THE KOREA TIMES

First in the Nation

Korea-US Partnership
Lee, Obama to Discuss Alliance Over Phone Today — Page 4

Portals in Trouble
Internet Firms Feel Pinch of Economic Turmoil — Page 18

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Adoption of English as Official Language Proposed

By Oh Young-jin
Staff Reporter

After three years as the leader of "Invest Korea," aimed at drawing foreigners here to do business, Chung Tong-soo has one message — make English an official language.

Chung Tong-soo
Head of Invest Korea

"Everything comes down to language barriers," said Chung, a Harvard Law School graduate who joined Korea's globalization effort after a stint as a civil servant in the Clinton administration.

Chung mentioned the Netherlands, whose citizens can speak an average of three or four languages and provides home to foreign companies whose combined investments makes the land of tulips and windmills the world's third largest investors in Korea.

"It's no coincidence that Dutchmen are doing well on the international stage," Chung said, citing the country's low corporate taxes and individuals' readiness to accommodate foreign businesses.

It was not long ago that Koreans were worried about being sandwiched between the advanced economy of Japan and the vast emerging market of China. The country was described as being the nut in the nutcrackers. "The situation has not changed," he pointed out.

"What choice do we have?" he asked himself, answering, "We should convert our difficulty into an advantage. The key is bringing down corporate tax rates and giving foreign firms an atmosphere they can easily work in.

"Language barriers make life for foreigners more difficult, so let's remove them," he added.

Obviously, he understands the difficulty in adopting English as an official language.

"We are different from Singapore or Ireland," he said, saying that they had to rely on attracting foreign investment whereas Korea has a strong industrial base.

"Years from now, we may look back on a lost chance with regret," he said.

Acknowledging the difficulties the government would face in adopting English as an official language, Chung said, "That is what the government is for."

Korea's chief investment relations (IR) official also pointed to the failed KEB sale, now under the control of Lone Star, a Dallas-based equity fund that bought Korea's fifth largest bank at a time when nobody wanted it.

"President Lee Myung-bak expressed his regret," he said, pointing out Lee's official comment when British bank HSBC withdrew its bid for the Korean bank.

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Communication Skills Key to Globalization

By Kim Yoo-chul
Staff Reporter

What is a key factor that blocks Korea Inc. from reaching further out into the world and joining the advanced ranks of world economies?

This question takes on an added urgency as Korea is being outrun by emerging powers such as China and India. Hynix CEO Kim Jong-kap has his own view after decades of government service and traveling around the world — communication skills that create new deals and salvage lost ones.

Kim Jong-kap
Hynix CEO

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"We are skills-oriented," the 57-year-old said during an interview with The Korea Times last week.

He said that better communication skills are necessary to add value to products.

It all comes down to a change in education methods shying away from learning things by rote, he said, adding that addressing this problem at its root cause needs time but is something that shouldn't be put off.

He pointed out the "urgency" by talking about the most inspirational figure among CEOs of global firms he has met — Apple boss Steve Jobs.

"When I met him early this year, he immediately explained the details of the iPhone for 15 minutes," Kim recalled, adding with a smile that the Apple gadget he took out from his pocket didn't work properly. What impressed him was Jobs' passion and readiness.

"Jobs knows how to read the minds of consumers and how to make products appealing through effective marketing," Kim said, implying that it is the power of education.

He has a different view about the correlation between finance and manufacturing.

"Finance and manufacturing sectors are two wheels that keep the economy going," Kim said. "A strong manufacturing base is of supreme importance, while finance should play an auxiliary role.

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Obama Bittersweet for Korean Economy

By Kim Jae-kyoung
Staff Reporter

Many Korean policymakers and business leaders might have bittersweet feelings over President-elect Barak Obama's victory in the U.S. presidential election Wednesday, thinking that while he may bring opportunity he could also imperil Asia's fourth largest economy.

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On the bright side, he will shift policy from the Bush administration's isolationism to international cooperation through dialogue, which many believe will reduce geopolitical and economic risks on the Korean Peninsula in the long-term.

On the other hand, he will seek ways to protect U.S. businesses and workers, which may trigger trade conflict with Korea — Obama pledged to restrict free trade agreements (FTA) during his campaign.

Known as a protectionist, the President-elect has criticized the Korea-U.S. FTA. In a letter sent to U.S. President George W. Bush in June, he called the FTA "badly flawed" and urged Bush not to submit it for ratification by Congress.

