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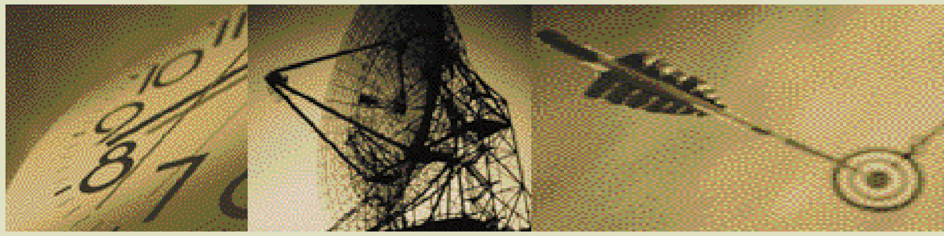

VIP Millennium Report

Challenges & Opportunities

2000. 11

Hyundai Research Institute

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Striving to be
"Better than the Best"
in all fields of research
the Hyundai Research Institute
hopes to contribute to the
development and globalization
of the Korean economy
in the new millennium.

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LETTER FROM THE EDITOR

With ongoing corporate and financial restructuring, jitters in the financial market, and the uncertain fate of some major companies, the Korean economy looks to be in for further struggles. This month's VIP Millennium Report gives a detailed view of some of key issues that concern the economy.

The Korean Macroeconomy section looks at the movement of real economic indicators such as production, facility investment, and domestic sales, to note a slowdown in growth. Although the economy is still on an upswing, the peak of the business cycle is in sight. To cope with the changing situation, the article recommends a quick and decisive completion of restructuring, improvement of dialogue between government and labor, and strengthening the social safety net.

In the Korean Financial Market section, the recent fluctuations in Korea's stock, bond, and foreign exchange markets are examined. Both the Korea Stock Price Index and the tech-heavy Kosdaq fell to their lowest points this year. In the money market, both government and corporate bonds maintained stability in October, while the interest rates on junk bonds show that the money market is becoming more polarized. Meanwhile, the won/dollar rate rose marginally because of external factors.

The four articles in the Current Issues explore different facets of the Korean economic and corporate reality. The first article analyzes a recent survey by Hyundai Research Institute on consumer confidence. It shows that consumer confidence and expectations increased until the fourth quarter of 1999, but have declined since. The value of assets held by consumers have also fallen. To prevent a hard landing of the economy in the coming months, the article recommends a flexible monetary and fiscal policy as well as improving confidence in restructuring.

The second article examines the effect of the partial deposit insurance policy, which will go into effect in January next year. The policy is expected to result in capital outflows from unhealthy financial institutions into competitive domestic or foreign banks, but not much capital is expected to enter the domestic stock or bond markets. While this new policy has reassured the market about the government's commitment to restructuring, the government should try to minimize the shock to the financial market.

Inequality in people's use and access to digital technology is the focus of the third article. It finds that high income earners, the young, the highly educated, and males are more digitalized than low income earners, the elderly, the less educated, and females. These groups all have different reasons for their gap in digitalization. Another finding is that there is more difference in the use of digital technology than in access to digital equipment.

The last article in this month's issue examines the collapse of the lifetime employment system in Korea. The concept of a lifetime workplace is being replaced with the idea of a lifetime profession, where a worker may move to another job to maximize his potential. Both workers and employers will have to adjust to the shift in the employment structure. VIP

FROM FINANCIAL INSTABILITY TO REAL INSTABILITY

Yong-joo Park
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Real economic indicators, which had experienced continued steady climbs despite uncertainty in the monetary sector and rising crude oil prices, began to slow down in September.

Real economic indicators, which had experienced continued steady climbs despite uncertainty in the monetary sector and rising crude oil prices, began to slow down in September. Production activity posted an increase of 15.1%, a marked contraction from August's 24.6%. Facility investment also fell to 18.9%, the lowest rate since February 1999. Due to the slowdown in production, the average capacity utilization ratio fell to 78.1%.

September's domestic sales also recorded a rather low figure of 6.1%, reflecting contracted consumer sentiment.

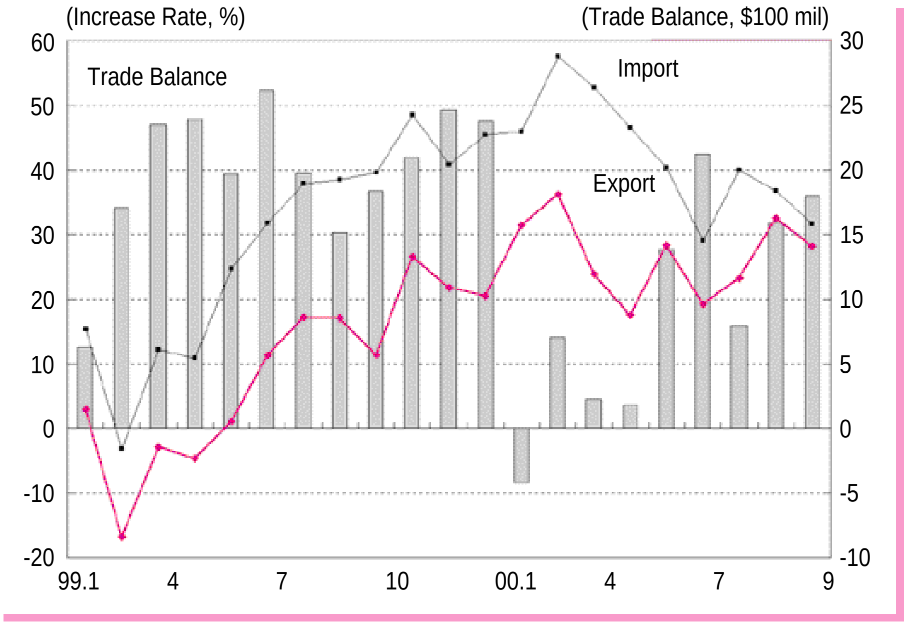
September's domestic sales also recorded a rather low figure of 6.1%, reflecting contracted consumer sentiment, partly affected by the plummeting stock prices. Domestic demand also shrank significantly. The domestic demand for consumer goods decreased 8.4% in September. Demand for mobile telephones and automobiles significantly decreased by 53.7% and 38.4% respectively.

Table 1. Major Business Activity Indexes

(year-on-year, %)

	1999		2000			
	Year	September	First half	Third Quarter	August	September
Industrial Production	24.2	20.3	20.7	19.6	24.6	15.1
Manufacturing	25.0	21.0	21.0	20.2	25.4	15.7
Average Operation Ratio	76.6	79.4	79.5	80.4	82.0	78.1
Wholesale & Retail Sale	13.0	14.6	13.4	7.6	8.2	6.1
Import of Machinery	33.5	48.3	57.0	52.6	71.2	35.1
Facility Investment	43.5	42.9	44.8	29.0	38.1	18.9
Machinery Orders Received	22.6	10.6	12.8	17.1	14.8	9.5
Construction Orders Received	0.83	6.54	0.2	8.5	45.2	-18.4
Area Permitted for Construction	42.3	81.6	56.3	32.1	55.0	9.6

Figure 1. Exports, Imports, and Trade Balance



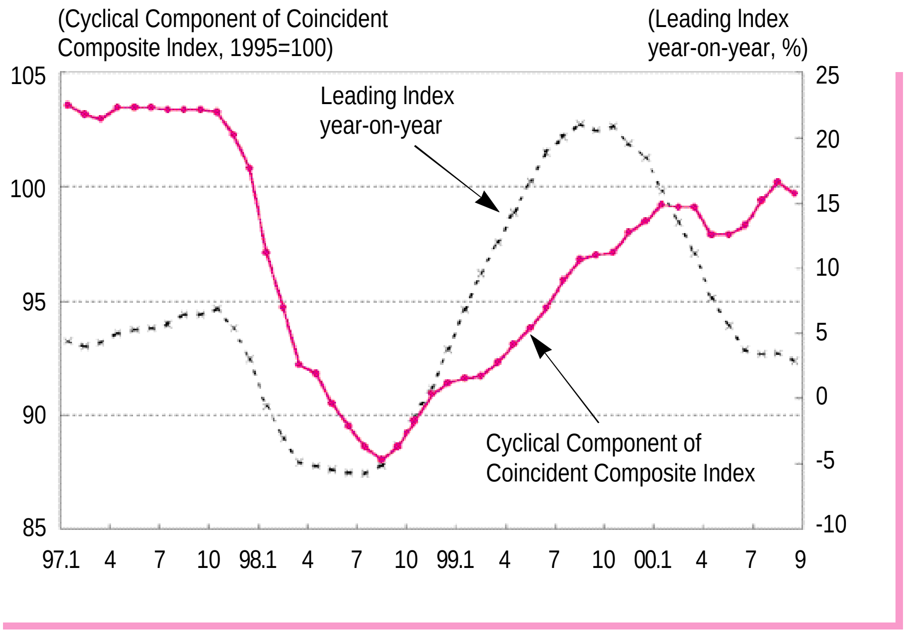
On the investment side, facility investment and construction orders received in September recorded increase rates of 18.9% and -18.4% respectively, a steep decline from 38.1% and 45.2% in August. The increase of domestic orders for machinery also shrank to 9.5% in September, the first time the figure fell to one-digit levels this year.

