

HRI

Monthly Economic Review

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□ Recent Global & Domestic Economic Trends

Major Economies

The expectation for the economic recovery has risen thanks to the improving US economic indices, while the Euro Zone economic crisis is re-emerging. The growth rate of emerging countries has also slowed down.

The expectation for the economic recovery grew as the US industrial production was up by 0.1% in June and 0.6% in July. The growth rate of retail sales marked 0.8% in July, turning positive for the first time in four months. The necessity for the Fed to implement a third additional quantitative (QE3) easing policy decreased with the signs of improving major economic indices of the US. However, concern about European crisis is re-emerging as the Euro Zone economy is still struggling for recovery amid the possibility of Moody's move to downgrade the European Union's credit rating.

Germany's Purchasing Manager's Index (PMI), an economic sentiment index, is staying below the critical point 50 for five consecutive months since March, a sign for an economic contraction. The Spanish interest rate on the 10-year government bond is slightly below 7%, still very high. Spain may require additional bailout with more than 20 billion euro to be repaid in October.

Japan's retail sales decreased by 0.8% in July, the first downturn since November 2011 and industrial production also fell by 1.2% in July, a downturn after an increase in June.

The growth rate of China's industrial production was reduced from 9.5% in June to 9.2% in July and retail sales also fell from 13.7% in June to 13.1% in July. Particularly, export plunged from 11.3% in June to 1.0% in July. The US and European stock markets showed upturn in August thanks to the improvement of the US economic indices and Chancellor Angela Merkel's statement supporting euro. Nikkei index rose in August due to the strong stock prices of export-related businesses, while China's Shanghai Composite Index was down with the falling foreign direct investment(FDI) and the weakening economic indices.

Global Financial Market

The global stock market improved in August except China as the expectation for economic recovery grew.

The US and European stock markets showed upturn in August thanks to the improvement of the US economic indices and Chancellor Angela Merkel's statement supporting euro.

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JPY/USD exchange rate depreciated within narrow range in August with Japanese government's positive measures to tackle the continuing appreciation of yen. Despite the concern about the re-emerging of Spanish economic difficulty, EUR/USD exchange rate appreciated with the growing expectation for the purchasing of government bonds by the ECB. CHY/USD exchange rate rose in August within narrow limits compared with the previous month.

< Economic indices of major countries >

(unit : %)

(unit : p, yen, euro, yuan)

Economic Sectors		2011	2012			
		Annual	Apr	May	Jun	Jul
US	Industrial Production	4.1	0.8	0.1	0.1	0.6
	Retail Sales	7.9	-0.6	-0.1	-0.7	0.8
EU	Industrial Production	3.5	-1.1	0.9	-0.6	-
	Retail Sales	-0.6	-1.3	0.8	0.1	-
Japan	Industrial Production	-3.5	-0.2	-3.4	0.4	-1.2
	Retail Sales	-1.2	5.7	3.6	0.2	-0.8
China	Industrial Production	13.7	9.3	9.6	9.5	9.2
	Retail Sales	17.1	14.1	13.8	13.7	13.1

Economic Sectors		2011	2012			
		Annual	Jun	Jul	Aug	Sep
US	DJIA	12,218	12,880	13,009	13,091	13,036
EU	DAX	5,898	6,416	6,772	6,971	6,933
	EUR/USD	0.772	0.790	0.813	0.799	0.795
Japan	NIKEI	8,455	9,007	8,695	8,840	8,776
	YEN/USD	77.66	79.79	78.12	78.58	78.31
China	SSE	2,199	2,225	2,104	2,048	2,044
	CNY/USD	6.3190	6.3540	6.3617	6.3498	6.3404

Sources: US department of Commerce; Eurostat;
The People's Bank of China;

Sources: Bloomberg
note: SSE denotes SSE Composite Index

Korean Economy

Although expectation for the economic recovery was high with the improving economic indices in July, the export business continued to slow down due to the uncertainty of the global economy.

Facility investment rose in July by 1.2% compared with the same month of previous year with the increasing investment in machinery including generating equipment, turning to positive growth from negative in June. Construction also marked upturn of 1.0% in July, having suffered a setback of 16.2% drop in June. Retail sales increased by 2.7% in July thanks to the soaring demand for durable goods including air-conditioner due to the scorching heat wave.

