

**K**ERI

**E**CONOMIC

**B**ULLETIN

**Contents**

<b>Executive Summary</b> .....	<b>02</b>
<b>Economic Trends and Outlook</b> .....	<b>03</b>
Recent Developments	
Outlook for 2014	
Policy Issues	
<b>Recent Publications</b> .....	<b>17</b>



Korea Economic Research Institute

# Executive Summary

**Korea's 2014 annual GDP growth is likely to close at 3.4%, affected by 'High 1H-Low 2H' trend, owing to a slower global recovery, drop in exchange rates and lower consumer spending.**

**Consumer price grows at 2.0%, current account surplus expand at US\$83.1 billion, and USD/KRW rally since 4Q at 1,035 won/\$ on yearly average.**

**Impact of the recent sluggish employment growth on consumption flexibility growth deteriorated by 1/3 compared with previous years; tangible recovery in private consumption hard to expect**

Amid falling household propensity to consumption, conspired with other factors, such as a drop in consumer sentiment after the sinking of ferry Sewol and slowing employment growth, private consumption is expected to stay low in 2H. Investment recovery on facilities is expected to decelerate as policy risks widen after the June local elections. Export is expected to grow only by 5%, owing to growing uncertainty over global recovery, such as Europe (low growth, low inflation), China (slowing growth accompanied by the structural reform), Japan (recovery risk post-consumption tax hike), and emerging economies (risks associated with financial instability).

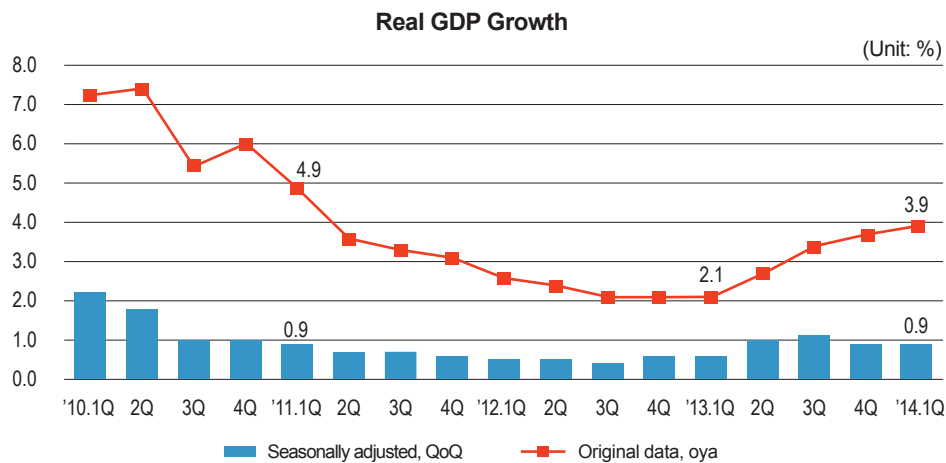
Consumer price in 2H are expected to be higher than that of 1H, as downward pressure is mitigated by narrowing negative production gap and rebound of international prices of raw materials. However, the speed at which it is ascending slows at 2.0% annually. Current account is forecast to record a US\$83.1 billion surplus, marking higher than the previous year's record high of US\$79.9 billion, owing to a growing surplus caused by a fall in imports due sluggish domestic market. USD/KRW is expected to maintain a falling trend in 2H as dollar nudges on weakening euro and yen, and the won to float around a yearly average of 1,035 won/dollar.

Although employment is increasing in recent times, consumption flexibility has steadily deteriorated, leading to a conclusion that the recent employment growth is unlikely to have an impact on consumption increase. A closer look at the trends of average propensity to consumption by industry and age group shows that contribution of a newly employed on expenditure increase has fallen by about 35.8% between 2006 and 2013. In particular, the group aged between 30 and 49 was the key downward factor, as the group showed a falling average propensity to consumption while employment growth was minimal. The contribution from the group aged 50 or more, which showed the biggest employment growth, was insufficient to increase consumption flexibility growth as the positive impact of employment growth was outpaced by the fall of average propensity to consumption. As a result, even though the number of paid-workers has increased by 476,000 in 2013, the number is estimated to be similar to 305,000 if the number is calculated based on its contribution on consumption spending. In other words, it is difficult to expect a prompt recovery of private consumption based on a sign of quantitative increase in employment.

