

KERI **E**CONOMIC **B**ULLETIN

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Executive Summary

Growth Forecast for 2009 at -3.7%

The growth rate of the national economy is projected to drop to -3.7% in 2009, the worst performance since 1998 when output growth had fallen to -6.9% due to the Asian financial crisis. Due to significant declines in both foreign and domestic demands, exports and facility investment are expected to post severe declines (-16.4% for exports and -11.2% for facility investment). Private consumption, a key to a sustainable economic recovery, is also likely to contract significantly (-3.9%). However, growth is likely to improve more or less in the second half (-2.1%) from the first half (-5.3%) when the effects of the government's financial market stabilization and economy-boosting policies are expected to kick in.

Current Account to Post US\$13 Billion Surplus

With the imports (-21.0%) shrinking faster than exports (-16.4%) due to declines in domestic demand and the international oil prices, the current account balance is expected to record a surplus of around US\$13 billion in 2009. On the other hand, declining international oil and commodities prices will help tame the inflationary pressures and keep the consumer inflation rate at a 2% range. Appreciation of the Korean won, expected in the latter half of the year, is going to be another price stabilizing factor.

Ex-rate: 1,380 won/USD in 1st Half, 1,220 won/USD in 2nd Half

The Korean won-U.S. dollar exchange rate is projected to maintain a high level of 1,380 won on average in the first half of the year owing to instabilities in the real and the financial sectors. In the second half, however, the exchange rate is expected to fall to about 1,220 won per dollar as a result of a weakening dollar and the current account surpluses. The annual average of the exchange rate between the Korean won and the U.S. dollar is going to be around 1,300 won per dollar.

Implementation of Revised Supplementary Budget May Improve Growth to -2.6% from -3.7%

If all goes well as planned, the revised supplementary budget bill, 29 trillion won's worth, will be able to boost the growth rate of the economy to -2.6%, 1.1%p higher than the current projection.

Need to Prevent Spread of Global Protectionism by Utilizing G-20 Summit

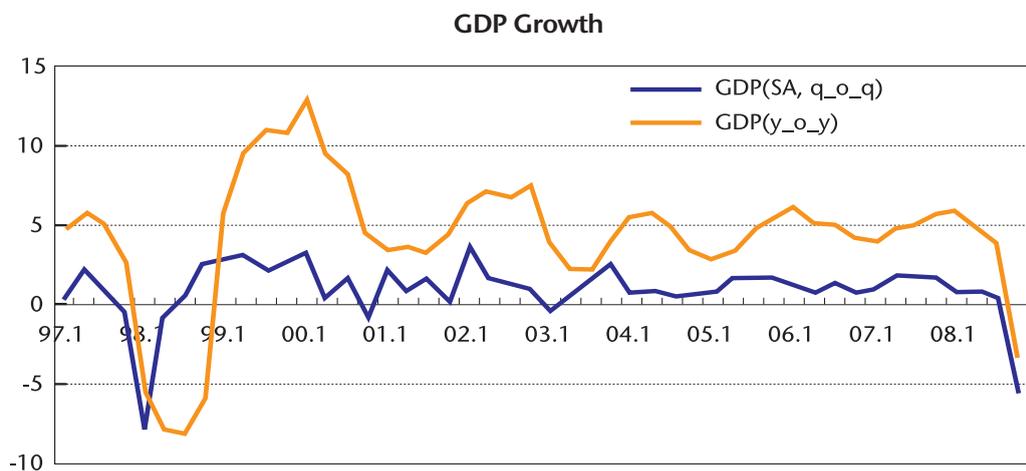
Given the importance of trade to Korea's recovery, it is essential that the government fully exploit advantages of being the next chair of the G-20 summit in 2010. Utmost priority should be given to combating the global protectionism. At the April 2008 G-20 summit in London, Korea should also actively raise awareness of the need to expand currency swaps between advanced countries, particularly key currency nations, and developing countries to help the latter overcome difficulties due to volatility in capital flows.

Recent Developments

Sharpest Growth Decline in 4th Quarter of 2008 Since the Foreign Exchange Crisis

Every major sector experienced significant contractions in the 4th quarter of 2008. Private consumption and construction investment have declined by -4.6% and -3.0% respectively. Facility investment was one of the hardest hit sectors and posted a double-digit decline (-14.2%). As a result, the quarter-on-quarter growth of the national economy in the fourth quarter of 2008 was -5.6% (-3.4% year-on-year), the lowest since 1998.

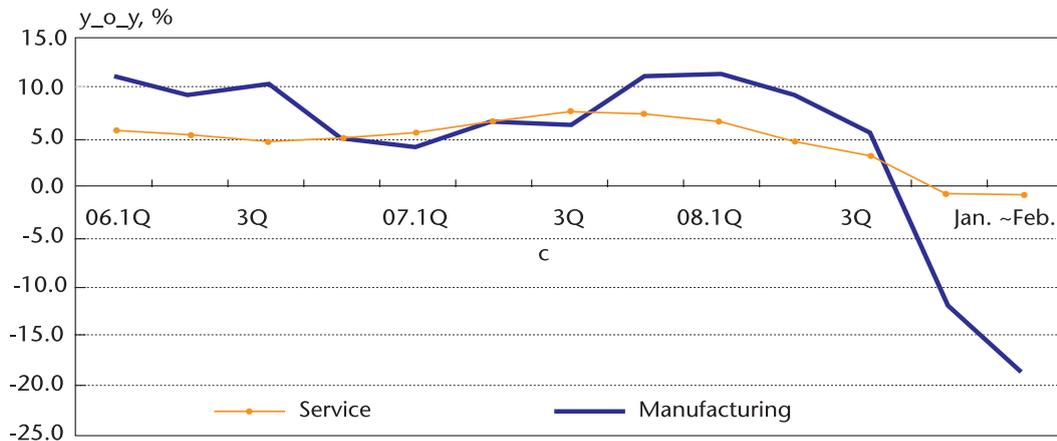
On the other hand, with decreases in imports (-14.2%) outpacing exports (-8.9%), the trade balance converted to a surplus.



