

PRIVATIZATION POLICIES AND TASKS IN 1999

by Yong-Sun Kwak
(e-mail: ysk@wki.hri.co.kr)

Basic Direction and Characteristics of Privatization Policies in 1999

In 1999, the government's basic policy on the privatization of state-owned enterprises will follow the privatization plans announced in July and August last year. Major state-owned enterprises such as Korea Telecom, Korea Electric Power Corporation, Korea Heavy Industries & Construction, and POSCO are to be gradually privatized by 2002, with the initial stages taking place in 1999. Starting from the second half of 1998, the managing underwriters were selected and asset evaluation was begun; now in the first half of 1999, parts of these firms will be sold off domestically and overseas. Through the privatization of the state-owned enterprises, the government aims to attract more foreign capital in the public sector and improve its management.

In 1999, attention should be focused on how the privatization of state-owned enterprises will change the market structure in various industries. The partial sell-off of major state-owned enterprises, many of which are monopolies, will undoubtedly change the market structure of their respective industries. This will be an important consideration in the plans of not only the public firms targeted for privatization but also those domestic and foreign firms already in or planning to enter these industries.

In particular, 1999 will be a year in which the foundation will be established for the privatization of state-owned enterprises in the financial sector. Under the current circumstances, it is

unlikely that the privatization of major commercial banks will be completed by the year 2000. However, the proper conditions for privatizing state-owned financial enterprises will be set in place this year, including revision of banking regulations concerning ownership.

Potential Problems

The biggest problem in the ongoing process of privatization is confusion among the relevant policy authorities. The lack of harmony and excessive overlap among policies is leading to uncertainty in the private sector. One representative example of this is the debate between the Planning and Budget Commission and the Fair Trade Commission over the privatization of POSCO.

Another problem is the lack of progress in attracting foreign capital, one of the primary goals of privatization, due to insufficient liberalization or revision of pertinent regulations. This is most apparent in the communications, electricity, gas, and other "network" industries. The absence of announcements about pricing regulations after privatization is causing foreign investors to be hesitant.

And finally, it is highly possible that privatization will not necessarily result in a more efficient market structure within each industry but rather a simple shift from a public monopoly to a private monopoly. In certain industries, monopolies will be maintained even after privatization, and industrial competitiveness, a major objective of privatization, may not be improved.

"Major state-owned enterprises such as Korea Telecom, Korea Electric Power Corporation, Korea Heavy Industries & Construction and POSCO are to be gradually privatized by 2002, with the initial stages taking place in 1999."

Tasks for Effective Privatization

To eliminate uncertainty among foreign investors interested in state-owned enterprises, authority over privatization policy and coordination should be consolidated under the Planning and Budget Commission. They should be given full responsibility over the development of privatization plans, designation of targets, determination of methods and timing, and all other areas.

Next, to stimulate the inflow of foreign capital, the government should establish clear guidelines for pricing and other regulations for the industries in which public firms are to be privatized, especially the network industries. Toward this end, the government should consider the immediate establishment of a new regulatory entity.

Third, to minimize potential problems of monopoly, the government should pursue market competition concurrently with privatization. If possible, spin-offs (separation and sale of certain business lines or facilities) to the private sectors should be pursued; in areas where spin-offs are not possible, private firms

should be allowed to enter the market to promote competition.

Outlook for Privatization of Individual Public Firms

In the case of Korea Telecom, shares began to be traded on the Korean stock market in December 1998, and in the first half of 1999, around 10% of its shares are expected to be sold to foreign telecommunications firms.

For POSCO, 350 million dollars worth of depository receipts (DR) were issued on the U.S. stock market in December 1998. The limit on foreign ownership will also be abolished.

Appraisal of the stock value and fixed assets of Korea Heavy Industries & Construction was begun in October 1998, and privatization through open bidding is planned to take place in the first half of 1999.

Sometime during 1999, the Korea Electric Power Corporation (KEPCO) will sell-off 4 electric power-houses, and the government will sell off 5% of its shares in the first quarter of the year. **VIP**

"To eliminate uncertainty among foreign investors interested in state-owned enterprises authority over privatization policy and coordination should be consolidated under the Planning and Budget Commission. They should be given full responsibility over the development of privatization plans, designation of targets, determination of methods and timing, and all other areas."

<Table 2> Current Status of Privatization of State-Owned Enterprises

State-Owned Enterprises	Time	Status Details
	98.11.	- Managing underwriter selected for DR issuance (Morgan Stanley)
Korea Telecom	98.11	- Strategic alliance advisor selected (Lehman Brothers)
	98.12.23	- Listing on stock market
	During 99	- Limit on single shareholder to be raised (7 → 15%)
	98.11.10	- Managing underwriters selected (Hyundai Securities, Salomon Smith Barney, ING Baring)
Korea Electric Power (KEPCO)	98.11.16	- Public Hearing for Reform of Electric Industry
	99.1/4	- DR for 5% of government's stake to be issued
	During 99	- One power generation company to be privatized

(continued on p.18)

〈Table 2〉 Current Status of Privatization of State-Owned Enterprises
(Cont'd from p. 17)

State-Owned Enterprises	Time	Status Details
POSCO	98.8.20	- Limit on single shareholder raised
	98.10.2	- Managing underwriters selected (Salomon Smith Barney, Merrill Lynch, Dongwon Securities)
	98.10.22	- Registration documents submitted to SEC
	98.12.11	- 350 million dollars worth of DR issued after SEC approval
Korea Heavy Industries & Construction	During 99	- Sale of Mini-mill
	98.10.8	- Stock value appraisal begun
	98.11.14	- Firm selected for fixed asset appraisal
Korea Tobacco & Ginseng	99.2 (end)	- Public announcement for bidding
	98.8.27	- Stock value appraisal commissioned
Korea Gas	99.1H	- 25% of DR to be issued
	98.8.28	- Advisor selected for Overseas Paid-In Capital Increase (Schroder, Daiwa)
	Present	- Due diligence in progress

Source: Planning and Budget Commission