Korea's Vision and Strategy for the Next 50 Years

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I. Key Questions and Answers

Key Questions

- Over the past half century Korea has achieved remarkable economic progress. However, it continues to be faced with many new challenges as well as opportunities. Thus, the key questions are:
  1) What are these challenges and opportunities?
  2) What should be the vision and strategy Korea should follow not only to meet these challenges but also to make use of the opportunities?

I. Key Questions and Answers

Answers

1) Broadly speaking, the major challenges and opportunities for Korea are seven-fold:
   1. A steady fall in growth
   2. Serious "disguised" unemployment, especially among youth
   3. Deterioration in income distribution
   4. Aging population and low fertility
   5. Rise of China
   6. Growing need for technological innovation
   7. Shifting of global economic gravity to Asia

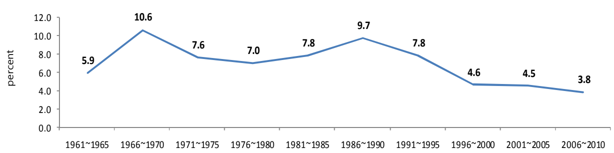
2) The new vision and strategy Korea should follow not only to meet the above challenges but also to make use of the opportunities, and to become a comprehensive business and cultural center specializing in high-value added services including trade, finance, R&D, medicine, culture, entertainment and education.

II. Key Challenges and Opportunities

1. A Steady Fall in Growth

- Before the Asian Financial Crisis (1997-1998), Korea achieved an annual growth rate of 8% for more than 30 years.
- A few years after the crisis, the country seemed to be returning to a high growth rate .
- However, especially since 2002, Korea's growth rate has rapidly declined.
  - An annual average growth rate of 3.8%, 2006-2010

Korea's GDP Growth: 1961-2010



Source: World Bank, WDI

II. Key Challenges and Opportunities

1. A steady Fall in Growth

- More troubling is that many organizations such as the OECD forecasted Korea's potential real GDP growth will continue to fall further (*OECD Economic Outlook*, 2012).
  - 2012-2017: 3.4% → 2018-2030: 2.4% → 2030-2050: 1.0%
  - At these projected growth rates Korea will be in danger of loosing its hard-won position among advanced countries.
  - What's more, it will experience difficulty addressing chronic unemployment among the young and deterioration in income distribution.

Korea in OECD in 2010

	Country	GDP(US$)		Country	GDP(US$)		Country	GDP(US$)		Country	GDP(US$)		Country	GDP(US$)
1	Luxembourg	105,313	8	US	46,588	15	Germany	40,123	22	Israel	28,529	29	Estonia	14,146
2	Norway	85,389	9	Canada	46,236	16	Iceland	39,541	23	Greece	26,625	30	Hungary	12,863
3	Switzerland	67,802	10	Ireland	46,160	17	France	39,475	24	Slovenia	22,894	31	Chile	12,654
4	Australia	56,395	11	Austria	45,191	18	UK	36,326	25	Portugal	21,499	32	Poland	12,292
5	Denmark	56,255	12	Finland	44,380	19	Italy	34,010	26	South Korea	20,757	33	Turkey	10,082
6	Sweden	49,275	13	Belgium	43,127	20	New Zealand	32,422	27	Czech Rep.	18,795	34	Mexico	9,532
7	Netherlands	46,912	14	Japan	42,859	21	Spain	30,222	28	Slovakia	16,035			

Source: OECD Statistics website

II. Key Challenges and Opportunities

2. Serious "Disguised" Unemployment, Especially among Youth

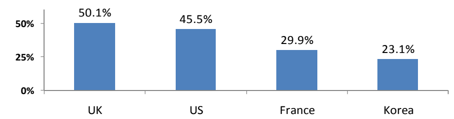
- Korea's official statistics understate the unemployment problem facing the country.
- For a person to be unemployed in official statistics, he or she must have been actively seeking employment for the previous four weeks continuously and did not work more than one hour per week.
- In 2011, the country's official unemployment rate stood at 3.4%. However, the country's unemployment rate would have risen to 11.3%, if the "de-facto" unemployed had been taken into account, such as those preparing for employment and those who have given up looking for jobs. (Korea Economic Daily & Hyundai Research Institute, 2012)

II. Key Challenges and Opportunities

2. Serious "Disguised" Unemployment, Especially among Youth

- Unemployment is particularly serious among youth aged 15-29.
  - In 2011, the country's official youth unemployment rate stood at 9.6%, which is much lower than those in advanced countries (U.S. 17.3%, U.K 20.0%, France 22.1%).
- However, the extent of unemployment among youth in Korea looks totally different if we look at the same problem by focusing on the rate of employment for youth in Korea.
  - In 2011, youth employment in Korea was 23.1%, much lower than 45.5% in the U.S., 50.1% in the U.K., and 29.9% in France.

Youth Employment in Korea and other countries



Source: OECD Statistics website

II. Key Challenges and Opportunities

2. Serious "Disguised" Unemployment, Especially among Youth

- Moreover, youth unemployment is very much prolonged in Korea, as the figure for "5 years after finishing college" in NEET do not decrease, which is a sharp contrast to most other countries.

NEET* trend related to young people in major countries (%)

	South Korea	U.K.	Germany	Austria	Spain	Italy	Greece
1 year after finishing college	36.8	30.6	40.7	54.0	51.2	63.7	69.6
3 years after finishing college	28.5	22.9	8.7	37.9	36.3	47.6	56.3
5 years after finishing college	36.8	19.8	19.6	17.9	31.0	35.6	33.6

* NEET: Not in Employment, Education or Training
Source: OECD Employment Outlook (2008)

II. Key Challenges and Opportunities

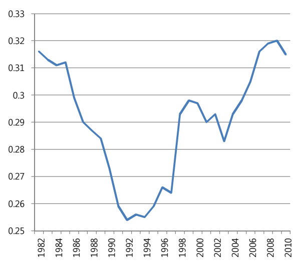
3. Deterioration in Income Distribution

- Thanks to high economic growth and success of macro-stabilization policies in the early 1980s, Korea's income distribution measured by Gini coefficient improved significantly in the 1980s.
- Since 1992, however, the country's income distribution has continued to worsen.
  - Deterioration was most evident during the 1997-1998 crisis.
  - And it has not significantly improved ever since.
  - Over the past year or two, income distribution seems to have slightly improved but whether this will continue remains to be seen.
- Although Korea's Gini coefficient remain low compared to those in the U.S., the speed of deterioration in Korea has been much faster than that in the U.S.
  - Increase in Gini Coefficients, 2000-2010
    - Korea: 6%
    - U.S.: 1.5%

II. Key Challenges and Opportunities

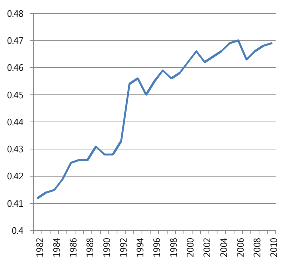
3. Deterioration in Income Distribution

Gini Coefficient, Korea



Source: Korean Statistical Information Service, www.Kosis.kr

Gini Coefficient, US



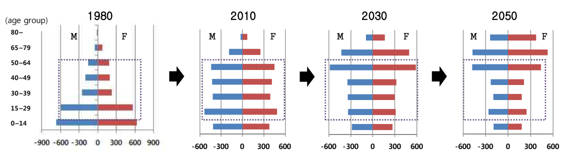
Source: U.S. Census Bureau, Current Population Survey. Annual Social and Economic Supplements.