## Recent Developments

### GDP growth records 0.9% (QoQ) in 1Q 2014, unable to show resilience in recovery

This is ascribable to a low private consumption and negative increase in facility investment, offsetting gradual recovery of exports. Korea's economy is showing a growth of 3.9% (oya), but it is interpreted as a technical rebound against the record low of 2.1% in 1Q 2013.



Source: The Bank of Korea

### Slump in the private sector, including slowdown in private consumption and facility investment, worsens the quality of growth

While contribution from private consumption is losing momentum, contribution from construction investment is on the rise, boosted by the government's fiscal expenditure. Net export contribution grows by 1.2%p from the previous quarter of -0.7%p, but the absolute level of export contribution remains low and growth from domestic demand was insufficient.

### Contribution to GDP by expenditure

(Unit: %p, QoQ sa)

	2012				2013				2014
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
Final consumption expenditure	<b>0.8</b>	<b>0.0</b>	<b>0.7</b>	<b>0.3</b>	<b>0.0</b>	<b>0.6</b>	<b>0.6</b>	<b>0.4</b>	<b>0.1</b>
Private	0.4	0.1	0.6	0.2	-0.1	0.3	0.5	0.3	0.1
Government	0.3	-0.1	0.1	0.0	0.1	0.2	0.1	0.1	0.0
Gross capital formation	<b>1.1</b>	<b>-1.1</b>	<b>-1.3</b>	<b>-0.8</b>	<b>0.8</b>	<b>-0.1</b>	<b>1.0</b>	<b>1.3</b>	<b>-0.3</b>
Gross fixed capital formation	1.2	-1.5	0.0	-0.8	1.6	0.7	0.3	-0.2	1.0
Construction	-0.3	-0.5	0.2	-0.4	0.9	0.7	0.0	-0.8	0.7
Facilities investment	1.1	-0.8	-0.3	-0.3	0.1	0.1	0.2	0.5	-0.1
Intellectual property products	0.5	-0.2	0.2	-0.2	0.5	-0.1	0.1	0.1	0.4
Changes in inventories and acquisition	-0.1	0.3	-1.3	0.0	-0.8	-0.8	0.6	1.5	-1.3
Exports of goods and services	<b>0.3</b>	<b>1.4</b>	<b>1.1</b>	<b>0.5</b>	<b>0.1</b>	<b>1.5</b>	<b>-0.6</b>	<b>0.8</b>	<b>0.9</b>
(less)Imports of goods and services	<b>1.6</b>	<b>-0.1</b>	<b>0.2</b>	<b>-0.7</b>	<b>0.3</b>	<b>0.9</b>	<b>-0.2</b>	<b>1.5</b>	<b>-0.3</b>

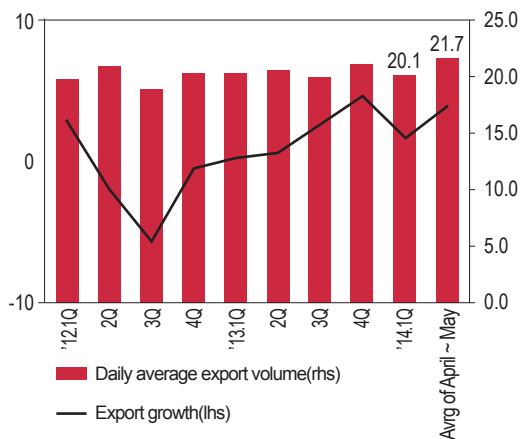
Source: The Bank of Korea

**Exports growth (on a custom clearance basis) shows a moderate growth as it recorded a monthly average of 3.9% between April and May, from 1.7% in 1Q 2014**

The daily volume of exports grows by US\$2.17 billion or a monthly average of 7.7% (oya) between April and May 2014, comparable to US\$2.01 billion (0.6% decrease, oya). By region, exports to US and EU started to take a favorable turn, while exports to China continued to be sluggish.

### Export Growth and Daily Average Export Volume

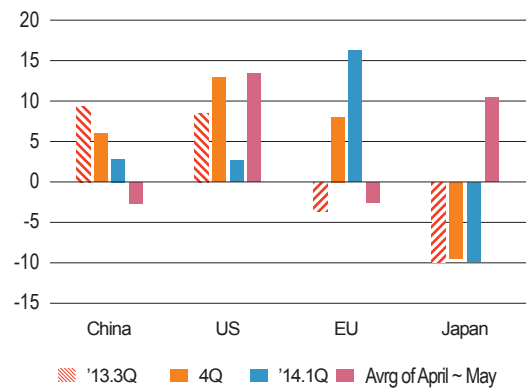
(Unit: left – YoY%, right – US\$100mil)



