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HRI Monthly Economic Review

- I. Recent Economic Trends
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- III. North Korean Issues
[Annex] Domestic and
Global Economic Indices

△ Hyundai Research Institute



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Devoting to economic research
and human resource development
with intellectual conscience and sincerity,
the Hyundai Research Institute leads
the advancement of Korean Economy
in the 21st century by proposing
creative policy alternatives.

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< Executive Summary >

1. Recent Economic Trends

The US maintains its recovery trend and Europe's expectation for economic recovery is growing. Japan's economy continues to pick-up and China shows a rebound trend having passed the trough of business cycle. In terms of Korea, Production, consumption, and investment all decreased. The improving exports keep trade surplus increasing, and slowdown of price upswings continues.

2. Economic Issues Facing Korea

『Forecast on Korean Economy for 2014』

2014 is set to provide momentum for the recovery of export business, which will lead to the growth of facility investment pulling economic recovery further. Economic growth rate is expected to rise from 2% plus in 2013 to 2.5% plus in 2014, reaching the potential growth rate.

『Main Factors Affecting Average Propensity to Consume』

Although the average propensity to consume is known to be heavily affected by the structure of income distribution, recent sharp fall of the average propensity to consume despite the marginal improvement of income distribution structure can be attributed to the following precautionary motives for saving: (1) Insufficient job security, (2) Rising Deposit-based Rent, and (3) Aging Society.

『The Outcome of Recent Regulation Reform and its Limitation』

Regulation refers to a restriction imposed on people's right for a particular administrative purpose, and 15,043 regulations are registered as of August 2013. Korea ranks 25th in the global ranking of national competitiveness in 2013, a fall of 6th places from 2012, and ranks 95th in the burden of government regulations, a similar standard to those of developing countries. We would like to assess the regulation reforms in process for the last five years, aiming to find effective ways to achieve the task of deregulation.

3. The North Korean Issues

Germany and Korea were divided by the allied force after the Second World War. However, Germany was unified in 1990 with the blessings of four nations of the then allied forces, and is now contributing to the regional stability and prosperity of Europe maintaining friendly relations with those four nations. Close examination of the process of Germany's unification will be useful to draw implications on the question of the unification of Korea: (1) Germany was able to acquire approval for its unification by extending economic aid to the old Soviet Union and by removing military and security-related threats to neighboring nations, (2) West Germany used NGOs such as churches as a medium to provide aid to East Germany with cash and goods, (3) West German government allowed West German citizens to personally support East German citizens by way of travelers, duty-free shops, and by post, (4) West Germany focused on expansion of omnidirectional contacts to form the groundwork for the unified economy.

I . Recent Economic Trends

1. Recent Global & Domestic Economic Trends

Major Foreign Economies

The US maintains its recovery trend and Europe's expectation for economic recovery is growing. Japan's economy continues to pick-up and China shows a rebound trend having passed the trough of business cycle.

The US recovery gains traction. Industrial production recorded a month-on-month increase of 0.6% in September 2013 thanks to the marginal improvements in manufacturing and mining industries and a sharp increase in electric power industry. Retail sales in September marked a month-on-month drop of 0.1% following increases for the previous five months. October saw an unemployment rate of 7.3%. The consumer price index marked a month-on-month rise of 0.1%, and the producer price index continued to stay low showing a month-on-month drop of 0.1%, keeping the price increase pressure low.

Eurozone's expectation for economic recovery is on the increase. Retail price in August recorded a month-on-month increase of 0.7% while industrial production rose by 1.0%. The unemployment rate in September was 12.2%, the same as August. The composite PMI dropped to 51.5%, a month-on-month fall of 0.7%, staying above 50% and indicating a continuing recovery trend.

Japan continues to show economic recovery. Industrial production in September marked a month-on-month rise of 1.5%, an upturn from the negative move in the previous month, and retail sales also rose by 1.8% in September. The unemployment rate in September stayed at 4.0%, a month-on-month drop of 0.1%, and the household expenditure marked a year-on-year rise of 3.7%.

China turned to an upward trend thanks to the Chinese government's stimulative economic policy, having passed the trough in the second quarter.

The economic growth rate of the third quarter recorded 7.8%, the highest of this year. Industrial production and retail sales in September continued to show an upturn of 10.2% and 13.3%. Although the growth rate of exports in August turned to a downward trend with 0.3% increase, this reduction is largely due to the base effect, and generally maintains a stable tendency.

Global financial market performance in October was affected by various factors including the shutdown of US federal government, the decision of the Federal Reserve to delay the reduction of quantitative easing, and improvement in economic indices of the Eurozone.

