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Hard sell begins
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Cuban presidency
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INSIDE TODAY

Han faces scrutiny

A lawmaker claims that Prime Minister-designate Han Seung-soo engaged in real estate speculation and failed to disclose all of his assets, ahead of his confirmation hearing set for today. (Page 2)

U.S., N.K. envoys meet

The top U.S. and North Korean nuclear negotiators held an exclusive meeting in Beijing, just two days after Pyongyang implied that it wanted Washington to reconform its commitment to remove sanctions. (Page 3)

Oil for construction

The government's plan to buy foreign oil stakes, in return for infrastructure projects in oil-rich nations, will offer substantial opportunities for construction contractors to win more building orders abroad, experts said yesterday. (Page 5)

Samsung top TV seller

Samsung Electronics Co. strengthened its leadership in the global TV market last year, according to data released yesterday. (Page 7)

Paris 02 bars

As oxygen bars begin to pop up across France, health authorities are beginning to question the merits or otherwise of sniffing O2. (Page 14)

New culture minister

New Culture Minister Yoo In-chon must work to dispel worries over his background, which is deeply entrenched in acting on stage and screen, and not in government. (Page 16)

Overhaul causes gridlock

New government likely to start with some old Cabinet members

By Kim Min-hee

The political fighting over government reorganization is threatening to cripple the launch of President-elect Lee Myung-bak's Cabinet.

Lee announced the nomination of his 15 ministers Monday night amid stalled negotiations with the rival United Democratic Party over his controversial plan to streamline the government.

The UDP criticized his announcement, saying it blocked any chance of settling the dispute. It threatened to reject his request for confirmation hearings at the National Assembly.

As the hearings are unlikely to take place by next Monday, Lee will be in the awkward situation of starting off his presidency with the Cabinet of his predecessor Roh Moo-hyun.

The Grand National Party and the UDP have yet to agree on Lee's government-downsizing plan, which aims to reduce the current 15 ministries to 13.

Lee did not name anyone to

the five ministries that he plans to close or merge.

Lee yesterday submitted to the National Assembly a request for confirmation hearings for the 15 nominees.

But chances are slim that the parliament will proceed with it promptly, given the current partisan confrontation. In the worst-case scenario, Lee may

have to wait until March 10 to get the new Cabinet up and running.

By law, the Assembly is required to conduct the hearings and send its report to the president within 20 days of the presidential request.

If the Assembly fails to finish the procedure during that period for an "inevitable reason," the president can demand the hearings be conducted within another 10 days.

But if the president deems that there is no such reason, he can formally appoint the Cabinet, bypassing hearings.

President Roh plans to withhold the resignations of the current ministers so as to prevent a situation of Cabinet vacancies, his aides said. Ministers already have submitted their resignations to Cheong Wa Dae.

The presidential transition committee appealed to the public yesterday for understanding, saying that the "emergency Cabinet formation" was inevitable.

Lee's spokesman Joo Ho-yeung expressed concern about possible roadblocks to the president's handling of state affairs during his first month in office.

"We are not ruling out the possibility of further negotiation (on the government reorganization plan), but we're trying to satisfy the minimum legal standards and avoid a government vacuum," he said in a radio interview.

The UDP held Lee Myung-bak responsible for the breakdown in the reorganization talks.

The party said it may boycott the hearings process, particularly regarding two people who have been nominated to the ministerial positions without portfolio.

"We will continue to make efforts to make a government reorganization law that is better than the one suggested by the Grand National Party, and will also continue to talk with the GNP," UDP head Sohn Hak-kyu said. "However, we will not approve the president-elect's illegal actions and his arrogance and self-righteousness which ignore the parliament, the opposition party and the people."

The UDP, the largest group in the parliament, insists on retaining the Maritime Affairs Ministry, the Gender Equality Ministry and the Unification Ministry. The GNP has rejected this demand, arguing that it has already made a major concession by agreeing to keep the Unification Ministry as a separate body, instead of merging it with the Foreign Ministry, as it had hoped.