Source: MOTIE, Korea Customs Service

### Export Growth by Destination

(Unit: YoY%)



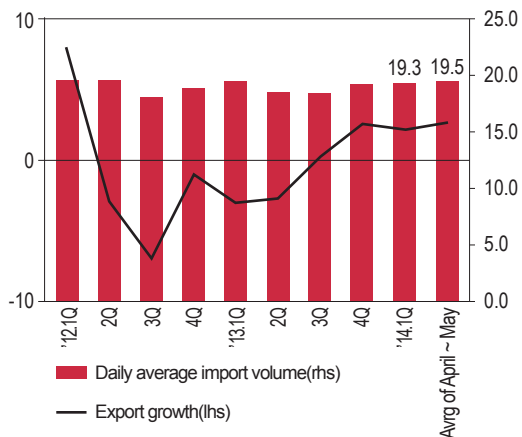
Source: Korea Customs Service

**Imports growth (on a custom clearance basis) maintains a low growth of 2.7% (average, monthly) between April and May, comparable to 2.1% in 1Q**

The daily volume of imports between April and May recorded US\$1.95 billion (a 6.0% increase, oya) from US\$1.93 billion in 1Q (a 0.2% decrease, oya). By sector, raw material imports, which constitute the largest share of total imports, decreased while imports of capital goods and consumer goods rebounded.

### Import growth and daily average import volume

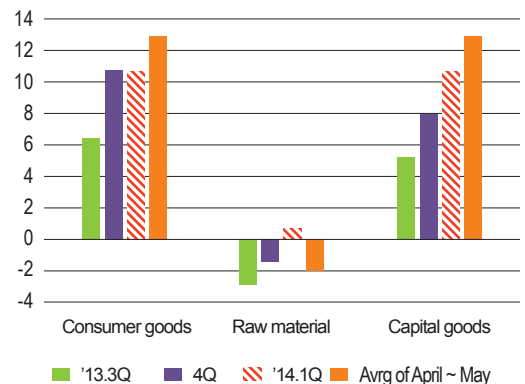
(Unit: left-YoY%, right-US\$100mil)



Source: MOTIE, Korea Customs Service

### Import growth by use

(Unit: YoY%)



Source: Korea Customs Service

**Korea's yearly current account surplus posted US\$15.07 billion; Surplus of US\$7.12 billion in April**

Korea's current account surplus recorded about US\$22.2 billion, widened by US\$7 billion from US\$15 billion from the same period a year ago.

**Trend of Current Account**

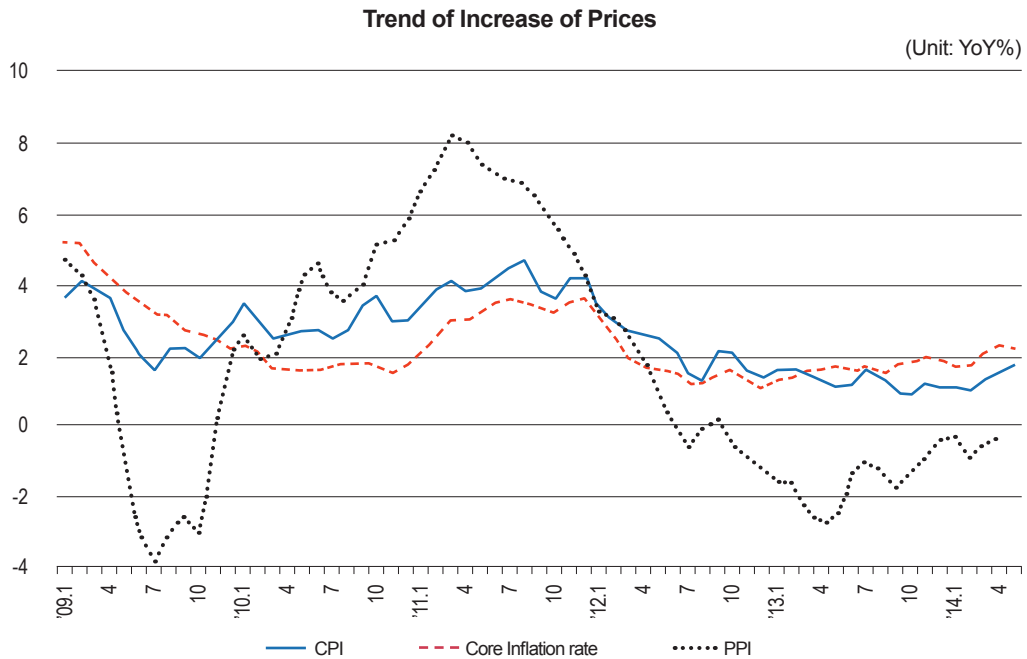
(Unit: US\$ billion)

