

HRI Monthly Economic Review

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< Executive Summary >

□ Recent Economic Trends

The economic indices of the US, China, and Japan improves, while in Europe political uncertainty increases in the midst of deteriorating real economy. Major world stock markets performed well due to the improving economic indices. In terms of Korean economy, although employment market improves and the inflation rate is stable, physical indicators, such as production, investment, consumption etc. deteriorates as import and export volumes decrease.

□ Economic Issues Around The World

- 『Exit strategy for Korean economy to emerge from the trap of the Newly Industrializing Countries(NICS)』 : Korea, with its high dependency on foreign trade, should model itself on advanced countries with ‘domestic consumption and foreign trade in balance’, such as Germany and Sweden. The prerequisites for US\$40,000 of GDP/capita are those measures needed to enhance growth potential and strengthen economic fundamentals such as fiscal sustainability and current account surplus.
- 『Comparison of scientific and technological competitive edge between Korea and China』 : China is now posing as a formidable competitor of Korea as its national competitiveness rapidly improves. It is necessary to prepare countermeasures to ensure that Korea remains ahead of China as its scientific and technological cutting edge rapidly improve.
- 『Five Signs of Global Economic Recovery』 : ① The US showing signs of recovery in the housing market, ② Recovering export business of China, ③ Gradual solution of European financial liabilities crisis, ④ Brazil’s improving employment market and continuing foreigners’ investment frenzy, ⑤ Baht economic zone and African emerging countries.

□ The North Korean Issues

New S. Korean government should adopt the following policy priority to carry out its ‘Trust Process on Korean Peninsula’ for the normalization of the North-South relation : ① Resumption of dialogue between the two Koreas is urgently required to ease the strained relations, ② New government should make best use of the North-South economic cooperation to reinstate trust between the North and the South. ③ Policies dealing with N. Korean issues should be enforced in good balance.

I . Recent Economic Trends

□ Recent Global & Domestic Economic Trends

Major Foreign Economies

The economic indices of the US, China, and Japan improve, while in Europe political uncertainty increases in the midst of deteriorating real economy.

The GDP growth rate of the US in the fourth quarter of 2012 recorded a 0.1%(provisional figure) increased compared with previous quarter, whilst industrial production and retail sales in the US showed contradicting trends; industrial production fell by 0.1% in January due to the declining production of motors and motor parts, ending the upturn of two consecutive months, whilst retail sales rose in January by 0.1% compared with previous month thanks to the improving employment market and increasing housing prices, a continuing upturn for three consecutive months.

Europe showed signs of growing political uncertainty in the midst of declining retail sales, although industrial production improved in December 2012. Industrial production in December was up by 0.7% compared with previous month, while retail sales dropped by 0.8%. The outcome of Italy's general election may pose a hindrance to the enforcement of its austerity policy, and the recent credit rating downgrade in the UK is a cause for concern over the possibility of recurrence of the Eurozone crisis.

Japan continues to emerge from its economic lows thanks to the weakening yen and rising asset prices. Industrial production and retail sales of December 2012 recovered from the negative growth of previous month and increased by 2.4% and 0.0% respectively.

China's industrial production and retail sales recorded an increase rate of 10.3% and 15.2% in December 2012, yet another month of positive growth. The

HSBC Purchasing Management’s Index(PMI) recorded 50.4, a drop of 1.9p compared with the previous month due to declining exports from China resulting from shrinking global consumption, coupled with slack domestic consumption caused in part by the Chinese New Year holidays.

Global Financial Market

Major world stock markets performed well due to the improving economic indices.

The US stock market marginally rose thanks to the improving economic indices, while European stock markets fell due to struggling economic indices and political uncertainty. Japan’s stock market rallied in pace with Japanese government’s continuing policy enforcement for weak yen and strong determination for economic revitalization, as endorsed by the international community including the US and IMF. The yen has continued to depreciate in January and February due to this quantitative easing policy.

