

HRI Monthly Economic Review

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



■

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.

■

The HMER is a monthly English publication of
the Hyundai Research Institute.

Publisher

Joohyun Kim

Editor

Byounggyu Yu

Editorial Board

Heejung Lim

Minjung Kim

Deogbae Park

Sanghan Yea

For inquires concerning the contents of the publication,
please contact the respective author or:

Tel:82-2-2072-6218

Fax:82-2-2072-6229

Email:limhj9@hri.co.kr

Contents

< Executive Summary >	i
I . Recent Economic Trends	1
□ Recent Global & Domestic Economic Trends	
II. Economic Issues Around the World	5
□ The meaning of and strategy for creativity-led economy	
□ Development and assessment of capability index for creativity-led economy of Korea - Korea's capability for creativity-led economy ranks the 20th among OECD member countries.	
□ Institutional improvement plan for medical tourism as a new growth engine.	
□ Development of and tasks for Korea's cultural service industry	
III. The North Korean Issues	18
□ An expert survey conducted on the issue of unifying Korean Peninsula	
< Domestic and Global Economic Indices >	23

< Executive Summary >

□ Recent Economic Trends

The US and China economies are softer than forecast, Europe continues to suffer from recession while Japan is showing a strong economic recovery. In terms of Korean economy, production and investment dropped while consumption increased. Trade balance recorded a surplus for 15 consecutive months. Employment environment shows some sign of improvement and inflation rate remains stable.

□ Economic Issues Around The World

- 『The meaning of creativity-led economy』 : creativity-led economy refers to a new growth strategy towards an intensive growth system based on human resource and technological innovation capability. In order to vitalize creativity-led economy in Korea, three elements should be considered: (1) convergence of industries in supply side, (2) ceaseless exploration in blue ocean market in demand side, and (3) socio-economic system full of creativity and innovation.
- 『The development and assessment of capability index for creativity-led economy of Korea』 : Korea's capability for creativity-led economy ranks the 20th among OECD member countries. While the level of Korea's ICT level is the highest, those of human resource, cultural capital, and social capital were lower than average of OECD.
- 『Institutional improvement plan for medical tourism as a new growth engine』 : Korea's effort to develop medical tourism industry should remove barriers such as the followings: (1) qualification barrier on setting-up hospitals, (2) language barrier of medical personnel, (3) patient-quota on major hospitals, (4) restriction on business activities outside medical area, and (5) unrealistic build-up of free economic zone in medical industry
- 『The development of and tasks for Korea's culture service industry』 : Five characteristics of the development of Korea's culture service industry are (1) Korea ranks top 10 in the world, (2) growth of cultural service in good balance, (3) commercialization of cultural service for export, (4) diversification of export items of cultural service, and (5) facing limitation in global cultural service industry.

□ The North Korean Issues

According to the expert survey conducted by HRI, the unification of Korea is necessary. It suggests three principles should be accompanied by steps towards a peaceful unification: (1) balanced diplomatic approach, (2) separation of economic cooperation from politics, and (3) separation of humanitarian aid from commercial activities.

I . Recent Economic Trends

□ Recent Global & Domestic Economic Trends

Major Foreign Economies

The US and China economies are softer than forecast. Europe continues to suffer from recession while Japan is showing a strong economic recovery.

The first quarter growth rate of GDP growth of the US (reported in a newsflash) was 2.5%, lower than expected by experts, which is attributed to the public expenditure falling by 4.1%, and by 11.5% in defense sector, although consumer expenditure marked a quarter-on-quarter increase of 3.2%, recording the highest increase in two years. The industrial production increased in March by 0.4% while retail sales dropped by 0.4% due to the increase of income tax rate as a result of the fiscal cliff negotiation at the start of the year.

Europe still fails to emerge from the economic recession although the financial crisis of Cyprus was resolved. The industrial production in February 2013 rose by 0.4% compared with that of the previous month while retail sales fell by 0.3%. The unemployment rate of Eurozone increased by 0.1%p to the record high 12.1%, and the inflation rate in April was 1.2%, the lowest in three years. The Eurozone now shows a sign of opposition to the austerity policies with unemployment rate rising, facing fierce demand of policies for economic revitalization.

Japan continues to expand its economic recovery thanks to the quantitative easing policy. The real economy is improving with the industrial production and the retail sales rising in February 2013 by 0.6% and 1.7% respectively. The unemployment rate in March marked 4.1%, a month-on-month fall of 0.2%p, the lowest since November 2008.

China is experiencing the process of reforming its economic fundamentals from the investment-led fast economic growth for the past 30 years to the domestic consumption-led economic growth. The GDP growth rate for the first

quarter of 2013 was 7.7%, slightly below 8% expected by experts. The domestic consumption contributed more to the GDP growth rate for the first quarter than did the investment, showing the possibility for the successful consumption-led economic growth of China. The industrial production fell in March to 8.9% from 9.9% of the previous month while retail sales recorded an increase of 12.6%, sustaining a rising trend from the previous month.