	2012	2013						2014	
	Year	1Q	2Q	3Q	4Q	Year	April	1Q	April
Current Account	508.4	104.6	208.0	237.8	248.4	798.8	45.5	150.7	71.2
Bal of Goods	494.1	120.8	200.0	238.8	246.2	805.7	51.0	177.5	106.5
Bal of Services	-52.1	-35.1	-4.1	-20.6	-19.4	-79.3	0.1	-36.2	-10.4
Bal of Primary Income	121.2	27.8	18.4	31.6	36.4	114.2	-3.5	19.1	-16.2
Bal of Secondary Income	-54.7	-8.9	-6.2	-11.9	-14.8	-41.8	-2.0	-9.6	-8.6

Source: The Bank of Korea

**Consumer prices maintain a low inflation; prices show signs of gradual rebound since it recorded a 1.0% growth in February, showing 1.3% in March, 1.5% in April and 1.7% in May**

A gentle ascend is ascribable to the weakening downward pressure of the supply and demand sides, in addition to base effect. On the other hand, producer prices continue to decline for the 19th consecutive month since October 2012, albeit the speed of decline is slowing.



Source: Korea Customs Service, The Bank of Korea

**The total number of employment continues to grow quantitatively but qualitative recovery is insufficient**

The number of employees increased by 729,000 (oya) in 1Q, with an increase of 581,000 in April. The upturn is ascribable to the rise in the employment rate in the low value-added sector (wholesale & retailer, accommodations, restaurants, and business, individual and public services) and in the senior group. Labor market conditions show little improvement in terms of a qualitative recovery.

## Employment-related Indicators

(Unit: thousand persons change over year ago, %)

		2013					2014	
		1Q	2Q	3Q	4Q	April	1Q	April
Changes in number of employed persons		257	324	421	541	345	729	581
Age	- 15 ~ 29	-117	-88	-41	46	-133	97	94
	- 30 ~ 39	-15	8	-34	-42	34	-6	-60
	- 40 ~ 49	12	-6	30	53	1	99	68
	- 50 ~ 59	196	254	279	285	264	323	273
	- 60 years and older	181	156	187	200	179	218	206
Industry	- Agri., Forestry & Hunting	-9	-27	19	-15	-22	12	-29
	- Manufacturing	119	122	26	49	165	123	96
	- Construction	-64	-6	4	-9	-10	27	-3
	- Wholesale & retail trade, hotels & restaurants	-37	-12	41	147	-67	303	303
	- Business, personal, public service & others	258	154	218	311	188	209	213
	- Electricity, transport, communication & finance	-12	92	112	565	88	56	3
Unemployment rate(%)		3.6	3.1	3.0	2.8	3.2	4.0	3.9

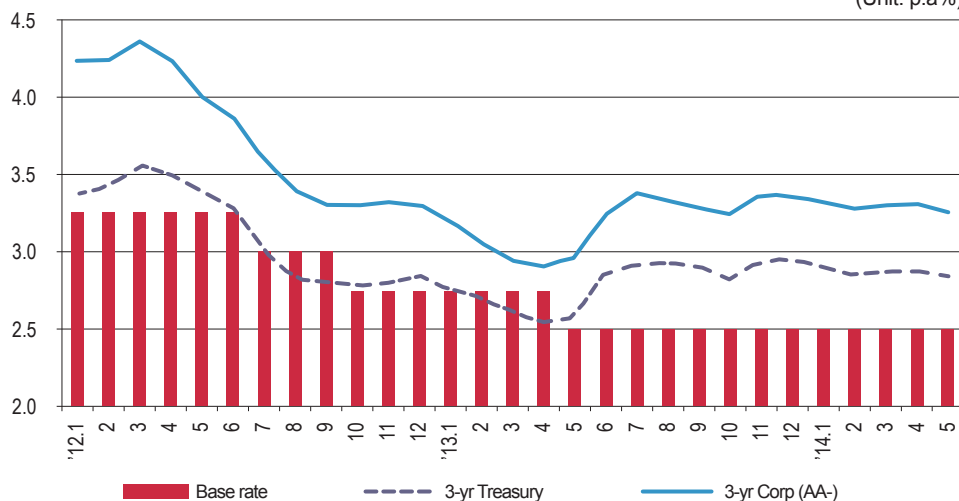
Source: Economically Active Population Survey (Statistics Korea)

**Market interest rates show a small dip as uncertainty over economic conditions at home and abroad grows and the benchmark interest rate freezes**

Stagnating growth and a low inflation trend have undermined expectations for global recovery, sending the market interest rates downward by a small nudge.

