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Internationalization of KIC will lead to enhancement of international competitive edge of KIC, which can be materialized by securing overseas markets for KIC products through FTAs. Korea should form a negotiation strategy when concluding FTA in the future, and at the same time make best use of existing FTAs to secure new markets by enhancing international competitive edge of KIC products.

Ⅰ. Recent Economic Trends

□ Recent Global & Domestic Economic Trends

Major Foreign Economies

The US economy is slowly recovering thanks to the recovery of housing, business and consumption, and China is going through a transitional period of changing its major growth engine from export to domestic consumption. Japan shows a sign of unease over the limitation of Abenomics. Europe's unemployment rate reaches a record high amid deteriorating real economy.

US retail sales bounced back, but industrial production moved downward. Retail price rose in April 2013by 0.1% compared with that of the previous month due to the expansion of asset effect of wealth as a result of rising housing prices while industrial production in April fell by 0.5% due to the shrinking private investment.

Although Europe's financial crisis is being settled, Europe is still going through difficulties to break away from the recession of the real economy. Industrial production rose by 1.0%, but retail sales fell by 0.1% in March 2013 compared with that of the previous month. The biggest issue facing Euro Zone in April is the record high unemployment rate of 12.2%, a 0.1% rise from the previous month, with the youth unemployment rate of 24.4%. Euro Zone°Øs consumer price index(CPI) in May increased by 1.4% compared with the same quarter of 2012, showing a higher upturn than 1.2% in April.

Japan showed a sign of anxiety over the possible failure of Abenomics with falling interest rate on government bonds and increasing volatility of JPY/USD exchange rate. Industrial production was up by 0.9%, but retail sales was down by 1.5% in March 2013. Core consumer prices fell by 0.4% in April compared with that of the same quarter of 2012, casting a negative sign on a successful

emergence from the long-term deflation.

China's industrial production and retail sales both showed upturn amid switching over from export-oriented economy to domestic consumption-led economy. In April, Industrial production and retail sales recorded a month-on-month increase of 9.3% and 12.8% respectively, a continuing upturn from the previous month.

Global Financial Market

Major Stock markets show mixed trends

The US stock market shows a continuing upturn thanks to the extended quantitative easing and improving housing market, while European stock markets turned downward due mostly to the depressed real economy lasting longer than expected and a record high unemployment rate. Japan's stock market showed a downturn due to the concern over the possible failure of Abenomics. JPY/USD exchange rate appreciated due to the sense of unease over the limitation of Abenomics performance.

< Economic indices of major countries >

(%)

Economic Sectors		2011	2012	2013		
		Annual	Dec	Feb	Mar	Apr
US	Industrial Production	3.4	0.1	0.9	0.3	-0.5
	Retail Sales	4.7	0.5	1.1	-0.5	0.1
EU	Industrial Production	3.2	0.7	0.3	1.0	-
	Retail Sales	-0.2	-0.7	-0.2	-0.1	-
Japan	Industrial Production	-1.4	2.4	0.6	0.9	-
	Retail Sales	-1.2	0.0	1.7	-1.5	-
China	Industrial Production	13.9	10.3	9.9	8.9	9.3
	Retail Sales	17.1	15.2	12.3	12.6	12.8

Source: US Department of Commerce; Eurostat; The People's Bank of China
Note: US, EU, Japan QoQ, China YoY

(p, yen, euro, yuan)

Economic Sectors		2011	2012	2013		
		Annual	Annual	Apr	May	Jun
US	DJIA	12,218	13,104	14,840	15,116	15,254
EU	DAX	5,898	7,612	7,914	8,349	8,286
	EUR/USD	0.772	0.756	0.764	0.767	0.770
Japan	NIKEI	8,455	10,395	13,861	13,775	13,262
	YEN/USD	77.66	85.86	97.89	101.05	100.57
China	SSE	2,199	2,269	2,178	2,301	2,299
	CNY/USD	6.3190	6.2317	6.1650	6.1309	6.1347

Source; Bloomberg

Korean Economy

Production increased while consumption and investment dropped. Trade balance recorded a surplus for the 16th consecutive month. Employment environment shows some sign of improvement and inflation rate remains stable.

