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## Assessment and recommendations

*Sustaining the recovery achieved in 2002 will require dealing with emerging macroeconomic imbalances and continuing structural reforms*

Korea's recovery in 2002, which boosted output growth to 6 per cent despite a sluggish world economy, reflects both the success of the economic restructuring programme initiated in the wake of the 1997 crisis and the underlying dynamism of the economy. Reform efforts have strengthened the mechanisms for resource allocation through market forces and significantly altered the legal and institutional settings to improve governance. They have also created positive synergies with macroeconomic policies. In particular, the restoration of healthy bank balance sheets has strengthened the transmission of monetary easing to the economy, as slowing credit growth to the enterprises in the wake of corporate restructuring has been more than offset by buoyant lending to households, in part through credit cards. At the same time, tax reform measures to encourage credit-card use and thereby increase tax compliance have broadened the tax base and helped to keep the government budget in surplus. These developments laid the foundation for a rebound from the 2001 downturn led by private consumption and housing investment. However, the recovery has been accompanied by a sharp increase in household debt, rising inflationary pressures and a steep rise in real estate prices, prompting the government to take numerous measures to stabilise the housing market. Even though private consumption and housing investment are likely to moderate, output growth in the 5½ to 6 per cent range is projected for 2003 and 2004, assuming that there is a pick up in the world economy that results in a recovery in external demand. The challenge for Korea is to maintain its high growth potential by overcoming remaining structural weaknesses through further reforms, while keeping inflationary pressures under control and containing potential financial imbalances through appropriate macroeconomic policies.

***Further structural reforms should have a positive effect on growth***

Korea is well placed to meet that challenge. The priorities for reform are likely to create additional positive synergies with macroeconomic policies. This is particularly the case with respect to privatising the banks that were recapitalised with public money. Such privatisation would not only promote further corporate restructuring but also generate revenues to alleviate somewhat the fiscal burden of the financial-sector restructuring programme. Even so, given the large size of these costs and long-term spending pressures, the scope for discretionary fiscal policy actions will remain limited, leaving the task of aggregate demand management largely with the central bank.

***To cope with inflationary pressures, a gradual reversal of monetary easing...***

While inflation is currently within the central bank's recently revised medium-term target of 2.5 to 3.5 per cent, inflationary pressures may be building up, necessitating a policy response by the Bank of Korea. Following a series of cuts, the policy interest rate had remained at a record low of 4 per cent from September 2001 until it was raised by 25 basis points in May 2002. In the meantime, wage growth accelerated to 10 per cent in the first half of 2002, in the context of an unemployment rate below 3 per cent, pushing up unit labour costs by an estimated 7 per cent. In addition, the sharp rise in real estate prices may boost inflation through their influence on housing costs, inflationary expectations, wealth effects and higher production costs. While the absence of further central bank action since last May is understandable given the considerable uncertainty about the world economic outlook, a gradual reversal of the monetary easing would seem to be needed to contain inflationary pressures during the expansion projected over the next two years.

***... accompanied by measures to improve the monetary policy framework, would help achieve the medium-term inflation target***

Locking in the benefits of the moderate inflation rate that has been maintained since the crisis would be facilitated by measures to improve the inflation-targeting framework that was established in 1998. One weakness in the current framework is the focus on annual targets that are set in consultation with the government as mandated by law. Given the long time lags in the impact of monetary policy, the emphasis on the annual target is inappropriate. Furthermore,

experience in other OECD countries demonstrates that the chance of success of inflation targeting is increased by the independence of the central bank, which has been enhanced in Korea since 1998. However, some aspects of the legal framework, including those covering the composition of the Monetary Policy Committee, need to be improved so as to ensure the neutrality of Committee members. Moreover, if the government's authority to overturn the Committee's decisions is ever to be used, it should be accompanied by full transparency. Measures to ensure the instrument independence and accountability of the Bank of Korea in taking monetary policy decisions would promote the success of the inflation-targeting framework.

***With significant costs from financial-sector restructuring...***

While monetary policy is focused on the inflation objective, fiscal policy aims at a balanced budget, excluding the surplus in the social security funds. By this measure, the budget recorded a surplus estimated at 0.2 per cent of GDP in 2002. The emphasis on consolidation is appropriate, given the costs incurred for financial-sector restructuring. Government-guaranteed bonds amounting to nearly 18 per cent of GDP were issued to finance this programme. About half of these bonds, most of which reach maturity between 2003 and 2006, will be re-financed by public bonds. In 2003, such borrowing is expected to amount to 2¼ per cent of GDP.

***... fiscal policy is set on a path of consolidation...***

A slight fiscal tightening is planned for 2003. Although the budget (excluding social security) is expected to record a deficit of around 2 per cent of GDP, this is due to the financial-sector restructuring programme noted above. Excluding this borrowing, the authorities would achieve their balanced-budget target in 2003. The planned fiscal stance appears appropriate in the context of a continued expansion. However, the automatic fiscal stabilisers, though small, should be allowed to operate, and there is scope for limited discretionary fiscal measures if the economic expansion were to stall.

**... which is appropriate, given the longer-term pressures for increased spending, notably as a result of ageing...**

With the costs of financial-sector restructuring remaining large during the period 2004 to 2006, the budget (excluding social security) is likely to remain in deficit. Korea should aim at balancing the budget over the cycle in the period 2007 and beyond. Maintaining sound public finances is essential to cope with longer-term spending pressures, including the costs of economic co-operation with North Korea and the fiscal impact of population ageing. Excluding the social security funds from the fiscal target is justified by the need to ensure that the pension fund surplus provides resources to meet the future consumption needs of the elderly, which will increase sharply. Indeed, the proportion of the population over the age of 65 is projected to double from 7 per cent at present to 14 per cent by 2020.

**... making reform of the pension system a top priority**

Weaknesses in the pension system make it essential to enact fundamental reforms, particularly given the rapid pace of population ageing compared with other OECD countries. The government should not wait to address the deficiencies in the current system. Instead, it is crucial to address a number of problems before the National Pension Scheme begins paying regular benefits in 2008. *First*, to provide the 60 per cent replacement rate targeted under the current system, the contribution rate would have to double to nearly 20 per cent, implying adverse consequences for the labour market. Lowering the replacement rate would limit the necessary rise in the contribution rate. *Second*, around a quarter of those eligible for the public pension scheme do not contribute, while many, notably the self-employed, pay too little because they significantly under-report their income. *Third*, a better private-sector system for retirement saving should be introduced. This could be accomplished by reforming the existing separation allowance into a corporate pension system. Together with voluntary arrangements for long-term saving, these reforms would help achieve sustainable retirement incomes based on a three-tier system, as advocated in the 2001 OECD *Economic Survey of Korea*. Given the gaps in coverage and the relatively recent introduction of the system, it is important to strengthen public assistance for the elderly to alleviate poverty.