### Interest rates

(Unit: p.a%)



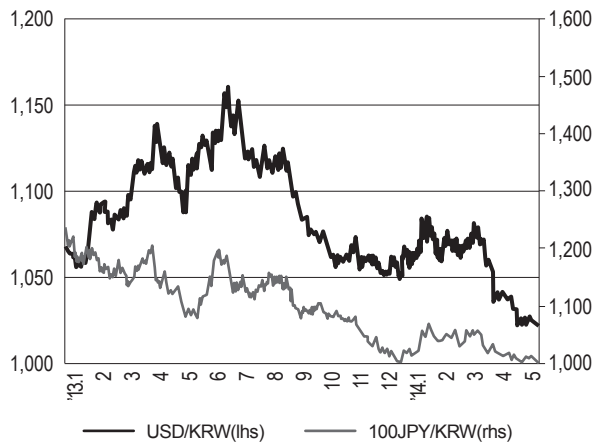
Source: The Bank of Korea

**Backed by Fed's decision to delay the taper and the Korean economy's sound economic fundamentals, USD/KRW shows a sharp decrease in April and May as foreign capital inflows into Korea**

Amid weakened possibility of any immediate US Fed's initiatives to phase out quantitative easing, the upward pressure of the dollar is losing momentum as financial markets of emerging economies show signs of resilience, compared with the beginning of the year. The Korean market which displays a sustained level of trade and current account surplus attract capital and its won is on the rise. The Korean won closed at 1,021 against the dollar on May 30, down 45.0 won from April 1's 1,066.

**Exchange Rate Trend of the Korean Won**

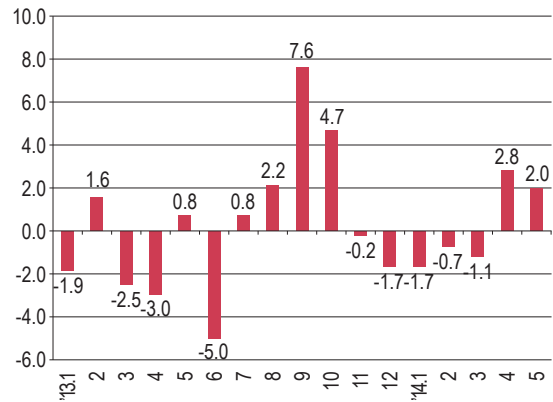
(Unit: USD/KRW)



Source: The Bank of Korea

**Net Foreign Purchase of Korean Equities**

(Unit: Tril Won)



Source: The Bank of Korea



# Outlook for 2014

## 1. External Environments

**(World Economy) Despite a sustained growth of the US economy, overall global recovery is projected to slow down, affected by stagnating Eurozone recovery, slowing economy of China and uncertainty over sustained growth after the recent tax hike in Japan**

(United States) The economy is projected to maintain a gradual recovery, as harsh winter factors in 1Q is offset by a pickup in the retail sales, corporate investment and housing market since 2Q.

(Eurozone) Recovery of the Eurozone economies is slowing, with the rate in 1Q growing only by 0.2% (QoQ). However its recovery is expected to improve by a small margin, prompted by the additional accommodative monetary policy of ECB.

(Japan) The growth is projected to be slower, owing to the contracted domestic demand following the recent consumption tax hike enforced since April.

(China) China's future growth trajectory continues to slow down as recent shift in growth policy affects exports to grow weaker. Possibility of slump in investment, consumption and housing market will also likely to weigh the economy down further.

**(Oil prices) Due to downward risks of the global economic recovery, fluctuation factors are kept low on the supply and demand sides; however, together with seasonal factors, geopolitical risks over Ukraine and Libya as well as speculative funds will likely to send the international prices for crude oil upward by a small margin**

(Supply and demand) A gentle upward movement in the supply and demand is expected in 2H, with fluctuating factors kept low.

(Geopolitical risk) Oil supply difficulties are expected due to political instability in the eastern region of Libya. Increased geopolitical risks stemming from developments in Ukraine pose appreciating pressure for the international prices of crude oil as well.

