

HRI Monthly Economic Review

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

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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 maintains a firm economic recovery while the Eurozone and Japan show a somewhat weak recovery; China keeps its course of gradual recovery. Korean economy appears to begin to recover from the shock of Sewol ferry disaster. Foreign trade increased, and inflation continues to remain at a low level.

2. Economic Issues Facing Korea

『Expansive Combination of Fiscal and Monetary Policy Urgently Required 』

Social consensus for the need to reinvigorate domestic demand is being formed following the depression of the domestic market in the aftermath of the Sewol ferry disaster. In view of different opinions dividing experts as to the method and timing, we would like to suggest directions for fiscal, monetary, and microeconomic policies for the domestic economic recovery. As a result of the research, key characteristics of the latest domestic economy have been found and several suggestions are proposed.

『Job Map of Korea : Good Quality Jobs Concentrated in the Capital Region』

A national business survey of the National Statistical Office (STO) was used to analyze jobs. The STO does not release statistics for each of the 16 cities and provinces separately, but here we attribute the data for the 16 cities and provinces for comparison purposes. Analyses were made using quantitative criteria such as job growth rate and number of women in employment along with qualitative criteria such as the creation of high wage jobs, jobs in creative industries, jobs for conglomerates, regular work, and self-employment. In summary, the capital area to the nation's population ratio is 49% as of 2012 but accounts for 51% of jobs. The trend of jobs focused in the capital area appears to have come to a halt in view of the flat change in the ratio of number of jobs to population size of the capital region for the last 5 years.

3. The North Korean Issues

N. Korea, which suffers chronic food shortage, is feared to face its worst food shortage this year since 2001 due to the drought during the spring/summer season. Due to the drought in 2001, the grain production of N. Korea sharply dropped by 15.3% in the grain year of 2000/2001, rendering N. Korea heavily dependent on foreign food aid and grain imports.

I . Recent Economic Trends

Major Economies

The US economy maintains a firm economic recovery while the Eurozone and Japan show a somewhat weak recovery; China keeps its course of gradual recovery.

The US economic growth rate marked a quarter-on-quarter increase of 4% in Q2 from -2.1% in Q1. Industrial production and retail sales each showed a month-on-month rise of 0.2% in June. Although manufacturing industry's PMI accounted for 55.3p in June, a month-on-month fall of 0.1%, the economic expansion trend continues as the figure still remains above the baseline 50. The Conference Board composite leading indicator increased for the 5th consecutive month.

The Eurozone faces a growing concern over the risk of deflation as its economic recovery slows down. Industrial production recorded a month-on-month drop of 1.1% in May, but retail sales marked a month-on-month increase of 0.1%. Inflation showed a year-on-year rise of 0.4% in July, the lowest since October 2009, immediately after the outbreak of the global financial crisis. The Eurozone's inflation rate remains at 0% plus level since it dropped to 0.7% in October last year.

Japan's economic recovery is somewhat weakening. Industrial production accounted for a month-on-month drop of 3.3% while retail sales showed a month-on-month rise of 0.4%. Manufacturing industry's PMI is now on a downturn showing

50.8p in July having risen for two consecutive months. The year-on-year growth rate of exports marked -2.7% in May and -1.9% in June.

China's economy shows a marginal recovery. Industrial production and retail sales recorded a year-on-year increase of 9.2% and 12.4% respectively. The year-on-year export growth rate continued to increase in June by 7.2%, a continued rise after May. The HSBC PMI accounted for 52.0% in June, an increase for four consecutive months. The coincidence and leading composite indices also showed upturn for more than 3 months.

Stock markets of major economies such as the US, Japan and China rallied despite the Israel-Palestine civil war risk and concern over default risk of Argentina.