***Faced with long-term spending pressures, the tax system should be improved...***

Even with the implementation of reforms, outlays on public pensions and healthcare are likely to rise with an ageing population and the development of a social safety net, thus necessitating increased revenues for the public sector. Boosting revenues under the current tax system would magnify the impact of the distortions embedded in the system, which at present are mitigated by the low level of taxes. To minimise such negative effects, it is important to reform the tax system, in particular by reducing the generous allowances and tax credits, which mean that half of all individual income earners do not pay income tax. The tax bases of the corporate and value-added taxes should also be broadened by reducing preferences and exemptions. Finally, capital income should be taxed more evenly across sources to enhance equity.

***... while reforms to enhance the efficiency of the public expenditure system are essential***

Improvements in the tax system should be accompanied by reforms to make the public expenditure system more efficient and effective. At 22½ per cent of GDP, Korea has the second-lowest level of public spending among OECD countries. While the immaturity of the social welfare system and the low level of public services are primarily responsible, Korea's tradition of prudent fiscal management has also contributed to containing spending. Although the public expenditure system has been effective until now in maintaining aggregate fiscal discipline, it is not geared toward achieving an efficient allocation of resources and maximising value for money. Furthermore, maintaining fiscal discipline will become increasingly difficult, given the longer-term spending pressures that will significantly boost the size and share of non-discretionary spending in the government budget. Since 1998, the authorities have introduced a range of reform measures to address these issues, resulting in significant progress. Based on this experience, the new government should launch a comprehensive reform strategy along the lines presented below to improve the effectiveness, efficiency and transparency of the public expenditure management system.

***It is necessary to adopt a medium-term expenditure framework and a comprehensive reform of the budget structure...***

Ensuring fiscal sustainability in the face of steadily increasing spending pressures requires the government to set its budgetary priorities in a medium-term context. Annual budgets should be developed in a medium-term expenditure framework that would provide a strong budgetary anchor and discipline on policymakers, while enhancing fiscal transparency and the ability to reallocate spending towards emerging priorities. Fiscal sustainability would also be enhanced by reforms to make the budgetary system more comprehensive. The highly compartmentalised and fragmented budget structure, with its extensive reliance on earmarked revenues, hampers aggregate control and transparency, as well as the capacity to allocate resources in line with strategic priorities. Consolidating special accounts and public funds so as to reduce drastically their number and their share of expenditure is crucial. The comprehensiveness of the budget also needs to be improved by bringing extra-budgetary funds into the budget and conducting fiscal policy on the basis of general government data, which would also enhance fiscal transparency.

***... to strengthen accountability for results,...***

Providing adequate incentives and control mechanisms in central and local government administration, as well as in public-sector agencies, is necessary to increase the effectiveness of public spending. Korea can draw on OECD country experience in moving from its traditional system of input-focused budgeting and management to one centred on outcomes. The current trend towards allowing line ministries and agencies more flexibility and autonomy should also be pursued. However, the current budget classification system and the emphasis on detailed line item budgeting and control needs to be reformed so as to encourage a focus on the performance of programmes. The shift toward more flexible and results-focused budgeting and management should go hand in hand with measures to strengthen transparency and accountability for performance. Expanding the capacity of the Board of Audit and Inspection to conduct value-for-money audits at both the central and local government level is essential in this regard. Moreover, the use of feedback from audits and evaluations should also be strengthened.

***... to enhance  
the use of market  
mechanisms,...***

Enhancing the role of market mechanisms would also help boost the efficiency of publicly funded services. Korea has been moving in this direction through, for example, private-sector participation in public investment projects and the contracting out of non-core government functions. Policymakers should explore the wider use of market-based instruments such as internal contracts, vouchers, and user charges, while being careful not to compromise other goals, including equity objectives.

***... and to improve  
intergovernmental  
fiscal relations...***

Korea also faces the important challenge of making decentralisation more effective. The devolution of power should provide more autonomy and flexibility to local governments while, at the same time, increasing accountability and strengthening incentives for efficiency in public spending. The current system of strict controls imposed by the central government on borrowing by local governments should help ensure responsibility. To make decentralisation more effective, the rules for the central government's equalisation transfers to the local level should be improved so as to make them the key instrument for ensuring horizontal equity between jurisdictions. The conditional portion of these transfers should be minimised and the allocation criteria should be made more clear and objective to enhance transparency and accountability. The central government should also follow through on its plan to integrate small, specific grants into more general, multi-purpose grants, thus increasing local autonomy. Such grants should be designed so as not to discourage local governments from addressing important local priorities.

***... in particular  
in the area  
of education***

Education is a case in point. Although the performance of Korean secondary students on international standardised tests is outstanding, there is widespread dissatisfaction with the public education system. Despite some improvement, the current approach discourages local governments from investing in schools, contributing to inadequate facilities and the largest class sizes in the OECD area. While such problems can be dealt with through increased investment, more fundamental reforms are needed to improve the quality of teaching and expand the scope of choices in schools



and curriculum. These weaknesses have forced families to rely on private educational institutes to supplement the education provided by the schools, putting a burden on household budgets and undermining equity objectives. Granting schools more autonomy and expanding the pilot programme that allows the creation of independent schools would foster more competition and diversity at the secondary level, while vouchers could be used to address equity concerns. The university system – the weakest area of the education system – could also be upgraded by permitting more autonomy and enhancing accountability for private institutions and increasing public expenditure, which is exceptionally low.

***Fundamental reforms in the R&D system and the venture business policy framework would encourage the growth of new industries***

Despite the government's recent efforts to improve the conditions for R&D, the deficiencies at the university level, which has a third of R&D manpower, have negative implications for the development of science and technology. While Korea spends nearly 3 per cent of GDP on R&D programmes, their effectiveness is limited by a lack of interaction between the universities, government research institutes and the private sector. Achieving more mobility of researchers between sectors and strengthening international links, while exercising caution in targeting specific areas for research, would help promote the development of a knowledge-based economy. Small and medium-sized enterprises (SMEs), led by venture businesses, have been playing a leading role in this regard. To ensure the dynamism of this sector, it is important to further reduce measures protecting SMEs and to rationalise the large number of programmes providing support. The government should scale back its involvement in the venture business sector, where it supplies a significant share of the funds of venture capital firms, as well as equity guarantees. The rehabilitation of the financial sector has enhanced the availability of funding for new enterprises, thus reducing the rationale for public financing.

