

## Part 2 : Chapter 5 - Republic of Korea

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*Part Two*

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## REVIEW BY COUNTRY / REGION



## Chapter 5

# REPUBLIC OF KOREA

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### Republic of Korea

Area:	99,538 km <sup>2</sup> (2005)
Population:	48.29 million (estimate for 2005)
Capital:	Seoul
Language:	Korean
Religion:	Christianity (Protestant, Catholic), Buddhism, and Confucianism
Government type:	Republic
Chief of state:	President Roh Moo-Hyun
Currency:	won (US\$1 = 1,013.0 won; average for 2005)
Fiscal year:	Calendar year

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# The Fluctuating Domestic and Foreign Policy of President Roh Moo-Hyun

NAO ISHIZAKI, SATORU OKUDA, and YUICHI WATANABE

**B**acked by President Roh Moo-Hyun, the ruling Yollin Uri Party (in this book referred to as the “Uri Party”) continued active promotion of four reform bills since 2004. In 2005, the Newspaper Law (passed by the National Assembly in 2004) came into force and bills for the enactment of the History Law and the revision of the Private School Law were passed by the National Assembly. However, the Uri Party lost both of the by-elections that were held. The approval rating of President Roh remained low except for a temporary rise when he showed a hard-line attitude toward Japan. These facts indicate that the government did not gain the national consensus on the reform that it was seeking.

The economy slowly recovered from its initial sluggish state. With the contribution ratio of domestic demand to economic growth having increased slightly from the slump of the previous year, the continued surplus in the country’s balance of payments pushed up the external value of the won to cancel the effects of the steep rise in crude oil prices. Businesses began to enhance their capacity to tolerate currency appreciation through the development of new products and through export to and investment in new markets. The stock market remained active, although the main buyers shifted from foreign to domestic buyers. However, the employment situation did not improve significantly in spite of the economic recovery, thus fostering the phenomenon of “growth without employment.” In the field of economic policy, a series of real estate measures that were implemented in August are worthy of special mention. The government decided to impose heavy taxes on the holders of large amounts of real estate. As in the previous year, the economic policy was focused on income distribution.

On the diplomatic front, the inter-Korean dialogue was resumed after a deadlock that had lasted from the second half of the previous year. With active interchange activities between South and North Korea (Democratic People's Republic of Korea), the pro-North tendency of the South was accelerated. South Korea's policy of reconciliation with the North was also demonstrated in the six-party talks on the issue of nuclear development by North Korea. In addition, President Roh's new diplomatic and security idea of playing a "balancer role in Northeast Asia" was presented. In contrast to the friendly relations between North and South, the South Korea–Japan relations were destabilized by the hostile atmosphere caused by the issue of the prime minister's visit to Yasukuni Shrine, the issue of Japanese history textbooks, and the territorial dispute over Takeshima. The alliance with the United States was also strained by their different policies on North Korea and the issue of realignment of the US forces in South Korea.

## DOMESTIC POLITICS

### *Relocation of Administrative Agencies*

The issue of overconcentration of administrative bodies in Seoul has long been a concern in South Korea. As a measure to correct this problem, the government began promoting the capital relocation plan in 2004. However, the Constitutional Court ruled that the plan was unconstitutional. Despite this, the Roh administration proceeded with the plan and the Special Act for Construction of the Multifunctional Administrative City in Yeongi and Gongju, as a counter plan for the New Administrative Capital (Special Act for the Multifunctional Administrative City Construction), was passed by the National Assembly on March 2, 2005. The gist of this act was to relocate 49 central administrative offices including 16 ministries and 2 agencies, except for the Ministry of Foreign Affairs and Trade, the Ministry of National Defense, and the Ministry of National Unification, to the Yeongi and Gongju regions.

The largest opposition party, the Grand National Party (GNP), fiercely opposed the bill and many citizens also expressed strong opposition to it. On June 15, a petition against the constitutionality of the Special Act for the Multifunctional Administrative City Construction was filed claiming that "the act is practically intended for the relocation of the capital of the country." The Constitutional Court dismissed the petition

on November 24, ruling that “the purpose is not considered to be the relocation of the capital.” So, the relocation of administrative agencies became almost certain.

On June 24, the government announced a plan to relocate 176 public offices from Seoul and the metropolitan areas to the provinces. According to the government, the relocation would help correct an overconcentration of public offices in Seoul, create new employment for 133,000 people in the provinces, and contribute to local finances. On the other hand, potential problems were pointed out such as a decline in efficiency of the services due to the dispersion of related offices, a rise in the real estate price in the places where offices are to be relocated, and the huge cost of relocation, which is estimated at 12 trillion won.

### *Uri Party Suffered a Crushing Defeat in By-Elections*

In 2005, by-elections of the National Assembly were held twice to fill vacancies caused by election violations in the 2004 general election that led to the resignation of a number of National Assembly members. The Uri Party was thoroughly defeated in all elections and the GNP won an overwhelming victory.

On April 30, by-elections for small-city mayors and heads of counties and wards as well as for members of city councils were held, in addition to those for National Assembly members. In these elections, the Uri Party won no seats; whereas the GNP won 18 of the 23 available seats. As a result, the Uri Party lost its majority, and the National Assembly started with a minority ruling party and majority opposition parties once again.

The low turnout rate of 33.5 percent was due to the low turnout of young people, many of whom support the ruling party. This situation forced the ruling party to engage in a hard-fought struggle. The factor behind the landslide victory for the GNP is thought to be the popularity of Chairwoman Park Keun-Hae among ordinary people.

By region, it is noteworthy that, in spite of the passage of the bill for the Special Act for the Multifunctional Administrative City Construction, the Uri Party’s candidates were not elected in Gongju and Asan in Yeongi County, South Chungcheong Province, where city construction is planned under the act. It became clear that it was difficult for the ruling party to control public sentiment in South Chungcheong Province merely by pledging to relocate the administrative capital. In Yeongnam where support for the GNP is traditionally strong, the Uri Party lost Kimhae, the hometown of President Roh.

On October 26, by-elections of the members of National Assembly only were held in four voting districts. The GNP won all of these elections and the Uri Party was unable to win any seats. The turnout rate was 40.4 percent. As a result, the National Assembly was composed of 144 members of the Uri Party, 127 members of the GNP, and 28 members of other parties, exacerbating the minority of the ruling party situation. After the election, many members of the Uri Party called for President Roh to take responsibility for the defeat. In response to that, Chairman Moon Hee-Sang of the Uri Party announced on October 28 that all six members of the central committee of the ruling circle had resigned from their positions in the party.

Elections were held in one district in Taegu City, one district in Ulsan City, and two districts in Gyeonggi Province. In Taegu City and one district in Gyeonggi Province, President Roh's close aides were run for office but were defeated. The seat in Ulsan City was held by the Democratic Labor Party before the election. This district is very densely populated with laborers in the country and the Democratic Labor Party expected that it would receive many votes. Therefore, many people were shocked when the seat was taken by the conservative GNP.

According to a public opinion poll taken by the *JoongAng Daily* on October 24, approval ratings were 32 percent for the GNP and only 12 percent for the Uri Party. The criticism concerning misgovernment by the ruling party seems to have worked in favor of the GNP.

### ***Settlement of the Past History***

The settlement of the past history (the history relating to the colonial rule by Japan and the military government after the war), which had been pursued since the inauguration of the Roh administration, remained an important issue in the political arena in 2005. This was part of the movement to strike at those people with vested interest who formed the ruling class under the military dictatorship and to advance reform. The issue concerning so-called pro-Japan collaborators was also among the issues of history to be settled. The background factor is that the pro-Japan collaborators continued ruling the country even after World War II. Another related factor is that President Roh presented a hard-line attitude toward Japan with a view to improving his low approval rating.

History Committees that were established within the National Intelligence Service, police, and military, etc., investigated the history in their departments. On February 3, a Government-Civilian Investigation



Committee in the National Intelligence Service for Wrongdoings by Top Spy Agency announced that it would reinvestigate seven important incidents, including the kidnapping of Kim Dae-Jung (1973), the National Democratic Young Student League, the Mincheonghaknyeon incident (1974), and the destruction of KAL 858 (1987). After the investigation, the committee announced on December 7 that the Mincheonghaknyeon incident and the People's Revolutionary Party incident in 1974 were fabricated by the administration of the former president, Park Chung-Hee, who was then in power.

On May 3, the bill for the Basic Law for Truth and Reconciliation (History Law) was passed by the National Assembly. This is one of the four reform bills submitted by the Uri Party to the National Assembly in 2004. The History Law dealt extensively with major incidents that occurred during the 100-year period from the conclusion of the Eulsa Protectorate Treaty of 1905 until the most recent incidents. The incidents to be investigated under the law included those involving death, injury, or disappearance caused by the unjustified exercise of public authority and human rights violations. The left wing, the right wing, and the governments of North and South Korea were allegedly involved in these incidents.

The original bill was prepared on the initiative of the Uri Party, and the GNP opposed to the bill during the National Assembly session, held last autumn. However, some members of the Uri Party rebelled against the bill, and it was passed with the consensus of the GNP members. The phrase: "the terrorism and human rights violations by the forces that deny the legitimacy of the Republic of Korea or that are hostile to the Republic of Korea, as well as violence, massacre, and questionable death," was inserted in the provisions, based on the GNP's proposal. The reason for the rebellion by some member of the Uri Party and the GNP's shift to approval was that not only the military government but also the left wing were included as targets of the investigation.

On May 31, the Korean government's Committee for Investigating the Conduct of Pro-Japan Collaborators during the Colonial Period was established for the purpose of reinvestigating pro-Japan collaborations during the Japanese colonial period. The investigation covered the period from the start of the Russo-Japanese War in 1904, an event which led to colonization, to Japan's defeat in World War II and independence of Korea from Japan in 1945. Killing, wounding, or abusing the anti-Japan and pro-independence activists and actively collaborating with Japan in the war of

aggression as a second lieutenant or higher rank in the Japanese troops were considered pro-Japan activities. The late, former president Park Chung-Hee, the former lieutenant of the Japanese troops and father of Chairwoman Park Keun-Hae of the GNP, was also subject to investigation.

