

Progress Report, May 2002

Building Hub of Northeast Asia

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As the name implies, the Ministry of Commerce,

Industry and Energy is responsible for policy development

and implementation in the related fields.

In an era that is characterized by an information-oriented and knowledge-based society,

the Ministry's primary mission is to promote the harmonious growth of both

information technology and traditional industries.

Through this commitment, the Ministry seeks to prepare

for the future and a higher quality of life for all.

M i n i s t r y o f C o m m e r c e , I n d u s t r y & E n e r g y

Looking Forward to 2002

The Ministry of Commerce, Industry and Energy (MOCIE) looks forwards to 2002 as a crucial and challenging year for the Korean economy.

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Continuing Innovation and Reform Deliver Growth and Global Competitiveness

In 2001 the Korean economy suffered greatly due to the slowdown in the global economy, particularly in the aftermath of the September 11 terrorist attacks in the United States. Nevertheless, Korean industries and the working populace pressed ahead with even greater determination to increase industrial output and boost exports through innovation and seeking new markets.

The government also played a crucial role in the recovery of the economy by extending various kinds of support to boost entrepreneurial efforts and restore the nation's industrial vitality through measures such as financial support, tax reform, technological development, deregulation and the training of skilled manpower.

Assisted by these proactive measures, Korea's foreign reserves, which were almost depleted in 1997 with the financial crisis surged to over \$100 billion by the end of 2001 (compared with just \$3.7 billion during the 1997 financial crisis). This enabled Korea to repay its entire debt of \$19.7 billion to the IMF in August 2001 — three years ahead of schedule. As a consequence, Korea's international credibility improved significantly, laying the groundwork for a fresh take-off of the economy.

The Ministry of Commerce, Industry and Energy (MOCIE) looks forward to 2002 as a crucial and challenging year for the Korean economy. In many ways it is a decisive year that will determine the direction of the economy for the first decade of the 21st century. Domestically, major events such as the 2002 Korea/Japan FIFA World Cup and the Asian Games in Busan later in the year will place Korea firmly in the global spotlight as hundreds of millions of television viewers watch the coverage of this historic sporting event. MOCIE will be utilizing this golden opportunity to attract foreign business interest, holding events such as the Business Korea Week and a Business Roundtable for some of the world's leading CEOs who have been invited to attend the Opening Ceremony of the World Cup in Seoul.

A Message From the Minister



Korea faces new challenges with the admission of China to the World Trade Organization (WTO) in 2001, as the nation faces intensified competition in global markets and pressures to open its markets further to our trading partners with the knowledge economy and the IT revolution accelerating the pace of globalization.

MOCIE will continue to promote measures to revitalize the economy, like it did in 2001, to strengthen Korea's international competitiveness so that our nation can emerge as the commercial hub for Northeast Asia in the 21st century. My ministry will continue implementing its various programs to support Korean companies specializing in information technology (IT), bio-technology (BT), nano-technology (NT) and environmentally-friendly energy technology. Traditional industries are being encouraged to incorporate these new technologies to remain globally competitive.

This publication is intended to showcase MOCIE's central role in the reform process, to highlight what we have accomplished in the past year and to map out the future directions for my ministry's mid- to long-term vision of the Korean economy.

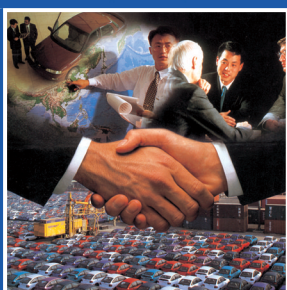
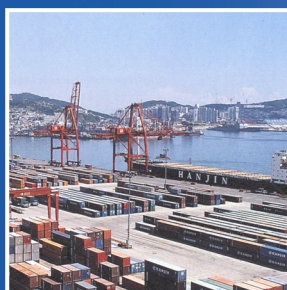
On behalf of the Ministry of Commerce, Industry and Energy, I would like to express my heartfelt thanks to the business sector and to Korea's trading partners and foreign investors for their continuing support in 2001, and hope that we will be worthy of your continuing commitment to our mutual endeavors during the coming years.

Shin Kook-Hwan
Minister of Commerce, Industry & Energy

Export Recovery is Top Priority

Trade

- Creating New Engines for Export
- Expanding Trade-Related Infrastructure
- Improving Export-Assisting Mechanisms
- Marketing Promotion for Exports
- Marketing to Target Specific Regional Interests
- External Policy Measures in Response to a New Global Trade Order



Trade

In 2001, Korea's export performance was affected by reduced demand in the IT industry, particularly semiconductors, due to the economic recession in advanced economies like the United States and Japan, and the September 11th terrorist attacks in the United States. These factors contributed to a 12.7% year on year decrease in exports, which amounted to only \$150.4 billion in 2001.

Export / Import Volume (1998-2001)

(By customs clearance; US\$100 million; %)

	1998	1999	2000	2001
Exports	1,323 (-2.8)	1,437 (8.6)	1,723 (19.9)	1,504 (-12.7)
Imports	933 (-35.5)	1,198 (28.4)	1,605 (34.0)	1,411 (-12.1)
Balance of Payment Surplus	390	239	118	93

Exports are the key engine of the Korean economy as well as the main source of foreign capital, making a substantial contribution to the growth of the national economy. The Ministry has pinpointed export recovery as the nation's top priority among its list of trade policies. To achieve this goal, the Ministry is committed to creating new engines for export, expanding trade-related infrastructure and improving export-assisting mechanisms. Also, the Ministry will help promote overseas marketing activities, taking full advantage of the World Cup and gearing itself to meet differing regional demands.

