

# corporate affairs



The Korea Society fosters dialogue and cooperation between American and Korean business leaders by arranging opportunities for frank and interactive discussions of current issues affecting the economic and political partnership between the United States and Korea.



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(l-r) Donald P. Gregg and Chang Soo-Man

## President-Elect Roh Moo-hyun's Economic Policy and Plans for the Future of South Korea

January 29 • New York, NY

Outgoing financial attaché of the Republic of Korea in New York, Chang Soo-Man, addressed a business roundtable on the topic of President-elect Roh Moo-hyun's economic policy objectives. Chang identified six key issues: continuity of economic policy; globalization; the chaebol; labor unrest; income distribution;

and the current geopolitical situation. He expressed a conviction that there would be no abrupt change of policy by the incoming administration, and the Republic of Korea would continue to promote peace and prosperity as a responsible member of the global community. Chang concluded by saying "President-elect Roh is well known for his willingness to listen to as many voices as possible before making a decision or formulating policy."



Thomas Byrne

## The Winds of Change: Korea's Newly Emerging Nationalism and Economic Policy Challenges

February 6 • New York, NY

Thomas Byrne, vice president and senior credit officer of the sovereign risk unit at Moody's, spoke at a business roundtable on the impact of what he called the "new mindset" sweeping through the Republic of Korea. This phenomenon, a deepened sense of nationalism, is not universal, but its impact is conspicuous especially in the ROK's relations with the United States and North Korea. Byrne does not believe that this trend will lead to economic nationalism, but he cautioned against ignoring it. To assess the potential impact of this new mindset on Korea's ratings, Byrne discussed the economy and security, noting that the new

administration had not yet been inaugurated and that his remarks were tentative. From an economic perspective, Byrne explained, the Roh Moo-hyun administration is expected to continue the economic reforms initiated by the Kim Dae-jung administration. On the issue of security, Byrne noted the U.S. troop issue, anti-Americanism and the North Korean nuclear situation. Byrne concluded by stating that the economic consequences of a populist or a nationalist government in the Republic of Korea are manageable. However, the security costs and ramifications have become unpredictable. North Korea is exhibiting riskier behavior than in the past. Even so, if the U.S., South Korea and North Korea were to sit down, there is still time to prevent this situation from escalating out of control.



(l-r) Bill Holstein, Nicholas Bratt, John Chambers, Cho Won-il and Jaung Hoon

### The Election of Roh Moo-hyun: The Economic, Political, and Foreign Policy Implications for South Korea

February 27 • New York, NY

The implications of the election of President Roh Moo-hyun were explored in a panel discussion copresented with the Asia Society featuring presentations by: Jaung Hoon, professor of political science at Chung-Ang University; Cho Won-il, consul general of the Republic of Korea in New York; John Chambers, managing director, Standard and Poor's (S&P); and Nicholas Bratt, managing director and head of global equity products for Deutsche Asset Management and president of the Korea Fund. The moderator was Bill Holstein, editor of *Chief Executive Magazine*. Jaung spoke about the establishment of a new equilibrium in Korean politics, arguing that the recent election of Roh Moo-hyun

effectively brought about an "ideological balance between liberals and conservatives." Cho expressed concern about the perception of growing anti-American sentiment in Korea, which he attributed to exaggerations by the American media. He reiterated the importance of the U.S.-ROK alliance, stressing that a radical transformation of the alliance is unlikely and undesirable as it would pose a long-term threat to stability on the Korean peninsula. Chambers cited three risk factors S&P is considering in its review of South Korea's ratings' outlook: foreign direct investment (FDI); the rift between the Millennium Democratic Party and the Grand National Party; and the U.S.-Korea relationship. He explained that these were manageable risks and, unlike some, S&P believes the risks to be balanced. However, if Korea wants to maintain a 5-6% growth trajectory over the medium-term, he said, a

second generation of reforms will be needed. Bratt presented four factors to consider in the current economic and business climate: (1) the South Korean economy remains very heavily dependent on the world economy; (2) Korea has to import energy and is consequently vulnerable to the price of oil; (3) the Korean economy and financial system have been restructured in a positive way since the 1997 Asian crisis; and (4) China will soon replace the U.S. as Korea's largest export market. He noted that long- and short-term investors face very different priorities and risks. Offering his personal impression of the new president as "a breath of fresh air" and a leader well disposed to the market, Bratt cautioned that foreign investors would be paying very close attention to his administration's attitude toward continuing the program of reforms in general, and industrial and financial restructuring in particular.