Export volume fell by 8.8% in July compared with the same month of previous year, and dropped again by 6.2% in August, and particularly, shipbuilding, motor, and wireless telecommunication equipment industries suffered most. Import volume also decreased by 5.5% in July and 9.8% in August due to the slack domestic demand and declining export business. The import volume of raw materials including coal and crude oil, and capital goods fell sharply.

Unemployment rate stayed at 3.1% with increasing number of people finding jobs in service industry. The consumer price inflation rate marked 1.2%, a record low since July 2009.

The Business Survey Indices in manufacturing (BSI) recorded 70 in August, a continuing drop in four consecutive months, but rose back to 75 in September. The composite leading index was also up by 0.2% in July, a rise in two consecutive months, raising expectation for the economic recovery.

KRW/USD exchange rate rose by a small margin, the corporate bond yield rate continued to fall in August.

KOSPI index rallied in August in succession of July as the uncertainty of the financial market diminished with the EU policy authority expressing determination to ease the crisis

in preparation for the re-emergence of Euro Zone crisis. KRW/USD exchange rate rose by a small margin in August with the weakening expectation for the quantitative easing of the US. The corporate bond yield rate fell by 8.62% in August due to the preference for the safe haven assets.

< Korea Major Economic Indices >

(unit : p, %)

Economic Sectors		2011					2012					
		Annual	1/4	2/4	3/4	4/4	1/4	2/4	Jun	Jul	Aug	Sep
Domestic Market	Retail Sales	4.3	5.4	5.7	4.7	1.9	2.0	1.0	0.6	2.7	-	-
	Facility Investment Index	0.7	5.4	5.7	-3.1	-4.7	9.3	-0.7	-5.5	1.2	-	-
	Construction	-6.7	-12.6	-6.6	-8.4	-0.5	-3.7	-10.9	-16.2	1.0	-	-
Foreign Trade	Export Growth Rate	19.0	29.6	18.6	21.4	9.0	3.0	-1.6	1.1	-8.8	-6.2	-
Employment/ Prices	Unemployment Rate	3.4	4.2	3.4	3.1	2.9	3.8	3.3	3.2	3.1	-	-
	Consumer Price	4.0	3.8	4.0	4.3	4.0	3.0	2.4	2.2	1.5	1.2	-
Finance	KOSPI	-	2,107	2,101	1,770	1,826	2,014	1,854	1,854	1,882	1,905	1,907
	KRW/USD	-	1,097	1,068	1,178	1,152	1,133	1,145	1,145	1,131	1,135	1,133
	Corporate Bond (BBB-)	10.38	10.61	10.50	10.31	10.12	10.05	9.25	9.25	8.76	8.62	8.64

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

□ The self-employed competing with the self-employed

The concept and change of the self-employed

The self-employed refers to people solely operating his or her own business (own-account workers), employers operating small business employing workers, and unpaid family workers. The self-employed rapidly increased when Korea faced an economic crisis in 1998, and many people who were laid off turned to self-employment. The number of the self-employed gradually decreased since 2002 when the economy began to stabilize. However, the recent monthly statistics shows that the number of the self-employed recorded 7.2 million as of May 2012, the highest since July 2009.

The 10 issues facing the self-employed

First, quantitative excessiveness: The ratio of Korea's self-employed people is much higher than the average OECD countries, lower than Turkey, Greece, and Mexico only. **Second, so many starts, so many gives up:** Average 600,000 people set up own business, and 580,000 give up every year. **Third, going self-employed without much preparation:** More than half of the self-employed start their business with a preparation period of less than six months and with no business experience. **Fourth, fierce competition:** More than 41.1% of self-employed people regard 'other self-employed nearby' as their major competitors. **Fifth, the main age group of the self-employed is people in their 50s.** The number of the self-employed steadily increased especially among the baby-boomer generation and the higher age group. **Sixth, the businesses closely related to daily life are on the increase.**

The retired often set up restaurant, beer hall, and other types of consumer related businesses to meet people's basic needs. **Seventh, business of small scale:** People setting up own business with a fund under US\$44,000 are on the rise. Increasing number of people are starting business with a truck for transport business, or starting a business with a street stall. **Eighth, Poor profitability:** The average monthly income of the self-employed is not more than US\$1,320. **Ninth, heavy household debt:** The average household debt of the self-employed is approximately US\$79,300, twice as high as that of wage earners. **Tenth, short business life span:** More than half of all self-employed are not surviving more than three years.