<Economic indices of major countries>

(%)

(p, yen, euro, yuan)

Economic Sectors	2012	2013	2014			International Finance Sector	2012	2013	2014					
	Annual	Annual	Apr	May	Jun		Annual	Annual	Jun	Jul	Aug			
US	Industrial Production	3.8	2.9	0.0	0.5	0.2	Stock index	DJIA	13,104	16,577	16,827	16,563	16,569	
	Retail Sales	5.1	4.2	0.6	0.5	0.2		DAX	7,612	9,552	9,833	9,407	9,154	
EU	Industrial Production	-2.5	-0.7	0.7	-1.1	-		NIKEI	10,395	16,291	15,162	15,621	15,475	
	Retail Sales	-1.7	-0.8	-0.2	0.1	-		SSE	2,269	2,098	2,048	2,202	2,223	
Japan	Industrial Production	0.6	-0.8	-2.8	0.7	-		Rate of Exchange	EUR/USD	1.3222	1.3799	1.3645	1.3393	1.3389
	Retail Sales	1.8	1.0	-13.6	4.6	0.4			YEN/USD	85.86	105.04	101.44	102.87	102.77
China	Industrial Production	10.0	9.7	8.7	8.8	9.2	CNY/USD		6.2317	6.0617	6.2185	6.1714	6.1740	
	Retail Sales	14.3	13.1	11.9	12.5	12.4								

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

Note : US, EU, Japan QoQ, China YoY

Korean Economy

Domestic economy appears to begin to recover from the shock of Sewol ferry disaster. Foreign trade increased, and inflation continues to remain at a low level.

Both production and consumption rose in June although facility investment fell. Production showed a month-on-month increase of 2.1% thanks to the good performance in mining and manufacturing industry, the largest rise in 39 months. Although consumption marked a month-on-month increase of 0.3%, this was a lower increase compared to May (1.2%). Facility investment dropped by 1.4% due to the reduced investment in machinery. Construction showed a month-on-month rise of 2.7%.

Both imports and exports increased. Exports amounted to US\$484 billion, a year-on-year rise of 5.7% in July, while imports marked US\$45.9 billion, a year-on-year increase of 5.8%. Trade surplus recorded US\$2.5 billion in July, a surplus for 30 consecutive months. Exports to China, however, dropped by 9.4% in May, 1.0% in June, and 7.0% in July, which is a cause for concern.

The improving employment trend slowed down. Total number of the employed showed a year-on-year rise of 398,000 in June, the lowest in 11 months. Total employment rate accounted for 60.9% in June, similar to the previous month, but the employment rate of those in their 20s remained at 65.9%, a month-on-month drop of 0.4%. Unemployment rate recorded 3.5%, a year-on-year increase of 0.4%p.

Inflation remains at low level: a month-on-month rise of 0.1% and a year-on-year rise of 1.6% in July. Although the month-on-month increase rate rallied from a negative figure in

June to a positive one in July, the year-on-year increase rate marginally dropped in July from 1.7% in June mainly because prices of agricultural products dropped significantly, despite the rising prices of processed foods and utilities such as electricity, water, and gas.

The domestic stock market rallied in July with expectation for economic recovery following the announcement of an expansionary policy by the second economic team of the government. Forward interest rates fell anticipating the base rate to drop. The won appeared weak against the dollar compared to the previous month following the remark made by the Fed suggesting an early increase in the base rate.

<Korea Major Economic Indices>

(p, %)

Economic Sectors		2012	2013				2014					
		Annual	Annual	1/4	2/4	3/4	4/4	1/4	2/4	May	Jun	Jul
Domestic Market	Retail Sales	2.3	0.7	-1.0	0.9	0.8	0.4	0.3	-0.4	1.2	0.3	-
	Facility Investment Index	-2.0	-5.0	-3.1	1.1	5.0	5.9	-5.2	2.1	-0.8	-1.4	-
	Construction	-5.8	10.5	3.5	6.3	-0.1	-0.7	1.5	-0.8	-6.8	2.7	-
Foreign Trade	Export Growth Rate	-1.3	2.2	0.4	0.7	2.7	4.8	1.7	3.3	-1.0	2.5	5.7
Employment/ Prices	Unemployment Rate	3.2	3.1	3.6	3.1	3.0	2.8	4.0	3.7	3.6	3.5	-
	Consumer Price	2.2	1.3	1.6	1.2	1.4	1.1	1.1	1.6	1.7	1.7	1.6
Employment/ Prices	KOSPI	-	-	2,005	1,863	1,997	2,011	1,986	2,002	1,995	2,002	2,076
	KRW/USD	-	-	1,111	1,142	1,075	1,067	1,065	1,012	1,020	1,012	1,028
	3yr Government Bond	-	-	2.52	2.88	2.82	2.86	2.87	2.68	2.82	2.68	2.52
	Corporate Bond (BBB-)	-	-	8.50	8.99	8.97	9.10	9.11	8.91	9.04	8.91	8.77