On August 29, the Institute for Research in Collaborationist Activities, which is an academic society in South Korea and an independent committee for the encyclopedia of pro-Japan collaborators, made public a tentative list of 3,095 pro-Japan collaborators who are alleged to have collaborated with the Japanese colonial authorities. The list includes Lee Wan-Yong, the former prime minister who signed the Japan-Korea Annexation Treaty in 1910 and other prominent figures in various fields who were actively involved in colonial rule until liberation in 1945. In the military, Chung Il-Kwon who served as prime minister and National Assembly chairman after the war and others were listed along with Park Chung-Hee. In the media industry, the former president of the *Chosun Ilbo*, the founder of the *Dong-A Ilbo*, and former heads of major newspapers that severely criticize the Roh administration, are named in the list.

Such pro-Japan collaborator bashing by the Roh administration and the hard-line attitude toward Japan in diplomacy caused only a temporary low approval rating for President Roh. According to a report by the *Chosun Ilbo* of December 31, 2005, the results of public opinion polls (conducted by the Korean Gallup) in 2005 show that, as a general trend, the percentage of those who evaluated President Roh as doing well increased slightly until May, declined sharply in October and picked up a little in December. The percentage of the respondents who said President Roh was doing well was 34.1 percent in May 2005 and 22.6 percent in December. The percentage of those who said the president was not doing well was 53.3 percent in May 2005 and 66.5 percent in December.

With the passage of the impeachment motion against President Roh by the National Assembly in March 2004, the president's executive powers were suspended. Eventually President Roh returned to power when the Constitutional Court overruled the impeachment in May. The approval rating for President Roh increased briefly during this process and fell again after the impeachment battle ended. Public opinion polls in 2005 show similar trends. The approval rating for President Roh had been generally declining since his inauguration. In particular, support from young people who form the core of his support base was decreasing, reflecting that the reform policy promoted by the Roh administration has not gained public support.

### ***President Roh's Idea of a Coalition Government***

Since he took office, President Roh has repeatedly made remarks suggesting that he would abandon his powers as a strategy to break political deadlock. This strategy was used in 2005, too. On July 28, President Roh released a statement on his official website entitled Message for the Members and Comrades of the Yollin Uri Party—Proposal for the Reform of Political Structure including the Regional Conflict Structure. The idea presented proposed a coalition government with the GNP by transferring the power to appoint the prime minister and some cabinet posts to the GNP in exchange for introducing a constituency system, advantageous to the Uri Party.

This proposal by President Roh evoked criticism, even within the ruling party. Chairman Moon Hee-Sang of the Uri Party said: “We will take proper steps such as making a proposal of coalition government to the GNP.” However, the young assembly members of the Uri Party openly expressed dissatisfaction with President Roh’s statement on transferring power to the GNP. Chairwoman Park Keun-Hae of the GNP rejected the proposal and the Democratic Labor Party also flatly refused it. Pro-president media such as *Oh My News* and citizens groups such as People’s Solidarity for Participatory Democracy also opposed the idea.

### ***National Intelligence Service's Wiretapping Scandal***

It is widely known that wiretapping was conducted under the military regime. However, it was a great shock to South Korean society when it was revealed that wiretapping was done even under the civilian administration of Kim Young-Sam and Kim Dae-Jung. As wiretapping with a warrant issued by the court is legal, illegal wiretapping was the subject under discussion.

In late July, the media reported a suspicion that the Agency for National Security Planning (the predecessor of the National Intelligence Service) illegally bugged conversations of key government and business leaders when Kim Young-Sam was president. According to the report, it was suspected that the Agency for National Security Planning secretly organized a wiretapping team who tape-recorded conversations of leading figures in political and business circles and informed the inner circle of the government of the contents of these conversations.

The suspicion was confirmed when a private TV company, MBC, obtained the bugged tapes and broadcast some of them. What was broadcast was a conversation between the ambassador to the United States,

Hong Seok-Hyun (former head of *JoongAng Daily*), and executives of Samsung, discussing the provision of political funds to the candidate of the ruling party for the presidential election in 1997. Ambassador Hong Seok-Hyun is the brother-in-law of Chairman Lee Kun-Hee of Samsung. As the scandal caused a large ripple, the ambassador to the United States, Hong Seok-Hyun, was forced to resign, and Samsung published a written apology addressed to the people.

On August 5, the National Intelligence Service issued an interim report on the investigation of this case. The National Intelligence Service admitted that illegal wiretapping occurred from the time of President Kim Young-Sam through to the time of President Kim Dae-Jung and apologized to the people. The prosecutors' office raided the National Intelligence Service and obtained evidence that the Agency for National Security Planning and the National Intelligence Service had engaged in illegal wiretapping for a long time. It was an unprecedented situation for prosecutors to have raided the National Intelligence Agency.

On November 15, the Seoul Central District Prosecutors' Office detained Lim Dong-Won and Shin Kuhn, who had served as director general of the National Intelligence Service under the former administration of Kim Dae-Jung, on the charge of leading the systematic wiretapping that had targeted politicians, business persons, and the media from 1999 to 2003 when they were in office, in violation of the Communication Secrets Protection Act. After all, compulsory investigation of the case of wiretapping during the administration of Kim Young-Sam was not conducted because the statute of limitations had run out.

### ***Exercise of Command***

Among the four reform bills, the bills to abolish the National Security Law and revise the Criminal Law had not yet been passed by the National Assembly, as at the end of 2005. However, an important incident that questioned the appropriateness of the National Security Law took place in 2005. On October 12, Justice Minister Chun Jung-Bae exercised his authority and ordered Prosecutor-General Kim Jong-Bin to conduct an investigation against Professor Kang Jeong-Koo at Dongguk University without arresting him. Kang was suspected of violating the National Security Law that prohibits anyone from praising North Korea by repeatedly making such statements as "the Korean war was fought for unification."

On October 13, the GNP demanded the resignation of Justice Minister Chun and an apology from President Roh, defining this incident as the

one that: “caused destruction of the constitutional government and disturbed basic order of the nation.” On the 14th, Prosecutor-General Kim Jong-Bin submitted his resignation in connection with this issue and President Roh accepted his resignation on the 16th. On his departure from office on October 17, Prosecutor-General Kim Jong-Bin strongly criticized Justice Minister Chun Jung-Bae for exercising his authority. On the same day, Prime Minister Lee Hae-Chan strongly criticized Prosecutor-General Kim Jong-Bin. This incident caused a heated dispute between the ruling and opposition parties.

Professor Kang Jeong-Koo was summoned and interviewed by the prosecutor in November and December. He was questioned on the reason he considered the Korean War to be a war of unification as well as on the circumstances that led to the publication of his essays and columns relating to this matter on the homepage of a pro-North Korea organization.

(by Nao Ishizaki)

## ECONOMY

### *Macro Economy: Domestic Demand Gained Momentum*

According to the preliminary report on the GDP issued by the Bank of Korea on January 25, 2006, the GDP (gross domestic product) growth rate for 2005 was 4.0 percent (see Table 5.1). Although the growth had slowed slightly from the previous year’s growth rate of 4.6 percent, the GDP growth rate increased over time during the year, from 2.7 percent for the first quarter to 5.2 percent for the fourth quarter. Due to the appreciation of the won, GDP per capita is expected to reach US\$16,000. Like the previous year, the manufacturing industry and exports led the economic growth. Signs of recovery were shown by the service industry, which had been in a slump in the previous year, and domestic demand, notably private consumption and facilities investment, was gaining momentum. Private consumption became buoyant due to a successful disposition of personal debts and the recovery of expenditure on consumer durables. In the field of facilities investment, transport equipment began to pick up from the sluggish pace of the previous year. However, it should be taken into account that expenditure on consumer durables increased due to a last-minute rise before the expiry of the exemption of the special consumption tax on automobiles. National income did not

Table 5.1. Quarterly Growth Rates by Economic Activity and Expenditure Item

(%)

	2004	2005				
		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Whole Year
Gross domestic product (GDP)	4.6	2.7	3.3	4.5	5.2	4.0
Manufacturing industry	11.4	5.3	5.2	7.3	10.0	7.0
Service industry	1.3	2.2	2.5	3.4	3.9	3.0
Private consumption	-0.5	1.4	2.8	4.0	4.6	3.2
Facilities investment	3.8	3.1	2.9	4.2	9.8	5.1
Construction investment	1.1	-2.9	1.7	0.4	0.9	0.3
Exports of goods	21.0	8.1	6.5	13.3	11.1	9.7
Imports of goods	13.8	3.1	3.6	10.3	6.2	5.8
Gross domestic income (GDI)	3.7	0.5	0.3	0.4	1.7	0.8

Source: Bank of Korea, "Preliminary Report for Gross Domestic Products in the 4th Quarter, 2005," January 25, 2006.

increase as much as suggested by the GDP growth. While the export prices dropped due to the appreciation of the won in 2005, the import prices increased due to a steep rise in oil prices. As a result, the terms of trade had deteriorated, and the annual growth rate of GDI (gross domestic income) was only 0.8 percent.

### ***Prices: Stable, Affected by the Won's Appreciation Rather than the Rise in Oil Prices***

The average import price of crude oil for 2005 was US\$50.60 per barrel, an increase of 40 percent over the previous year (*Recent Economic Trend*, February 2006, Ministry of Finance and Economy). There was concern that the expected increase in the import price of crude oil might adversely affect the domestic economy; however, the effect turned out to be minimal. The increase rates of the wholesale and the consumer prices for 2005 were 2.7 percent and 2.2 percent, respectively, and both somewhat calmed down in comparison with the previous year. This was because the effect of the increased oil prices was offset by that of the appreciation of the won. The average won-dollar exchange rate for 2005 was 1024.32 won and the yen-won exchange rate was 930.66 won (per 100 yen), marking an appreciation of 10.5 percent and 12.1 percent, respectively.

### ***Labor/Household: Slight Increase in Employed Workers but No Increase in Income***

According to *Employment Trend in December 2005*, published by the National Statistical Office on January 12, 2006, the unemployment rate in 2005 was 3.7 percent, the same as the previous year, and the number of employed persons increased by 299,000 (1.3 percent). By industry, those who were engaged in business, personal, and public services increased by 366,000, and by form of employment, regular workers increased by 293,000. A characteristics of 2005 was the increase in the labor participation of the women in their fifties (up 124,000, or 9.7 percent from the previous year), which gives a glimpse of companies' intent to restrain labor costs and women's intent to contribute to family income. On the other hand, household income increased only slightly. According to *Household Income and Expenditure in the 4th quarter, 2005*, published by the National Statistical Office on February 8, 2006, the average household income of the nation in 2005 was 2,911,800 won, a nominal increase of 4.1 percent over the previous year. However, the real increase rate was mere 1.3 percent, well below the GDP growth rate for the same year. By income item, the rate of increase was particularly low for earned income and business income, which increased by 3.2 percent and 1.2 percent respectively, in nominal terms.