Further Economic Contraction in the 1st Quarter of 2009

Following its -0.4% growth in the fourth quarter of last year, service production continued on a downward trend, recording -0.5% growth in the January-February period of 2009. Manufacturing production decreased more sharply, falling to -18.8% in the first quarter of 2009 from -12.1% in the fourth quarter of last year.

Manufacturing Production Index and Service Activity Index



Serious Slowdown in Consumption and Facility Investment

After posting -4.2% growth in the fourth quarter of last year, consumer goods sales decreased further (-4.7%) in January-February 2009 due to a significant contraction of consumer sentiment caused by financial market instability amid worsening labor market conditions.

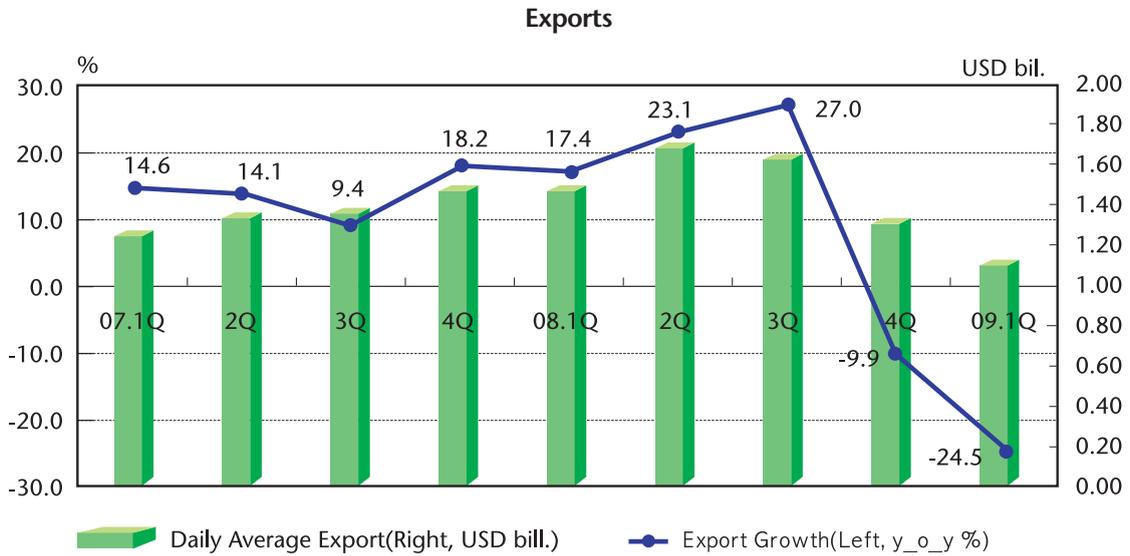
Facility investment also continued on the downward trend in January-February 2009 and declined by -23.5%.

Despite sluggish private construction, construction progress payments rose 5.9% in the first two months of 2009. The increase was largely due to SOC projects in the public sector and an early implementation of the national budget.

Trends in Domestic Demand

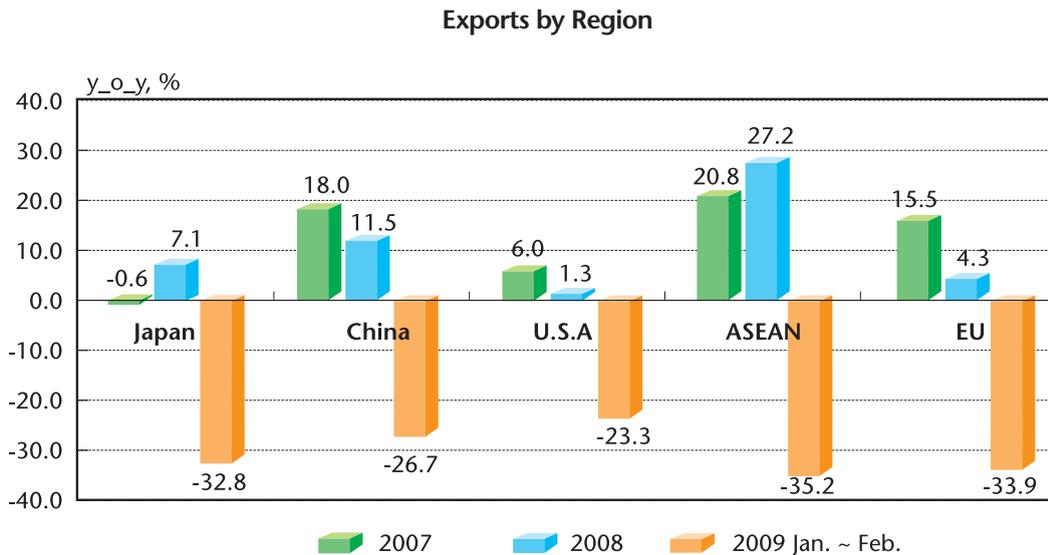
(Unit: y-o-y changes, %)