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

II. Economic Issues Facing Korea

1. Expansive Combination of Fiscal and Monetary Policy Urgently Required

Heated Debate on the Method of Revitalizing Domestic Market

Social consensus for the need to reinvigorate domestic demand is being formed following the depression of the domestic market in the aftermath of the Sewol ferry disaster. In view of different opinions dividing experts as to the method and timing, we would like to suggest directions for fiscal, monetary, and microeconomic policies for the domestic economic recovery.

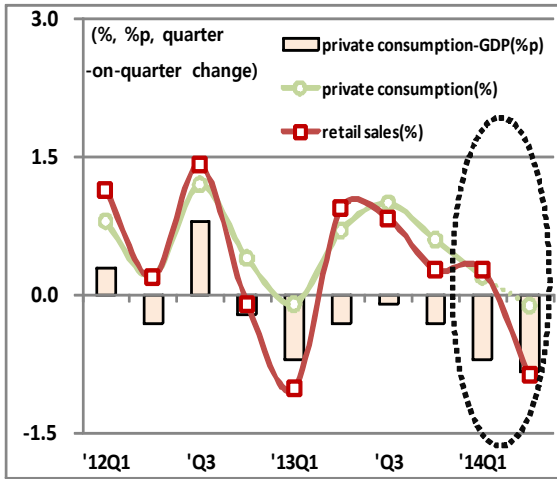
Key Characteristics of the Latest Domestic Economy

(Risk of Depressed Domestic Market brought by the Sewol Ferry Disaster) The shock of the Sewol ferry disaster exerted a demoralizing influence not only on private consumption but also on the domestic economy as a whole including production, investment, and employment causing growing concern over 'Risk of Domestic Market Deflation'. The growth rate of production of mining and manufacturing industries plummeted in April/May to -1.4% from 0.3% in the first quarter, and service industry also sharply fell from 0.5% to -0.7%. Retail sales dropped from 0.3% to -0.9%, although facility investment rose from -5.2% to 2.3%, which is attributed to the base effect. The number of new employments fell in May/June to

400,6000 from the January-April average of 693,000. The Sewol ferry disaster brought a severe blow especially to small business owners (self-employed businesses run by one person), reducing the number of single-person self-employed businesses by 44,000 in May/June. Although the Sewol ferry disaster shock was expected to last for more or less three months and mainly confined to private consumption, it is now feared to persist in the second half of 2014, having a negative effect on the domestic economy as a whole including production and investment.

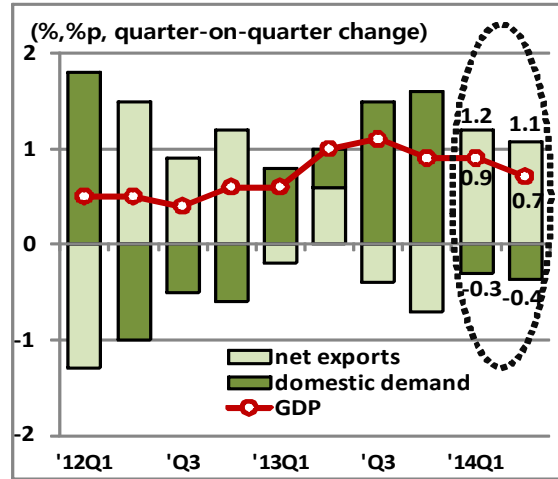
(Net Exports Rising amid Depressed Domestic Economy) On national accounts, net exports are sharply increasing as exports increase while imports fall. Exports rose by 1.5% in the first quarter whereas imports fell by 0.8% due to the depressed domestic market, producing a net export value of US\$15.41 billion (based on the USD/KRW exchange rate of 1 to 1,038). The second quarter is also expected to see domestic demand falling by 0.9% with net exports reaching US\$29.87 billion. The GDP growth rate in the first quarter showed 0.9% despite the domestic market being in recession, but it is likely to fall to 0.7% in the second half. The contribution of exports to the GDP growth rate stayed at a reasonably high level of 1.2%p and 1.1%p in the first and the second quarter, whilst the equivalent for domestic demand remained at -0.3%p and -0.4%p.