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Korea's options for coping with U.S. slump

Following is the third installment in a series of articles analyzing the external and internal challenges facing Korea's new government. We are inviting foreign and Korean experts to take part in the project, hoping that their insightful analysis will help policymakers craft new national strategies to meet these challenges. — Ed.

By Barry Eichengreen

Lee Myung-bak assumes the presidency of Korea at a difficult time.

The global economic outlook is — how should one put it politely — less than propitious. While the experts continue to split hairs over whether the United States is in recession, there is no question that U.S. growth has slowed dramatically.

It is hard to imagine that things could have turned out differently, given the decline in home prices that began in the summer of 2006 and the major credit market disruptions that followed a year later.

Either event by itself would have been enough to make a sharp slowdown likely; in combination they made it unavoidable.

Moreover, this is not a problem that is going to go away. Housing-led downturns take longer to reverse than downturns precipitated by other events. In housing-led recessions, it can take not just two quarters (the length of the last two recessions in the United States) but four quarters to work off the backlog of unsold homes and get the residential-construction industry rolling again. This is the problem we currently face in the United States.

And this time the slump may be even more protracted, because it may take more considerably than four quarters to work off the backlog of unsold homes. There are still a million unsold homes either newly completed or in the final stages of construction — an unusually high number but, nonetheless, a backlog that might be



reasonably worked off in four quarters. But there are also 2 million recently sold homes, on which bank lenders either have foreclosed or will soon foreclose, that they are going to have to resell.

Even more alarmingly, as many as 10 million additional American families may walk away from their mortgages if real estate prices continue to drop, wiping out their equity. They will simply use "jingle mail" to return the keys to the bank. All this means that the U.S. residential-construction industry will not recover before 2009 and maybe even 2010.

Nor are U.S. policymakers going to be able to do much about this. The Bush administration's "Hope Now" program of mortgage relief is more symbolic than real. The Congress' much-vaunted fiscal stimulus package amounts to barely 1 percent of GDP. Many families will receive just enough to buy a new iPod. And tax rebate checks will only start going out in May — too late to prevent the further slowing of the economy.

While the Fed has cut interest rates and will continue doing so, it is pushing on a string. It can inject liquidity into the banking system, but this will do no good if the additional funds just sit there.

And the banks, not knowing how many additional financial liabilities lie below the surface, are in no mood to lend. Because they are forced to take back onto their balance sheets all the structured investment products that they not only originated and sold but also guaranteed, they need to hold onto the additional funds made available by the Fed simply to replenish their capital.

Thus, the only way for U.S. Continued on Page 4



PAKISTAN ELECTION VICTORY — Supporters of the Pakistan Muslim League Nawaz of former Prime Minister Nawaz Sharif celebrate in Lahore, Pakistan, on Tuesday. The party which backed Pakistani President Pervez Musharraf in parliament conceded defeat in the elections. (Related story on Page 14) AFP-Yonhap News

KOREAN STOCKS

KOSPI (Closing)	2008
3,510.12 (+1.93)	
KRX 100	1,720.52 (+4.20)
KOSDAQ	654.71 (+3.14)
KOSPI 200	218.37 (+2.91)

GLOBAL STOCKS

DJIA (February 19)	2008
12,348.21 (-28.77)	
Nikkei*	2,321.80 (-10.74)
Nikkei (nominal)	13,757.91 (+122.51)
Hang Seng (nominal)	24,123.17 (+363.92)

FOREIGN EXCHANGE

Woo / U.S. \$	Basic rate	Cash on hand
		Buying
		Selling
U.S. dollar	943.90	961.83
Euro	1,268.19	1,414.50
Japanese yen (per 100)	899.66	893.23
British pound	1,644.00	1,879.03
Chinese yuan	151.73	148.95
Indian Rupee	951.07	877.43
Hong Kong dollar	121.01	123.20
Singapore dollar	947.30	102.18
Australian dollar	889.39	884.68
Canadian dollar	931.74	938.57
New Zealand dollar	752.39	763.31
Thai Baht	23.47	21.48

Food price hikes weigh on consumers

NEWS FOCUS

By Kim Yoon-mi

As major producers of snack foods and drinks begin in earnest to raise prices, consumers are likely to feel the pinch and tighten their purse strings.

