

# HRI Monthly Economic Review

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I . Recent Economic Trends

II . Economic Issues Around the World

III . The North Korean Issues

[Annex] Domestic and Global Economic Indices

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# Contents

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<b>&lt; Executive Summary &gt;</b> .....	<b>i</b>
<b>I . Recent Economic Trends</b> .....	<b>1</b>
□ Recent Global & Domestic Economic Trends	
<b>II . Economic Issues Around the World</b> .....	<b>8</b>
□ Ten Major Trends of Korean Economy in 2013	
□ Ten Major Trends of Global Economy in 2013	
□ Stand-alone Strength of Won Causing Concern Over Export Downturn	
<b>III . The North Korean Issues</b> .....	<b>18</b>
□ Expansion of Kaesong Industrial Complex Good for Both Koreas	
<b>&lt; Domestic and Global Economic Indices &gt;</b> .....	<b>22</b>

## < Executive Summary >

### □ Recent Economic Trends

The US and Europe show improved economic indices, signs of global economic recovery. The US Industrial production and retail sales increased, and Europe is showing a sign of improvement in financial markets and real business sectors. In terms of Korean economy, the deteriorating real indicators such as production and consumption, the slowing rate of improvement of unemployment, and investment depression are continuing.

### □ Economic Issues Around The World

- 『Ten Major Trends of Korean Economy in 2013』 : Korean economy is forecast to form the following 10 trends in 2013: ① The Upturn of the Tri-Down, ② War for jobs stands at a crossroads, ③ ‘NOOMP’ phenomenon amid expanding welfare system ④ Behold, it is real estate that demands attention!, ⑤ The third revolution of manufacturing industry, ⑥ Take-off of service industry, ⑦ Galloping for the World Best, ⑧ Spreading of role of a company citizen, ⑨ Peak time for K-Wave, and ⑩ Resetting of North-South Korean relations.

- 『Ten Major Trends of Global Economy in 2013』 : The following ten major trends are set to emerge in 2013: ① Deepening of G-Zero age, ② Transition to Global Great Moderation, ③ Transition of global economic power, ④ Expansion of Resource Map, ⑤ Renewable World in full swing, ⑥ Opening of Pax Robotica Age, ⑦ Expansion of Thingtnet market, ⑧ Emergence of global New Frontier, ⑨ Re-emergence of the golden age of M&A, and ⑩ Servile Service in fashion

- 『Stand-alone Strength of Won Causing Concern Over Export Downturn』 : The fluctuation of exchange rates has varying impact depending on the circumstances of the industries. Petrochemical and machinery industries have intense competition with Japan for the high value-added products, while with China for products of general use.

### □ The North Korean Issues

The expansion of Kaesong Industrial Complex(KIC) is useful to both South and North Korea, and should prove to be a success story of the inter-Korean economic cooperation. It is important to first establish a successful ‘KIC model of economic cooperation’ through the second and the third phase of expansion.

## I . Recent Economic Trends

### ▣ Recent Global & Domestic Economic Trends

#### Major Foreign Economies

*The US, China, Europe, and Japan show improved economic indices, signs of global economic recovery.*

Although the GDP growth rate of the US in the fourth quarter of 2012 was -0.1%, the first negative growth in three years, industrial production and retail sales show a steady recovery. Industrial production and retail sales increased in December 2012 by 0.3% and 0.5% respectively, a continuing upturn since November 2012, thanks to the rise of housing construction, increasing investment in motor industry, and rising consumption of durable goods.

Meanwhile, Europe is showing a sign of improvement in financial markets and real business sectors. Composite PMI, which reflects performance of manufacturing and service industries, marked at a ten month high of 48.2 in January, a 1p increase compared with the previous month figure of 47.2. However, the record-high unemployment rate of Spain, and the lowest composite PMI of France since March 2009 are still posing obstacles to the economic recovery of the entire Eurozone.

In contrast, Japan's economic recovery is in full swing due to the strong policy support following the launching of the "Abenomics" program for economic reinvigoration and quantitative easing. January PMI marked 47.7, an increase of 2.7p from the previous month, and the industrial production rose by 2.5% in December 2012, emerging from a negative growth of -1.4% in November 2012.