Global Financial Market

Stock markets of major economies are mixed

The US stock market marginally dropped due to the growth rate of the first quarter being lower than expected although industrial production increased. European stock markets increased by a small margin with Cyprus financial crisis now resolved amid prolonged economic recession. Japan's stock market continues to make gains due to the improving real economy created by the government's determination to revitalize economy. JPY/USD exchange rate continues to depreciate with the government's sustained policy for quantitative easing.

< Economic indices of major countries >

(%)

(p, yen, euro, yuan)

Economic Sectors		2011	2012	2013			Economic Sectors		2011	2012	2013		
		Annual	Dec	Jan	Feb	Mar			Annual	Annual	Mar	Apr	May
US	Industrial Production	3.4	0.1	0.1	1.1	0.4	US	DJIA	12,218	13,104	14,579	14,840	14,701
	Retail Sales	4.7	0.5	0.2	1.0	-0.4			EU	DAX	5,898	7,612	7,795
EU	Industrial Production	3.2	0.9	-0.4	0.4	-	EU	EUR/USD			0.772	0.756	0.780
	Retail Sales	-0.2	-0.8	1.2	-0.3	-			Japan	NIKEI	8,455	10,395	12,398
Japan	Industrial Production	-1.4	2.4	0.3	0.6	-	Japan	YEN/USD			77.66	85.86	94.24
	Retail Sales	-1.2	0.0	-0.2	1.7	-			China	SSE	2,199	2,269	2,237
China	Industrial Production	13.9	10.3	-	9.9	8.9	China	CNY/USD			6.3190	6.2317	6.2145
	Retail Sales	17.1	15.2	-	12.3	12.6							

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

Source : Bloomberg
Note : SSE denotes SSE Composite Index

Korean Economy

Production and investment dropped while consumption increased. Trade balance recorded a surplus for 15 consecutive months. Employment environment shows some sign of improvement and inflation rate remains stable.

Production and investment dropped while consumption increased. Industrial production in March marked a month-on-month decrease of 2.1% with production in service and mining industry reduced. Retail sales increased by 1.4% as semi-durable goods such as clothes, and nondurable goods such as vehicle fuels rose while durable goods such as communication equipment and computer reduced. Equipment investment dropped by 6.6% compared with that of the previous month as the investment in transportation equipment increased while decreased in machinery. March saw another increase in exports after February, recording a trade surplus for 15 consecutive months. Exports marked US\$46.3 billion in March, a month-on-month increase of 0.4%, and imports recorded US\$43.7 billion, a drop of 0.5%. The trade surplus of the month reached US\$2.6 billion, a surplus for 15 months since February last year. The major three IT export items, mobile telecommunication equipment, semiconductors, and LCD continued to be on the upturn since the fourth quarter of the last year while main export items such as ship, steel, and motor car are still on the downturn. The imports of raw materials and capital goods fell while consumer goods increased.

The number of workers in employment recorded a year-on-year increase of 249,100 in March 2013. Employment in manufacturing industry increased but decreased in whole sale, retail, and construction industries. The unemployment rate was 3.5%, a year-on-year fall of 0.2%p, and the number of the unemployed dropped to 883,000, a drop of 62,000 compared with that of the same month of 2012. Although the growth rate of the employed fell to some extent, the number of the unemployed dropped in March compared with that of the same month of 2012 as the number of economically inactive population such as people at school and at home increased.

The consumer price index remained at a low level. The inflation rate of April 2013 marked a year-on-year increase of 1.2%, more than 1 percentage increase for six consecutive months. Compared with previous month, the overall inflation rate fell by 0.1%. The falling international oil price and consumption slowdown due to the economic uncertainty contributed to the overall price stability.

The stock market fell for the North Korean factor, and KRW/USD exchange rate marginally appreciated due to the globally weakening US dollar. Corporate bond yields dropped during the month of April within a narrow range.

The KOSPI fell in April due to the N. Korean issue and the continually weakening yen. KRW/USD exchange rate marginally appreciated due to concerns over the US economy. Corporate bond yields(BBB-) dropped to 8.48% in April.