Although many express concerns about Obama's protectionism, global economists suggest that his administration will eventually do more good for the Korean economy than harm, even though there will be some negatives over the short-term.

They added that although there will be greater pressure for FTA renegotiation, it will not jeopardize the alliance and Obama will support the passage of the deal in the end.

"The American Chamber of Commerce (AMCHAM) in Korea is confident that Obama understands the importance of the U.S.-Korea relationship and that he will further build upon the strong economic, political and security elements of our relationship," AMCHAM Korea CEO Tami Overby told The Korea Times.

Tami Overby
AMCHAM Korea CEO

Mauro F. Guillen
Wharton School Director

Jim O'Neill
Goldman Sachs Economist

Stijn Van Nieuwerburgh
NYU Professor

"I believe that with his leadership and willingness to reach out to the international community, his plans for the U.S. economy will also help resolve the economic difficulties that we are facing in Korea today," she said. "If the U.S economy regains its confidence, I think the Korean economy will also benefit from this."

Overby called for Seoul to ratify the FTA first to see some movement in the near future, saying, "If the Lee Myung-bak administration ratifies the FTA in the National Assembly first, it will naturally place pressure on Obama to urge Congress to do the same."

Growing fears of a recession are also expected to cause a loss of focus on the FTA and force Obama to stimulate the global economy through international cooperation.

The most urgent task for him is to prevent the U.S. economy from slipping into a deep recession by saving consumers saddled with heavy debts through aggressive pump-priming measures, such as expansionary fiscal spending.

Mauro F. Guillen, director of the Lauder Institute at the Wharton School of Business, said the impact of the Obama administration on Korea could potentially be two-fold.

"If Obama moves swiftly to implement a fiscal stimulus through infrastructure spending, then the U.S. economy could rebound rather quickly and help exporters like South Korea rebound as well," he said.

See Bittersweet on Page 19

New Zealand ready for election: New Zealand's opposition National Party leader John Key, in blue tie, meets with supporters during an election rally in Christchurch, New Zealand, Thursday. New Zealand goes to the polls on Saturday.
AP-Yonhap

Emanuel Tapped as Chief of Staff

CHICAGO (AFP) — After the euphoria of his historic election win, Barack Obama got down Thursday to choosing a presidential team that faces a mountain of problems, not least the economic crisis and wars in Iraq and Afghanistan.

Rahm Emanuel
Chief of Staff

The Democrat ducked out of the limelight after becoming America's first black president, but behind-the-scenes activity picked up with the formal creation of a team to handle his transition to power ahead of the Jan. 20 inauguration.

In an immediate reminder of the mammoth task ahead, the Dow Jones share average plummeted nearly 500 points on resurgent fears of a deep recession followed by large sell-offs and a raft of negative financial data in Asia.

Democrats said Obama had asked combative congressman and former Clinton White House aide Rahm Emanuel, 48, to be his chief of staff, a vital post that helps set the tempo of the administration.

While Bill Clinton, the last Democrat in the White House, took weeks to announce his cabinet, Obama does not have the luxury of time with the U.S. administration now dispensing a $700 billion bailout for Wall Street.

Obama has hinted at possible names to take over as treasury secretary.

He noted to CNN last week that his economic advisers include Clinton's last Treasury Secretary Larry Summers, 53, as well as former Federal Reserve chief Paul Volcker, 81; and mega-rich investor Warren Buffett, 78.

Economic Downturn Deepening

By Lee Hyo-sik
Staff Reporter

The economy is facing increasing downside risks in the wake of a global economic downturn as domestic demand continues to deteriorate.

The United States, the world's largest economy and Korea's second largest export destination, is losing steam fast with declining output in the services sector, which accounts for 90 percent of its gross domestic product (GDP), and a rising jobless rate.

China, Korea's largest export market, has also seen its GDP growth drop to a single-digit 9 percent in the third quarter, posing a greater threat to the export-oriented local economy.

With growing concerns over a global recession and its fallout on Korea, Seoul stocks fell sharply Thursday, with the KOSPI falling below 1,100 points. A steep overnight fall on Wall Street also dampened investor sentiment, pushing down the benchmark index to 1,092.22, a loss of 7.56 percent, or 89.28 points, from the previous session. The junior Kosdaq also fell 8.5 percent or 28.89 points to close at 311.96.