Creating New Engines for Export

The Ministry will focus its resources on creating new sources for exports, in areas such as world-class products, plant construction and knowledge services, to maintain the current level of trade surplus.

The number of products designated as Korean World-class Products last year was 120 and this year 100 more were added. To raise this to 500, government assistance will be provided in developing necessary technology and design, and acquiring quality certification. Overseas marketing activities, such as roadshows, will also be promoted.

To increase export of plants, the government will launch efforts to win overseas public tenders in developing countries. Similar efforts will be provided to expand exports of knowledge services by offering export insurance and marketing promotion.

Expanding Trade-Related Infrastructure

In an effort to facilitate paperless trade and accelerate trade automation, the Ministry will faithfully implement Comprehensive Promotion Measures for Electronic Trade introduced in May 2001. Under this plan, the automation rate in the foreign exchange and commercial sectors will be raised to 70 percent by 2005 from 37 percent in 2001. Various programs, including cyber trade fairs and e-market missions, will be organized along with efforts to launch an e-trade global network with Asian and EU nations.

A flexible labor market will be created in the trade sector by expanding youth training programs. These programs produced 50 skilled workers in 2001 and are expected to educate 100 more this year. Trade incubators established in 10 universities are assisting students to go into trade business.

The number and quality of Korea's exhibition facilities are lagging compared with its trade volume of \$300 billion. The government, therefore, plans to build exhibition halls in Goyang and Gwangju, approximately 5,151m² each. Further assistance will be given to promote domestic trade fairs to meet international standards, and specialized workers for such exhibitions will be educated through governmental programs.

Korea's world-class products will be in the spotlight through Korea's own satellite broadcasting station, Arirang TV, aired throughout the world which will contribute to



enhancing our national image and boosting exports. By organizing a roadshow in Europe, Korea plans to position itself as Dynamic Korea and Digital Korea. Taking advantage of the Korea culture frenzy in Asia, similar effort will be made to improve Korea's image as a nation.

Improving Export-Assisting Mechanisms

The Korean government is taking additional strides to improve the country's export insurance system; increasing the amount of underwriting commitment from 37 trillion won (2001) to 41 trillion won (2002), and expanding export credit bank guarantee scheme for small and medium enterprises. This will increase the amount to 4 trillion won from 2.5 trillion won (2001), and reduce foreign exchange fees.

In response to increasing foreign exchange risks caused by the weak yen, the government will extend foreign exchange risk insurance from 2.9 trillion won (2001) to 4 trillion won this year, and educate workers in finance departments on the foreign exchange risks.

To cut logistics costs, the Total Trade Services System, or TTS, will be launched to assist and improve trade-related services, such as export insurance, logistics and customs clearance. By activating the function of Rate Discount Services Center, the government aims to curb logistics costs.

Marketing Promotion for Exports

In order to capitalize fully on the opportunities presented by the World Cup, efforts will be carried out to promote marketing activities. In the weeks leading up to the World Cup, various events will take place, including the Seoul International Consumer Goods Fair from May 20 to 23; the Electronic Robot World Cup Games from May 23 to 29; and the 2002 Korea-Japan Fashion Festival on May 25 in Seoul. The Korean World-class Products Show and Korea Export Plaza will take place between May 31 and June 5 and the World Fashion Fair from June 11 to 14.



To stimulate worldwide interest in Korea's exported products, the Korean government will be holding the World-class Product Roadshow in Shanghai, London and Paris, each held on dates of May 13-16, May 21-24 and May 29-June 1 respectively. The Korea Super Expo also will be held in Tokyo for the period of June 1 and 23.

Marketing to Target Specific Regional Interests

Differentiated marketing activities will be carried out to advance into the U.S., Japanese and European markets by focusing on product quality and differentiated strategies. At the same time, we will devise effective responses to possible trade frictions.

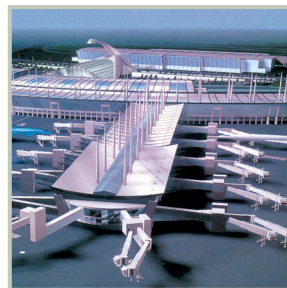
For growing markets in China, Latin America and the Middle East, Korea will carry out marketing promotions by capitalizing on the status of holding the World Cup event. The Korean government will expand the provision of export insurance and financial assistance to export companies and actively seek new markets in these regions.

External Policy Measures in Response to a New Global Trade Order

A major focus of Korea's external policies is on building industrial cooperation, based on complementary structures, to further expand trade with its major partners.

Korea is making a special effort to boost industrial cooperation in Northeast Asia, a rapidly emerging force in international trade. Among such efforts are the launch of the Tripartite Business Forum among Korea, China and Japan, and the establishment of Korea-Japan joint committees on industrial and investment cooperation.