Production increased while consumption and investment dropped. All Industry Production in April marked a month-on-month rise of 1.6% thanks to the good performance of construction and mining & manufacturing industries. Retail sales increased with durable goods such as communication equipment and computer, but decreased by 0.5% with semi-durable goods such as clothes and nondurable goods such as vehicle fuels. Equipment investment dropped by 4.0% compared with that of the previous month as the investment in transportation equipment decreased although investment in machinery increased.

Exports in May 2013 recorded an increase for the third consecutive month, and the trade surplus sharply rose. Exports in May recorded US$48.4 billion, a year-on-year rise of 3.2%, while imports marked US$42.4 billion, a decrease of 4.8%, showing a trade surplus of US$6 billion, a record high amount of surplus since October 2010. The total export value increased due to the good export performance of IT products and rising exports to emerging countries. Imports of raw materials significantly fell while imports of capital goods and consumer goods increased.

The number of workers in employment recorded a year-on-year increase of 345,000 in April 2013. Employment in manufacturing, hygiene, and social welfare service industries increased, but decreased in construction industry, resulting in a total increase of 300,000 plus.. The unemployment rate was3.2%, a year-on-year fall of 0.3%p, and the number of the unemployed dropped to 825,000, a year-on-year drop of 70,000. The unemployment rate fell compared with that of the same month of 2012 with an increase of the employed of over 300,000 for the first time in three months and with the size of economically inactive population also rising.

The consumer price index remained at a low level. The inflation rate of May 2013 marked no change from that of the previous month, and a year-on-year increase of 1.0%, a more -than-1% increase for seven consecutive months. Prices for petroleum such as gasoline, diesel, and LPG for vehicle fuel dropped by 7.4% compared with that of the last year, contributing to the price stabilization. The consumer price index for living necessaries showed a year-on-year increase of no more than 0.2%, marking a record low inflation rate since 1996 when the statistics of this kind first became available.

The stock market fell with the slowing depreciation of the yen, and KRW/USD exchange rate marginally appreciated due to the FOMC announcement suggesting a cut-down of quantitative easing. Corporate bond yields rose during the month of May.

The KOSPI rose in May as the weakening trend of yen is settling down and with stronger foreign buying.

KRW/USD exchange rate marginally appreciated due to the FOMC announcement suggesting a reduction of quantitative easing. Corporate bond yields(BBB-) rose to 8.76% in May.

< Korea Major Economic Indices >

(p, %)

Economic Sectors		2011			2012					2013		
		Annual	3/4	4/4	Annual	1/4	2/4	3/4	4/4	1/4	Mar	Apr
Domestic Market	Retail Sales	**4.5**	0.5	0.0	2.3	1.0	0.3	1.2	0.4	-1.3	-0.5	-
	Facility Investment Index	**4.0**	0.1	-2.8	-2.0	6.4	-5.0	-6.8	0.8	-4.6	-4.0	-
	Construction	**-6.4**	-5.4	3.0	-5.8	-5.6	-0.9	1.0	1.4	4.4	9.4	-
Foreign Trade	Export Growth Rate	**19.0**	21.4	9.0	-1.3	2.9	-1.7	-5.8	-0.4	0.4	0.4	3.2
Employment/ Prices	Unemployment Rate	**3.4**	3.1	2.9	3.2	3.8	3.3	3.0	2.8	3.6	3.2	-
	Consumer Price	**4.0**	4.3	4.0	2.2	3.0	2.4	1.6	1.7	1.4	1.2	1.0
Finance	KOSPI	-	1,770	1,826	-	2,014	1,854	1,996	1,997	2,005	1,964	2,001
	KRW/USD	-	1,178	1,152	-	1,133	1,145	1,111	1,071	1,111	1,101	1,130
	Corporate Bond (BBB-)	-	10.31	10.12	-	10.05	9.69	8.69	8.81	8.50	8.48	8.76

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

Ⅱ. Economic Issues Around The World

□ Current State and Task of Improving Aging Infrastructures

Definition and Significance of Infrastructure

Infrastructure, in general, refers to basic social facilities essential for people's daily lives and economic activities such as roads, bridges, energies, and water and sewage. Infrastructure plays a key role when it comes to the safety and quality of people's lives and economic activities. OECD divides infrastructures largely into four areas: Transportation(road, railway, airport, and harbor), Energy(power plants, transmission and distribution of electricity, oil pipelines, and gas pipelines), Water(water and sewage), and Telecommunication(wire, wireless, and internet). This report, however, has classified them into the following three categories due to the limitation of data available: Transportation(bridges, tunnels, harbors, and retaining walls), Water Resources(dams, rivers, water and sewage), and Industry(industrial complexes).