< Private Consumption & Retail Sales >



Source : Bank of Korea, National Statistical Office.
 Note : Retail sales of '14.Q2 covers May/June.

< Contribution Levels of Exports & Domestic Demand to Economic Growth Rate >



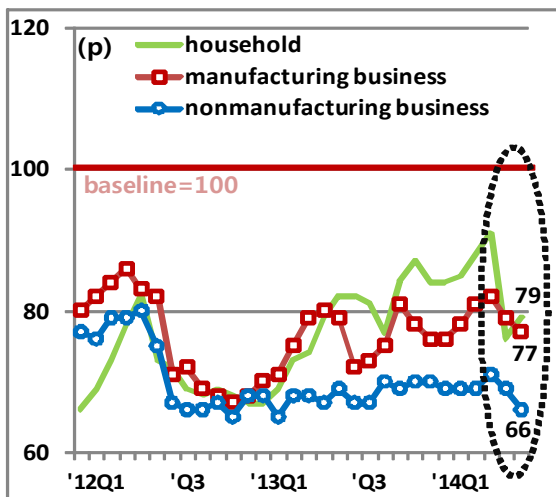
Source : Bank of Korea

(Deterioration of Actual Economic Sentiment) The gap between the economy as measured by indices and the economic sentiment actually felt by consumers is widening as net exports rise despite a domestic depression. In the table, the GDP growth rate is likely to be 0.7% in the Q2 thanks to increasing net exports. However, the 'consumer sentiment index' plummeted in May by 15p from 91 to 76 drifting further away from the baseline 100 and remained at 79 in June showing no sign of tangible recovery. Business sentiment index dropped: Manufacturing industry's BSI fell in April to June by 5p(82→79→77) and non-manufacturing industries' also fell by 5p(71→69→66).

(Sufficient Room for Extension of Currency Supply due to Continued Low Inflation) The consumer price index has remained at 1% plus level for 20 consecutive months (November 2012-June 2014) and is forecast to remain well below the lower limit of 2.5% set by the Bank of Korea. The

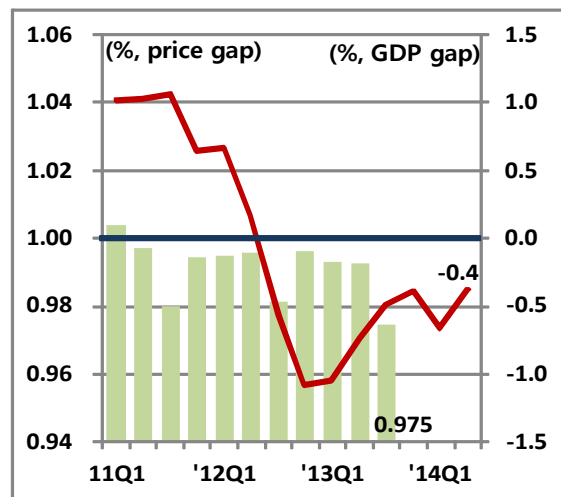
room for expanding currency supply appears sufficient as the price gap is also likely to remain below the baseline (low currency liquidity compared to real economic activity) in the second half.

< Consumer & Business Sentiment Index >



Source : Bank of Korea.

<GDP Gap & Price Gap>



Source : Bank of Korea, National Statistical Office.