< Economic indices of major countries >

Economic Sectors		2011					2012					2013				
		Annual	Oct	Nov	Dec	Jan	Annual	Annual	Jan	Feb	Mar	Annual	Annual	Jan	Feb	Mar
US	Industrial Production	4.1	-0.3	1.4	0.4	-0.1	US	DJIA	12,218	13,104	13,861	14,054	14,090			
	Retail Sales	8.0	-0.2	0.5	0.5	0.1		EU	DAX	5,898	7,612	7,776	7,742	7,708		
EU	Industrial Production	3.5	-1.0	-0.7	0.7	-	EU		EUR/USD	0.772	0.756	0.737	0.761	-		
	Retail Sales	-0.6	-0.7	-0.1	-0.8	-		Japan	NIKEI	8,455	10,395	11,139	11,559	11,606		
Japan	Industrial Production	-3.5	1.6	-1.4	2.4	-	Japan		YEN/USD	77.66	85.86	91.10	92.28	-		
	Retail Sales	-1.2	0.8	-0.1	0.0	-		China	SSE	2,199	2,269	2,385	2,366	2,360		
China	Industrial Production	13.9	9.6	10.1	10.3	-	China		CNY/USD	6.3190	6.2317	6.2205	6.2273	-		
	Retail Sales	17.1	14.5	14.9	15.2	-										

Source : US department of Commerce; Eurostat; The People’s Bank of China

Source : Bloomberg
Note : SSE denotes SSE Composite Index

Korean Economy

Although employment market improves and the inflation rate is stable, physical indicators, such as production, investment, consumption etc. deteriorates as import and export volumes decrease.

Production, investment, and consumption all showed reverse signals after three consecutive months of growth. Industrial production dropped in January by 0.7% as the manufacturing and service industries were depressed, and retail sales also fell by 2.8% due to weaker volume caused by the expiration of individual consumption tax reduction at the end of 2012. Facility investment decreased by 6.5% compared with the previous month, and orders for construction works in particular showed a year-on-year drop of 53.0% due to the depressed housing market.

The trade balance remained in surplus for the thirteenth consecutive months despite reduced imports and exports in February 2013. Exports dropped by 8.6% to US\$42.3 billion, and imports fell by 10.7% to US\$40.3 billion compared with the same month of the previous year, marking US\$2.0 billion of trade surplus. The poor export performance of most industries is attributable to the reduced working days due to the Lunar New Year holidays except for IT business which performed well. Imports of raw materials, capital goods, and consumer goods also fell due to the national holidays and depressed exports, recording the least amount of imports since March 2011.

Number of workers in employment as of January 2013 recorded a year-on-year increase of 322,000. The background for this increase of over 300,000, compared with 200,000 plus of the previous month, is that the number of people employed by manufacturing industry, medical hygienic services, and social welfare services increased. Although the number of the unemployed recorded at a high level, when adjusted for the seasonal factor of new graduates looking for work, the unemployment rate was 3.4%, a 0.1%p drop compared with the same month of the previous year.

The consumer price index remained at a low level. The inflation rate of February 2013 marked a 0.3% increase compared with the previous month, and

a year-on-year increase of 1.4%, while prices for fresh vegetables showed a year-on-year increase of 7.4% due to the cold weather and heavy snow fall.

The stock market rose with optimistic expectations for the new government and deceleration of the won's strength, which despite some volatility marginally depreciated by the month end. Corporate bond yields dropped during the month of February.

The KOSPI rose in January due to positive expectations for the new government, intervention to slow-down the won's strengthening trend, and marginal inflow of capital into the markets. Strengthening pressure on the won, as caused by quantitative easing of advanced countries and the wariness of the North Korean nuclear issue prevented the won from significant depreciation. KRW/USD exchange rate marginally rose after repeated fluctuating swings.

< Korea Major Economic Indices >

(p, %)

Economic Sectors		2011			2012					2013	
		Annual	3/4	4/4	Annual	1/4	2/4	3/4	4/4	Jan	Feb
Domestic Market	Retail Sales	4.3	4.7	1.9	1.8	2.1	1.0	1.6	0.2	-2.8	-
	Facility Investment Index	0.7	-3.1	-4.7	-1.1	10.2	-0.2	-7.1	-5.6	-6.5	-
	Construction	-6.7	-8.4	-0.5	-7.2	0.6	-8.3	-2.9	-7.4	9.4	-
Foreign Trade	Export Growth Rate	19.0	21.4	9.0	-1.3	3.0	-1.7	-5.7	-0.3	10.9	-8.6
Employment/ Prices	Unemployment Rate	3.4	3.1	2.9	3.2	3.8	3.3	3.0	2.8	2.9	-
	Consumer Price	4.0	4.3	4.0	2.2	3.0	2.4	1.6	1.7	1.5	1.4
Finance	KOSPI	-	1,770	1,826	-	2,014	1,854	1,996	1,997	1,962	2,026
	KRW/USD	-	1,178	1,152	-	1,133	1,145	1,111	1,071	1,089	1,083
	Corporate Bond (BBB-)	10.38	10.31	10.12	-	10.05	9.69	8.69	8.81	8.70	8.58