In the 1970s, many major infrastructures including highways such as Kyeongbu, Honam, Youngdong, and Namhae, and a number of large bridges were constructed over the Hangangriver with the rate of paved road sharply increasing from 10% to 33% in the same decade. As the number of infrastructures aging more than 30 years are increasing, so grows the risk of accidents involving aging infrastructures. HRI therefore surveyed the current state of the aging infrastructures to suggest solutions for improvements.

Definition, Current state, and Issues of Aging Infrastructures

Infrastructures older than 30 years are defined as aged infrastructures. The ground for this definition is based on the Corporate Tax Act, which defines a minimum of 30 years and a maximum of 50 years as depreciating durable life

of 'a ferroconcrete' building. We use the minimum 30 years of age as the defining criterion for aging infrastructure, considering the fact that infrastructures of Korea were mostly built in the 1970s. This was a time when the level of Korea's civil engineering and safety management system were not well-established compared to the current state, where people's safety is put as the utmost importance. Because Korea Infrastructure Safety and Technology Corporation, which sets a minimum of 30 years old and safety class of "C" or lower as the requirements for conducting a precision safety inspection, having the minimum of 30 years old as the criterion of aging infrastructure is no harm. We also defined the ratio of infrastructure facilities of 30 years or older out of the total infrastructure as the rate of aging infrastructure.

First, the average aging rate of transportation infrastructures(bridge, tunnel, harbor, and retaining wall) is 6.3%, relatively low. However, the aging rate of harbors and retaining walls are well above the average with the rate of 13.1% and 12.7% respectively. Particularly, the aging rate of railway retaining walls, railway bridges, and railway tunnels are 60.5%, 28.5%, and 8.8% respectively, posing a serious issue of aging infrastructures. In terms of bridges, despite the relatively low rate of 5.7%, 465 bridges and 109 retaining walls are older than the minimum durable years of 30.

Second, the aging rate of water resource infrastructures(dam, river facilities, and water and sewage) is 20.5%, a very high level. The aging rate of dams(including reservoirs) in particular is as high as 55.9%. River facilities(20.1%) are also fast aging. Especially, in the case of dams exclusively for agricultural and industrial use, 277 dams are older than 30 years with an aging rate as high as 57.6%. More than 200 floodgates are also older than 30 years. When it comes to water and sewage, which is closely connected to the quality of life, 109 facilities are aged more than 30 years, most of which are in provincial areas, cause concern over the possibility of securing finance for investment to improve the aging water and sewage facilities due to the low fiscal self-reliance ratio of provincial governments.

Lastly, the parcel out ratio of industrial complexes older than 40 years out of the total 54 industrial complexes managed by Korea Industrial Complex Corporation is only 9.4%, and 44.9% of industrial complexes are aged between 30 and 39 years. The rate of aging of industrial complexes based on the age and the size of the areas is estimated to be 54.2%, and particularly, the industrial complexes created in the 1960s and 1970s in Kuro, Bupyung, Kumi,

Changwon, Yeosu, and Ulsan are in need of remodeling or renovation.

As a whole, the average aging rate of 7 areas of infrastructures excluding industrial complex is 9.3%, and 1,352 facilities have already passed the durable useful life (30 years). We can say that we have now entered 'the age of aging infrastructure' with the ratio of aging facilities reaching 9.3%, well above the critical point of 7%, as we define a society with the age group of 65 and over comprising more than 7% of the total population as an aging society. The aging rate of water resource infrastructures is 20.5%, a very high rate and higher than any other infrastructure area. The aging rate of dams including reservoirs in particular is as high as 55.9%. River facilities(20.1%) are also fast aging. The average aging rate of transportation infrastructures is 6.3%, relatively good although those of harbors and retaining walls are 13.1% and 12.7%, well above the average. Particularly, the aging rate of railway retaining walls, railway bridges, and railway tunnels are 60.5%, 28.5%, and 8.8% respectively, raising a serious issue of aging infrastructures. Although the aging rate of bridges is 5.7%, as many as 465 bridges are older than the durable years of 30, and 109 retaining walls are also older than the same durable years, which require special attention.

