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# HRI Monthly Economic Review

- I. Recent Economic Trends
- II. Economic Issues Around the World
- 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 economy keeps on track for recovery, while Europe shows some positive signs. Japan is exposed to the limitation of its quantitative easing monetary policy, and China's risk of economic hard landing appears to be softening.. In terms of Korea, The economy is recovering thanks to increased production and consumption. Unemployment rate is improving, and the growth rate of consumer prices is slowing.

### 2. Economic Issues Around the World

#### 『Herbivorous Men and Carnivorous Women Stirring Outlook on Marriage』

Herbivorous men simply prefer to stay home and enjoy life. About 43.1% of Korean single men have a disposition of herbivore, and the number of herbivorous men is feared to grow. Carnivorous women refer to young ladies, who tend to prefer to propose rather than being proposed to. 33.8% of Korean single ladies shows tendency of carnivorous woman. The results reflect the change in social atmosphere where women's rights have been expanded.

#### 『High Investment Sentiment, but Investment Environment Inadequate』

In the aftermath of global economic crisis, Korean economy is failing to emerge from recession: global economic uncertainty is growing with the impending reduction of quantitative easing by the US, continuingly weak yen, depression of the Eurozone real economy, and the risk of a hard landing of China's economy. The government, therefore, is urged to offer investment incentives by positively easing the regulations restricting investment conditions, offering extensive tax relief, and adjusting the speed of economic democratization policy.

#### 『Employment Status of Korea in Comparison with Major Advanced Countries and Policy Suggestions』

Korea's employment rate as of 2012 is 64.2%, lower than 73.9%, the average employment rate of the 13 advanced nations, showing a gap of 16.0% when compared with Iceland whose employment rate is 80.2%, the highest rate of all 13 nations. The speed of employment upturn is also stagnant. From 2004 to up until 2012, Korea's employment rate increased only by 0.6%p, while the average employment rate of the 13 nations rose by 1.1%p.

### 3. The North Korean Issues

All responding experts, regardless of their political inclination, appear to agree in respect of the need for solving N. Korean nuclear issue, and therefore the government should continue to promote efforts by way of multilateral talks for the peaceful coexistence and prosperity in Korean peninsula. The government is recommended to adopt a more flexible stance in enforcing policies toward N. Korea rather than sticking to rigid principles.

## I . Recent Economic Trends

### 1. Recent Global & Domestic Economic Trends

#### Major Foreign Economies

*The US economy keeps on track for recovery, while Europe shows some positive signs. Japan is exposed to the limitation of its quantitative easing monetary policy, and China's risk of economic hard landing appears to be softening.*

The US maintains the recovery trends driven mainly by improving retail sales. Industrial production in July 2013 maintained a similar level to that of the previous month despite reduced production in the motor cars and manufacturing industries. Retail sales marked a month-on month increase of 0.2%, an upturn for the fourth consecutive month. Consumer price index showed a month-on-month increase of 0.2% and a year-on-year increase of 2.0%, a continuing upturn for the third consecutive month.

Increased industrial production appears to lead the recovery of the Eurozone economy. The industrial production of the Eurozone recorded a month-on-month rise of 0.7% in June and a year-on-year increase of 0.3%, showing the first year-on-year increase in 20 months. The Purchasing Managers' manufacturing Index (PMI) accounted for 51.4%, the highest figure in 26 months. The PMIs of every Eurozone country increased except France. The GDP growth rate was also up by 0.3% in the second quarter, the first upturn in seven quarters thanks to the growth rates of Germany (0.7%) and France (0.5%). However, Italy and Spain, still struggling to emerge from the crisis, marked negatives growths of minus 0.2% and minus 0.1% respectively.

Concern over the Japanese government's expenditure and the weak yen policy failing to lead to sustainable active business investment is beginning to emerge. Although the growth rate marked a quarter-on-quarter increase of

0.6% in the second quarter, facility investment showed a quarter-on-quarter decrease of 0.1%. Inflation rate rose by 0.7% in July, an increase of another month, which is attributable to the rising cost of imported energy oil created by the continuing weak yen policy, which may add a burden to expenditures of businesses and households. Industrial production rose back in June by 3.2% after a fall in May.