Source: Bank of Korea, National Office of Statistics, Foreign Trade Association

II . Economic Issues Around The World

□ Exit strategy for Korean economy to emerge from the trap of the Newly Industrializing Countries(NICS)

Korea's diminishing chance of joining advanced countries

The potential growth rate of Korean economy which marked 6.5% in the 1990s has now dropped to mid 3%, and the nominal GDP/capita of Korea which recorded over US\$20,000 for the first time in 2007 has plateaued and remains at largely the same level. There is now growing concern over the possibility of Korean economy being trapped in the pit of the Newly Industrializing Countries(NICS) as the gap between the real economic growth rate and the potential growth rate widens. Recent consensus estimates of trends of Korean economy's potential growth rate and nominal GDP/capita based on different scenarios forecast that it will be impossible for Korean economy to join the advanced countries if the worst-case scenario occurs, whereby low growth persists with repetition of domestic economic recession and global financial crisis, bringing down the potential growth rate to 1%+.

< The timing of nominal GDP/capita reaching US\$30,000 & US\$40,000 and potential growth rate based on different scenarios >

	Growth potential rate	Nominal GDP/capita	
		US\$20,000 → US\$30,000	US\$30,000 → US\$40,000
Optimistic scenario	4%+	2007 → 2017 (10years)	2017 → 2021 (4years)
Neutral scenario	3%+	2007 → 2019 (12years)	2019 → 2025 (6years)
Worst-case scenario	1~2%+	2007 → 2020 (13years)	2020 → 2032 (12years)

Source: Hyundai Research Institute

Note: 1) The potential growth rate is the average value of GDP/capita during the period

2) Nominal GDP/capita1 is currency adjusted

Seven shared traits of the nine countries which succeeded in reaching GDP/capita of US\$40,000

The nine countries with a population of more than 10 million including the US, Japan and Germany which achieved US\$40,000 plus of GDP/capita can be classified into three different groups of advanced countries based on dependency on foreign trade: The first group is ‘domestic consumption - oriented’ advanced countries, such as the US, Japan, and Australia with less than 50% dependency on foreign trade, the second group is ‘export-oriented’ countries, such as Netherlands and Belgium with 100% dependency on foreign trade, and the third comprises those countries where ‘the domestic consumption and export is in balance’, such as Germany, Sweden, France, and Canada with 50-100% dependency on foreign trade. The degree of dependency on foreign trade can be drawn by dividing the sum of import and export amount by GDP. It took these nine countries 9.6 years on average to reach US\$30,000 from US\$20,000, and another 5.6 years on average to reach US\$40,000, while Korea is still staying at not much higher than US\$20,000 as of 2012 since it reached US\$20,000 in 2007, showing little progress for the last six years.

< Degree of dependency on foreign trade of nine advanced countries of US\$40,000 >

(%)

	Domestic consumption-oriented countries			Countries of domestic consumption and export in the balance				Export-oriented countries	
	US	Japan	Australia	France	Canada	Germany	Sweden	Netherlands	Belgium
Period for US\$30,000	21	18	39	48	69	48	60	117	136
Period for US\$40,000	24	16	41	55	70	67	77	132	155
2010	29	29	41	53	61	88	94	149	157

Source: UN.

Note: Domestic consumption-oriented = below 50% dependency on foreign trade, Domestic consumption and exports in the balance = 50%-100% dependency on foreign trade, Export-oriented = higher than 100%

The seven traits that these nine advanced countries shared in reaching GDP/capita of US\$40,000 are as follows:

1. The real GDP growth rate did not fall, but rose as the GDP increased from US\$30,000 to US\$40,000 unlike most other countries which experienced declining growth rate as the size of the economy grew. The growth rate during the period of reaching US\$30,000 from US\$20,000 was 2.44% on average, whereas the growth rate was 2.48 on average for the period of increasing to US\$40,000 from US\$30,000.
2. The fiscal sustainability improved. The government debt ratio of seven countries except Japan and Belgium was 60%+ of GDP, and the scale of fiscal deficits was within 3% except Japan and the US.
3. The current account which reflects international competitiveness maintained a good balance. The current accounts of the seven countries except the US and Australia were either in the balance or in surplus.
4. The service industry's ratio of value added increased. The service industry's ratio of value added was 68% for the period of reaching US\$30,000, and it gradually rose to 71% for the period of increasing to US\$40,000.
5. The employment rate of the nine advanced countries reaching per capita GDP of US\$40,000 maintained at a level greater than 70%.
6. The aggregate birth rate of the nine countries maintained over 1.7 on average.
7. The transparency index (TI) was over 8.0, reflecting high level of confidence and social capital.