< Aging Ratio of Infrastructure>

(Unit: %, facilities)

Transportation				Water Resource			Industrial Complex*	Total Infrastructures*
Bridges	Tunnels	Harbors	Retaining Walls	Dams*	River Facilities	Water & Sewage		
5.7 (465)	5.0 (106)	13.1 (39)	12.7 (109)	55.9 (292)	20.1 (232)	7.7 (109)	54.2 (-)	9.3 (1,352)
Railways 28.5	Railways 8.8	Flood gates 50.0	Roads 0.7	Multi purpose Dams 25.1	Estuary Weir 18.2	Industrial Use 16.7		
Road 3.1	Road 3.1	Mooring Facilities 12.8	Railways 60.5	Power Generation 42.1	Sluice Gate 20.3	Provincial Water 12.4		
Covered 14.6	Under ground 3.5		Structures 0.8	Industrial Use 57.6	River Bank 18.4	Metropolitan Water 5.1		
				Provincial water 42.9		Sewage Facilities 0.0		

Source : Hyundai Research Institute

Note : 1. The number of facilities stands as of the end of 2010
2. Figures in brackets are the number of facilities
3. 'Dams' is inclusive of reservoirs and 'Industrial Complex' is based on area
4. Aging Rate = (Number of facilities 'older than 30 years' / Total number of facilities)*100
5. Overall aging rate of infrastructures was based on 7 infrastructures except for 'Industrial Complex'

Task of Improving Aging Infrastructures

Investment to improve 1,352 infrastructure facilities older than 30 years (as of the end of 2012) will contribute not only to the enhancement of the quality of life, but also to revitalization of the national economy through invigoration of construction business.

To implement investment to improve aged infrastructure facilities, Korea should model on the US, the UK, and Australia employing infrastructure appraisal system for reliable and accurate inspection, and publishing periodic appraisal reports.

At the same time, private capital should be raised through the Private and Public Partnership(PPP) to increase the SOC budget, which is being cut as a result of the SOC budget being subordinated to the welfare budget in priority. The ratio of budget for the maintenance of infrastructures out of the total SOC budget should be increased to around 30% from the current 20% to reduce safety accidents involving aged infrastructure facilities.

□ Survey on Perception Gaps of Welfare between Generations

Aging Society and Concerns over the Finance for the Welfare System

There is a concern of potential conflict between generations as the issue of welfare budget and the national pension fund, in particular being exhausted due to the fast-paced aging society, becomes interlinked with the issue of unemployment of young people. As the recent media shown on the internet by youths demonstrating against the free passage of pensioners on the subway shows, conflict of interest between generations can arise at anytime. It is therefore necessary to set the direction of welfare policy after considering the outcome of surveys conducted to analyze the perceived gap in the welfare system between different generation groups.

Analysis on Perception Gaps on Welfare System between Generations

(Perception of Koreans on welfare system) More than half of Koreans(55.2%) believe that Korea's welfare system is insufficient in its economic standard, and 8 out of 10 think that they personally are not benefiting enough from the government. 60.8% of Korean population are prepared to pay more tax to have more welfare benefits.

(Perception gap between generations) The survey result shows a huge gap between the young and the old generation in the perception of welfare system:

1. Young people in their 20s(51.6%) and 30s(55.0%) consider welfare before economic growth, whereas people in their 50s(72.6%) believe economic growth should come first before welfare.
2. With regard to the preference for the type of welfare system, people in their 74.8% of the 50s and older prefer selective welfare system in comparison with 58.9% of people in their 20s do.
3. The 50s and older(57.8%) are generally happy with the present level of welfare system compared with 34.1% of the 20s.
4. Younger generations are worried about the level of the future welfare system. 53.8% of the 30s believe that the coverage of the welfare system will shrink in the future.