Policy Suggestion for Revitalization of Domestic Economy

1. Expansionary combination of fiscal and monetary policies is urgently required. A revised supplementary budget has always been drawn up in time of economic crisis which invariably revitalizes the domestic economy. Lowering the base interest rate with staggered timing has also contributed to economic recovery. A combination of policies for preemptive financing and extension of currency supply is desperately required at this time to counter the growing concern over the risk of domestic market deflation and to expand employment and encourage consumption.

2. In the case of fiscal policy, every available means should be mobilized including funds disposable without resolution of the National Assembly, early execution of public expenditure, reduction of unused budget by raising budget execution rate, and expanding policy financing. In the case of a supplementary budget being inevitable due to insufficient tax revenue, additional budget for greater expenditure should also be made up at the same time. When it comes to monetary policy, preemptive measures should be taken considering that the effect of lowering interest rate comes more or less six months after action is taken. The timing of lowering the base interest rate should be advanced, and extending the cap of financial intermediary support loans should also be considered.

3. A virtuous circle of revitalization of the real estate market leading to a recovery of domestic demand should be established. It is necessary to revise the loan-to-value (LTV) ratio upwards and increase the debt-to-income (DTI) ratio to a reasonable level that would not harm the financial stability of those who are able to repay their debt so that they can contribute to reinvigorating the real estate market. Raising the bank reserve rate to dispel worries over household debts, and removing upper limits of sale prices of newly-built apartments should also be considered to improve sentiment toward the real estate market.

4. The ‘3-year-plan for economic innovation’ which suffered a temporary setback in the wake of the Sewol ferry disaster should be robustly and consistently promoted. Investment-related regulations should be eased and consumption encouraged to boost domestic demand, and growth potential needs to be expanded by strengthening the economic constitution.

2. Job Map of Korea : Good Quality Jobs Concentrated in the Capital Region

Introduction

The relocation of some government agencies and public organizations outside of the capital area began in 2011, and the number of people returning to rural villages and going back to farming is steadily on the increase as their life satisfaction is improving. The question arises as to whether there are sufficient jobs available in the area and if the quality of the jobs they have newly found is satisfactory. The level of income is directly related to the level of happiness and life satisfaction, and this arises from the jobs people are engaged in. What changes has the back-to-the-farm movement brought to the regions? What changes has it brought to the national job map especially during the term of the previous government (2007 to 2012)? How did it affect jobs in both terms of quantity and quality?

Characteristics of Jobs by Region

A national business survey of the National Statistical Office (STO) was used to analyze jobs. The STO does not release statistics for each of the 16 cities and provinces separately, but here we attribute the data for the 16 cities and provinces for comparison purposes. Analyses were made using quantitative criteria such as job growth rate and number of women in employment along with qualitative criteria such as the creation of high wage jobs, jobs in creative industries, jobs for conglomerates, regular work, and self-employment.

1. The number of jobs increased during the period of 2007 to 2012 by an annual average of 2% from businesses' perspective and by 3.1% by employees' perspective. Daejeon showed the highest growth rate of all, and the growth rate of Choongchong Province including Daejeon marked 4.16%, well over the national average of 3.1%.

< Job Growth Rate per Metropolitan Region >

< Job Proportion per Metropolitan Region >

	Annual Average Growth Rate (2007-2012)		Businesses		Employees	
	Businesses (%)	Employees (%)	2007	2012	2007	2012
National Average	2.00	3.10	100.0	100.0	100.0	100.0
Capital Area	2.27	3.12	46.8	47.4	50.8	50.9
Choongchong	2.51	4.16	9.9	10.1	9.6	10.1
Honam	1.85	3.14	10.5	10.4	9.3	9.3
Daegu & Gyung-sang	1.54	2.88	11.1	10.9	9.8	9.7
Southern & Eastern Reg.	1.44	2.46	16.7	16.3	16.5	16.0
Gangwon	1.41	3.04	3.6	3.5	2.8	2.8
Jeju	2.17	3.39	1.4	1.4	1.1	1.1

2. Jeju province showed the highest growth rate of women in employment in 2012 of 47.2% followed by Gangwon province (44.3%) thanks to such businesses as restaurants, hotels, and retail/whole sale businesses being concentrated in these regions and relying heavily on female workers.