Lessons to learn from Italy, Spain, and Greece which failed to reach US\$40,000

Not every country was successful in joining the US\$40,000 club. Having reached the juncture of US\$30,000, Italy, Spain, and Greece failed to join the US\$40,000 countries' group as the growth rate of the three countries sharply

fell due to the global economic recession and declining economic environment. The domestic consumption and the ratio of manufacturing industries rapidly dropped, the fiscal sustainability deteriorated, the current account recorded deficits, and the aggregate birth rate and the transparency index stayed at a very low level.

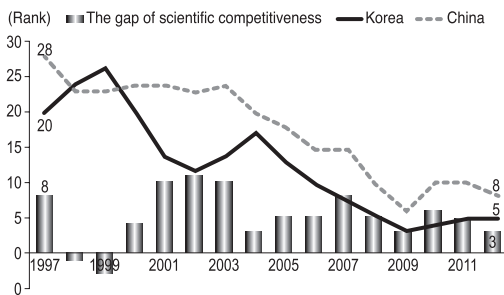
Strategy to achieve the objective of US\$40,000, targeting the seven shared traits of those successful countries.

Which way should Korea go? Korea, with its high dependency on foreign trade, should model itself on advanced countries with ‘domestic consumption and foreign trade in balance’, such as Germany and Sweden. The prerequisites for US\$40,000 of GDP/capita are those measures needed to enhance growth potential and strengthen economic fundamentals such as fiscal sustainability and current account surplus. The ratio of value added of service industry should be extended to 70% from the current level of 58% by opening-up the service industry, relaxing regulations and strengthening competitive edge. The employment rate should be enhanced to 70% from the current rate of 64% through flexible labor market conditions and improving employment security networking. Government should establish such policies whereby people can work and care for children at the same time as supporting the expansion of public nursery schools service and in-office cr?che facilities, and speeding-up the practice of paternity leave, which will eventually help enhance Korea’s current birth rate of 1.2 to 1.7, the average aggregate birth rate of those nine advanced countries. The transparency index(TI) should also be enhanced from the current 5.5 to over 8.0 through upgrading of e-government and disclosure of information. If these requirements are met, Korean economy would be able to leap to US\$40,000 and join the group of nine advanced countries. The outcome of whether Korea remains in the trap of NICS or jumps up to the level of US\$40,000 depends on how hard the 50 million Korean people work themselves towards that target.

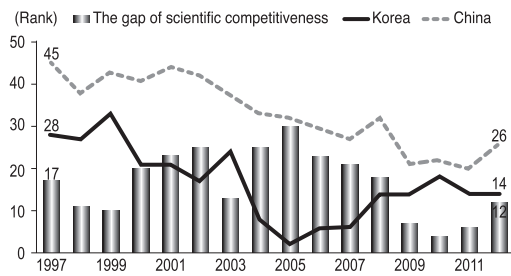
□ **Comparison of scientific and technological competitive edge between Korea and China**

China is now posing as a formidable competitor of Korea as its national competitiveness rapidly improves. According to IMD(2012), China’s scientific and technological cutting edge ranked 28th and 45th in 1997, but jumped to 8th and 26th in 2012. The gap between Korea and China in the area of scientific competitiveness was narrowed down to 3 notches in 2012 from 8 notches in 1997, and in the area of technological competitiveness the gap was reduced to 12 notches in 2012 from 17 notches in 1997.

< Comparison of scientific competitiveness between Korea and China >



< Comparison of technological competitiveness between Korea and China >



Source : IMD.

Note 1) The lower the figures, the higher the competitiveness in scientific and technological competitiveness.

2) Total 23 indicators(17 quantitative and 6 survey indicators) for Scientific competitiveness and 23 indicators for technology competitiveness(13 quantitative and 10 survey indicators) were used.

China appears lower than Korea in comparative indexes, but the speed of improvement is accelerating

China’s ratio of R&D investment to GDP is 1.77%, approximately half of Korea’s 3.74%, but China’s average growth rate of R&D investment for the last 15 years is 7.8%, more than twice as fast as Korea’s average of 3.3%. China’s number of researchers out of 1,000 economically active people is 1.5 as of 2010, which is 1/7 level of Korea’s 10.7, but China’s growth rate is now as fast as Korea’s.

China's intermediate activity indexes is lower than Korea's, but higher in some.