(l-r) Jeffrey D. Jones, Al Rajwani, Il-young Maing, Tami Overby, William C. Oberlin and Donald P. Gregg

## Perspectives on the New Korean Administration: A Firsthand Account from the American Chamber of Commerce in Korea

*April 9 • New York, NY*

An assessment of the current commercial climate in Korea was the subject of a half-day conference, copresented by The Korea Society and the Korea Economic Institute, featuring a panel of high-level representatives of the American Chamber of Commerce in Korea (AMCHAM-K). The panelists were: William C. Oberlin, president, Boeing International Corporation, and president of AMCHAM-K; Tami Overby, executive vice president of AMCHAM-K; Il-Young Maing, president, United Technologies, and vice president of AMCHAM-K; Al Rajwani, general manager, Procter and Gamble Korea, and vice president of AMCHAM-K; and Jeffrey D. Jones, attorney-at-law, Kim & Chang, and past president of AMCHAM-K. Joseph A. B. Winder, president of the Korea Economic Institute, offered opening remarks in which he pointed out that the real strength of the U.S.-Korea relationship is to be found in the private sector. Donald P. Gregg, Chairman of The Korea Society, introduced the panel members, and highlighted their expertise by noting humorously that their combined time in Korea surpassed one hundred years. In the ensuing discussion, the focus was largely on the new administration of President Roh Moo-hyun and the growing sense of confidence about its policy directions. Oberlin recalled the concerns felt by AMCHAM-K members in the immediate aftermath of the election, but stressed that these concerns were eased considerably by an address then President-

elect Roh made in January 2003 at a breakfast event jointly sponsored by AMCHAM-K and the EU Chamber of Commerce. Roh made it very clear that Korean and foreign businesses operating in Korea would be on the same footing, affirmed his commitment to continue the reform policies of the previous administration, and distanced himself from the more extreme expressions of anti-American sentiment. Overby stressed AMCHAM-K's role in documenting the significant restructuring progress made in Korea since the 1997-98 financial crisis. She noted that this information is available on line for the first time and will be updated on a real-time basis. Overby also stressed the improved relationship AMCHAM-K has developed with the Korean government. On a less upbeat note, Overby discussed the U.S. government's announced plan to eliminate the Personal Appearance Waiver Program. As the lead time just to get an appointment for a visa interview under the new procedures is projected to range from six to nine months, she stressed that this change "would devastate U.S. businesses abroad." In his presentation, Maing expressed dismay about misperceptions of instability in Korea fueled by U.S. media headlines that falsely portray the Korean peninsula to be in a state of crisis, and the relative lack of attention paid to the phenomenal changes in Korea's business climate since the 1997 financial crisis that have transformed Korea into "one of the best opportunities for investors." On the subject of the Korean workforce, Maing acknowledged that "blue collar labor" in Korea is relatively expensive but noted that "engineering labor" is both cheap and of the highest quality. Rajwani addressed the concerns about a drop in consumer spend-