### ***Corporate Sector: Unprecedented High Profits***

While the household income stayed sluggish, corporate profits increased steadily. According to the Korea Stock Exchange, the total ordinary profit of listed companies as of December 2005 amounted to 62,890 billion won, marking a high increase rate of 88.9 percent compared with the previous year. As a result, the ordinary profit to net sales ratio achieved an unprecedented level of 10.88 percent. Companies remained active in expanding their business overseas in anticipation of the slowing down of the domestic market. Korean companies' overseas investments in major host countries, such as China and the United States, maintained a high level, although their growth rate somewhat slowed down. Instead, overseas investments increased in niche markets of Southeast Asia, India, Eastern Europe, and Central and South America. Among the announced cases of investment of over US\$10 million are the construction of Daesang Corporation's and CJ's plants in Indonesia, POSCO's ironworks in India, Hyundai Motor Company's plant in the Czech Republic, Samsung Electronics' plants in Slovakia, Hungary, and Poland, LG Electronics'

plant in Poland, and LG Electronics' and Samsung Electronics' plants in Brazil. In Viet Nam and Indonesia, there are many cases of medium-scale investment (mostly US\$1 million or less) in labor-intensive industries such as textiles, clothing, and footwear. The presence of Korean companies in the international market was fairly enhanced in 2005. The ranking of the world's 500 largest companies, published by *Fortune* magazine in July 2005, included 11 Korean companies. Among the top 200 companies were Samsung Electronics (ranked 39), Hyundai Motor Company (ranked 92), LG Electronics (ranked 115), and SK (ranked 117). Companies were also active in their efforts to strengthen relations with Japan. Special mention should be made of the fact that Samsung Japan joined Nippon Keidanren in August and that POSCO was listed on the Tokyo Stock Exchange in November.

### ***Trade and Balance of Payments***

According to the *Trend of Exports and Imports in 2005* published by the Korea Customs Service on February 14, 2006, total exports stood at US\$284.4 billion (12.0 percent increase over the previous year). Unlike before, there were no loud voices complaining adverse affects of the won appreciation. Considering the deterioration of the export environment, the increase in exports by a two-digit percentage in 2005 should be highly regarded. Exports in 2005 were characterized by a sharp increase in the items in which Korea had been relatively weak before, such as machinery, rather than the leading items such as semiconductors, automobiles, and vessels. Exports of machinery and precision equipment in 2005 totaled US\$32 billion (41.7 percent increase over the previous year). By destination, exports to China (US\$61.9 billion, up 24.4 percent) and the EU (US\$43.7 billion, up 15.4 percent) steadily increased, whereas those to the United States (US\$41.3 billion, down 3.5 percent) and Southeast Asia (US\$53.8 billion, down 3.5 percent) were sluggish. Also, exports to niche markets of Central and South America and CIS increased while those to Japan increased by only 10.7 percent over the previous year to reach US\$24 billion. Imports amounted to US\$261.2 billion (16.4 percent increase over the previous year) partly due to the rise in oil prices. The rate of increase was high for energy and materials such as crude oil, coal, minerals, and ferrous material, whereas the rate of increase was low for semiconductors, machinery, and cereals. By region, imports from the Middle East (US\$47.4 billion, up 40.8 percent), China (US\$38.6 billion, up 30.6 percent), and Australia (US\$9.9 billion, up 32.6 percent)



increased, reflecting a general increase in the import of natural resources. On the other hand, imports from Japan increased only moderately to US\$48.4 billion (up 4.9 percent) due to sluggish imports of machinery. Imports from the United States and Southeast Asia also increased, but only by a single-digit percentage. The balance of trade on a customs clearance basis stood at US\$23.2 billion, decreasing by US\$6.2 billion from the previous year. By region, there was an increase in the trade surplus with China (US\$23.3 billion, up US\$3.1 billion) and the EU (US\$16.4 billion, up US\$2.8 billion), whereas there was a reduction in the trade surplus with the United States (US\$10.8 billion, down US\$3.3 billion) and Southeast Asia (US\$17.7 billion, down US\$1.3 billion). The long-standing trade deficit with Japan remained exactly the same as the previous year, at US\$24.4 billion.

Major trade disputes that arose during 2005 include the dispute with China over hygiene issues involving kimchi and IT disputes with Japan. Regarding the latter, LG Electronics filed a lawsuit against Matsushita Electric Industrial Co., Ltd., over the issue of plasma displays in January. Also, Toshiba Corporation filed a lawsuit against Hynix Semiconductor, Inc., over the issue of flash memory in October, and Samsung SDI Co., Ltd., filed a lawsuit against Matsushita over the issue of PDP in December.

The current account surplus substantially shrank to US\$16.6 billion, down US\$11.6 billion from the previous year. In addition to a reduction in the surplus of merchandise trade (US\$33.5 billion, down US\$4.1 billion), a shrinkage of the current account surplus was jointly led by an increased travel balance deficit (US\$9.7 billion, up US\$3.4 billion) caused by an increase in overseas travelers and students studying abroad as well as an increased dividend balance deficit (US\$5.6 billion, up US\$2.3 billion) caused by an increase in dividend payments to foreign stockholders. The foreign exchange reserves as of the end of 2005 increased by US\$19.8 billion from the previous year to reach US\$210.4 billion (the fourth largest in the world).

### ***Finance and the Stock Market***

The year 2005 became a turning point when the monetary easing trend was reversed. Following a raise of the call rate in October for the first time in three years and five months, the call rate was raised again in December to 3.75 percent. Behind such a raise in the call rate, despite the economy still being weak, was the Bank of Korea's belief that the surplus funds, generated as a result of the continued low interest rate, had flowed into

the real estate market and caused a sharp increase in the real estate prices. Although the government opposed to raising the interest rate out of concern for the economy, the Bank of Korea's view gained so much support as to overcome opposition by the government.

In terms of credit, the provision of credit to companies and households increased as monetary conditions eased. Outstanding loans to companies as of the end of 2005 amounted to 275 trillion won (5.8 percent increase over the previous year) and those to large companies recorded a particularly high rate of increase, at 15.7 percent. Loans to households also showed an increase, mainly in home equity loans. The amount of outstanding loans to households as of the end of 2005 was 305 trillion won (10.7 percent increase over the previous year). Looking at deposits with financial institutions, demand deposits in the banking sector significantly increased in anticipation of an interest rate hike. The total amount deposited with banks at the end of 2005 was 610 trillion won, an increase of 36 trillion won over the previous year. A particularly sharp increase was recorded in the MMDA (Money Market Deposit Account) (up 13 trillion won) and the CD (up 16 trillion won), which are marketable products in which money can be deposited and withdrawn at any time. The total amount of funds deposited with asset management companies increased by 13 trillion won to 193 trillion won. While the amount of bond-type funds decreased by 24 trillion won, that of stock funds and multi-asset funds increased by 17 trillion won and 11 trillion won, respectively.

As the economy was slowly recovering, the stock price index reached record highs almost every day. The stock price index as of the end of 2005 was 1,338.8, an increase of 53.3 percent over the previous year. The above-mentioned stock funds played a leading role in pushing up stock prices, instead of portfolio investments by foreigners that contributed to the stock price rise in the previous year. Foreign investors, who posted net buying of 10 trillion won in 2004, posted net selling of 4 trillion won in 2005. The largest buyers in 2005 were investment trust companies that recorded net buying of 10 trillion won.

### ***Real Estate Market***

Real estate prices showed a sharp upturn from the beginning of the year. In 2005, apartment prices in South Korea, which declined by 0.6 percent in the previous year, increased by 5.9 percent. In particular, the increase rate in the Kangnam district in Seoul, where prices declined by 1.3 per-

cent in the previous year, showed a rate of increase of 13.5 percent. Looking at the trend of the prices throughout the year, prices continued rising sharply until July with a monthly increase rate in the Kangnam district as high as 3.7 percent in June. As a measure to control soaring real estate prices, the government announced the 8.31 Real Estate Policy (increasing taxation on holdings by large real estate holders and on capital gains from real estate), while the financial authorities raised the call rate. Thus, the issue of real estate prices was a major focus of the economic policy. Thanks to the 8.31 Real Estate Policy, apartment prices in the country, including the Kangnam district, hit a lull from August to November. However, both the volume of trade and prices began to increase again in December.

Land prices, on the other hand, continued rising throughout 2005 due to the relocation of government agencies and to the development of apartments in the capital area. The rise in land prices accelerated to reach a 5.0 percent national average increase rate (compared to 3.9 percent in the previous year). This upward trend was led by the land price rise in Seoul (up 6.6 percent in 2005) where apartment prices soared in the first half of the year. Also in the South Chungcheong Province where the Multifunctional Administrative City in Yeongi and Gongju is to be constructed, the rate of increase of land prices stayed at the high level of 8.3 percent (the same rate in the previous year was 11.7 percent). By quarter, the rate of increase reached a record high during the second quarter, just before the Real Estate Policy was implemented.

### ***FTAs: Sudden Activity***

A report by the Office of the Minister for Trade dated March 30, 2005, presented a plan to promote free trade agreements (FTAs) with more than 27 countries simultaneously during 2005 and to conclude FTAs with 30 to 50 countries by 2007. According to the plan, it is expected that FTAs with 15 countries will take effect, FTA negotiations will be further pursued with 10 to 30 countries, and a joint study will be conducted with five countries. In addition to the FTA with Chile coming into effect, FTAs with Singapore and EFTA were signed in August and December, respectively. Regarding the FTA with ASEAN, an agreement on the mode of tariff reduction was formed and a framework agreement for comprehensive economic cooperation was signed in December. Also, South Korea agreed to promote a strategic economic complementary agreement with Mexico in September and started FTA negotiations with Canada in July. A joint

study on FTA with China was started, in addition to joint studies with Mercosur and India. For the FTA with the United States, preliminary working-level talks were held to discuss the feasibility of forming a bilateral FTA. Among the pending issues, an expansion of the import quota on rice in return for a postponement of tariffication was ratified by the National Assembly in November. In December, South Korea lifted an import ban on US beef. So, South Korea and the United States are preparing to begin FTA negotiations. However, no progress has been made on the FTA with Japan.