In September, exports reached $15.3 billion with an increase rate of 28.1% over the previous year and imports recorded $13.3 billion at rate of 31.6% for the same period. As a result, September's trade surplus reached $2.0 billion.

When considering the business cycle, the economy is expected to peak at the end of this year or early 2001.

All in all, a continued uptrend in the economy was helped by exports and capital investment which remained throughout the year. But domestic demand has apparently been slowing down. It seems the economy is still on the upswing but the peak is near with the downturn in sight. When considering the business cycle, the economy is expected to peak at the end of this year or early 2001. The cyclical component of the coincident composite index, which shows current business conditions, posted a 0.5% decrease. And the leading composite index, which portends future business conditions, recorded a 2.9% increase, down 0.6% from August.

Figure 2. Business Cycle Trend



With the exit of ailing firms on November 3 and the credit crunch following the recent financial sector restructuring, the next few months will probably see further contraction of corporate investment, with a decline of consumer spending due to overall jitters about the economy.

To prevent an excessively hard-landing of the economy, the government should try to resolve the anxiety permeating the market.

To prevent an excessively hard-landing of the economy, the government should try to resolve the anxiety permeating the market. Corporate and financial restructuring should be completed by the end of the year as planned to prepare for a soft-landing. Unlike during the 1997 crisis, the present restructuring is expected to bring active resistance from labor unions. To ensure an effective and socially viable restructuring, the government will have to improve the tripartite councils of labor, corporations and the government. One important measure would be improving the social safety net. This winter will be a crossroads for the entire Korean economy. VIP

FINANCIAL MARKET STILL UNSTABLE

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Stock Market: continuing slackness with bribery scandal and bankruptcies

The Korea Stock Price Index (KOSPI) slid further to 504 points in the end of October from the previous month's 613 points. Meanwhile, the tech-heavy KOSDAQ fell to 74 points from the previous month's 90 points. These figures were the lowest seen by the two markets this year.

In October, stock prices fell to new lows because of a bribery scandal in the KOSDAQ market and the possibility of some large construction companies going bankrupt. In early October, stock prices were greatly affected by external factors such as the slump of the NASDAQ market and high world oil prices. In the end of October however, domestic factors became more prominent.

In October, stock prices fell to new lows because of a bribery scandal in the KOSDAQ market and the possibility of some large construction companies going bankrupt.

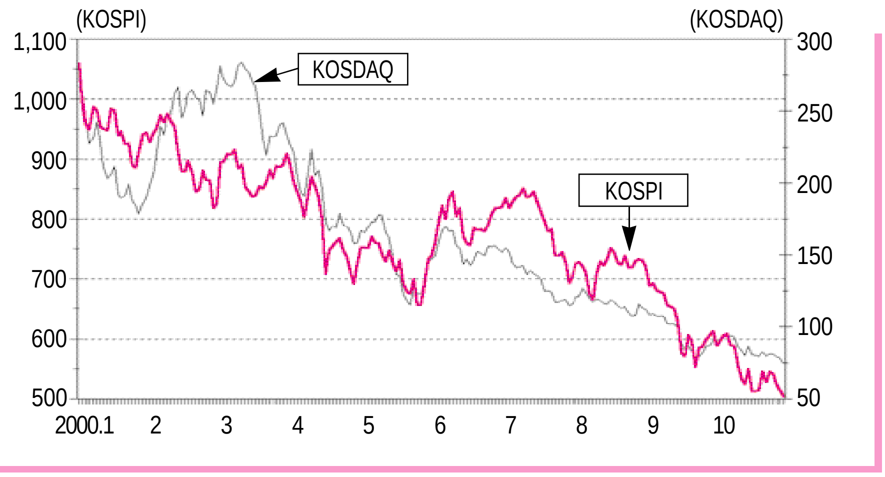
The KOSPI began to fall in early October as foreign investors began dumping their shares of Samsung Electronics in light of a possible slump in the world semiconductor market. The KOSPI's slump continued into the middle of October because of fears that the record-high oil prices willincrease further with the possibility of war in the Middle East. Although these external factors gradually stabilized by the end of the month, the stock market was affected by domestic problems such as the delay of corporate and financial restructuring with the failure to sell off Daewoo Motors, and the delay of public fund injections into bad banks.

In the KOSDAQ market, stock prices slumped in October because of rumors of an "October Crisis" involving the potential bankruptcy of venture firms with insufficient funds. In addition to this rumor, the latest scandal involving the Financial Supervisory Service, the government's top financial watchdog, worsened the KOSDAQ's blues. In the latest scandal, FSS officials were suspected of accepting bribes from a venture businessman and his financier in exchange for overlooking their irregular activities.

Stock prices in November are expected to exceed those of this month because of the government's reform efforts in response to the scandal and the workout of ailing companies. In the end of October, most American mutual companies ended their fiscal year, and as a result foreign investors have stopped selling their stocks. In the KOSDAQ market, because further bribery scandals or fabrication of prices are not expected to occurr, the index is forecast to gradually stabilize in November. Moreover, as external factors (such as the DOW, NASDAQ, and oil prices) are expected to settle down next month, the Korean stock market will gradually stabilize.

Stock prices in November are expected to exceed those of this month because of the government's reform efforts in response to the scandal and the workout of ailing companies.

Figure 1. KOSPI and KOSDAQ Indexes



In November, the KOSPI and KOSDAQ will move into the 480-600 and 70-100 point ranges respectively, as most of the current negative factors influencing the market have already been reflected.

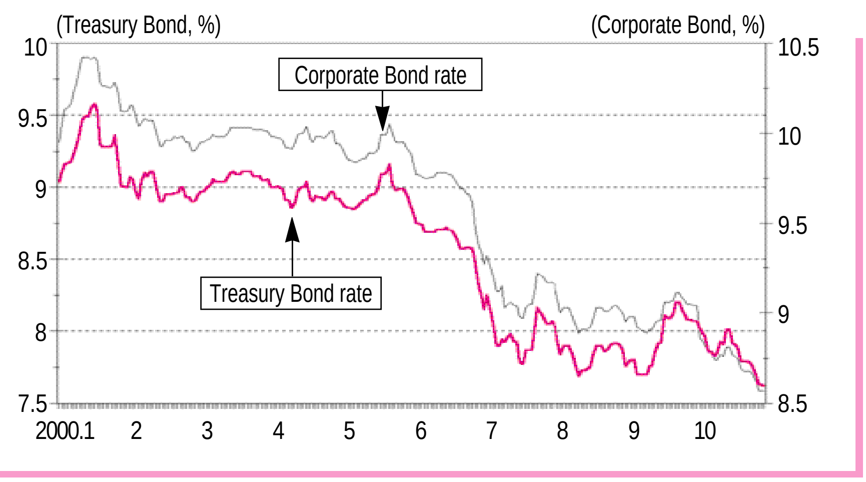
In November, the KOSPI and KOSDAQ will move into the 480-600 and 70-100 point ranges respectively, as most of the current negative factors influencing the market have already been reflected. The stock market will be influenced much more by the progress of market stabilization measures and corporate and financial restructuring efforts than by overseas factors.

Money Market: polarization of the corporate bond market

The government bond rate slid further to 7.6% a year in the end of October from the previous month's 8.1% a year. The corporate bond rate fell to 8.6% a year in the end of October from the previous month's 9.1% a year.

Although the government bond and corporate bond rates were stable in October, the interest rate for junk bonds (below a BBB- rating) reached around 13 to 20%. This shows that the money market is gradually becoming polarized, and as a result

Figure 2. Government and Corporate Bond Rates



unstable companies are confronted by the possibility of bankruptcy when their bonds mature. In particular, companies with high debt-equity ratios (such as construction companies), are confronted with a higher possibility of bankruptcy. Moreover, as trade has not occurred recently in the junk bond market, most junk bonds will have to be redeemed on maturity. Also, because financial restructuring has been delayed, banks are not loaning to unsound companies any more. Fortunately, as the bonds of most healthy companies were traded actively, corporate bond rates are stable.

The interest rate (corporate bond rate) is expected to record below 9% because of the demand of banks and other financial institutions. However, bonds of unhealthy companies will be expected to see rates of above 13% in November because of uncertainty in financial restructuring.

The interest rate (corporate bond rate) is expected to record below 9% because of the demand of banks and other financial institutions.

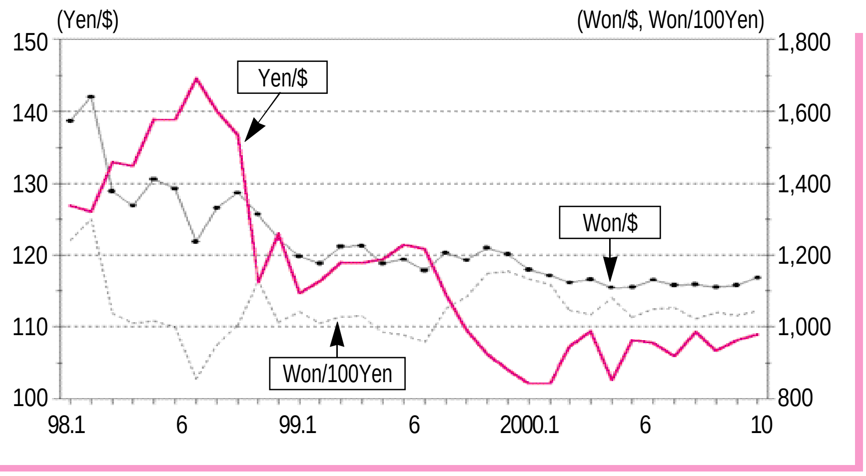
Foreign Exchange Market: Fluctuation in the won/dollar rate

The won/dollar rate rose further to 1,136 in the end of October from the previous month's 1,115. Meanwhile, the yen/dollar rate mounted to 108.9 from the previous month's 108.1.