< Korea Major Economic Indices >

(p, %)

Economic Sectors		2011			2012					2013		
		Annual	3/4	4/4	Annual	1/4	2/4	3/4	4/4	1/4	Mar	Apr
Domestic Market	Retail Sales	4.5	0.5	0.0	2.3	1.0	0.3	1.2	0.4	-1.2	1.4	-
	Facility Investment Index	4.0	0.1	-2.8	-2.0	6.4	-5.0	-6.8	0.8	-3.3	-6.6	-
	Construction	-6.4	-5.4	3.0	-5.8	-5.6	-0.9	1.0	1.4	4.3	-3.0	-
Foreign Trade	Export Growth Rate	19.0	21.4	9.0	-1.3	2.9	-1.7	-5.8	-0.4	0.5	0.2	0.4
Employment/ Prices	Unemployment Rate	3.4	3.1	2.9	3.2	3.8	3.3	3.0	2.8	3.6	3.5	-
	Consumer Price	4.0	4.3	4.0	2.2	3.0	2.4	1.6	1.7	1.4	1.3	1.2
Finance	KOSPI	-	1,770	1,826	-	2,014	1,854	1,996	1,997	2,005	2,005	1,964
	KRW/USD	-	1,178	1,152	-	1,133	1,145	1,111	1,071	1,111	1,111	1,101
	Corporate Bond (BBB-)	-	10.31	10.12	-	10.05	9.69	8.69	8.81	8.50	8.50	8.48

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

II . Economic Issues Around The World

□ The meaning of and strategy for creativity-led economy

The meaning of creativity-led economy

The new government of Korea sets the creativity-led economy 'Focusing on creating new jobs' as one of the priority tasks of five major objectives, attracting high interest in the concept, content, and execution strategy thereof. The concept of creativity-led economy can be interpreted in both a broad and narrow sense when looked at from the perspective of economic development. The creativity-led economy in a narrow sense would involve economic development through the promotion of creativity-led industries. The creativity-led economy in a broad sense refers to a new growth strategy or paradigm enhancing growth capability of economy as a whole, as suggested by the theory of non-convergent(non-innovative) trap, the theory of economic development stages, and the theory of intensive growth, which involves a shift away from a target-chasing-oriented extensive growth system for developing countries purely focusing on quantitative injection of capital and labor, towards an intensive growth system based on human resource and technological innovation capability for developed countries. The new government economic policy is not limiting the promotion of the policy for creativity-led economy to particular industries, but is aiming to secure a new growth engine and create jobs through the innovation of the broad economy and society, and therefore, the creativity-led economy employed by the new government is the one interpreted in a broad sense.

Background for emergence of creativity-led economy

Three factors for the emergence of creativity-led economy can be found from the theory of growing human desire from the perspective of the theory of human psychology, the acceleration of science and technological innovation when observed from the outside, and from the depressed domestic economy when examined from within:

1. Growing desire for self-realization of human being. The foundation for creativity-led economy such as art and culture has been built up to meet the desire of individuals for self-realization as their personal income has grown due to the economic growth.
2. The acceleration of technological innovation resulted in greater emphasis on the importance of creativity-led economy. The rapid development of information and communication technology (ICT) and expansion of convergence of technological industry prompted the third manufacturing industrial revolution, increasing the demand for a creativity-led economy to boost a new industry based on new technologies.
3. The necessity to overcome the low economic growth and ever-worsening shortage of jobs made a case for creativity-led economy. Korea's economic growth rate fell to about the 1% level, and the capacity for job creation is also softening due to the combined decline in production and employment. Furthermore, the potential growth rate is also accelerating in decline due to the reduction of the total factor productivity with the growth rate of investment and labor injection slowing down, and R&D capability and competitive edge of human resource weakening.

Suggestion for the realization of creativity-led economy

The new government announced six major strategies and 41 tasks to implement creativity-led economy. To enhance successfully the creativity of domestic economy, the new government needs to vitalize the following three

elements in government-led supply and in demand led by businesses and people:

1. In terms of supply, new projects should be actively created in every industry through the convergence of industries using new technology as a catalyst.
2. In terms of demand, blue ocean markets where more profit margin and clients are available should be ceaselessly explored and developed.
3. In terms of system, a socio-economic system should be built where creativity and innovation prosper and create new added value, for which the following five suggestions should be considered:
 - 1) The continuity of policies should be enforced, and the government should invest to the maximum rather than looking for new investors from elsewhere.
 - 2) The utilization of creativity-led markets such as ‘Technology Transfer’ or ‘M&A’ should be vitalized for active investment and business start-up.
 - 3) Infrastructure for venture capital or an angel investment should be expanded to support innovative enterprises.
 - 4) A socio-economic reform such as extensive deregulation and innovation of public education is a prerequisite for main agents of creativity-led economy such as businesses or individuals to develop and enhance creativity.
 - 5) The creativity-led economy is a shift of comprehensive economic strategy, and as such, coordination between government departments and collaboration between the government and private sector should be established with a medium & long term plan with sufficient detail to ensure successful execution thereof.