	consumer goods sales	Facility Investment	Domestic Machinery Order	Construction Completed (nominal)	Construction Orders Received (nominal)
2007	5.1	9.2	21.1	6.6	23.6
2008	1.0	-3.2	-5.5	4.7	-9.0
07. 1Q	5.2	13.3	18.9	7.9	33.5
2Q	4.3	12.6	7.1	6.0	30.2
3Q	7.2	1.4	19.1	4.4	-4.2
4Q	3.6	9.7	39.3	8.0	34.8
08.1Q	4.4	-0.7	25.2	5.6	-3.7
2Q	2.9	-0.5	8.4	6.1	-6.1
3Q	1.4	5.3	-7.6	10.6	-22.7
4Q	-4.2	-16.2	-39.5	-2.2	-6.5
09.1~2	-4.7	-23.5	-37.8	5.9	-17.8



Export Decline Showing Signs of Slowing Down

Exports in January-February 2009 by destination indicates that while the export sector is experiencing severe contractions, the pace of decline is showing some signs of slowing down.



Current Account Balance Hits US\$2 Billion Surplus in January-February 2009

Despite poor performances of the export sector, the current account balance recorded a surplus of US\$2 billion. Improvement in the service account balance, mainly due to a surplus in the travel account, and a sharp reduction in the imports are cited as major factors.

Current Account Balance

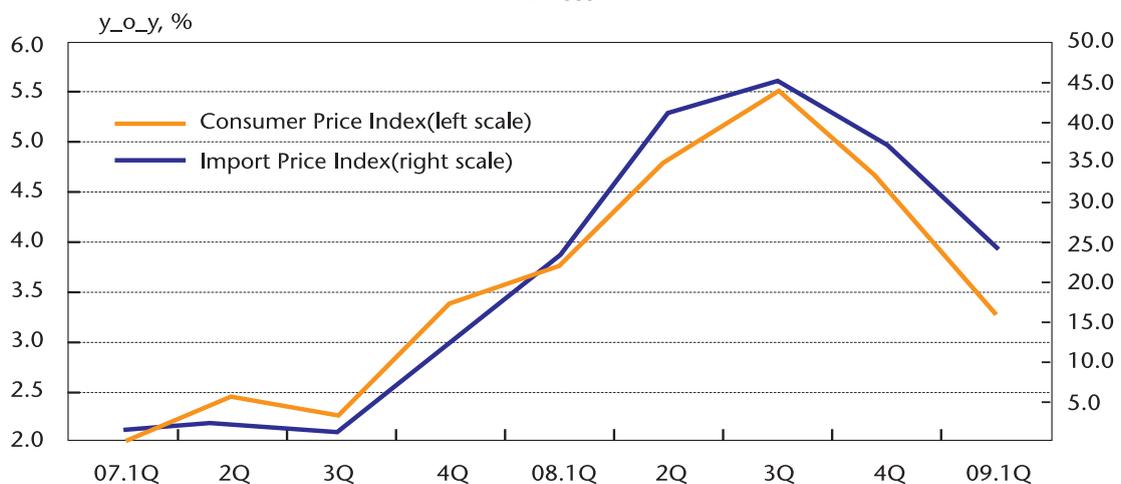
(Unit: USD Bil.)

	Current Account Balance						
		Goods	Service	Service		Income	Current Transfer
				Travel	Business Service		
2007	5.9	28.2	-19.8	-15.8	-7.4	1.0	-3.5
2008	-6.4	6.0	-16.7	-8.0	-14.5	5.1	-0.8
07. 1Q	-1.0	5.7	-5.4	-3.8	-1.7	-0.6	-0.7
2Q	-1.3	5.8	-4.4	-3.8	-1.5	-1.7	-1.0
3Q	4.3	8.9	-5.3	-4.5	-1.8	1.8	-1.1
4Q	3.8	7.8	-4.7	-3.8	-2.3	1.5	-0.7
08. 1Q	-5.2	-1.2	-5.1	-3.0	-2.9	1.7	-0.6
2Q	-0.1	5.7	-4.3	-2.8	-2.9	-0.6	-0.9
3Q	-8.6	-3.5	-5.7	-3.0	-4.1	1.4	-0.8
4Q	7.5	5.0	-1.7	0.7	-4.6	2.7	1.5
Jan.-Feb.	2.0	1.4	-1.2	0.4	-2.0	1.1	0.7

Consumer Inflation Continues to Decline

Consumer inflation continued a downward trend to 3.9% in the first quarter of 2009 from 5.5% in the third quarter and 4.6% in the fourth quarter of last year. Major contributing factors are economic stagnation and downward stabilization of international oil prices.