(by Satoru Okuda)

## FOREIGN RELATIONS

### *Inter-Korean Relations*

The inter-Korean dialogue resumed with a meeting between Prime Minister Lee Hae-Chan and Kim Young-Nam, the Standing Committee chairman of the Supreme People's Assembly (April 22 and 23) at the Asia-Africa Summit in Jakarta. Ever since then, with active North-South interchanges, the pro-North tendency has accelerated rapidly. In the six-party talks, South Korea maintained its stance of giving priority to consideration for North Korea. Thus the year 2005 was characterized by a policy of appeasement on North Korea, which had adopted the Sunshine Policy.

Following the North-South Korean talks in April that had emphasized inter-Korean cooperation in the territorial dispute between Japan and South Korea over Takeshima, inter-Korean vice-ministerial talks were held in Gaeseong from May 16 to 19. With respect to the issue of nuclear development by North Korea, the two parties went no further than issuing a statement that they would “make efforts for peace in the Korean Peninsula” and a promise that South Korea would provide North Korea with 200,000 tons of fertilizers, etc. However, this meeting was considered the first step toward the normalization of inter-Korean relations that had been stalemated since the previous year. In June, an event to celebrate the fifth anniversary of the June 15 Inter-Korean Joint Declaration was held in Pyongyang (June 14–17) and Unification Minister Chung Dong-Young, who was the leader of the delegation for the South Korean government, had a meeting with the North Korean General Secretary Kim Jong-Il (June 17). At the meeting, General Secretary Kim implied that North Korea would return to the six-party talks in July and Minister Chung

made an “important proposal.” The proposal, which the government code-named “The Plan of ‘An Jung-Geun,’” was later revealed to be the one under which South Korea would directly provide North Korea with 2 million kW of electric power on its own. The plan presumed that the light water reactor project by the Korean Peninsula Energy Development Organization (KEDO) would be suspended on the condition that North Korea relinquished its nuclear plans.

The 15th, 16th, and 17th rounds of inter-Korean ministerial talks were held from June 21 to 23 in Seoul, from September 13 to 16 in Pyongyang, and from December 13 to 16 on Jeju Island. The two sides confirmed inter-Korean cooperation in their criticism of Japan relating to the history issue, and reached an agreement on denuclearization of the Korean Peninsula, establishment of a peace structure, and activation of inter-Korean economic cooperation, while shelving substantial discussions on the nuclear issue. However, the talks floundered over North Korea’s demand for cancellation of joint military exercises with US troops and abolishment of the National Security Law during the 16th round of talks, and over the scheduling of general-level inter-Korean military talks and the restriction on places where visitors from South Korea would be allowed to go during the 17th round of talks. On National Liberation Day, a joint event to celebrate the 60th anniversary of joint North-South Liberation (Korea’s liberation from Japanese colonial rule) was held (August 14 to 17). The North Korean delegation paid a visit to the national cemetery in Seoul, Hyeonchungwon, where memorial tablets of the soldiers who had fallen in the Korean War were enshrined, for the first time since the North-South division of Korea. Thus, an atmosphere of reconciliation was produced.

The 10th round of the Inter-Korean Committee for Promotion of Economic Cooperation talks was held from July 9 to 12 in Seoul, after having been suspended for more than a year. The 11th round of talks was held at the joint office which opened in the Gaeseong Industrial Complex on the same day. At the 10th meeting in particular, agreement was reached on food aid of 500,000 tons of rice to the North in the form of a loan, inter-Korean cooperation in the fields of light industries, mining, and manufacturing industries, and the launch of a pilot run on two cross-border railways, along with the opening of adjacent roads within the year.

The six-party talks were resumed after almost a year. Following the fourth round (July 26 to August 7 and September 13 to 19 after a recess), the fifth round was held (November 9 to 11 and recessed). In these talks,

South Korea took a unique approach by moving toward intimate relations with North Korea with high priority given to the Japan-US coalition, which demanded abandonment of nuclear programs in principle. Using the above-mentioned “important proposal” as a trump card for negotiations, South Korea served as a coordinator by mediating the conflict between the United States and North Korea while pursuing a policy of gentle persuasion with North Korea. However, as North Korea expressed disapproval of the proposal to supply electric power and a new issue arose concerning the construction of another light water reactor, South Korea had to change its strategy. Although the South Korean government considered itself to have achieved a diplomatic victory as a result of the adoption of the joint declaration at the fourth meeting, some concerns still remained unsolved. On September 22, shortly after the fourth talks, the Unification Ministry of South Korea officially announced that the estimate for energy aid to North Korea in return for the abandonment of its nuclear programs would amount to between 6,500 billion won and 11 trillion won in the next 9 to 13 years. If such cost was to actually be borne, it could become a political issue within the country. As it was agreed to discontinue the light water reactor project in November, the US\$1,135 million loan extended by South Korea up to that time inevitably became irrecoverable. Conflicts with Japan and the United States soon came to the fore over how to share the clearance costs and how to cancel the project.

South Korea’s reconciliatory stance toward North Korea, as shown in the six-party talks, was reflected in the deletion of hostile expressions such as “main enemy” and “anti-Communist” from the Defense Ministry’s 2004 white paper as well as in the abstention on a North Korean human rights vote at the United Nations. Prior to the APEC summit meeting in Busan in November, the South Korean government suggested that North Korea be allowed to attend the meeting as an observer.

In the Mount Kumgang sightseeing project in North Korea, the total number of tourists who had visited there since the start of the project in 1998 exceeded 1 million in June. In July, Hyundai Group’s chairwoman, Hyun Jeong-Eun, and Hyundai Asan’s vice chairman, Kim Yoon-Kyu, met General Secretary Kim Jong Il and agreed to expand the project to cover Gaeseong and Mount Paektu. Trial sightseeing in Gaeseong was also conducted in August and September. However, when Vice Chairman Kim, who had a strong connection with North Korea, was dismissed over the issue of misappropriation of funds at the end of August, North Korea reacted angrily and set a limitation on the number of visitors to Mt.

Kumgang from September in retaliation. As North Korea approached other companies for tourism development in Gaeseong and Mt. Paektu, its relations with the Hyundai Group deteriorated. The Mt. Kumgang sightseeing project was resumed just after Chairwoman Hyun's visit to North Korea in November.

### *Relations with Japan*

The South Korean and Japanese governments declared 2005 as the “Year of Japan-Korea Friendship” to commemorate the 40th anniversary of diplomatic normalization. This, at the same time, reflected the amicable relationships between the leaders of both countries and the active mass-cultural exchanges in the previous year. However, the territorial dispute over Takeshima (called Dokdo in Korean) and the controversies about Japanese history textbooks that had flared up again at the beginning of the year, coupled with Japanese Prime Minister Koizumi's visit to Yasukuni Shrine in October, led to a tense atmosphere that made Japan-Korea relations more challenging.

A part of the diplomatic document concerning negotiations leading up to the 1965 Japan-Korea diplomatic normalization treaty was made public on January 17, and it revealed inadequacies in handling claims for individual compensation for war damages to the Korean people. As groups of war victims took action to call for renegotiation of the treaty and demand individual compensation, Japan-Korea relations became volatile. The events that sparked the deterioration in Japan-Korea relations were the submission of the bill to the Shimane Prefectural Assembly on February 23 to designate February 22 as Takeshima Day and a remark by Toshiyuki Takano, Japanese ambassador to Korea, in response to a question at the foreign press club, asserting that “Takeshima is a Japanese territory” on the same day. In response, President Roh stated in his speech at the 86th Anniversary of the March First Independence Movement of 1919 that “Japan should investigate the truth of the past, sincerely apologize, and rethink and compensate where necessary.” This statement indicated a change in President Roh's attitude toward Japan from the time when he expressed his intention, at the summit meeting between Japan and Korea the previous July, not to take up the history issue while in office. Foreign Affairs and Trade Minister Ban Ki-Moon postponed his planned visit to Japan in consideration of worsening feelings toward Japan within South Korea and emphasized the importance of the Takeshima issue as “a higher concept than Korea-Japan relations” on March 9 in order to contain a

series of actions taken by the Japanese side. However, the Korean side was highly offended when the bill for the Takeshima Day ordinance was approved by the General Affairs Committee of the Shimane Prefectural Assembly on March 10 and by the General Assembly on March 16. The South Korean government called Toshinao Urabe, Japanese minister to Korea, and raised an official protest. At the same time, it issued a statement demanding the immediate withdrawal of the bill. On March 17, the National Security Council (NSC) under the direct control of the Blue House (Cheong Wa Dae) announced new principles for its policy toward Japan, including a demand for self-reflection and an apology concerning the history issue as well as compensation measures for the comfort women during the war, which had been excluded from the Japan-Korea Basic Treaty in 1965. Other countermeasures taken by the Korean side included the relaxation of control on entry into Takeshima by Korean citizens by changing from a license system to a notification system, declaration of suspension of exchanges between Shimane Prefecture and North Gyeongsang Province, and the enactment of an ordinance to recognize Daemado Day by the municipal assembly of Masan, South Gyeongsang Province.

Behind the Takeshima issue, which is generally considered to be an emotionally charged historical and territorial dispute, there exists a practical fisheries issue. In spite of the Japan-Korea Fishery Agreement revised in 1999 to designate the waters surrounding the island as provisional waters under joint control of the both countries, Japanese fishing boats have been operating under restricted conditions due to effective control by the Korean side. The enactment of Takeshima Day was partly driven by the dissatisfied Japanese fishermen. The South Korean government clearly adopted a policy of maintaining the agreement without regard to any problems pending between South Korea and Japan. In addition, intergovernmental negotiation started in 2005 to discuss the management and conservation of marine resources in the provisional waters (held in May and September).

Since these events took place just before the announcement in early April of screening results of Japanese junior high school textbooks on history and civics, anti-Japanese sentiment was growing strong on the Korean side, which had expressed concern over the description of the Takeshima issue in the textbooks. Under these circumstances, President Roh abruptly posted a letter to the people on the Blue House website. In this letter, President Roh criticized the enactment of the Takeshima Day



ordinance and “distorted” history textbooks as “acts justifying the history of invasion and control.” He also made clear his hard-line stance against Japan by stating that “we cannot overlook their intention to adhere to hegemony” and “we are ready to engage in a harsh diplomatic war with Japan.” The results of the screening of Japanese textbooks were announced on April 5, which showed that there were some mentions of Takeshima as a Japanese territory that is unlawfully occupied by South Korea at present. The Korean government issued a protest statement on the same day and Foreign Minister Ban also strongly criticized Japanese reactions on the issue of history textbooks and Takeshima at the foreign ministerial talks held on April 7.