Concern over the risk of a hard landing of the Chinese economy is dissipating thanks to the recovering manufacturing industry and industrial production. The Purchasing Managers' manufacturing Index(PMI) marked 51.0, a month-on-month increase of 0.7% and an increase for the second consecutive month. Industrial production achieved a year-on-year increase of 9.7% in July, the largest rise of this year. Retail sales showed a year-on-year increase of 13.2% in July.

Global financial market performance in August was affected by various factors including the suggestion of the US Federal Reserve to taper its asset purchasing program within the next twelve months, Eurozone's improving economic indices, decreasing risk of China's hard landing, and the risk of an air-raid on Syria by the US.

< Economic indices of major countries >

(%)

(p, yen, euro, yuan)

Economic Sectors		2011	2012	2013			Economic Sectors		2011	2012	2013		
		Annual	Dec	May	Jun	Jul			Annual	Annual	Jul	Aug	Sep
US	Industrial Production	3.4	0.1	0.0	0.2	0.0	US	DJIA	12,218	13,104	15,500	14,810	-
	Retail Sales	4.7	0.5	0.5	0.6	0.2		EU	DAX	5,898	7,612	8,276	8,103
EU	Industrial Production	3.2	0.7	-0.2	0.7	-	EU		EUR/USD	0.772	0.756	13,668	13,389
	Retail Sales	-0.2	-0.7	1.1	-0.5	-		Japan	NIKEI	8,455	10,395	1,994	2,098
Japan	Industrial Production	-1.4	2.4	1.9	-3.3	3.2	Japan		YEN/USD	77.66	85.86	1.3261	1.3238
	Retail Sales	-1.2	0.0	1.5	-0.2	-		China	SSE	2,199	2,269	98.08	98.38
China	Industrial Production	13.9	10.3	9.2	8.9	9.7	China		CNY/USD	6.3190	6.2317	6.1317	6.1204
	Retail Sales	17.1	15.2	12.9	13.3	13.2							

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

Source: Bloomberg

## Korean Economy

*The Korean economy is recovering thanks to increased production and consumption. Unemployment rate is improving, and the growth rate of consumer prices is slowing.*

Investment dropped, while production and consumption increased. Industrial production marked a month-on-month increase of 0.3% in July thanks to the recovering construction industry, although productions in service industry and mining and manufacturing industry fell. Retail sales went up by 1.1% from the previous month due to the rising sales of semi-durable goods, durable goods, and nondurable alike. Equipment investment showed a month-on-month drop of 2.5% in transportation and machinery equipments.

Exports in August amounted to US\$46.37 billion, a year-on-year increase of 7.7%. Imports increased by 0.8% to US\$41.45, with trade surplus now standing at US\$4.92 billion, a surplus for the 19th consecutive month. The export volume of IT products and motor cars turned for the better, and exports to the US, ASEAN, and China increased. Imports of raw materials fell, while imports of capital goods and consumer goods went up.

The total number of the employed recorded 25,473,000 in July, a year-on-year improvement of 367,000 due mainly to the employment growth of regular employees in hygiene, social welfare service industries, which collectively helped the total number of the employed increase by more than 300,000 for the second consecutive month. The unemployed rate marked 3.1% in July, the same as that of July 2012, and the number of the unemployed recorded 828,000, a year-on-year increase of 33,000.

The growth rate of consumer price index slowed in August despite rising fresh food prices. The inflation rate marked a month-on-month rise of 0.3% in August, and a year-on-year increase of 1.3%. The core price index remained the same as that of July, and marked a year-on-year increase of 1.3%. The fresh food price index showed a month-on-month increase of 6.9%, and a year-on-year rise of 2.6% due to the long spell of rainy season following regional droughts earlier this summer.

The Korean financial market was affected in August by the sustained trade surplus, forecast of early reduction of quantitative easing by the US, risk of financial uncertainty of emerging countries spreading to Korea, and Syrian civil war calling for an air-raid by the US.