- **The development and assessment of capability index for creativity-led economy of Korea - Korea's capability for creativity-led economy ranks the 20th among OECD member countries.**

The concept and estimate method of capability index for creativity-led economy

Capability index for creativity-led economy is calculated by indexing relative competitive edge of the constituting factors of creativity-led economy that influence the changes of capability for creativity-led economy. There are five factors that constitute capability for creativity-led economy: human resource(9 indicators), capital for R&D and innovation(9 indicators, hereinafter referred to as 'innovation capital'), ICT capital(8 indicators), cultural capital(9 indicators), and social capital(11 indicators). Every individual indicator was standardized before the average value of individual indicator was indexed with full mark set for 10, which was compared with those of 31 OECD member countries.

Estimated result of capability index for creativity-led economy

The estimated level of Korea's capability for creativity-led economy appears to be far below the G7 for the following accounts:

1. Korea's capability for creativity-led economy is assessed within the middle ranks of OECD member countries. Korea's capability index for creativity-led economy marked at 6.2, slightly below 6.3, the average of 31 OECD member countries(hereinafter referred to as OECD), and ranked 20th out of 31st.
2. Korea's capability for creativity-led economy shows a wider gap when compared with the G7. The index of Korea is 6.2 while average index of OECD and G7 is 6.3 and 6.6 respectively, showing Korea is below the average of G7 in every area except in ICT capital.

3. The level of Korea's ICT capital is the highest, and the level of innovation capital ranked 11th of OECD while the levels of human resource, culture capital, and social capital were of middle or lower ranks. Korea's capability indices for human capital, cultural capital, and social capital are 6.5, 3.7, and 6.7, lower than the average of OECD, 7.3, 4.7, and 7.5, which put Korea in 22nd, 29th, and 21st place of OECD. In particular, Korea's capability index for cultural capital is the lowest of OECD, and Korea is above the average of OECD in only one (the number of World Cultural Heritage Sites) out of nine areas constituting capability for cultural capital while below the average of OECD in two areas of input sector (the portion for entertainment out of total household expenditure and the portion of government expenditure for tourism), three areas of infrastructure sector (the number of World Natural Heritage Sites, continuity of development of tourism industry, and tourism infrastructure), and areas of performance result (tourism balance, number of foreign tourists, and trade balance in culture and contents industry).
4. Korea's capability for creativity-led economy appears to be uneven between sectors, ranging from the 1st place (ICT capital) to 29th place (cultural capital) out of 31 OECD members, which shows a marked contrast with G7 countries including the USA, Canada and United Kingdom whose capability indices for creativity-led economy in most areas are in the top or upper middle group.
5. Korea's capability for creativity-led economy has a wide gap between different capital sectors; Korea's innovational capital is ranking 11th out of 31, and yet its index of the availability of venture capital is below the OECD average and the index of technology trade balance is the lowest of OECD. What is more, in ICT capital, in which Korea is the first of OECD, the index of infrastructure such as capability for information technology is languishing at 20th place, showing a remarkable short fall in competitive edge within the same sector.

Suggestion

The following policy strategy should be set up and implemented to enhance the competitive edge of the overall capabilities for creativity-led economy:

1. The practical application and utilization of innovational capital and ICT capital in which Korea is assessed to be excellent out of all elements constituting capability for creativity-led economy should be enhanced. For this, the government should introduce a policy to ensure that ICT capital be upgraded, the contribution level of innovational capital to the capability for creativity-led economy be enhanced, with the convergence of sectors constituting capability for creativity-led economy with ICT and innovational capitals playing a pivotal role.
2. The competitiveness of human and social capital should be strengthened, and the infrastructure for sustainable growth through accumulation as well as application of cultural capital should be expanded. The fundamental competitive edge of creativity-led economy should be promoted through the enhancement of the competitive edge of human capital, and the development of creativity of individuals and organizations should be accelerated through strengthening competitive edge of social capital, and at the same time policy to expand infrastructure for sustainable growth should be implemented by maximizing the accumulation and application of cultural capital.
3. Government should maintain continuity and consistency and foster a system to enforce policy to upgrade overall competitive edge of elements comprising creativity-led economy.

□ Institutional improvement plan for medical tourism as a new growth engine.

Medical tourism as a new growth engine

With industrialization of newly emerging countries such as China and India

taking flight, export markets for Korean products are being fast encroached, and therefore Korea is to reform its industrial structure and revise its strategy for economic growth as top priority. Korea's brightest human resource appears to prefer medical profession since Korea's industrialization, and Korea's medical industry is generally acknowledged as one of the best in the world in medical equipment as well as medical capability. Despite these advantageous terms, however, Korea is behind Singapore and other competing countries in attracting medical tourists, and therefore, it is worth our while to review the current situation of Korean medical tourism and identify any institutional obstacle or barrier restricting the development of medical tourism.