The rapidly deteriorating relations between Japan and Korea were suspended for a while before the summit meeting scheduled for late June. However, the causes of the dispute were never eliminated. With respect to Japan’s bid to become a permanent member of the Security Council of the United Nations, President Roh and senior officials of the Korean government repeatedly made statements indicating their opposition to this both at home and abroad. On June 1, a South Korean fishing boat that had illegally entered and operated in Japan’s exclusive economic zone escaped with a Japanese coast guard officer on board. This incident was settled politically, though dissension arose concerning the handing over of the boat and the skipper.

A summit meeting between Japan and Korea was held on June 20 in Seoul. Reflecting the relations between the two countries, the meeting was so restrained that it had been rumored to be postponed until just before it started. Most of the meeting time was spent on argument over the recognition of history and Prime Minister Koizumi’s visit to Yasukuni Shrine. Still, it is worthy to note that the two sides confirmed that they would cooperate, as requested by the Korean side, in investigating and returning the remains of civilians from the Korean Peninsula who had been recruited by Japanese companies during the war and that Japan would consider building a new national war memorial facility. Also, it was agreed to include descriptions in history textbooks as a subject for study in the second round of Japan-Korea joint history study. On August 26, a whole part of the diplomatic document concerning the negotiations leading up to the 1965 Japan-Korea diplomatic normalization treaty was revealed to public. Following that, the Korean government announced additional relief measures for war victims and at the same time set a policy of pursuing the legal liability of Japan for the comfort women, in addition

to Korean residents in Sakhalin and atomic bomb survivors in South Korea for whom the Japanese government promised to provide support during the last summit meeting. Such a move was considered a new cause of diplomatic friction. However, the Japanese side reiterated its stance of not responding to “dredging up” of the issue of war compensation, saying that the claim had already been settled by the Japan-Korea treaty.

Prime Minister Koizumi’s visit to the Yasukuni Shrine on October 17 provoked another angry reaction from the government and general public of South Korea. When Foreign Minister Ban summoned and protested to the newly arrived Japanese ambassador to Korea, Shotaro Oshima, he even expressed a feeling of frustration and indicated that he would cancel his planned visit to Japan. However, as the summit meeting of APEC in Busan was drawing near, the Korean government concluded that Minister Ban’s visit to Japan was essential as “selective diplomacy” toward Japan. When he visited Japan in late October, he addressed criticism toward the visit to Yasukuni directly to Japanese Foreign Minister Nobutaka Machimura and Prime Minister Koizumi. He also demanded that Japan include the cost for investigation on the construction of a new war memorial facility in the next year’s budget. At that time, the Korean government became more wary of the third reshuffled Koizumi cabinet which included some hard-liners against Asian countries. At the second round of summit talks between Japan and Korea, which was held in Busan on November 18 to coincide with the APEC meeting, President Roh took up in a critical manner three major issues: the visits to Yasukuni Shrine, history textbooks, and Takeshima. In particular, he criticized Prime Minister Koizumi’s visit to Yasukuni as “a challenge to South Korea.” President Roh’s visit to Japan within the year as a part of shuttle diplomacy was ultimately cancelled in reflection of the ever-worsening relations throughout the year.

### *Relations with the United States*

Since the division of North and South Korea, the US–South Korea alliance has been the core of the diplomatic security system and strategy of South Korea. However, the rise of the balancer theory suggested by President Roh is causing changes in this structure. The idea of the balancer theory set forth by President Roh is best described in his own words: “Korea will play the role of a balancer for peace and prosperity, not only on the Korean peninsula, but throughout Northeast Asia” (March 22). It was believed that this idea indicated a shift in the diplomatic position of South

Korea toward distancing itself from the structure of confrontation between the Japan–US–South Korea bloc and the China–North Korea–Russia bloc during the Cold War era, while maintaining the existing US–South Korea alliance as the basis for diplomacy. At that time, South Korea was trying to dissuade the United States and Japan from taking a hard-line policy against North Korea for its nuclear development programs, including possible submission to the UN Security Council and economic sanctions. On the US side, there was a deepening mistrust toward South Korea that was becoming inclined to a policy of reconciliation with North Korea by means of providing fertilizers and food aid as well as emphasizing the importance of dialogue. Therefore, the balancer theory was criticized by those who regarded it as secession from the US–South Korea alliance, so that friction between the two countries began to arise.

The discord between South Korea and the United States was exposed over the issue concerning the United States Forces Korea (USFK). Following the decision by the United States in the previous year to reduce the USFK in stages and to transfer, consolidate, and abolish US bases in South Korea as a part of the transformation of US forces overseas, review and redefinition of the USFK were required in connection with the maintenance of a deterrent to war for the future and the independent national defense strategy of South Korea. Under such circumstances, suddenly the USFK unilaterally announced a reduction of 1,000 of its Korean staff on April 1. Then a week later, it further announced the abandonment of war reserve materials provided for an emergency on the Korean Peninsula by the end of 2006 on the grounds that the self-supply capacity of South Korea had been enhanced. These announcements are thought to have been made in response to South Korea's decision to reduce its share of defense expenses of the USFK over the next two years (to 680.4 billion won, down 8.9 percent from 2004). As for the joint operational plan for sudden changes in North Korea dubbed OPLAN 5029, which was prepared by the ROK-US Combined Forces Command (CFC) on the supposition of an emergency situation with North Korea, South Korea notified the United States of discontinuation of discussions (in January).

At the summit meeting between South Korea and the United States which was held on June 10 with a view to eliminating friction between the two countries, President Roh and President Bush emphasized a mutually cooperative and strong alliance. However, as mentioned by President Roh

after the meeting as a “small difference in opinions,” the issue of mobile offshore movement—what is called “strategic flexibility” of the USFK—was recognized as a matter for concern. Strategic flexibility assumes an emergency in the area surrounding the Korean Peninsula especially in the Taiwan Strait, and the Korean side demands the introduction of a prior consultation system with the USFK. Also, there exists between South Korea and the United States the issue of wartime operational command of Korean forces which now belongs to the US side. For the Roh administration, which advocates the idea of independent national defense, return of wartime operational command is a pressing issue. At the 37th annual US-Korea Security Consultative Meeting (SCM) held in Seoul on October 21, the two countries agreed to “appropriately accelerate” negotiations for the transfer of operational command to the Korean forces. The second round of summit meetings between South Korea and the United States was held in Gyeongju on November 17, where both sides confirmed cooperation in solving the issue of nuclear development by North Korea and agreed to start the regular strategic ministerial meeting between the two countries from the beginning of 2006 in order to strengthen their alliance.

(by Yuichi Watanabe)

## ISSUES IN 2006

Nationwide local elections are scheduled for May 31, 2006. Attention will be focused on how the Korean people will judge the Roh administration, which is striving to turn away from regionalism. Presidential elections will be held in 2007. On December 30, 2005, the Uri Party's prospective presidential candidates, Unification Minister Chung Dong-Young and Health and Welfare Minister Kim Geun-Tae, resigned from office. They are expected to rejoin the party to prepare for the presidential election. Maneuvering for the presidential election among parties, which has already become active in 2005, will be further intensified.

In the economic sphere, the upward trend is expected to continue in 2006. Economic institutions predict a growth rate of 4.5 to 5.0 percent, a little higher than that in 2005. However, given the current situation where the fruits of economic recovery are not being fully enjoyed by households, doubt is still left as to a full-scale recovery of domestic consumption, and the effects of the sharp currency appreciation are still unknown. In the Economic Management Plan for 2006 published at the end of 2005, the government set a target of achieving a growth rate of 5 percent and creating 400,000 employment opportunities. The government also predicts that per capita income will reach US\$20,000 by 2008, thus achieving the goal set at the inauguration of the present administration. With positive trends in the macro-economy and in the business enterprise sector, the focus is on to what extent the fruits of economic recovery will be distributed to the household sector, which might be called the dark side.

With respect to the policy toward North Korea, the South Korean government is expected to maintain its reconciliation policy based on inter-Korean cooperation. However, it is still feared that North Korea might harden its stance if there is even a slight change in South Korea's stance toward the North, which is linked to its domestic politics and its relations with Japan, the United States, and China. Japan-Korea relations are expected to continue cooling off during the Prime Minister Koizumi's term of office, with the visits to Yasukuni Shrine, Takeshima, and history issues remaining unsolved. However, some changes may occur in the relations with Japan, depending on who takes over the Japanese administration from Koizumi. In US-Korea relations, it is likely that the fragility of the unity will be exposed concerning the policy on North Korea and

restructuring of the USFK. Worthy of special attention is the manner in which President Roh's balancer theory will develop with the progress of the six-party talks.

## IMPORTANT DATES IN 2005

### *January*

- 1: Capital injection of one trillion won into LG Card was decided.
- 3: Chairman Lee Bu-Young and members of the central standing committee of the Yollin Uri Party resigned.
  - LG Electronics sued Panasonic Korea for infringement on a patent on a plasma display panel (PDP).
- 4: President Roh Moo-Hyun replaced five ministers and the minister of legislation.
  - The government decided to allocate 66.7 percent of the total 2005 budget to the first half of the year.
- 6: Prime Minister Lee Hae-Chan visited Indonesia to attend an ASEAN emergency summit.
- 10: Standard Chartered Bank (SCB) of the United Kingdom announced that it agreed with New Bridge Capital to acquire Korea First Bank.
- 14: Samsung Electronics announced financial results for 2004, reporting a net profit of 10,786.6 billion won.
- 17: The government made public a part of the diplomatic document concerning the negotiations leading up to the 1965 Japan-Korea diplomatic normalization treaty.
- 20: The Ministry of Foreign Affairs and Trade made public the document concerning the Mun Se-Kwang incident in 1974.
- 24: Samsung Electronics won its case against the French Atomic Energy Commission (CEA) over a patent on a liquid crystal display television.
- 27: Ssangyong Motor Co. was incorporated into Shanghai Automotive Industry Corporation (SAIC).
  - The Korea Stock Exchange, futures exchange, and Korean Securities Dealers Automated Quotations (KOSDAQ) merged into a single stock and futures exchange and started operating.

### *February*

- 1: Standard and Poor's adjusted the predicted growth rate downward to 4.1 percent and gave a warning to the government against excessive devotion to historical issues.
- 2: LG Investment and Securities announced that its board of directors resolved to acquire Uri Securities.
- 3: A Government-Civilian Investigation Committee in the National Intelligence Service for Wrongdoings by Top Spy Agency announced that it would reinvestigate seven important incidents.
- 4: The Korean government requested the World Trade Organization (WTO) to set up a dispute settlement panel, claiming that the laver import quota (IQ) imposed by Japan violated the WTO treaty.