< 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	Jul	Aug
Domestic Market	Retail Sales	4.5	0.5	0.0	2.3	1.0	0.3	1.2	0.4	-1.2	0.4	1.1	-
	Facility Investment Index	4.0	0.1	-2.8	-2.0	6.4	-5.0	-6.8	0.8	-4.5	-1.0	-2.5	-
	Construction	-6.4	-5.4	3.0	-5.8	-5.6	-0.9	1.0	1.4	4.4	7.7	0.8	-
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	2.6	7.7
Employment/ Prices	Unemployment Rate	3.4	3.1	2.9	3.2	3.8	3.3	3.0	2.8	3.6	3.1	3.1	-
	Consumer Price	4.0	4.3	4.0	2.2	3.0	2.4	1.6	1.7	1.4	1.1	1.4	1.3
Finance	KOSPI	-	1,770	1,826	-	2,014	1,854	1,996	1,997	2,005	1,863	1,914	1,926
	KRW/USD	-	1,178	1,152	-	1,133	1,145	1,111	1,071	1,111	1,142	1,124	1,110
	3yr Government Bond	-	3.55	3.34	-	3.55	3.30	2.79	2.82	2.52	2.88	2.92	2.88
	Corporate Bond (BBB-)	-	10.31	10.12	-	10.05	9.69	8.69	8.81	8.50	8.99	9.02	8.96

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



## **II . Economic Issues Facing Korea**

### **1. Herbivorous Men and Carnivorous Women Stirring Outlook on Marriage**

#### *Young Generation in Their 20s and 30s Delaying Marriage*

Korea's birthrate has declined to the level of 440,000 in 2005 as the average ages of first marriage is increasing with a growing number of young people having a negative view on marriage, and has since maintained the status quo, remaining at the bottom of the group of the OECD countries. Japan also has a serious problem of low birthrate attributable to the late marriage or non-marriage of herbivorous men. We review the outlook of young people in their 20s and 30s on marriage and survey the changing perception trend of young people towards marriage, based on the analysis of herbivorous men.

#### *Korean Herbivorous Men and Carnivorous Women*

Herbivorous men according to Hukazawa Maki refers to male individuals who are inactive and passive in having a relationship, and simply prefer to stay home and enjoy life. A recent survey shows that 43.1% of Korean single men have a disposition of herbivore, much lower than 71.5% of Japan, and yet the number of herbivorous men is feared to grow, considering various aspects of Korea's current economic situation. The main reasons cited for the inclination of Korean men to be herbivorous are: becoming tired of work(40.1%) and economically not capable of having a family(16.8%).

Carnivorous women refer to young ladies, who are active and tend to prefer to propose rather than being proposed to. The survey result indicates that 33.8% of Korean single ladies shows tendency of carnivorous woman, almost the same as Japan (37.7%). The key drivers to this phenomenon are social

environment(59.5%) and self-confidence(34.2), which appears to reflect the change in social atmosphere where women's rights have recently been much expanded.

### *Herbivorous Men and Carnivorous Women Stirring Outlook on Marriage*

**Decision Factors for Marriage :** Answering the question, “What do you think is most important when considering a potential marriage partner?”, men appear to regard ‘personal character’ as a priority matter(41.3%) followed by ‘the potential partner’s profession and the amount of salary she earns’(35.9%) and ‘economic capability of the potential partner’s family’(16.1%), whilst women think ‘the potential marriage partner’s profession and the amount of salary he earns’(48.1%) most important. Herbivorous men, however, place priority on the profession and the amount of salary of potential partner, whilst carnivorous women place more importance on the financial ability of potential partner’s family compared with non-carnivorous women.

**Reasons for Reluctance of Marriage :** When asked, “What is the top reason for the reluctance of marriage?”, male respondents cited “money required to prepare for marriage such as purchasing or renting a house’(68.0%), “finding a job’(16.4%), and “continuing to enjoy the freedom as a single male’(12.0%), whilst women named ‘child-caring’(38.0%) followed by ‘continuing to enjoy the freedom as a single woman’(25.6%), ‘money required to prepare for marriage such as purchasing or renting a house’(20.5%), and ‘uncomfortable relationship with in-laws’(6.8%). Although money issue is also a serious problem for herbivorous men, they appear to put more importance on the freedom of living as a single male compared with non-herbivorous men, whilst carnivorous women are more sensitive to the issue of money for marriage than their non-carnivorous counterpart.