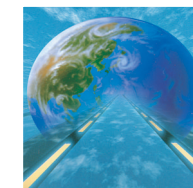
Reaching out to advanced economies, Korea desires increased cooperation with the United States and EU in information technology and biotechnology sectors, while strengthening industrial ties with countries in the Middle East and Latin America through joint technology development and construction projects.



The Ministry has been drawing up corresponding measures in relation to anti-dumping and investment negotiations of the Doha Development Agenda launched last year, resolved to addressing trade issues that are bound to arise. A case in point is the U.S. safeguard measure on imported steel. Korea is seeking to curtail protectionism in the global steel trade by forming an alliance with the EU and Japan and continuing its dialogue through the OECD.

Korea is developing new strategy to become the business hub in East Asia, a region that accounts for 20 percent of the world's economy. The Korean government is taking bold steps to attract the regional headquarters of foreign multinationals to Seoul, including the streamlining of laws and regulations relating to customs clearance, telecommunication and finance sectors.

When inter-Korean economic cooperation flourishes and the 21st century Iron Silk Road is constructed linking the Korean Peninsula with Europe, Korea will be well-positioned to assume its future role as the leading commercial hub in Northeast Asia.



Committed to Improving Foreign Investment Environment

Foreign Direct Investment (FDI)

- Investment Liberalization
- Legal Revisions
- Resolution of Grievances
- Attracting Investments



Foreign Direct Investment (FDI)

Foreign direct investments (FDIs) notified to the Korean authorities (There are two types of FDI statistics: notified and arrived) amounted to \$11.87 billion in 2001, despite major investment projects worth a total of \$4-5 billion either postponed or withdrawn, mainly due to the September 11 terrorist attacks in the United States. The current government has succeeded in attracting foreign direct investments or FDIs (Generally it is said that foreign investments comprise “direct” investment and “portfolio” investment.) over \$10 billion annually for three consecutive years. The total amount of foreign direct investments attracted during the four years of the Kim Dae-jung administration totalled \$52 billion - more than double the cumulative amount of foreign direct investments attracted by its predecessors.

In 2002, the Korean government plans to improve the investment environment and carry out investment promotion activities linked to the World Cup, in order to attract the goal of \$15 billion in foreign direct investments.

Investment Liberalization

In March 2001, inshore fishery and offshore fishery were also opened to foreign investors, leaving only two industries — radio broadcasting and television broadcasting — out of 1,058 industries remaining restricted to foreign investors. As a result, Korea's FDI liberalization ratio maintained 99.8% in March 2002, the same as last year.

Foreign Investment Liberalization Rate

Time	Jan. 1998	Dec. 1999	Jan. 2000	Mar. 2001	After Mar.14 2001
Open Sectors	1,148			1,058	
Restricted Sectors	21	7	4	4	2
Foreign Investment Liberalization Rate	98.2%	99.4%	99.7%	99.6%	99.8%

In March 2002, the government lifted all restrictions on foreign investment in the power generation sector, with the exception of nuclear generation, for the privatization of five power generation subsidiaries of KEPCO (Korea Electric Power Corporation) according to the “Privatization Plans for Power Generation Companies”.

Legal Revisions

The enforcement ordinance of the newly revised Foreign Investment Promotion Act (FIPA) took effect on Jan. 1, 2002. Major contents of the revisions are as follows:

First, the requirements for Foreign Investment Zones (FIZs), which were previously limited to investments over \$100 million, were relaxed to allow for investments exceeding \$50 million to qualify. When designated as a FIZ, benefits offered to investors include free factory sites and reductions on corporate taxes and income taxes for ten years (100% reduction for the first seven years and 50% for the remaining three years).

Second, FIZ requirements for tourist hotels and facilities for international conferences were relaxed from investments over \$30 million to over \$20 million. Location restrictions for universal recreation businesses were lifted, while universal amusement businesses were qualified for designation as FIZs.

Third, in order to attract large foreign investments into social overhead capital, the government has made it possible for new facilities to be designated as FIZs, including integrated freight terminal businesses, common distribution center businesses, and harbor and port facilities businesses, providing that investments exceed \$30 million.

Fourth, categories for rent reductions in industrial complexes exclusively for foreigners were expanded from foreign invested companies with investments over \$10 million to include companies with investments of over \$5 million. However, this applies only to “greenfield” investments, such as newly-created factory facilities or places of business.

In 2002, the government will actively promote hub-style investments such as regional headquarters for multinational companies and revise the FIPA in order to improve management and living environments for foreigners.



Resolution of Grievances

In 2001, the Office of Investment Ombudsman (OIO) proved its worth as an efficient service center for resolving the difficulties experienced by foreign-invested firms in Korea, by resolving 428 out of 430 cases.

Outcomes of complaints received by OIO

Outcomes of Complaints Received by Office of Investment Ombudsman (OIO)							
Year	Reported Cases	Solved Cases	In Progress	Nature of Settlement			
				Settled Independently	Settled through Cooperation	Proposed Policies	Others
1999	200	199	1	121	35	20	23
2000	454	451	3	213	140	50	15
2001	430	428	31	190	175	57	6
Total	1,084	1,078	35	524	350	127	44



In the enforcement ordinance of the FIPA, which took effect from Jan. 2002, specific terms and business services of the OIO were determined to support resolving complaints of foreign-invested companies. The Ombudsman's term was determined at three years, and also in the case of necessary improvements in systems to solve difficulties in foreign-invested companies, the OIO was given authority to provide improved measures and propose the execution of such measures to related administrative departments.