Policy Implications

To tackle the problems facing the self-employed, the government should:

First, encourage re-employment of the unemployed to reduce number of people left with no other choice but to turn to self-employment. 'The policy for encouraging re-employment' should come first before 'the policy to assist to start own business' to ease the problem of 'excessive competition between the self-employed'. Second, introduce 'self-regulatory environment'. A 'notice board' providing information to prospective self-employers on where and which business he or she may face over-competition and therefore locations to avoid. Third, encourage a 'well-prepared business set-up' by establishing a relevant education system that support potential self-employers to start business with sufficient preparation. Fourth, support the self-employed to create jobs by helping them to enhance productivity and develop to a sustainable and healthy business. Fifth, develop appropriate policy to promote self employment suitable to people of different age groups, different education level, and to socially excluded people.

- **The future image of unified Korea**
 - **Korea's emerging on to a global stage**

The current status of South and North Korea

Since Korea was divided in 1945, both South and North Korea have undergone major social and economic changes and since established different national status in the international community. The difference in the economic power between South and North Korea has ever widened since 1975 resulting in North Korea's GDP per capita staying at only 3% of that of the South. North Korea is still where the South was in the mid-1970s.

Meanwhile, South Korea suffered a set back of the potential growth rate due to the demographic change of diminishing working age group brought by low birth rate and aging society and global financial crisis. North Korea is experiencing shortage of food, energy, and foreign currency since it suffered negative economic growth for nine years in a row in the 1990s. The unified Korea can offer a good opportunity to secure a new power engine for economic growth for both South and North Korea.

The future image of unified Korea

On the assumption of South and North Korea being economically unified in 2013, the image of unified Korea in different sectors is as follows:

Population: The unified Korea will have a population of 73.5 million, ranking 26th in the world with working age population of 58.0% of the total population, whereas South Korea alone will rank 41st with working age population of 54%. The unified Korea will emerge as a new major economic power when its population increases to more than 70 million with an expanded domestic market.

Economic Growth: Nominal GDP of the unified Korea will reach US\$ 6.056 trillion positioning 8th in the world with GDP per capita US\$86,000.

Underground Resources: In the case South Korea acquire from the North 50% of the underground resources required for the domestic market, it will bring an effect of substituting US\$ 15.39 billion of imports.

Defence Budget: South Korea spent 2.7% of GDP for national defense as of 2010. Assuming the South reduces the defense budget by 0.1% a year starting from 2013, it will be spending 1.4% of GDP by 2027, a similar level to that of Germany, and the total amount saved from 2013 to 2050 is estimated to total US\$1.8862 trillion .

Culture: South and North Korea will be able to emerge as one of the major cultural powers if both collaborate for the World Cultural Heritage registration, thereby preventing the drain of cultural assets and retrieving cultural properties from abroad.

Sports: Korea is estimated to reach the top five nations in Olympic medal table if South and North Korea are to make one team. South Korea alone is currently within the top 10 countries in Olympic sports.

National Power: National power index is measured by calculating each country's ratio against the total GDP, population and military power of the whole world. South Korea's index is presently 1.21, but estimated to jump to 1.71, when unified, positioning itself within the top 10 in the world.

Significance and Task of Unification

The unification of Korea will enhance the economic standing of Korea in the global stage and expand the national power in terms of politics and culture through enlarged domestic market with population of 75 million and availability of abundant underground resources. Close collaboration with neighboring countries is essential to create friendly atmosphere among the neighboring countries to ensure their positive attitudes toward the unification of Korea. It is also important to create positive national sentiment for the unification by convincing the nation that the unification of Korea is not a national burden, but an opportunity to develop a new power engine for Korean economy as a whole.