China is also behind Korea in the intermediate activity indexes, such as the number of patent applications and theses publications per researcher. China's number of patent applications per researcher was 32 in 2010, half of Korea's 64. China's number of SCI class paper publications per researcher was 12 in 2010 as against 15 of Korea, whereas in some cases, such as the ratio of R&D investment to the export amount of high-technology industry, China recorded 500% in 2010 as against Korea's 372%.

China is far ahead of Korea in absolute indexes, and its growth rate is fast

Not only did the total amount of China's R&D investment reach US\$104.3 billion in 2010, 3 times as much as Korea's, but also China's growth rate of R&D investment sharply increased for the last 15 years(1995-2010) by 24% on average, 3 times as much as Korea's growth rate of 8%. With regard to the number of researchers, China has 1.21 million as of 2010, nearly 5 times as many as Korea with 260,000.

China is above Korea in intermediate activity and its outcome, and is leading Korea by far in some areas.

With regards to the intermediate activity index, which includes items such as number of patent applications and thesis publications, China produced 390,000 applications and 140,000 theses while Korea recorded 170,000 and 40,000 respectively, twice and four times as many as Korea. In the area of outcome of intermediate activity, such as high-tech industry exports, the export amount of China was US\$520 billion in 2010, while Korea's was US\$140 billion, a staggering multiple of 4 times.

China is also about to overtake Korea in the area of next-generation technology

During the two year period between 2008 and 2010, China has quickly narrowed the gap with Korea in 7 core scientific and technological areas, particularly in electronics, information, telecommunication, biotechnology, machinery, manufacturing, process, energy, resource, space, aviation, and oceanography. Out of 283 items of 7 core scientific and technological areas, China appears to have already surpassed Korea in 26 items, 9% of the total as of 2010.

Overall assessment on scientific and technological competitiveness

Rebasing Korea’s level as of 2005 at 100, the result of assessment of scientific and technological competitive edge shows that China recorded 55 as of 2010 against 110 of Korea in comparative indexes., China not only surpassed Korea in absolute indexes by marking 409 against 151 of Korea, but also China’s competitive edge appears to be improving faster than Korea’s.

< Composite index comparing scientific and technological competitive edge between Korea and China >

Sections		Absolute index				Comparative index			
		Input index	Intermediate activity index	Outcome index	Composite index (A)	Input index	Intermediate activity index	Outcome index	Composite index (B)
China	1995	154	29	22	68	15	10	124	50
	2000	216	71	57	115	22	18	124	55
	2005	374	177	156	236	33	28	123	61
	2010	558	380	290	409	42	56	66	55
Korea	1995	54	35	37	42	73	63	71	69
	2000	56	56	65	59	73	93	125	97
	2005	100	100	100	100	100	100	100	100
	2010	154	124	175	151	137	85	109	110

Note: 1) Based on Korea’s level as of 2005 as 100
 2) Each index indicates arithmetic mean value of composition index
 3) Technology export indicator in the outcome index was calculated as from 2005 due to the limited sources available.

Suggestions

It is necessary to prepare countermeasures to ensure that Korea remains ahead of China as its scientific and technological cutting edge rapidly improve. Therefore Korea should:

1. Endeavor to overcome quantitative inferiority to China with qualitative superiority.
2. Enhance the efficiency of R&D investment and the degree of human resource utilization by improving R&D support system, strengthening investment support for the industrialization of technologies developed, and by improving the national R&D investment program. Korea should also encourage overseas Korean brains to return to Korea to revitalize domestic R&D activities and solidify international collaboration networking.
3. Identify and intensively foster promising technologies of next-generation markets as strategic industries for the new growth engine. Korea should also endeavor to strengthen strategic collaboration with technologically-advanced countries for the development of a new frontier and its industrialization as China has already overtaken Korea in the areas of aerospace and oceanography

▣ Five Signs of Global Economic Recovery

Growing expectation for the global economic recovery

Recently, policies for economic revitalization are being enforced almost simultaneously in major countries including the US, Europe and Japan, raising expectation for the global economic recovery. The world economy, which was in recession due to the ripple effect of European financial crisis, gradually started to show signs of recovery since the end of last year as the industrial production of both the US and China rebounded coupled with major countries' simultaneous policy enforcement for economic stimulation. The US economic

leading indicator has been on the upturn since July 2012, and China's economic leading indicator, which was on the downturn, also recovered for upturn. Here, we would like to examine what G2 can do to lead to global economic recovery.