The won closed at 1,330.8 won against the dollar, down 64.8 won from Wednesday's close, as foreign investors sold local shares, converted money into dollars and took them out of the country.

The Ministry of Strategy and Finance said Thursday that despite easing inflationary pressure following the fall of oil prices, the world's 13th largest economy will continue to head downward for the foreseeable future as exports, the nation's main engine of growth, have shown visible signs of a slowdown.

"A bigger problem is that domestic demand, which is supposed to propel growth on behalf of slowing exports, continues to worsen, weighing down on business activities and job creation. All these factors will certainly dampen economic expansion toward the year's end and beyond," the ministry predicted.

It said the nation should first place top priority on stabilizing the currency and financial markets. "Then, we should increase fiscal spending to stimulate domestic demand and create more jobs. It is also necessary to introduce a range of policy measures to help small firms and low-income earners deal with the current financial difficulties," the report stressed.

According to the Bank of Korea (BOK), the nation's gross domestic product (GDP) grew 3.9 percent year-on-year in the third quarter, the slowest since the second quarter of 2005.

Industrial production increased by just 6.1 percent in September from a year earlier, staying in single digits for the fifth consecutive month, according to the National Statistical Office (NSO). Exports grew 10 percent year-on-year in October, sharply down from the average 22.7 percent gain during the January to September period.

The number of new job offerings stood at only 112,000 in September, falling far short of the government target of 200,000, and the smallest figure since February 2005, indicating that businesses have become more reluctant to hire new workers.

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W500 Bil. Fund Debut to Boost Share Prices

By Kim Tae-gyu
Staff Reporter

Korea's state-backed agencies will generate a 500 billion won fund aimed at boosting the country's plummeting share prices due to the global financial crisis.

The Korea Securities Dealers Association (KSDA) announced the plan Thursday involving four organizations — the KSDA, the Korea Exchange, the Asset Management Association of Korea, and the Korea Securities Depository.

They will gather a total of 515 billion won to invest in the Seoul bourses during the next five months beginning November.

More than 80 percent of the money will be invested in local shares and the remaining amount will be channeled into safe assets including bonds.

The fund, which will be operated by asset managers to be decided upon later, will expire in three years and redemptions will not be allowed.

"We think this is a good time to snap up domestic shares, which we believe are overly undervalued," KSDA director Choi Young-gu said in a telephone interview.

"We hope our move will give positive signals to the market so that share prices get back on track. Our equity prices have plunged too much below their real value," he said.

Over the past year, Korean stocks have been in free fall. For example, the benchmark KOSPI halved from its historic high of last October and things are not that different for the junior Kosdaq.

"In the short term, this fund will help stabilize the local financial market. Over the long haul, this investment will provide us with huge profits," Choi said.

"We expect this fund would replicate the high margin of our past share price-stabilizing fund, which chalked up a double-digit gain per annum," he said.

The government-sponsored agencies also established a four-year fund in 2003, which posted 60.5 percent return over the period, or 10.46 percent annually.

Despite these efforts, Thursday's stock prices tumbled with both the KOSPI and Kosdaq losing more than 7.5 percent from their previous closes.

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Monitoring of Capital Movement to Be Bolstered

By Lee Hyo-sik
Staff Reporter

The nation's top economic policymaker said Thursday that the government will beef up its monitoring of capital moving in and out of the country. His remarks came amid concerns that an "excessive" level of capital movement has played a part in destabilizing the local foreign currency exchange and other financial markets over the past year.

At a National Assembly interpellation session, Strategy and Finance Minister Kang Man-soo said capital inflow was excessive from 2004 through 2007, relative to the size of the Korean economy.

"At one point, the foreign share of local stocks reached 48 percent of the total. It has come down to about 26 percent as foreigners dumped shares and took dollars out of the country over the past year in the wake of the global financial crisis. But the nation's foreign equity ownership is still higher than most advanced economies, which average around 20 percent," Kang said.

He said the past capital inflow strengthened the won's value against the greenback on ample dollar supply on the domestic currency market, making Korean-made goods more expensive abroad and thus worsening the nation's current account balance.

"But now, we are witnessing the opposite development as international investors take dollars out of the country en masse. I think we should establish a regulatory structure to monitor and check the excessive capital inflow and outflow to minimize side effects on the local financial market," Kang noted.