China's industrial production and retail sales recorded an increase of 10.3% and 15.2% respectively in December, showing a continuing upturn after a sharp rise of November 2012. The consumer confidence index of the fourth quarter

of 2012 reached 108, an increase of 2p from the previous quarter, a positive sign of economic recovery in 2013.

## Global Financial Market

*Performance of stock markets of major advanced economies mirrored the improving economic indices.*

The US stock market rose by a small margin thanks to the improving economic indices. European stock markets also strengthened with the expectation for further improvement in financial markets and continuing investor preference for risky assets. Japanese stock market rallied due to the growing expectation for economic growth following the upward adjustment of the inflation ceiling and announcement of the policy for unlimited quantitative easing from 2014.

The yen continued to depreciate in January and February due to the sustained Japanese monetary policy for quantitative easing.

< Economic indices of major countries >  
(%) (p, yen, euro, yuan)

Economic Sectors		2011	2012				Economic Sectors		2011	2012		2013	
		Annual	Sep	Oct	Nov	Dec			Annual	Nov	Dec	Jan	Feb
US	Industrial Production	4.1	0.2	-0.3	1.0	0.3	US	DJIA	12,218	13,026	13,104	13,861	14,010
	Retail Sales	8.0	1.2	-0.2	0.4	0.5	EU	DAX	5,898	7,406	7,612	7,776	7,833
EU	Industrial Production	3.5	-2.2	-0.9	-	-		EUR/USD	0.772	0.771	0.756	0.737	0.736
	Retail Sales	-0.6	-0.8	-0.7	0.1	-	Japan	NIKEI	8,455	9,446	10,395	11,139	11,139
Japan	Industrial Production	-3.5	-4.1	1.6	-1.4	-		YEN/USD	77.66	82.14	85.86	91.10	91.81
	Retail Sales	-1.2	0.4	-1.2	1.2	-	China	SSE	2,199	1,980	2,269	2,385	2,419
China	Industrial Production	13.9	9.2	9.6	10.1	10.3		CNY/USD	6.3190	6.2282	6.2317	6.2205	6.2188
	Retail Sales	17.1	14.2	14.5	14.9	15.2							

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

Source : Bloomberg

Note : SSE denotes SSE Composite Index

## Korean Economy

*Although inflation rate is steady, the deteriorating real indicators such as production and consumption, the slowing rate of improvement of unemployment, and investment depression are continuing.*

Retail sales of durable goods such as motor cars rose by 3.5%, while semi-durable goods such as clothing, and non-durable goods such as food dropped by 5.1% and 3.3% respectively, resulting in the overall retail sales for December 2012 to show a growth of -1.1%. Facility investment in December fell by 6.3% compared with the same month of 2011 due to the reduced investments in general machinery, precision instruments and others although the investment in transportation equipments increased. Construction business rose by 5.8% compared with the previous month thanks to the increasing building works, but dropped by 11.3% compared with the same month of the previous year with the depressed building and civil engineering works.

Exports in January 2013 marked USD46.1 billion, a year-on-year(y-o-y) increase of 11.8% due to the increase of exports in wireless telecommunication instruments and motor cars, while imports reached USD45.2 billion, an increase of only 3.9% attributable to the declining imports of raw materials and non-durable goods, resulting in a USD0.9 billion surplus. The trade surplus remarkably improved compared with the same month of 2012(-USD2.3 billion), although the size of the monthly surplus was the smallest since February 2012.

The number of people in employment as of December 2012 increased by 277,000 compared with the same month of 2011. Although the growth rate of employment itself fell in December 2012 compared with the same month of 2011, the rate of unemployment rose only by 0.1%p to 2.9% as the size of the employable population who are not economically active increased.

Consumer Price Index(CPI) remained low; January 2013 marked an increase of 0.6% compared with the previous month, and a 1.5% increase compared with the same month of 2012. The rise of public utility rates and cost fresh vegetables stood out among consumer items that generally remained at level prices.