- 23–25: The first round of negotiations for the free trade agreement (FTA) between South Korea and the Association of Southeast Asian Nations (ASEAN) was held in Jakarta.
- 24: The Korean government lodged a strong protest against the remark by the Japanese ambassador to Korea, Toshiyuki Takano, that “Takeshima is a Japanese territory” (made on February 23).

### **March**

- 1: President Roh criticized Japan in a speech at the 86th Anniversary of the March First Independence Movement of 1919.
- 2: The National Assembly adopted a bill for the Special Act for the Multifunctional Administrative City Construction. The maximum expenditure was set at 8.5 trillion won.
- The National Assembly adopted a bill to revise the Civil Code to abolish the hoju family registry system.
  - The National Assembly adopted a bill to revise the Securities Class Action Law to exempt window-dressing settlement of accounts in the past from class action suits for two years to come.
- 7: President Roh accepted the resignation of Deputy Prime Minister and Finance and Economy Minister Lee Hun-Jae.
- 8: President Roh announced the Roh Moo-Hyun Doctrine on diplomatic strategies.
- 9: Foreign Affairs and Trade Minister Ban Ki-Moon said, “The Dokdo (Takeshima) issue is ‘of a higher concept than Korea-Japan relations.’”
- 14: President Roh appointed Minister of the Office for Government Policy Coordination Han Duck-Soo as Deputy Prime Minister and Finance and Economy Minister.
- 16: The government protested strongly against the enactment of the Takeshima Day ordinance by Shimane Prefecture.
- 23: President Roh harshly criticized Japan in a letter to the people on the Blue House website.
- 31: The GS group was officially launched.

### **April**

- 1: Merrill Lynch Securities decided to sell Jinro to Hite Beer Consortium.
- 2: The Uri Party elected Moon Hee-Sang as its new chairman.
- 4: Matsushita Electric Industrial and LG Electronics reached a settlement in the patent dispute over PDP.
- 7: Foreign Affairs and Trade Minister Ban Ki-Moon met with Japanese Foreign Minister Nobutaka Machimura at the Fourth Asian Cooperation Dialogue (ACD) Ministerial Meeting.
- 10–17: President Roh visited Germany and Turkey, and held talks with Gerhard Schroder, Chancellor of Germany, on the 13th.



- 11: The Board of Audit and Inspection investigated lawmaker Lee Kwang-Jae of the Uri Party in connection with the alleged fraudulent oil field investment by Korea Railroad Corporation.
- 15: The holding company of Hyundai and Kia Motors Group in China, Beijing Hyundai Motor Co Ltd., was launched.
- 22–23: Prime Minister Lee held talks with North Korea’s standing committee chairman of the Supreme People’s Assembly, Kim Young-Nam, at the Asia-Africa Summit in Jakarta.
- 29: The Supreme Court found the Daewoo Group guilty of accounting fraud and ordered payment of a penalty of 23,035.8 billion won in total.
- 30: By-elections of the National Assembly and local governments were held.

### *May*

- 3: The Basic Law for Truth and Reconciliation was passed by the National Assembly.
- 6–7: The Asia-Europe Meeting (ASEM) Foreign Ministerial Meeting was held in Kyoto. Japan-China-Korea foreign ministerial talks were held on the 7th.
- 6: The Millennium Democratic Party changed its name to Democratic Party.
- 8–10: President Roh visited Russia to attend a ceremony for the 60th anniversary of the victory against Nazi Germany. He held talks with Chinese President Hu Jintao. He also held talks with Vladimir Putin, President of the Russian Federation, on the 9th, and with Kofi Annan, secretary-general of the United Nations.
- 10–12: President Roh made an official visit to Uzbekistan.
- 16–19: Inter-Korean vice-ministerial working-level talks were held in Gaeseong.
- 18: Sambo Computer applied for legal management.
- 25: The first Japan-Korea meeting at a vice-ministerial level was held in Tokyo on the issue of the remains of the civilians from the Korean Peninsula who were recruited by Japanese companies during World War II.
- 27: The central banks of South Korea, China, and Japan signed a currency exchange agreement.
- 31: A committee for investigating the conduct of pro-Japan collaborators during the colonial period was established.

### *June*

- 9: The Chosun Ilbo, etc., filed a petition on the constitutionality of the Newspaper Law.
- 10: Qingdao Hyundai Shipbuilding, a joint venture between Hyundai Corp. and Lingshan Ship Engineering Co. of China, started operation.
- 10–11: A summit meeting between South Korea and the United States was held in Washington. President Roh held talks with President Bush.
- 14–17: An event to celebrate the fifth anniversary of the June 15 Inter-Korean Joint Declaration was held in Pyongyang. Unification Minister Chung

- Dong-Young held talks with standing committee chairman of the Supreme People's Assembly, Kim Young-Nam, on the 16th and with North Korean General Secretary Kim Jong-Il on the 17th.
- 20: A summit meeting between Japan and Korea was held in Seoul. President Roh held talks with Prime Minister Koizumi.
- 21: Hyundai Motor Co. founded Guangzhou Hyundai Motor Co. jointly with Guangzhou Automobile Co.
- 21–23: The 15th round of inter-Korean ministerial talks was held in Seoul.
- 23: The Ministry of Gender Equality and Family was established.
- 24: The government announced a proposal to relocate public agencies to the provinces.
- 27: The Korea Institute for Social Insurance announced that the liability reserve of the four major pensions had a shortfall of 434,568.8 billion won.
- 28: President Roh appointed a Diet member of the Uri Party, Chun Jung-Bae, as justice minister and the former mayor of Nam Ward, Taegu Lee Jae-Yong, as environment minister.

## July

- 1: A regular five-day work week was implemented.
- 9–12: The 10th round of the Inter-Korean Committee for Promotion of Economic Cooperation was held in Seoul.
- 12: The Ministry of Foreign Affairs and Trade announced that Korea and EFTA agreed to enter into the FTA.
- Korea Exchange Bank completed a debt workout program (corporate rehabilitation) for Hynix Semiconductor Inc. earlier than planned.
  - The government revealed an “important proposal” which was to provide North Korea with 2 million kW of electric power on condition that North Korea relinquished its nuclear plans.
- 25: President Roh accepted the resignation of the ambassador to the United States, Hong Seok-Hyun.
- The first round of inter-Korean working-level meeting on maritime cooperation was held in Gaeseong.
- 26: The fourth round of the six-party talks was held in Beijing (until August 7 and then recessed).
- 28: The Newspaper Law was enforced.
- 28–29: Foreign Affairs and Trade Minister Ban Ki-Moon held talks with Paek Nam-Sun, North Korean Minister of Foreign Affairs, at the 12th ASEAN Regional Forum (ARF) in Vientiane.
- 28: President Roh approached the Grand National Party (GNP) to form a grand coalition by transferring the power to appoint the prime minister and some cabinet posts to the GNP.

## August

- 11: Foreign Affairs and Trade Minister Ban Ki-Moon visited China and held talks with Foreign Minister Li Zhaoxing on the 12th.
- 14–17: A joint event to celebrate the 60th anniversary of Korea's liberation from Japanese colonial rule was held. The North Korean delegation paid a visit to the national cemetery in Seoul (Hyeonchungwon). The North Korean delegation paid a courtesy visit to President Roh on the 17th.
- 18–19: The first meeting of Inter-Korean Aricultural Cooperation Committee was held in Gaeseong.
- 21: Samsung Japan joined Nippon Keidanren.
- 22–September 2: The annual US–South Korea military drill, Ulchi Focus Lens, was conducted.
- 23–25: The sixth round of inter-Korean Red Cross talks was held at Mount Kumgang, North Korea.
- 24: Sovereign Asset Management withdrew completely from South Korea. The total profit amounted to 857.3 billion won.
- 26: The government opened to the public the entire diplomatic document concerning negotiations leading up to the 1965 Japan-Korea diplomatic normalization treaty.
- 26–31: The 11th South-North reunion of separated families was implemented at Mount Kumgang, North Korea.
- 29: The Institute for Research in Collaborationist Activities and an independent committee for an encyclopedia of pro-Japan collaborators made public the tentative list of 3,095 pro-Japan collaborators.
  - The Bank of Korea reported that the potential growth rate for 2001–4 declined to a level of 4.8 percent in its *Report on the Causes of Weakened Korean Economy and Future Outlook*.
- 31: The government announced the Comprehensive Real Estate Policy. The main point was to impose heavier capital gains tax on speculative transactions by those who own more than one house and to raise the effective rate of comprehensive real estate tax.

## September

- 8–13: President Roh visited Mexico and Costa Rica, and held talks with the leaders of eight member nations of Sistema de la Integracion Centroamericana (SICA) on the 12th.
- 13–16: President Roh attended the 60th UN General Assembly Special Summit in New York.
- 13–16: The 16th round of inter-Korean ministerial talks was held in Pyongyang.
- 13: The fourth round of the six-party talks resumed in Beijing. A joint declaration was adopted on the 19th.
- 27: The government finalized the budget bill for 2006. The total budget was 221.4 trillion won (up 6.5 percent from the previous year).

- 30: The government established the Commission for Low Fertility and Aging Society, directly under the President.

### **October**

- 1: Seoul City held an event to commemorate the completion of the Cheonggyecheon restoration project.
- 12: Justice Minister Chun Jung-Bae exercised his discretion in connection with the investigation of Professor Kang Jeong-Koo who was charged with violation of the National Security Law.
- 16: President Roh accepted the resignation of Prosecutor-General Kim Jong-Bin.
- 17: Japanese Prime Minister Koizumi paid a visit to Yasukuni Shrine. Foreign Affairs and Trade Minister Ban called Shotaro Oshima, Japanese ambassador to Korea, and protested his visit.
- 20: The monument Bukgwan Daecheopbi was returned to Korea after being removed by Japan 100 years ago during the Russo-Japanese War.
- 21: The 37th annual US-Korea Security Consultative Meeting (SCM) was held in Seoul.  
- The Ministry of Health and Welfare detected parasite eggs in kimchi made in China and ordered collection and disposal of the said products.
- 24: Fitch raised South Korea's national credit rating to A+.
- 26: By-elections of the National Assembly were held.
- 27–29: Foreign Affairs and Trade Minister Ban visited Japan. He held talks with Foreign Minister Machimura. He also held talks with Prime Minister Koizumi on the 28th and directly protested against his visit to Yasukuni Shrine.
- 28: Chairman Moon Hee-Sang of the Uri Party announced the resignation of all six members of the Central Committee from their positions in the party.  
- The 11th round of the Inter-Korean Committee for Promotion of Economic Cooperation talks was held at the joint office within the Gaeseong Industrial Complex.
- 31: The Uri Party organized an emergency leadership team with the floor leader Chung Sae-Kyun as the tentative chairman (head of the party).