Citing "too many price hikes" in international raw materials including flour, food manufacturer Nong Shim announced on Monday that it will raise consumer prices of popular instant noodles and snacks by between 11 percent and 15 percent.

"In the past year, the price of flour has risen 50 percent. As we can no longer bear the burden of high production costs, we have decided to raise consumer prices," company officials said.

Soft-drink makers Lotte Chilsung, Ilatrit and Binggrae have also announced plans to raise prices of soda and fruit drinks by up to 12 percent by March 1.

The price hikes are grim news for ordinary consumers such as



A customer buys noodles at a local discount store. Experts say food price hikes could put a higher burden on low-income consumers. Yonhap News

49-year-old housewife Kim Gisu. "When I go to the supermarket, I expect to spend about 50,000 won for groceries. But at the checkout counter, the bill is often more than 60,000 won. The food prices are too high," she said. Economists are attributing the surge in food and drink prices in Korea to global inflation, especially recent price hikes in agricultural and oil products.

According to industry data, global soybean prices rose 95 percent between January 2007 and January 2008; flour, 79 percent; and corn, 25 percent; along with rising demand in emerging markets such as China and India.

Inflation in China has accelerated to its fastest pace in more than 11 years, after recent heavy snowstorms caused severe shortages in food supplies.

Consumer prices rose 7.1 percent in January from a year earlier, the statistics bureau said yesterday, after gaining 6.5 percent in December.

After the U.S. Federal Reserve aggressively cut interest rates to 3 percent in January, global liquidity has been concentrated in the grain and commodities markets, pushing prices up to record highs, experts said.

This global "agflation" — agriculture and inflation — is affecting the local economy, pushing prices in Korea to global inflation levels.

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Herald Media names new CEO

By Jin Dae-woong

Herald Media yesterday appointed Park Haeng-hwan, a veteran journalist and media executive, as its new chief executive officer and publisher.

Park, 57, succeeds Hong Jung-wook, the company's largest shareholder, who resigned on Feb. 4. The media firm publishes The Korea Herald, The Herald Business, The Junior Herald and other magazines.

Company shareholders and board members have approved his appointment. He will take office in a ceremony today.

Park started his career as a reporter with The Korea Herald in 1980. He has held various posts in the company, including serving as managing editor of Naebyeon Economic Daily, which was renamed the Herald Business in 2003, and as an executive in charge



Park Haeng-hwan

of publication for both newspapers. Most recently, he was chief executive officer of Gwangnam Iliba, a local daily based in the southwestern city of Gwangju.

Park was born in Hamsang, South Jeolla Province, and majored in political science at Korea University. (jdaivipoo@heraldm.com)

Korea's options for coping with U.S. slump

Lee government would do well to urge Beijing to embrace more rapid currency appreciation



Barry Eichengreen
Barry Eichengreen is the George C. Pardee and Helen N. Pardee professor of economics and political science at the University of California, Berkeley.



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policy to work is by pushing down the dollar. As U.S. exports become more competitive, external demand can replace domestic demand. This is the unstated hope behind the Fed's policy of aggressively cutting interest rates.

One can question whether it will work. It is not clear whether the resources previously used for producing residential real estate and other goods and services for the home market can be rapidly redeployed toward export industries. And the strategy won't work if the rest of the world also succumbs to recession. But for U.S. policymakers, it is the only game in town.

In the case of China, the risks are different but no less alarming. Macroeconomic problems there have centered on inflation and overheating. Letting the renminbi appreciate more quickly which would damp down export demand and imported inflation, addressing both problems. But the Chinese authorities, in their wisdom, remain reluctant to contemplate this. This leaves administrative controls on bank lending as the main instrument available for addressing inflation and overheating.