***Maintaining a healthy financial sector and privatising the banking sector is a key to completing corporate restructuring...***

The rapid restructuring of the financial sector was achieved through outlays totaling 157 trillion won (27 per cent of GDP), an upgrading of prudential supervision and the closure of non-viable institutions. The banking sector is again profitable and non-performing loans have fallen to a record low. It is important that the Financial Supervisory Commission require banks to maintain their healthy status in the face of future challenges, such as rising credit-card delinquency and asset price fluctuations. Following the re-capitalisation of financial institutions using public money, the government owns a substantial share of the banking sector. Despite government efforts to ensure independent and responsible management of the banks it owns, privatising them is essential to remove any doubts about government intervention in the management of the banks, which would pose more obstacles to the restructuring of the corporate sector, where there are still a large number of weak firms. More than a quarter of enterprises are failing to earn enough profit to cover the interest on their debt, creating a risk of a rise in non-performing loans. While bankruptcy procedures have been substantially improved since the crisis, further streamlining the process would help to make it a more effective tool for restructuring. It is also important that there be effective monitoring by shareholders and creditors, which would be facilitated by introducing class action suits to protect shareholders from fraudulent practices. The new corporate governance framework appears to be taking root, as the market has rewarded companies that have good practices in this area. Ensuring that corporate governance is effective in practice will help strengthen the restructuring process and enhance the prospects for growth.

***... along with measures to enhance competition...***

Promoting competition is also important in helping to maintain Korea's high growth potential. One important aspect is maintaining the open environment for foreign direct investment that was established in the wake of the crisis. Such inflows have fallen from the \$15 billion level in 1999 and 2000, to \$11 billion in 2001 and \$9 billion in 2002, in the context of a sharp decline in global direct investment flows. The environment for direct investment will depend in part on the transparency of regulation, making continuing efforts of the Regulatory Reform Committee

important in this regard. In addition to abolishing unnecessary regulations, the Committee should guard against the tendency of officials to impose regulations that are not backed by legislation. Further reducing barriers to trade, particularly in the service sector, would also enhance competition and promote Korea's ambition of becoming a regional hub. The agricultural sector, which receives large-scale assistance equivalent to 5 per cent of GDP, is another priority for trade liberalisation. The shift from market price supports to direct payments, which are less distortionary, should continue. At the same time, accelerating the upward trend in the average farm size appears important to boost productivity in this sector.

***... particularly  
in network  
industries***

The Korea Fair Trade Commission also has a key role to play in strengthening competition, in part through the "Clean Market Project", which focuses on sectors characterised by anti-competitive practices in products that are important to consumers. Furthermore, the on-going development of the corporate governance framework and the financial sector should allow an easing of chaebol-specific regulations. The government's policies to enhance competition in the electricity and telecommunication industries are particularly important. For electricity, the ten-year restructuring plan is proceeding with the privatisation of the generating companies that started in 2002, though at a slower pace than planned. Accelerating the timetable to allow households to benefit from competition earlier than at the end of the decade would be beneficial. Measures to enhance competition in the telecommunications sector include privatising Korea Telecom, unbundling the local loop and introducing a new framework for setting interconnection charges. However, it is important to ease licensing procedures for new entrants. Moreover, there is a need for independent and pro-active regulatory bodies for both telecommunications and electricity to ensure a smooth transition to competition.

***Flexibility in the  
labour and land  
markets is also  
important***

Flexible factor markets are an important aspect of maintaining high growth in Korea, where structural change has been very rapid. While the labour market is characterised by significant wage flexibility, the high costs of dismissing

regular workers may be contributing to a growing proportion of non-regular employees and the emergence of a dualistic labour market. This creates both efficiency and equity concerns. Extending the social safety net for non-regular workers, while enhancing employment flexibility for regular workers, may limit such problems. As for the land market, ensuring an efficient use of land is essential in Korea, given the exceptionally high population density and the concentration of nearly half of the population in the capital region. The sharp increases recently in the housing market suggest that the effective tax rate on holding property should be gradually raised from its currently low level and reformed to make it less regressive.

***Addressing the issues of air pollution and waste management is important to enhance welfare***

Addressing environmental issues is essential to ensure that growth is sustainable over the long term. Although, such issues became part of the national policy agenda in the 1990s, there have been challenges in balancing the differing interests of the government at the local and national level. Despite progress made in some areas, air pollution remains a serious problem that requires further policy efforts to reduce emissions from diesel vehicles, which account for a large part of urban pollution. A three-pronged strategy is needed to reduce the tax advantage for diesel vehicles, to raise emission standards and fuel quality for such vehicles and finally to move toward road pricing in order to reduce congestion – itself a source of increased pollution. As for waste management, the volume-based charging system introduced in 1995 has been successful in reducing municipal waste, although the cost of garbage bags should be gradually increased. The introduction of a system of extended producer responsibility for recyclable products needs to be carefully monitored in order to ensure that recycling does not generate costs in excess of waste disposal methods such as incineration, including the environmental externalities of such disposal methods.

***In conclusion***

Korea's economic recovery in 2002 in the face of a sluggish world economy was based on progress in implementing a broad restructuring programme, accompanied by appropriate macroeconomic policies. However, this should not lead to complacency about resolving remaining structural

weaknesses and addressing emerging imbalances. In particular, the acceleration in wages and the sharp increase in real estate prices risk boosting inflationary pressure, suggesting that a gradual reversal of monetary easing would seem to be needed so as to keep inflation in its medium-term target range during the expansion projected over the next two years. Moreover, shifting the policy focus to the medium term and ensuring central bank independence and accountability in setting monetary policy would enhance the chances for a successful inflation-targeting policy. Meanwhile, fiscal consolidation is necessary given the significant cost of financial-sector restructuring, as well as longer-term spending pressures, in part, related to ageing. Achieving a structural fiscal balance by 2007, excluding the social security surplus, would be an appropriate objective in this respect. Meeting this goal will require both tax-base broadening and more efficient public expenditure. The public expenditure system should be reformed to enhance efficiency and transparency. Consolidation of the highly compartmentalised budget structure should be a priority, while aggregate spending control should be ensured by anchoring expenditures in a medium-term framework. Reform of the pension system is essential to contain the fiscal impact of ageing. Although this is a long-term issue, it should be near the top of the policy agenda given the difficulty of implementing fundamental changes once the current scheme begins paying regular pensions in 2008. Policies that maintain a low level of structural unemployment and encourage the upward trend in the labour force participation rate will also help cope with the fiscal effects of ageing. More generally, the welfare of all Koreans will be enhanced by policies to maintain Korea's high growth potential. This requires improvements in the education and R&D systems and enhancing competition by pursuing the on-going initiatives to remove impediments to direct investment, lower trade barriers, reform regulations and strengthen competition policy. Corporate and financial-sector restructuring efforts need to continue. One priority should be the privatisation of the banks that received public money following the crisis, which is essential to accelerate corporate restructuring. Corporate restructuring will also be aided by the new corporate governance framework and improved bankruptcy procedures. At

the same time, sustaining high growth will require greater focus on environmental issues, notably the need to reduce air pollution and improve waste management. Moving ahead with the structural reform programme, while implementing policies to ensure macroeconomic stability, will help Korea to maintain high growth rates and continue its convergence to the income levels in the most advanced countries.