< Economic indices of major countries >

(%)

(p, yen, euro, yuan)

| Economic Sectors | | 2011 | 2012 | 2013 | | | Economic Sectors | | 2011 | 2012 | 2013 | | |
|------------------|-----------------------|--------|------|------|------|------|------------------|-------|---------|--------|--------|--------|--------|
| | | Annual | Dec | Jul | Aug | Sep | | | Annual | Annual | Sep | Oct | Nov |
| US | Industrial Production | 3.4 | 0.1 | -0.1 | 0.4 | 0.6 | US | DJIA | 12,218 | 13,104 | 15,130 | 15,546 | 15,616 |
| | Retail Sales | 4.7 | 0.5 | 0.4 | 0.2 | -0.1 | | EU | DAX | 5,898 | 7,612 | 8,594 | 9,034 |
| EU | Industrial Production | 3.2 | 0.7 | -1.0 | 1.0 | - | EU | | EUR/USD | 0.772 | 0.756 | 14,456 | 14,328 |
| | Retail Sales | -0.2 | -0.7 | 0.5 | 0.7 | - | | Japan | NIKEI | 8,455 | 10,395 | 2,175 | 2,142 |
| Japan | Industrial Production | -1.4 | 2.4 | 3.4 | -0.9 | 1.5 | Japan | | YEN/USD | 77.66 | 85.86 | 1.3493 | 1.3723 |
| | Retail Sales | -1.2 | 0.0 | -1.7 | 0.9 | 1.8 | | China | SSE | 2,199 | 2,269 | 97.90 | 98.51 |
| China | Industrial Production | 13.9 | 10.3 | 9.7 | 10.4 | 10.2 | China | | CNY/USD | 6.3190 | 6.2317 | 6.1199 | 6.0938 |
| | Retail Sales | 17.1 | 15.2 | 13.2 | 13.4 | 13.3 | | | | | | | |

Source: US Department of Commerce; Eurostat;
The People's Bank of China

Note: US, EU, Japan QoQ, China YoY

Source: Bloomberg

Korean Economy

Production, consumption, and investment all decreased. The improving exports keep trade surplus increasing, and slowdown of price upswings continues.

Domestic production, consumption, and investment all dropped. The overall industrial production in September showed a month-on-month drop of 0.8%

with the industrial production of service industry increasing while mining, manufacturing, and construction industries all decreased. The retail sales of semidurable and nondurable goods marked a month-on-month drop of 2.0% in September. Facility investment in machinery increased, but decreased in transportation equipment, marking a month-on-month fall of 4.1% in overall facility investment.

Exports in October 2013 reached US\$ 50.51 billion, a year-on-year increase of 7.3%, and imports recorded US\$ 45.61 billion, a year-on-year rise of 5.1% and a trade surplus of US\$ 4.9 billion, maintaining a continuing surplus for 21 consecutive months. Attributing by regions, exports to the US, EU and other advanced nations increased, and exports of IT products and motor cars rose when attributed by items. Imports of capital and consumer goods increased while raw materials dropped.

Total number of employees in September 2013 accounted for 25.466 million, a year-on-year growth of 463 thousand. The rising trend of regular workers continued, and the decreasing rate of temporary and day workers also shrank, showing an increase of employees over 400,000 for the second consecutive month. The unemployment rate in August marked a year-on-year drop of 0.2%, and the number of the unemployed accounted for 720,000, a year-on-year fall of 32,000.

The consumer price index in October stayed at zero percentage level for the second consecutive month due to the falling prices of agricultural products. The inflation rate marked a month-on-month fall of 0.3% in September, and a year-on-year increase of 0.78%. The core price index recorded no change from that of the previous month, but showed a year-on-year increase of 1.6%. The fresh food price index marked a month-on-month drop of 6.5%, and a year-on-year fall of 11.1% thanks to the lasting good weather.

The Korean financial market was affected in October by the shutdown of the US federal government, the decision of the Federal Reserve to delay the reduction of the quantitative easing policy, the improving economic indices of Korea, and the continuing purchase transactions by foreigners.