### **November**

- 4: Doosan Group Chairman Park Yong-Sung resigned to take responsibility for a slush fund scandal.
- 5–10: The 12th South-North reunion of separated families was implemented at Mount Kumgang.
- 9: The fifth round of six-party talks was held in Beijing (until the 11th and then postponed).

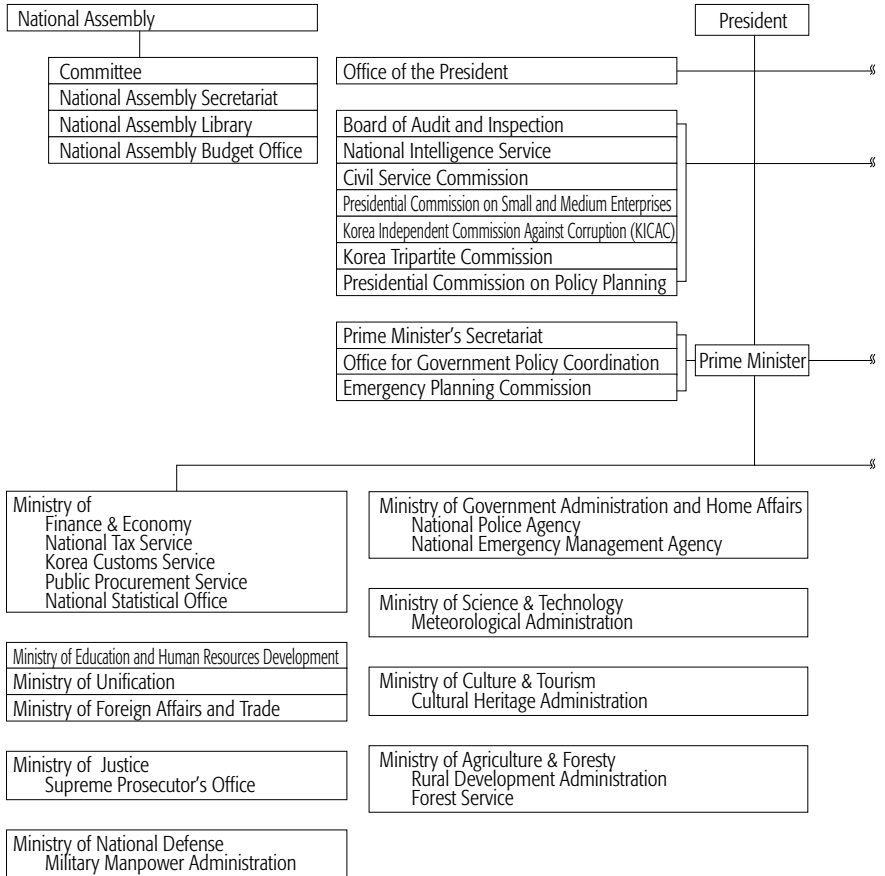
- 15: The Seoul Central District Prosecutors' Office detained Lim Dong-Won and Shin Kuhn who served as directors general of the National Intelligence Service.
- 15–19: The APEC (Asia-Pacific Economic Cooperation) summit was held in Busan. Foreign ministerial talks were held between Japan-Korea, Korea-China, and Korea-US. President Roh held talks with the leaders of China, the United States, Japan, Russia, etc.
- 19: The seventh anniversary of the Mount Kumgang tour was celebrated at Mount Kumgang. Unification Minister Chung Dong-Young and Hyundai Group's chairwoman, Hyun Jeong-Eun attended the celebrations.
- 21: The government passed a resolution to extend the presence of the Zaytun unit in Arbil, Iraq, for one year and reduce the number of troops by about 1,000 from over 3,200.
- 21–22: The Korean Peninsula Energy Development Organization (KEDO) agreed to discontinue the light water reactor project in North Korea and break up the organization of KEDO.
- 22: POSCO was listed on the Tokyo Stock Exchange.
- 23: The government ratified the WTO agreement on the importation of rice.
- 24: The Constitutional Court dismissed a petition on the constitutionality of the Special Act for the Multifunctional Administrative City Construction.

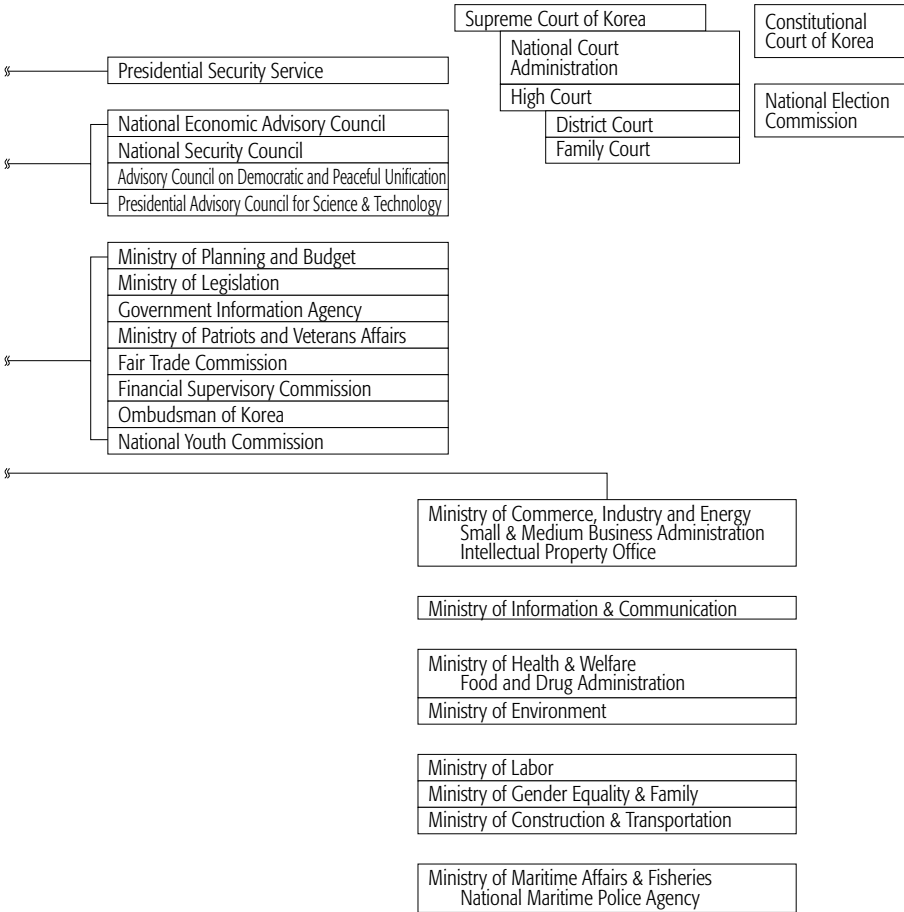
### *December*

- 5: The foreign exchange market closed at 100 yen = 854.50 won, marking an increase in the value of won for the first time in seven years and four months.
  - Samsung SDI filed a lawsuit against Matsushita Electric Industrial for alleged violation of patent rights relating to PDP.
- 6–7: The fifth round of Security Policy Initiative (SPI) talks between South Korea and the United States was held in Seoul.
- 8: The Special Law for Confiscating Pro-Japan Collaborators' Property was passed by the National Assembly.
- 8–11: President Roh made an official visit to Malaysia and had talks with Abdullah Ahmad Badawi, prime minister of Malaysia, on the 9th.
- 9: A bill for the revision of the Private School Law was passed by the National Assembly.
- 11: Labor Minister Kim Dae-Hwan exercised his emergency mediation powers to end the strike by Korean Air pilots.
- 12–14: President Roh attended the ninth ASEAN Plus Three summit and the first East Asia Summit (EAS) in Kuala Lumpur. He had talks with Chinese Premier Wen Jiabao. On the 13th, he signed the FTA between South Korea and ASEAN. On the same day, approximately 1,500 Korean farmers and workers took to the street for an anti-WTO campaign in Hong Kong.
- 13–16: The 17th round of inter-Korean ministerial talks was held in Jeju-do.

- 14–15: President Roh made an official visit to the Philippines and had talks with President Gloria Macapagal-Arroyo on the 15th.
- 21: Haier entered the Korean personal computer market.  
- The Seoul High Court overruled the petition for cancellation of the government's plan for the Saemangeum Reclamation Project, filed by the residents of North Cholla Province.
- 22: The eighth meeting of the Japan-Korea Joint Fisheries Commission was held in Seoul.
- 28: The government finalized the Economic Management Plan for 2006, setting a growth rate target of 5 percent and a target of creating 350,000–400,000 employment opportunities.
- 29: The Korea Composite Stock Price Index (KOSPI) closed at a record high of 1379.37.  
- The Seoul National University Investigation Committee announced that no ES cell existed in connection with Hwang Woo-Suk's papers on Science.
- 30: President Roh accepted the resignations of Unification Minister Chung Dong-Young and Health and Welfare Minister Kim Geun-Tae.