## Notes

1. According to the Korea Federation of Banks, the problem is concentrated among credit cards, where the overdue ratio was 7.4 per cent. In contrast, the ratio for bank loans was only 1 per cent.
2. According to one estimate, a 10 per cent rise in share prices results in a 0.6 per cent increase in private consumption within three to six months (Kim and Moon, 2001).
3. A recent study (Shim, 2001) concludes that the close correlation between share prices and consumption since the crisis reflects the improved ability of share prices to signal the future income stream of consumers.
4. The rates on cars, air conditioners and jewellery were cut, while home electronic products were exempted. The rationale for this tax is to promote energy conservation and curb conspicuous consumption.
5. The Ministry of Construction and Transportation has developed the “parcelling” system to allocate newly constructed houses. When a housing project is announced, those who do not own homes are eligible to apply if they meet other conditions, such as having sufficient savings. The winners are decided by lottery. Following the crisis, this system was changed to boost the housing market. *First*, parcelling prices, which had been subject to price ceilings, were liberalised in 1999. *Second*, the parcelling right, which is priced below the market level of the finished dwelling, could be sold, thus allowing speculators to buy and re-sell those rights. *Third*, in 2000, those who have already purchased houses under this system were allowed to apply again. *Fourth*, the requirement to open special accounts at banks in order to be eligible was relaxed.
6. In contrast, non-residential construction has been subdued, falling in the first half of 2002, after a modest 3 per cent increase in 2001.
7. Investment in machinery and equipment accounts for about two-thirds of business investment, which is defined as total investment minus residential construction and government investment.
8. The deadline for implementing the new system depends on the size of firms. For example, firms with more than 1 000 employees would have to implement the new system by July 2003, but those with more than 20 workers would not have to comply until July 2007. Companies with less than 20 workers would have until the end of 2010.
9. In the *chonsei* system, the renter gives the owner a lump sum, typically equivalent to 60 to 70 per cent of the cost of the dwelling. The interest earned on this lump sum provides income to the owner for two years, at which point the lump sum is returned to the renter. The “rent” thus generated depends on the size of the lump sum and interest rates.

10. The price index has a relatively small weight for apartments, which have been at the heart of the recent price hikes. Indeed, the *chonsei* rent category in the price index gives a 28 per cent weight to apartments compared to 57 per cent in the Kookmin Bank index.
11. If the overall contribution of housing costs – including monthly rent and other charges – are included, it contributed 0.8 percentage point of inflation, or almost a third of the total.
12. The risk weight attached to loans to households has been increased, thus forcing banks to hold more reserves. For example, the loss reserves required for “normal” home mortgage loans is being increased from 0.75 per cent to 1 per cent. In addition, seven banks were singled out for over-evaluating the collateral of households seeking loans.
13. The calculation of export market growth is based on a weighted average of the growth of import volumes in Korea's markets. The weights are determined by the country's share of Korea's exports. Such a pick-up was projected in the OECD *Economic Outlook* (No. 72) released in December 2002.
14. OECD projections are made on the basis of unchanged exchange rates, except in the case of some high inflation countries.
15. Although the central bank has shifted to an interest-rate based policy, it still monitors the monetary aggregates, particularly M3, which is thought to be linked to inflation expectations.
16. The benefits of moving to a medium-term target in New Zealand is discussed in Drew, 2001.
17. Indeed, a 1992 World Bank study placed Korea second from the bottom of 72 countries ranked in terms of central-bank independence (Cukierman, Webb and Neyapti, 1992).
18. “Report on the Observance of Standards and Codes (ROSC): Republic of Korea, Fiscal Transparency” (Washington, DC: International Monetary Fund, 23 January 2001).
19. In 2001, lending to SMEs rose by 16 trillion (3 per cent of GDP), while lending to large firms declined. This trend continued in 2002, as SMEs received 37 trillion won of the 99 trillion won rise in lending, while large companies' share did not change. As of December 2002, SMEs had received 192 trillion won in loans from financial institutions, more than four-fifths of their total lending to businesses.
20. Under this system, the exchange rate was determined within a certain range of the weighted average of the foreign exchange rates of the previous day.
21. At the end of March 2002, Moody's upgraded Korea from Baa2 to A3. This was followed by Fitch and S&P, which upgraded Korea from BBB+ to A and A- grade in June and July, respectively.
22. There is no evidence of policy measures to maintain the parity of the won and the yen (Moon, 2002).
23. Under the GFS system used in Korea, the receipts generated from privatisation carried out for policy purposes are included in the item “net lending”, thus boosting the government surplus. Privatisation revenues have totalled 24.1 trillion won since 1998, of which 14.5 trillion won has flowed into the budget.
24. Moreover, privatisation receipts are not considered to be part of government revenue under the 1993 System of National Accounts.