Touching on Korea's widening net outflow in foreign direct investment (FDI), Kang said the government plans to introduce a range of measures to encourage local companies to expand here rather than abroad, as well as to attract more investment from outside.

According to the Bank of Korea (BOK), the nation's FDI recorded a net outflow of $886 million in the first half of 2008, the first deficit since the central bank began compiling data in 1980.

"Because of the abundant dollar supply until 2007, the government encouraged capital outflow by easing regulations on overseas investment and providing tax incentives to companies moving plants abroad and foreign equity investors. But such measures have backfired as the country is grappling with a dollar shortage as a result of the global financial turmoil," the minister noted.

He said the government would come out with a comprehensive package of measures to make the country a better place for doing businesses for both foreigners and Koreans.

Kang also told lawmakers that the government will study ways of providing more tax revenue to municipal governments in the first half of next year to boost their fiscal soundness.

On the same day, the minister met with Toyoo Gyohten, an international finance envoy who came to Seoul to deliver a letter from Japan's Prime Minister Taro Aso. The two discussed ways to enhance joint efforts to stabilize regional financial systems as well as those around the world

Kang called on Japan to make greater efforts for the establishment of an $80 billion regional currency fund aimed at helping Asian economies in times of financial crisis.

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Strategy and Finance Minister Kang Man-soo, right, shakes hands with Toyoo Gyohten, special envoy to Japanese Prime Minister Taro Aso, before talks at Export Import Bank of Korea headquarters in Yeouido, Seoul, Thursday. Yonhap

Corporate Loan Growth Hits 8-Year High

The growth of corporate loans accelerated in October as banks' lending to larger companies expanded at the fastest pace in almost eight years, the central bank said Thursday.

As of the end of October, outstanding bank loans to large and smaller firms totaled 463.1 trillion won ($352.4 billion), up 7.5 trillion won from a month earlier, the Bank of Korea (BOK) said.

The growth of corporate lending also picked up in October from a 5 trillion won gain in September.

"Bank lending to smaller companies increased on the back of the government's measures to provide liquidity to such firms," said Lee Dae-kun, a BOK official. "Large companies also raised loan demand as they tried to secure working funds in advance and the market for corporate debts remained sluggish amid a credit crunch."

Lending to larger companies increased by 5 trillion won to 61.6 trillion won. The October figure reflected the largest monthly growth since 2001 when the BOK began to compile related data.

Lending to small- and medium-sized enterprises (SME) advanced by 2.6 trillion won to 401.5 trillion won, the BOK said.

In early October, the government said it will extend liquidity of about 4.3 trillion won to SMEs in a bid to help them ease cash shortages amid global financial turmoil.

Meanwhile, household loans increased by 1.4 trillion won last month to 385 trillion won, slowing from a 2.1 trillion won advance in September.

The growth of bank deposits hit a six-month high in October as local lenders sold more products carrying higher-than-average interest rates and the stock market slumped, the BOK said.

Bank deposits grew by 21.8 trillion won month-on-month to an outstanding 908.8 trillion won in October. In April, they expanded 22.8 trillion won.

The data came a day before the BOK holds its monthly rate-setting meeting. Economists say the BOK is widely expected to cut its key interest rate by a quarter percentage point to 4 percent following last week's largest-ever cut to stimulate the country's cooling economic growth.

Last week, the BOK slashed the benchmark seven-day repo rate by a record 0.75 percentage points to 4.25 percent in a move to keep global financial turmoil from sharply slowing the real economy. (Yonhap)

Money Supply Growth Slows to 12% in Sept.

The nation's money supply growth slowed in September as local banks cut down on lending amid a credit crunch and a business slump, the central bank said Thursday.

The liquidity aggregate reached 2.233 quadrillion won ($1.7 trillion) as of the end of September, up 12.1 percent from a year earlier, according to the Bank of Korea (BOK). September's money supply growth slowed from a 13.3 percent year-on-year advance in August.

The liquidity aggregate, the broadest measure of the nation's money supply, covers currency in circulation, all types of deposits at financial institutions, and state and corporate bonds.

Meanwhile, the BOK said a narrower measure of the money supply, M2, also grew at a slower pace in September from a month earlier.

"The growth of the M2 slowed down as the country posted a current account deficit and liquidity provided by financial institutions to the private sector eased," the BOK said.