< 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 | 2/4 | 3/4 | Aug | Sep |
| Domestic Market | Retail Sales | 4.5 | 0.5 | 0.0 | 2.3 | 1.0 | 0.3 | 1.2 | 0.4 | -1.2 | 0.4 | 1.2 | -2.0 | - |
| | Facility Investment Index | 4.0 | 0.1 | -2.8 | -2.0 | 6.4 | -5.0 | -6.8 | 0.8 | -4.5 | -1.0 | 0.5 | -4.1 | - |
| | Construction | -6.4 | -5.4 | 3.0 | -5.8 | -5.6 | -0.9 | 1.0 | 1.4 | 4.4 | 7.7 | -1.3 | -2.2 | - |
| Foreign Trade | Export Growth Rate | 19.0 | 21.4 | 9.0 | -1.3 | 2.9 | -1.7 | -5.8 | -0.4 | 0.4 | 0.8 | 2.8 | -1.5 | 7.3 |
| Employment/ Prices | Unemployment Rate | 3.4 | 3.1 | 2.9 | 3.2 | 3.8 | 3.3 | 3.0 | 2.8 | 3.6 | 3.1 | 3.0 | 2.7 | - |
| | Consumer Price | 4.0 | 4.3 | 4.0 | 2.2 | 3.0 | 2.4 | 1.6 | 1.7 | 1.4 | 1.1 | 1.2 | 0.8 | 0.7 |
| Finance | KOSPI | - | 1,770 | 1,826 | - | 2,014 | 1,854 | 1,996 | 1,997 | 2,005 | 1,863 | 1,997 | 1,997 | 2,030 |
| | KRW/USD | - | 1,178 | 1,152 | - | 1,133 | 1,145 | 1,111 | 1,071 | 1,111 | 1,142 | 1,075 | 1,075 | 1,061 |
| | 3yr Government Bond | - | 3.55 | 3.34 | - | 3.55 | 3.30 | 2.79 | 2.82 | 2.52 | 2.88 | 2.82 | 2.82 | 2.82 |
| | Corporate Bond (BBB-) | - | 10.31 | 10.12 | - | 10.05 | 9.69 | 8.69 | 8.81 | 8.50 | 8.99 | 8.97 | 8.97 | 8.99 |

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

II . Economic Issues Facing Korea

1. Forecast on Korean Economy for 2014

Characteristics of Korean Economy during 2013

Although the Korean economy showed upturn since it passed the through of business cycle in the first quarter of 2013, the annual economic growth rate is forecast to be around 2.5% plus, far below the potential growth rate of 3.8%, while inflation is likely to stay around 1% plus. Korean economy is, therefore, believed to have fallen into a deflationary gap resulting from both low growth rate and low inflation. The growth rate of consumption remained weak due to the sharply rising household debts and deposit-based rent. Construction investment continued to expand in the public as well as in the private sector thanks to the increased government budget for SOC and revised supplementary budget, while facility investment remained slow due to the delayed recovery of domestic economy. Export growth rate is set to stay low due to the slow recovery of global economy, while the current account balance is expected to produce a massive surge as a direct result of sluggish imports.

Global Economic Conditions for 2014

(Global Economic Upturn led by Advanced Countries) Major economies including the US are expected to gradually recover in 2014 with growth rate of around 2% plus, while emerging economies including China and India are forecast to mark similar growth rate to that of 2013. World trade volume is likely to increase by 5% plus along with the gradual recovery of global economy.

(Downturn of Global Raw Material Prices) International oil prices are expected to drop due to the reduced demand for oil imports from the US and

the falling export prices as a result of a stronger US dollar, while prices of metals are forecast to show a modest rise thanks to the recovering world economy. The production increase of agricultural products, wheat in particular, will be a cause for softer prices although there is concern over the risk of increasing price fluctuation caused by unforeseen extreme weather.

(Basis of Appreciation of Euro and Yuan) The euro is expected to appreciate within a narrow range as the Eurozone emerges from economic recession. The yuan is set to continue to appreciate due to the increasing ratio of settling payments in yuan for China's international trade and China's economic recovery, while the yen is expected to continue to depreciate due to the lasting quantitative easing monetary policy.

Forecast on Korean Economy for 2014 by Sectors

(Economic Growth) 2014 is set to provide momentum for the recovery of export business, which will lead to the growth of facility investment pulling economic recovery further. Economic growth rate is expected to rise from 2% plus in 2013 to 2.5% plus in 2014, reaching the potential growth rate.

(Domestic Demand) Private consumption is expected to increase by 2.5% plus thanks to the rise of real purchasing power due to the improving terms of trade created by more stable international raw material prices. Facility investment is forecast to be around 6.5% plus due to the pressure for the adjustment of facility investment from the expectation for both domestic as well as global economic recovery and rising orders for machinery of private sector. Construction investment in public sector is expected to fall as the government plans to reduce expenditure on SOC, while investment in private sector is forecast to marginally grow along with housing construction as part of government measures to boost real estate market.

(Export Demand) The growth rates of both imports and exports are anticipated to gradually rise in 2014 thanks to the recovering US economy, Eurozone's emergence from recession, and China's increasing exports to advanced countries. With exports to the US and Europe recovering and

exports of intermediary goods to China increasing, total export growth is set to rise by around 8.5% plus. Trade balance and current account surplus is expected to reach US\$ 39.9 billion and US\$49 billion respectively although the size of surplus is likely to shrink in comparison with 2013 due to increasing imports.