25. The five social security funds are the National Pension Fund, Korea Teachers' Pension Fund, Industrial Workers' Accident Compensation Fund, Employment Insurance Fund and Merit Reward Fund. The National Pension Fund accounts for 90 per cent of the total.
26. It can be argued that the increased contributions to the NPS by the self-employed are to some extent voluntary. In 2000, 11.8 million persons – a little over half of the number of employed persons – contributed to the NPS. About a quarter of the employed – family workers, those covered by the public occupational schemes, those over 60 or under 18 years of age – are exempted from the NPS. This leaves another quarter of the employed – primarily the self-employed – that did not contribute. The decision of a growing number of self-employed to contribute reflects a decision to save for their retirement by qualifying for an NPS pension, which is partially determined by the individual's contributions.
27. Total outlays, including the supplementary budgets, were expected to be 147.2 trillion won, a 14 per cent rise from the 2000 outcome, which also had significant undershooting of spending. Relative to the 2000 initial budget, the initial budget for 2001 contained a 5.4 per cent increase in spending. The government introduced two supplementary budgets in 2001, including one after the 11 September attack in the United States that boosted spending by 1.6 trillion won.
28. The objective is to boost the price of diesel from 54 per cent of that of gasoline in 2001 to 75 per cent by 2006 and to raise the price of LPG from 34 to 60 per cent over the same period.
29. Since the social security surplus is projected at 3 per cent in both 2002 and 2003, the extent of consolidation is the same regardless of whether it is included.
30. Compared to the 2002 initial budget, the increase in spending in 2003 is only 1.4 per cent excluding the cost of financial sector restructuring.
31. If outlays using credit cards exceed 10 per cent of income, 20 per cent of that amount can be deducted from income tax. In addition, there is a lottery drawn from credit card receipts in order to promote their use.
32. The Call Centre handled an average of 4 417 cases per day in 2001.
33. Reductions of capital gains for business conversion, the relocation of a factory and the transfer of real estate during the process of restructuring were abolished. In addition, the reduction of the corporate income tax for business conversion was ended.
34. Previously, all firms with sales of less than 48 million won were allowed to pay the VAT based on sales. Under the new system, firms in certain industries, such as manufacturing, mining and real estate, are treated as regular taxpayers regardless of the amount of their sales.
35. For a much fuller description of retirement income policies and challenges, see the 2001 OECD *Economic Survey of Korea*.
36. Another 12 per cent of the elderly qualified for old-age allowance payments of about 3 per cent of the average wage.
37. This does not include the elderly that receive the military public pension or the old-age allowance.
38. In 1996, just over 25 per cent of the elderly had an income lower than half of median household income, compared to 10 per cent for the population as a whole (see Kwon, 1999).

39. While the replacement rate for a worker with average income is 60 per cent, this rises to 90 per cent for a worker earning half of the average income.
40. Roughly 5 million of the 21.1 million employed persons in 2000 were exempted from the NPS. This includes those covered by the public occupational pension schemes (1.1 million), family workers (1.9 million), those over the age of 60 (1.7 million) and those under 18 (0.2 million).
41. Those who have had exemptions are able to make contributions at a later date to cover those periods.
42. Public pension expenditure is projected to rise by 5 percentage points of GDP and the occupational pension schemes by 3 percentage points over the next three decades. Age-related healthcare spending is also likely to increase pressure on state budgets, while the potential costs of reunification are large but uncertain.
43. According to official estimates, the current scheme would require contributions of 19 per cent to achieve balance with a 60 per cent replacement rate.
44. Over the period 1998 to 2001, the rate of return on invested assets has been below the average market return, mainly as a result of considerable lending to the government. The average rate of return on investment over the period 1988 to 2001 was estimated at 9.87 per cent on average. This was achieved by returns of 9.32 per cent for public-sector deposits and 10.78 per cent in the financial sector. The obligatory deposit to the government was abolished in 2001. In 2002, 26 per cent of lending from the National Pension Fund was to the government and this is scheduled to be repaid by 2005.
45. Complete external funding is practised by only 8 per cent of companies, while 19 per cent fund only internally (Choi, 1999). Following the crisis, around a quarter of eligible workers reported they had not received this payment (Phang, 2001). As a result, the government introduced a Wage Guarantee Fund to partially compensate workers whose employers had defaulted.
46. The government reformed the pension taxation system in 2000 (see the 2001 OECD *Economic Survey of Korea*) to put it on a so-called EET basis. While the reforms moved from the taxation of contributions to the taxation of benefits, significant tax deductions are allowed.
47. Low inflation has been found to have the benefit of reducing real interest rates and encouraging investment, while damping the volatility of output growth. Moreover, low inflation levels tend to reduce the volatility of inflation, which imposes efficiency costs.
48. For an overview of public expenditure management issues in OECD countries, see Atkinson and Van den Noord (2001).
49. The establishment of the social safety net reflected a widening of basic priorities to include social welfare as well as economic growth. This led to the establishment of a national pension system in 1988, national health insurance in 1992 and unemployment insurance in 1995. The current low level of publicly funded social expenditures reflects the immaturity of the pension system, which has few beneficiaries at present.
50. In most OECD countries, public social expenditure is lower on a *net* (after tax) than on a *gross* (before tax) basis since governments tend to claw back more money through taxation of public transfer income than the value of the tax advantages awarded for social purposes. In contrast, net public social expenditure is estimated to be higher in Korea and the United States. In 1997, net public social expenditure in Korea was 4.6 per cent of GDP, whereas gross public social expenditure was 4.4 per cent of GDP (Adema, 2001).

51. When private spending on extra-curricular education – accounting for 5 per cent of total household income – is added, spending on education in Korea might be the highest in the world.
52. To assist the unemployed, the authorities expanded the unemployment insurance programme, created temporary public works jobs, provided more vocational training opportunities and established a “Temporary Livelihood Protection Programme”.
53. In most OECD countries, the establishment and expansion of programmes and provision of services in the social policy domain and increasing debt interest payments led to a persistent rise in general government expenditure until the 1980s. For a review of trends in public expenditure in OECD countries, see Tanzi and Schuknecht (2000) and Atkinson and Van den Noord (2001).
54. Quasi-taxes refer to a wide range of fees, charges and contributions that are not imposed by the tax laws. The amount of quasi-taxes is estimated at around 1 per cent of GDP (see Chapter II).
55. Revisions to the *Fund Management Act* in December 2001 require that the public funds be subject to parliamentary approval beginning in the 2003 budget. This reform also increased the coverage of public funds by transforming a number of “extra-budgetary” funds into public funds.
56. Until the 2002 budget, the total amount of government spending on a consolidated basis was unknown when the budget was passed.
57. Approval is only required from the Ministry of Planning and Budget.
58. Cash-based accounting provides little recognition of financial commitments because liabilities and receipts are accounted only in the year when they are realised.
59. Two major features of the new GFS standards set by the IMF are accrual-based accounting and harmonisation with the 1993 SNA system. The adoption of the new GFS standards will thus move the GFS-based government accounts closer to the SNA-based accounts (see Annex I).
60. During the 1970s and 1980s, the Economic Planning Board (EPB) assumed the central role in budget drafting and execution, as well as in preparing and implementing economic development plans. In the early 1990s, EPB and the Ministry of Finance were merged into the Ministry of Finance and Economy (MOFE), which exercised the same degree of centralising power in budgeting as EPB.
61. This explains why the initial budget announced each year by MPB until 2002 was limited to the general account and one special account, the Fiscal Financing Special Account. For the 2003 budget, the MPB used only the general account.
62. Between 1999 and 2002, 19 funds were abolished and 14 funds were merged into six funds. But during the same period, ten new funds were created.
63. For example, the 2003 budget guideline asked ministries to restrict their budget requests to one-digit growth from the 2002 budget. But the total budget requests amounted to an increase of 26 per cent.
64. This refers to the number of detailed appropriation accounts (*Se-Hang*) specified in the Budget and Accounts Act. In practice, however, the MPB negotiates with line ministries concerning over 6 000 appropriation accounts (*Se-Se-Hang*).
65. The Credit Guarantee Fund was also used to provide guarantees for low-income households setting up businesses after the financial crisis in 1997.