ing in Korea coupled with reports of rising anti-American sentiment—two factors that could make Korea appear to be less attractive as a marketplace for American firms—but stressed that the situation has changed recently and the current outlook for U.S. businesses in Korea is very positive. Jones discussed the Korean government's objective of transforming the country into the economic hub of Northeast Asia. This entails three components: (1) the establishment of a logistical network to capture the trade flows in Northeast Asia by utilizing the existing state-of-the-art facilities in Incheon, Pusan, and Kwangyong; (2) the evolution of Korea into the R&D headquarters for multinational companies in Northeast Asia, as an alternative to Hong Kong and Singapore; and (3) the transformation of Seoul into a financial center along the lines of London or New York, which he described as the most long-term and "ambitious" aspect of the plan. Jones also outlined several strategic changes the Korean government envisions to achieve its objective: the implementation of a more flexible labor environment; the creation of a more predictable and consistent environment for the corporate sector and the individual taxpayer; and additional deregulation and reduction of government interference in the commercial sector. Jones concluded his remarks with a discussion of perceptions in South Korea about the U.S. attitude toward North Korea. As South Koreans generally do not understand the fundamental change that has come about in the way the U.S. views the world post 9/11, they do not understand why Washington's stance toward Pyongyang has been "so tough"—especially since they themselves do not feel threatened by North Korea.



## Korea: A Steady Course toward a Prosperous Future

April 14 • New York, NY

Deputy Prime Minister and Minister of Finance and Economy Kim Jin-Pyo delivered a major address at a luncheon forum in his honor copresented by The Korea Society, Citigroup and Goldman Sachs. In his address, Kim attempted to calm investor jitters fueled by the security threat posed by North Korea's nuclear programs and a recent major accounting scandal involving SK Global. Kim also noted the recent measures adopted by his government to enhance corporate transparency and clarified his government's position on hostile mergers and acquisitions.



Kim Jin-Pyo



Artist's rendering of the digital library at Kim Chaek University of Technology in Pyongyang, now under construction. The banner says the construction cost is 34,000,000 North Korean won (approx. \$15.5 million at the Interbank rate of exchange of mid-2003) and puts the total floor space at 17,980 M2 (approx. 193,300 ft2).

## A North Korean Market Economy? Reforms, Prospects and Policy Implications

April 15 • New York, NY

Ruediger Frank, who was a visiting professor at the Weatherhead East Asian Institute of Columbia University, spoke at a business roundtable about the diplomatic offensive and economic reforms behind the sweeping price reforms launched in North Korea in July 2002. Frank noted that the "gigantic change" set in motion by these reforms have opened a narrow window of opportunity that should not be missed. In effect, North Korea has adjusted its distorted price system and explicitly required domestic enterprises to bring all their transactions in line with very basic (market) economic principles. As the results of the reforms will not be immediate, Frank proposed a policy to forestall unacceptable consequences with at least the following elements: provide enough food to North Korea to secure a basic supply; provide sufficient loans to North Korean commercial banks to relieve cash flow shortages in state-owned enterprises and to put their operations on a solid footing; and support any North Korean request for technical training in fields that are new and untested for North Korea, such as accounting, fiscal policy, and international finance. Noting that the two major North Korean attempts to generate the necessary cash flow since the July 2002 reforms—the push to normalize relations with Japan and the effort to trade their nuclear program for substantial amounts of aid from the U.S.—have not been successful so far, Frank cautioned that the chance to support a peaceful, gradual and indigenous process of change will be lost and North Korea may feel it has no choice but to produce a nuclear weapon in lieu of any other bargaining chip unless someone steps in soon to support the economy in North Korea.



Ruediger Frank

## The Korea Discount Examined

May 22 • New York, NY

Sean Fieler, a general partner at Equinox Management Partners, L.P. and a general partner of the Kuroto Fund, discussed the "Korea discount" issue at a business roundtable. Despite a report produced by CLSA Asia-Pacific Markets, which ranked Korean corporate governance as the best in Asia for 2002, Fieler suggested that deficiencies in corporate governance are the primary reason Korean stocks continue to trade at such low valuations relative to their peers in the Asia Pacific region. Specifically, he called attention to the distribution of dividends, citing another recent study which found that Korean corporations had the lowest five-year average dividend pay-out ratio of the one-hundred most profitable companies surveyed in several Asian countries, excluding Japan. "Dividends," he explained, "are an admission that the company is not the private property of the controlling shareholder. So if we had a real improvement in corporate governance, this improvement should have had an effect on dividend pay out ratios." As this has not occurred, Fieler suggested, the solution is for the Korean government to revamp the laws that discourage the distribution of earnings.