**Concern over Late Marriage and Reluctance for Marriage :** To a question, “What do you think about the prevailing social phenomenon of late marriage and reluctance for marriage of Korean youths?” more than half of the respondents(55.3%) answered that they are not worried about this social phenomenon. In the case of men, 49.3% mentioned that they are not

concerned, whilst 61.1% of woman respondents replied that they are not worried. Meanwhile, more herbivorous men(56.7%) are worried than non-herbivorous men(46.1%).

**Expenses for Marriage :** To the question of sharing the marriage expenses, 46.2% of responding men and women showed that the expenses should be equally shared, and 38.8% of the male and 25.2% of woman respondents answered that they expect their parents to pay for more than half of the costs. With the social practice of men having to find their marital home still prevailing, they do not seem to have an alternative but to rely on their parents. Herbivorous men tend to expect their parents to help them with marriage expenses more than non-herbivorous men do, and expect their future wife to take a greater share of the marriage costs.

### *Suggestions*

1. Bearing in mind that the burden of buying or renting a house for the marital home is the main reason for reluctance for marriage, government-level policy support is required to ease the ChunSei crisis(rent crisis), considering the survey result suggesting the difficulty of finding a marital home as the greatest cause of reluctance of marriage.
2. A wide ranging social campaign is required to reduce the cost for marriage including furnishings for the marital home and wedding ceremony.
3. Sweeping new measures should be introduced to address the child-caring issue to encourage women reluctant for marriage because of this issue.
4. Characters appearing on recently released films and TV dramas often show negative view on marriage, which should be discouraged, and a national campaign should be initiated to create positive attitude toward marriage

## **2. Investment Sentiment is High, but Investment Environment Inadequate**

### *Concern over the Deteriorating Business Operation Conditions*

In the aftermath of global economic crisis, Korean economy is failing to emerge from recession: global economic uncertainty is growing with the impending reduction of quantitative easing by the US, continuingly weak yen, depression of the Eurozone real economy, and the risk of a hard landing of China's economy. Although Korea's exports are reasonably strong, the economic environment for business management for the second half of 2013 is feared to deteriorate due to the delayed economic recovery combined with growing global economic uncertainty.

### *Global Economic Forecast for the Second half of 2013*

A survey conducted on the 100 largest business conglomerates of Korea shows consensus opinion that the global as well as Korean economic situation for the second half would be similar to that of the first half. With regard to the question of when the Korean economy would recover in earnest, most businesses answered it would be 'the second half of 2014 or later'. They also pointed out the 'weak yen' and 'the risk of hard landing of China's economy' for external uncertainty factors, and 'depressed export markets' and 'increasing fluctuation of exchange rates' for domestic uncertainty factors.

### *Diagnoses of Economic Issues for the Second Half*

**Policy Issues** To the question of "What is the most impressive economic policy taken by the Park administration, 26% of responding businesses named 'the revised supplementary budgeting'. The businesses also suggested 'stimulation of domestic demand(26.1%)' and 'easing of regulations(23.2%)' as priority policies. 61.6% found the government policy for a creative economy 'well-intended, but the feasibility is low due to the absence of creative education and human resource'. As to the creative economy, 35.1% assessed

‘medical, bio and healthcare industries’ as the most promising areas. With regard to the issue of economic democratization, 79.2% commented ‘agreeable policy, but it has gone a little too far’, and 27.1% suggested ‘extension of period for reduced acquisition tax’ and ‘abolition of heavy transfer tax levied on multi-housing owners’ to boost real estate market.

Management Assessment and Forecast Responding to the question of their management performance, 52.7% stated ‘as good as expected or better than expected’, while 47.3% mentioned ‘not as good as expected or very poor’. Regarding the sales target for the second half, most businesses replied that they would ‘increase sales target within the range of 10% compared with that for the first half’, and 63.0% answered that the size of the total investment including investment in facility and R&D would be ‘maintained at a similar level to the first half. However, only 16.4% stated that they would ‘increase the investment within 10%’.