II. Key Challenges and Opportunities

4. Aging Population and Low Fertility

- Until recently, Korea's demographic structure has been highly favorable for rapid economic development. This is not, however, to be the case in the years ahead.
- By 2020, Korea is expected to become an Aging Society where the elderly population reaching the level of 15.6% (A country with the percentage of those aged 65 or more being 14% or higher is regarded as an "Aging Society").

Shifts in Korea's Demographic Structure



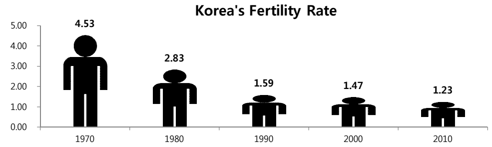
Source: Korean Statistical Information Service, www.Kosis.kr

II. Key Challenges and Opportunities

4. Aging Population and Low Fertility

- The rapid aging of the population is aggravated by a drastic drop in birth rate.
  - 1970: 4.53 → 1990: 1.59 → 2010: 1.23
  - Korea's birth rate was the lowest in the world in 2009, and in 2011 it was the lowest following Latvia.

Korea's Fertility Rate



Source: Korean Statistical Information Service, www.Kosis.kr

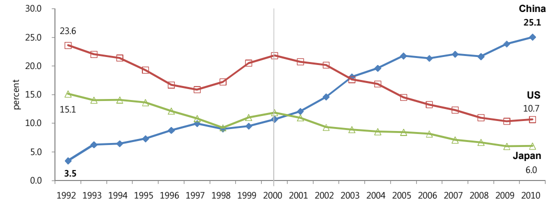
- As a result of these demographic changes, both the number and percentage of the working population (age 16-64) will decrease from 35.61 million (72.9% of total population) in 2010 to 22.42 million (53.0% of total population) by 2050.

II. Key Challenges and Opportunities

5. Rise of China

- The emergence of China in terms of economy has presented Korea with enormous opportunities to expand trade with China.
  - The Chinese share of Korea's exports has grown 3.5% in 1992 to 25.1% in 2010, while the US and Japanese shares have fallen steadily since 2000.

Korea's Export Destination



Source: Korean Statistical Information Service, www.Kosis.kr

II. Key Challenges and Opportunities

5. Rise of China

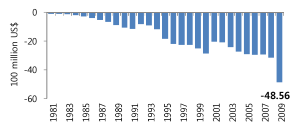
- The rise of China has presented several new challenges to Korea:
  1) Growing vulnerability of the Korean economy to economic changes in China.
  2) Growing competition between the two countries in international markets, particularly in construction engineering overseas and some high-tech manufactured products.
  3) Prolonged proclivity on the part of China to behave imperialistically at home and abroad.
  4) Possible change in the balance of power not only on the Korean peninsula but, in entire East Asia.
  5) Continued support for Pyongyang prolonging the life of the regime.

II. Key Challenges and Opportunities

6. Growing Need for Technological Innovation

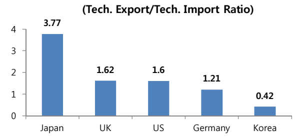
- With the globalization of the world economy and the continued expansion of technological frontiers, Korea's need to continually upgrade its competitiveness through innovation cannot be understated.
  - This is particularly the case, because the catch-up phase in technological development is over and there are no surplus resources for Korea to utilize for further economic progress.
- Korea's progress in technologies so far has been remarkable (to be noted later), but it is still short of "creative source technologies" resulting in deficits in technology trade.

Korea's Trade Deficit in Technology



Source: Korean Statistical Information Service, www.Kosis.kr

Balance of Technology Trade in 2009
(Tech. Export/Tech. Import Ratio)



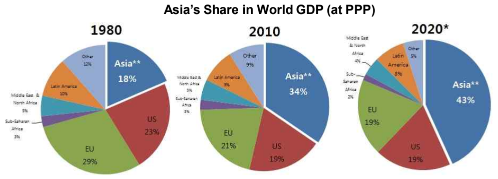
Source: National Science & Technology Information Service Website (https://sts.ntis.go.kr/)

II. Key Challenges and Opportunities

7. Shifting of global economic gravity to Asia

- Asia has been rapidly emerging as the economic powerhouse of the world.
  - As a result, its share in the world GDP has grown from 18% in 1980 to 34% in 2010.
  - This share is expected to rise to 43% in 2020.
- Needless to say, Korea should make the best use of many opportunities created by such shifts.

Asia's Share in World GDP (at PPP)



* Economist Intelligence Unit (EIU) Prospects
** Asia: 32 Asian countries including Korea, Japan, China, India, Hong Kong, Taiwan, Singapore
Source: IMF, World Economic Outlook 2011; *Foresight 2020 Economic, industry and corporate trends*, Economist Intelligence Unit (EIU), 2006

III. Vision

Comprehensive Business and Cultural Center

- The vision and strategy that Korea should pursue not only to meet challenges noted above but to continue with economic progress for another half century by becoming a premier trade, business and cultural center with strengths especially in service and hi-tech sectors.

Rationale

1) Functional and operational characteristics of a business and cultural center

1. By definition, a business and cultural center or hub provides high value-added goods and services to the neighboring regions and/or to the world.
2. Such a hub typically makes full use of the advantages of the market-based economy by adhering strongly to the principles of the market.
3. Thus, it also encourages not only free trade in all goods and services but also free mobility of all factors of production including technology, capital and labor.

III. Vision

2) Performance characteristics

1. Without exception, all major business and cultural centers in the world today enjoy not only high levels of income but also continuing high growth rates.
2. Such high growth stems basically from strong drive for innovation among all economic players.
3. In addition, many of the centers are exemplary in income distribution.
4. Moreover, most business and cultural hubs enjoy high quality of life.
5. Finally , because existing business and cultural centers provide invaluable goods and services to the surrounding nations or to the world at large, they enjoy friendly relations with other nations in the world. Thanks to such relations, most of the centers enjoy close security ties with important world powers.

Per Capita GDP, Recent Growth Rates, Unemployment and Gini Coefficients in Key Business and Cultural Centers

Country	GDP per capita ($)	Recent Growth Rate (%)	Unemployment (%)	Gini Coefficient
Singapore	49,270 (04-2012)	9.9 (2010~2011)	2.1(Q1.2012)	0.48
Hong Kong	49,137 (04-2012)	6.0 (2010~2010)	3.4 (Q1.2012)	0.43
Luxemburg	80,119 (04-2012)	3.6 (2010~2011)	6.1 (04-2011)	0.28
Netherlands	50,355 (04-2012)	1.6 (2010~2012)	5.2 (2011)	0.26
Switzerland	81,160	2.4 (2010~2011)	3.5 (2011)	0.28
London	74,000 (2007)	1.3 (2010~2011)	9.0 (12-2011)	0.41 (04-2011)
New York	60,672 (2010)	4.7 (2010)	8.4 (04-2011)	0.50 (2005~2009)
San Francisco/Silicon Valley	90,959	13.3	9.3	0.45 (2005~2009)
Greater Boston	62,395 (2010)	4.8 (2010)	6.4 (04-2011)	-
Israel	31,985 (2011)	4.8 (2010~2011)	5.6 (2011)	0.39 (2008)