Sean Fieler



## Korea Senior Management Conference

June 16 • New York, NY

The Federation of Korean Industries and UBS Warburg cosponsored a one-day conference in cooperation with The Korea Society that featured presentations by top management and IR representatives of Korea's best blue chip corporations. The topics explored included an overview of investment opportunities in Korea as well as an analysis of the outlook and potential of major Korean firms. Keynote addresses were delivered by Kwon Okyu, senior secretary to the president for national policy, and Ban Ki-Moon, advisor to the president for foreign policy.

## From Seoul to Wall Street: Grappling with Change, Seizing Opportunities

June 18 • New York, NY

Charles R. Kaye, co-president of the private investment firm Warburg Pincus, LLC, spoke at a business roundtable on investment opportunities in Korea. He discussed changes in the investment climate in Korea since the 1997 financial crisis and the challenges facing Korea in various segments of the economy. Kaye noted that most banks in Korea still operate on a "substandard scale" and, in particular, need to make credit more readily available for individuals and small businesses. Kaye suggested that changes in the public sector would gradually transform *chaebol* from family-owned entities to institutions run for the benefit of shareholders. He described himself as optimistic from an investor's perspective, citing Korea's rapid transformation from a developing nation into a nation of middle-income status and its success in managing a rapid recovery from 1997 financial crisis.

Charles R. Kaye



## The Roh Administration's Industrial Policy: Tackling the Economic Challenges Facing Korea

*September 17 • New York, NY*

Kim Jong Kap, deputy minister for Industry, Technology and E-Business, offered an insider's perspective on the industrial policy of the current administration in South Korea at a luncheon forum. He discussed the current outlook for the South Korean economy; the Roh administration's vision and strategies for promoting South Korea's industries; and the status of Foreign Direct Investment (FDI) in South Korea. Kim expressed optimism about South Korea's current economic outlook, noting that South Korea's most promising areas for future growth include: digital TV/broadcasting; robotics; and next-generation automobiles and semiconductors.

## Recent Developments on the Korean Peninsula: A Luncheon Address by Ambassador Thomas Hubbard

*September 23 • New York, NY*

Thomas C. Hubbard, U.S. ambassador to the Republic of Korea, outlined recent political, economic and security developments on the Korean peninsula and offered an assessment of the current state of the U.S.-ROK. relations during a luncheon held in his honor. The luncheon was copresented by The Korea Society and the Korea Economic Institute. Hubbard expressed admiration for the people of the Republic of Korea and the remarkable economic accomplishments they have achieved over the past five decades. While noting the "turbulence" encountered in U.S.-ROK relations recently, he emphasized that relations between the two nations began to improve noticeably immediately following President Roh's

visit to the U.S. in May 2003. He said that the United States needs to be responsive to the changing circumstances posed by a more industrialized and modernized South Korea, while South Korea needs to be more understanding of the changing circumstances facing the U.S. such as the need for a realignment of its military forces on the Korean peninsula. Hubbard concluded with comments on the North Korean nuclear situation.



Thomas C. Hubbard

## An Update on the Economic and Business Environment and Developments in the IT & E-Commerce Sectors in Korea

*September 23 • New York, NY*

The economic and business environment in Korea was the subject of an afternoon forum held in conjunction with a luncheon copresented by The Korea Society and the Korea Economic Institute (KEI). Joseph A. B. Winder, president of the Korea Economic Institute, moderated the program which was organized into two panel discussions. The presenters

on the first panel were: Lee Kyu-Hwang, secretary general of the Federation of Korean Industries; Tami Overby, executive vice president of the American Chamber of Commerce in Korea; and Carmine D'Aloisio, commercial minister of the U.S. & Foreign Commercial Service at the U.S. Embassy in Seoul. The presenters on the second panel were: Leem Chasik, director general of the Ministry of Information and Communication; Choi Kap-hong, director of the Ministry of Commerce, Industry and Energy, Republic of Korea; Cho Sung-kap, president of the International Cooperation Agency for

Korea; and Stuart J. Thorson, professor of political science & international relations and director of Information Technology, Maxwell School, Syracuse University. All the presenters agreed that the IT and e-commerce sectors are burgeoning as part of an overall effort to transform Korea into a major hub of Northeast Asia. These sectors receive strong governmental support as they have been identified as the next generation growth engines. The particular sectors so identified include mobile communications, semiconductors, digital components and advanced robots.