The stock market fell due to the strong won & weak yen and the concerns over the possibility of deteriorating performance of export businesses. KRW/JPY exchange rate rose due to Japanese quantitative easing and a stabilizing Eurozone. Corporate bond yields(BBB-) fell in January.

The KOSPI index of January marginally fell due to the concern over the possibility of deteriorating performance of export businesses brought on by the strong won & weak yen, and high selling volumes by foreigners. KRW/USD exchange rate rose within limits after a steady fall possibility of Bank of Korea intervention in the foreign currency market. Corporate bond yields(BBB-) fell in January.

#### < Korea Major Economic Indices >

(p, %)

Economic Sectors		2011			2012						2013
		Annual	3/4	4/4	Annual	1/4	2/4	3/4	4/4	Dec	Jan
Domestic Market	Retail Sales	4.3	4.7	1.9	1.8	2.1	1.0	1.6	0.2	-1.1	-
	Facility Investment Index	0.7	-3.1	-4.7	-1.1	10.2	-0.2	-7.1	-5.6	-6.3	-
	Construction	-6.7	-8.4	-0.5	-7.2	0.6	-8.3	-2.9	-7.4	-11.3	-
Foreign Trade	Export Growth Rate	19.02	1.4	9.0	-1.3	3.0	-1.7	-5.7	-0.3	-5.5	11.8
Employment/ Prices	Unemployment Rate	3.4	3.1	2.9	3.2	3.8	3.3	3.0	2.8	2.9	-
	Consumer Price	4.0	4.3	4.0	2.2	3.0	2.4	1.6	1.7	1.4	1.5
Finance	KOSPI	-	1,770	1,826	-	2,014	1,854	1,996	1,997	1,997	1,962
	KRW/USD	-	1,178	1,152	-	1,133	1,145	1,111	1,071	1,071	1,089
	Corporate Bond (BBB-)	10.38	10.31	10.12	-	10.05	9.69	8.69	8.81	8.81	8.70

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



## II . Economic Issues Around The World

### □ Ten Major Trends of Korean Economy in 2013 2013 Korean economy is forecast to form the following 10 trends in economy, business, and society in 2013:

#### *Four trends in economic area*

**(The Upturn of the Tri-Down)** Korean economy has been experiencing 'Tri-down', specifically, poor performance in the three key indices of consumption, investment, and exports, but this is expected to recover during 2013. Private consumption, construction investment, and facility investment are forecast to improve marginally due to the gradual recovery of global economy. Exports, which suffered a negative growth in 2012 looks set to achieve a positive growth in 2013 thanks to the recovery of major export markets. Policy support such as fiscal expansion, broad expansion of credit and loan facilities to businesses, improvement of business investment sentiment and consumer confidence, discovery of niche export markets, and efficient utilization of FTAs is needed to ensure sustainable upturn of economy.

**(War for jobs stands at a crossroads)** The main economic topic for 2013 is employment as the employment market has deteriorated to considerable extent for some time. The issue of employment is not confined just to youths, but it has now spread to other groups including the senior citizens, women, baby boomers, and temporary workers, heightening the risk of conflict of interest between unions, employers and the government. Korea is now at a crossroads of choosing either increasing social tension created by the war for jobs or ideally, a win-win situation of achieving economic growth and job creation at the same time as concluding a job creation-oriented agreement for economic growth.



**(‘NOOMP’ phenomenon-Not Out Of My Pocket- amid expanding welfare system)** A new phenomenon called ‘NOOMP(Not Out Of My Pocket)’ is to emerge in 2013 where everyone agrees for the expansion of welfare system, but is unwilling to pay out of his or her own pocket. The welfare budget is estimated at over 100 trillion won in 2013 for the first time, and is likely to ignite conflicts between interest groups on how to increase taxes to finance it, and also on how to fairly distribute the limited budget between different sectors of the welfare system. It is important to have strong leadership of communication to manage these types of competing forces.

**(Behold, it is real estate that demands attention!)** The housing market for 2013 looks set for yet another year of softness with three characteristics:

- 1) Deepening depression in both the metropolitan and non-metropolitan housing markets is unlikely to result in a recovery from the nationwide slump in the residential property market during 2013.
- 2) With demand for small-sized apartments conspicuously increasing and medium & large apartments decreasing in popularity, small-sized apartments are likely to continue a high demand trend at the expense of medium & large apartment demand.
- 3) The uncertainty of the housing market is to continue as the demand for property ownership falls, whilst the leasing demand increases, pushing rents higher.