Also, the government investigated corporate difficulties and regulations affecting 60 foreign invested companies in Aug. 2001 as part of the “Stage-II Deregulation”, and identified 36 complaints. Out of these 36, the government accepted and carried out follow-up measures in 21 cases including the improvement of English traffic signposts on local roads and increasing accessibility to Korean language programs for foreigners.

In Dec. 2001, a comprehensive program for improving the foreign investment environment was established, and the proposed measures will be implemented on a step-by-step basis.

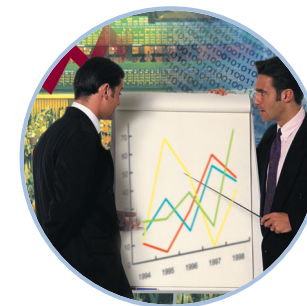
Attracting Investments

The Korean government conducted various activities to attract foreign investments in 2001, including the President's tour of Europe in December, and the participation of the Minister of Commerce, Industry and Energy in the APEC Investment Mart held in China during June. Delegations for attracting investments were also dispatched to different regions for 65 times in order to liaise with potential or existing foreign investors. Also, a "Red Carpet Service" for 22 companies was introduced in order to attract investments by connecting investors with companies needing foreign investments and supporting the selection of locations. In particular, the "I-Match Marketing" system was launched, which is a system designed to support promising SMEs in attracting foreign investments by government linkups with distinguished consulting firms and investment companies both, foreign and domestic.

Number of FDI promotion visits in 2001

Number of FDI Promotion Visits in 2001						
	American Region	Europe	Japan	Asian Region	Customized Delegation	Total
Number	13 times	16 times	21 times	10 times	5 times	65 times

In order to actively support foreign investment promotion activities by local governments, the ministry revised the "Criteria for Financial Support for Foreign Investment Inducement Activities of Local Government" in Jan. 2001, and introduced an incentive system for attracting foreign investments. The government also established the conditions for supporting employment subsidies and costs of establishing foreign schools.



The opening week of the 2002 World Cup was designated as "Invest-Korea Week", and during this week the government has invited CEOs of leading multinational companies, as well as hosting various events such as the "Investment Forum" and the "CEO Round Table".

To Make Korea a Better Place to Do Business

Industrial Policy

- Regulatory Reform
- Facilitation of Investment
- Establishment of Foundation for Regional Industries
- Facilitation and Restructuring of Traditional Markets
- Facilitation of Venture Businesses
- Providing Momentum for e-Commerce
- Corporate Restructuring
- Supporting Informatization of 30,000 SMEs



Regulatory Reform

The key objective of the Kim Dae-jung administration is to improve the quality of Korea's regulatory reforms, thereby making Korea a better place to do business. With this in mind, the administration has implemented strong and comprehensive regulatory reform measures since its inauguration in February 1998, based on the Basic Act on Administrative Regulation.

The Korean government's regulation reform strategy is focused on removing unnecessary or outmoded regulations, and ensuring that the new regulatory changes will provide greater benefits to Korea. With these initiatives, the number of regulations in force has fallen 31.9 percent, from 10,717 in August 1988 to 7,299 in March 2002.

As part of the government strategy to improve the quality of regulation, MOCIE commenced a program to review on-site regulations in the overall business climate between July and August last year, and identified 511 tasks required for regulatory reform. Among them, 305 cases were identified for improvements, which are now underway.

MOCIE will continue to carry out regulatory reform this year as well. It will ease regulations discriminatory to the e-commerce and service sectors, while improving the business climate through a comprehensive review of regulations concerning land use and environment, which are considered as an obstacle by companies. Also, it plans to conduct a continued deregulation so that a market economy system can take root in Korea.

Facilitation of Investment

Since the financial crisis followed by corporate deregulation, Korean companies have moved toward focusing on "profitability and efficiency" rather than on "expansion." As a result, although the overall level of investment has decreased, investment in R&D and informatization has been on the rise.

Recognizing that the level of corporate investment, especially that in productivity, such as R&D and informatization, should increase in order to expand growth potential, the government will continue to provide institutional support in this regard.

Facilities Investment Volume

BOK, based on substantive amount, tril. won

Year	95	96	97	98	99	00	01 (estimate)	02 (forecast)
Volume	56.2	61.3	56.0	34.3	46.7	62.8	60.9	64.6

* The estimate for 2001 was based on accumulative facilities investment increase rates (Bank of Korea, - 3.1%), and the forecast for 2002, on forecasts by the Bank of Korea. (6.1%)

Investment Trends and Prospects

(hundred million won, %)

Classification	2000	2001	2002	01/00(%)	02/01(%)	00 ratio	01 ratio	02 ratio
New products	26,096	26,527	26,547	1.7%	□1%	0.110	0.119	0.119
Facilities expansion	132,694	106,071	104,285	-20.1%	-1.7%	0.559	0.474	0.466
Automation	8,604	11,620	10,266	35.1%	-11.7%	0.036	0.052	0.046
Maintenance	28,900	31,799	34,941	10.0%	9.9%	0.122	0.142	0.156
Energy saving	2,915	4,668	5,728	60.1%	22.7%	0.012	0.021	0.026
R&D	12,907	15,727	17,311	21.8%	10.1%	0.054	0.070	0.077
Informatization	4,464	6,050	6,392	35.5%	5.7%	0.019	0.027	0.029
Other investments	20,842	20,749	18,412	-0.4%	-11.3%	0.088	0.093	0.082
Total	237,422	223,571	223,784	-5.8%	0.1%	1.000	1.000	1.000

* Results of survey on facilities investment plans for 200 big companies (MOCIE, Dec. 2001)

Establishment of Foundation for Regional Industries

With the development of localization, a balanced growth of local industries and self-growth of regional economies has emerged as an important issue for Korean industrial policies.