## APPENDIX 5.1: STATE ORGANIZATION CHART







## APPENDIX 5.2: AGENCIES UNDER THE BLUE HOUSE

*Chief Secretary to the Office of the President*

Lee Byung-Wan

*Head of Presidential Security Service*

Kim Se-Ok

*Chairman of the Board of Audit and Inspection*

Jeon Yun-Churl

*Director of the National Intelligence Service*

Kim Seung-Gyu

*Chairman of Civil Service Commission*

Cho Chang-Hyun

*Chairman of the Korea Independent Commission Against Corruption*

Chung Soung-Jin

*Chief Ombudsman of the Ombudsman of Korea*

Song Chul-Ho

*Prime Minister*

Lee Hae-Chan

*Deputy Prime Minister and Minister of Finance and Economy*

Han Duck-Soo

*Deputy Prime Minister and Minister of Education and Human Resources Development*

Kim Jin-Pyo

*Deputy Prime Minister and Minister of Science and Technology*

Oh Myung

*Minister of Foreign Affairs and Trade*

Ban Ki-Moon

*Minister of Justice*

Chun Jung-Bae

*Minister of Unification*

Chung Dong-Young

*Minister of National Defense*

Yoon Kwang-Ung

*Minister of Government Administration and Home Affairs*

Oh Young-Kyo

*Minister of Culture and Tourism*

Chung Dong-Chae

*Minister of Agriculture and Forestry*

Park Hong-Soo

*Minister of Maritime Affairs and Fisheries*

Oh Geo-Don

***Minister of Commerce, Industry and Energy***

Lee Hee-Beom

***Minister of Information and Communication***

Chin Dae-Je

***Minister of Construction and Transportation***

Choo Byung-Jik

***Minister of Health and Welfare***

Kim Geun-Tae

***Minister of Environment***

Lee Jae-Yong

***Minister of Labor***

Kim Dae-Hwan

***Minister of Gender Equality and Family***

Jang Ha-Jin

***R.O.K Joint Chief of Staff***

Lee Sang-Hee

***R.O.K Army Chief of Staff***

Kim Jang-Soo

***R.O.K Navy Chief of Staff***

Nam Hae-Il

***R.O.K Air Force Chief of Staff***

Kim Sung-Il

***Vice Commander of the R.O.K-U.S. Combined Forces Command***

Lee Hee-Won

## APPENDIX 5.3: MAJOR STATISTICS

### 1. General

	2000	2001	2002	2003	2004	2005
Population (mid-year estimate; 1,000 persons)	47,008	47,354	47,615	47,849	48,082	48,294
Number of workers (1,000 persons)	22,134	22,471	22,921	22,957	23,417	23,743
Increase in consumer price index (%)	2.3	4.1	2.7	3.6	3.6	2.7
Unemployment rates (%)	4.4	4.0	3.3	3.6	3.7	3.7
Exchange rates (US\$1= won)	1,259.7	1,326.1	1,200.4	1,197.8	1,043.8	1,013.0

Source: Website of Korea National Statistical Office (<http://kosis.nso.go.kr>).

### 2. Gross Domestic Product by Industries (at constant prices in 2000)

	(Billion won)						
	1998	1999	2000	2001	2002	2003	2004
Agriculture, livestock, forestry & fishery	23,355.4	24,730.4	25,029.8	25,309.2	24,422.2	23,138.3	24,849.3
Mining & quarrying	1,906.2	2,009.5	2,036.9	2,035.1	1,878.7	1,894.9	1,938.3
Manufacturing industry	106,173.0	129,287.5	151,243.0	154,503.3	166,242.9	175,417.0	195,410.4
Construction	48,295.2	44,458.6	42,926.7	45,279.0	46,529.4	50,548.7	51,410.5
Electricity, gas & water supply	10,742.0	11,708.4	13,212.5	14,169.1	15,258.0	15,981.3	16,965.4
Transport & communication	26,814.8	30,310.6	36,138.7	41,524.7	45,328.6	47,486.1	50,177.9
Wholesale & retail trade	44,435.8	51,380.0	55,574.3	58,137.7	61,301.0	59,563.9	59,290.1
Financial services and insurance	33,967.1	34,596.0	35,256.1	38,234.5	46,641.6	46,855.5	46,305.1
Real estate & business services	62,260.0	64,152.8	68,062.7	68,376.8	71,725.5	73,291.6	74,048.9
Government services	28,010.4	29,062.1	29,148.7	29,618.4	30,393.6	31,189.9	31,677.5
Education services	24,917.3	25,182.4	25,696.7	26,942.9	28,123.2	29,169.8	29,649.5
Health and social welfare	12,190.6	12,791.8	12,575.8	11,977.7	12,654.1	13,298.7	13,902.6
Other services	14,586.1	15,948.9	17,152.0	18,316.2	19,937.2	20,156.4	20,068.8
Gross domestic product (GDP)	487,183.5	533,399.3	578,664.5	600,865.9	642,748.1	662,654.8	693,424.0

Source: *Economic Statistics Yearbook, 2005*, The Bank of Korea.

### 3. Gross Domestic Product by Type of Expenditure (at constant prices in 2000)

	(Billion won)						
	1998	1999	2000	2001	2002	2003	2004
Consumption expenditure	325,361.8	357,016.3	382,398.2	401,191.4	431,484.2	430,077.0	430,769.0
Government	67,044.9	68,990.7	70,097.7	73,507.0	77,923.9	80,876.8	83,278.6
Private	258,316.9	288,025.6	312,300.5	327,684.5	353,560.3	349,200.2	347,490.4
Gross domestic capital formation	130,565.6	162,080.1	179,413.2	179,333.8	189,897.7	194,578.9	204,024.6
Gross domestic fixed capital formation	147,991.7	160,336.3	179,907.7	179,576.3	191,464.6	199,047.9	202,927.5
Change in inventory	-17,426.1	1,743.8	-494.5	-242.5	-1,566.9	-4,469.0	1,097.1
Exports of goods and services	172,965.1	198,255.7	236,209.6	229,764.0	260,220.9	300,824.3	359,995.3
Imports of goods and services	142,072.5	181,564.1	217,979.4	208,898.7	240,665.1	264,929.7	301,600.4
Gross domestic product (GDP)	487,183.5	533,399.3	578,664.5	600,865.9	642,748.1	662,654.8	693,424.0
Statistical discrepancy	363.5	-2,388.7	-1,377.1	-524.6	1,810.4	2,104.3	235.5
Growth rates in GDP (%)	-6.9	9.5	8.5	3.8	7.0	3.1	4.6

Source: Same as Table 2.

### 4. Foreign Trade by Country and Area

	(US\$ million)											
	2002			2003			2004			2005*		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
USA	32,780.2	23,008.6	9,771.6	34,219.4	24,814.1	9,405.3	42,849.2	28,782.7	14,066.5	37,677.2	27,806.4	9,870.8
Japan	15,143.2	29,856.2	-14,713.0	17,276.1	36,313.1	-19,037.0	21,701.3	46,144.5	-24,443.1	21,862.0	44,275.0	-22,413.1
Asian NIEs	20,998.7	9,957.1	11,041.6	26,334.3	12,704.8	13,629.5	33,624.8	15,041.0	18,583.9	30,727.2	14,073.6	16,653.5
Hong Kong	10,145.5	1,695.0	8,450.5	14,653.7	2,735.4	11,918.3	18,127.1	3,268.2	14,858.9	14,079.6	1,859.8	12,219.8
Taiwan	6,631.6	4,832.0	1,799.6	7,044.6	5,879.6	1,164.9	9,844.2	7,312.3	2,531.9	9,902.3	7,293.4	2,608.9
Singapore	4,221.6	3,430.1	791.5	4,636.0	4,089.8	546.2	5,653.5	4,460.5	1,193.0	6,745.2	4,920.4	1,824.8
ASEAN	11,648.6	12,334.7	-686.2	12,728.2	13,323.2	-594.9	14,786.3	16,517.6	-1,731.3	14,836.7	17,289.7	-2,453.0
Thailand	2,335.4	1,702.5	632.9	2,523.8	1,897.7	626.1	3,249.0	2,350.8	898.1	3,120.2	2,426.8	693.4
Philippines	2,950.0	1,867.4	1,082.7	2,975.0	1,964.0	1,011.0	3,379.2	2,120.0	1,259.2	2,924.7	2,099.6	825.2
Malaysia	3,218.3	4,041.4	-823.1	3,851.8	4,249.1	-397.4	4,480.4	5,678.7	-1,198.2	4,233.3	5,490.8	-1,257.5
Indonesia	3,144.8	4,723.4	-1,578.7	3,377.6	5,212.3	-1,834.7	3,677.7	6,368.1	-2,690.4	4,558.4	7,272.5	-2,714.1
China	23,753.6	17,399.8	6,353.8	35,109.7	21,909.1	13,200.6	49,763.2	29,584.9	20,178.3	56,463.1	35,205.1	21,258.0
Total	162,470.5	152,126.1	10,344.4	193,817.4	178,826.7	14,990.8	253,844.7	224,462.7	29,382.0	258,900.3	236,921.6	21,978.7

Source: Korea Customs Service website (<http://www.customs.go.kr>).

Note: \* indicates statistics gathered during Jan. to Nov. 2005.

## 5. Balance of Payments

(US\$ million)

	1998	1999	2000	2001	2002	2003	2004
Current account	40,371.2	24,521.9	12,250.8	8,032.6	5,393.9	11,949.5	27,612.8
Trade and services balance	42,689.1	27,812.0	14,105.8	9,615.9	6,579.9	14,527.8	29,391.9
Trade balance of goods	41,665.0	28,463.0	16,953.6	13,488.0	14,777.4	21,952.0	38,160.7
Exports	132,251.2	145,375.4	176,220.5	151,478.3	163,414.0	197,289.2	257,745.0
Imports	90,586.2	116,912.4	159,266.9	137,990.3	148,636.6	175,337.2	219,584.3
Service balance	1,024.1	-651.0	-2,847.8	-3,872.1	-8,197.5	-7,424.2	-8,768.8
Income balance	-5,638.3	-5,159.0	-2,421.3	-1,198.1	432.3	326.3	724.9
Current transfers	3,320.4	1,868.9	566.3	-385.2	-1,618.3	-2,904.6	-2,504.0
Capital and financial account	-3,196.7	2,040.3	12,110.0	-3,390.8	6,251.5	13,909.4	8,319.1
Financial account	-3,367.8	2,429.6	12,725.2	-2,659.8	7,338.3	15,307.8	10,091.7
Direct investment	672.8	5,135.6	4,284.5	1,107.6	-224.2	100.0	3,396.6
Portfolio investment	-1,878.2	8,676.4	11,997.5	6,583.4	708.7	17,906.5	9,268.8
Other investment	-2,162.4	-11,382.4	-3,556.8	-10,350.8	6,853.8	-2,698.7	-2,573.7
Capital account	171.1	-389.3	-615.2	-731.0	-1,086.8	-1,398.4	-1,772.6
Changes in reserve asset	-30,975.0	-22,982.9	-23,771.2	-7,575.8	-11,799.4	-25,849.4	-38,710.5
Net errors and omissions	-6,199.5	-3,579.3	-589.6	2,934.0	154.0	-9.5	2,778.6

Source: Same as Table 2.

## 6. Government Budget

(Billion won)

	2000	2001	2002	2003	2004
Gross revenues	135,811	144,033	158,712	171,731	178,784
Gross expenditure, net lending	129,284	136,765	136,046	163,592	173,189
Net lending	19,841	10,077	436	2,703	1,389
Balance of consolidated budget	6,527	7,268	22,666	8,139	5,595
Financed by domestic	-6,111	-6,834	-22,103	-1,994	-2,990
Financed by foreign	-416	-434	-563	-6,145	-2,606

Source: Same as Table 2.