Definition and current situation of medical tourism

Medical tourism is a combination of medical service and tourism, one of four types of health services officially defined by the WTO. The medical service referred to herein ranges from diagnosing and treating a disease to healing for the purpose of wellbeing.

The cost varies depending on the degree of risk and complications. The size of global medical tourism industry is currently estimated to reach approximately US\$600 billion. Korean medical tourism industry takes a small fast growing share. Korea recorded over 120,000 overseas patients visiting Korea in 2011 for medical purpose. The export amount of health-related travel services increased by average 17.2% per annum during the period of 2006 to 2011. However, Korea's share of medical tourism is no more than 1/6 of Asia's major competing countries.

Institutional limitation of Korea's medical tourism

It is understood that there are five institutional barriers withholding the development of medical tourism industry of Korea. No doubt the medical tourism industry will emerge as one of the key industries leading Korean economy in the future if the following five barriers are removed coupled with determined effort of people engaged in the industry:

1. Restricting qualification of those who can set up hospitals/clinics reduces the reaction capability of businesses to counter changing demands for medical service. The medical industry contributed to the enhancement of quality of medical service by restricting the service providers to particular suppliers such as medical professionals, medical entity and qualified non-profit making organization, but it also resulted in preventing commercial enterprises from entering into medical tourism industry, making it difficult for the commercial service providers to quickly react to the ever-changing medical demand as capital raising and expansion of medical facilities was very much restricted.
2. The current system of restricting medical profession to Korean nationals only is narrowing down the breadth of medical service. Foreign medical tourists are not good at Korean language except for Korean expatriates, and the language barrier can cause misunderstanding in communication between patients and medical professionals, which could discourage prospective medical tourists to come to Korea for expensive high-tech surgical operations for the fear of complications that could be caused because of the language barrier; Korea, compared with Singapore, is not an attractive country to come for medical tourism when it comes to language communication.
3. General hospitals are restricted in attracting foreign medical tourist in the number of patients, and therefore have difficulty in fully exercising their competitive edge. The current medical law restricts Korean general hospital to confine the number of foreign medical tourists to only 5% of the total hospital beds, which is playing a positive role from the perspective of access to hospital beds for Koreans, but is bringing a negative effect of limiting the number of foreign medical tourist to a fixed ceiling.
4. The restriction for medical professionals to do business promotion other than medical practice is reducing Korea's ability to attract foreign medical tourists throughout the world. The current medical law virtually prohibits medical professionals to perform, other than medical practice, any marketing activities such as advertising or promoting to attract patients, which renders the medical industry less visibly competitive and

consequently helps contain the cost of medical service. However, it deprives medical professionals of the opportunities to cultivate business ability to attract more medical tourists away from major competing nations.

5. The unrealistic system of allowing foreign hospitals in the Free Economic Zone (FEZ) does not engender the medical tourism industry of Korea to develop. The idea of setting up foreign hospital in the FEZ was introduced on the condition that foreign capital would be injected to build the hospital, but to date none has materialized. The main reason being that this system was introduced without realizing the fact that foreign medical tourists prefer to be treated by Korean medical professionals at Korean general hospitals rather than at hospitals exclusively for foreigners. This system needs to be extensively reviewed for a revised targets identified and amended accordingly.

Suggestion

1. Capital investment from sources outside the medical industry should be considered when building a new hospital/clinic or existing hospital/clinic expanded to treat medical tourists.
2. The regulations dealing with medical practice of foreign medical professionals should be eased to allow them to practice medicine.
3. Autonomy should be granted/expanded to hospitals/clinics to attract foreign medical tourists.
4. Brokerage agencies should be promoted to educate/publicize excellence of Korean medical technology and service.
5. Arrangements to prevent regression of public medical institutions for the people in the lower income bracket should be made, and any system change should be made in gradual phases.
6. Hospitals exclusively for foreigners should be founded with improvement of settlement conditions for foreign medical professionals apart from attracting more foreign medical tourists.

□ **The Development of and tasks for Korea's culture service industry**

Scope of culture service industry

UNESCO has defined cultural industry as an industry creating assets or making profits by producing tangible and intangible artistic products, by developing cultural assets, and producing knowledge-based commodities/services. The cultural service industry, in particular, is inclusive of performance and display of arts and entertainment, and production and distribution of documentary-related service commodities. The cultural industry is therefore a service industry in most cases except for complementary products and derivatives to enjoy culture.

Background for the growth of Korean cultural service

It is a natural phenomenon that demand for cultural service increases and consequently cultural industry grows as the income of individuals improves, and Korea is no exception. However, it is a characteristic of Korean cultural industry that the growth of Korean pop culture has been accelerated along with the development of internet. The world-highest standard of internet infrastructure coupled with the highest Internet access in the world by young people - major consumers of pop culture - led the quantitative expansion of cultural service industry in Korea, which helped form a “fandom” in the virtual space, encouraging consumers to restructure and distribute the cultural contents for themselves.