### *Survey Result on Corporate Investment Index*

Corporate Investment Index(CII) comprises five indices: investment trend index, venture investment index, investment conditions index, investment sentiment index, and entrepreneurship index, and has a value of 0 to 200 rebasing 100 as a base value. Investment trend index marked 71.3, the lowest figure since the start of the corporate investment survey. It showed an upturn in the first half before it fell back in the second half. Venture investment index recorded 139.5, higher than 127.5 in the first half, reflecting a good performance result for the investment. Investment conditions index, although it went up to 68.2 from 57.1 in the first half, continued its slump as it still remains well below the base value 100. Investment sentiment index marginally improved to 164.3 from 161.0 in the first half, showing a continuing upturn since the first half of 2012, reflecting businesses’ willingness to invest despite economic recession. Entrepreneurship index, however, fell to 100.9 from 120.7 in the first half, recording the lowest figure since the start of the entrepreneurship index survey, indicating the businesses’ reluctance to launch new projects, preferring to guard against investment risks.

*Suggestion*

Investment of businesses with already reduced investment appetite facing domestic and global economic uncertainty is feared to sharply shrink in the second half, and therefore, it is imperative that the government and corporates work together and make positive efforts to expand investment. When the investment of businesses continues to decline in the second half, Korea's economic resilience will be weakened with reduced employment resulting in additional stagnation of economic growth further delaying economic recovery. The government, therefore, is urged to offer investment incentives by positively easing the regulations restricting investment conditions and offering extensive tax relief, while minimizing the shrinkage of investment sentiment of businesses by adjusting the speed of enforcing policies for economic democratization. Businesses should also spare no efforts to secure new growth engine by exploring new markets, promoting the development of high value-added products, and by expanding R&D investment.

### **3. Employment Status of Korea in Comparison with Major Advanced Countries and Policy Suggestions**

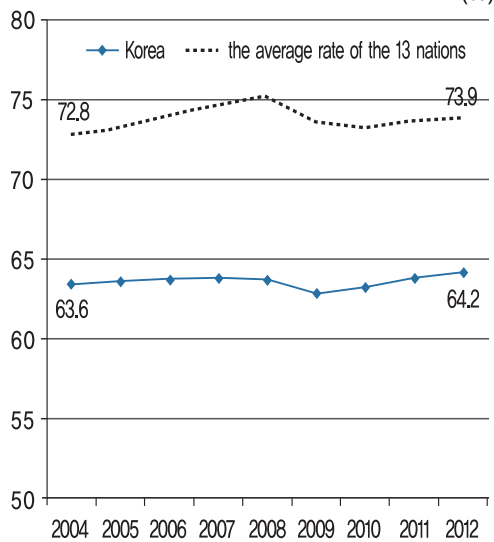
*Rising Conversation Topic: 70% Employment Rate*

The new government set the target of 70% employment rate, which attracted the attention of the nation. Enhancement of employment rate can contribute to overcoming the low growth trend caused by the slowing global economic growth and aging society, settling the uncertainty related to people's right to work and their livelihood, and eventually elevating Korea to the status of an advanced nation. However, it does not seem easy to achieve the goal of 70% employment rate considering that the employment rate of Korea has remained at around 63-64% for the past 10 years. This paper reviews the characteristics of Korea's current employment status in comparison with the 13 advanced countries which achieved the employment rate of 70% ahead of Korea.

Employment Status of Korea in Comparison with Major Advanced Countries

**National Employment Rate :** Korea’s employment rate as of 2012 is 64.2%, lower than 73.9%, the average employment rate of the 13 advanced countries, showing a gap of 16.0% when compared with Iceland whose employment rate is 80.2%, the highest rate of all 13 countries. The speed of employment upturn is also stagnant. From 2004 to up until 2012, Korea’s employment rate increased only by 0.6%p from 63.6% to 64.2%, while the average employment rate of the 13 countries rose by 1.1%p from 72.8% to 73.9%. Particularly, the employment rate in Germany, Austria, and the Netherlands increased by 7.8%p, 4.8%p, and 4.0%p respectively.