The US housing market, the epicenter of global financial crisis, shows signs of recovery

Private consumption, which accounts for 71% of US GDP, is expected to increase as the employment rate rises thanks to the rising housing market. The housing inventory reduced to 2 million houses as of the end of 2012 from over 3 million as of 2011 due to the purchase of MBS(Mortgage-Backed Security) by the Fed last year.

The Case-Shiller Housing Price Index, which shows housing prices in 20 major cities in the US, recorded the highest level since October 2010. The sales of new houses which plummeted due to the sharp fall of housing prices in 2010 increased by 19.9% (367,000 houses) in 2012 compared with the previous year, the biggest rise in three years. The Housing Market Index, a leading indicator of housing market, has been on the upturn for eight consecutive months, raising expectation that the housing market will continue to improve.

Recovering export business of China, the largest exporting country in the world

Global export business is expected to be invigorated as the domestic economy of China, the second largest import market in the world, recovers. The export growth rate of China in December 2012 was a year-on-year increase of 14.1%, the highest in seven months, and the trade surplus recorded US\$31.6 billion, well over the forecast of US\$20 billion. The growth rate of quarterly export amount was reduced to 4.5% in the third quarter of 2012, but it bounced back to 9.4% in the fourth quarter. China's exports to the US, China's No.1 export market, increased by 10.4% in December 2012, having dropped by -2.9% in November. The overall increase of exports helped China's

economic growth rate to rise for the first time in eight quarters since the fourth quarter of 2010.

Gradual solution of European financial liabilities crisis

The Eurozone financial crisis, which put the global economy in turmoil, now appears to be subsiding due to the effect of countermeasures jointly taken to overcome the financial debt crisis. The threat of sovereign defaults of PIIGS, the epicenter of financial crisis, is weakening as the European Central Bank decided in September 2012 to purchase governments bond with no limit. The national credit rating of Greece in particular has been upgraded by six levels at the end of 2012 with a bailout loan and extended enforcement of policies to reduce government debts. The yield rate of Spain's 10-year government bond was above the critical point of 6%, but stands stable at around 5% as of January 2013.

Brazil's improving employment market and continuing foreigners' investment frenzy.

Brazil, the largest market in Latin America(44% of Latin America), is expected to lead the economic recovery of the entire Latin American region thanks to the virtuous circle effect brought by the falling unemployment rate and foreigners' investment frenzy following the decision to host the next World Cup Football. Brazil's unemployment rate has been on the downturn since July 2012, and recorded 4.9% in December 2012, the lowest in 11 months. Although Brazil's foreign direct investment(FDI) was forecasted to sharply fall in 2012 due to the economic recession, Brazil secured US\$65.3 billion of foreign investment, the fourth largest in the world, and composite leading indicator continues its gradual upturn. With the 2014 Brazil World Cup and 2016 Rio Summer Olympic to come, expectation for economic recovery is ever increasing.

Baht economic zone and African emerging countries

With its population of over 200 million, the share of Baht economy in the world GDP increased to 0.8% in 2012 from 0.5% in 2000, and is emerging as a

new huge market as its GDP per capita continues to rise. The Baht economic zone offers attractive production base as its minimum wage is lower than China's, and it is not surprising that the foreign direct investment(FDI) is on the increase. According to IMF, the expected income(1991-2008) of African region south of Sahara is higher than other emerging regions, and the FDI to Africa has also sharply increased. With development of natural resources and a growing manufacturing industry, the consumption market in Africa is expanding as personal income rises while middle class population increases.

1. The Baht economic zone means a small economic region formed by countries under the influence of the Thai Baht currency, which comprises five countries in Indochina: Thailand, Cambodia, Myanmar, Vietnam, and Laos. (Hyundai Research Institute. 「Emergence of Baht Economic Zone and Business Opportunity Offered」. HRI Chairperson's Note. October 2012).

Tasks

Although political and economic risks still exist, we should prepare for making best use of changing circumstances as the global economy is expected to be on the recovery, taking the following points in consideration:

1. Positive export-support policies should be established in preparation for the economic recovery of the US and China. While making best use of the FTA with the US, government should provide businesses exporting to the US with consulting and financial support, and should also support businesses exporting to China with a tax relief while strengthening marketing activities by maximizing the effect of K-wave.
2. Economic cooperation should be expanded with newly emerging countries, such as Brazil, and positive support should be provided for businesses exporting to emerging countries with great growth potential.
3. Government should proactively establish policies for financial support and relaxation of regulation so that businesses can advance to new markets and maximize investment.