(Employment and Inflation) Unemployment rate for 2014 is likely to fall marginally with the government's 'job creation first' policy and with recovering corporate investment and construction business. However, inflation is feared to be higher than in 2013 due to the pressure for the increase of prices and nominal wages although the impact of rising inflation will be limited thanks to the stabilized and lowered international raw material prices and strong Korean won.

Policy Issue

Domestic economy is expected to achieve a growth rate of 3.5% plus in 2014 with a continuing downward trend of the potential growth rate. In addition, the risk of potential confounders at home and abroad materializing still exist, and therefore, the following policies are recommended:

1. A comprehensive measure to enhance potential growth rate is required, including policies to deal with an aging society and mandatory retirement, insufficient utilization of women power, and youth unemployment. A variety of policy suggestions in respect of tax & financial system as well as creating jobs of good quality should be taken into consideration to reinstate middle class. Government should introduce policies to encourage Korean manufacturers operating abroad to make a u-turn to Korea, to promote ICT convergence, and to expand R&D. The speed of economic democratization needs to be readjusted and administrative regulations eased to enhance entrepreneurship.
2. Policy to boost the wherewithal to consume should be in place. Policies to ensure soft landing of household debts, revitalization of real estate market, and creation of good quality jobs should be introduced to raise consumer power of the middle class.

3. Policy support should be doubled to revitalize investment including policies for regulation reform, adjustment of economic democratization, a greater agreement between management and labor, removal of obstacles to the investment in capital area, and expanding tax relief on investment. Normalization of housing market, expansion of supply of rental housing, and relaxation of burden for housing expenses for the working and the middle class which are already being enforced under the 8.28 measure should be vigorously upheld to expand construction investment. The expansion of investment on SOC should be continued employing BTO or BTL types and involving private sector if government budget is insufficient.
4. Financial stability should be secured and enhanced, and excessive welfare expenditure should not lead to damaging fiscal sustainability. Expansion of welfare system is inevitable, but it should be limited only to the areas and to the people absolutely in need. Increase of taxation and legalization of underground economy should be able to meet increasing demand for welfare.
5. Lastly, preparing counter-measures to deal with external unmeasured confounders is essential to be well prepared for the possibility of global market rapidly cooling as a result of the reduction of quantitative easing of the US, the risk of failure of Japan's Abenomics, and China's economic hard landing. Constant monitoring of macro- measures and international capital flows should be strengthened to prevent insecurity of financial market. A system to deal with violent fluctuations of exchange rates and interest rates should be established, and exploration of new export markets and wider utilization of FTAs should be promoted to minimize shocks from external confounders, while foundation of domestic demand should be strengthened by promoting knowledge-based service business in preparation for deteriorating overseas market conditions.

2. Main Factors Affecting Average Propensity to Consume

Consumption Stagnation amid Recent Rise of Income

With the continuing trend of private consumption growth rate staying below the GDP growth rate, economic recovery is delayed, and households show tendency of reducing consumption although their real income is increasing. The growth rate of real income for the period from the third quarter of 2012 to the second quarter of 2013 showed a year-on-year increase of 4.6%, 3.6%, 0.3%, and 1.3% for each quarter, while the growth rate of real consumption recorded a year-on-year decrease of -0.7%, -0.3%, -2.4%, and -0.4% for the same period. Therefore, the amount of household surplus marked an all-time high, whereas the average propensity to consume is sharply falling. The average propensity to consume in the first quarter of 2011 was 78%, which dropped to 73% in the second quarter of 2013.

Major Factors for the Declining Average Propensity to Consume

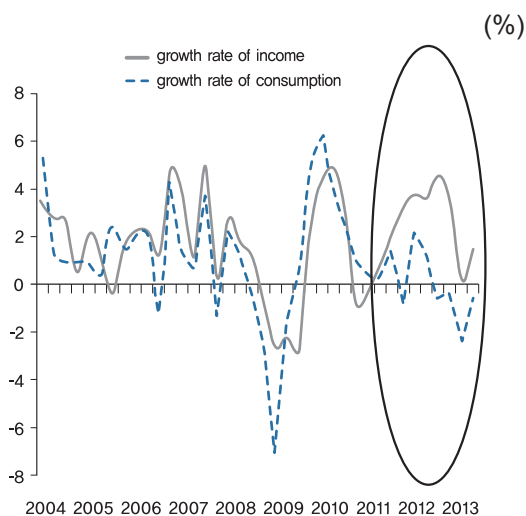
Although the average propensity to consume is known to be heavily affected by the structure of income distribution, recent sharp fall of the average propensity to consume despite the marginal improvement of income distribution structure can be attributed to the following precautionary motives for saving:

1. **Insufficient job security.** The increasing trend of new employees since the global financial crisis has been weakened with labor turnover sharply rising, delaying the quantitative and qualitative recovery of employment. Therefore, high sentiment of insecurity of future job prospect is forcing people to reduce consumption.
2. **Rising Deposit-based Rent.** Continuingly rising rent has raised cost of housing expenses resulting in reduced consumption and attempts to save harder in preparation for higher rent.
3. **Aging Society.** Lifetime expected income is declining due to early retirement, while the sense of economic insecurity is growing due to rising life expectancy.

Analysis of Actual Proof

The result of empirical analysis using the data for the period from the first quarter of 1993 to the second quarter of 2013 show that precautionary motives for saving actually affect the average propensity to consume. In particular, deterioration of income distribution, insecurity of job prospects, rising rent, and the aging phenomenon are the main factors for the declining average propensity to consume. Based on the analysis of standardized coefficients which provide the information of which of the factors have a greater effect on the average propensity to consume, ‘aging phenomenon’ has an impact on the declining average propensity to consume three times as much as ‘rising rent’. It also shows that the impact of ‘insecurity of job prospects’ on the declination of average propensity to consume is twice as much as ‘rising rent’.

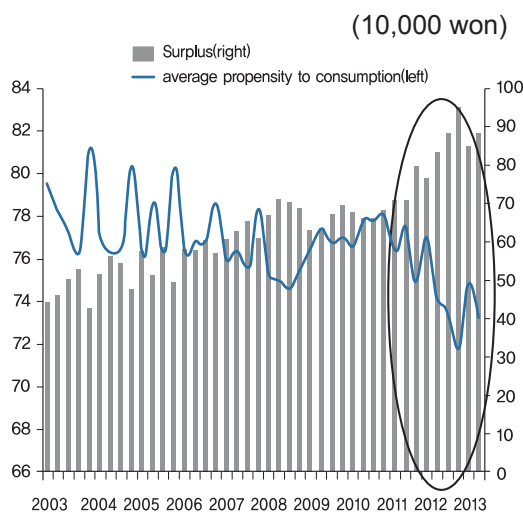
<Growth rate of Households' Real Income and Consumption>



Source : National Statistical Office Data

- Note : 1) Nationwide, Households of 2 or more, Based on New Classification Method
- 2) Nationwide Household Survey conducted since 2003
- 3) Each Quarter, year-on-year increase/decrease rate

<Households' Average Propensity to Consumption and Surplus Amount>



Source : National Statistical Office Data

- Note : 1) Nationwide, Households of 2 or more, Based on New Classification Method, Each Quarter
- 2) Average Propensity to Consumption = $100 \times (\text{Consumption Expenditure} / \text{Disposable Income})$
- 3) Surplus = Disposable Income - Consumption Expenditure

Policy Suggestions

The above-mentioned three factors for precautionary motives for saving are responsible for decreasing consumption, and if stagnation of consumption extends over a long period of time, production and investment of businesses shrink, leading to a vicious circle of repeated consumption stagnation. Four recommendations are made for the revitalization of consumption:

1. Preemptive measures should be prepared to deal with decreasing consumption due to aging society by increasing tailor-made jobs for the aged and improving public pension system.
2. Reemployment should be made available with greater support, assisting the unemployed by strengthening vocational education and enhancing employment promotion.
3. Housing expenses should be stabilized by raising the effectiveness of measures to stabilize monthly rent and deposit-based rent.
4. The core consumption demographic should be expanded to the middle class, by improving income distribution structure and expanding opportunities of social class inter-migration.

3. The Outcome of Recent Regulation Reform and its Limitation

Current Regulation Situation

Regulation refers to a restriction imposed on people's right for a particular administrative purpose, and 15,043 regulations are registered as of August 2013. Korea ranks 25th in the global ranking of national competitiveness in 2013, a fall of 6 places from 2012, and ranks 95th in the burden of government regulations, a similar standard to those of developing countries. We would like to assess the regulation reforms in process for the last five years, aiming to find effective ways to achieve the task of deregulation.