<International Comparison of Employment Rates > (%)



<National Employment Rates and GDP/capita > (% , \$(real))

	Employment Rate (%)	GDP/capita (\$)
Korea	64.2	27,991
Average of 13 nations	73.9	35,210
Australia	72.3	37,257
Austria	72.5	36,278
Canada	72.2	35,753
Denmark	72.6	32,366
Germany	72.8	34,754
Iceland	80.2	33,968
Japan	70.6	30,761
Netherlands	75.1	36,473
New Zealand	72.1	25,052
Norway	75.8	47,545
Sweden	73.8	35,130
Swiss	79.4	39,683
U.K.	70.9	32,714

Source: OECD

Notes: 1) Real GDP/capita

2) GDP/capita of Australia, Canada, Japan, and New Zealand are based on 2011 figures

**Labor Demand :** The employment ratio of Korea’s manufacturing industry is relatively higher compared to the advanced 13 countries, whereas that of service industry is lower. Based on the figures of 2012, employment by the manufacturing industry accounted for 16.6% of the total employment by all industries, which is higher than the average rate of 12.8% of the 11 countries

where the required statistics were available. The employment ratio of Korea's manufacturing industry dropped from 18.5% in 2004 to 16.6% in 2012, relatively good when compared with the 11 countries, where the average ratio fell from 15.8% to 12.8% during the same period. Meanwhile, the ratio of employment by service industry is 69.3%, lower than the average ratio of 74.6% of the 11 countries, although the employment ratio of Korean service industry increased from 64.7% in 2004 to 69.3% in 2012, a faster growth rate than the average of the 11 countries, which rose from 72.2% in 2004 to 74.3% in 2012.

**Labor Supply :** In Korea, the youth employment rate is particularly low. The employment rate of the age group of 25 to 34 remains at 70.9%, lower than the average rate of 80.5% of the 13 countries. The youth employment rate of Korea increased by 1.5%p for the period of 2004 to 2012, higher than the average rate increase of 0.5%p of the 13 countries, but lower than Germany (4.6%p), Japan (2.4%p), and Austria (1.6%p). The burdens of housekeeping and childcare on women are one of the main causes behind the low youth employment. More specifically, the employment rate of women in their early 30s falls sharply to 54.8% from that of the late 20s age group (68.0%), whilst, in the case of the 13 countries, the average employment rates of women in their late 20s is 74.4% and it gradually increases to reach as high as 80.5% for the late 40s age group. The supply and demand imbalance created by so many highly-educated young people targeting stable jobs only at large business conglomerates and state-owned enterprises is also contributing to the low youth employment rate. The population of the age group of 25 to 34 with tertiary education was 49.1% in 2004, which increased to 65.0% in 2010, whilst the average of the 13 countries rose from 36.2% to 41.7% for the same period, indicating Korea's growth rate is much higher. Over-supply of highly educated human resource is bound to result in an increasing number of young people failing to find jobs due to the gap between the quality of jobs available to them and the quality of jobs they are looking for.

**Labor Policy :** Korea's labor policy support appears to be inadequate compared with advanced countries. The enforcement of active labor market program such as vocational training and operation of job-centers to assist job seekers to enhance their competitive edge can contribute to the improvement of



employment rate. The 12 advanced countries spent average 0.7% of GDP for the last 10 years on active labor market program, whereas Korea's budget for the same expenditure was mere 0.11% of GDP in 2004. Although the budget rose to 0.33% GDP in 2011, it is still far below the average level of the 12 countries.

### *Suggestions*

Based on the analysis above, we would like to suggest as follows:

1. More jobs should be created in the service industry sector by promoting high value-added and fast growing industries. Business services, health, and social welfare services are prime examples of rising industries in the age of globalization and an aging society and will help create jobs particularly for women and young people.
2. Much effort should be made to minimize the decline of employment ratio of manufacturing industry by improving corporate investment conditions such as the expansion of investment in infrastructures and easing of regulations to stimulate the market.
3. Woman-friendly working conditions should be fostered to encourage women into economic activity. The government should extend policy support to encourage employment of women, and at the same time, businesses should spare no efforts to create a working environment suitable to women by offering different job assignments for each life cycle stage and by providing workplace childcare facilities.
4. The improvement of employment infrastructure is a must in order to encourage young people to enter the labor market, which could be achieved by introducing counseling programs, strengthening vocational training system, and expanding overseas internship projects. The government should also encourage small and medium-sized businesses to improve working conditions to help young people change their perception of small and medium-sized businesses. In the long term, the government should set up a strategic plan for effective training of human resource.
5. The government should expand the budget for active labor market program to strengthen vocational training, upgrading employment information system, and offer incentives to businesses that excel in of employment.