Local developments are increasingly significant because competitive regional growth functions as an economic engine for national developments as rapid globalization causes multi-national companies to go beyond national borders and move into internationally competitive regions.

The government notes that facilitating local industries is the only way to overcome structural problems responsible for the economic slowdown and to achieve a balanced development between provinces. In this regard, since 1999, the government has pursued “Projects for Regional Industry Promotion” in four regions, including Daegu, Busan, Gwangju and Gyeongnam in order to establish a foundation for nurturing regional industries.

Plans to Support Local Industries in Four Major Regions

Classification	Period	Total expenses	Major projects
Daegu: textile	99-03	680 bil. won (national fund: 367 bil.won)	Establishment of a fashion apparel valley
Busan:footwear	00 - 03	386.6 bil. won (national fund: 239.6 bil.won)	Setting up of a center for developing pilot goods
Gwangju: optical goods	00 - 03	402 bil. won (national fund: 235.3 bil.won)	Developing and commercializing technologies for optical goods
Gyeongnam: machinery	00 - 04	428.4 bil. won (national fund: 214.3 bil. won)	Establishment of a center for technologies for machinery

This year, nationwide projects for regional industry promotion have been launched in earnest for the remaining 9 regions including Gangwon with national budgetary support of 1,100 billion won for the next five years. The projects avoid redundant investments among regions as much as possible, by considering unique characteristics of each region and selecting and fostering strategic local industries through “selection and concentration.”

Facilitation and Restructuring of Traditional Markets

Since 1996 when the distribution sector was completely opened to foreigners, restructuring has been carried out mainly by large-scale distribution companies, including

big discount stores and department stores, leading to a drastic contraction of traditional markets. The crisis of traditional markets seems attributable to insufficient conveniences, such as underdeveloped facilities, restrooms and parking lots, and to structural problems including an antiquated market management system. It is, therefore, urgently necessary to restructure 518 permanent traditional markets, out of some 1,500 markets across the nation, which are among the worst in terms of facilities and market management.

Classification	Total number of markets	Ordinary markets	Traditional markets		
			Total	Permanent markets	Regular markets
No. of markets	1,533	454	1,099	518	591
(ratio)	(100%)	(29.2%)	(70.8%)	(33.4%)	(38.1%)
No. of stores	211,160	102,869	108,291	74,985	33,306
No. of employees	269,208	133,208	136,000	93,976	42,024

* Permanent traditional markets: permanent markets established before 1980 or those with outdated facilities

* Regular markets: markets open every three, five or seven days

Since 2001, however, there have been efforts to change traditional markets into reborn local distribution centers together with large-scale distribution companies. Projects to redevelop or reconstruct markets with extremely outdated facilities are underway, and 94 markets are being redeveloped or reconstructed as of March 2002. When markets don't require redevelopment or reconstruction, remodeling is being promoted such as repair, maintenance and the improvement of parking lots, and about 120 markets are expected to be remodelled by this year. It was found that after remodelling, sales increased by some 10~30 percent although there were some differences in the various markets. In addition, projects to develop brand and character unique to each market are being pursued and training of market workers is being actively conducted.

Facilitation of Venture Businesses

Since the 1997 financial crisis, the government has actively promoted policies to nurture venture companies. Thanks to these government initiatives, the number of new

No. of venture businesses			
Late '98	Late '99	Late '00	Late '01
2,042	4,934	8,798	11,392

venture companies has sharply increased, as informatization—mainly driven by the IT sector—expands rapidly throughout the Korean economy. The number of venture companies designated by the government was only about 2,000 in 1998, but reached as many as 10,000 during 2001, and stood at 11,392 by the end of 2001.

	Venture businesses	SMEs	Conglomerates
Increase in sales (%)	44.3	12.5	16.7
Ordinary income (%)	4.9	3.3	0.3
Rise in employment (%)	24.3	3.8	

The increased venture start-ups have made a significant contribution to Korea's overcoming of the financial crisis and regaining its economic vitality. They also generated higher added value than other companies, such as conglomerates and small and medium sized enterprises (SMEs).

The Korean government will continue to ease regulations pertaining to business start-ups in order to facilitate the establishment of enterprises. It will also concentrate on setting up infrastructure to promote constant growth of venture businesses, by facilitating the Kosdaq market so that an appropriate amount of private money can flow into the venture companies.