In October, the won/dollar rate rose marginally from the previous month because of unstable external factors. Especially, with foreign investors selling their domestic stock and sending dollars back home, the rate fluctuated more than in the previous month. From September, the net flow of foreign stock investment was continually negative. However, because the uptrend of the won/dollar rate was mostly caused by external factors, the rate is expected to fall again as long as domestic factors stabilize. According to the Bank of Korea, with hedge funds amounting to about $2.3 billion at the end of August, it will be possible to fluctuate the won/dollar rate in case of another crisis in the financial market. However, as the stock market is forecast to gradually recover, the foreign exchange rate is also expected to stabilize, although Southeast Asia's foreign exchange rates are still unstable. VIP

Because the uptrend of the won/dollar rate was mostly caused by external factors, the rate is expected to fall again as long as domestic factors stabilize.

Figure 3. Foreign Exchange Rates (won/dollar, yen/dollar, and won/100yen)



IMPLICATIONS OF RECENT CONSUMER SURVEY [1)]

Sung-won Cho
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Consumer confidence falls sharply

The consumer survey index (CSI), which is the weighted average of all specific indexes related to general economic conditions and consumption activities, fell sharply in the third quarter. The consumer expectation index, which is the weighted average of indexes related to expectations for the economy, future income and future consumption plans, also dropped significantly, more than a 20p fall from the previous survey in the second quarter.

Composite indexes reached a peak in the fourth quarter of 1999 and have been declining since then.

Composite indexes reached a peak in the fourth quarter of 1999 and have been declining since then. The significant drop in both indexes reflects the fall in consumer confidence over general economic conditions and future outlook.

Meanwhile the consumer sentiment index which reflects general consumer sentiment on durable goods and service expenditures, dropped for the first time since the third quarter of 1998, showing flagging consumer sentiment in the third quarter of this year.

The consumer sentiment index which reflects general consumer sentiment on durable goods and service expenditures, dropped for the first time since the third quarter of 1998.

Table 1. Composite Indexes in the Consumer Survey

	98.9	98.12	99.3	99.6	99.9	99.12	00.3	00.6	00.9
Consumer survey index	45.5	63.2	76.8	86.6	93.3	94.9	94.4	90.0	70.7
Consumer expectation index	58.5	85.5	96.1	105.0	107.4	108.9	106.5	99.5	77.5
Consumer sentiment index	65.6	72.5	79.2	83.5	88.6	91.4	91.5	91.8	83.6

Worsening perception on general economic conditions

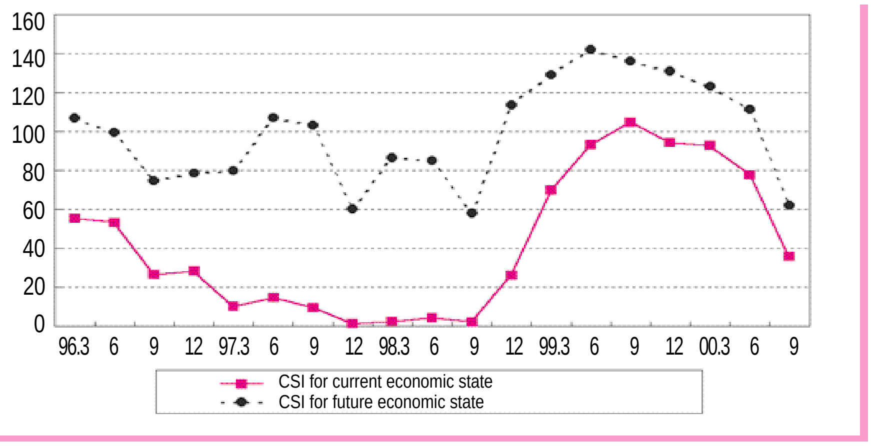
Looking at specific indexes, the CSI for the economic outlook, which measures consumers' confidence in economic activities in the year ahead, plunged to 62.1 in the third quarter, which was more than a 50p drop from the second quarter survey. An index of less than 100 means that consumers who are pessimistic about future

1)

Outline of the Survey

- Objective : To understand consumer sentiment and expectations of general economic conditions and consumption.
- Target : Married persons over twenty across Korea (980 people surveyed)
- Method : Telephone survey by random selection
- Period : September 25, 2000 to September 27, 2000
- Institute : Hyundai Research Institute (Survey conducted each quarter since June 1995)

Figure 1. CSI for Current and Future Economic State



economic conditions outnumbered those who are optimistic. The CSI for the current economic state also dropped sharply from the second quarter, reflecting the public's worsening perception on general economic conditions.

Pessimistic outlook on income growth

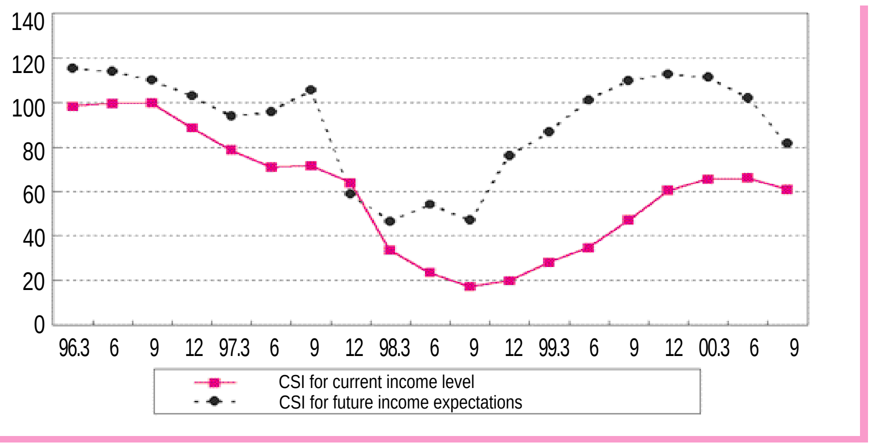
The CSI for future income expectations, which measures consumers' outlook for the change in average monthly income in the year ahead, fell below 100 for the first time since the second quarter of 1999. The result shows that households are pessimistic about future income outlook as the number of consumers who are optimistic about future income growth is being outnumbered by those who are pessimistic.

The CSI for future income expectations, which measures consumers' outlook for the change in average monthly income in the year ahead, fell below 100 for the first time since the second quarter of 1999.

The CSI for current income levels; the index derived from whether the respondent's average household income increased from a year ago, also declined in the recent survey. The index of the high income bracket, however improved over the second quarter survey, while that of the middle and lower bracket worsened, which implies that the situation of income inequality between the rich and the rest of the population worsened in the third quarter of this year.

The situation of income inequality between the rich and the rest of the population worsened in the third quarter of this year.

Figure 2. CSI for Current and Future Income



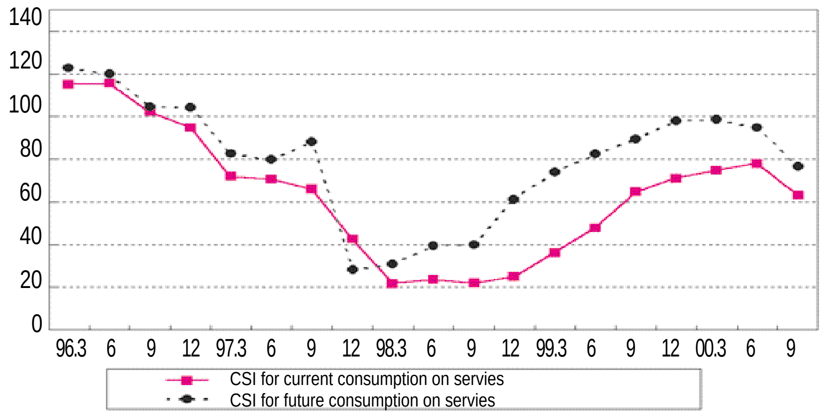
Consumers plan to spend less

The CSI for future consumption on services fell to 76.7 in the third quarter from 94.8 in the previous quarter.

The CSI for future consumption on services fell to 76.7 in the third quarter from 94.8 in the previous quarter, indicating that less consumers are willing to spend more on items such as dining, cultural events, and leisure in the next six months.

The CSI for current consumption on services; an index derived from whether respondents increased spending on service items during the recent six months, also fell for the first time in 7 quarters, impling that consumers have spent less on service items during the recent months.