66. In addition, the bill would require the budget to include information on the costs of quasi-fiscal activities with a view to improving transparency. It would further provide details of contingent liabilities, including expected costs and likely beneficiaries.
67. The scope for the carry-over of unused operating costs was set at 5 per cent in 1999, in an effort to limit spending binges at the end of the year.
68. In Korea, the term “performance-oriented budgeting” refers to the practice of asking ministries or agencies participating in pilot projects to prepare and submit “performance plans” that specify strategies, objectives and indicators. The MPB, which is in charge of this project, may use this as an input for the following year’s budget for these ministries or agencies.
69. In practice, however, the flexibility and autonomy given to these agencies has been relatively limited, compared to the case in other countries that have adopted this system, such as the United Kingdom.
70. The number of these accounts increased from 18 in 1997 to 49 in 2001, boosting the amount of their outlays from 4.2 trillion won to 9.3 trillion won. In 2002, the size of these accounts fell to 4.3 trillion won.
71. One major improvement in strengthening *ex ante* evaluation has been the introduction of pre-feasibility studies for large construction projects (see Box 4).
72. The government reports that between 1998 and 2002, 76 areas of the government sector have been contracted out, in addition to 209 activities of public enterprises and government-funded entities.
73. One aspect has been the privatisation of state-owned enterprises (see Chapter II).
74. In addition, it permits all types of participation including Build-Operate-Transfer, Build-Transfer-Operate and Build-Operate-Own and requires feasibility studies on projects open to private-sector firms. The Private Infrastructure Investment Centre of Korea (PICKO) was established to support the new initiative.
75. The failure of the Millennium Dome in the United Kingdom is a good example in this regard (OECD, 2001b). In addition, local governments in Japan have created over 4 000 third-sector companies, many of which suffer from large deficits.
76. The funding sources for private schools include tuition fees, government subsidies to cover the shortage of remuneration and operating costs, and resources from school foundations. In practice, private schools rely heavily on government subsidies, while transfers from school foundations remain very limited due to their generally weak financial capacity.
77. The wider public sector includes all bodies that are part of local and national government and have been given some autonomy and/or independence from reporting ministries and/or are subject completely or partially to management and financial rules from vertically-integrated ministries. The governance problems of the wider public sector have been identified as systematic in OECD countries (OECD, 2002a).
78. This figure excludes education, which remains separate from the general budget of local governments in Korea. If education is included, this figure is increased to around 50 per cent.
79. Local borrowing is restricted to infrastructure projects, disaster relief and certain welfare enhancing projects. There are limits to the amount of debt and the shortfall allowed in tax revenues from the previous year. Local government debt was 17.8 trillion won (3.3 per cent of GDP) in 2001.

80. There is, however, a general distribution formula specified in the law.
81. The large number of central ministries – 19 in 1999 – involved in the grant system, together with the lack of inter-ministerial co-ordination, also hinders the efficiency of the system.
82. The average matching rate (paid by the central government) is around 60 per cent. The share of conditional grants is the highest for counties (Gun), where conditional grants comprise close to 30 per cent of total revenue. This puts a heavy burden on these poorer local governments.
83. Between 1991 and 1998, the central government devolved 2 008 out of 12 978 government functions to local levels. In 1998, the newly elected government set up the Presidential Commission on Promotion of Decentralisation, which devolved another 493 functions between 1999 and 2001.
84. The overlap in spending and financing responsibilities has also been identified as a problem in other OECD countries, for example, Switzerland, Italy, Germany and Greece.
85. The *Local Autonomy Act* assigns 87 functions to both upper-level and lower-level local governments. These overlapping functions represent 28 per cent of the upper-level local government functions and 25 per cent of lower-level local government functions (Hong, 1998).
86. For example, the regulation on lower-level governments' investment in education – requiring *ex ante* approval by the upper-level government – has been relaxed. The central government has also allowed lower-level local governments to assess flexible tax rates for the education tax, and will not include those funds in the definition of local income used in the calculation of local government transfers.
87. Reforms in the fourth area – the public sector – were analysed in the previous chapter.
88. Outside directors must account for a quarter of the board in listed companies and half of the board in listed companies with more than 2 trillion won in assets.
89. The study (Black, Jang and Kim, 2002) created an overall index of corporate governance practices in 540 companies based on: i) shareholder rights; ii) boards of directors; iii) outside directors; and iv) disclosure and transparency. The study found that an increase of 10 points in the index, which is scaled from 0 to 100, boosted a company's book value of common equity by 7 per cent.
90. Firms are required "to exhaust all means to avoid" dismissals and to notify workers' representatives at least sixty days before any workers are made redundant. During that period, management must have discussions with workers aimed at avoiding layoffs. Moreover, firms are required to establish fair and reasonable procedures for choosing the employees to be dismissed. These provisions resemble those in countries with high employment protection. Layoffs must be reported to the government if they pass certain thresholds.
91. In a survey in February 2002, 21.5 per cent of firms did not have plans to hire workers in 2002. More than half of these enterprises cited problems of excess manpower, primarily due to difficulties in reducing their existing workforce. See *Korea Business Review*, May 2002, p. 38.
92. There has been criticism that the new law has actually made it more, not less, difficult to reduce employment (Dae Il Kim, 2002). Sung-Hee Jwa, president of the Korea Economic Research Institute, which is associated with the Federation of Korean Industries, wrote, "The actual implementation of layoffs is still extremely difficult" (Jwa, 2001).