Achievements of the Recent Regulation Reform

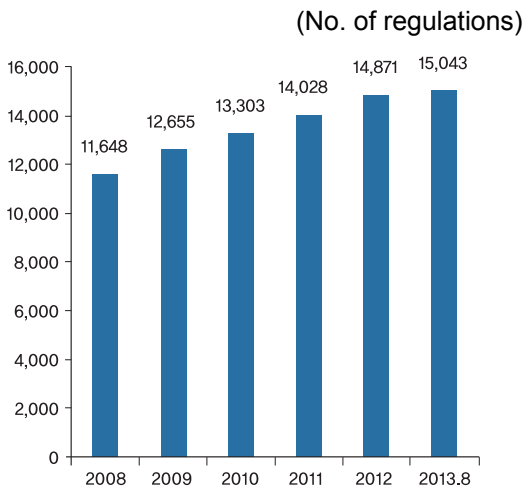
1. One of the remarkable achievements of the regulation reform conducted during the last five years was to find and register 6,117 cases of regulations hitherto omitted, through which the public were able to see the reality of negative effects created by rigid regulations.
2. The ratio of 'main regulations' went down slightly. The 'main regulations' accounted for 51.7% in 2009 of all regulations, which fell to 51.0% in 2012 as the government made the fresh implementation of a new 'main regulation' more difficult. This appears to lead to a balloon effect of 'peripheral regulations' increasing.
3. The quality of social regulations marginally improved. 'Market incentive' types of good quality regulations increased to 10.0% in 2012 from 7.4% in 2008, while 'imposing' types of regulations dropped to 82.3% in 2012 from 87.4% in 2008.

Limitation of the Recent Regulation Reform

1. Despite attempts to ease regulations for the last five years, the outcome of the reform is disappointing; newly implemented regulations outnumber withdrawn regulations, and more regulations were strengthened than eased. Over the last five years, 1,650 regulations were newly implemented, whereas only 183 regulations were lifted, with 611 regulations strengthened and only 75 regulations relaxed.
2. The intensity of regulations is rising. Regulations are classified into four categories depending on the type and the degree of restriction: regulations requiring 'prior approval', 'strict regulations', 'relaxed regulations', and 'information regulations' with weighted value of 4, 3, 2, and 1 for the analysis. The ratio of strict regulations increased from 53.5% in 2009 to 54.5% in 2012. Compared over time based on an intensity index of regulations with the 2008 figure re-based to 100, it marked 139.6 in 2012, and the intensity level per regulation also marginally increased from 2.35 in 2009 to 2.37 in 2012.

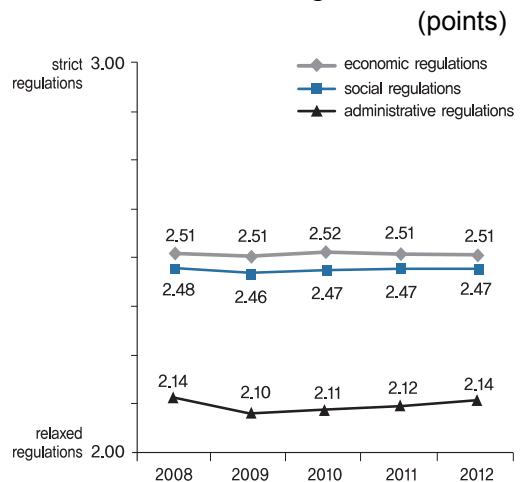
3. The quality of economic regulations is the lowest. The ratio of ‘strict regulations’ among economic regulations is continuing to rise, and ‘intensity level per regulation’ marked 2.51, higher than social regulations(2.47) and administrative regulations (2.14). The number and the ratio of regulations related to ‘pricing’, the regulation quality of which is known to be low, are also on the increase.
4. The number of registered regulations per 1,000 civil servants increased from 19.2 in 2008 to 24.2 in 2012. The number of registered regulations per 1,000 civil servants of local government also rose from 112.5 in 2008 to 167.7 in 2012.
5. Regulations are concentrated in certain government agencies. The number of regulations concentrated in five central government departments including Ministry of Health & Welfare and Financial Services Commission accounts for 27.7%.

<Trend of Accumulated Registered Regulations by Year>



Source : Regulatory Reform Commission
 Note : Date of promulgation

<Degree of Intensity per regulation of Economic, Social & Administrative Regulations>



Source : Hyundai Research Institute

Policy Suggestions

1. Unlike regulation reforms made in the past, a maximum number of regulations should be declared to achieve a tangible result by regulating the total number of regulations. Implementation of new regulations are made almost impossible without abolishing existing regulations first, and the National Assembly sets a retention period for newly implemented regulations where possible while ensuring all new regulations are subject to regulation impact assessment following National Assembly's legislation.
2. The quality of regulations should be enhanced by focusing on transaction regulation rather than entry regulation, and quality regulation rather than price regulation, and at the same time, the method of regulation should also be advanced.
3. Regulations should be democratized; a private and public joint task force should be created canvassing interested parties when implementing new regulations or abolishing existing ones.
4. Regulation reform should be enforced nationwide by setting up a system such as 'municipal regulation reform commission' to reform municipal governments' regulations, which are far more prolific than those of central government.

