

SETTING THE PRIORITIES FOR KOREA'S RESTRUCTURING

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Unemployment Is Key Issue

As of March, the number of unemployed has already reached almost 1.4 million, or 6.5% in terms of the jobless rate. This is almost double the 3.4% level recorded last December and also the highest level since February 1986 when the unemployment rate was 6.7%. The problem is that unemployment is increasing too fast relative to the pace of reorganization on the part of businesses and the government.

In February, leaders representing labor, businesses, and the government successfully reached a social pact under which they agreed to share in the pains stemming from reorganization. But, the labor side is starting to feel that this is unfair and is becoming more inclined to protest. Realizing this situation, the government is trying to coordinate a second social pact and is busy trying to map out support measures for the unemployed. The government is also urging corporations and financial institutions for faster and more substantive restructuring. However, reorganization will create more unemployed people. The government seems to be pushing reorganization yet trying to avoid any pains stemming from it. This is the dilemma that Korea is facing now.

According to the economic indicators of March recently released, the business cycle continues to linger in a bottomless depression. The KOSPI stock index has fallen to around the 400-pt. level, which is not much different from the level of last December. Korea has just gotten out of the crisis of a moratorium. However, this does not mean that it has successfully reformed and recovered its competitiveness. The world is

watching Korea standing at the starting line of the race (or marathon) entitled "reorganization." Now is the time that the government should make its mind about what we should give up and what we should take.

There have been many announcements about liberalization and reformation of the economic structure. Reorganization of the financial sector and privatization of public corporation is being pushed to be faster than before. To accelerate capital inflows, regulations related to foreign direct investment are either fully liberalized or to a much greater extent, including those related to the foreign exchange management system. However, the government is showing quite an ambiguous attitude about the issues of unemployment and the liberalization of the domestic private sector's business activities. Is it possible for corporates to reduce costs and strengthen competitiveness without yielding unemployment? Can a free and competitive market can be established with intervention and influence from government?

Making Up Its Mind

Both of the above issues are very difficult to resolve. First, unemployment will cause social unrest, which is the one of the most serious problems foreign investors are worrying about. The ruling party is also under pressure to do something about the jobless problem quickly since local government elections are in June. However, high unemployment is unavoidable in the reorganization period. It would be better if the government focused on dealing with jobless people and producing new jobs rather than

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trying to prevent unemployment artificially.

Second, the government seems to be thinking about how to maintain leadership to conduct reorganization if the domestic market is fully liberalized. The government is clearly not used to leading the private sector with only minimum regulations and interventions. A liberalized and competitive market is a key environment to promote venture businesses and foreign direct investment. To be 'small and efficient' or 'maintaining strong leadership with minimum regulation and intervention', the government should spend more time and effort on this than on the first problem, unemployment. Clearly Korea has more to give up than take to recover its competitiveness. Despite these difficult problems which do not seem to be easily resolvable, the government is showing good performance in the most important part. It is successful in constructing a strong consensus among the people that reorganization is unavoidable and will cause a lot of pains.

Some foreigners are pessimistic about the possibility that Korea, having enjoyed a stable and high growth rate for so long, is willing to

endure a severe depression to reform the economy structure. However, none of the Korean people consider this is as the first crisis in the thirty-plus years of economic development. Korea also experienced severe depressions in the mid-1970s and early 1980s because of the two oil shocks. The economy recorded a negative growth rate in 1980. During the early 1990s, there was also the bursting of the bubble which was caused by the excess boom in the real estate business. Besides these economic crises, the Korean people are very familiar with heavy political turmoil, as evidenced by two military coups. In addition, there is also the real and constant threat of war, as was seen just years ago with the North Korean nuclear issue. Having successfully overcome these crises, the Korean people in general have a certain degree of confidence that this current crisis can be also be overcome. Even though there may be some short-term unrest, the general public realizes the need for fundamental changes. This will be most valuable to help the Korean economy take off again to achieve its dream of becoming an advanced country. **VIP**

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<Figure 1> Cyclical Component of Coincident CI & Unemployment rate