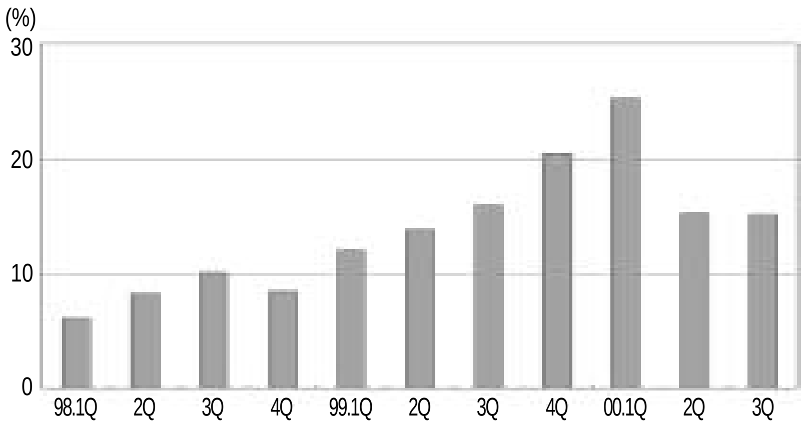
Figure 3. CSI Related to Consumption on Services



The percentage of respondents who plan to purchase durable goods such as household appliances, furnitures and automobiles declined to 15% in the second and third quarter of this year.

The percentage of respondents who plan to purchase durable goods such as household appliances, furnitures and automobiles declined to 15% in the second and third quarter of this year, significantly declining from the 25% level in the first quarter of 2000. Demand for durable goods have declined since the second quarter of this year due to a fall in consumer sentiment and the fact that many households are already equipped with newly purchased durables from last year.

Figure 4. Percentage of Respondents Who Plan to Purchase Durables



Negative wealth effect

The value of financial assets owned by households has declined as 84% of the total respondents said that the value of the bank trusts and stocks that they are holding have decreased during the recent six month period. The majority of respondents also replied that real estate values dropped in the last six months, while most renters said that the rent prices rose.

One fifth of the respondents said that they are investing in stocks and 90% of those investors answered that they lost money by speculating in stocks this year. Almost 52% of those who lost money said that they lost more than half of their original investment.

Policy priority on restoring market confidence

The large drop in consumer confidence in the third quarter of this year could be attributed to external factors such as the hike in crude oil prices, a drop in semiconductor prices and Ford Motor's withdrawal from its original plan to purchase Daewoo Motors. The possibility that such negative factors could delay the restructuring process and slowdown the Korean economy made consumers jittery over future economic conditions in Korea.

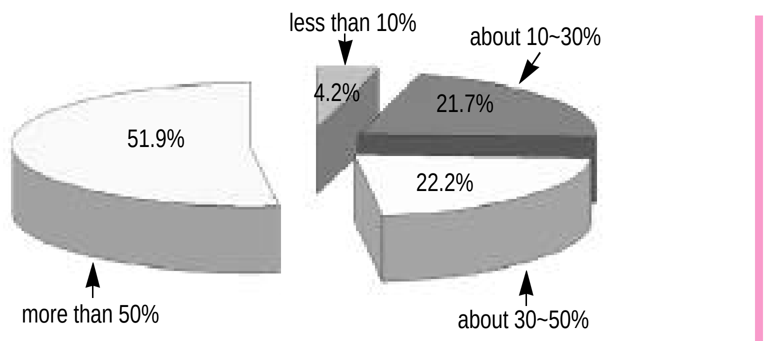
The large drop in consumer confidence in the third quarter of this year could be attributed to external factors such as the hike in crude oil prices, a drop in semiconductor prices and Ford Motor's withdrawal from its original plan to purchase Daewoo Motors.

The value of financial assets owned by the general household fell as stock prices nose-dived to an annual low in September, which exerted a negative impact on consumer sentiment. The rise in housing rent and overall consumer prices along with worsening income conditions of the middle and lower income brackets also negatively affected consumer sentiment.

Recently, the growth rates of major consumption indexes have been declining amid worsening consumer sentiment. Falls in consumer sentiment have the tendency to worsen the real economy by dampening consumption and thus reducing domestic demand. Therefore in order to prevent an excessive fall of the real economy, policy priority should be put on preventing a hard landing of the economy through a flexible monetary and fiscal policy along with restoring market confidence on the restructuring process of the financial and corporate sectors. VIP

Policy priority should be put on preventing a hard landing of the economy through a flexible monetary and fiscal policy along with restoring market confidence.

Figure 5. Losses from Stock Investment



THE EFFECT OF PARTIAL DEPOSIT INSURANCE

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The government finally decided to implement the partial deposit insurance system next January as originally scheduled, but it will raise the insurance ceiling from 20 million won to 50 million won. This settlement can be seen as an attempt to preserve the government's policy credibility related to financial restructuring, while minimizing the shock to the financial market.

Advocates of deferring the partial insurance system argued that implementing the policy at this stage would cause an enormous shift of capital among financial institutions, resulting in a series of bankruns and a severe financial crunch. It seems, therefore, that the government tried to minimize the shock to the financial market by raising the ceiling from 20 million won to 50 million won.

It seems that capital flux on some scale will be unavoidable.

Despite the upward adjustment of the limit however, it seems that capital flux on some scale will be unavoidable. The size and direction of money flows will determine the problems that arise as well as the best responses.

Size of capital flows

The maximum amount of funds that can flow out of unhealthy institutions is estimated at around 102 trillion won.

Among the financial institutions that can be insured, the total volume of deposits above 50 million won that are deposited into so-called "unhealthy banks" is estimated at 82.5 trillion won. The deposits over 50 million won held in merchant banks, mutual savings & finances, and credit unions is conjectured at 19.6 trillion won. Thus the maximum amount of funds that can flow out of unhealthy institutions is estimated at around 102 trillion won.

It is not likely that the whole volume will flow out however. Firms' deposits are

Table 1. Deposit Distribution and Likely Size of Movement

(trillion won)

	6 Sectors*	4 Sectors**	Unhealthy Banks	Merchant Banks, MSF, Credit Union	Size of Possible Capital Movement
Total Deposit	654.5	512.5	162.3	49.3	-
More than 50 million won		300.6	82.5***(A)	19.5(B)	102(A+B)
Likely Size of Movement		12.5(C)	9.9(D)	22.3(C+D)	

* banks, insurance, securities, merchant banks, MSF, credit union ** 6 Sectors minus insurance and securities *** special deposit, cash in bank and public fund excluded

difficult to move because they are usually connected with liabilities. In addition, because all special deposits and cash in banks are insured until 2003, these funds are not expected to flow out.

One can therefore focus on individual deposits to estimate how much money will escape. It is estimated that unhealthy banks hold 12.5 trillion won of deposits exceeding 50 million won, which will mature at the end of the year. Considering the recent difficulties for merchant banks, mutual savings & finance companies, and credit unions, at least 50% of the 19.8 trillion won of deposits in those institutions is expected to flow out. Thus, we can conclude that about 22.3 trillion won worth of funds will move at around the end of this year.

The direction of the future capital flux is relatively easy to predict. Considering the characteristics of funds, it is not likely that the deposits in securities and insurance will move easily. So one can expect that deposits in unhealthy banks, merchant banks, mutual savings & finance, and credit unions will flow to competitive commercial or foreign banks.

Deposits in unhealthy banks, merchant banks, mutual savings & finance, and credit unions will flow to competitive commercial or foreign banks.

While capital movement in the banking sector is expected to be large, inflow to the stock and bond markets is likely to be relatively small. The domestic stock market is severely depressed and a rebound is not foreseen for the time being due to domestic and foreign bearish factors. Meanwhile, the return rate in the bond market is excessively low, so there is a high possibility of a reactionary rise in the rate of return.

Clouds on the horizon

Although capital movements are not forecast to exceed the 20 million won limit, there is still anxiety that the system's introduction, coinciding with the exit of ailing firms, will bring added confusion to the capital market.

The shock will probably be most severe at merchant banks since deposits exceeding 50 million won amount to 88% of total deposits in the merchant bank sector. Considering that almost all medium sized enterprises are acquiring their short-term capital through the CP market, the deterioration of the merchant banks' capital brokerage function is sure to raise the possibility of bankruptcy for marginal firms.

The shock will probably be most severe at merchant banks.

In addition, with mutual savings and finance companies (MSF) under higher credit risk with the recent exit of unsound companies, people in rural areas may suffer if MSFs lose their viability. This is because a specific portion of MSF loans were to individuals or small firms in rural areas. It is presumed that 57.2% of MSF deposits are worth over than 50 million won.

Meanwhile, the money escaping from unhealthy banks and merchant banks is expected to flow into money market deposit accounts of competitive domestic or foreign banks for the short term, to monitor conditions in the money market and find opportunities to move into more profitable havens. Thus, capital in the money market may continue "floating" for the time being. Furthermore, the phenomenon may worsen because the stock and bond markets currently are unattractive to short term capital in the market.

What should the government do?

It seems that the government tried to accomplish two objects at the same time by implementing the partial deposit insurance system.

It seems that the government tried to accomplish two objects at the same time by implementing the partial deposit insurance system. First, it wanted to maintain the pace of the restructuring process, and second, it tried to minimize shocks to the financial market such as sudden capital movement.

In the face of assertions that the new system should be postponed, the government carried out its original plan, which has regained some confidence for the government's restructuring effort.