Source: World Economic Outlook, IMF; UK, the poverty site, 21 April 2011; U.S. Census Bureau, American Community Survey
; U.S. Department of Commerce, Bureau of Economics Analysis; The World Factbook, Central Intelligence Agency, February 2012

III. Vision

3) Major Strengths of Key Individual Business and Cultural Centers

1. Singapore	trade, finance, medical services, education, tourism
2. Hong Kong	trade, finance, education, tourism
3. Luxemburg	finance, e-business
4. Netherlands	trade, distribution, finance, food processing, international organizations
5. Switzerland	finance, precision instruments, chemicals, tourism, international organizations
6. London	finance, culture, tourism
7. New York	finance, media, education, culture, tourism, international organizations
8. San Francisco / Silicon Valley	R&D, technology, start-ups, finance, education, tourism, culture
9. Greater Boston	education, R&D, finance, medical services
10. Israel	high-end IT, bio-science, and agriculture

IV. Strategy

Twofold Strategy

- The strategy for Korea to follow in order to become a comprehensive business and cultural center is surprisingly simple.
- It is twofold:

1) Make good use of the strengths Korea already possesses thanks to its economic success over the past half century. For this, some reforms are necessary.

2) Undertake more fundamental reforms to overcome current weaknesses.

IV-1. Strategy

1. Making Use of Existing Strengths

- There are at least ten major strengths that Korea can utilize in its efforts to become a major business and cultural center in Asia.

1. Highly competitive human resource base
2. Advanced industrial technologies
3. Growing trade orientation and links
4. Strategic location in Asia
5. Growing strength in finance
6. First-class medical skills and facilities
7. Becoming a popular tourist destination
8. Growing recognition for Korea's design skills
9. "Korean wave" – Korea's new soft power
10. New leadership role in the global community

IV-1-1 Highly Competitive Human Resource Base

- Over the past 50 years or more Korea has invested large part of its GDP in education and other forms of investment in human capital.

Expenditure on Educational Institutions as Percentage of GDP (2008)

Rank	Country	Source of Fund		
		Public	Private	Total
1	Iceland	7.2	0.7	7.9
2	**Korea**	**4.7**	**2.8**	**7.6**
3	Israel	5.9	1.4	7.3
5	U.S.	5.1	2.1	7.2
28	Spain	4.5	0.6	5.1
29	Japan	3.3	1.7	4.9
30	Italy	4.5	0.3	4.8
OECD Average		**5.0**	**0.9**	**5.9**

Source: OECD Education at a glance 2011

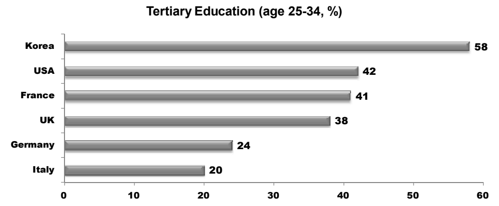
- According to an OECD report, Korea's education expenditure as a percentage of GDP ranked 2nd among OECD countries in 2008.

IV-1-1 Highly Competitive Human Resource Base

- However, these expenditures fail to include the large amount of additional expenditures the average Korean family spends on educational services provided outside schools.
- If these expenditures are included, the total amount of expenditures that Korea spent on education in 2008 is estimated at approximately 9.6% of its GDP, which exceeds the amount spent by any other OECD country.

IV-1-1 Highly Competitive Human Resource Base

- In recent years, approximately 80% of Korean high school graduates have gone on to colleges and universities.
- Reflecting this high number, the percentage of the population aged 25-34 that has received college and university education is currently more than 58% - far exceeding the level in all advanced countries.
- Given these high percentages, it will not be long before the level of education for the general population in Korea will become the highest in the world.



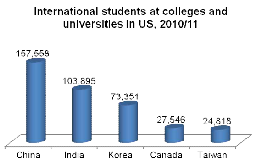
Source: OECD, Education at a Glance 2010

IV-1-1 Highly Competitive Human Resource Base

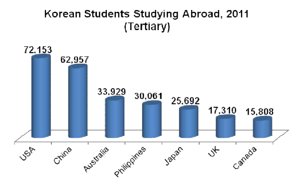
- The rapid increase in the number of college and university graduates over the past two decades or more has greatly facilitated the transformation of the national economy from labor-intensive to technology-intensive manufacturing.
- But, this increase has aggravated unemployment among college and university graduates.

IV-1-1 Highly Competitive Human Resource Base

- It is also highly significant to note that a large number of Koreans are studying overseas.
  - In terms of the number of college and university students studying in the U.S., Korea ranks 3rd after China and India.
  - A large number of Korean students are also studying in universities in China, the UK and other countries.
- Needless to say, many of these Korean students will help bring about a high-value added and knowledge-based economy in Korea.



Source: Institute of International Education



Source: Ministry of Education, Science and Technology, Korea

IV-1-2 Advanced Industrial Technologies

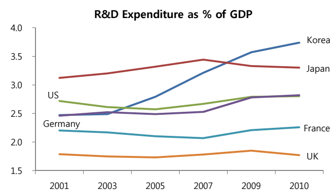
- Measured by the number of Triadic patents won by Koreans, Korea is making good progress in technology.
- The number of Triadic patents registered by Koreans has increased six-fold since 1995.
- In terms of the number of the same patents, Korea has ranked fifth after the US, Japan, Germany, and France since 2003.

Triadic Patents Registered

	1995 (A)	2003	2005	2007	2008	2009 (B)	B/A
U.S.	12,269	14,834	15,391	15,283	14,828	13,715	1.1
Japan	9,588	13,913	13,899	14,518	14,126	13,322	1.4
Germany	4,886	5,486	5,812	6,167	6,027	5,764	1.2
France	1,974	2,288	2,421	2,475	2,430	2,456	1.2
Korea	328	1,723	2,166	2,302	2,135	1,959	6.0
U.K	1,580	1,664	1,663	1,681	1,658	1,618	1.0

Source: OECD, Main Science and Technology Indicators, 2010

- The recent increase in the number of Triadic patents registered is no doubt a result of the growing percentages of GDP Korea spends on R&D.
  - The only countries that spend greater % of GDP on R&D are Israel (4.4%) and Finland (3.88%).
- Korea's percentage has risen sharply especially since 2003 and is targeted to increase to 5% by 2012.



Source: OECD, Main Science and Technology Indicators, 2011

IV-1-3 Growing Trade Orientation and Links

- Korea has risen to the world's 7th in export and 9th in total foreign trade. In 2011, it became the world's 9th country to pass the $1 trillion mark in foreign trade.
- Korea's trade/GDP ratio is now about 102%, two times the OECD average.
- It is also important to note that Korea's trade orientation keeps growing compared to other highly trade-oriented countries. This facilitates Korea's becoming a trade center.

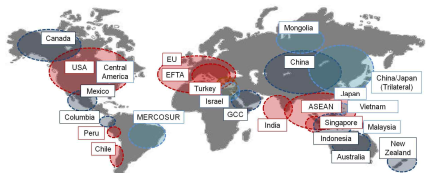
Major Countries' Trade Orientation

	Trade/GDP, %		
	1990 (A)	2010 (B)	Increase or decrease (%) [(B-A)/A]
Hong Kong	253	440	74.3
Singapore	345	394	14.3
Luxemburg	190	299	57.5
Netherlands	109	149	36.2
Korea	57	102	79.0
Israel	80	72	-10.2
Switzerland	71	96	34.8
OECD average	35	50	43.0

Source: World Bank, WDI

IV-1-3 Growing Trade Orientation and Links

- Being a highly open economy trading with almost every nation in the world, Korea's first preference with regard to trade liberalization is liberalizing through the WTO.
- Realizing that the progress with multilateral trade liberalization will be slow at best in the foreseeable future, Korea has negotiated and concluded FTAs with many countries throughout the world.
- It is most notable that Korea is the only Asian country that has signed high-level FTAs with both the US and the EU.
- All these developments will not only contribute to Korea's economic growth but also enhance its role as a major trading center in Asia.