#### *Four trends in business area.*

**(The third revolution of manufacturing industry)** Manufacturing industry, which has thus far powered Korean economic growth, is now expected to secure a new growth engine through the third revolution of manufacturing industry based on IT technologies and digital revolution. Manufacturing industry will continue to evolve with IT, transitioning towards service-provider business model, encompassing infrastructure and tailored solutions to meet the more sophisticated customer demands in order to differentiate products and services and to enhance competitive edge in the global market.

**(Take-off of service industry)** Service industry will undergo major changes as Korean economy matures to a higher phase of development. Service industry will:

- 1) Increase efforts for enhancing productivity, focusing on high value-added service products.
- 2) Face an issue of surviving fierce competition from foreign businesses as foreign investment in domestic service industry increases.
- 3) Accelerate efforts to increase exports of service products and explore new export markets in cooperation with local governments.

**(Gallop for the World Best)** The number of Korean businesses emerging as the best in the world is increasing, due in part to the global economic crisis permitting only the best to survive, as proven by the steadily growing number of Korean products listed as the best in the world. More Korean businesses are expected to join the world best club in 2013 and beyond.

**(Spreading of role of a company citizen)** Business longevity can be established only when a company is able to make profit economically and at the same time meet its social value, meaning the role of a company as a responsible citizen will be greater than before. With the uncertainty of global economy expected to increase in 2013, greater corporate responsibility in society, transparency and ethical management will be required, and human rights policy will emerge as the core topic of debate.

### *Two trends in social area*

**(Peak time for K-Wave)** Korean Wave, which has successfully spread outside of Asia in Europe and the US, looks set to continue to show its force in 2013. The age of K-Wave has finally arrived where audiences of the world view the K-Wave not just as a cultural phenomenon, but as a medium to interest themselves in Korea as a whole including Korean cultural content such as

Korean film and drama. K-Wave will continue to challenge for a wider global market for years to come.

**(Resetting of North-South Korean relations)** The North-South relations will have a fresh start in 2013 under the new governments of both Korea and its neighbouring nations due to the mounting voice for a change of policy for N. Korea. Honouring existing agreements between the North and South and policy change for more flexible approach towards N. Korea will lead to resumption of economic cooperation, creation of large-scaled SOC demand, and internationalization of economic cooperation between the two Korea.

□ **Ten Major Trends of Global Economy in 2013**

*The following ten major trends are set to emerge in 2013 in connection with global governance, finance-economy, military-diplomacy, energy-foods-resources, industrial-scientific technologies, and management-consumption:*

< 10 Major Global Trends in 2013 >

Areas	Contents of trends
Governance	- Deepening of G-Zero age: Weakening leadership over global economy
Finance · Economy	- Transition to Global Great Moderation: Transition to stable and low growth global economy - Transition of global economic power: Global economic growth initiated by emerging countries
Military · Diplomacy	- Expansion of Resource Map : Intensifying conflicts over resources intensifying in major global regions
Energy · Foods · Resources	- Renewable World in full swing: Increase of utilizing new renewable energy
Industrial · Scientific technologies	- Opening of Pax Robotica Age : Spreading of robot utilization - Expansion of Thingtnet market: Universalisation of Thingtnet - Emerging of global New Frontier: Emergence of new region for development
Management · Consumption	- Re-emergence of the golden age of M&A: A new gigantic M&A market - Servile Service in fashion: Increasing commercial development of tailor-made service to meet the needs of clients

## Global Governance

### ① *Deepening of G-Zero age: Weakening leadership over global economy*

The influence of major countries over global affairs is to reduce, and the international community is going to be more diversified, which is likely to lead to the vacuum of global governance based on strongly concentrated leadership, namely, the age of G-Zero. The age of G-Zero will be characterized by deepening political and economic conflicts between the new governments of the US and China, weakening global leadership amid continuing global economic crisis, and heightening tension in the regions of north-east Asia and the Middle-East.