93. This figure includes those on fixed-term contracts, those without a fixed-term contract where employment is not expected to continue for involuntary reasons, temporary agency workers and on-call workers.
94. In a survey on the reasons for hiring non-regular workers (*Korea Business Review*, May 2002, p. 38), 32 per cent of employers cited the need to fill vacant positions for increased work volume. This response implies difficulty in laying off regular workers during periods of decreased work volume. Another 23 per cent of employers cited the increased number of simple and repetitive jobs as a result of computerisation and automation. Another 17 per cent of employers cited excessive welfare expenses for regular employees and 13 per cent noted the cost of laying off regular workers.
95. According to the Office of the Investment Ombudsman, nearly a quarter of the complaints from foreign businesses during the first half of 2002 concerned labour problems.
96. The government has sometimes intervened in labour disputes involving large companies, as these can have a severe impact on small firms that supply larger ones (Dae Il Kim, 2002).
97. About four-fifths was financed by the Employment Insurance System, which receives contributions from employers and employees, with the remainder from the general account of the budget.
98. According to the president of the Korea Labour Institute: "... diverse training programs that were loosely regulated and lacked appropriate monitoring and inspection led to moral hazard of some training institutions and trainees. Some unqualified training institutions took advantage of the training programs and provided time-killing courses in order to receive reimbursement from the government, thus limiting the(ir) effectiveness... Little consideration was given either to changing demands in the labour market or to the needs of potential participants. Training institutions tended to routinely provide the same training programs as were conducted in the past. As a result, some programs did not significantly aid in the reemployment of the trainees" (Lee *et al.*, 2001).
99. Almost a third of employees – daily workers, employees over 65, part-time workers and civil servants and teachers – are legally exempted from unemployment insurance, which was introduced in 1995.
100. For example, Federation of Korean Industries, "Business Support for Japan-Korea FTA", 8 January 2002.
101. One of Korea's priorities in the Doha Round is to clarify and strengthen rules related to anti-dumping, which account for 106 of the 128 measures imposed on Korean exports as of the end of 2002. In contrast, Korea has made relatively limited use of this instrument, with 11 anti-dumping duties in effect at present.
102. The twelve sectors are 1) business, 2) communications, 3) construction and related engineering, 4) distribution, 5) educational, 6) environmental, 7) financial, 8) health-related and social, 9) tourism and travel-related, 10) recreation, culture and sports, 11) transport, and 12) other.
103. In the terminology of WTO, Korea is largely open to Mode 3 – commercial presence – but less open to Mode 1 (cross-border supply).
104. FDI accounted for less than 10 per cent of capital inflows over the period 1962 to 1992. During the five years prior to the crisis, FDI inflows accounted for less than 1 per cent of total fixed capital formation.
105. Foreign investors are granted a complete exemption from the corporate income tax during the first seven years after achieving a profit and a 50 per cent reduction for the

- following three years. Moreover, they are exempted from the acquisition tax, property tax and aggregate land tax during the first five years after achieving profitability and a 50 per cent reduction for the following three years.
106. During 2001, 428 of the 430 complaints from foreign firms in Korea to the Ombudsman were resolved.
  107. According to a poll by Kookmin Bank, 23.6 per cent of those in their forties cited their children's education as the most important criteria, followed by transportation and the size and kind of house. For those in their thirties – a declining share of the population – the top criteria were transportation, size and kind of house and their children's education, in that order.
  108. This approach was adopted in the late 1980s with the construction of five new towns – Bundang, Ilsan, Jungdong, Pyungchon and Sanbon – with a total population of 1.2 million.
  109. Market prices are used for those with more than three houses or for “luxurious” homes. The latter criterion was strengthened by lowering the threshold for homes to qualify as luxurious.
  110. Standard building costs were set at 165 000 won per square meter in 2002. An adjustment of between 2 and 10 per cent is added to the tax base for apartments valued at more than 300 million won.
  111. These estimates were by Roh (1997) and Yoon *et. al* (1998). This is consistent with the government's September 2002 package in which examples of the effective tax rate in different regions of Seoul ranged from 0.052 to 0.2 per cent.
  112. In the example used in the September 2002 package, the rate was 0.052 per cent for an apartment in Seoul and 0.195 per cent in Yongin.
  113. Free education at middle school level, which had previously been available only in rural and remote areas, will be expanded nation-wide gradually between 2002 and 2004.
  114. The lottery was introduced for lower secondary schools in 1969 and for upper secondary schools in 1974.
  115. While “private schools” do exist, in practice they are subject to the same rules and regulations as public schools and also receive some public financing (Table 25).
  116. This figure, which is from the Urban Household Survey, is probably an underestimate, since payments to individual tutors are not likely to be fully incorporated.
  117. For example, the introduction of a merit-based pay for teachers in 2001 was effectively blocked by the teachers' union, which returned the merit-based portion of their salaries for distribution among all teachers (Sun-woong Kim and Ju-ho Lee, 2002).
  118. This suggests that central funding to private universities is between 18 to 25 per cent of total public spending on universities, despite the fact that they enrol 3.5 times as many students.
  119. SMEs may choose instead a tax credit equal to 15 per cent of R&D expenditures in each business year.
  120. In Korea, the definition of SMEs varies between sectors. In manufacturing, it includes firms with less than 300 employees and no more than 8 billion won in paid-in capital (the limit is 3 billion in mining, construction and transport). In the service sector, the maximum number of workers that an SME can have varies between 30 and 300 employees, depending on the industry, and between 2 and 30 billion won in

annual sales. Finally, in the primary sector, SMEs are defined as firms with a maximum of 50 to 200 workers and 5 to 20 billion won in annual sales.