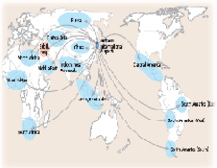


Effectuated	Signed	Negotiating	Preparing
8 cases	1 case	8 cases	8 cases

Source: Ministry of Foreign Affairs and Trade

IV-1-4 Strategic Location in Asia

- Bearing in mind that Asia will soon become the center of world's economic gravity, Korea has invested much to strengthen its role as the gateway to Asia in aviation as well as in maritime transport.



Seoul-Incheon International Airport

- As a result, Seoul-Incheon International Airport is rated the best airport in the world in terms of the quality of services for seven years in a row (2006-2012) by Airports Council International.

IV-1-4 Strategic Location in Asia

- Seoul-Incheon International Airport is the most convenient airport en route to major cities in Northeast Asia (*USA Today*, June 2009).

Seoul-Incheon Compared to Major Airports in Northeast Asia (2011)

	Incheon (Seoul)	Pudong (Shanghai)	Narita (Tokyo)
Airlines Served	70	67	63
Cities Served	176	90	98
Transit Passengers	5.7M	-	5.3M
% of Transit passengers	16%	15.4%	19%

- Within a 3-4 hour flight distance from Seoul, there are 51 mega cities with a population of more than one million.
- In terms of passenger traffic, it currently ranks 9th in the world.

IV-1-4 Strategic Location in Asia

- Seoul-Incheon International Airport is also the 4th busiest cargo airport handling over 2.7 million tons of international cargo traffic a year.

Busan as a Hub for Marine Transportation

- Busan is one of the five busiest container ports in the world handling approximately 14 million TEU in 2010.
- Should political tension on the Korean peninsula ease, Busan can become the eastern terminal of the Eurasian railway network, connecting to the Trans-Siberian Railways through North Korea.

IV-1-5 Growing Strength in Finance

- Korea's competitiveness is growing in financial services.
- Thanks to Korea's initiative launched in 2004, Seoul is rapidly emerging as a major global financial center.
  - Z/Yen Group's latest report (March 2012) places Seoul as the 9th major global financial center (GFC) in the world.

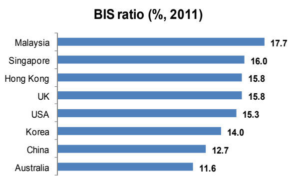
Changes in rankings by GFC Index

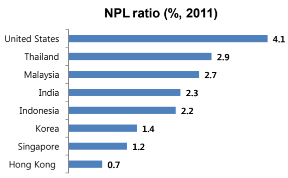
	Mar-09	Sep-09	Mar-10	Sep-10	Mar-11	Sep-11	Mar-12
1	London	London	London	London	London	London	London
2	New York	New York	New York	New York	New York	New York	New York
3	Singapore	Hong Kong	Hong Kong	Hong Kong	Hong Kong	Hong Kong	Hong Kong
4	Hong Kong	Singapore	Singapore	Singapore	Singapore	Singapore	Singapore
5	Zurich	Shenzhen	Tokyo	Tokyo	Shanghai	Shanghai	Tokyo
Seoul	53rd	35th	28th	24th	16th	11th	9th

Source: The City of London Corporation and Z/Yen Group, "the Global Financial Centres Index"

IV-1-5 Growing Strength in Finance

- Korea successfully overcame the Asian financial crisis (1997-98) and the recent global financial crisis (2008-2009). Thanks to these successes, Korea today has a sound banking sector as well as a sound corporate sector, healthy public finance, and large and active markets for derivatives.
  - Sound banking sector
    - High BIS capital adequacy ratio: 10.6% (2000) → 14.0% (2011)
    - Low NPL ratio: 1.4% (2011)

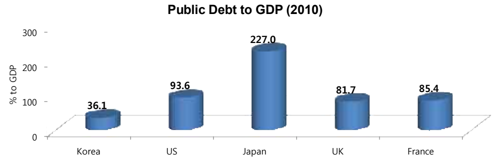




Source: Financial Supervisory Service; Ministry of Finance and Strategy

IV-1-5 Growing Strength in Finance

- Sound corporate sector
  - Debt to equity ratio: 426% (1997) →114.8% (2010)
  - Interest coverage ratio: 115% (1997) → 467% (2011)
- Large and active markets for derivatives
  - Volume of equity-linked option trading: 1st in the world (2009, 2010)
  - Volume of ELW (equity-linked warrant) trading: 2nd in the world (2009)
- Sound public finance: Low public debt to GDP ratio
  - According to Korea's National Fiscal Management Plan, the ratio is expected to fall to 31.8% by 2014.



Source: Ministry of Finance and Strategy.

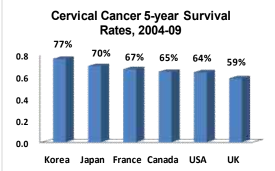
IV-1-5 Growing Strength in Finance

One Cardinal Weakness to be Removed

- In spite of all these strengths in finance, Korea has one "original sin" to overcome: its currency, the Korean won, is still inconvertible.
  - As a result, not only its foreign exchange market is small and shallow making the country suffer from unnecessary and extremely high volatility in exchange rates to the detriment of all economic players in Korea.

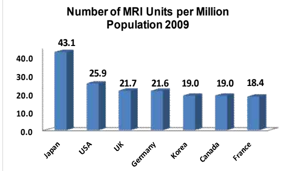
IV-1-6 First-class Medical Skills and Facilities

- Korea offers high-quality medical and health services provided by a large number of talented and well-trained doctors.
  - Medical schools currently attract the nation's best students.
- The quality of medical service is particularly high in cancer treatment, neurosurgery and cosmetic surgery.



Source: OECD, Health Data, 2011

- Korean hospitals are furnished with the state-of-the-art technology and equipment.



Source: OECD, Health Data, Last updated: 28-Oct-2011

- Prior to 2008, the Korean government imposed many restrictions on treating foreign patients. After these restrictions were partially removed, the number of foreign patients treated in Korea increased more than four times in three years from 27,500 in 2008 to 122,297 in 2011.

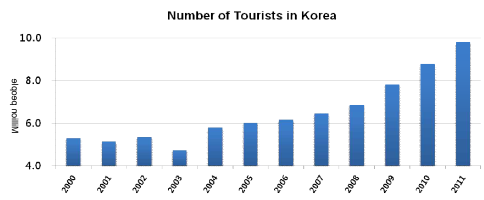
IV-1-6 First-class Medical Skills and Facilities

Further Reform Needed

- In order to increase the supply of high quality medical services not only to foreign patients but also to domestic citizens, the current restrictions on the formation of "corporation for profits" in medicine as well as the medical services supplied by foreign hospitals and doctors should be eased.

