

CORPORATE REFORM: HAS "BIG DEAL" GONE SOUR?

The following is a press release from the Office of Foreign Press Spokesperson (T:504-1335) at the Ministry of Finance and Economy. Minister Kang Bong-Kyun counteracted concerns that the so-called "Big Deal" or chaebol reform has gone sour, and that Korea's corporate reform has lately lost steam. He made the comments July 28 at a special lecture delivered to members of the ruling United Liberal Democrats Party. The following are excerpts from his comments. The text has been written in question-and-answer format for reading convenience.

Q: What are the main criticisms about Big Deal?

A: There are three major criticisms involving Big Deal and chaebol reform in general. One, Big Deal goes against market economy system because the government has forcefully engineered it. Two, it does not help in terms of reducing overcapacity. Third, the "failure" of Big Deal means there has been no progress in reforming Korea's big businesses.

Q: What is the prevailing goal of Big Deal?

A: The goal is to reduce overcapacity and high leverage, particularly in Korea's leading nine industries. They are aerospace, rolling stock, automobile, vessel engine, power plant, petrochemical, oil refining, semiconductors and electronics. Foreign investment is of course a key element for restructuring these leading industries. Conglomerates have chosen to pursue Big Deal in three different ways. One is to merge the firms in the same industry and then newly launch them as a single unified unit. The second option is for the industry leader to absorb the smaller firm in the same industry. The third is for chaebols to swap different business areas.

Q: But didn't Big Deal fail to reduce overcapacity?

A: For the first option of merger and new launch, there has been considerable progress. Take aerospace, for instance. The relevant subsidiaries of Samsung, Daewoo and Hyundai are due to launch a three-way joint company in August. In early July, units of Hyundai, Daewoo and Hanjin joined hands to form a joint rolling stock firm. Similar arrangements are to be wrapped up as early as this month in power plant, vessel engine and petrochemical industries.

The second option of absorption by industry leader has already happened. In oil refining for instance, Hyundai has taken over Hanhwa's energy unit. IPIC, a leading refiner of the UAE is expected to pitch in investment, with the deal expected to be concluded in August. In the semiconductor industry, Hyundai Electronics in May took over LG Semicon in May.

Now, there has been twists in the third option of direct business swaps. For Samsung and Daewoo to swap their car and electronics units, different works are now underway. Samsung Motors is in the process of trimming debt through options including the donation of personal assets by the Samsung Chairman. For Daewoo Electronics, an overseas sale is now in progress, and I believe the debt problem will be dealt with.

Q: What is the government's role in Big Deal? Isn't the government forcefully pushing the changes which chaebols don't want?

A: I would like to stress that the reform initiatives were first made by chaebols themselves, with the Federation of Korean Industries (FKI) playing a central role. (FKI is a leading interest group representing Korean chaebols.) The big-five chaebols signed the Capital Structure Improvement to carry out reform program, and specific steps are now in process for debt reduction and so on. The perception that the government is wielding mighty influence, I believe, comes from the government's demand that chaebols stick to the terms and agreements they signed with their creditor banks. For the purpose of prudential regulation of the financial sector, the government has assigned monitoring role to the Financial Supervisory Commission.

Q: Does Big Deal constitute corporate reform itself? In other words, is there more to corporate reform than cutting debt and overcapacity?

A: Big Deal constitutes only a part of the ongoing corporate reform. Other tasks now in progress include raising corporate transparency, removing cross debt guarantees, and instilling management accountability. Corporate reform is a broader, much more comprehensive scheme. The Korean government has instituted a number of relevant laws and regulations to create an environment conducive for changes.

Q: How would you summarize the goal and prospect for chaebol reform?

A: I am optimistic about the success of corporate reform, given attentive monitoring by the financial sector, civic groups and international interest groups. The basic principles behind chaebol reform is as follows. First is the establishment of market discipline so that only competitive companies will survive. Second is to improve corporate governance so that management accountability is properly set. Only this way, the rights of management, small shareholders, subcontractor firms, creditor banks and consumers will be balanced out and given necessary protection. Third, the success of chaebol reform is imperative for the financial sector and the forging of new labor-management relations. **VIP**