The M2 covers currency in circulation and all types of deposits with maturity less than two years at lenders and non-banking financial institutions, though not with insurers and brokerage houses.

In a separate report, the BOK said the gain in the M2 is estimated to have slowed in October to approximately 14 percent as bank's lending eased and foreign investors went on a selling spree of local stocks.

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Meanwhile, consumer prices climbed 4.8 percent year-on-year in October, slowing from a 5.1 percent annual advance in September as a fall in oil and commodity prices reduced overall import bills.

The country's consumer prices breached the BOK's target range of 2.5-3.5 percent for the 11th straight month. (Yonhap)

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Bittersweet

He pointed out that Democrats are in control of both Houses, which means that they have more of a free hand to fix problems with the financial system and the economy.

"The other potential consequence is the relationship with North Korea. Obama is likely to be much more inclined to use diplomacy and to build a coalition to deal with North Korea," he added. "I think who gets appointed as secretary of state will be crucial."

Stijn Van Nieuwerburgh, a finance professor from the Stern School of Business at New York University, echoed the view, saying, "This victory signals the beginning of a new era of international cooperation instead of isolationism."

"I expect all countries, including Korea, to benefit from this enhanced dialogue. Clearly, the task to fix the economy is momentous. The faster the economy in the U.S. turns around, the faster the world can resume its quest for greater prosperity," he said.

Obama is also expected to cement international cooperation to minimize the global economic slowdown, which will help the U.S. restore its leading role in the global economy and financial markets..

"The election of Obama gives the U.S. a fresh chance to renew its global leadership, with a more co-operative spirit," Goldman Sachs chief global economist Jim O'Neill said.

"It will be really important to watch early steps that his administration might make on reforming the world financial architecture, and bringing in the so-called BRICs (Brazil, Russia, India and China) economies to a more central role in the G7 and IMF," he added.

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Moneyline

KEB Posts 22% Drop in Earnings

Korea Exchange Bank (KEB), controlled by U.S. investment fund Lone Star Funds, said Thursday that its third-quarter earnings dropped more than 22 percent from a year earlier.

Its net profit reached 151 billion won ($119 million) in the July-September period, compared with 194 billion won a year earlier, the lender said in a regulatory filing.

Revenues almost tripled to 6.08 trillion won over the cited period, while operating income dropped 31 percent to 175 billion won, KEB said.

Its cumulative profit in the first nine months of the year fell 6.4 percent to 665 billion won, it said.

Economy Likely to Grow 3.1% in 2009

The nation's economic growth is expected to slow to 3.1 percent in 2009 from this year's estimated 4.2 percent due to anemic domestic demand, a private think tank said. In a gloomy report on Asia's fourth-largest economy, the Hana Institute of Finance, a research unit of Hana Financial Group said domestic demand will be hampered by asset deflation and falling wages in the wake of global financial turmoil.

According to the report, the growth rate for private consumption is expected to drop to 1.4 percent next year from this year's 1.8 percent advance. Exports, the main growth engine of the economy, are likely to climb 6.2 percent year-on-year.

Market Indicators

KOSPI	KOSDAQ
1,092.22 (-89.28)	311.96 (-28.89)

WON/DOLLAR	INTEREST
1,330.80 (+64.80)	4.56 (-0.04)

Foreign Exchange Rates

Seoul (in won) Nov. 6

Currency	T/T		Cash		Basic Rate
	Buying	Selling	Buying	Selling	
U.S. Dollar	1,315.00	1,341.00	1,304.76	1,351.24	1,328.00
Japanese Yen (100)	1,344.98	1,371.60	1,334.52	1,382.06	1,358.29
Euro	1,688.77	1,722.87	1,671.88	1,739.76	1,705.82
British Pound	2,081.20	2,123.24	2,060.39	2,144.05	2,102.22
Swiss Franc	1,127.94	1,150.72	1,116.66	1,162.00	1,139.33
Canadian Dollar	1,118.54	1,141.12	1,107.35	1,152.31	1,129.83
Australian Dollar	884.03	901.87	875.19	910.71	892.95
New Zealand Dollar	779.63	795.37	771.83	803.17	787.50
Hong Kong Dollar	169.64	173.06	167.95	174.75	171.35
Swedish Krone	167.37	170.75	164.84	173.28	169.06
Danish Krone	226.95	231.53	223.51	234.97	229.24
Norwegian Krone	192.30	196.18	189.39	199.09	194.24
Saudi Riyal	350.44	357.50	325.66	368.12	353.97
Kuwait Dinar	4,869.34	4,967.70	4,525.04	5,115.26	4,918.52
Bahrain Dinar	3,486.86	3,557.30	3,240.32	3,662.96	3,522.08
Singapore Dollar	885.34	903.22	871.93	916.63	894.28
China Yuan	190.60	202.25	184.76	208.09	194.48