IV-1-7 Becoming a Popular Tourist Destination

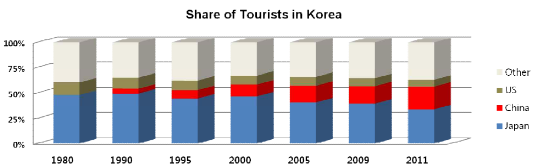
- Spending by inbound tourists currently accounts for 5.1% of GDP, about one half of the OECD average.
- However, Korea has huge potential to develop its tourism market: natural scenic beauty, rich historical heritage, many international sports and cultural events, traditional cuisine and shopping.
- Inbound tourists number approximately 10 million a year. This is very small compared to many other countries.
  - Inbound visitors: France (79.5 million), Italy (46.1M), USA (62.3M), UK (29.2M), Germany (28.4M), Turkey (29.3M), Mexico (23.4M)



Source: Statistics Korea. 2012

IV-1-7 Becoming a Popular Tourist Destination

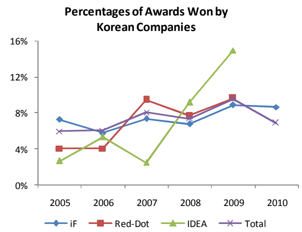
- According to a study, Korea has a potential to increase the number of its incoming visitors to 25 million a year.
  - The EXPO 2012 Yeosu Korea is expected to attract more than 8 million visitors from around the world.
  - South Korea expects to emerge as a favorite destination of winter sports lovers with the designation of Pyeongchang as the site for the 2018 Winter Olympics.
  - Potential to increase the number of tourists from China is particularly great.
    - The percentage of Chinese tourists increased from 4.8% in 1990 to 22.7% in 2011.
  - As China develops economically, this share is expected to rise even more.



Source: Statistics Korea. 2012

IV-1-8 Growing Recognition for Korea's Design Skills

- In 2010, the IDA and the ICSID designated Seoul as the World Design Capital (WDC).
  - Korea has enhanced its status as a design power by hosting internationally renowned design events, such as Seoul Design Week 2007, Seoul Design Olympic 2008 & 2009, and Seoul Design Fair 2010.
- Reflecting a large demand for design professionals, some 300 design schools in Korea graduate approximately 36,000 designers annually.
- Korean designers supply the most innovative designs in the auto industry, such as the revival of Camaro, the Cadillac Provoq - a luxurious crossover vehicle, the electric Chevy Volt, and the Lincoln MKT - a crossover SUV.
- In 2008, more than half of the most talented emerging designers chosen to be honored in Gen Art's Fresh Faces fashion exhibition were either Koreans or Korean-Americans (*Financial Times, January 5, 2008*).
- Prowess of Korean businesses and designers are attested by the high percentage of top three design awards won by them.



Source: Ministry of Knowledge Economy, 2011

IV-1-9 'Korean Wave' – Korea's New Soft Power

- The so-called Hallyu (Korean Wave) represents the best amalgam of traditional Korean culture with western culture in many manifestations. The rising popularity of Hallyu not only provides Korea with many business opportunities but also enhances its national image.
  - Thanks to Hallyu, sales in the content industry stood at 82,610 billion won in 2011, up 14.6% from the preceding year, while exports in the sector stood at $4,159 million, up 28.9% year-on-year.
  - Hallyu became popular in China, Taiwan, Singapore, Vietnam, Hong Kong, Japan, and the Philippines. It is now becoming popular in the Middle East, Europe and North and South America.
  - TV drama, *Daejanggeum*, recorded high popularity ratings in Iran (90%), Thailand (60%), Hong Kong (47%), and Japan (19%). South Korean idol singers (e.g. Wonder Girls, Girls' Generation, Rain) started hitting the Billboard chart.



IV-1-9 'Korean Wave' – Korea's New Soft Power

- Korea is also home to many world-renowned classical musicians, including soprano Sumi Jo, cellist Han-na Chang, pianist Kun-woo Paik and maestro Myung-hoon Chung.



- South Korea has produced a large number of world-famous actors/actresses.
  - They include Jeon Do-yeon who won the Best Actress Award at Cannes Film Festival in 2007; Director Park Chan-wook who won the Best Director Award at the Cannes Film Festival 2009; Lee Chang-dong who won the Best Director Award at the Cannes Film Festival 2010; Kim Ki-duk who won the Un Certain Regard Award at the Cannes Film Festival 2011.




IV-1-10 New Leadership Role in the Global Community

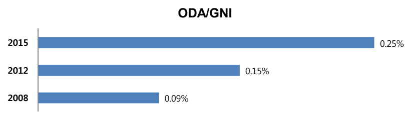
From Rule-taker to Rule-maker

- In November 2010, Korea was the first Asian country to host a G20 Summit.
  - Korean Initiatives:
    - Global financial safety nets
    - New approach to narrowing the development gap
    - Increasing capital quota for emerging countries in multilateral institutions
- In March 2012, Korea hosted the second Nuclear Security Summit following the first held in Washington D.C. in 2010.
  - Korean Initiatives:
    - Radiological security
    - Nuclear security-safety interface

IV-1-10 New Leadership Role in the Global Community

From Aid Recipient to Donor

- Korea joined OECD Development Assistance Committee (DAC) in November 2009.
  - Committed to increasing Official Development Assistance (ODA)



Source: Ministry of Finance and Strategy

IV-1-10 New Leadership Role in the Global Community

Sharing Development Experience

- In an effort to share its economic development experience with developing countries around the world, Korea launched a Knowledge Sharing Program (KSP) in 2004.
  - Aim: reducing poverty and the development gap
  - Partnership countries: Vietnam, Indonesia, Cambodia, Ukraine, Kuwait, Oman, Turkey, Uzbekistan, Azerbaijan, the Dominican Republic, Mozambique, Algeria, Libya, Ghana, etc.
  - KSP's scope has been expanded to 25 countries in 2011.

Regional Leadership

- In strengthening a tripartite relationship among China, Japan and Korea, Korea has taken the following initiatives:
  - Starting the Tripartite Environment Ministers Meeting (TEMM) in 1999.
  - Inaugurating a Korea-China-Japan Summit separate from the ASEAN Summit in 2004.
  - Establishing the secretariat for this Summit in 2011.

IV-2. Strategy

2. Undertaking Reforms to Overcome Current Weakness

- Korea needs to undertake further reforms to overcome Korea's current weaknesses.

1. Further strengthening of the market economy
2. Completing the opening of the national economy to the world
3. More efficient utilization of human resources and expanding the demographic base
4. Upgrading higher education
5. Adjusting the nation's foreign policy in a multipolar world

IV-2-1 Further Strengthening of the Market Economy

- Over the past 50 years, Korea's rapid economic growth has owed much to the operation of its market-based economy.
- In order to further benefit from the market-based economy, Korea should (1) strengthen the rule of law; (2) further reduce entry and exit barriers; (3) reform its tax system; and (4) minimize policy uncertainty due to frequent election and government changes.

Strengthening the Rule of Law

- In Korea, the rule of law has been weak due to several factors including corruption on the part of rule makers as well as rule observers, insufficient incentives to enforce rules on the part of government officials, excessive and complex rules and regulations, Korea's cultural tradition where the rule of law is often subordinated to the rule by "wise" policymakers and bureaucrats, and persisting of hostile labor-management relationship.

