

KOREA'S TOP TEN ECONOMIC NEWS EVENTS IN 1998 AND 1999

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A Big Turning Point

For the Korean economy, 1998 was a landmark year full of events and news. Most of the news items were about the worsening economic situation and sometimes about the painstaking reform process occurring in the Korean economy throughout the year. Following the start of the IMF bailout program, many economic indicators showed extraordinary movements in 1998. The real growth rate was the biggest drop since the 1970s; unemployment reached a record high level. In a more microcosmic viewpoint, the Korean economy has gone through unprecedented restructuring in every sector. For the first time in the Korean economy's modern history, commercial banks went broke. Meanwhile, the government,

businesses, and the labor unions agreed on a social pact, which could not be imagined only a few years ago.

What will the Korean economy be like in 1999? Compared to the panic, worry, and despair which Korean consumers and businesses experienced in 1998, the year 1999 will show a relatively complacent picture, at least in several aspects. The growth rate will turn around to a "plus" figure; with the upgrading of sovereign ratings, foreign capital will flow into the Korean financial market. The sectoral restructuring process will continue so that the new rules and regulations will be subsequently implemented into the related sectors. In sum, the end of 1998 and the beginning of 1999 will be recorded as a big turning point in the history of the Korean economy.

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Top Ten News & Events in 1988

- ① Mt. Kungang tour and North Korea development project began (43)
- ② Unemployment reaches almost 2 million (40)
- ③ Structural reform started in corporate sector including big 5 groups (39)
- ④ Minus Real GDP growth (36)
- ⑤ Tri-partite agreement for the flexibility of labor market (33)
- ⑥ Hyundai Motor Company merged Kia Motors(29)
- ⑦ "Big Banks" emerge with takeovers and M&As of weaker banks (28)
- ⑧ Privatization of public enterprises started (25)
- ⑨ Government organizational structure reformed (20)
- ⑩ Bankruptcy rate hits record high(29)

Note: The numbers in the parentheses indicate the total number of selections.

Identifying the most important events and news in this period, therefore, is quite meaningful even though the listing itself may only satisfy a journalistic curiosity. In particular, identification of the top news in 1999 will help to figure out the general trend and the background forces of the Korean economy in coming months.

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Top Ten News Items in 1998

The Hyundai Research Institute conducted a survey asking its 63 economists to select the top ten news events of 1998 and 1999. They were requested to select 3 items in 6 sub-areas (macroeconomy, corporate sector, financial market, public sector, labor market, and others).

According to the results of the survey, the biggest news event of 1998 was the successful start of the Mt. Kumgang tourism project and related North Korea development projects. While this event is newsworthy in itself, it is

particularly significant because of the historic implications: the Mt. Kumgang and ensuing projects opens a new phase in inter-Korean relations being the first such endeavor in the private sector. Its success paves the way for increased interaction between South and North Korea in the future, which will provide economic, political and social benefits for both sides and facilitate their eventual reunification.

As can be expected, the list after this is filled with the various economic hardships and difficulties which took place in 1998.

- Unemployment, which had been hovering in the 2% range in previous years, suddenly shot above the 7% mark, leaving almost 2 million people searching for jobs.
- This high rate of unemployment was due in large part to: the structural reform started in the corporate sector including the big 5 business groups (#3 news item); the takeover and M&As of weaker banks leading to the formation of "Big Banks" (#7);

Expected Top Ten News & Events in 1999

- ① Macroeconomic recovery (30)
- ② High unemployment and related problems (28)
- ③ Improvement in North-South Korean relations and expanding economic cooperation
- ④ Privatization of public enterprise including (20)
- ⑤ Full-scale corporate restructuring of big business groups (19)
- ⑥ Completion of sell-offs and mergers of banks (17)
- ⑦ Y2K problem and related industrial trends (16)
- ⑧ Fierce competition in financial market by the entry of foreign institutions (15)
- ⑨ Increased foreign capital due to recovery of sovereign credibility (13)
- ⑩ Budgetary hardships in the public sector especially in local governments (10)

Note: The numbers in the parentheses indicate the total number of selections.

the partial privatization of public enterprises (#8); and, of course, the record-high bankruptcy rate (#10).

Expected Top Ten News in 1999

Like many experts, the HRI's economists also anticipate a "plus" growth rate in 1999; thus it would be the top news in 1999. Other important features in 1999 reflected in this survey are follows.

- Although the GDP growth rate recovers from the "minus" area, unemployment will not decrease mainly due to the restructuring; thus the social-safety-net policy will

have growing importance.

- Restructuring will continue to be pursued in every sector of the economy, including the accelerated reform of corporate governance in big business groups.
- The financial sector restructuring will be completed with mass entry by foreign financial institutions into the domestic market.
- Public companies' privatization shall have some conclusive results.
- But due to unfinished reforms of local governments and sagging local economies, increasing financial burden of local governments is expected.
- The Y2K problem is emerging as an urgent issue to be solved in 1999. **VIP**