### III. The North Korean Issues

#### 1. Expert Opinions on Inter-Korean Relationship

Since the third nuclear test by North Korea, the international community regards the North Korean nuclear issue as a serious threat. The temporary closure of Kaesong Industrial Complex(KIC) has brought the economic cooperation between the North and the South to a halt, further deteriorating the already tensed inter-Korean relationship. Hyundai Research Institute conducted a survey on 105 experts on North Korean issues (33 conservatives, 40 moderates, and 32 liberals) for the period of July 19-31. This survey has a 95 percent confidence level with a maximum sampling error of plus and minus 3.08%.

#### *Four-party Dialogue Most Effective to Solve North Korean Nuclear Issue*

**Possibility of North Korea’s Nuclear Renunciation :** An overwhelming majority of experts(96.3%) is of the opinion that North Korea has reached either a stage close to nuclear weaponization or a stage where it is capable of weaponization of small and light nuclear missiles. Experts’ views are mixed with regard to the question of the possibility of North Korea’s nuclear renunciation: 71.9% of liberal respondents said, “possible if North Korea is guaranteed the security of the regime”, while 60.6% of conservative experts answered, “North Korea would never give up the nuclear program”.

#### < Approaches to improve the South · North relations >

	Total	Political Inclination		
		Con.	Mod.	Lib.
Stage of weaponization of small & light missiles	48.6%	45.5%	50.0%	50.0%
A number of further tests required before weaponization	44.8%	48.5%	42.5%	43.8%
Early stage of research	3.8%	3.0%	5.0%	3.1%
Mass-production after successful weaponization of small & light missiles	2.9%	3.0%	2.5%	3.1%

< Possibility of N. Korea’s Nuclear Renunciation >

	Total	Political Inclination		
		Con.	Mod.	Lib.
Possible to freeze when guaranteed the security of the regime	47.6%	30.3%	50.0%	62.5%
Would never give up the nuclear weapon	43.8%	60.6%	42.5%	28.1%
Totally abandon the nuclear program when the security of the regime is guaranteed and economically rewarded	8.6%	9.1%	7.5%	9.4%

**Methods of Talks to Solve N. Korean Nuclear Issue :** The vast majority of respondents(82.9%) replied that engagement policy including dialogues and expansion of economic aid will be more effective than hard line policy. With regard to the method of talks, 45.7% said that the 4-party talk will be more effective than the 6-party talk, reflecting the views of a growing number of people that support 4-party talk.

< Effective method to solve N. Korean Nuclear issue >

	Total	Political Inclination		
		Con.	Mod.	Lib.
Multilateral talks	61.9%	54.5%	60.0%	71.9%
Expansion of economic reward	21.0%	12.1%	25.0%	25.0%
Continuation of pressure and blockade	16.1%	33.3%	12.5%	3.1%
Destruction of nuclear facilities by military intervention	1.0%	0.0%	2.5%	0.0%

< Type of dialogue to solve N. Korean nuclear issue >

	Total	Political Inclination		
		Con.	Mod.	Lib.
4 party talks	45.7%	48.5%	45.0%	43.8%
Existing 6 party talks	38.1%	45.5%	37.5%	31.3%
Bilateral talks	7.6%	3.0%	5.0%	15.6%
Others	8.6%	3.0%	12.5%	9.3%

*Talks for North-South cooperation should begin with negotiable and agreeable issues first.*

**Methods to Improve the North-South Relationship :** A majority of respondents(69.5%) replied, “talks should begin with negotiable and agreeable issues first” followed by “talks should unconditionally continue under any

circumstance”(26.7%), and “no need for exchange program for cooperation before N. Korea shows sincerity”(3.8%). A majority also suggested that humanitarian aid be provided (68.6%) and economic cooperation of private sector with N. Korea be utilized(24.8%) to motivate N. Korea to come to the negotiation table.