Relying on controls on bank lending in turn poses two dangers. First, administrative controls are a blunt instrument. They are hard to fine-tune. Knowing that the authorities are likely to further restrict their lending later, the banks have an incentive to push loans out the door in the early months of the year.

In response, the authorities, seeing their early measures not working, tend to respond by lowering loan ceilings still further. This creates a danger that the authorities will overdo it, transforming the overheating problem into a sharp growth slowdown.

Second, in contrast to renminbi appreciation, which discourages the consumption of imports and encourages Chinese enterprises to shift toward production for the home market, controls on bank lending do nothing to address the problem of China's exploding external surplus. To the contrary, by discouraging domestic investment spending,



they are likely to only enlarge that surplus still further. None of this bodes well for Korea. Both the U.S. and China will be pumping additional exports into global markets. And neither will be increasing their own purchases of Korean goods at the same rate as before.

So what responses are available to the new Lee Myung-bak government? To start with, it can add its voice to that of other governments encouraging Beijing, behind the scenes, to let the renminbi appreciate more rapidly against the dollar as part of a comprehensive strategy of rebalancing the Chinese economy.

Curbing faster currency appreciation with additional government spending on infrastructure, education, health care and urban development, especially in the country's west, would address China's alarming social and regional inequality. It

would begin to narrow the external surplus that creates problems for other countries and poses risks for the world economy. And moving to a more flexible exchange rate would enhance the ability of the People's Bank of China to use monetary policy to pilot the economy.

more flexible exchange rate regime is in China's own interest, not simply in the interest of other countries.

In dealing with Beijing, quiet diplomacy is likely to work better than public China-bashing. This too is something that Seoul, unlike Washington and

U.S. will be weak.

These are all reasons why the won will tend to strengthen against the dollar, no matter how much Korean policymakers wish to resist. Beijing is more likely to allow faster renminbi appreciation if it is confident that other Asian currencies will move up along with it — that is, if it does not see China as losing competitiveness to its East Asian neighbors.

Now is not the time for ambitious schemes for exchange-rate coordination in East Asia. Such schemes are unlikely to bear fruit. The more countries they entail, the more difficult and time consuming they would be to arrange. These are ideas for the future. Now, in contrast, is the time to signal that Korea is willing to support a Chinese currency initiative not just with words but also with deeds.

The other way for Korea to show China the way forward is

through the judicious use of fiscal policy. When the currency is strengthening and export growth is slowing is the right time to use government spending to give a boost to domestic demand. To be sure, one hesitates to encourage the new administration to move in this direction for fear that it will propose an even grander canal from Busan to Seoul. What Korea needs is not more canals, a 19th century form of infrastructure, but better high schools and universities, which constitute the infrastructure of a knowledge economy.

The parlous state of the world economy means that President Lee's goal of restoring 7 percent growth is unlikely to be reached anytime soon. There is little scope for faster growth in the short run. Still, there are some useful things, in terms of domestic spending policy and foreign financial diplomacy, for the new administration to do to prevent the situation from getting worse.

Korea can emphasize that faster currency appreciation in the context of a more flexible exchange rate regime is in China's own interest, not simply in the interest of other countries.

In making these points, Korea, with its history as a fast-growing export-led East Asian economy, has a credibility that the U.S. and Europe lack. Korea can point to its own crisis in 1997-8 as evidence of the dangers of not moving more quickly to greater exchange rate flexibility and of undue delay in rebalancing the economy. It can emphasize that faster currency appreciation in the context of a

Brussels, tends to understand. The other thing Korea can do is to reassure China that, if it lets the renminbi appreciate more quickly against the dollar, it will not be alone. The dollar is going to have to fall further, not just against the renminbi but also against the won — like it or not. Interest rates in the U.S. are going to be low relative to interest rates in Korea for some time to come. Demand in the

