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Costly cabbage and fallen kings

By ADITI ROY GHATAK

LIKE a good Bengali, I took the rains to Seoul. The friendly customs officer acknowledged as much. Rains are absolutely critical for the South Korean economy, where the painful industrial downturn, threatening to halve the growth rate from last year's nine per cent, has been accompanied by a drought-like condition amidst acute agricultural sluggishness.

The monsoon has been indifferent for much too long and vegetable prices are soaring – including the ubiquitous cabbage, which forms an integral part of Korean cuisine – as the housewife will justifiably complain.

The rate of inflation is up 5.3 per cent from last June and there is no relief in sight. That is not what the average man going about his business in Seoul will talk about, though. In fact, on the face of it there seems to be no trace of a recession or even a whiff of the troubled times in the air of the Korean capital, where people are buying and buying – often through the night at the world famous Domdemun market – unless they are driving.

The bumper-to-bumper cars over Seoul's enormous road network, even in the middle of the night, emit an air of ebullient prosperity, if anything. It is on such domestic consumer spending that Korean salvation will lie in the immediate term because export markets are becoming tougher by the day.

The economic numbers provide no comfort to a potentially disastrous story. They are the worst since the 1997 crash when the won fell to bottomless pits, tourism income dropped to a pittance and the kings of Korean business were thrown off their pedestals; the Samsungs, the Hyundais, the Hynixes are now cutting a sorry figure on the Kosdaq.

It had demanded all the manoeuvring skills of a new President – former dissident, Kim Dae-jung – to pull up the socks of a shrinking economy and initiate drastic reforms in a desolate country hit by bankruptcies, soaring unemployment and labour unrest.

Accustomed to continuous growth and prosperity over two decades, the Koreans could not quite comprehend why the chaebols that lorded over the economic infrastructure were suddenly crashing down like houses of cards.

Today, though the worst seems to be over after the year 2000 saw some remarkable turnaround, courtesy handsome American purchases, the chips are down again.

The threat of a US slowdown looms large and the potential global offtake of semiconductors and telecom equipment is far from promising. The USA accounts for 20 per cent of Korea's exports and 30 per cent of its electronics exports. More alarming is the pace of corporate structural reforms – not so much of the opening up of the economic process, as the actual restructuring of the chaebols.

These behemoths, which to their credit placed Korea on the global industrial map, had traditionally grabbed a disproportionate share of development capital against their actual contribution to the gross domestic product – much in the same fashion that family-owned business in India did.

The similarity begins and ends there, though, because while the Indian counterparts used these resources to install a regime of poor capital and labour productivity with disgustingly poor quality, the Koreans produced for the international market and conquered them.

Nevertheless, this handsome growth – from an economic status at par with the poor Asian and even African economies in the early eighties to one in which its GDP ($475 billion/per capita $10,550) per capita is seven times India's, 13 times North Korea's and which gives smaller economies of the European Union a run for their money – has been achieved under dirigisme.

Korea grew on a diet of government-business cronyism with directed credit, protection for home companies, a culture of partnership for those in the charmed circle in terms of bureaucratic sponsorship.

An integral part of this management system, however, was the support to imports of raw material over finished products and a culture that encouraged savings.

More importantly, it was a culture that promoted education and a sense of dignity of labour in which was fostered an enormous sense of discipline.

Where South Korea bungled was in turning a blind eye to the shocking financial peccadilloes of big business with their unmanageably high debt; equity ratios and legerdemain. Even after four years of the much talked about cleaning up, the Korean giants are far from having sanitised their books of accounts.

The state-promoted debt workout programme is a long way from achieving its mission and the banks continue to be in a precarious state, forcing the government to purchase bad loans amounting to a scandalous Won 135,000 billion (£73.8 billion) from financial institutions to prevent their collapse.

Even this is well short of the requirements that feature dealing with the impending bond repayment schedule of around Won 40 billion slated for later this year, over and above the Won 50,000 billion bad debts.

Corporates named against these debts are giants such as Hyundai and SK Corporation and all the erstwhile big leaguers.

The immediate target of successfully rolling over these payments may not be easy to achieve, according to analysts. The chaebols have been recalcitrant, to say the least, and notwithstanding the myopic stupidity of being soft to them, the Korean President who seeks re-election next year seems to have no option but to be nice to the big rogues.

Industrial units must survive; the government is bound to put its weight behind them because any collapse will mean a further loss of jobs; a disaster which Kim Dae-Jung cannot afford to court. The only trace of hope lies in the lesser known small manufacturing enterprises that are not overly dependent on exports. Yet the Korean bureaucracy is afflicted by a mental block created by the conviction that "size equals value and credibility".

This is far from correct in the Korean context where even a stalwart such as Samsung, which has managed to stave off the red ink, is looking at a 30 per cent to 40 per cent drop in net income.

Hynix Semiconductors, among the world's top semiconductor makers, is squirming with dynamic random access memory prices plummeting from around $18 last year to the current $-2 level. Hynix is in the red with net losses for the quarter ended March 2001 at Won 539 billion ($651.2 million) from last year's Won 49 billion. Samsung has managed to keep its head above water with some plucky reworking of its product basket.

Not everyone is so lucky, though. Daewoo is in the doldrums as are most Korean automakers, plunging their workforces into despair. Even the government that came to power with labour support admits that some 24,000 unionised workers have formally participated in striking work while the Korean Federation of Trade Unions claims that double the number joined the protest in June.

About a lakh are expected to participate in the July demonstrations much

to the chagrin of the government, supposedly a labour ally.
Clearly, the Korean President is in a quandary: on the one hand he is cracking down on the union leaders, on the other he is having to deal with the US questioning his continued bailout of Korea's fumbling industrial houses that happily give a go by to concepts of corporate governance to boot, not to mention the country's refusal to open up the agricultural market. Yet these calamities seem to have been enveloped by a sheen of ebullience that dazzles the visitor gazing down on Seoul from the Seoul Tower on a clear night.
The neon lights and moving advertisements from numerous vantage points; the jam-packed casino at the Sheraton Walker Hill, or at the Lotte World's theme park with its shopping arcades and adventure rides.
The hotels are on a promotional binge, possibly to enthuse international interest in preparation for the year 2002 soccer world cup. Roads, stadia and infrastructure are being made ready for the global event pump priming the economy in a manner of speaking.
Yet questions about Korea's commitment to change, on the lines demanded by the Bretton Woods Institutions, remain.
This is apart from the Korean's own perceptions about administrative systems. Samsung's Economic Research Institute draws comparisons with Australia where it takes three days to start a company against 46 days in Korea.
The American Chamber of Commerce adds some more sore points: discrimination between Korean and foreign investors.
The former needs Won 10 million to start up a business; the latter Won 50 million. The regulatory regime makes little allowances for smaller investors and is more comfortable dealing with the big wigs, in a sad continuance of past attitudes.
Truth to tell, the Kimchi-eating-Seju-swilling Korean is not keen to hand over industrial control to the foreigner but then he has lost that T'aekwondo kick that will keep the global controllers of financial systems at bay.

(The author is a freelance writer.)