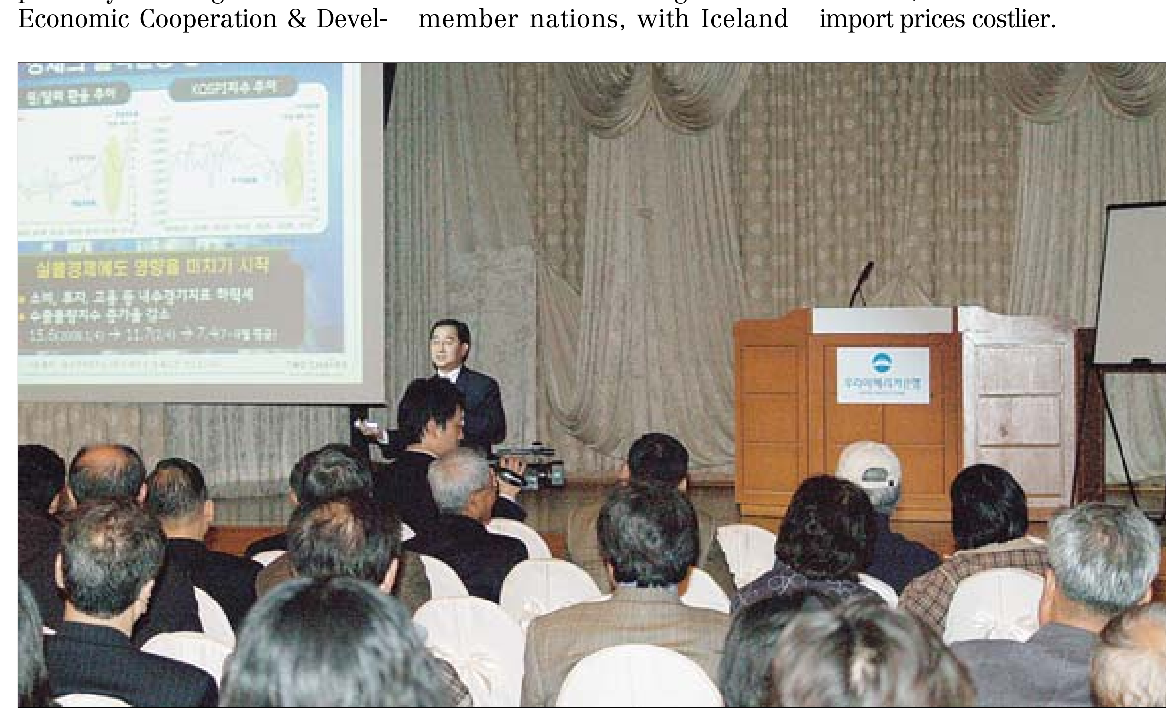
Source: Korea Exchange Bank. Banks may charge different rates. They are quoted several times a day.

Core Inflation Grows 4.1 Percent

The nation's core inflation grew at a faster pace than other advanced nations as a sharp decline in its currency value increased overall import prices, a report showed Thursday.

According to the report compiled by the Organization for Economic Cooperation & Development (OECD), the core inflation, excluding volatile food and oil prices, jumped 4.1 percent in September from a year earlier. The figure compared with the average of 2.4 percent for OECD member countries. South Korea ranked sixth among the 30 member nations, with Iceland coming first with a 12.2 percent year-on-year inflation growth, followed by Turkey, the Czech Republic, Mexico and Slovakia, the report showed.

The sliding local currency has been putting upward pressure on inflation, as a weak won makes import prices costlier.



IR for Korean-Americans: A Woori America Bank private banker explains the condition of the Korean economy and financial markets to Korean residents in New York at a lender's IR session, Thursday. The session, designed to encourage Korean residents in the U.S. to invest in the domestic market, runs through Saturday. Courtesy of Woori Bank