IV-2-1 Further Strengthening of the Market Economy

- A comprehensive study is in order on all these factors. Some partial studies completed to date reach interesting conclusions:
  - A recent paper by the Hyundai Economic Research Institute observes that Korea's transparency index (TI) today stands at 5.4 compared to 6.9 of the OECD average. If Korea's TI can be raised further to that of the OECD average, Korea's potential GDP growth rate can also be increased by 0.65% point, which amounts to raising Korea's potential growth rate from about 3.5% currently to over 4.0%.
  - Another analysis done by a KDI scholar and published in 2007 notes that if Korea's rule of law index at 4.4 had been 5.5 which was the average for OECD in the 1991-2000 period, Korea's average annual growth rate could have been 1% point higher.
  - Yet another study done by another KDI scholar estimates the social economic cost of violent illegal demonstrations that took place in Seoul in 2005 at 1.53% of the nation's GDP of the same year.
- If anything, all these studies serve to show that Korea has much to go to strengthen its rule of law and the reward for that effort is substantial.

IV-2-1 Further Strengthening of the Market Economy

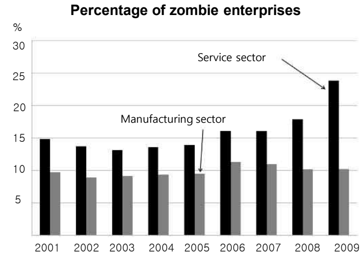
Reducing Entry and Exit Barriers

- Korea's overall productivity and competitiveness will greatly improve if the country takes drastic actions to reduce entry and exit barriers.
  - According to a recent World Bank report (Doing Business 2012), in terms of ease in starting business, Korea ranked 24th out of 183 countries, while Singapore and Hong Kong ranked 4th and 5th.
  - Barriers to entry are more pronounced in the services sector.
    - Out of 534 subsectors in services, 336 subsectors have entry barriers amounting to 68% of the total.
    - Most barriers in these sectors take form of restrictions on registration and permit.
- For the overall efficiency of the economy, reducing exit barriers are equally important.
  - According to a recent study by a KDI scholar, the ratio of so-called "zombie enterprises" increased from about 14% in 2005 to about 24% in 2009 in the service sector while the same percentage in the manufacturing sector increased from about 9% to slightly over 10% in the same period.

IV-2-1 Further Strengthening of the Market Economy

- The percentage of zombie companies in the service sector, in particular, has sharply increased since the onset of the recent financial crisis in 2008.

Percentage of zombie enterprises



Source: J.K. Kim, Global Financial Crisis and Structural Change of Korean Enterprises, 2011

IV-2-1 Further Strengthening of the Market Economy

Reforming the Tax System

- Korea's tax system needs to be reformed in three major aspects in order to enhance Korea's international competitiveness:

1. The tax rates are far too high when compared internationally.
2. Its structure is far too complex.
3. Tax administration is lacking in transparency.

1. High Tax Rates

- Compared to Singapore and Hong Kong, in particular, Korean corporate tax rates are high:

Korea: 11% for companies with annual sales below KRW200 million
24.2% for companies with annual sales above KRW200 million
Hong Kong: uniform 15% for businesses not incorporated
uniform 16% for business incorporated
Singapore: uniform 17%

IV-2-1 Further Strengthening the Market Economy

Reforming the Tax System

- Personal income tax rates are also high in Korea compared to Hong Kong and Singapore.

Korea: marginal income tax rates: 6.6-38.5%
Hong Kong: marginal income tax rates: 2-17%
Singapore: marginal income tax rates: 2-20%

2. Complex Tax Structure

- Total number of individual taxes in Korea is 31, compared to 9 in Hong Kong and 8 in Singapore.
- Caused in no small part by the high marginal rates, Korean corporate and personal income taxes are riddled with exemptions and deductions.

IV-2-1 Further Strengthening the Market Economy

3. Opaque Tax Administration
   - This is most evident in the number of complaints received by Invest Korea, which serves as Ombudsman for foreign investors.
   - As shown below, complaints relating to tax payments mostly outnumber all other categories of complaints.

Grievance Resolution by Field 2006-2010

	2006	2007	2008	2009	2010
(1) Taxation	76	62	44	35	50
(2) Labor Relations & HR	38	24	17	37	24
(3) Investment Procedure	27	37	37	33	37
(4) Investment Incentives	44	35	28	22	27
(5) Customs & Trade	30	42	51	39	50
(6) Finance & Foreign Exchange	21	25	11	13	7
(7) Visa & Immigration	21	21	26	24	23
(8) Construction	16	22	12	18	13
(9) Sales & Distribution	5	13	15	11	14
(10) Plant Site	13	15	24	17	24
(11) Civil Disputes	5	10	9	9	8
(12) Certification & Inspection	8	10	11	22	15
(13) Other	49	54	68	85	93
(14) Total	353	370	353	365	385
(1)/(14)x100	21.5%	16.8%	12.5%	9.6%	13.0%

Source: Investment Aftercare Team, KOTRA

IV-2-1 Further Strengthening the Market Economy

Policy uncertainty due to frequent elections and government changes

- For steady economic growth long-term investment is essential.
- However, such investment does not take place unless investors can be assured of steady policy environment.
- In the case of Korea, long-term investment and policy outlook in recent years has suffered from far too frequent elections.
  - One-term presidency is an important part of this problem.
  - Frequent elections are caused by absence of synchronization of national and local elections.
- Solutions to these problems:
  (1) allowing a multi-term presidency
  (2) synchronizing national and local elections, a la the U.S.

IV-2-2 Completing the Opening of the National Economy to the World

- Over the past half century Korea continuously opened its internal markets to the outside world. There are, however, many sectors and markets that have yet been opened yet.

Market for Agricultural Products

- Rice: allowing minimum access under the WTO
- Garlic: 360% tariff
- Red pepper: 270% tariff
- Orange: 50% tariff
- Apple: 45% tariff
- Pear: 45% tariff
- Banana: 30% tariff
- Pineapple: 30% tariff
- Turnip: 30% adjustable tariff
- Cabbage: 27% adjustable tariff
- Beef: 40% tariff

Policy Conclusion:

- The minimum access provision for rice and high tariffs for agricultural products are responsible for the unusually high cost of living in Korea.
- These barriers should be phased out using a pre-announced schedule.

IV-2-2 Completing the Opening of the National Economy to the World

Market for Services

- As noted above, the market for services are far from open domestically let alone internationally.
- This helps explain why productivity in the service sector still remains less than half that in the manufacturing sector.
- The important service markets to be opened to the outside world are the markets for legal, medical, and educational services.

IV-2-2 Completing the Opening of the National Economy to the World

Market for Services

1. Legal Services
- Fortunately, this market will be opened in stages over the next 7-8 years thanks to the Korea-US FTA that took effect in 2012:

  • Stage 1 (effective immediately):
    - US law firms permitted to open offices in Korea.
    - US lawyers can provide council on US laws.
  • Stage 2 (effective within two years):
    - US law firms can enter working cooperative arrangement with Korean counterparts.
    - US law firms can receive case assignments jointly with Korean firms and can share incomes.
  • Stage 3 (effective within five years):
    - US law firms can hire Korean lawyers.
    - US law firms can enter partnership with Korean counterparts.