### ② *Transition to Global Great Moderation: Transition to stable and low growth global economy*

The global economy is expected to gradually emerge from the economic crisis in 2013, but the world economy is feared to have reached the limit of high growth, with forecasts for growth rate of around 4% in a stable and low growth environment.

### ③ *Transition of global economic power: Global economic growth initiated by emerging countries*

The average economic growth rate of new emerging countries is projected to be around 5%, well above the average global GDP growth rate of 3.8%, while the average growth rate of developed countries is forecast to be around 1%, a phenomenon of high growth for emerging countries, but low growth for developed nations. The emerging markets, therefore, are to continue to play key roles in reinvigorating global economy. Particularly, developing countries in Asia, Middle-east, and North Africa are expected to emerge as new markets.

### ④ *Expansion of Resource Map: Intensifying conflicts over resources in major global regions*

Regional conflicts arising from historical and religious issues in the Middle-east and South-west Asia is to continue in 2013, while territorial disputes to secure resources is likely to spread all over the world, particularly in the Asian region of the Spratly Islands in South China Sea, Senkaku Islands in East China Sea, and Russian Kuril Islands. It would not be an easy dispute to solve, considering the historical claims and the enormity of the natural resources at stake.

## **Global Military & Diplomacy**

### *⑤ Renewable World in full swing: Increase of utilizing new renewable energy*

The price of energy is sharply rising, and the global environment issue is becoming ever more serious. The development and supply of new renewable energy is being expanded, and the year 2013 will see renewable energy emerging in full swing as a new growth engine, heralding the advent of the age of Renewable World. Almost every country in the world is making systematic and institutional preparation to promote utilization of renewable energy with more investment and employment in this sector, thereby greatly contributing towards sustainable growth of this developing market.

## **Global Industrial & Scientific Technologies**

### *⑥ Opening of the Age of Pax Robotica : Spreading of robot utilization*

The age of Pax Robotica is about to open where the use of robots is no longer confined to industries, but spreading to other areas as a service provider, thereby expanding the robot market and bringing ripple effect to its related industries. A number of countries are focusing on cultivation of robot industry as a strategic industry of national importance. Demographic trends such as low birth rate and aging society will create demand for robots, and even ordinary people can develop a robot as robots now can be integrated with smart devices.

⑦ *Expansion of Internet of Things(Thingtnet) market :  
Universalisation of Thingtnet*

Thingtnet, to which smart phone, tablet, PC, and many other things can be connected, is about to become a reality. The development of internet of Things is now in full swing with secure IP address, advancing communication networking, ever evolving IT technology and efficiency such as reduced cost for data storage, all of which will make life easier and more convenient. The Thingtnet-related market will grow fast.

⑧ *Emerging of global New Frontier: Emerging of new region for development*

Every country in the world is trying to expand its territorial claims for the purpose of securing natural resources ranging from oceans, the polar regions, and even to space, and this is going to intensify even further in 2013, forming a New Frontier covering every corner of the globe and space. With the polar region exploration and space technology fast advancing, the year 2013 will see rapidly spreading competition for the development of oceans, north polar region, and space.

**Global Management and Consumption**

⑨ *Reemergence of the golden age of M&A: A new gigantic M&A market*

Major global companies focusing on exploration of new growth engine will come into the spotlight in 2013 when they smart-shop around in the global M&A market. Opportunities to acquire a company at low price increased as the global M&A market is in depression due to the economic crisis. Major global companies are well armed with cash, and therefore, expected to advance to new market or new business by way of M&A, but will acquire a company only when it comes in line with their long-term management strategy.

⑩ *Servile Service in fashion: Increasing commercial development of tailor-made service to meet the needs of clients*

‘Servile service’ means a quality service provided by a servant-like supplier who can meet the demand and needs of clients no matter what, when, and where. Businesses are likely to offer services of this extent as a new sales tactic in 2013. For this purpose, companies will extend services for real-time experience and search service and maximize the usefulness to their clients by saving time and cost. Companies may also provide the Servile service to administer the dead zone of public service, enhancing their service as semi-public goods. Lately, consumer preference for brand-names which facilitates the experience of real-time ‘Servile service’ for clients is high in demand. Therefore in 2013, companies will be more interested in a business model which can appropriately reflect the changing consumer trend, and improve management and utility of customer data.