(Possibility of narrowing the gap between generations) Although a considerable gap exists between generations in the perception of welfare, there is a good chance to bridge the difference. Young people in their 20s(70.6%), 30s(74.9%), and 40s(72.7%), for instance, tend to acknowledge the necessity for welfare benefits for the aged for the contribution they have made toward the economic growth of Korea compared to 63.8% of people in their 50s. People in higher age group appear to place job creation for young generation before welfare.

National Pension as a Means to Prepare for Old Age

Many people believe that the National Pension alone would not guarantee a happy life in old age. People in their 20s(61.7%) and 30s(65.3%), in particular, are not convinced that the National Pension will secure their lives in old age, for which the government would have to find a solution to address the weak public perception of National Pension. However, National Pension is still regarded (22.5%) as the first option for the means of preparing for old age. To solve the problem of insufficiency of National Pension, people prefer to postpone the timing of receiving National Pension (49.2%) rather than to increase the contribution toward National Pension(19.5%) or to accept reduced amount of National Pension(31.3%). In the case of special pensions for soldiers and civil servants, vast majority prefer to find an internal solution including postponing the timing of receiving pension more than increasing tax.

Suggestion

The growth of demand for increasing welfare benefits as the economy develops is inevitable, and therefore, it is necessary to set a clear policy to address the issue of balancing tax and welfare. It is time for Korea to reach a national agreement on how to maintain balance between tax and welfare considering the fact that many people are concerned over the insufficient level of welfare they are to receive. At the same time, government should also try to address the conflicting interest between generations in relation to welfare by revealing relevant facts and information clearly and convincingly. The government should, for instance, take appropriate proactive measures to prevent conflict of interest between generations that could reoccur in the future by first publishing the outcome of this survey on conflict between generations. It appears that postponing the timing of receiving National Pension is the best option to solve the issue arising from budget deficit of National Pension fund.

□ Forecast of the Northeast Asia's Infrastructure Market and Suggestions

Expectation for Expansion of Infrastructure Market of China and Russia

Demand for infrastructure is expected to grow fast as population and private income sharply increase in a rapidly urbanizing society, considering the economic growth of China, Russia, and other Northeast Asian countries is expected to continue its rapid rise. A new opportunity is set to emerge as China and Russia in particular continue to increase investment on infrastructure. The size of infrastructure market of Northeast Asia represented by China, Russia, Korea, and Japan is anticipated to grow from US$282.4 billion in 2010 to US$615.3 billion in 2020, an average annual growth rate of 8.1%. The ratio of infrastructure market size of China and Russia combined was 62.0%(US$175.2 billion) in 2010 and is expected to sharply rise to 74.4%(US$457.8 billion) in 2020.

Current State and Prospect of Infrastructure Market of China and Russia.

The prospect and the current state of infrastructure market of China and Russia are as follows: In the case of China, overall infrastructure market is forecast to grow fast, the energy-related infrastructure in particular. Recently, the demand for China's infrastructure for energy sector is gathering pace due to the expanding investment on new power plants and oil & gas pipelines to meet the growing demand for energy, and as a result, China's infrastructure market is projected to expand with average annual growth rate of 9.5% for the period of 2010 to 2020, reaching US$322.7 billion in the year 2020, approximately 2.5 times the 2010 size of US$130.8 billion. Infrastructure market for energy sector, in particular, is expected to grow from 56.9% to 71.1% for the same period.

Russia is also set to see substantially expanding infrastructure market focusing on transportation and energy sectors. Russia is anticipated to significantly expand investment not only on transportation infrastructure

facilities for logistics and international events such as the 2014 Sochi Olympic Winter Games and the 2018 World Cup Football Games, but also on the construction of oil pipeline for oil exports. The size of infrastructure market of Russia is, therefore, projected to rise to US$135.1 billion in 2020 from US$44.4 billion recorded in 2010. Particularly, the infrastructure market for transportation and energy, which accounts for 99% of total infrastructure of the Russia, is expected to expand at the annual growth rate of 11.8% for the period of 2010 to 2020.