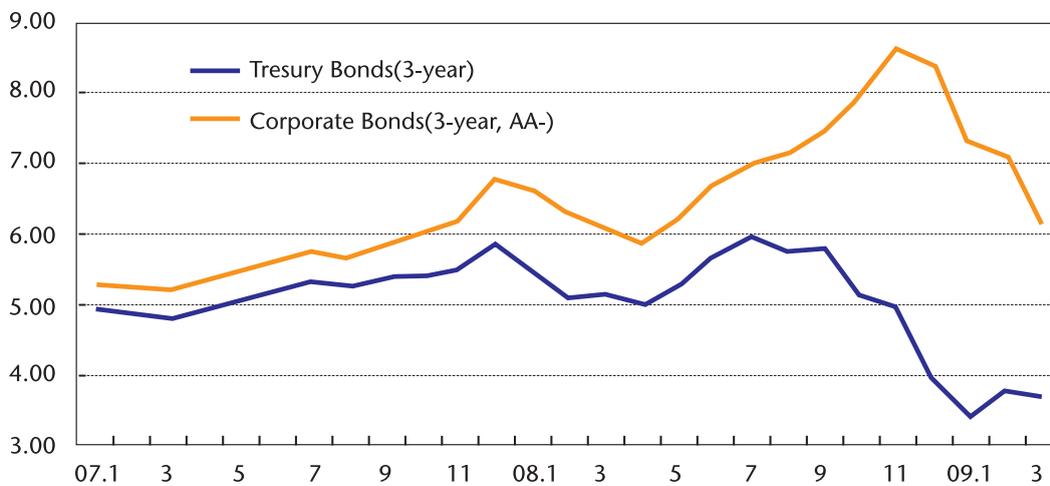
Prices



Market Interest Rates on the Decrease

The yield rates of corporate bonds have been decreasing after reaching 8.56% in November last year due to aggressive monetary expansions that include interest rate cuts and liquidity injections. The Bank of Korea's policy rate was lowered to 2.0% in February 2009 from 5.25% in September last year.

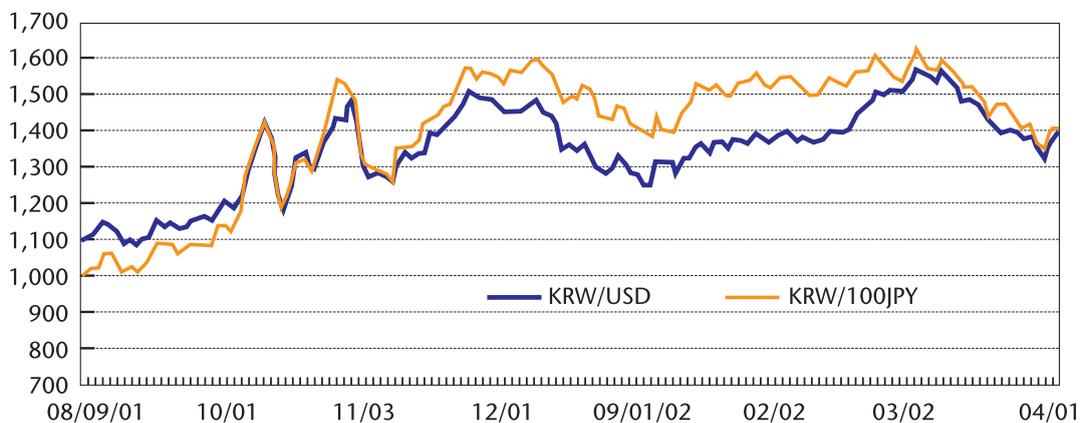
Interest Rates



The Korean Won-U.S. Dollar Exchange Rate Appreciating Again in March '09

The Korean Won has sharply depreciated against the U.S. dollar earlier this year due to fears of further financial turmoil and economic contraction. However, with improvement in external environments and the trade balance surplus recently, the exchange rate improved to a 1,400 won level after reaching a peak (1,567 won) on March 3 this year.

Exchange Region



Outlook for 2009

Negative Growth for World Economy in 2009

Global economic growth is expected to decline significantly this year as financial instability continues to plague the real sectors around the world. In March this year, the IMF projected world economic growth for 2009 at -1.0~-0.5%. The economies of advanced countries such as the United States, Japan and the EU, are likely to record negative growth. China is also expected to achieve a 6% level of growth, far below its target level of 8%.

International Oil Prices to Remain Stable

The international oil prices have displayed mild episodic increases in the recent periods due to expectations of economic recovery later in the year and the OPEC's oil output cuts. However, given the current conditions in the real sector, the increases are expected to be limited.

Government's Tax Reduction and Fiscal Expansion Policies to Continue

The government is expected to continue to implement tax reduction and fiscal expansion policies this year, including 21.3 trillion won in tax reductions over the next five years ('Tax Revision Plan' in September 2008), 11 trillion won in fiscal expenditures, 3 trillion won in tax supports ('Comprehensive Countermeasures to Overcome Economic Impasse' in November 2008), resolution of unsold housing, job sharing & expansion of social safety net programs, support for stabilization of low and middle income classes ('Tax Supports to Stimulate the Economy' in February 2009), and about 29 trillion won in revised supplementary budget (March 2009).

Possibility of Policy Interest Rate Freeze at 2.00%

Preventing excessive economic contraction is cited as the main reason for pursuing expansionary monetary policies. Meanwhile, the consumer price increase of 4% in February 2009 and the possibility of foreign exchange rate instability due to a narrower interest rate gap with external capital markets may act to limit the extent of interest rate cuts in the future.

Major Considerations for Projections

Exogenous Variables	2008	2009
Base Rates (% , end of year)	3.00	2.00
Won-Dollar Ex-Rates (KRW/USD, avg.)	1,101.3	1,300.0
China's Growth (%)	9.0	6.7
Japan's Growth (%)	-0.7	-5.5
U.S. Growth (%)	1.1	-2.5
Dubai Oil Price (USD/bbl)	96.8	55.0

Growth: 2.2% in '08 and -3.7% in '09

A sharp decrease in national economic growth is expected as a result of a significant decline in exports in line with the global economic stagnation amid contractions in domestic consumption and facility investment. Nevertheless, the national economy is likely to improve gradually further in the second half owing to international cooperation to stabilize the global financial markets and domestic efforts to boost the economy. As a result, national economic growth is projected at -5.3% in the first half and -2.1% in the second half of the year.