The rapid development of cultural service industry in Korea has become a driving force for the expansion of K-wave with virtually all content available online. The K-wave is known to have first started in China in the late 1990s before it spread to Japan and Southeast Asian countries in the 2000s, and now it is expanding as far as America and Europe. The expansion of K-wave owes a great deal to the globalization of internet service and ever-improving speed of transmission. The K-wave started when the universalization of internet service began, and by the time the K-wave spread to Japan and Southeast Asian nations, the high-speed internet infrastructure was already in place for the

fandom to be fast formed through internet in these countries. The reason for Korean popular music attracting attention in the west is that the speed of internet transmission was fast enough to instantly distribute the music and video files, which is the main reason for reduction in the cultural discount rate becoming evident these days.

Korea does not rank among the major nations in terms of economic status, population, and the number of people speaking Korean, and yet cultural product such as K-Pop is attracting global attention. This is a very rare case in history, presenting a showcase of the first-ever global cultural expansion since the advent of the age of internet universalization that has successfully traversed cultural and language barriers.

Five characteristics of the development of cultural service industry in Korea

- ① Korea emerging as one of the top 10 major nations with strong cultural service industry

Today, the size of Korea's cultural service industry is estimated at the 9th or the 10th in the world, and Korea rose from the 19th place in 2003 to the 10th place in 2010 in the amount of cultural service trade, newly emerging as one of the major players in the global cultural service market. At the same time, Korea, in export amount, jumped to the 14th place from the 30th in a short period of time which put Korea among the top ten nations in overall cultural service are as including demand, influence on the global market, and position as a cultural service supplier.

- ② Growth of cultural service in good balance with import and export

One-sided exports of cultural service can invite resistance from the people of the importing country, and restrict convergence and reproduction of cultural service imported from abroad. However, if one nation continues to import cultural service excessively, it may render the country an issue of cultural over-dependence. With these issues in consideration, Korea is thought to have established itself as a nation of trade surplus in cultural service industry with both imports and exports of cultural service products growing at the same time.

<Imports& exports of Korean individual entertainment and recreation service>
(Unit:US\$10,000)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Export	18,480	7,620	12,800	26,780	36,860	44,770	52,750	52,310	63,670	92,940	125,260
Import	28,330	26,130	37,610	47,700	67,050	92,930	89,140	84,620	102,160	102,340	116,710
Balance	-9,850	-18,510	-24,810	-20,920	-30,190	-48,160	-36,390	-32,310	-38,490	-9,400	8,550

Source: Bank of Korea

③ Commercialization of cultural service for export as a manufacturing industry-based nation

Korea was traditionally a nation with trade deficit in cultural service similar to manufacturing-based export nations such as Germany, Japan, and China, but has now become the only country which turned from trade deficit in cultural service to trade surplus since the second half of the 2000s. The export portion of Korea’s cultural service out of the total export amount recorded as the highest, fast emerging as a nation which can make not only good quality industrial products, but also high-standard cultural service with competitive edge.

④ Diversification of export items of cultural service.

The broadcasting contents such as soap opera was the main export item of cultural service at the time K-wave first began, which has diversified since the second half of the 2000s as the exports of music content constantly increased. Now, Korea, as an IT powerhouse, managed to form a core axis of export items of cultural service with soap operas, music and games which played a pivotal role at the beginning of K-wave for the exports of cultural service.

⑤ Facing limitation in the categorical scale of global cultural service industry

The next task of Korea, having won the reputation as one of the top 10 powerhouses of cultural service in the world is to overcome the limitation of scale. The cultural service industry has a characteristic of having an ever-widening gap in size between competing countries as the global ranking

moves higher. The global standing of Korea's cultural service industry moved up from the 10th place in the beginning of the 2000s to the 9th place now. It is not an easy task to progress higher, and it takes time to move up to the next rank. Therefore, the future development of Korea's cultural service industry will depend on how it should tackle and overcome the limitation of the scale.

Suggestion

Multilateral effort from every discipline of society has to be made to achieve another growth wave of Korea's cultural service industry with following points in consideration:

1. It is important to make a qualitative improvement of the cultural service such as high value addition, enhancement of reliability, and promotion of business longevity.
2. The export items of cultural service should be diversified to ensure increase of exports on a stable basis, considering the characteristics of cultural service trade being subject to internal as well as external variables.
3. Domestic market for cultural service should be promoted to create a new growth pattern with a new concept, set apart from the traditional manufacturing-based economic growth.
4. A variety of cultural service products such as vitalization of crowd funding and creation of a platform for content distribution facilitating direct connection between the general public and artists should be encouraged to be developed.
5. Lastly, culture-based export promotion strategy should be established, having carefully analyzed the effect of cultural service exports on related industries and manufacturing industry.