▣ **Stand-alone Strength of Won Causing Concern Over Export Downturn**

*Continuing appreciation of Won*

The value of won has recently risen and looks set to remain strong due to good fundamentals of domestic economy, continued trade surplus, frozen lending rate, and upgrading of Korea’s sovereign credit rating. KRW/USD exchange rate appreciated by 9%, from 1,146 won in January 2012 to around 1,050 in January 2013, while JPY/USD exchange rate sharply depreciated from 77 yen in January 2012 to 90 yen in January 2013 due to the Abe administration’s quantitative easing and trade deficits.

The value of won against yen soared by nearly 25% from 1,489 won in January 2012 to around 1,180 in January 2013, while Chinese yuan looks strong against dollar within limits. KRW/CNY exchange rate also appreciated by around 7% from 181 won in January 2012 to around 170 in January 2013.

The stand-alone strong won is a cause for concern for major Korean



industries as it weakens the competitive edge of Korean export products, and here we analyse how the appreciating won can affect gross domestic exports and exports by industry.













### *Analysis of effect of strong won on Korea's exports*

**(Effect on gross national exports)** A regression analysis was made with exchange rates of KRW/JPY, KRW/CNY, and industrial production of OECD member countries as key factors, the result of which suggested that gross national exports would drop by 0.92% when the exchange rate of KRW/JPY falls by 1%, and by 0.59% when the exchange rate of KRW/CNY falls by 1%. The fact that Korea's exports is more affected by the fluctuation of KRW/JPY exchange rate than by KRW/CNY exchange rate shows that Korean industries are in competition with Japanese industries more than with Chinese.

**(Effects on key export industries)** The steel, petrochemical, and machinery industries of Korea will suffer most when the KRW/JPY exchange rate falls, followed by IT and motor car manufacturing industries, while home appliances industry will be comparatively less affected. When the exchange rate of KRW/JPY falls by 1%, industries in direct competition with Japan such as steel, petrochemical and machinery industries will suffer a drop of 1.31%, 1.13% and 0.94% of export reduction, followed by IT and motor car industries by 0.87% and 0.68%, while home appliances industry by only 0.46%. When the exchange rate of KRW/CNY drops by 1%, industries in direct competition with China such as machinery and petrochemical will face export reduction of 1.10% and 0.74%, followed by steel industry by 0.50%, motor car by 0.38%, and IT by 0.06%.

The analysis indicates that the fluctuation of exchange rates of KRW/JPY and KRW/CNY has varying impact depending on the circumstances of the industries. Petrochemical and machinery industries have intense competition with Japan for the high value-added products, while with China for products of general use. In the case of steel industry, Korea is more in competition with Japan than with China, while IT and motor industries are less affected by the fluctuation of exchange rates thanks to the improving competitive edge of products.

< Analysis of affects of KRW/JPY & KRW/CNY exchange rates on exports by industries >

		When KRW/JPY exchange rate drops by 1%	When KRW/CNY exchange rate drops by 1%
Total exports		-0.92%	-0.59%
Major industries	Home appliances	 (-1.31%)	 (-0.50%)
	Petrochemical	 (-1.13%)	 (-0.74%)
	Machinery	 (-0.94%)	 (-1.10%)
	IT	 (-0.87%)	 (-0.06%)
	Motor car	 (-0.68%)	 (-0.38%)
	Home appliances	 (-0.46%)	 (0.71%)

Policy Suggestion

1. Sharp appreciation of won should be avoided by setting up appropriate measures including fine tuning to stabilize foreign exchange market.
2. Review of the direction of monetary policy is required to respond to the quantitative easing policy adopted by the US and Japanese governments. In view of the high dependency of Korean economic growth on exports, and concerns over the weakening competitive edge of Korean export items due to the continuing appreciation of won, Korea may also need to carefully consider the appropriate level of interest rates as well as quantitative easing.
3. Positive efforts should be made to enhance competitive edge of Korean export items by improving non-price related factors such as enhancing brand value, strengthening global marketing activities, and improving product quality.