Private Consumption: 0.9% in '08 and -3.9% in '09

Private consumption growth is expected to record an annual average growth rate of -3.9% due to contractions in consumer sentiment caused by worsening labor and credit market conditions.

Construction Investment: -2.1% in '08 and -1.1% in '09

Due to sluggish residential and non-residential construction demands on the heels of the economic recession, construction investment is likely to slow. With SOC investment expansion in the public sector offsetting part of the slowdown in private construction, construction investment is likely to continue a mild decline.

Facility Investment: -2.0% in '08 and -11.2% in '09

The average facility operating rate in the manufacturing sector fell to the 60% level in the recent periods. As a result, the facility investment adjustment pressure, an indirect indicator of facility investment demand, has eased considerably. In addition, the domestic receipt of machinery orders is still on the downward trend. Given these trends in investment indicators, facility investment is expected to record a significant slowdown this year.

Current Account Balance Surplus: US\$6.4 Billion in '08 and US\$12.8 Billion in '09

Due to sharp drops in international oil prices and import demands, the current account balance in 2009 is expected to record a greater surplus than in 2008. The service balance is also likely to improve as demand for overseas travel decreases significantly due to the current economic recession and depreciation of the Korean won.

Export Growth: 14.4% in '08 and -16.4% in '09

Against the backdrop of international financial market instability and deepening of the global economic recession, export demand from most of the key markets, including China and the EU, is expected to decrease significantly.

Consumer Price Increase: 4.7% in '08 and 2.4% in '09

Influenced by the downward stabilization of international oil prices and raw materials prices and an appreciation in the Korean won-dollar exchange rate, consumer prices are likely to continue to stabilize. It will be difficult for the global economy to make a rapid recovery, and the crude oil and raw materials prices are forecasted to continue at low levels due to the contraction of domestic and overseas demand. The Korean won-U.S. dollar exchange rate, the key factor in import price increases, is also expected to appreciate gradually.

Market Interest Rate: 7.1% in '08 and 6.5% in '09

Affected by a trend of decreasing global interest rates and quantitative expansions, market interest rates are expected to experience downward pressures. However, the structural credit risk and increased issuance of national treasury bonds may serve as limiting factors.

The Korean Won-U.S. Dollar Exchange Rate: 1,380 Won in 1st Half and 1,220 Won in 2nd Half of 2009

Fall in import demand is likely to lead to a bigger current account surplus. With uncertainty in international financial markets and the real economy being resolved gradually, the exchange rate is expected to stabilize relatively quickly.

Economic Outlook for 2009

(Unit: y-o-y changes %, US\$100 million)

	2007	2008	2009						
	Year	Year	1Q	2Q	3Q	4Q	1st H	2nd H	Year
GDP	5.1	2.2	-5.3	-5.6	-5.4	1.5	-5.3	-2.1	-3.7
(SA, q-o-q, %)			-0.2	0.4	0.3	0.9			
Private Consumption	5.1	0.9	-5.0	-5.7	-5.2	0.2	-5.3	-2.5	-3.9
Construction Investment	1.4	-2.1	-3.3	-1.6	-1.1	0.9	-2.3	0.0	-1.1
Facilities + Intangible Assets	9.3	-2.0	-18.8	-16.4	-13.6	5.9	-17.6	-4.4	-11.2
Exports (Goods + Service)	12.6	5.7	-14.2	-14.3	-11.2	1.4	-14.3	-5.0	-9.7
Imports (Goods + Service)	11.7	3.7	-20.9	-18.7	-13.8	5.2	-19.8	-4.7	-12.4
Consumer Prices	2.5	4.7	3.8	2.2	1.5	2.3	3.0	1.9	2.4
Producer Prices	1.4	8.6	4.5	0.1	-2.4	1.4	2.3	-0.5	0.9
Current Account	59.5	-64.1	75.1	30.4	4.2	17.9	105.5	22.1	127.6
Commodity	294.1	59.9	85.0	68.2	49.0	44.0	153.2	93.0	246.2
Exports (BOP Base)	3789.8	4334.3	806.0	912.8	941.0	965.0	1718.8	1906.0	3624.8
Growth (%)	14.2	14.4	-21.7	-22.8	-19.7	1.5	-22.3	-10.2	-16.4
Imports (BOP Base)	3495.7	4274.3	721.0	844.6	892.0	921.0	1565.6	1813.0	3378.6
Growth (%)	15.5	22.3	-30.7	-25.0	-26.1	2.2	-27.7	-14.0	-21.0
Service & Others	-234.6	-124.0	-9.9	-37.8	-44.8	-26.1	-47.7	-70.9	-118.6
Ex Rate (Avg. KRW/USD)	929.2	1101.3	1420.0	1340.0	1240.0	1200.0	1380.0	1220.0	1300.0
Corp. Bonds Yield (3-year, AA-)	5.7	7.1	6.8	6.2	6.4	6.5	6.5	6.5	6.5
Unemployment Rate (%)	3.2	3.2	3.7	3.6	3.5	3.5	3.7	3.5	3.6

Supplementary Budget to Improve Growth Rate by 1.1 Percentage Point to -2.6% from the basic projection of -3.7%

The size of the current revised supplementary budget, pending National Assembly approval, is 28.9 trillion won. Among the total, 11.2 trillion won would be used to make up for a shortage of tax revenue and 17.7 trillion won would be devoted to five major core fields including job creation and income support provisions. In particular, the 17.7 trillion won, which will expand real expenditures, is expected to improve economic growth for 2009 by 1.1 percentage point.