III. The North Korean Issues

□ **Experts' opinion on North Korean policy of new government: Dialogue is the answer to reinstate trust between the two Koreas**

New South Korean government claimed to stand for flexible policies in dealing with North Korean issues including the possible summit meeting with the Chairman Kim JungUn. The purpose of questionnaires is to assist the new government to set up optimal and effective policies related to N. Korea by offering opinions of experts on N. Korea. The survey was conducted for ten days from 14th to 23rd January on 105 experts on N.Korea including researchers and professors.

Desirable policy direction for N. Korea: Reactivation of dialogue and exchange programs a must.

(Need for dialogue) Nine out of ten experts(95.2%) responded that dialogue is a must for reconciliation between the South and the North, which means it is imperative for the new South Korean government to accept North Korea as a partner to ease tension in the Korean peninsula and make progress in relations with North Korea.

(Approaches to improve the relation between the two Koreas) Majority of experts(81.0%) supported the concept of bottom-up processing which start with unofficial talks gradually developing to official-level summits to ease the strained relations between the two Koreas.

< Necessity for talks between the South and the North >

	Total
1. Yes	95.2%
2. No	4.8%

< Approaches to improve the South · North relations >

	Total
1. Humanitarian aid	48.6%
2. Private sector-led economic cooperation by	41.2%
3. Official talks	19.0%

(Priority Tasks) The top four recommendations suggested by the respondents were related to resuming talks for exchange programs and economic cooperation.

< Approaches to improve the North · South relations >

Recommendations	Total
1. Resuming South-North trade(general) by lifting May 24 sanction	23.5%
2. Resuming humanitarian aid such as rice, fertilizer, medicine etc.	19.0%
3. Resuming Mt. Kumgang & Kaesong tourism projects	18.1%
4. Pushing forward with reunion program for separated families	11.1%
5. Promoting the South · North summit meeting	8.6%
6. Calling N. Korea for non-nuclearization	7.9%
7. Expansion of social and cultural exchange programs	6.0%
8. Demanding for N. Korea's apology on incidents related to Cheonan-ham and Yoonpyung-do attacks	4.4%
9. Remarks related to introducing unification tax and to preparation for unification	1.3%

Solutions of current issues relating to N. Korea : Suggestions of flexible approaches for the expansion of economic cooperation

(May 24 sanction should be lifted in a flexible manner) 66.7% out of total 105 experts are in favor of lifting the sanction in 'phased steps' while 19.0%

supported the idea of ‘lifting of the sanction first and then demanding an apology’. On the other hand, only 14.3% are for ‘no lifting until apology is offered from N. Korea’.

(Need to resume Mt. Kumgang tourism) 46.7% said the Mt. Kumgang tourism must be resumed as it bears the symbol for reconciliation and peace between South and North Korea, facilitating contacts between the two Koreas.

(Kaesong Industrial Complex should be expanded) 81.9% are ‘for’ the expansion. Despite the strained relations between the South and the North, Kaesong Industrial Complex(KIC) has been in operation with no disruption, proving itself as an important and useful project to both Koreas.

< Solution methods of May 24 sanction >		< Methods of re-opening of Mt. Kumgang tourism project >		< Forecast for KIC project >	
	Total		Total		Total
1. Phased lifting	66.7%	1. Re-open first, and demand for guarantee for recurrence prevention	46.7%	1. For expansion	81.9%
2. Lift first, and demand for apology	19.0%	2. Guarantee for recurrence prevention first, and re-open	41.0%	2. Keeping current level	17.1%
3. No lifting without apology first	14.3%	3. Verbal promise acceptable	12.4%	3. For scale-down	1.0%

Forecast for the South-North relations to be initiated by the new S. Korean government

(Timing for the South-North summit meeting) An overwhelming majority(95.2%) of the respondents are for the summit meeting, and suggested ‘the beginning of the office term’ of the new government for the timing of the meeting(57.1%). Judging from previous two summit meetings, it is presumed that holding the summit meeting in the beginning of the office term is more effective than towards the end of the term.

< Need for summit meeting >

	Total
1. Yes	95.2%
2. No	4.8%

< Timing for summit meeting >

	Total
1. Beginning of the office term	57.1%
2. Within three years of the office term	42.9%
3. End of office term	0.0%

(Possibility of carrying out the new government’s unification policies)

The respondents said that the new government would be able to carry out most of its unification policies with highest possibility for ‘health and medical cooperation’(98.1%) followed by ‘green economic cooperation’(95.2%), ‘co-development of N. Korean underground resource’(81.9%), and ‘internationalization of Kaesong Industrial Complex’(78.1%).