Providing Momentum for e-Commerce

To boost national competitiveness through e-commerce transactions, MOCIE has presented a national vision by releasing a "Plan for Facilitating e-Commerce" (Feb. 2000) and "National Strategies for the Spread of e-Business" (Apr.2001), and implemented major development strategies. Last year in particular, MOCIE expanded the key e-business infrastructure and created an environment conducive to a greater uptake of e-commerce, providing momentum for expanding e-business. As a result, it is estimated that last year, the volume of e-commerce transactions rose by 93 percent, reaching about 112 trillion won. The ratio of e-commerce (e-commerce transactions/ total transactions) also increased from 4.5 percent in 2000 to 8.6 percent in 2001.

E-commerce is very significant in that it boosts transparency and productivity of the economy. Accordingly, future government policies should focus on increasing corporate productivity and enhancing industrial competitiveness by making the most of the advanced digital infrastructure.

In order to carry out restructuring reforms and strengthen industrial competitiveness

through e-business, the government will actively support corporate e-business. Also, it will continuously improve laws and systems related to e-commerce, such as e-payments, e-trade and consumer protection, and decisively remove regulations. In addition, it will systematically expand infrastructure, inclusive of standards, development of both technologies and experts and broadband networks. E-commerce transactions in the public sector will also be facilitated, while the e-business base for the entire economy including SMEs, local industries and service business will be expanded at the same time.

The government will cope with reorganization of and changes in the global economy, such as the WTO's adoption of the DDA, China's entry into the WTO and growing uncertainties of economies. To do this, it will promote globalization of e-business by actively participating in the process of establishing international e-business norms.

Corporate Restructuring

MOCIE realized that corporate restructuring since the financial crisis was mainly focused on the financial sector, such as improving corporate financial structures by reducing debt-equity ratios. In the future, however, MOCIE plans to improve the corporate sector environment in order to carry out "Dynamic Restructuring", a comprehensive restructuring plan considering industrial issues and prospects for mid-to-long term industrial development.

Initially, MOCIE will enhance the soundness and expertise of Corporate Restructuring Companies (CRCs), introduced in 1999, so that restructuring can be carried out regularly through the functioning of the market. To do this, MOCIE will strengthen registration conditions for CRCs and make semi-annual reports obligatory. Also, restructuring will be stepped up through acquisitions and normalizations of insolvent companies, and the "Korean Association of CRC" was founded in order to strengthen self-regulation functions of companies.

MOCIE also plans to conduct the rationalization of corporate restructuring-related laws, through concentrating on improving the environment for the entire process of corporate restructuring, from the founding to liquidation. Also, the ministry will continuously improve regulations related to fair trade, finances, and taxation systems by cooperating with related ministries. By doing this, MOCIE will support voluntary reorganization of firms, including promoting spin-offs and strategic alliances, and also support efforts to strengthen competitiveness.

Supporting Informatization of 30,000 SMEs

As the recognition of e-business, including e-commerce, is rapidly gaining momentum, investment in e-business mainly by Korean conglomerates is rising sharply. Meanwhile, the digital divide between large companies and SMEs is widening further. Hence, in order to facilitate e-business throughout the entire industry, it has been necessary to establish policies enhancing the IT literacy of SMEs, as they account for most of the IT companies and comprise almost the entire IT workforce.

With this in mind, the "project to support informatization of 30,000 SMEs" has been implemented since 2001 in an effort to assist SMEs to introduce various IT systems, including Enterprise Resource Planning (ERP), thereby promoting informatization within SMEs. Backed by a positive response from SMEs, over 30,000 SMEs have been already informatized as of April, 2002.

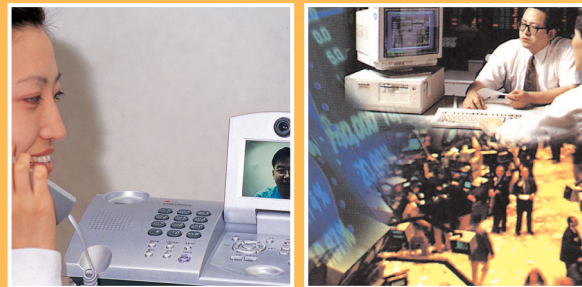
Future policy will be focused on continuously improving IT literacy of SMEs, mainly by supporting collaborative e-business in supply chains between conglomerates and SMEs.



Focusing on Top-Class Technologies to Strengthen Competitiveness

Technology

- Developing High Technologies
- Doubling Corporate Productivity
- Increasing Added Value



Technology

Developing High-Technologies

MOCIE is planning to focus investments on developing top-class technologies in order to create and advance into new markets. The 2002 budget for such plans amounts to 1 trillion won.

To carry out such plans, the development of the “Industrial Technology Roadmap” will continue to be promoted, providing a milestone for developing high technologies. Technology roadmaps in six fields including robots, mobile communication devices, and optical fibers were completed in August 2001, and additional roadmaps of six more fields such as multimedia and medical engineering technologies are expected to be completed by July 2002. Roadmaps of 50 fields will be completed by 2005.

Different ways to apply new technologies, such as IT, BT, and NT, to major traditional industries like automobiles, electronics and semiconductors will be promoted. MOCIE is aiming to invest 770 billion won in developing new technologies where Korea has advantages over other countries, such as SoC (System on Chip), DNA chips, and nano materials. An amount of 320 billion won will also be injected into developing technologies to apply to main traditional industries, such as intelligent super-clean vehicles and digital shipbuilding methods.