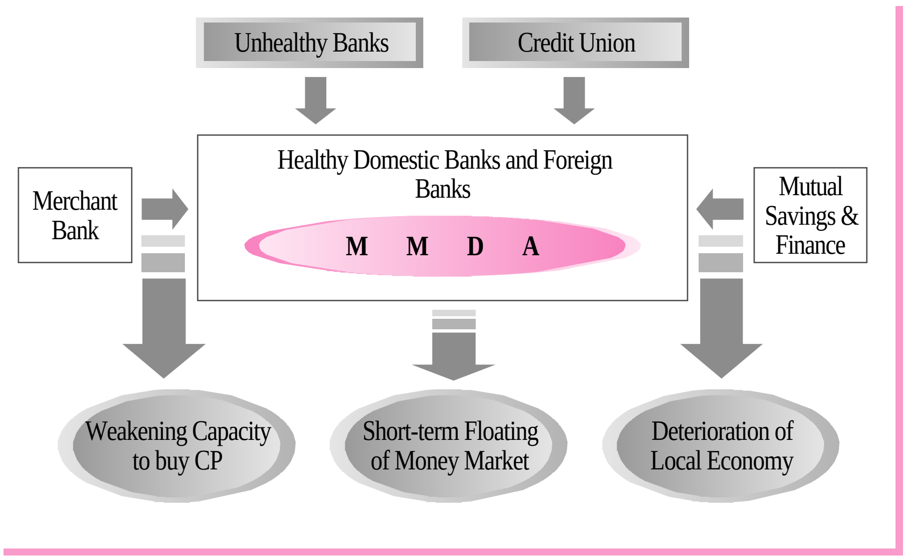
The remaining task is to minimize the shock to the financial market.

The most urgent task is to support the purchasing power of merchant banks in the CP market.

The most urgent task is to support the purchasing power of merchant banks (which will be the hardest hit by the new system) in the CP market. As mentioned before, a lot of enterprises get their short term funding through the CP market. Thus, it is recommended that the central bank improve the CP purchasing power of merchant banks by buying repurchase agreements, a measure that would probably reduce bankruptcies of troubled firms.

Though the aggregate credit ceiling system has recently been improved, there is still a need to further raise the ceiling to supply enough credit to firms in liquidity trouble. The loan maturity of aggregate credit ceiling system is set at just 3 months, but it needs to be extended depending on conditions in the financial market and regional economy. In addition, although the central bank chairman can withhold the assignment within 10% of the credit ceiling, the limit should be extended to 15% to 20% when needed. VIP

Figure 1. Likely Movement of Funds and Its Effects



DIGITAL DIVIDE IN KOREA

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The Korean economy is becoming a digital economy, in which the access to digital tools and skills are important components of personal, organizational and national competitiveness. Fortunately, the share of households with computers soared from 44.5% in 1998 to 66.0% in 2000. It is reported that 16.4 million people, 36% of the population, use the Internet in Korea. In the emerging digital economy, however, there exists a 'digital divide', a gap between information haves and information have-nots. The digital divide may lead to personal, societal or regional inequality on the economic level.

The digital divide may lead to personal, societal or regional inequality on the economic level.

Measuring the Digital Divide

To evaluate the extent of the digital divide, we look at factors such as income, age, education and gender. In addition, the digital divide index is split into three components: infrastructure, utilization and education. The digital infrastructure index indicates the physical conditions in which people have access to the digital tools like computers, mobile telephones and the Internet. The digital utilization index reflects the frequency of computer and Internet use, document transfers through the Internet, electronic commerce, and information gathering through the Internet and telecommunication. The digital education index indicates the intentional efforts to narrow or correct the digital divide, that is, whether people have been taught about computers and the Internet. The digitalization index is the average value of the three indexes mentioned above.

High Income Bracket, Highly Digitalized

There is a positive correlation between income and level of digitalization. High income earners pulling in more than four million won per month are two times as digitalized as those earning less than one million won. By index, the digital utilization gap is a little wider than that of digital infrastructure. Considering that digital skills are an important tool for personal competitiveness in the digital economy, the neglect of the income-related digital divide may give rise to transmission of poverty from generation to generation.

High income earners pulling in more than four million won per month are two times as digitalized as those earning less than one million won.

Elderly Lag Behind

Old people are observed to be less digitalized than the young, which means a negative correlation between age and digitalization. In digital infrastructure and utilization indexes, people in their twenties are leading, while those in their fifties and

Table 1. Digitalization Index by Income

		Digitalization Index	Infrastructure Index	Utilization Index	Education Index
Monthly Pay	Less than 1 million Won	72.2	63.9	92.3	60.4
	1 million~2 million Won	91.0	91.0	88.3	93.8
	2 million~3 million Won	109.0	112.0	105.7	109.4
	3 million~4 million Won	127.8	127.3	132.9	123.2
	More than 4 million Won	137.5	130.2	158.0	124.2
Country Average		100.0	100.0	100.0	100.0
Standard Deviation		26.6	27.7	29.5	26.4

Note : Raw data quoted from 2000 Survey on Conditions and Recognition of Information Society issued by Information Culture Center of Korea in 2000. The indexes are relative values calculated under the assumption that the country average is 100.

Twenty-somethings in Korea are four times as digitalized as their elders in their fifties.

above are lagging. For example, twenty-somethings in Korea are four times as digitalized as their elders in their fifties. This cleavage by age is more pronounced for digital utilization than for digital infrastructure.

Many older people have not acquired the basic skills of information computer technology (ICT). As a result, they are fearful of dealing with and learning digital tools and skills. Meanwhile, teens and twenty-somethings have great interest in digital technology. The digital education index of teens is ten times as high as people in their fifties. In a sense, it is desirable that the future generation - teens and twenty-somethings - is highly digitalized and can play a great role in the future digital economy.

Table 2. Digitalization Index by Age

		Digitalization Index	Infrastructure Index	Utilization Index	Education Index
Age	Teens	151.9	113.6	146.6	195.6
	Twenties	147.1	115.6	171.9	153.9
	Thirties	88.2	96.5	83.3	84.9
	Forties	67.1	104.3	50.7	46.4
	Fifties	35.9	66.2	23.4	18.0
Country Average		100.0	100.0	100.0	100.0
Standard Deviation		50.6	20.0	62.9	74.0

Poorly Educated, Poorly Digitalized

Enrolled students are much more digitalized than graduates.

Enrolled students are much more digitalized than graduates. Students have been learning and using digital technology widely in daily life. People who have not graduated junior high school, however, are poorly digitalized. The digital index for them is 27.3, compared with the country average of 100.

Table 3. Digitalization Index by Education Level

		Digitalization Index	Infrastructure Index	Utilization Index	Education Index
Education Level	Secondary School Students	149.3	110.4	141.3	196.4
	College(graduate) Students	196.7	149.5	236.3	204.4
	Junior High School Diploma or less	27.3	57.9	15.7	8.3
	High School Diploma	75.2	90.8	66.9	68.0
	B. A. or more	165.2	135.8	203.5	156.3
Country Average		100.0	100.0	100.0	100.0
Standard Deviation		67.9	36.4	86.2	85.5

By index, inequality is greater for digital utilization and education than for digital infrastructure. The standard deviation of the utilization and education indexes are about two times as large as the infrastructure index. It is notable that the digital education index of the undereducated does not reach a tenth of the country average.

By index, inequality is greater for digital utilization and education than for digital infrastructure.

Males More Digitalized Than Females

A disparity between men and women is also observed and the gap is greater for utilization than for infrastructure. The digital divide in gender might come from the fact that more men than women are employed as white collar workers and the office gives better access to computers and the Internet than the home.

Table 4. Digitalization Index by Gender

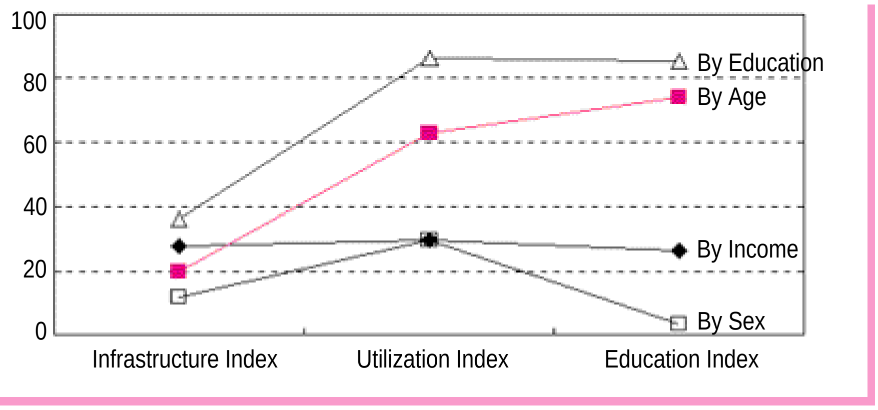
		Digitalization Index	Infrastructure Index	Utilization Index	Education Index
Gender	Male	110.2	108.3	119.9	102.3
	Female	88.9	91.4	77.9	97.4
Country Average		100.0	100.0	100.0	100.0
Standard Deviation		15.1	12.0	29.7	3.5

More Serious in Utilization Divide Than in Infrastructur e

From the evidence, it is concluded that a digital divide exists according to income, age, education level and gender, and that the digital utilization divide is more serious than the infrastructure one. First, high income earners, the young, well-educated people and men are more digitalized than low income earners, the old, undereducated people and women. The latter can be called ‘digitally excluded class’, who cannot access and enhance their living standard using digital technology.

High income earners, the young, well-educated people and men are more digitalized than low income earners, the old, undereducated people and women.

Figure 1. Comparison of Standard Deviation in Digital Indexes



The digital divide is wider for education level and age than for income and gender.