Despite infrastructure market of China and Russia rapidly expanding, the market availability for Korean infrastructure industry remains at an insignificant level. The value of Korean overseas construction orders was US$64.88 billion as of 2012, an increase of 12 times compared with US$5.43 billion recorded in 2000. However, the size of construction orders secured from China and Russia remains at US$320 million and US$150 million respectively, no more than 2.4% and 0.2% of the total construction orders secured from overseas. The type of work Korea secured from China seems to be focused on specific items; the ratio of the building projects out of the total construction orders secured from China in 2012 reached as high as 44.0%, or 75.5% in value terms. Similarly, the ratio of the building projects out of the total construction orders secured from Russia in 2012 marked 30.8%, which is 50.3% in terms of value. Although the largest amount of a single building project Korea won from Russia in 2007 was US$100 million, it sharply fell to US$11.4 million in 2012. If Korea could successfully overcome such difficulties and win a mere 5% of infrastructure markets of China and Russia, the infrastructure exports of Korea to these two countries would be as much as US$15 billion, which is 23% of US$64.88, the total overseas construction orders Korea secured in 2012.

Suggestion

Considering that the infrastructure markets of China and Russia are emerging as important markets with huge growth potential and therefore important for Korean economy, Korea should approach these two markets

with more positive and aggressive attitude based on experiences acquired in existing infrastructure markets:

1. Korea should be able to maximize the synergy between different project types by diversifying specialist works.
2. Efforts should be made to enhance the value added when exporting infrastructure facilities to China and Russia.
3. Korean infrastructure exporters should utilize their capacity to the maximum and develop new technologies optimal to the infrastructure market of China and Russia.
4. Korea should set up marketing strategy for each type of infrastructure, and also establish inter-governmental partnership with China and Russia as well as strengthening support for exporters of infrastructure.

Ⅲ. The North Korean Issues

□ Task of Internationalization of Kaesong Industrial Complex(KIC)

Current state of internalization of KIC

The exports made from KIC recorded 26.8% of the total production in 2006, but gradually decreased to only 7.8% as of the end of 2012. Major countries that KIC exported to are Australia(44.7%), EU(13.9%), Russia(12.1%), the Middle-East, China, and Japan(2.4%). The reason for the falling export ratio of KIC is that the products of KIC are classified as products made in N. Korea. Internationalization of KIC will lead to enhancement of international competitive edge of KIC, which can be materialized by securing overseas markets for KIC products through FTAs. It is therefore essential for the country origin of the KIC's products be recognized and treated as an exceptional case.

<Trend of Production and Exports from KIC>

(Unit :US$10,000)

	2005	2006	2007	2008	2009	2010	2011	2012	ToTal
Production (A)	1,491	7,374	18,478	25,142	25,647	32,332	40,185	46,950	197,599
Export (B)	87	1,983	3,967	3,584	2,860	3,668	3,687	3,639	23,474
Export Ratio(B/A)	5.8%	26.8%	21.4%	14.3%	11.2%	11.3%	9.2%	7.8%	11.9%

Source : Kaesong Industrial District Management Committee, Statistics of Kaesong Industrial District

FTA and KIC

To date, Korea has concluded 10 Free Trade Agreements with 45 countries including Chile, Singapore, EU, and USA, and 8 FTAs have already entered into effect. Korea signed for FTA negotiation with Turkey and Columbia in August 2012, and is negotiating with Canada, Vietnam, Mexico, China and others for FTA. When concluding FTA, Korea should insert a 'special clause' in relation with country of origin to facilitate products made in KIC to be recognized as products made in Republic of Korea. In the case of products for export, the country of origin of the products is one of the crucial factors deciding the level of competitive edge. If KIC is recognized as an outward processing zone, the competitive edge of the KIC exports would be greatly enhanced with advantage in customs duty. The KIC products exported to countries such as USA, EU, Japan and others would not be entitled to a most-favored-nation status if the country of origin is declared as N. Korea for N. Korea is not a member country of WTO. Furthermore, KIC products are excluded from the benefit of special customs duty or subject to extremely high rate of customs duty to discourage exports of KIC products to the US, EU, Japan and others as a part of economic sanctions imposed on N. Korea. If KIC can be recognized as an Outward Processing Zone and allowed easier access to the US market, not only many small & medium-sized businesses, but also large business conglomerates and overseas businesses, which were hitherto reluctant to invest in KIC because of the risks involved despite N. Korea°Øs low labor cost and good quality of labor will be attracted to invest in KIC. If this happens, the first phase of KIC will be even more successfully progressed, which will prompt the development of the second phase as an export-oriented industrial base.