IV-2-2 Completing the Opening of the National Economy to the World

Market for Services

2. Medical Services
   - As noted above, Korea has the capacity to offer high quality medical services.
   - However, foreign suppliers are limited in providing their services to both domestic and foreign patients.
     • In the case of foreign suppliers, they will be allowed to provide services to domestic and foreign clients in only one special economic zone, namely the Incheon Free Economic Zone beginning in 2016.
     • In the case of domestic suppliers, they are allowed to provide their services in individual capacities and/or as members of "non-profit" firms. In other words, the government still does not allow medical services provided through "for-profit".
   - These restrictions have limited high-price and high-quality medical services, thus limiting choices for the consumers.

IV-2-2 Completing the Opening of the National Economy to the World

Market for Services

3. Educational Services
   - Until recently, Korea did not allow any foreign institutions to provide tertiary-level education to domestic citizens.
     - In other words, no foreign universities and colleges have been allowed to operate in the country.
     - Only recently several foreign universities including New York State University at Stony Brook, George Mason University and the University of Kent at Brussels have been allowed to start operating in the Incheon Free Economic Zone.
   - In order to raise the quality of higher education in Korea, this policy needs to be upgraded, a la Singapore.

IV-2-3 More Efficient Utilization of Human Resources and Expanding the Demographic Base

- Korea has an excellent human resource base, which it has made good use of so far.
- However, given the sharp decline in birth rates coupled with the aging of the population, there is an urgent need not only to improve the utilization of the existing human resources but also to expand the demographic base.

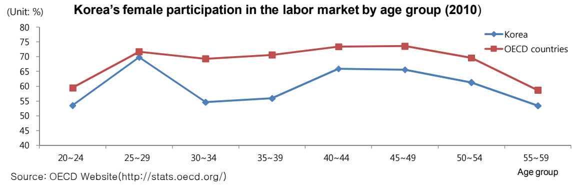
Better Utilization

1. Encouraging female participation in the workforce
   - Korea has a large female population that has received high-level education, but female participation in the labor market has been very limited. This is particularly true of women in their 30s.
     - 69.3% of Korean women aged between 25-29 participate in the labor market – almost as high as in other OECD countries.
     - The participations in the labor market by Korean women aged 30-34 and 35-39 are very low – at 54.6% and 59.9%, respectively. This participation ratios are very low compared to other OECD countries.
     - This can be explained by the fact that women aged 32-39 have to spend much of their time at home raising children.

IV-2-3 More Efficient Utilization of Human Resources and Expanding the Demographic Base

- Korean women increase their participation in the labor market when they become 40-44 and 45-49 years old.
- However, the participation of these two age groups in the labor market at 65.9% and 65.6%, respectively, falls short of the OECD averages.

Korea's female participation in the labor market by age group (2010)



Source: OECD Website(http://stats.oecd.org/)

- To encourage active female participation in the labor market, additional policy measures are in order:
  - Expanding childcare facilities
  - Eliminating various forms of discrimination against female workers

IV-2-3 More Efficient Utilization of Human Resources and Expanding the Demographic Base

2. Encouraging greater participation of older citizens in the labor market.
   - Given today's health standard and long life expectancy (77 for men, 82 for women), the current compulsory retirement age set usually at the age of 55 in manufacturing and 57-60 in public services should be extended.
   - In addition, current efforts to modify the system of paying wages and salaries based on seniority rather than productivity should be expedited.

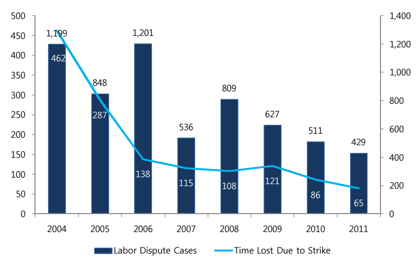
3. A fundamental change is also in order in the way Korean armed forces meet their manpower requirements.
   - The 600,000-strong Korean armed forces still rely heavily on universal compulsory military services for young people.
   - All able-bodied young Korean men must serve 22 months to fulfill their military service obligations. Many experts believe that this has led to great inefficiency in the development as well as utilization of high quality human resources in Korea.
   - Moreover, the current draft system fails to meet the requirement for armed forces to upgrade their professional and technical skills in line with rapid changes in military technology.
   - A change is, therefore, needed in the system of meeting military manpower procurement from the current draft system to that of a volunteer army.

IV-2-3 More Efficient Utilization of Human Resources and Expanding the Demographic Base

4. Improving labor-management relations
   - Lack of peaceful labor-management relations has long been considered a major obstacle to productivity growth in Korea over the past several years. However, significant improvements have taken place in this regard: e.g., decreasing number of labor strikes, effective enforcement of law and order, and decrease in membership of militant unions.
   - In July 2010, the Korean government implemented a labor law passed in 1997 under which union representatives can no longer expect full salary from their company employers regardless of the amount of time they devote to union activities. In other words, union representatives are no longer allowed to spend their full time on union activities and still expect full salary.
   - All these changes have significantly reduced union militancy in Korea. But, the problem is still serious.

IV-2-3 More Efficient Utilization of Human Resources and Expanding the Demographic Base

Decreasing Labor Strikes



Source: Ministry of Employment and Labor

IV-2-3 More Efficient Utilization of Human Resources and Expanding the Demographic Base

5. Eliminating salary differentials between “regular” and “non-regular” workers.
   - With the decline in labor union militancy, the important social and economic problem to be solved in Korea has to do with salary differentials between “regular” and “non-regular” workers.
   - Regular workers are entitled to not only security of employment but also high salaries whereas temporary workers have no employment protection and their salaries are low, although in many instances their job responsibilities are not significantly different from those of regular workers.
   - Eliminating or reducing these differentials is a major reform agenda for the country.

IV-2-3 More Efficient Utilization of Human Resources and Expanding the Demographic Base

Expanding the Demographic Base

- Securing foreigners with skills through an open immigration policy
  - In the long run, providing fiscal and other incentives to increase birth rates would be a good way to increase population.
  - Equally effective would be encouraging immigration of foreigners with high qualification and unusual talent.
  - Korea’s de facto immigration policies have had the effect of permitting a substantial number of immigrants into the country.
  - However, these policies should be substantially modified to openly encourage more foreigners, particularly those with professional capabilities to immigrate to Korea.
- To this end, the Korean government should move to establish an immigration authority that would effectively coordinate all immigration policies.

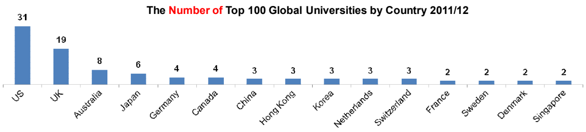
IV-2-4 Upgrading Higher Education

- As noted earlier, Korea so far has done a good job in strengthening human capital by spending high percentage of its GDP on education.
- Its educational system on primary, secondary and tertiary level has served the economy well.
- However, given the rapid technological progress underway and the need for all citizens to acquire greater capacities to work and live in a increasingly globalizing world, educational systems need improvement.
- In the case of Korea, such need is more urgent on the tertiary level rather than on the primary and secondary levels.

Reforms at the Tertiary Level

- According to the 2011 IMD survey on the competitiveness of individual countries in terms of university education, Korea ranks 39th among 59 countries surveyed.
- The 2011/2012 world university rankings by Quacquarelli Symonds (QS) places only one Korean university (Seoul National University, 42nd) in the top 50 universities in the world and places three Korean universities (Seoul National University, 42nd; KAIST, 90th; POSTEC, 98th) among the world’s top 100 universities.
  - These rankings are based on the number of research articles most frequently cited, the evaluation of performance by graduates, professor/teacher ratio and the percentage of foreign faculty and students.