Second, the digital divide is wider for education level and age than for income and gender. In this sense, more attention should be paid to older people over fifty and the people with less than a junior high school diploma.

Third, gaps are wider for digital utilization and education than for digital infrastructure. With the society's interest in computers and the government's cheap PC policy, the gap in digital infrastructure has been reduced. Therefore, the next target for digitalization should be to improve use of existing digital technology.

Efforts To Eliminate Divide Underway

The Korean government is making various efforts to narrow the digital divide. The government plans to spend 12.5 billion Won in 2001 and give people in rural areas, those with lower income, and the disabled an opportunity to own PCs and learn digital technology. While implementing the digital divide related policy, the following thoughts should be considered.

More focus should be put on enhancing digital utilization capability (through public and private education) than on new infrastructure.

First, the digitally excluded people, as a policy target, should be clearly defined. For example, people with lower incomes, the old, the less-educated, and women can be targeted groups. Second, more focus should be put on enhancing digital utilization capability (through public and private education) than on new infrastructure. Third, the cost of using digital tools should be reduced. Expensive telecommunication and Internet access fees may cause people to hesitate from using digital tools in everyday life. Lastly, a differentiated policy is needed to help the various groups. For example, subsidies should be given to the lower income bracket, user-friendly technology should be developed for older people, digital education support should be provided for those with less education, and usage costs should be reduced for women.

Even in an advanced digital economy, like United States, Canada or the United Kingdom, the digital divide is impossible to eliminate perfectly. Nevertheless, with insistent steps to lessen the digital divide, Korea can emerge as one of the leaders in the digital economy. VIP

SHIFT OF THE EMPLOYMENT SYSTEM

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Breakdown of the lifelong employment system

The corporate sector turmoil caused by the 1997 economic crisis brought changes in the relationship between companies and their employees. Companies are no longer able to guarantee lifelong employment to their employees; workers themselves do not feel secure about a lifetime position at their workplace. Since the Korean economy went under the stewardship of the IMF, drastic changes have been observed within the framework of economic development. The concept of lifetime workplace does not hold much importance for employees who are quite ready to desert their present job for one that would better help them develop their abilities.

Companies are no longer able to guarantee lifelong employment to their employees; workers themselves do not feel secure about a lifetime position at their workplace.

During the economic crisis, many companies attempted to restructure, mostly by laying off their employees. This understandable struggle for survival resulted in mass unemployment; the phenomenon occurred even in conglomerates and in the financial market, two places that had been considered stable workplaces. Digitization and economic crises also marked the breakdown of the lifetime employment system. The era of the "Lifetime workplace" was over, to be replaced by an era of "Lifetime profession", a fact that greatly influenced workers' attitude toward their profession and work, as well as companies' employment methods. In parallel with rapidly developing information and communication technology and the surge of Internet users, existing industrial circles are going through reorganization and a massive job revolution. The growth in the use of the Internet and e-business, so drastic that it is shaking the very foundation of the existing industrial system, requires nurturing of competitiveness through endless self-development.

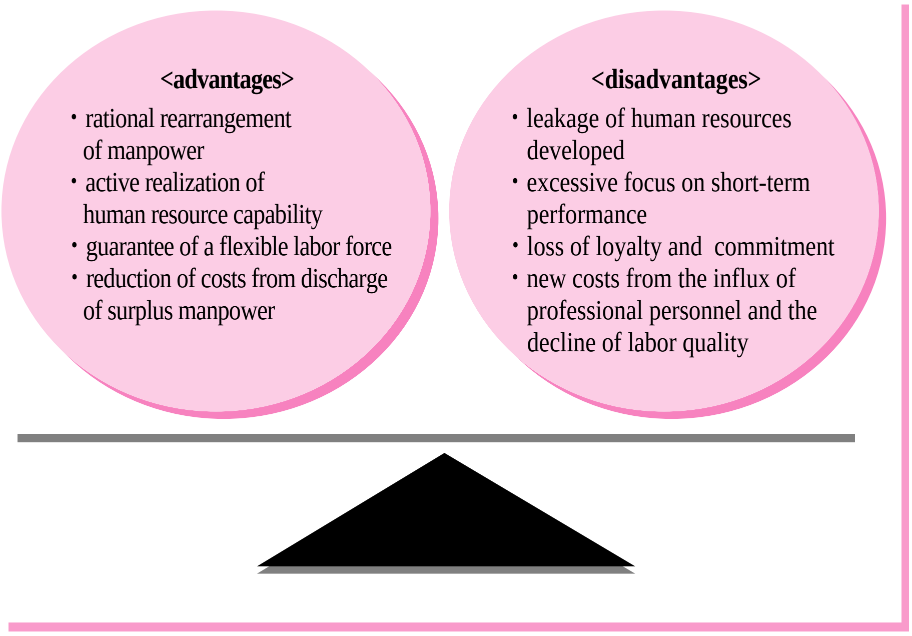
The growth in the use of the Internet and e-business is so drastic that it is shaking the very foundation of the existing industrial system.

Table 1. Average Age and Duration of Services by Occupation

	Managers	Professionals	Technicians and Associate Professionals	Clerks	Service Workers and Shop and Market Sales Workers	Craft and Related Trade Workers	Plant and Machine Operators and Assemblers	Elementary Occupations
ages	47.0	34.8	34.1	31.4	33.9	36.3	36.9	49.5
length of service	10.6	6.9	6.7	5.9	4.6	6.1	5.4	4.4

Source: Survey Report on Wage Structure, Ministry of Labor, 1998

Figure 1. Shift from Lifetime Workplace to Lifetime Profession



Change in the form of labor

Workers who had played a pivotal role in company competitiveness are now undergoing a gradual change in their commitment to the organization.

The traditional relationship between companies and their employees was founded on the concept of a lifetime workplace: workers considered themselves as typical “organization men” who were supposed to show whole-hearted devotion to their organization and to the job even under the most rapid industrialization. This attitude was manifested in the employees’ strong loyalty toward their company, which in return would guarantee employment, thus making it possible for the company to achieve rapid growth. However, in the midst of restructuring and the boom of venture companies, the basic notion of a “lifetime workplace” disintegrated, resulting in a decline of labor efficiency. In a situation where companies strongly feel the need to acquire the competitive methods and management skills of the advanced nations, workers who had played a pivotal role in company competitiveness are now undergoing a gradual change in their commitment to the organization.

It is not uncommon to find the domino phenomenon of job change, nor is it hard to notice a strong decline in workers’ efforts to use their originality due to a deterioration of loyalty and commitment to the organization.

The collapse of the lifetime employment guarantee is reflected in a feeling of anxiety among employees. Workers who were lucky enough to survive massive layoffs say that their old relationship with their company no longer exists and that a company does not deserve blind devotion from its employees. An increasing number of workers even think that refusing a more attractive job offer out of loyalty to the present workplace is no longer a virtue, and some of them are actually moving to better jobs. It is not uncommon to find the domino phenomenon of job change, nor is it hard to notice a strong decline in workers’ efforts to use their originality due to a deterioration of loyalty and commitment to the organization.

In brief, former “organization men” have lost their sense of identity and are experiencing panic which can be seen as a kind of “moral unemployment”. Whenever they feel dissatisfied with their workplace or job, these workers are quite willing to quit their company at the first opportunity.

Impact of the breakdown of the lifelong employment system

The foremost advantage of the new system is that, as in the case of massive labor flow from conglomerates to venture businesses, human resources are allocated in a more rational manner. In the past, workers had an understandable tendency to remain at their workplace unless a far more desirable employment guarantee was presented. However, many workers are now ready to desert their jobs for those with just slightly better conditions. The rational rearrangement of labor ensures greater flexibility in the labor force. Another advantage can be found in the higher efficiency and professionalism among workers. Because these workers feel that their capacities and efforts are being rightfully compensated, their work efficiency is far greater than under the system of lifelong employment and seniority. This implies that the lifelong employment system does not provide enough motivation to fully realize workers’ potential. Finally, the surplus manpower that existed in the lifelong employment system will be reduced, which will drastically cut costs.

The rational rearrangement of labor ensures greater flexibility in the labor force.

Among the disadvantages of the downfall of the lifelong employment system, the most notable is that workers are reluctant to play an active role in areas where productivity is not particularly visible, since they do not feel the need to be loyal to their company. They are content merely to fulfill the minimum of their functions; workers’ fear of being laid off is reflected in their attitude toward work. Secondly, it is impossible for companies to accumulate skilled manpower despite the need to acquire new technology and follow the example of advanced companies. In a sense, the lifelong employment system itself was a process of accumulating skilled labor; thus, the absence of an employment guarantee inevitably leads to another breakdown in the system of human resources preservation. Should the leakage of labor continue and the quality of labor fall to an unskilled level, companies would be forced to endure a new cost to induce a professional work force.

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New incentives for job commitment

Under the present circumstances, companies will encourage their employees to concentrate on their new functions as an attempt to reestablish order in the chaotic employment relationships. Highlighting the notion of the lifetime profession, individual workers will seek career development through their abilities and creativity rather than their spirit of sacrifice to the company. There will be a big shift in the thinking of management and the company system. In other words, “management by control” in which a company took charge of their employees’ career paths has turned

There will be a big shift in the thinking of management and the company system.