III. The North Korean Issues

□ An Expert Survey Conducted on the Issue of Unifying Korean Peninsula

Although the third nuclear test by North Korea put the discussion on the unification of Korea on ice, unification is a task we should fulfill for the emergence of Korea as a powerful nation on the global stage. It is encouraging that the new government is emphasizing the importance of unification with a slogan ‘Unification Age for Happiness’ and stressing ‘Expansion from a Small Unification to a Big One’ as a means of approach for unification. The HRI conducted a survey on 107 experts on the unification of Korea for their expertise on this issue starting from 26th February to 8th March.

The necessity and perception of unification

On the question of unification of Korea, the vast majority of respondents(96.3%) answered that unification is necessary, and the positive perception of unification remained unchanged when compared with 2011.

<Necessity of unification>		<Perception of unification>		
	Total		2011.10	2013.2
Necessary	96.3%	Helpful	96.3%	96.3%
Unnecessary	0.9%	Detrimental	3.8%	0.9%
Do not know	2.8%	Do not know	0.0%	2.8%

The type and timing of unification

Despite strained North-South relations, the experts appeared to prefer ‘unification for one Korea’. Since the attacks by N. Korea on the navy corvette Cheonan and Yeonpyung island occurred, the opinion for unification for one Korea dropped to as low as 27.8% at one stage. However, the opinion for one

Korea recovered in 2013 in spite of N. Korea's nuclear issue and protractedly strained relations between the North and the South.

<Types of unification>

	2009.7	2010.10	2011.10	2013.2
Unification for one Korea	25.0%	34.8%	27.8%	40.2%
Peaceful coexistence with one nation, two governments system	39.8%	31.9%	43.0%	35.5%
To the level of free movements between North and South	29.5%	20.3%	27.8%	21.5%
Maintenance of the status quo	2.3%	0.0%	1.3%	2.8%

With regard to the timing of Korea being unified, the opinion for 'in 11 years time' dropped to some extent before it rose back; with the figures of 2009 as a benchmark, it marked 62.3% in 2010 (a drop of 8.2%p compared with 2009), 63.3% in 2011 (a drop of 7.2%p compared with 2009), but rose back to 70.1% in 2013. This reflects the opinion of experts that with recent development of strained relations between the North and the South, it will take Korea comparatively longer before it can be unified. On the other hand, the opinion that it would be 'impossible for Korea to be unified' gradually fell from 3.4% in 2009 to 1.4% in 2010, to 1.3% in 2011, and to 0.9% in 2013.

<Timing of Korea being united>

	2009.7	2010.10	2011.10	2013.2
In 5 years	0.0%	8.7%	6.3%	5.6%
In 6-10 years	26.1%	27.5%	29.1%	23.4%
in more than 10 years	70.5%	62.3%	63.3%	70.1%
Impossible	3.4%	1.4%	1.3%	0.9%

The cost for unification and influences of neighboring and interested nations on unification of Korea

The opinion for '100,000 won per annum' dropped while opinion for 'over 1,000,000 won per annum' increased by 10%. It is notable that the opinion for

‘over 1,000,000 won per annum’ dropped to as low as 1.3% after the attacks from the North on the navy corvette Cheonan and Yeonpyung island bounced back to 12.1% in 2013 which shows that experts have a positive view on the unification of Korea and feel strongly about the necessity for unification.

<Cost for unification>

Unit: won/annum

	2009.7	2010.10	2011.10	2013.2
Do not want to pay any	4.5%	1.4%	10.1%	6.5%
10,000	1.1%	4.3%	13.9%	7.5%
20,000-100,000	29.5%	20.0%	32.9%	23.4%
110,000-200,000	18.2%	28.6%	26.6%	23.4%
210,000-500,000	14.8%	12.9%	10.1%	14.0%
500,000-1,000,000	31.8%	20.0%	5.1%	13.1%
Over 1,000,000	0.0%	12.9%	1.3%	12.1%

Although the opinion that ‘the USA is most influential on the unification of Korea’ remains the highest, the opinion for China has recently risen by around 6%p, which reflects China’s increasing influence on affairs related to Northeast Asia, and expectation for China to change its policy for Korean peninsula in the aftermath of N. Korea’s third Nuclear test.