IV-2-4 Upgrading Higher Education



Source: QS Top University Website (http://www.topuniversities.com/)

- It is encouraging that while a very limited number of Korean universities are included in the top 100 universities in the world, two Korean universities (KAIST established in 1971 and POSTEC established in 1986) are included among the top 10 of the universities that have been established in the past 50 years.

2011/12 Top 10 Universities with History of Less Than 50 Years

Rank	School	Country	Rank	School	Country
1	Chinese University of Hong Kong (CUHK), 1963	Hong Kong	6	University of York, 1963	UK
2	The Hong Kong University of Science and Technology (HKUST), 1991	Hong Kong	7	POSTECH, 1986	Korea
3	The University of Warwick, 1964	UK	8	Maastricht University, 1976	Netherlands
4	Nanyang Technological University (NTU), 1991	Singapore	9	City University of Hong Kong, 1984	Hong Kong
5	KAIST, 1971	Korea	10	University of California, Irvine (UCI), 1965	USA

Source: QS Top University Website (http://www.topuniversities.com/)

IV-2-4 Upgrading Higher Education

- Although the rankings of Korean universities in these and other surveys were improved over past several years, the improvement is by no means sufficient in view of many challenges Korea currently faces.
- The key challenges Korea faces are two: (1) Korea should continue to improve its technological strength ; (2) it should also expand the capacity of the nation to provide leadership in a changing world. To these ends, Korean universities must upgrade their curriculum in mathematics and science as well as social studies and languages.
  - Korean universities would also do well if they improve skills of students in communications in both Korean and foreign languages.
- Many Korean colleges and universities currently suffer from poor governance system.
  - In public universities, very little autonomy is granted to the university administration and faculty .
  - In many private universities, basic policy and administrative decisions are dictated for the most part by founders who behave as if they were “owners” of the institutions.
- Most of these institutions also suffer from frequent changes of chief executives who are elected for all practical purpose by faculty members to serve usually for one 4-year term.

IV-2-5 Adjusting the Nation’s Foreign Policy in a Multipolar World

Emergence of the Multipolar World

- Over the past 50 years or more, the power structure of the world has gone through three major changes. First, there was a bipolar world during the Cold War. After the end of the Cold War in 1989, a unipolar world emerged with U.S. power unchallenged. Coming into the present century, the world has become increasingly multipolar in terms of power distribution.
  - In this new multipolar world, the U.S. can no longer dictate global economic or political issues. For that matter, nor can G-7 make important decisions for the global economy.
  - In this new multipolar world, the power and influence of emerging countries make important difference.
- In retrospect, Korea did well under the bipolar and unipolar world thanks in large measure to its close relationship with the U.S. Now, Korea is required to operate effectively in the new international setting. Thus, it should readjust its economic and diplomatic policies, particularly with respect to newly emerging China and other countries.

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Foreign Policy toward China

- As pointed out earlier, the rise of China presents Korea with an opportunity to raise Korea's economic growth through trade.
  - However, this is not a unmixed blessing. Growth of trade with China increases not only Korea's economic dependence on China but also Korea's vulnerability to China's economic fortune.
  - In view of this, Korea will do well in negotiating an FTA with China to link it with an FTA with Japan.
  - Korea will also do well to maintain its current technological advance vis-à-vis China by doubling its R&D efforts.
- China's rise has a mixed outcome for Korea in other ways.
  - China's continued economic growth increases China's stake in a maintaining stable international environment.
  - However, there have been signs that continued economic growth has also changed Chinese foreign policy stance from "Hiding One's Strengths and Wait for the Time" to a "Peaceful Rise," the latter meaning more defense spending and stronger military power
  - This change clearly has contributed to recent increase in tensions over the Yellow and South China Seas.

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  - In the Korean context, the "Peaceful Rise" can give false encouragement to North Korea. In light of these new developments, Korea will do well by strengthening its alliance with the U.S. and improving its relations with Japan.
- As far as North Korea is concerned, Korea should not only remind China that it is in its interest to persuade North Korea to join the world and develop its economy for its people.

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Foreign Policy toward the U.S.

- The conclusion of an FTA between Korea and the U.S. is a major milestone in promoting economic cooperation between the two countries.
  - It is now critical for the two governments to peacefully implement the agreement.
  - The KORUS FTA will not only promote the bilateral cooperation but also enable the U.S. to participate more effectively in Asian economic development.
  - Korea will also benefit enormously from the agreement in its efforts to become a premier business and cultural center in Asia.
  - The next step for Korea and the U.S. to consider is whether or not to link the bilateral FTA to the TPP (Trans-Pacific Partnership).

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- Korea-U.S. security alliance has served the interest of both countries well.
  - The critical question for the two countries to consider in this context is twofold:
    (1) Should the transfer of wartime operational control take place in 2015 as has been agreed?
    (2) How should the bilateral alliance be transformed to jointly meet security threat outside the Korean peninsula?
  - The transfer of wartime operational control was not a sound idea to begin with and the two countries should join to promote peace throughout the world.
- Over the past 60 years, Korea has immensely benefited from close cooperation with the U.S. in the field of science, education and culture.
  - It is time to expand and upgrade this cooperation. A model here may be the U.S.-Israel cooperation.

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Foreign Policy toward Japan

- Given the so-called "Peaceful Rise" of China and its consequence in the form of rising tensions in the East Asian region, strengthening Korea's ties not only with the U.S. but also with Japan is only rational.
  - As a corollary to this efforts Korea should agree with the idea of establishing a trilateral secretariat for the U.S.-Korea-Japan relations.
  - Over the past 50 years, Japan has served as a invaluable source of capital and technology for Korea's development. In spite of its current difficulties, in its public sector in particular, Japan still is a country with enormous technological and industrial capacities. For this reason, Korea should promote greater cooperation especially in technology with Japan.
  - In light of contingency in North Korea, Korea should not neglect cultivating close relations with Japan.

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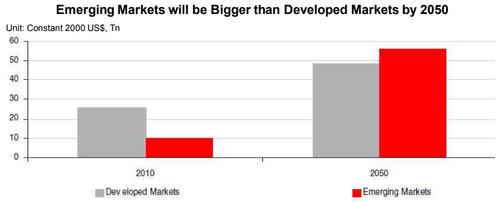
Foreign Policy toward Emerging Countries

- Over the past 10-15 years, the emerging economies' share of global GDP has been growing. If anything, this trend will accelerate given the difference in birth rates between emerging economies and the rest of the world as well as the relative case with which technologies can be transferred today. This is particularly true of emerging economies in Southwest Asia and Africa.

  - By 2050, the size of the emerging markets will increase five-fold and will become larger than that of the developed markets.

Emerging Markets will be Bigger than Developed Markets by 2050



Source: Karen Ward, The World in 2050, Global Economics, Jan 2011, HSBC

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- Korea will be well advised to make use of great opportunities rising from this trend. At the G20 Summit in Seoul in 2011, Korea proposed a new paradigm for economic aid to the developing world in the form of sharing development experiences, i.e., KSP.
  - This initiative will serve not only Korea's interest but the interest of emerging countries, as well.

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V. Concluding Observation

- Over the past half century Korea has achieved remarkable economic success. This success owes much to the outward-looking strategy the country adopted early on.
- The idea that Korea now should become a comprehensive business and cultural center is in essence the logical extension of the outward-looking strategy. This strategy is particularly appealing in the present world of globalization and multipolarization.

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Thank You

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