Macroeconomic Effects of 17.7 Trillion Won in Increased Expenditures

	Basic Projection (A)	Expected Effects (B)	A+B
Growth Rate	-3.7%	+1.1 percentage point	-2.6%
Current Account Balance	US\$12.8 Bil. Surplus	US\$2.7 Bil. Deficit	US\$10.1 Bil. Surplus
Consumer Prices	2.4%	+0.2 percentage point	2.6%

Prospects for G-20 Summit and Our Tasks

Actively Leverage Status as G-20 Chair Nation

At the upcoming London G-20 Summit in April this year, Korea should successfully promote adjustment of opinions among advanced nations and also between advanced and developing countries as a member of the chair nations' group in order for the summit meeting to produce successful results. Since Korea is a member of the G-20 meeting's chair nation group for the next three years, it is in an advantageous position to reflect its interests regarding global issues. Therefore, ensuring that global issues are handled continuously through the auspices of the summit meeting is very important also from the perspective of national interest.

Promote Holding of G-20 Summit or G-20 Ministerial Meeting to Handle Trade Issues Professionally

One of the most important issues for the G-20 nations in which the interests of Korea, having an export-oriented economic structure, are at stake is overcoming protectionism. As the most important topic for the present meeting is reform of financial regulations, regarding other agenda including protectionism, there is a possibility that the meeting may end up with a declaration or general agreement rather than substantial results. To overcome protectionism and promote trade, therefore, there is a need for Korea to suggest the holding of a G-20 summit or a G-20 ministerial meeting to address only trade issues professionally.

Suggest the Need to Expand Currency Swaps between Advanced and Developing Countries

To help small open economies of developing countries overcome difficulties incurred from the volatility in inflows and outflows of capital, Korea should raise at the meeting the need to expand currency swaps between advanced countries (particularly key currency nations) and developing countries. Korea should insist that normalizing capital flows into developing countries is necessary to the economic recovery of advanced countries as well.

Inefficiency of the KOBACO system & Liberalization of the Korean media-rep industry

Research Monograph 08-15

Jae-Hong Kim

This paper proves the inefficiencies of the current monopoly and regulations by KOBACO in the Korean broadcasting advertising industry, and suggests competitions in the media rep market. As the main contribution, using market data and theoretic analyses, it shows that the hypothesis by the public interest theorists that allowing competition will raise up prices of the advertised products and degrade program qualities is completely false, and the truth is the converse; that is, the current regulations by KOBACO lowers down both consumer welfare and total surplus. Finally, it proposes that there must be no restrictions in introducing competition in the media rep market, except prohibiting the ownership of the media rep by both advertisers and KOBACO.

Korea's Price Structure and Ways to Resolve Price Gaps between Korea and Overseas Markets

Research Monograph 08-16

In-Kwon Lee

This paper provides with a better understanding of Korea's price structure and a comparison between domestic and overseas price gaps by business type and item and suggests ways to address the price gaps. As a result of the international comparison, prices in Korea appears to be higher taking the income level into consideration. Since the price level of daily necessities, foodstuffs, apparel products, household goods, etc., is comparatively high, the actual price level felt by the low-income class is even higher than the international comparison value. This paper would help the government better understand the status of the domestic price structure and the price gaps between Korea and overseas markets and establish an improved price policy in concert with informed public opinion.

The Effect of International Financial Reporting Standards Adoption and Firms' Preparatory Measures

Research Monograph 08-17

In-Tae Hwang, Bong-Hee Han, Sun-Min Kang

In this study, whether IFRS adoption enhanced accounting transparency is tested by whether earnings management decreased significantly under the IFRS in the U.K. and Australia. The magnitude of earnings management is measured with discretionary accruals. The results show that discretionary accruals

significantly decreased in the U.K., but did not change noticeably in Australia, under the IFRS. Decrease in discretionary accruals found in the U.K. is significant only in large firms. Further, change in discretionary accruals under the IFRS exhibited a wide variation across industries both in the U.K. and Australia. Thus, it can be said that the effect of IFRS adoption on the magnitude of earnings management differs across nations, across firm sizes, and across industries. The results of this study based on the U.K. and Australia are consistent with those of Ball et al. (2003) which document that the effect of adoption of a high quality accounting standards on accounting transparency is different across Asian countries.

The sample of this study is not confined to large firms, but includes a number of small and medium-sized firms across various industries. Thus, the results of this study can be useful for our firms and regulatory agencies to take necessary actions in preparation for the IFRS soon to be adopted. As previously mentioned, adoption of the IFRS is expected not only to affect preparation and reporting of financial statements, but also to influence firms' operating activities in general such as operating process, information system, and personnel organization significantly.

An Analysis of the Effects of Korea-EU FTA and Integration of the European Car Market on the Automobile Industry in Korea

Research Monograph 08-18
Wongun Song

This study consists of two parts.

One is to examine the effects of the implementation of Korea-EU FTA on the level of trade of automotive sector between Korea and EU. The results find that the exports of medium-sized and large-sized cars to EU will increase rapidly and also the import of large-sized cars from EU will be increased after the Korea-EU FTA will be effective. The exports of automotive parts to EU is also expected to increase due to Korea-EU FTA.