<Influence of neighboring/interested countries on the unification of Korea>

		2012.10	2013.2
Countries most willing to help Korea be unified	USA	68.1%	65.4%
	China	18.8%	24.3%
	Japan	1.4%	0.9%
	Russia	11.6%	3.7%
	Others	0.0%	5.6%
Countries most unwilling to help Korea be unified	USA	11.3%	17.8%
	China	69.0%	66.4%
	Japan	19.7%	14.0%
	Russia	0.0%	0.0%
	Others	0.0%	1.9%

Priority tasks of the new government toward N. Korea

Experts named ‘the resumption of the trade between the North and the South by lifting the 5.24 sanction on N. Korea’ as the top priority task for the new government (18.2%), followed by ‘strengthening balanced diplomacy to maintain stability in Korean peninsula’(16.8%), ‘revitalization of economic cooperation projects including North-South tourism project and Kaesong Industrial Complex’(16.4%), and lastly ‘resumption of humanitarian aid with rice, fertilizer, and medical supplies. Experts with progressive and middle-of-the-road inclination appear to give more support for ‘the lifting of the 5.24 sanction’(22.7% and 21.9% respectively), and the conservative-minded were more for ‘strengthening of well-balanced diplomacy’(26.2%).

<Priority tasks of the new government for the improvement of North-South relations and creation of favorable conditions for the unification>

	Average	Cons.	Mid.	Prog.
Resumption of North-South trade (general trade) by lifting the 5.24 sanction	18.2%	11.9%	21.9%	22.7%
Strengthening balanced diplomacy to maintain stability in Korean peninsula	16.8%	26.2%	15.6%	6.1%
Revitalization of economic cooperation projects including North-South tourism project and Kaesong Industrial Complex	16.4%	13.1%	17.2%	19.7%
Resumption of humanitarian aid with rice, fertilizer, and medical supplies	13.6%	9.5%	18.8%	13.6%
Promotion of North-South summit meeting/high-level meeting	12.6%	17.9%	6.3%	12.1%
Promotion of reunion of separated families	8.4%	6.0%	6.3%	13.6%
Expansion of social & cultural exchange(culture, arts, academy, sports etc.	7.0%	10.7%	6.3%	3.0%
Discussion on peace treaty for Korean peninsula	5.1%	4.8%	4.7%	6.1%
Support for revitalization of N. Korean economy(increasing SOC investment	1.9%	0.0%	3.1%	3.0%

Suggestion

Expert respondents shared the necessity for unification regardless of their political inclination, and stressed that dialogue between the North and the South is the only way to ease the tension and eventually secure a peaceful unification. The new government needs to form and implement policies toward N. Korea with the following three principles:

1. Korea should pursue a policy of balanced diplomacy with unbiased and independent approach to maintain stability in Korean peninsula and achieve unification in cooperation with international community including USA, China, Japan and others, but without being perceived as aligned with any particular country.
2. The principle of separating economic cooperation from politics should be sustained by preventing military and political issues between the two Korea disrupting and creating obstacles leading to suspension of economic cooperation.
3. Humanitarian aid should be separated from commercial activities and assistance continued to help N. Korean people on humanitarian ground despite the tensed relations.

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

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

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

□ Economic Indicators of South Korea

Division		2011	2012			2013(E)
			the first half	the second half	Annual	
National Account	Economic Growth rate (%)	3.7	2.6	1.5	2.0	3.1
	Private Consumption (%)	2.4	1.2	2.2	1.7	2.5
	Construction Investment (%)	-4.7	-1.9	-2.4	-2.2	2.2
	Facility Investment (%)	3.6	2.3	-6.1	-1.9	4.8
Foreign Trade	Current Account (100 million Dollars)	265	138	295	431	285
	Exports (100 million Dollars) [Increase rate, %]	5,552 [19.0]	2,750 [0.5]	2,729 [-3.1]	5,479 [-1.3]	5,786 [5.6]
	Imports (100 million Dollars) [Increase rate, %]	5,244 [23.3]	2,641 [2.3]	2,555 [-4.0]	5,196 [-0.9]	5,529 [6.4]
Consumer Price (Average, %)		4.0	2.7	1.7	2.2	2.5
Unemployment rate (Average, %)		3.4	3.6	2.9	3.2	3.3

□ Economic Indicators of North Korea

(USD million)

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

Source: THE BANK OF KOREA, Ministry of Unification

Hyundai Research Institute

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.

Main Research Topics

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

Research Sector deals with the macroeconomic issues relating to domestic-and-international economy as well as the industrial trends and issues. Reunification Economy Center is one of its sub-sectors, specialized in both the North Korean political and economic issues.

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

Knowledge-Business Sector produces a great deal of invaluable online-and-offline contents such as educational videos and reading materials.

Human Resource Development and Education Sector provides HR development consulting services to companies for improved talent management, and also provides educational services such as training and lectures.

Messages to Future-Cooperation Partner

HRI is prepared for cooperation and coworks with your institute, especially in the field of survey, economic trend analysis and business consulting. For more information on cooperation, please contact us.

HRI Contact Information

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

 Hyundai Research Institute