up the debt ridden Hyundai Engineering and Construction corporation. The company employs indirectly around 500,000 workers in Korea.

As the *Economist* magazine commented: “President Kim has said that the government is no longer afraid to let insolvent companies go bust. That was reflected in KDB's (Korea Development Bank) decision to pull the plug on Daewoo. It might be more difficult to do the same thing with Hyundai Engineering and Construction later this year, because of the effect on the country's financial services industry. But if it can be allowed to fail like Daewoo Motor, this could be the beginning of an overdue pruning of the deadwood of the country's economy.”

What the financial press likes to describe as “pruning deadwood” means social devastation for hundreds of thousands of workers and their families. Union officials have claimed that up to 200,000 people could be made jobless on top of the 800,000 that have already been laid off in the last two years as the corporate sector restructuring and privatisations of public utilities continues.

Immediately in the firing line are thousands of workers at the Korea Electrical Power Company (KEPCO) and Korea Telecom as the government pushes ahead with privatisation.

The union leadership at KEPCO, which is affiliated with the Federation of Korean Trade Unions, has accepted the restructuring measures after weeks of threatening industrial action then calling it off. The government is seeking to split the corporation into five separate units for the sale to private investors.

Expressing his adherence to the demands of the government and financial interests, Oh Kyong-ho, the president of the 24,000 member KEPCO union said: “We've made an important decision to withdraw our plan to launch a strike against the privatisation drive, given the brewing economic crisis and the public concern about a labor dispute.” And then to emphasise the union's total subservience, he added: “The decision to call off the strike this time is final and there will be no reversal of it.”

Many workers have accused the union leadership of “capitulating” to the management and the government and have repeatedly called for the scrapping of the privatisation.

“Restructuring” is already having a devastating impact on the conditions of life for the working class. As one Daewoo worker told the press: “I am really concerned about my future. If they throw me out on the streets, how am I supposed to make a living? All I have learned is how to assemble a car, and no car companies are hiring new workers.”

But the IMF, the international financial markets and the government, with the collaboration of the trade union bureaucracy, are insisting that it go ahead.

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