121. This section draws on Baygan (2003), "Venture Capital Policy Review: Korea", *STI Working Papers*, 2003/02, OECD, Paris.
122. The importance of pension funds, though, is likely to increase following the 2001 decision to allow the National Pension Fund to invest in LPFs.
123. Since 1999, business angels have been allowed to deduct 20 per cent of their investments from their income tax. In addition, corporate and institutional investors in VCFs and LPFs are allowed to deduct 15 per cent of their investments from their consolidated income tax base. In addition, taxes are not levied on the capital gains of individuals investing in VCFs and LPFs. Finally, the VCFs and LPFs themselves receive preferential tax treatment.
124. All SMEs, including venture businesses, receive a 50 per cent reduction in income or corporate tax in the first six years once they generate a profit. Other tax preferences include a 50 per cent cut in property taxes during the first five years after establishment and exemption from local acquisition and registration taxes on assets acquired during the first two years.
125. This estimate was made in *Business Korea*, August 2001.
126. This resulted in an 18 per cent fall in the price of land to mobile service, providing a benefit to consumers estimated at 677 billion won.
127. MIC is considering a shift from the current approval system to a reserved notification system, under which price changes would be automatically approved if there were no opposition from the MIC within a certain time period after notification.
128. A third issue – sustainable retirement income – is discussed in Chapter II.
129. During the 1990s, car ownership quadrupled, and since the early 1980s it has risen almost twenty-fold.
130. Concentrations of particulate matter are also affected by yellow sand blown in from abroad. Such transboundary issues are beginning to be addressed on a regional basis. Solving this particular problem would require major reforestation in China.
131. Following the introduction of monitoring stations in the mid-1990s, the number of ozone warnings issued increased from 24 in 1997 to 52 in 2000.
132. This is an estimate from a special study using 1999 data on the social cost of air pollution conducted by the Korea Environment Institute on behalf of the Ministry of the Environment. The bulk of the social costs of air pollution are due to increased mortality, with the loss of a life being valued at around \$500 000.
133. Emission limits are set in national laws, but may vary depending on the local environment. See OECD (1999a) for a description of the permitting system.
134. Voluntary agreements, in which enterprises are exempt from inspection if they agree to set more stringent emission targets and undertake measures to achieve these targets, were introduced in September 2002. Although the aims are laudable, in the current situation where monitoring is weak, such a system may undermine efforts to achieve lower emission levels.
135. Dioxin emissions, particularly in fly ash, have been a concern (Cho *et al*, 1999, Soo, 2001). The government's intention to ratify the Stockholm convention on persistent organic pollutants (POPs) will require a national strategy to improve monitoring and reduce emissions of POPs, including dioxin.



136. Under this scheme, tradable permits for limited amounts of emissions of particulate matter, nitrogen oxides and volatile organic compounds will be allocated to both major point-source emitters and companies that operate a large number of vehicles. The first step in this process will be to establish an accurate measurement system for point-source emitters.
137. In 1998, the transportation sector produced 84 per cent of air pollution in Seoul, up from 55 per cent in 1991. The topographical features of the city complicate addressing ozone problems.
138. Diesel engine vehicles, principally buses and trucks, contribute more than half of the pollution. Owners of such vehicles pay an annual fee (averaging about \$60) based on emissions, the age of the vehicle and area.
139. At present, the sulphur content standard for petrol is 130 parts per million (ppm) and for diesel fuel 430 ppm (IEA, 2002). Proposed EU standards are to reduce the sulphur content of fuels to 50 ppm from 2005 and to 10 ppm from 2011.
140. Current standards in Korea are equivalent to EURO III and US LEV standards and cover a similar range of pollutants – carbon monoxide, oxides of nitrogen, particles and VOCs. Requirements for diesel vehicles are weaker, however (Jeon, 2002). Standards for diesel vehicles will comply with EURO III standards in 2003, with the exception of passenger cars, where regulations are similar to US LEV (Jeong, 2001).
141. The United States Environmental Protection Agency has undertaken such studies.
142. CNG buses are exempt from acquisition taxes and the tax on CNG is lower than that on diesel (M.K. Lee, 2001).
143. The cost efficiency of using advanced filters and CNG were evaluated for California in Sierra Research (2000).
144. The Transportation Research Board (2002) reports that generalised road pricing would be one of the most cost-effective means of reducing congestion and emissions.
145. Unlike other OECD countries, waste is classified into only two broad categories – municipal and industrial. Industrial waste consists of general waste and special (hazardous) waste. During the 1990s, there were changes in the methodology for measuring both municipal and industrial waste, which may overstate the reduction in both types of waste. However, subsequent trends appear robust to these changes.
146. Other measures that also contributed to the decline in municipal waste included prohibiting the use of solid fuels for heating in some urban areas and restricting the use of disposable packaging.
147. Public opposition to new landfills has been intense and has also restricted the operation of existing landfills by limiting the types of waste and by attempting to block waste from other areas. Due to bad odours, food waste was banned from the Kimpo landfill in Seoul and the ban is to be generalised by 2005.
148. Emissions of dioxin from incinerators, mainly smaller and older facilities, have been a periodic concern. Replacing these incinerators could help alleviate the problem. Dioxin emissions from incineration of municipal waste in small low-technology incinerators, without air pollution control systems, are 7 000 times greater than high-technology incinerators with sophisticated air pollution control systems. For hazardous waste, the difference is nearly 50 000 times (UNEP, 2001).
149. In Seoul, residents receive 7 per cent of the fee for locally generated waste and 10 per cent of fees from waste from other districts.

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## BASIC STATISTICS OF KOREA

### THE LAND

Area (thousand sq. km)	100	Major cities, 2001 (million inhabitants):	
Agricultural area (thousand sq. km)	14	Seoul	10.3
Forests (thousand sq. km)	65	Pusan	3.8
		Inch'on	2.6
		Taegu	2.5

### THE PEOPLE

Population, 2001 (million)	48.3	Civilian labour force, 2001 (million)	22.4
Per sq. km, 2001	485	Civilian employment	21.7
Annual rate of change of population, 2001	0.7	Agriculture, forestry and fishing	1.8
		Industry	4.2
		Construction	1.8
		Services	13.9

### PRODUCTION

GDP, 2001 (trillion won)	545.0	Origin of GDP, 2001 (per cent of total):	
GDP per head (US\$)	8 900	Agriculture, forestry and fishing	4.4
Gross fixed investment, 2001 (trillion won)	147.5	Industry	33.4
Per cent of GDP	27.1	Construction	8.2
Per head (US\$)	2 420	Services	54.0

### THE GOVERNMENT

Public consumption, 2001 (per cent of GDP)	10.4	Composition of the National Assembly: February 2003	<u>Number of seats</u>
Central government revenue, 2001, consolidated basis (per cent of GDP)	26.4	The Grand National Party	151
Central government budget balance, 2001, consolidated basis (per cent of GDP)	1.3	The Millennium Democratic Party	103
		Other	18
			<hr style="border: none; border-top: 1px solid black; margin: 0;"/> 272

### FOREIGN TRADE

Commodity exports, 2001, f.o.b. (per cent of GDP)	35.6	Commodity imports, 2001, c.i.f. (per cent of GDP)	32.7
Main exports (per cent of total exports):		Main imports (per cent of total imports):	
Light industry products	17.5	Consumer goods	11.8
Heavy industry products	74.1	Industrial materials and fuels	51.0
Electronic products	31.5	Crude petroleum	15.1
Cars	7.6	Capital goods	37.2

### THE CURRENCY

Monetary unit: Won		Currency unit per US\$, average of daily figures:	
		2000	1 131
		2001	1 291
		2002	1 251

*Note:* An international comparison of certain basic statistics is given in an annex table.

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