< The Future Standing of Unified Korea >

		S. Korea	Unified Korea
Population and population density	Population (2050)	47.1 million (41 st in the world)	73.5 million (26 th in the world)
	Population of working age (2050)	54.0%	58.0%(4%p up)
	Population density(2050)	473/km ²	334/km ²
Economic growth	Nominal GDP(2050)	US\$ 4 trillion 73 billion	US\$ 6 trillion 56 billion (8 th in the world)
Underground resources	North Korea's underground resources in demand	Substituting annual import of US\$ 15.39 billion based on import amount of 2011	
Finance	Saving national defense budget	Aggregated saving from 2013 of US\$ 1 trillion 886.2 billion	
Culture	Cultural properties registered at the USESCO as World Cultural Heritage	10 cultural assets (21 st in the world)	12 cultural assets or more (19 th in the world)
Sports	Summer Olympic ranking in medal table	Within 10 th place	Within 5 th place
National Power	National Power Index(2050)	1.21(14 th in the world)	1.71(10 th in the world)

Sources : 1) UN, *World Population Prospects: The 2010 Revision*.

2) Goldman Sachs, *Global Economics Paper* no. 188, 2009. "A United Korea? Reassessing North Korea Risks".

3) Stockholm International Peace Research Institute (<http://www.sipri.org>)

4) Korea Cultural Heritage Administration (<http://www.cha.go.kr>)

5) Korea Sports Council (www.sports.or.kr)

6) Pardee Center in University of Denver, International Future's Model

Note : 1) Above figures are based on the assumption of Korea's economic unification by 2013

2) Assuming North Korea's underground resources meets half of unified Korea's demand

3) Based on the national defense budget of 2.7% of Korea's GDP as of 2010, and assuming that the defense budget is reduced by 0.1% per annum thereafter until 2027 when Korea's national defense budget will have been reduced to 1.4% of GDP, similar level to that of Germany, and maintain the same level thereafter.

[Annex] Domestic and Global Economic Indices

□ Domestic/Global Growth Rate

Category	2010					2011					2012
	Annual	1/4	2/4	3/4	4/4	Annual	1/4	2/4	3/4	4/4	Annual(E)
US	3.0	3.9	3.7	2.5	2.3	1.7	0.4	1.3	1.8	3.0	2.0
Euro Region	1.9	0.4	1.0	0.4	0.3	1.4	0.8	0.2	0.1	-0.3	-0.3
Japan	4.4	6.1	5.2	2.3	-0.6	-0.9	-6.8	-1.5	7.0	-2.3	2.4
China	10.3	11.9	11.1	10.6	9.8	9.2	9.7	9.5	9.1	8.9	8.0
Korea	6.3	8.7	7.6	4.5	4.9	3.6	4.2	3.5	3.6	3.3	3.5

Note: 1) IMF figures of April 2012 for 2012 global projections; Hyundai Research Institute figures for Korean 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 and Korea.

□ International Finance Index

Category		End of 2010	2011		2012		
			End of June	End of Dec	Sep 10	Sep 11	Compared with previous day
Overseas	Ten-year Treasury Bond Interest(%)	3.30	3.16	1.88	1.65	1.70	0.05 %p
	JPY/USD	81.19	80.66	77.66	78.24	77.78	-0.46 ¥
	USD/EURO	1.3350	1.4492	1.2955	1.2763	1.2852	0.0089 \$
	DJIA(p)	11,578	12,414	12,218	13,254	13,323	69 p
	Nikkei(p)	10,229	9,817	8,455	8,869	8,807	-62 p
Domestic	Three-year Government Bond Interest Rate(%)	3.38	3.76	3.34	2.80	2.78	-0.02 %p
	KRW/USD(KRW)	1,134.8	1,067.7	1,151.8	1,129.3	1,128.2	-1.1 KRW
	KOSPI(p)	2,051.0	2,100.7	1,825.7	1,924.7	1,920.0	-4.7 p

□ International Raw Materials Price Index

Category		End of 2010	2011		2012		
			End of June	End of Dec	Sep 10	Sep 11	Compared with previous day
International Oil Prices	WTI	91.40	95.18	99.22	96.53	97.08	0.55 \$
	Dubai	88.80	106.75	104.89	112.89	113.11	0.22 \$
CRB Future Indices		332.80	338.05	305.30	313.24	314.90	1.66 p

Note: The CRB index is calculated by giving the same weight to the prices of a total of 19 major commodities including grains, crude oil, industrial raw materials, and precious metals. The index is widely acknowledged as an international standard for the price of raw materials.



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