III. The North Korean Issues

1. Creation of Groundwork for Unification Based on Germany's Unification

Key Drivers of Germany's Unification

Germany and Korea were divided by the allied force after the Second World War. However, Germany was unified in 1990 with the blessings of four nations, and is now contributing to the regional stability and prosperity of Europe maintaining friendly relations with those four nations. Close examination of the process of Germany's unification will be useful to draw implications on the question of the unification of Korea:

1. Germany was able to acquire approval for its unification by extending economic aid to the old Soviet Union and by removing military and security-related threats to neighboring nations. The then West Germany promoted a 'compensation diplomacy' program for DM 87.55 billion (US\$ 43.78 billion) including large-scale food aid and cash loans to the Soviet Union and agreeing to assume the liabilities of the old East Germany. Germany also relieved concerns of neighboring nations over the possibility of a unified Germany re-emerging as a military threat by declaring Germany's post-unification membership of NATO and EC, maintaining a cap on military forces, and permanent renunciation of nuclear and biochemical weapons.
2. West Germany used NGOs such as churches as a medium to provide aid to East Germany with cash and goods. The protestant and catholic churches of West Germany supported East German churches and their affiliated hospitals, nursing homes, and kindergartens as well as acting as a window to pass cash and raw materials provided by the West German

government to East Germany on humanitarian grounds and for Freikauf (release of political prisoners and exchange program of separated families)

3. West German government allowed West German citizens to personally support East German citizens by way of travelers, duty-free shops, and by post. West German people delivered goods in person through travelers and made gifts of money or other articles through duty-free shops for the period of 1949 to 1989, which amounted to DM 17.6 billion (US\$ 8.8 billion). Exchanges made by way of mail also continued during the same period. Unlike other types of exchanges between the two Germanys, exchanges by mail never stopped. The total amount of non-commercial transactions made between the two Germanys from 1949 to 1989 is estimated to be approximately DM 45 billion (US\$ 22.5 billion)
4. West Germany focused on expansion of omnidirectional contacts to form the groundwork for the unified economy. W. Germany paid E. German citizens visiting W. Germany a grant to encourage them to visit W. Germany, and assisted E. Germany to create groundwork for long term economic cooperation by investing in infrastructures in E. Germany, developing border areas, twinning between local governments of the two Germanys, and establishing permanent missions in both West and East Germany.

Implications on Korean Peninsula

1. Unification diplomacy should be positively pursued by building up trust with nations within the region. Unification-friendly environment should be created through economic collaboration in the Northeast Asia region, specifically in the development of the Greater Tumen River Area Development Program and border areas adjacent to South and North Korea and Russia, while actively convincing neighboring nations that the unification of Korea will contribute to ensuring peace and security in the Northeast Asia region.

2. Contact points between the two Koreas should be increased on social, cultural and humanitarian grounds by promoting regularization of reunions of separated families and concluding a postal service agreement between the two Koreas. Exchanges of mail and parcels between separated families and exchanges of academic activities should be promoted, while building up a system for organized humanitarian aid.
3. Contact between citizens of South and North Korea should be expanded by resuming tours to Mt. Geumgang and launching construction of the second phase of Kaesong Industrial Complex(KIC). Citizens of South and North Korea should be able to recover some sense of kinship between themselves by increasing opportunities to come across each other with the resumption of Mt. Geumgang tours and early construction of the second phase of KIC.
4. NGO and local governments should be positively used as dialogue counter to increase contact points indirectly and omni-directionally. Religious organizations, NGOs related to youth, exchange programs for sports, culture, and arts, and local governments can be useful in promoting South-North contacts.

Efforts should be made to create groundwork to build conditions for the unified economy. Investment in infrastructure in N. Korea, promotion of the World Peace Park in DMZ area, establishment of South-North Exchange Program Office in Seoul and Pyongyang are key tasks to be dealt with in earnest.