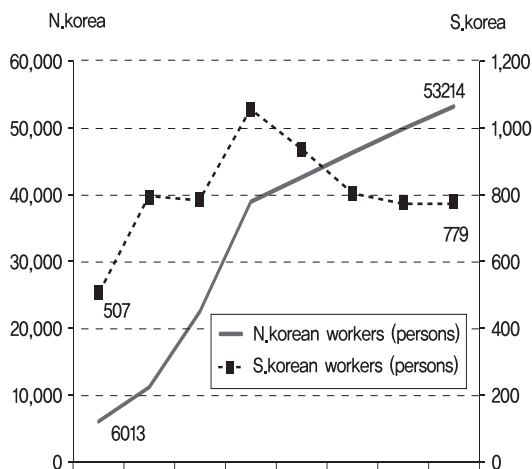
### III. The North Korean Issues

#### □ Expansion of Kaesong Industrial Complex good for both Koreas

*The expansion of Kaesong Industrial Complex(KIC) is useful to both South and North Korea, and should prove to be a success story of the inter-Korean Economic Cooperation.*

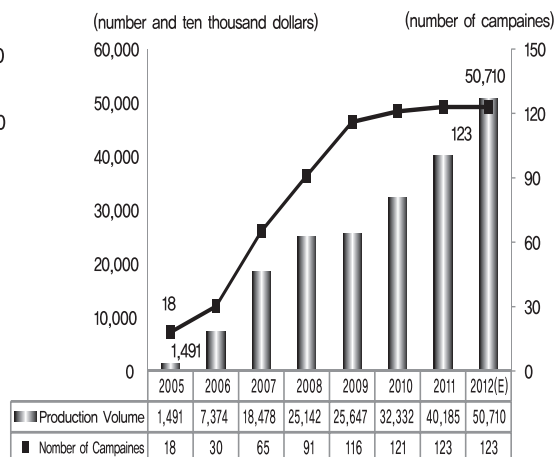
November 20th, 2011 marked the 10th anniversary of enacting the Kaesong Industrial Complex Act. The KIC currently produces over US\$400 million a year, and 123 companies in the KIC employ around 53,000 N.Korean workers, emerging as a symbol of successful economic cooperation between S. & N. Korea. However, the second and the third phase of KIC expansion project has stalled due to the tense relation between the two Korea, for which urgent measures are required to reinvigorate the project.

< Number of KIC Workers >



Source : Kaesong Industrial District Management Committee.

< Number of Companies Operating in the KIC and Production Volume >



*The expansion of KIC is a must for the common progress of both the South and North*

The expansion of KIC project will catalyse the easing of the political and military tension between the two Koreas and speed up the realization of North & South economic community.

**(S. Korean economy)** S. Korean economy needs a project like the expansion of KIC to enhance growth potential and to encourage Korean businesses operating abroad to make U-turn back to Korea, as Korea needs to find alternative growth engine due to the weakening competitive edge of existing Korean industrial complexes.

**(N. Korean economy)** The expansion of KIC will help North Koreans workers' real income to increase, provide a test-bed to learn about capitalism, and a structural base for virtuous circle for N. Korean economic regeneration.

**(Settlement of peace in Korean peninsula)** Reinvigoration of KIC will contribute towards easing of tension in Korean peninsula, settlement of peace, and laying a foundation for the North-South economic and social community, which in time will hopefully lead to reunification of Korea.

*Strategy for expansion of KIC development: Construction of successful model is urgently required through the second and the third phase of development*

**(Project direction)** It is important to first establish a successful 'KIC model of economic cooperation' through the second and the third phase of expansion before launching another plan for developing other industrial complexes. The success of KIC should first be proven before extending the scale of the inter-Korean Economic Cooperation to other parts of N. Korea including Haeju and Nampo.