Figure 2. Change in Job Commitment

Traditional Job Commitment		New Job Commitment
Loyalty of traditional sense of value	1. Basic characteristic	Calculating loyalty of new sense of value
Monetary compensation & promotion	2. Individual needs	Work satisfaction & self-development
Individual : spontaneous self-sacrifice	3. Initiative	Companies : active inducement
Input : active endeavor	4. Evaluation criteria	Output : performance
Productivity through controlled management	5. Estimated effect	Efficiency through autonomous management

into “management by autonomy” in which employees are responsible for their own career development.

The company will provide the right environment for employees to work toward their own professional goals, where they can truly be the masters of their careers and, in addition, feel greater attachment to their jobs.

Without the atmosphere of job commitment, a company will try to turn the passive attitude of its workers into a more active one. On one hand, workers will set up and carry out plans for self development to elevate their employability; on the other hand, the company will enable workers to commit to their tasks, based on the individual workers’ abilities, in the company’s attempt to incite job commitment within the new framework. The company will provide the right environment for employees to work toward their own professional goals, where they can truly be the masters of their careers and, in addition, feel greater attachment to their jobs.

Companies faced with the twilight of the lifetime workplace system and seniority-based compensation will have to meet the emerging requirements of employees about their jobs and careers. Employees will ask for tasks and training programs that can develop their individual competence, as they will view ability more seriously as a professional quality. In addition, various concrete plans are needed to elevate the market value of human resources, such as prizes, articles, or participation in projects.

The new environment of high wages, slow growth, and severe competition will demand more advanced and qualitative human resources management.

Furthermore, companies will use a dual operating system for human resources, dividing core jobs from non-core jobs. Among other things, this method increases the practical employability of core human resources by outsourcing manpower for peripheral jobs. It also communicates the company’s willingness to maintain an employment relationship with employees performing core jobs. In the past, the human resources management of Korean companies was focused on the quantitative dimension of low wages and rapid growth; but the new environment of high wages, slow growth, and severe competition will demand more advanced and qualitative human resources management. VIP

ACHIEVING AN EFFICIENT MARKET ECONOMY

The following speech was made by Jin Nyum, the Minister of Finance and Economy, on September 27 at the IMF/World Bank Annual Meeting in Prague in the Czech Republic.

Introduction

It is a great pleasure and honor for me to represent the Republic of Korea at this fifty-fifth Annual Meeting of the International Monetary Fund and the World Bank Group. I would like to take this opportunity to express my gratitude to the Bretton Woods institutions, and to member countries for helping Korea overcome the financial crisis and regain economic vitality.

I would also like to thank the Government of the Czech Republic and the people of Prague for their gracious hospitality and efforts to make this meeting productive.

Global Economic Growth

It is encouraging to see how the world economy has recovered from the aftermath of the Asian financial crisis of 1997, and how its economic growth has been recently solidifying. The task ahead would be to make this growth more sustainable and widely shared.

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A robust performance of the US economy and a sustained economic rebound by Japan and EU member countries are important factors in realizing global stability. In addition, I believe strengthened policy coordination among the major economies would contribute significantly to this goal. We must also seek to reduce risks that undermine international economic prospects and, in this regard, I would like to highlight the urgent need to stabilize oil prices at sustainable levels.

As for promoting harmonized growth among countries and social groups, I welcome the international community's growing dedication to poverty reduction.

As for promoting harmonized growth among countries and social groups, I welcome the international community's growing dedication to poverty reduction. I sincerely hope the World Bank and regional development banks expand their roles in this capacity. I particularly appreciate the World Bank's attention to the problem of the digital divide and sharing prosperity.

In this vein, I strongly support Mr. Wolfensohn's and Mr. Koehler's call for greater stability of oil prices and currency markets, as well as more effective poverty reduction. Korea stands ready to do its part in helping substantiate these calls.

Korea's Economic Reform and Recovery

The Korean economy has experienced a solid recovery while keeping inflation under control, thanks to the structural reform and appropriate policy measures we have implemented for the past two and a half years. After growing at a brisk pace, our economy is moderating toward a more sustainable level over the medium-term.

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In light of the improved economic situation, Korea hopes to be included in the IMF's quarterly financial transaction plan as a creditor country again from December 2000. Likewise, we intend to make early repurchases of the remaining Fund credit balance.

Despite such favorable developments, we are also aware that there still remain many challenges in the economy. Instability in the financial market lingers, and the development gap among different social groups persists. On the external front, our trade surplus has been on a declining trend with import growth outpacing export performance this year. The surge in short-term capital flows poses another potential threat.

In order to cope with these vulnerabilities and to establish an efficient market system with greater transparency and competitiveness, we are placing the highest priority in carrying out financial and corporate restructurings. In addition, we are pursuing a knowledge, information, and digital-based economy by building a solid foundation of relevant laws and systems, while nurturing venture businesses equipped with innovative ideas and technology.

In order to cope with these vulnerabilities and to establish an efficient market system with greater transparency and competitiveness, we are placing the highest priority in carrying out financial and corporate restructurings.

Economic Cooperation with North Korea

Let me now bring your attention to the important developments on the Korean peninsula. Following the historic North-South Summit this past June, more tangible progresses have been made in further enhancing peace and cooperation in the region. These include the reconstruction of North-South railroad system, the first meeting of defense ministers on both sides, and the discussion of investment guarantee and tax exemption treaty.

In this context, I hope the international community actively supports North Korea in expanding its economic cooperation with the rest of the world.

Reforming the International Financial Architecture

I would now like to turn to the issue of reforming the international financial architecture.

Korea welcomes the recent discussions in various international fora to strengthen the international financial system. We recognize the progress made so far in areas such as the observance of standards and codes, indirect regulation of Highly Leveraged Institutions, and sharpening the role of international financial institutions.

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I look forward to further progress in other areas that include reducing the volatility of short-term capital flows, and specifying the framework for private sector involvement in crisis prevention and resolution.

In conjunction with the reform of international financial institutions, I would like to note that the IMF's quota and representation systems need to be adjusted to more adequately reflect the current world economy. In my view, the IMF's current policy does not properly weigh the economic influence of Asian emerging economies including Korea.

The IMF's current policy does not properly weigh the economic influence of Asian emerging economies including Korea.

Conclusion

This Annual Meeting is the first IMF/World Bank Annual Meeting of the new millennium. I believe the economic crisis at the end of the 20th century served as an opportunity to turn the international financial system into a more resilient one.

Korea is fully committed to playing an active role toward promoting global economic prosperity.

Korea is fully committed to playing an active role toward promoting global economic prosperity. To this end, we will push forward major reforms for our goal of achieving an efficient market economy. VIP

*Note: All figures are for the end of the period unless noted otherwise.

The Economy

1999's GDP growth rate reached 10.7% while per capita GNI (a measure of consumers' real purchasing power) is expected to reach $8,581. HRI forecasts continued economic recovery in 2000, and predicts that per capita GNI will climb back to $10,000.

	1993	1994	1995	1996	1997	1998	1999(E)	2000(E)
GDP Growth Rate (%)	5.5	8.3	8.9	6.8	5.0	-6.7	10.7	7.8
Nominal GDP (US$ bil)	345.7	402.4	489.4	520.0	476.6	317.7	406.7	469.4
GNI per capita (US$)	7,811	8,998	10,823	11,380	10,307	6,742	8,581	10,051
Gross Saving Rate	35.2	35.4	35.5	33.8	33.4	34.0	33.7	-

Industry

Production in September grew 15.1% year-over-year, which was a slowdown from the previous month. The average rate of facility utilization increased from 82.1% in August to 78.1% in September.

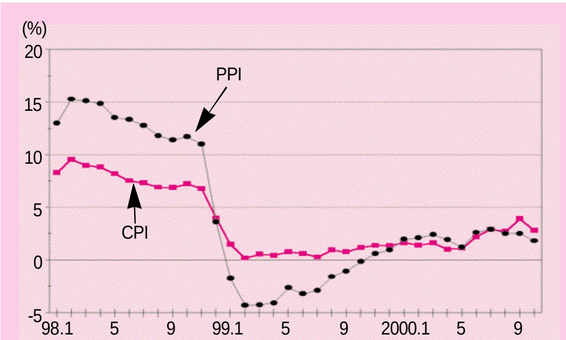
Industrial Indexes (y-o-y, %)	97	98					99						2000		
		Q1	Q2	Q3	Q4	Avg.	Q1	Q2	Q3	Q4	Avg.	12	Q1	Q2	Q3
Industrial Production Indexes	4.7	-4.9	-11.4	-9.1	-0.6	-6.5	14.1	24.6	28.5	28.9	24.2	24.6	23.4	18.3	19.6
Wholesale and Retail Trade Indexes	3.2	-11.2	-16.0	-15.1	-8.3	-12.7	6.9	11.6	17.6	15.7	13.0	14.9	14.4	12.4	7.6
Domestic Machinery Orders Received	3.3	-38.9	-43.8	-22.2	-10.9	-30.5	16.7	38.7	22.6	13.8	22.6	14.2	18.2	8.3	17.1
Domestic Construction Orders Received	5.4	-23.4	-53.4	-44.8	-44.9	-42.6	-45.3	27.1	13.4	18.0	0.8	8.9	75.9	20.4	8.5

Employment

With strong hiring in the manufacturing sector thanks to the Chusok holiday, the unemployment rate in September decreased. The unemployment rate and the number of unemployed decreased by 0.1% and 140,000 respectively from August to record 3.6% and 804,000 in September.