3. The capital area appears to have the highest proportion of high-wage jobs (58.9%) as of 2012, and this proportion also increased compared with 2007. High-wage jobs here refers to work engaged in five key businesses such as finance/insurance, broadcasting/information services, electricity/gas/water services, science and technology services, and education service with an annual salary over US\$36,000.

4. As much as 67.2% of jobs engaged in creative industry is focused in the capital area, and such trend is further deepening compared to 2007. Creative industry includes construction, services related to the arts, information/communication/broadcasting services, and manufacturing equipment for information technology (ICT).

5. Businesses employing 300 workers or more are also focused in the capital area as of 2012 (67.2%), and it is increasing further compared with 2007 (56.6%).

6. The city of Ulsan takes first place (68.2%) as of 2012 when it comes to the proportion of regular employment mainly because Ulsan is where large businesses engaged in heavy and chemical industries are densely located. Second to Ulsan is Seoul (66.5%) followed by Choongnam (65.3%). This compares with the national average of 62.4%.

7. With regard to the proportion of self-employed jobs, the quality of which is comparatively lower, Gangwon province has the highest (26.8%) as of 2012 followed by Jeju (25.1%) and Daegu (24.9%), which suggests that Gangwon province has a higher proportion of tourism-related jobs and smaller-scaled self-employers than any other region.

<Distribution of High-Wage Jobs per Region>

	Proportion of Businesses		Proportion of Workers	
	2007	2012	2007	2012
Nation	100.0	100.0	100.0	100.0
Capital Area	48.7	51.3	56.9	58.9
Choongchong	9.3	9.1	9.1	8.9
Honam	10.9	10.3	8.9	8.3
Daegu & Gyungang	10.8	10.1	8.4	7.9
Southern & Eastern Reg.	15.8	14.9	13.0	12.4
Gangwon	3.2	3.0	2.6	2.5
Jeju	1.3	1.3	1.0	1.0

< Distribution of Large Business Workers per Region >

	2007	2012
Nation	100.0	100.0
Capital Area	56.6	58.2
Choongchong	10.0	10.2
Honam	6.7	6.7
Daegu & Gyungang	8.1	8.0
Southern & Eastern Reg	16.4	14.6
Gangwon	1.8	1.8
Jeju	0.4	0.5

In summary, the capital area to the nation's population ratio is 49% as of 2012 but accounts for 51% of jobs. The trend of jobs focused in the capital area appears to have come to a halt in view of the flat change in the ratio of number of jobs to population size of the capital region for the last 5 years. When it comes to the quality of jobs, however, good quality jobs are still concentrated in the capital region. In other words, 59% of high-wage jobs, 58% of large business jobs, and 67% of creative industry jobs are available in the capital area, and the proportion of good jobs in the Seoul area remains steadily on the increase.

Policy Suggestion

The job map of Korea shows that good quality jobs are heavily concentrated in the capital area although quantity-wise the tendency of jobs focused in the capital region appears to have eased. Policies for balanced national development should be consistently promoted regardless of change of government, and the relocation of some government agencies and public organizations to Sejong and other innovation cities should be progressed as planned

Every effort should be made to create high-tech industrial complexes with investments both from abroad and home using existing free economic zones in each region while endeavoring to have relevant regulations eased. At the same time, regional strategic industries should be promoted to the needs of each region. What is even more important is to develop regional universities. Students should be encouraged to apply more for regional universities instead of universities in the Seoul area to cultivate a balanced human resource for high-wage jobs and to attract large businesses to regional areas. Job supply and demand policies suitable to each region should be promoted consistently.

III. North Korean Issues

N. Korea - Concern over the Growing Food Shortage

N. Korea, which suffers chronic food shortage, is feared to face its worst food shortage this year since 2001 due to the drought during the spring/summer season. Due to the drought in 2001, the grain production of N. Korea sharply dropped by 15.3% in the grain year of 2000/2001, rendering N. Korea heavily dependent on foreign food aid and grain imports.