The other part is to analyze the level of market integration of EU automobile sector. In this study the level of market integration in EU car market is investigated using the percentage price differentials between EU countries. The results show that the market for the whole EU countries is less integrated but the market for the existing 12 EU member countries is relatively more integrated than that for the new 15 EU member countries. These results imply that Korean car-makers should take different approaches for the western European countries such as the existing 12 members or Eurzone and the eastern European countries when they devise the market strategy to maximize the gains from better conditions for market access to EU due to the Korea-EU FTA. They had better regard the car markets for western European countries as one market. But for the markets for eastern European countries, they need to have different strategy for each country to capture each market in advance.

Extensive Study of Corporate Environment Improvement

Research Monograph 08-19

Zusun Rhee

This paper examines system reform methods in a wide variety of fields suggested by the World Bank's 'Corporate Environment Report' - business start-up, acquisition of business licenses, manpower employment, property registration, payment of taxes, international trade, contract implementation, supply of funds, cessation of business, etc. - that make the management of domestic and overseas enterprises difficult and suggests core tasks to improve corporate environments by sector based on the analysis results. The paper also introduces the World Bank's improvement tasks and improved results by item, suggesting a priority for corporate environments by sector expected after improvement and a comprehensive ranking of the corporate environment in Korea. If the system reform tasks related to corporate environments suggested by this paper are implemented, Korea would emerge as a nation equipped with the fifth best corporate environment among 178 countries in the world.

Current Status and Challenges of Labor Market Flexicurity in Korea

Research Monograph 08-21

Sung-Joon Park, Yanggyu Byun, Hyun-Yong Jung

This study examines flexibility and security of the labor market in 1998, 2003, and 2005, mainly that of 22 OECD countries, using principal component analysis, and attempts an international comparison of these data. As a result, we identify 'Anglo-Saxon' type of relatively high flexibility and low security, 'European Continent' type of low flexibility and high security, 'Southern Europe' type low both in flexibility and security, and 'Northern Europe' type that shows flexibility similar to that of 'European Continent' one but has a relatively high security.

The analysis of Korea's labor market reveals Korea is about average in terms of flexibility but its security remains significantly low. Meanwhile, between the period from 1998 to 2003, Korea saw the combination of policies aimed at enhancing security at the cost of flexibility and since 2003 both flexibility and security have dropped. From 1998 to 2005, Korea ended up sacrificing flexibility without simultaneously making an improvement in security. Thus, the revision of labor market policies in Korea is strongly recommended.

Empirical Studies on the Horizontal Merger

Research Monograph 08-22

Hyun-Jong Kim

This paper surveys the existing analysis methods to horizontal mergers. As the method defining relevant

markets, SSNIP (Small but Significant and Non-transitory Increase in Price) test, critical loss analysis, Elzinga-Hogaty test, price correlation analysis, and stationary analysis are introduced. On the other hand, as the method studying economic effect on the horizontal merger, switching analysis, merger simulation, and price-concentration analysis are explained. Additionally, the paper introduces the new method, LIFO-LOFI market concentration index for exact calculation including actual consumption (export-import ratio). Finally, we examine the effects of horizontal merger between two firms in the Safe Harbor area on the market competition. Using PCAIDS merger simulation, it shows that the horizontal merger in safe harbor yields maximum price increases under 5% in most cases.

The Survival Strategy of Korean Firms

Research Monograph 08-23

Yong-Wook Jun

To achieve excellence, global companies have overcome many crises and shown flexibility and superior abilities to adjust to environmental changes. However, what are the key factors distinguishing excellent companies from others? How does the combination of these factors lead to corporate sustainability? Up to now, no research has been conducted on the conceptual frameworks about longevity of corporations. In addition, the linkage between performance and survival has not been fully examined. In the course of this research, we have examined representative cases of high performing and sustainable companies in different industries and regions: In the automotive industry we have chosen Ford, Volkswagen, and Toyota; in the chemical industry DuPont, BASF, and Mitsubishi; in the steel industry US Steel, ThyssenKrupp, and Nippon Steel Corporation. These companies were compared to Korean companies of the same industry: Hyundai automotive, LG Chemicals, and POSCO Steel.

The result of the research is that high performing, sustainable companies had a the required resources and core capabilities to clearly define the company's vision. Through these vision and capabilities, companies can quickly adjust to changing environments, overcome crises, and make use of opportunities. Vice versa, the latter two factors positively effect capabilities and support clear visions. Finally, we induced the following three implications: Companies should use Quantum Jumps to transform crises into opportunities, avoid falling into a success trap (active inertia) and foster an efficient business ecosystem.

Development and Changes of ROK-US Alliance : Analysis and Outlook

Research Monograph 08-24

Yun-Ho Chung

This paper focuses on the importance of the U.S. policy, especially towards its allies when examining past and considering future changes. With this view, this paper firstly goes over the U.S.'s alliance policy and analyze how the policy has influenced the change of the ROK-U.S. relation.

Undergoing somewhat significant international incidents and flow of the world affairs over the past 50 years, ROK-U.S. alliance has been effected to vast amount. The reduction of the U.S. forces in Korea has been underway four times along with the U.S. policy change. Ongoing reduction according to GPR policy could also be seen as the fifth. Changes in the alliance during the last five, or six years, however, is a lot more serious than that of the past whole years. With the U.S. being Korea's closest ally and portraying at any angle, the U.S. holds major position in South Korea. Thus, as of Lee Myung Bak Government's effort to rebuild burned bridge with the ally, this paper is aimed to examine the ROK-U.S. alliance as well as the recent changes and predict possible change, and even present counter plan.