In addition, plans are being made to cluster a stronghold for regional technology reforms, with the Techno Park System as the nerve center. Eight Techno Parks, six in central government ministries and two in local governments, will be developed as the center for regional technology reforms, and will also be operated in close conjunction with regional industry promotion projects.

MOCIE hopes to maximize the synergy effects by strengthening connections between Techno Parks (TPs), Technology Innovation Centers (TICs), and Technology Business Incubators (TBIs). The budget for this amounts to 78 billion won.

The ministry also plans to foster high-quality human resources for technologies. There are plans to train up to 100,000 workers by the end of 2005, and will inject 100 billion won into doing this. In 2002, 18 billion won will be invested in training 20,000 workers. Training programs specially designed for industrial fields of 20 sectors will be carried out, including advanced dyeing, auto parts, and semiconductors, in institutions such as the Korea Institute of Industrial Technology (KITECH) and the Korea Automotive

Technology Institute (KATECH).

Moreover, MOCIE will enhance the quality of engineering education with the cooperation of industries and academic circles through various projects. Examples of such projects are the Accreditation of Engineering Education project, which will be increased from one in 2001 and five in 2002 to 50 in 2005, and the Capstone-Design Project, which will be increased from one in 2001 and ten in 2002 to 40 in 2005. A “Support group for engineering education” will be organized, comprising 100 CEOs, and the members will be supported in giving university lectures.

Doubling Corporate Productivity

It is hoped that corporate productivity will be doubled through support offered to management consulting and rationalization facility investments of small and medium sized enterprises (SMEs). To do this, the productivity of SMEs will be enhanced by supporting the management consulting of 1,000 SMEs with a budget of 5 billion won in 2002. The “2001-2003 Informatization Project of 30,000 SMEs” will be completed this year, ahead of schedule, rising to 22,000 SMEs from the 8,000 of last year.

For investments in the rationalization facilities of SMEs, MOCIE intends making use of the SME Promotion and Industrial Foundation Fund, which has an amount of 700 billion won this year. In addition, restructuring plans will be designed for SMEs.

The ministry will also develop the “Korean Quality Management Innovation Model” as a project for establishing foundations for industrial technologies, and will inject 700 billion won in this project this year. Campaigns will be conducted for quality improvements in order to enhance both productivity and competitiveness simultaneously. Certification systems will also be introduced in information security (ISO-17799) and



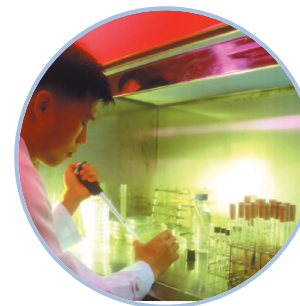
aerospace (AS-9100), in addition to existing certification systems including the ISO-9000. Projects for quality improvement strategies, such as the “National Quality Circle Contest” (September) and the “National Quality Management Convention” (November), will be promoted together with the Single PPM Campaign.

Increasing Added Value

MOCIE aims to increase added value of main industries by strengthening their capacity to develop designs, brands, parts and materials.

The ministry will promote the development of technologies needed in order to secure global supply capacity of core parts and materials. Two trillion won will be injected in such activities by 2010. The “Reliability Assessment and Certification Project” will be promoted in order to support the advancement of already-developed parts and materials into overseas markets. For the “Reliability Assessment Infrastructure Construction Project”, eight “Reliability Assessment Centers” will be established, and a number of 69 products will be certified annually. The 2002 budget for such activities is 33 billion won. A “Reliability Insurance Deduction Project”, which will carry out a 3 billion won model project, is also being planned for some certified products.

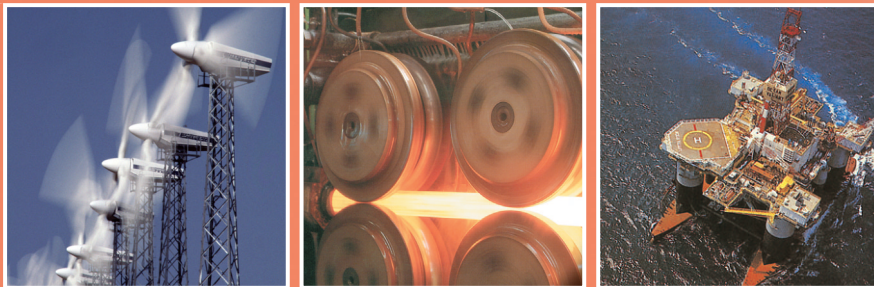
In order to support the growth of Korea’s world-class designs and brands, the government plans to establish “Regional Design Centers”, launch an integrated network system on brand-related information, and collect and distribute design-trends of foreign countries. Two “Regional Design Centers” will be constructed in two major cities other than Seoul, and 10 billion won will be injected into developing designs fit for regional industries. We will also increase support for developing innovative designs and marketing the high-quality design products (by favoring good design products in government procurement). The establishment of an integrated network system on brand-related information, such as a database on current conditions of industrial and regional brands and a “Best Practice Database” on brand management, will be promoted.



Establishing Competitive System to Enhance Efficiency

Energy and Mineral Resources

- Establishment of competitive structure in the energy industry
- Realization of environment-friendly energy efficient structure
- Implementation of diverse measures to stabilize energy supply
- Strengthening of international energy cooperation



Energy and Mineral Resources

The Korean government is committed to settling the competitive system in the energy industry to enhance the efficiency of the entire industry, and thereby establishing a stabilized, environment-friendly system for energy supply and demand.