< Approach to ease the tension between N & S Korea >

	Total
Begin with negotiable and agreeable issues first	69.5%
Unconditional talks under any circumstance	26.7%
No need for cooperation before trust is built up between the North & South	3.8%

< Methods to encourage to come to the negotiation table >

	Total
Talks through humanitarian aid	68.6%
Talks through economic cooperation of private sector	24.8%
Talks through social & cultural exchange programs	6.7%
Talks between the two authorities	0.0%

**Re-operation of Kaesong Industrial Complex(KIC) :** With regard to the issue of resumption of KIC, 71.4% replied that the KIC should be unconditionally resumed in full scale or at least to the level of operation before it was suspended, and notably 42.4% of conservative respondents also agreed with the same view.

< Ideal Solution for the Resumption of KIC >

	Total	Political Inclination		
		Con.	Mod.	Lib.
Desirable for KIC to be reopened to a similar operational level to where it was before it was suspended	49.5%	42.4%	52.5%	53.1%
Desirable to reopen when KIC is upgraded to the standard of international industrial complex	28.6%	48.5%	30.0%	6.3%
Desirable to reopen under any condition	21.9%	9.1%	17.5%	40.6%

*The North-South relationship is expected to improve in the second half.*

**Forecast of North-South Relationship in the Second Half :** As to the question of the forecast of the North-South relationship in the second half, 46.7% replied that the relationship will improve, and 41.0% said that it will maintain the status quo. Classifying the respondents by political inclination, 43.8% of liberals and 52.5% of moderates replied that the relationship will improve, whilst 51.5% of conservatives were of the opinion for the maintenance of the status quo.

< Ideal Solution for the Resumption of KIC >

	Total	Political Inclination		
		Con.	Mod.	Lib.
Will substantially improve	2.9%	6.1%	2.5%	0.0%
Will improve to some extent	43.8%	36.4%	50.0%	43.8%
The status quo	41.0%	51.5%	35.0%	37.5%
Will deteriorate to some extent	11.4%	6.1%	10.0%	18.8%
Will seriously deteriorate	1.0%	0.0%	2.5%	0.0%

**Background to the Forecast :** The reason for the optimistic view(63.3%) is “the growing demand within the N. Korean regime for cooperation with S. Korea”, which is interpreted to reflect N. Korea’s desire to attract foreign investment for its economic reform by improving relationship with S. Korea, whilst respondents with a pessimistic view pointed to “S. Korean government’s policy of sticking to its rigid principles for N. Korea(69.2%)”.

< Reasons for Optimistic View >

	Total
Growing necessity within N. Korean regime	63.3%
Continuing efforts and pressure of neighboring countries	22.4%
S. Korea’s policy toward N. Korea	4.1%
Others	10.2%

< Reasons for Pessimistic View >

	Total
S. Korean government’s policy of sticking to its principles	69.2%
N. Korea’s resistance resulting from the pressure of international community	15.4%
Continuingly building up tension created by N. Korea’s nuclear threat to S. Korea	15.4%

### *Suggestions*

1. All responding experts, regardless of their political inclination, appear to agree in respect of the need for solving N. Korean nuclear issue, and therefore the government should continue to promote efforts by way of multilateral talks for the peaceful coexistence and prosperity in Korean peninsula.
2. The North-South exchange programs and economic cooperation should be maintained with the principles of 'dealing with easy issues first and difficult ones later' and 'separation of economic cooperation from political matters'. The North-South program should begin with humanitarian aid and private sector-led economic cooperation, and it is desirable that the KIC be reopened first to the same operational level that it was prior to suspension before it is further developed for the internationalization.
3. The government is recommended to adopt a more flexible stance in enforcing policies toward N. Korea rather than sticking to rigid principles.

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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	0.4	1.9
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 July 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	2.1
	Construction Investment (%)	-4.7	-1.9	-2.4	-2.2	1.8
	Facility Investment (%)	3.6	2.3	-6.1	-1.9	1.0
Foreign Trade	Current Account (100 million Dollars)	265	137	294	431	395
	Exports (100 million Dollars) [Increase rate, %]	5,552 [19.0]	2,750 [0.5]	2,729 [-3.1]	5,479 [-1.3]	5,646 [3.0]
	Imports (100 million Dollars) [Increase rate, %]	5,244 [23.3]	2,641 [2.3]	2,555 [-4.0]	5,196 [-0.9]	5,376 [3.5]
Consumer Price (Average, %)		4.0	2.7	1.6	2.2	1.8
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



# Hyundai Research Institute

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