Case study on Qualifying Industrial Zone(QIZ) of Jordan and Egypt

KIC should be accepted as an Outward Processing Zone in the Free Trade Agreement concluded between Korea and the US which contains relatively strict criteria before KIC can be truly internationalized. Qualifying Industrial

Zone(QIZ) is an exceptional measure provided by the US to Jordan and Egypt, which carries a significant meaning for the internationalization of KIC. QIZ is a special zone exempted from customs duty quota, and is a revised type of Export Processing Zone(EPZ) usually adopted by countries with labor-intensive industrial structure in the early stage of economic development for industrialization and opening-up to foreign markets. Products manufactured in EPZ are qualified for special treatment in relation to tax and customs duty while goods produced in QIZ are entitled to special benefits only when the goods produced in QIZ are exported to specified countries.

(1) Case study of QIZ granted to Jordan by the US

The United State Trade Representative nominated Al-Hassa industrial estate in Irbid, a city in northern Jordan as the world's first QIZ in March 1998. This was made possible by extending the application of FTA concluded between the US and Israel in 1985 to Jordan as a qualifying industrial zone to grant one-sided special treatment to Jordan. The background for granting QIZ to Jordan was to institutionalize the economically interdependent relationship between Israel and Jordan and to strengthen the peace treaty between Israel and Jordan, and ultimately to help settle peace permanently in the Middle East by easing tension between Israel and Arab countries, using Jordan as a medium. The purpose of this exceptional consideration given to Jordan was also to reward Jordan as a mediator for the Middle East Peace Agreement, and eventually secure political stability in the Middle East by encouraging Jordan to join in the global economic order.

(2) Case study of QIZ granted to Egypt by the US

Based on the agreement concluded in December 2004 between the US and Israel, Egypt made an agreement with the US through, which Egypt was able to export products to the US without having to pay for any customs duty and without a quota provided the products were manufactured in a designated industrial estate in Egypt using a certain percentage or more of raw materials produced either in Israel or Egypt.

The background for designating a QIZ in Egypt is for the US government to recognize the economic reform the Egyptian government achieved, and at the same time to pacify Egyptian national sentiment in terms of the sensitive politics involved in the Middle East.

Suggestion and Task

Korea should form a negotiation strategy when concluding FTA in the future, and at the same time, make best use of existing FTAs to secure new markets by enhancing international competitive edge of KIC products. Korea, when concluding FTA in the future, should positively seek to adopt the ISI type of the FTA between Korea and Singapore, which is most favorable for KIC products to be recognized as products made in S. Korea. For the maximum utilization of the existing FTAs, it is also recommended to introduce the QIZ cases of Jordan and Egypt to the FTAs concluded between Korea and US, Korea and EU, and Korea and Turkey which adopt Outward Processing Zone(OPZ) clauses.

With KIC recognized as an Outward Processing Zone, the talks on denuclearization of Korean peninsula should make progress, and N. Korea further encourage to focus on economic reform with support from international community while S.Korea endeavors to enhance the international awareness of the role of KIC.

[Annex]
Domestic and Global Economic Indices

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□ 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	0.4	2.0
Euro Region	1.4	0.8	0.2	0.1	-0.4	-0.6	-0.1	-0.2	-0.1	-0.6	-0.3
Japan	-0.6	-7.3	-2.8	10.4	0.6	2.0	6.1	-0.9	-3.7	0.2	1.6
China	9.3	9.7	9.5	9.1	8.9	7.8	8.1	7.6	7.4	7.9	8.0

Note: 1) IMF figures of April 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 (%)	3.7	2.6	1.5	2.0	3.1
	Private Consumption (%)	2.4	1.2	2.2	1.7	2.5
	Construction Investment (%)	-4.7	-1.9	-2.4	-2.2	2.2
	Facility Investment (%)	3.6	2.3	-6.1	-1.9	4.8
Foreign Trade	Current Account (100 million Dollars)	265	138	295	431	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 is established by Chung Ju-yung, the first CEO, founder and honorary chairman of Hyundai Group in 1986. HRI is a leading Korean research think tank committed to studying and analyzing the economic and industrial environment as well as reunification economy of Korea. HRI, further, has it's own businesses such as business consulting, education and training service, and knowledge-content business.

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