Leem Chasik

Joseph A.B. Winder

Tami Overby

Lee Kyu-Hwang

Stuart J. Thorson

Carmine D'Aloisio





Hogen Oh and Donald P. Gregg

## The Roh Moo-hyun Administration and Continuing Corporate Reform in South Korea

*September 24 • New York, NY*

Hogen Oh, chairman of Lazard Asia Limited, spoke on South Korea's ongoing corporate restructuring process. Oh reviewed the history of South Korea's rapid economic transformation, noting that many of the factors accounting for the nation's success also led to the conditions that precipitated South Korea's 1997 financial crisis. He then discussed the initial response of the Kim Dae-jung administration, the various efforts to stabilize the national economy, and the on-again off-again efforts at corporate reform. Oh noted that today, the Financial Supervisory Service and other government agencies are trying to strike the proper balance between strict regulation and a laissez-faire policy toward the economy.



Jeong Se-Hyun

## Peace and Prosperity in Korea and Beyond

*September 30 • New York, NY*

Jeong Se-Hyun, the then Minister of Unification of the Republic of Korea, addressed a luncheon forum on the efforts being made by his government to promote peace and prosperity on the Korean peninsula and in the Northeast Asian region generally. Jeong was introduced by Charles Kartman, executive director of the Korea Economic Development Organization (KEDO). Jeong began by pointing out the importance of an economic focus in resolving the division of the Korean peninsula, as economic ties have helped to reunite divided nations throughout history. He listed the many efforts being made by his government in accordance with this principle, noting especially the approximately 400 million square meters of the DMZ that have been opened for joint development projects. Paralleling these tangible achievements there has been a much more subtle and difficult-to-measure evolution from hostility to cooperation between the two Koreas, which Jeong argued was the first real step toward peace.

## U.S. Equity Capital Markets and Korean Issuers: How the World has Changed, New Evidence for ADRs

*October 9 • New York, NY*

Christopher R. Sturdy, managing director of the Bank of New York's global issuer services department, gave an overview of the process by which most non-U.S. companies gain access to the U.S. equity capital markets. Sturdy explained that the ADR market was created 76 years ago to simplify the inconvenient and arduous process of obtaining foreign stocks. He noted that South Korea has had a distinguished history of access to capital markets using either ADRs (American Depositary Receipts) or GDRs (Global Depositary Receipts) since Samsung issued its first certificates in December 1990. Sturdy described the process for listing foreign companies on a major exchange as "major culture shock" since the information required differs radically from that required in their home country environments.



Christopher R. Sturdy



## An Update on South Korea's Economic Outlook and Financial Policy Directions

November 6 • New York, NY

Oh Kap-Soo, the deputy governor of the Financial Supervisory Service (FSS) of the Republic of Korea, was the guest speaker at a business roundtable devoted to South Korea's current economic outlook and financial policy directions. Oh highlighted current trends in the South Korean economy, remarking that unfavorable events, including tensions with North Korea and the war in Iraq, had dampened the outlook for solid growth during 2003. On the positive side, foreign investors began to expand their equity positions aggressively during

May 2003, showing that they remain optimistic about South Korea's economic prospects. He said the FSS expects growth in the 5% range during 2004, in line with World Bank and IMF estimates. Oh also reported numerous strides in corporate governance, including strong enforcement actions against noncompliance as well as measures to foster greater disclosure and transparency. He described draft proposals for legislation similar to Sarbanes-Oxley in the United States. Oh stated unequivocally that the consumer credit situation, currently South Korea's worst economic problem, would be resolved by the middle of 2004. In conclusion, he reiterated his government's strong determination to transform the country into one of the best places in the world to do business.