The KERI-CGE Model for Analysis on the Economic Effects of Free Trade Agreements - Economic Effects of Korea · EU FTA -

Research Monograph 09-01
Gyeong-Lyeob Cho, Wongun Song

The primary objective of this study is to build a new and reliable CGE(computable general equilibrium) model for analyzing the economic effects of Free Trade Agreements(FTAs) between Korea and other nations. Previous research on the impacts of FTAs between Korea and other nations has been done by using the GTAP(Global Trade Analysis Project) model. However, since the GTAP model assumes the exogeneity of technical progress and exclusion of factor mobility among nations, the important dynamic effects of FTAs such as growth in productivity and foreign direct investment cannot be included. The KERI-CGE model that is constructed and used for the analysis of the impact of Korea-EU FTA in this study complements the weakness of GTAP model. The KERI-CGE model is the fully dynamic computable general equilibrium model which reflects the economies of scale generated by capital accumulation and technical progress endogenously. Another advantage of the KERI-CGE model is that the model allows rational evaluation of FTAs' employment effect because labor and leisure are determined endogenously by the model's nature. In this study the economic effects of Korea-EU FTA is analyzed using this model under six scenarios that differ on the degree of openness.

Comprehensive Value Alliance between Korea and the U.S. for the 21th Century

Research Monograph 09-02
Sang-In Jun, Jae-Eui Yu

This paper contends that the traditional mode of alliance between Korea and the United States now should be reshuffled for a more productive and sustainable future. It suggests a 'comprehensive value alliance' that goes far beyond the military or economic realms of mutual cooperations. Comprehensive value alliance can provide, first of all, a structural stability and durability for the relationship between the two nations. It also envisions the two countries' relatively equal status and partnership. In addition, comprehensive value alliance can easily fit into the so-called 'network international politics' in the age of globalization. Furthermore, we

can expect from the two countries's value alliance the rise of new universal values in the era of post-ideology civilization. Finally, value alliance approach is able to go hand in hand with the increasing importance of 'soft power' in international relations in the 21th century.

FDI Environment and System Improvement Tasks

Policy Report 08-07

Byungki Lee

High corporate taxes, sharp wage hikes, and labor-management conflict in investment-inducing nations are factors that negatively affect foreign direct investment (FDI). Therefore, the author's analysis found that conclusion of FTAs, improvement in laws and labor peace are key factors having a positive impact on FDI.

Factors in Foreign Exchange Market Instability and Response Methods

Policy Report 08-08

Soon-Kwon Ahn

Due to the shock from the U.S.-originated financial crisis, the Korean won currency had depreciated by about 50% at the start of this year. Instability in the domestic foreign exchange market is expected to continue over the next one to two years until the U.S. financial crisis is resolved. The optimum exchange rate that considers trade weight, prices, etc. of 20 major countries is 1,040 won to the U.S. dollar. When Korea's service balance deficit and the recent global credit crunch are taken into consideration, the optimum exchange rate level is presumed to be about 1,250 won. The present 1,400 won-level exchange rate is due to a phenomenon of excessive leaning to one side. To stabilize the foreign exchange market, therefore, the government's recovery of confidence and the people's cooperation are more important than anything else.

Policy Implications of U.S. and Japan's Use of Poison Pill

Policy Report 08-09

Seuk-Hun Sin

If the stock and new stock reservation rights system in the Corporate Act are used as a poison pill to protect management rights, as the courts are ruling after implementation in the U.S. and in Japan, the administration is providing criteria for the courts to rule on its legality through guidelines that have no legal binding force. The viewpoint that the poison pill may be abused only in the interest of the management group has significant implications for Korea where introduction of the system is being delayed.

Comprehensive Report on Non-Registration Restrictions

Policy Report 09-01
Zusun Rhee

This paper examines problems relating to the status and issues surrounding current restrictions in the corporate registration system and suggests realistic ways to improve them. In its policy alternatives, this paper endeavors to provide specific and substantial suggestions required to improve registration processes rather than focus on abstract and theoretical recommendations.

Wavelength of Global Financial Crisis and Response Methods

Policy Report 09-02
Chan-Guk Huh, Soon-Kwon Ahn, Chang-Bae Kim

The critical task for 2009 economic policy is to minimize the phase and the period of economic decline caused by the credit crunch and global economic stagnation. Fiscal expansion to stimulate economic conditions is unavoidable. To expand the mid- and long-term growth potential, however, efforts to revise the expenditure structure in a growth-friendly way are necessary as well. Also required is the rapid reorganization of shipbuilding and construction business types and a revision of financial supervisory system functions.

Pursuit of Ways for Takeoff Toward Advanced Economy

Policy Report 09-03
Sang-kun Bae

Through analysis of the experience of major countries that have entered the advanced country ranks of the US\$30,000 level in per-capita income, this paper introduces ways for Korea to takeoff toward becoming an advanced economy. Korea should expand its growth foundation and strengthen its competitiveness potential by revising and supplementing policy alternatives that advanced economies have promoted in a way that is suited the nation's conditions based on, for example, the strong leadership shown by the U.S. Reagan administration or the U.K.'s Thatcher government and the self-regulatory social conventions of Ireland and Sweden.

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