< Possibility of carrying out the new government’s unification policies >

	Possibility		
	(%)	Highly possible	possible
1. Health and medical cooperation	98.1	28.6	69.5
2. Green economy(agriculture, forestation, and climate change)	95.2	25.7	69.5
3. Co-development of N. Korean underground resource	81.9	17.1	64.8
4. Internationalization of Kaesong Industrial Complex	78.1	16.2	61.9
5. Creation of mutual benefit by stepping up a triangle cooperation	68.6	5.7	62.9
6. Expansion of infrastructure to enhance N. Korea’s ability to economically rely on itself	64.8	4.8	60.0
7. Establishing of liaison office to promote exchanges and cooperation in Seoul and Pyongyang	62.8	5.7	57.1
8. Support for N. Korea to join international monetary organizations and to set up special economic zones	55.3	4.8	50.5

Policy proposal

New S. Korean government should adopt the following policy priority to carry out its 'Trust Process on Korean Peninsula' for the normalization of the South-North relation.

1. Resumption of dialogue between the two Koreas is urgently required to ease the strained relations. Experts suggested that the new government should engage in 'dialogue' first in the form of unofficial talks and then stepping up to official meetings.
2. New government should make best use of the inter-Korean economic cooperation to reinstate trust between the South and the North. In particular, the Mt. Kumgang tourism should be resumed at the earliest possible time, and the Kaesong Industrial Complex be expanded by gently lifting the May 24 sanction.
3. Policies dealing with N. Korean issues should be enforced in good balance. New government should push ahead to improve the relations with the North and bring peace to the Korean peninsula based on well-balanced policies.

[Annex]
Domestic and Global Economic Indices

[Annex] Domestic and Global Economic Indices

□ Global Growth Rate

Category	2011					2012					2013
	Annual	1/4	2/4	3/4	4/4	Annual	1/4	2/4	3/4	4/4	Annual(E)
US	1.8	0.1	2.5	1.3	4.1	2.2	2.0	1.3	3.1	-0.1	2.0
Euro Region	1.4	0.8	0.2	0.1	-0.4	-0.4	0.0	-0.2	-0.1	-0.6	-0.2
Japan	-0.6	-7.3	-2.8	10.4	0.3	2.0	5.7	-0.1	-3.8	-0.4	1.2
China	9.3	9.7	9.5	9.1	8.9	7.8	8.1	7.6	7.4	7.9	8.2

Note: 1) IMF figures of January 2013 for 2013 global projections.

2) Annual rates were compared with those of previous term for the US and Japan, with the rates of the previous term for Euro region, and with the same term in the previous year for China.

□ Economic Indicators of South Korea

Division		2011	2012			2013(E)
			the first half	the second half	Annual	
National Account	Economic Growth rate (%)	3.6	2.6	1.5	2.0	3.1
	Private Consumption (%)	2.3	1.4	2.2	1.8	2.5
	Construction Investment (%)	-5.0	-0.3	-2.2	-1.5	2.2
	Facility Investment (%)	3.7	2.6	-5.8	-1.8	4.8
Foreign Trade	Current Account (100 million Dollars)	265	138	295	433	285
	Exports (100 million Dollars) [Increase rate, %]	5,552 [19.0]	2,750 [0.5]	2,729 [-3.1]	5,479 [-1.3]	5,786 [5.6]
	Imports (100 million Dollars) [Increase rate, %]	5,244 [23.3]	2,641 [2.3]	2,555 [-4.0]	5,196 [-0.9]	5,529 [6.4]
Consumer Price (Average, %)		4.0	2.7	1.7	2.2	2.5
Unemployment rate (Average, %)		3.4	3.6	2.9	3.2	3.3

□ Economic Indicators of North Korea

(USD million)

Category	2005	2006	2007	2008	2009	2010	2011	2012	
Per capita GNI	105	103	104	114	119	124	133	-	
Amount of Trade by Year	South-to-North	715.5	830.2	1,032.6	888.1	744.8	868.3	800.2	897.2
	North-to-South	340.3	519.5	765.3	932.3	934.3	1,043.9	913.7	1,074.0
	Total	1,055.8	1,349.7	1,797.9	1,820.4	1,679.1	1,912.2	1,713.9	1,971.2

Source: THE BANK OF KOREA, Ministry of Unification

Hyundai Research Institute

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HRI Contact Information

HQ 1-7, Yeonji-dong, Jongno-gu, Seoul, Korea
Contact 82-2-2072-6218
Website <http://www.hri.co.kr>