(l-r) Anil Bhalla and Oh Kap-Soo

## Gateway to Asia: New Songdo Intelligent City

November 19 • New York, NY

Stanley C. Gale, chairman and CEO of the Gale Company, a privately-held real estate investment and services organization, and John Hines, a managing partner and principal as well as president of the New Songdo City Development Corporation, described their corporation's role as the master developer for the project. The first planned city to be built in the Republic of Korea, New Songdo City is being designed to serve as a gateway to Asia—part of Korea's plan to develop the country into a regional hub. When completed, the new city will be comprised of 50 million square feet of office space and 30 million square feet of residential space. In addition, space is being allocated for hotels, garages, retail establishments and public areas. Discussions are underway with American and other foreign universities and hospitals to establish and outsource facilities. New Songdo City also will have a convention center and an 18-hole golf course. A six-mile bridge is being built to link the City with Incheon International Airport, the second largest airport in the world. The Korean government is emphasizing its commitment to the project as a way to encourage foreign investment in the area.



Stanley C. Gale



(l-r) Ned Cloonan, Kim Kyeong-won, Charles K. Armstrong, Jeffrey R. Shafer, Bill Hwang, Joshua H. Felman, and Milan Brahmbhatt

### Update on the U.S.-Korea Agenda: Economic and Political Challenges in Perspective

*December 4 • New York, NY*

Charles Armstrong, associate professor of history and acting director of the Weatherhead East Asian Institute at Columbia University; Jeffrey R. Shafer, vice chairman of international investment banking at Citigroup; Ned Cloonan, vice president of corporate and international affairs at American International Group; Bill Hwang, managing partner of Tiger Asia Management; Kim Kyeong-won, executive director of the Samsung Economic Research Institute; Mr. Joshua H. Felman, assistant director, Asia and Pacific department, the International Monetary Fund; and Milan Brahmbhatt, the lead adviser of the East Asia and Pacific Region of the World Bank, were panelists in an end-of year discussion of current issues in U.S.-Korea relations. In a keynote address, Donald P. Gregg, president and chairman of The Korea Society, offered his impressions from recent conferences he had attended in Asia on the state of the six-party talks held in Beijing. He reported that the other participants in the

six-party talks appeared to neither support nor understand the hard-line stance taken by the United States toward North Korea in the latest round in Beijing. While acknowledging that some observers are convinced North Korea would never give up its nuclear program, it will remain a moot issue until the United States actually engages in negotiations. Gregg concluded by stating that although terrorism is a major global concern, in fact, it is neither the major nor the sole concern of every country in the world. As a result, he said, the United States will be increasingly out of step with the rest of the world if it insists on defining its relationships with other countries solely in terms of terrorism or nuclear proliferation. Armstrong argued that the focus on nuclear programs and related proliferation issues also is overshadowing any discussion of the positive economic changes that have been taking place recently in North Korea. Arguing for a more balanced perspective, Armstrong suggested that Kim Jong Il appears to be quite serious about the ongoing economic reform program. Shafer initiated a discussion of the macroeconomic picture by offering a synopsis of recent developments. Clearly, he said,

2003 had not been a sterling year for South Korea. All the same, giving due consideration to the major challenges the nation's economy had to contend with during the year—SARS, Typhoon Maemi, the labor strikes, and the credit-card debt crisis—a forecasted year-end GDP in the range of 2.5% is quite remarkable. Moreover, during the past year, South Korea's exports to China have surpassed the nation's exports to the United States. Felman addressed the issue of a perceptual gap in the assessment of the South Korean economy: many South Koreans are of the view that there is something fundamentally wrong with their nation's economy while very few foreign observers hold this view. Brahmbhatt introduced a discussion of South Korea's less-advertised emphasis on science, technology and innovation, noting that the ratio of South Korea's research and development (R&D) spending to GDP is the same as that of the United States. Cloonan pointed out that labor-management relations in South Korea today are relatively calm compared with 15 years ago. He also suggested that challenges always provide opportunities.