Establishment of Competitive Structure in the Energy Industry

In December 2000, a bill for the electricity industry restructuring was successfully drafted and revised with the consensus of the Korean people. In April 2001, the generation sector of Korea Electric Power Corporation (KEPCO) was split into six generation companies (Gencos), introducing competition into the sector. Five out of the six Gencos, excluding the nuclear Genco, will be privatized by stages, and one of them sold within this year. Also, the splitting of the distribution sector of KEPCO into several local distribution companies is underway in order to establish a competitive system in the wholesale sector.

With regard to the gas industry, the government will complete as early as possible the legislation of three restructuring-related laws, submitted to the National Assembly in Nov. 2001, so that the legal base for privatization of Korea Gas Corporation (KOGAS) can be secured. As soon as the legislation is completed, the import/wholesale sector of KOGAS will be divided and its sale will be undertaken in earnest. Though the facilities sector will continue to be managed by KOGAS, the open access system will be introduced at the same time to boost efficiency.

In addition, privatization of four KEPCO affiliates, inclusive of Powercom, and other relevant state-run companies will be promoted as scheduled.

Realization of Environment-Friendly Energy Efficient Structure

The Korean government will steadily implement energy-saving policies, thereby promoting stabilized energy consumption. It will expand investment in improving energy efficiency. In this regard, the government will encourage companies to voluntarily conclude agreements designed to set and accomplish energy-saving targets, and facilitate specialized energy saving enterprises. Also, energy-saving in the transportation and household sector will be strengthened. Furthermore, an "Integrated Energy Monitoring System," which provides an easy way to find out household energy use and fees, will be developed and distributed, while a nationwide energy saving campaign linked with civic groups will be

continuously promoted.

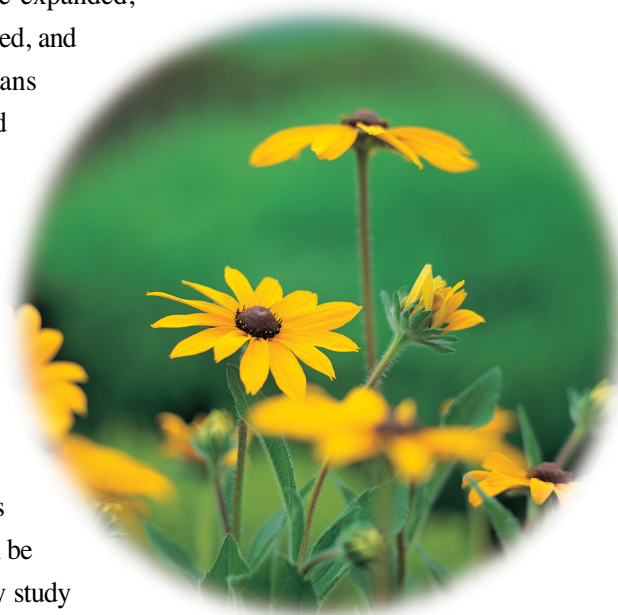
In an effort to develop and distribute environment-friendly alternative energy, the government will invest mainly in photovoltaics, wind energy and fuel cell energy. “Green Villages” that are self-sufficient through alternative energy will also be created—two in 2001 and five in 2003. Together with these initiatives, the government will improve relevant legal systems in order to facilitate distribution of alternative energy: use of alternative energy by government agencies will be required, preferential purchase of generation electricity using alternative energy will be encouraged, and the Green Pricing System will be introduced to encourage consumers to purchase alternative energy on their own.

The government will actively comply with the Convention on Climate Change as well. The domestic foundation for implementing the Convention will be established by developing a national registration system for greenhouse gases so that the industrial circle can voluntarily record and manage achievements in reducing greenhouse gases. The government will also seek ways of joining forces with other developing countries and support industrial efforts to respond to this Convention.

Implementation of Diverse Measures to Stabilize Energy Supply

The country’s capacity to supply energy will be steadily strengthened. By enhancing Korea’s capability to stockpile petroleum and gas, the government will be able to react to an energy crisis more efficiently. Also, the infrastructure for supplying LNG will continue to be expanded, while construction sites will be secured, and implementation of construction plans will be checked in order to build power plants as scheduled.

The base for self-supplying energy resources will be strengthened as well, by facilitating the development of mineral resources at home and abroad. As part of this initiative, the projects to develop the East Sea-1 gas field and the Vietnamese oil field will be promoted as planned. The feasibility study of exploring the Irkutsk gas field, which is being



conducted between Korea, China and Russia, will be completed as early as possible. Also, the Korea-Japan joint Continental Shelf development will be promoted, while projects to explore oil fields in the Caspian Sea which have a high potential for development will be sought. In addition, safety management of energy facilities will be strengthened by settling “Safe LP Gas Supply Contract System” in an effort to prevent LPG accidents.

Strengthening of international energy cooperation

Korea will actively participate in multilateral cooperation including the International Energy Agency. Also, it will endeavor to set up a foundation for energy cooperation in the Northeast Asian region and solidify cooperation with resources-rich countries.



Organization