Estimate of N. Korea's Food Supply and Demand

An estimate of the anticipated scale of food shortage in N. Korea was made based on guidelines of two UN organizations: FAO and WHO. The FAO defines that 1,640 kcal is required per person per day, which is only 78% of 2,100 kcal - the minimum calorific intake set by the WHO and other related organizations. The issue is that this is not enough for a normal person undertaking normal daily activities. A 2,100 kcal intake, the minimum calories set by the WHO and other organizations, is for those people living exclusively on food aid.

Based on these two guidelines, it is estimated that N. Korea would require 5.37 million tons of grain (per the FAO) and 6.59 million tons based on the WHO minimum calorific intake in the grain year of 2013/2014. Supposing the feared food shortage does indeed occur, the year-on-year reduction scale of grain production expected in the 2013/2014 grain year could range from a minimum of 250,000 tons to a maximum of 740,000 tons depending on which guideline is applied. As a result, grain supply of N. Korea in 2013/2014 is estimated to fall between 4.48 million to 4.98 million tons. Therefore, the

shortage of grain supply can be 1.61 million to 2.10 million tons based on the minimum calories guideline, depending on the degree of drought. The grain shortage is feared to reach 390,000 to 890,000 tons even if based on the FAO guidelines, which is significantly lower than the minimum requirement set by the WHO.

< Estimate on N. Korea's Grain Supply & Demand in 2013/2014 Grain Year >
(Unit : 10,000ton)

Section	Anticipated	Reduced Grain Production Caused by Drought		
		Y-on-Y Reduction of 5%	Y-on-Y Reduction of 10%	Y-on-Y Reduction of 15%
Domestic Production(A)	503.0	467.6	443.0	418.4
Supply from Abroad(B)	30.0	30.0	30.0	30.0
Total Supply(C=A+B)	533.0	497.6	473.0	448.4
FAO Guideline (1,640kcal)	Required (D)	537.0	537.0	537.0
	Shortage (C-D)	-4.0	-39.4	-64.0
Minimum Calories Reqd. (2,100kcal)	Required (E)	658.5	658.5	658.5
	Shortage (C-E)	-125.5	-160.9	-185.5

Source : Calculated by HRI based on FAOSTAT data

Causes of N. Korea's Food Shortage

The key issue is that N. Korea's infrastructure for agricultural production is helplessly behind the times. N. Korea's agricultural industry is vulnerable to the slightest climate change due to infrastructure failings such as poor irrigation systems. With fertilizers, agricultural machinery, agricultural pesticides, greenhouse facilities, and other agricultural materials severely lacking, the agricultural productivity of N. Korea is very low.

Soil acidification caused by the imbalance between 3 fertilizer

elements, let alone the basic shortage of fertilizer production, makes it difficult to harvest agricultural products of good quality. N. Korea's average annual production of fertilizer for the period of 2008-2012 was approximately 220,000 tons, which is only 37% of what is required (590,000 ton). Around 360,000 tons are imported every year leaving a 12,000 ton shortfall.

In particular, the fertilizers used in N. Korea for 2008 to 2012 comprise of 97.0% of nitrogen, 1.5% of phosphoric acid, and 1.5% of kali, which is a marked contrast to the UNDP-recommended fertilizer ratio of nitrogen 50: phosphoric acid 25: kali 25. Such an imbalanced ratio of these 3 fertilizer elements is feared to accelerate the acidification of soil resulting in the harvesting of crops of imbalanced nutritional value and crops that are extremely vulnerable to disease and insect/pest infestation.

Furthermore, the crop harvest is highly likely to suffer post-harvest losses (PHL). Based on 2013/2014 grain year, the PHL reached as much as 730,000 tons, which is 14.4% of the total harvest production of 5.03 million tons. There are several reasons for this high PHL rate - not only are the harvested crops being stored on the farmland for an extended period of time thus being exposed to rats, birds, and insect pests, but also backward method of drying crops, outdated threshing machines, antiquated rice mills and flour mills all contribute to degrading the quality of crop harvests. If N. Korea can manage to reduce the PHL rate from 14.4% to 10.0%, it will result in a 220,000 ton increase of grain production.