	97	98					99					2000				
		Q1	Q2	Q3	Q4	Avg.	Q1	Q2	Q3	Q4	Avg.	Q1	Q2	7	8	9
Total Employed (thousand)	21,048	19,710	20,178	19,971	19,846	19,926	19,042	20,301	20,695	20,962	20,281	20,313	21,268	21,501	21,253	21,432
Manufacturing Employed (thousand)	4,475	4,081	3,844	3,758	3,852	3,884	3,819	3,922	4,039	4,233	4,006	4,206	4,215	4,257	4,184	4,280
Unemployment Rate (%)	2.6	5.7	6.9	7.4	7.4	6.8	8.4	6.6	5.6	4.6	6.3	5.1	3.8	3.6	3.7	3.6
Total Number of Unemployed (thousand)	556	1,182	1,485	1,600	1,586	1,463	1,751	1,435	1,220	1,011	1,353	1,092	840	804	818	804

Prices



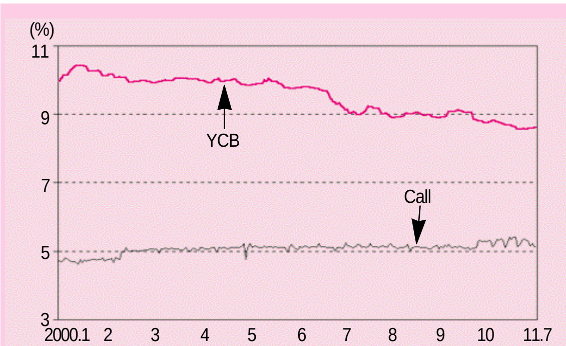
price increase compared to a year ago

Consumer prices in October dropped 0.3% from the previous month (a 2.8% increase year on year) thanks to a large drop in agricultural product prices. Manufacturing product prices rose 0.7% due to the rise in petroleum product prices. Public service charges and rent also rose 0.2% and 0.1% respectively.

Prices*(%)	98	99				2000									
		Q1	Q2	Q3	Q4	1	2	3	4	5	6	7	8	9	10
Consumer Prices (%)	7.5	0.7	0.6	0.7	1.3	1.6	1.4	1.6	1.0	1.1	2.2	2.9	2.7	3.9	2.8
Producer Prices (%)	12.2	-3.5	-3.3	-1.9	0.4	2.0	2.1	2.4	1.9	1.2	2.6	2.9	2.5	2.5	1.8

*Percentage change over a year ago

Interest Rates



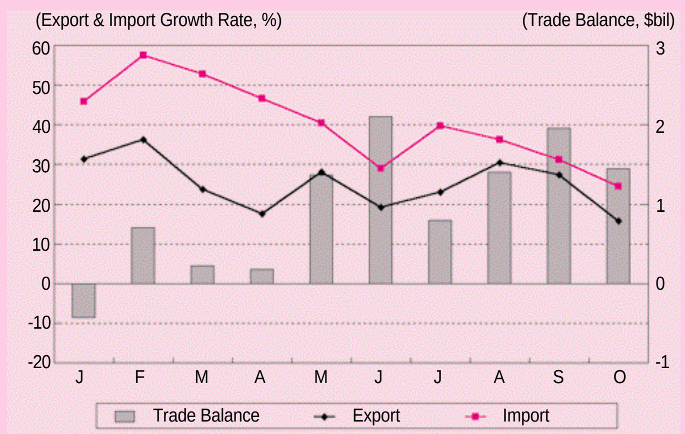
* YCB: Yields on Corporate Bond.

Corporate bond yields reached their lowest levels yet this year. The rapid fall of interest rates was caused by the flow of funds to relatively safe government bonds or AA- corporate bonds out of anxiety about restructuring. The interest rates of BBB- corporate bonds did not fall as much, widening the spread between AA- and BBB- bonds from 2.6% in the beginning of October to 3.4%.

Domestic Interest Rates* (%)	97	98				99				2000					
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	7	8	9	10
Call Rate (overnight)	35.0	22.1	14.3	7.09	6.53	4.88	4.85	4.67	4.84	5.11	5.16	5.13	5.12	5.09	5.36
Yield on CP (91 days)	35.0	22.2	16.3	10.50	7.90	6.90	6.40	7.54	7.85	7.28	7.61	7.52	7.11	7.24	7.11
Yield on Corporate Bonds (3 years)	29.0	18.3	16.0	11.90	8.00	8.10	7.96	9.23	9.95	10.01	9.41	9.17	8.98	9.04	8.59

*End of period

Trade



* customs basis

Exports in October grew at 15.8% year-over-year thanks to strong exports of semiconductors, autos, and computers. Although the growth rate of exports was the lowest in 13 months, export value reached a record high of $15.6 billion. Imports increased steeply at 24.4% y-o-y, this was mostly from the high unit price of oil imports; domestic demand growth declined for other imports. With the month's trade surplus recording $1.4 billion, and a cumulative surplus of $9.8 billion, the surplus for the year may exceed the government's goal of $10 billion to reach $12 billion.

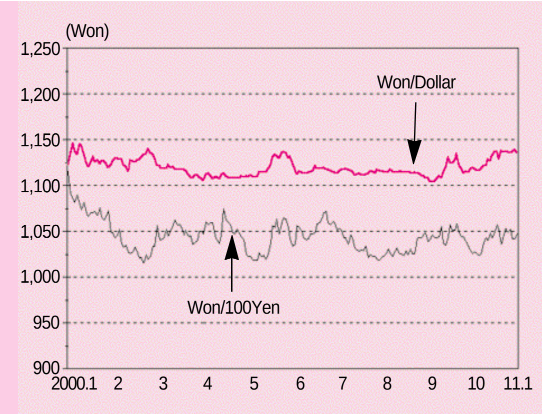
External Transaction (US$ bil)	97	98	99	2000				
				Q1	Q2	Q3	Oct	Total
Export	136.2	132.3	143.6	39.3	43.4	44.5	15.6	142.9
Imports (CIF)	144.6	93.3	119.8	38.8	39.8	40.4	14.1	141.3
Current Account	-8.2	40.4	24.5	1.7	2.7	3.6	-	7.7
Goods	-3.2	41.6	28.4	2.5	4.7	5.6	-	12.8
Services	-3.2	1.0	-0.7	-1.0	-1.0	-1.5	-	-3.5
Income	-2.5	-5.6	-5.2	-0.3	-1.1	-0.4	-	-1.8
Current Transfer	0.7	3.3	1.9	0.2	0.1	-0.1	-	0.2
FX Reserves*	8.9	48.5	74.1	83.7	90.2	92.5	92.7	-

*end of period

External Liabilities* (US$ bil)	97	98	99			2000			
				Apr	May	Jun	Jul	Aug	Sep
Long Term	95.7	118.0	98.3	94.2	94.7	94.5	94.4	94.3	93.7
Short Term	63.6	30.7	38.4	46.2	46.8	47.5	47.8	47.5	46.8
Total	159.2	148.7	136.4	140.4	141.5	142.0	142.1	141.9	140.5

*end of period

Exchange Rates

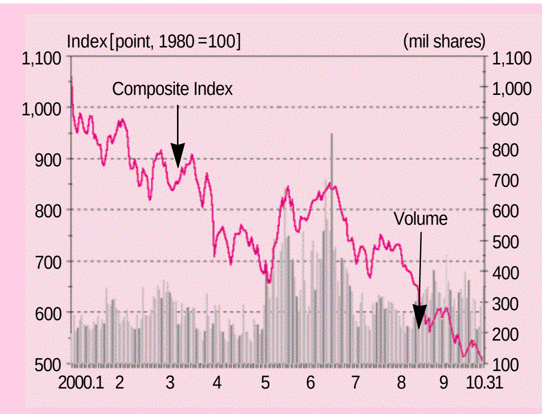


With stock prices relatively stable due to equity sales by foreigners, the won/dollar rate fluctuated mildly at around 1,130 won per dollar. The government's resolve to complete restructuring contributed to the exchange rate stability. However, because of continued demand for foreign exchange from oil companies and the financial sector, the exchange rate is unlikely to fall.

Exchange Rates*	98				99				2000				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	6	7	8	9	10
₩ / $	1,378.80	1,385.20	1,373.60	1,204.00	1,191.40	1,157.60	1,204.00	1,138.00	1,115.00	1,116.70	1,108.80	1,115.00	1,139.00
¥ / $	133.22	138.93	136.66	115.02	118.22	133.22	114.00	102.23	105.57	109.48	106.37	107.83	109.15

*end of period

Stock Market



Despite the fall in the Dow Jones, the bankruptcy of some large corporations, and a worsening credit crunch, the stock market showed a modest rally, after being reassured of the government's will to reform. However, with continuing uncertainty regarding the US presidential elections, US stock markets are in confusion, and as a result, the rise in Korean markets has also been limited.

Stock Market*	98				99				2000				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	6	7	8	9	10
Composite Stock Price Index (end)	481.04	297.88	310.32	562.46	572.30	769.30	943.79	1,028.07	821.22	705.97	688.62	613.22	514.48
Traded Volume (Avg, ten thousands)	8,394.4	5,704.2	7,728.4	9,771	14,922.3	26,983.4	31,716.3	27,879	46,287	21,898	26,337	30,334	31,447

*end of period

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