**(Implementation method)** To enable further development of KIC, the following implementation method should be employed:

1. The first phase of KIC development was focused on labour-intensive industry. For the second and third phase of KIC development, however, a strategy to attract high value-added and advanced industries should be in place to promote sustainable progress and cooperation between the two Koreas.
2. The next phase of KIC development should play multiple roles combined into one: a role as a ‘unification classroom’ and another role as an industrial complex as well as a commercial sight-seeing site. The site should be used as a classroom to ease tension and prepare for unification based on the existing structure of industrial complexes. These sites should be available for tourism as a package co-ordinated with Paju, Kaesong, and DMZ to develop these sites and their surrounding areas as a ‘special peace zone’.
3. Satellite cities should be developed to strengthen competitive edge of KIC and to revitalize regional economy. With KIC reinvigorated, it is highly recommended to construct sophisticated new towns of freedom with commercial areas and facilities of convenience as satellite cities around Kaesong and other cities. Among those satellite cities should be Incheon and Paju to boost regional economy of north Kyunggi province.
4. Building of international industrial complex should be considered to attract foreign businesses through international cooperation. When expanding the development of KIC, it is advisable to positively encourage foreign companies to invest in the expansion project of KIC to reduce the risk of suspension or closure of KIC.

*Task for expansion of KIC development project: Let's separate economic cooperation from politics*

For the successful development of KIC expansion project, the economic cooperation between the South and the North should be in place only after the principle of separation of economic cooperation from politics has been agreed, in particular:

1. The interaction between authorities of the two Koreas should be resumed at the earliest possible time to reinstate trust in each other.
2. Internal stability and fruitfulness of KIC should be strengthened. While enhancing productivity and stability of the existing first phase site, the second and the third should be launched at the earliest possible opportunity.
3. Infrastructure for 3-Exchanges(exchange of personnel, exchange of customs services, and exchange of internet, postal service and other means of communication) and financial support system should be improved under agreement between the two authorities.
4. The internationalization of KIC is urgently required. Effective measures should be found for the products manufactured in KIC to be entitled to customs duty exemption by being recognized as Off-shore process trade.

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**[Annex]**  
**Domestic and Global Economic Indices**



## [Annex] Domestic and Global Economic Indices

### □ Global Growth Rate

Category	2011					2012					2013
	Annual	1/4	2/4	3/4	4/4	Annual	1/4	2/4	3/4	4/4	Annual(E)
US	1.8	0.1	2.5	1.3	4.1	2.2	2.0	1.3	3.1	-0.1	2.0
Euro Region	1.4	0.8	0.2	0.1	-0.4	-0.4	0.0	-0.2	-0.1	-	-0.2
Japan	-0.6	-7.3	-2.8	10.4	0.3	2.0	5.7	-0.1	-3.5	-	1.2
China	9.3	9.7	9.5	9.1	8.9	7.8	8.1	7.6	7.4	7.9	8.2

Note: 1) IMF figures of January 2013 for 2012/2013 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(E)	2013(E)
		the first half	the second half	Annual		
National Account	Economic Growth rate (%)	3.8	3.4	3.6	2.0	3.1
	Private Consumption (%)	2.9	1.6	2.3	1.8	2.5
	Construction Investment (%)	-7.1	-3.0	-5.0	-1.5	2.2
	Facility Investment (%)	8.9	-1.1	3.7	-1.8	4.8
Foreign Trade	Current Account (100 million Dollars)	81	184	265	410	285
	Exports (100 million Dollars) [Increase rate, %]	2,736 [23.6]	2,816 [14.9]	5,552 [19.0]	5,481 [-1.3]	5,845 [5.6]
	Imports (100 million Dollars) [Increase rate, %]	2,582 [26.7]	2,662 [20.2]	5,244 [23.3]	5,196 [-0.9]	5,568 [6.4]
Consumer Price (Average, %)		3.9	4.1	4.0	2.2	2.5
Unemployment rate (Average, %)		3.8	3.0	3.4	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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## Current Status

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 its own businesses such as business consulting, education and training service, and knowledge-content business.

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HRI is mainly composed of four divisions. The major working areas of each part are as following :

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**Business Consulting Sector** devotes to helping domestic and international companies improve their competitiveness by providing strategic solutions.

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