<Details of W. Germany's Aid to E. Germany(1949-1989) >

(Unit : 100m DM)

| | W. German citizens | | W. German churches (protestant&catholic) | | W. German government's budget | | Total |
|--|--|-----|---|----|--|-----|-------|
| Joint gift to E. German citizens | Mail, parcel | 450 | Material support | 25 | Cash support ⁴⁾ | 20 | - |
| | Delivered in person | 50 | Duty-free shops (Genex) | 3 | Medical support ⁵⁾ | 5 | |
| | Duty-free shops (Genex) ¹⁾ | 26 | Church projects (A, C) ³⁾ | 28 | - | - | |
| | Cash delivery ²⁾ | 100 | - | - | - | - | |
| | Subtotal | 626 | Subtotal | 56 | Subtotal | 25 | |
| Payment to E. German government | Road charges | 12 | - | - | Transaction for the release of political prisoners ⁸⁾ | 34 | - |
| | Visa fees | 7 | | | Package settlement for passage ⁹⁾ | 78 | |
| | Compulsory money exchange ⁶⁾ | 45 | | | Package settlement for road use ¹⁰⁾ | 5 | |
| | Others ⁷⁾ | 2 | | | Investment in road infrastructure ¹¹⁾ | 24 | |
| | Subtotal | 66 | | | Subtotal | 141 | |
| Grand Total | Total | 692 | Total | 56 | Total | 166 | 914 |

Note 1) Genex, duty-free shops E. Germany was operating abroad, was used by W. German citizens to send goods to relatives and friends in E. Germany, and was also used as a means for West German churches to support E. Germany.

2) Intershop, outlet shops operating in E. Germany selling western products for foreign currency, was used by W. German citizens to buy goods to give to families and friends in E. Germany.

3) Raw materials support provided by W. German protestant and catholic churches were classified into Church Projects A and Church Projects C.

4) W. German federal and provincial governments granted 'welcome money' to E. German citizens visiting W. Germany.

5) Medical support was requested by approximately 5% of E. German citizens visiting W. Germany, and service was provided for emergencies and the elderly patients.

6) Minimum one day traveling expense was fixed and W. German citizens visiting E. Germany were required to change W. German DM into E. German currency.

7) Penalties incurred while traveling in E. Germany and security deposits required to travel to E. Germany.

8) Church Project B and payment for the release of political prisoners and reunion of separated families known as Freikauf

9) When concluding a passage agreement with E. Germany in 1971, W. German government paid the package settlement money for road use and visa fees which used to be paid for by W. German individuals visiting E. Germany

10) Paid the package settlement for the passage of cars, trucks, buses, and minibuses for travel outside of Berlin.

11) Investments in infrastructures such as road construction, road-widening projects, railway construction, channel construction & channel widening projects, and improvement projects of environmental facilities.

자료 : Enquete-Kommissionen, Aufarbeitung von Geschichte und Folgen der SED-Diktatur in Deutschland: Deutschlandpolitik 3, Nomos Verlagsgesellschaft, 1995. pp.2,785.

[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 | 2.8 | 3.7 | 1.2 | 2.8 | 0.1 | 1.6 |
| Euro Region | 1.4 | 0.8 | 0.2 | 0.1 | -0.4 | -0.6 | -0.1 | -0.2 | -0.1 | -0.6 | -0.4 |
| Japan | -0.6 | -7.3 | -2.8 | 10.4 | 0.6 | 1.9 | 4.8 | -0.9 | -3.6 | 1.0 | 2.0 |
| China | 9.3 | 9.7 | 9.5 | 9.1 | 8.9 | 7.8 | 8.1 | 7.6 | 7.4 | 7.9 | 7.6 |

Note : 1) IMF figures of October 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 | 2.6 |
| | Private Consumption (%) | 2.4 | 1.2 | 2.2 | 1.7 | 2.0 |
| | Construction Investment (%) | -4.7 | -1.9 | -2.4 | -2.2 | 3.7 |
| | Facility Investment (%) | 3.6 | 2.3 | -6.1 | -1.9 | -1.5 |
| Foreign Trade | Current Account (100 million Dollars) | 265 | 137 | 294 | 431 | 620 |
| | Exports (100 million Dollars) [Increase rate, %] | 5,552 [19.0] | 2,750 [0.5] | 2,729 [-3.1] | 5,479 [-1.3] | 5,648 [3.1] |
| | Imports (100 million Dollars) [Increase rate, %] | 5,244 [23.3] | 2,641 [2.3] | 2,555 [-4.0] | 5,196 [-0.9] | 5,180 [-0.3] |
| Consumer Price (Average, %) | | 4.0 | 2.7 | 1.6 | 2.2 | 1.4 |
| Unemployment rate (Average, %) | | 3.4 | 3.5 | 2.9 | 3.2 | 3.3 |

□ Economic Indicators of North Korea

| | | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---------------------------------------|----------------|---------|---------|---------|---------|---------|---------|---------|---------|
| Per capita GNI (10,000 won) | | 105 | 103 | 104 | 114 | 119 | 124 | 133 | 137 |
| Amount of Trade by Year (USD million) | 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

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