U.S. are going to be low relative to interest rates in Korea for some time to come. Demand in the

Koreans humanize treasured gateway ruined by arsonist

As a traditional Korean requiem blared, thousands of people mourned in front of an historic gate recently demolished by alleged arson, many kneeling before what remained of their foremost national treasure. "I feel as if I had lost a family member," said Kim Jin-twon, who runs a small shop near the 610-year-old Sungnyemun gate, now blackened by fire and filled with charred debris. "I shed many tears when I saw the gate burn on television," said 12-year-old Im Myeong-ryu, who traveled here with her family from the southern port city of Busan. "I came here to say good-bye."

The gate has stayed with us through centuries of war and invasion," Soh Yeh-soon, 84, said in tears. "I never thought it would leave us so unexpectedly." The fire at the gate, popularly known as Namdaemun, started last Sunday, engulfing Seoul's top landmark and National Treasure No. 1. A 70-year-old man, who admitted he set the gate ablaze because of dissatisfaction with government compensations for his property, has been arrested. Although scores of firefighters scrambled to douse the blaze, two entire wooden tiers crumbled in hours, sending shock waves through a nation deeply proud of its historic legacies. "The gate has been part of our life

and culture for so long that when we lost it, the pain felt as if we were losing an intimate friend," said Kwak Keum-jo, a psychology professor at Seoul National University. "It's no wonder people developed feelings toward it as if it were human."

Lee Myung-bak, the president-elect set to take office on Feb. 25, deplored the incident when he visited the fallen gate last Monday. "People must feel hurt," he said. "Namdaemun was a symbolic place that anyone visiting Seoul wanted to see."

Some suggested the gate has been more than a "family member." "We've lost a protector," said Jeon Hang-soo, an expert of poongsoo, or the centuries-old practice of assessing the influence of natural surroundings on human affairs. "The gate was built by the Joseon Dynasty to stem the force of fire emanating from a mountain south of Seoul," he said, claiming the structure had prevented Seoul residents from becoming fiery and causing social unrest. "A handful of people even linked the fire to a supernatural cause. 'Why should something like this happen when we are switching power?' 74-year-old Joo Jin-bong said. "I feel extremely inauspicious," Park Kyeong-mi, a 43-year-old



Citizens lay flowers on an altar in front of Namdaemun in central Seoul yesterday.

Yonhap News

merchant, said. "I'm afraid the fire may signal something bad." One woman, who declined to give her name, burst into tears, claiming the tragedy "revealed the wrath of power above." "Koreans tend to interpret disasters as metaphors of divine rage or an ominous future," said Lee E-wha, a history professor at Sogwon University in North Chungcheong Province. Lee said ancient kings behaved with extreme caution and restraint whenever their people suffered disasters such as epidemics, famine and

conflagration. "Rulers were afraid people might link disasters to divine anger and challenge their power and legitimacy," he said. However, most Koreans sought to portray the incident as a human error, arguing worldly factors were to blame. "This was sparked by arson, not some lightning cast off from the skies," said Im Chul-jin, 72. "It has more to do with poor surveillance." "Warnings have long been there," said Jang Myeong-soo, 62.

Kwak, the psychology professor, said mysticism can be a powerful way of explaining overwhelming disasters. "People seek explanations after this type of misfortune," she said, adding political squabbling over whom to blame will not ease despair but deepen it. Last week, the opposition Grand National Party, to which the president-elect belongs, slammed outgoing President Roh Moo-hyun, saying the fire resulted from lame-duck delinquency. "This appears to be a tragedy that

shows how careless the Roh government has been in implementing safety measures," GNP floor leader Ahn Sang-soo said. A pro-government lawmaker, Jung Chung-rai, hit back, accusing Lee of pushing for the opening of the gate without safety measures in place when Lee served as Seoul mayor in 2006. "Pointing the finger of blame at each other will not help restore calm," Kwak said. "It may incite more anger and frustration than the fire has already caused." (Yonhap News)