Lastly, the recent sudden drop of overseas aid is making the situation worse. N. Korea is importing around 350,000 tons of grain a year since 2008.

Policy Suggestion

Food aid to N. Korea is not only a must on humanitarian grounds, but is also important in respect of contributing to laying a foundation towards unification by helping N. Korea enhance its learning ability, labor productivity, and social stability. This will act as a means to reduce the cost for unification, and therefore, the following measures need to be taken:

1. Food aid on humanitarian grounds will help N. Korea improve its food security. However, international collaboration is required to ensure efficient management and fair distribution of food aid provided.

2. Fundamental problems of N. Korea's agricultural industry should be dealt with by means of an agricultural cooperation program between the two Koreas or multinational cooperation to enhance N. Korea's ability for grain self-sufficiency. N. Korea should be aided with fertilizer and agricultural machinery together with the introduction of agricultural technology by experts home and abroad.

3. Apart from agriculture, similar types of cooperation are required to industrialize N. Korea's food-related industries such as fishery, livestock, and forestry to improve nutritive conditions of N. Koreans and strengthen the industrial infrastructure of N. Korea.

4. Cooperation for meteorological information between the two Koreas and S. Korea's support for a forestation project for N. Korea should be considered to prevent or minimize losses

of human lives, properties, crops and farmland caused by natural disasters occurring in N. Korea.

5. Both Koreas can benefit from the multilateral agricultural cooperation project involving the N. Korean border area, Manchuria, and the Maritime Province, the outposts for the realization of the Eurasia Initiative. N. Korea is expected to be able to ease its food shortage and acquire the opportunity to enhance utilization of N. Korean labor and secure foreign currency while S. Korea also would be able to improve its rate of grain self-sufficiency.

[Annex] Domestic and Global Economic Indices

Global Growth Rate

Category	2012					2013					2014
	Annual	1/4	2/4	3/4	4/4	Annual(E)	1/4	2/4	3/4	4/4	Annual(E)
US	2.8	3.7	1.2	2.8	0.1	1.9	1.1	2.5	4.1	2.6	2.8
Euro Region	-0.6	-0.1	-0.3	-0.1	-0.5	-0.4	-0.2	0.3	0.1	0.3	1.2
Japan	2.0	3.7	-1.7	-3.1	-0.2	1.7	4.8	3.9	1.1	1.0	1.4
China	7.7	8.1	7.6	7.4	7.9	7.7	7.7	7.5	7.8	7.7	7.5

Note: 1) IMF figures of April 2014 for 2013 and 2014 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		2012	2013			2014(E)
			the first half	the second half	Annual	
National Account	Economic Growth rate (%)	2.3	2.4	3.5	3.0	3.6
	Private Consumption (%)	1.9	1.9	2.1	2.0	2.5
	Construction Investment (%)	-3.9	6.4	7.0	6.7	2.6
	Facility Investment (%)	0.1	-8.3	6.2	-1.5	5.4
Foreign Trade	Current Account (100 million Dollars)	508	313	486	799	790
	Exports (100 million Dollars) [Increase rate, %]	5,479 [-1.3]	2,765 [0.5]	2,832 [3.8]	5,596 [2.1]	5,836 [4.3]
	Imports (100 million Dollars) [Increase rate, %]	5,196 [-0.9]	2,565 [-2.9]	2,591 [1.4]	5,156 [-0.8]	5,381 [4.4]
Consumer Price (Average, %)		2.2	1.4	1.2	1.3	1.7
Unemployment rate (Average, %)		3.2	3.4	2.9	3.1	3.6

Economic Indicators of North Korea

	2005	2006	2007	2008	2009	2010	2011	2012	2013	
Per capita GNI (10,000 won)	105	103	104	114	119	124	133	137	138	
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	520.6
	North-to-South	340.3	519.5	765.3	932.3	934.3	1,043.9	913.7	1,074.0	615.2
	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	1,135.8

Source: THE BANK OF KOREA, Ministry of Unification

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