(Speculative factor) Demand recovery of advanced economies, the dollar's low appreciation pace and geopolitical risks are upward pressure that keeps the net long position of WTI futures high.

**(Foreign exchange rates of advanced economies) Although the dollar weaker than expected, the currency is projected to be strong against the euro and yen towards the year end, as ECB and BOJ are expected to maintain their accommodative macroeconomic measures**

(USD) The US dollar is expected to gradually appreciate, buoyed by a steady growth in consumer spending backed by rebound in corporate investment and housing market.

(Euro) The euro is forecast to depreciate in 2H as ECB continues accommodative measures to counter the deflation risks and sluggish recovery.

(Yen) The yen is forecast to stay weakened throughout the year as quantitative easing will be maintained by BOJ.

(Yuan) Despite the slowdown of Chinese economy, the yuan will turn around and stay strong in 2H, buoyed by current account surplus and China's will to internationalize the yuan.

## 2. Outlook for Korean Economy in 2014

**Growth: 3.6% in 1H →  
3.1% in 2H; annual 3.4%**

Sluggish recovery of the global economy, appreciation trend of Korean Won, slower than expected recovery in consumer spending are pulling down Korea's economic growth in 2H. Low growth and low inflation of Europe, dull growth accompanied by China's restructuring measure, uncertainty over resilience after the consumption tax hike in Japan, lingering possibility of financial instability in emerging markets are risk factors that hinder the export sector's full recovery. IMF has recently lowered its global economy growth rate forecast by 0.1%p from 3.7% (January) to 3.6% (April). At home, domestic conditions, such as household debt deleveraging process, dampened corporate investment sentiment, and limited fiscal capability will act as barriers for the government stimulating measures to take full swing. The average household propensity to consumption is steadily decreasing, affected by pulling factors such as household debt which sets off the subsequent deleveraging cycle. In addition, increased domestic and external uncertainties, policy risk factors after the local elections in June 4 are factors that dampen investor sentiment. The Korean government has already scaled up its fiscal execution budget as a countermeasure, thus fall in the fiscal capability is unavoidable in 2H. As a result, the growth is expected to show a 'high 1H-low 2H' trend, with equal contributions come from the domestic and export in the growth structure.

**Private consumption:  
2.5% in 1H → 2.3% in 2H;  
annual 2.4%**

Restraining factors such as a fall in the consumption propensity, increased burden on housing and educational costs are pulling factors that keep the private consumption hover around at the mid-2% level. Average consumption tendency is now in a secular downturn, owing to increased cost of household debt, while financial burdens on education and housing are in a secular uptrend since 2003. Employment growth without quality improvement does not translate into household income growth in 1H. A sharp decrease in consumer sentiment in the wake of Sewol ferry disaster, decelerating rate of quantitative growth are expected to bring consumption level down, comparable to 1H.

**Facility investment: 7.4% in 1H → 4.3% in 2H; annual 5.8%**

Facility investment is projected to pick up from a 3-year long stagnation and show a gradual rise, attributable to favorable conditions of export recovery, fall in import costs of raw materials against the strong won. However, downward risks of growing uncertainty in the domestic and external markets and concerns over growing policy risks after the local elections in June are some factors that drag on the recovery, comparable to those in 1H. The Business Survey Index (BSI) of BOK shows a falling trend for the sector since April; an outlook for manufacturing facility investment is also showing a decreasing trend since May.

**Construction investment: 2.3% in 1H → 2.3% in 2H, annual 2.3%**

Midst ongoing mid- to long-term structural reforms taking place in the housing market, an SOC budget cut for 2014 is forecast to dampen the growth rate of construction investment in 2014, comparable to 2013. Taking into consideration the construction order trend, a key indicator for construction investment, construction investment growth is projected to stay low in 2H. The construction order, which declined 5 consecutive quarters since 3Q 2012, will likely to affect the market until 2H as it takes about 6 quarters to translate construction investment into construction order.

**Export growth (BOP basis): 4.3% in 1H → 5.2% in 2H, annual 4.8%**

Positive effect of the gradual recovery trend of major economies, including the US and Europe, is offset by negative factors such as slowdown of the Chinese economy, uncertainties over emerging markets, and the strong won-weak yen trend, pulling down the export at a low growth of 5%. Post-restructuring slump is expected to curtail Korea's export growth to China while risks of economic downturn remain as negative factors linger, such as current account deficit, inflation and political instability in some emerging economies. BOJ's low-yen policy following the enforcement of consumption tax increase continues.

**Import growth (BOP basis): 1.5% in 1H → 5.4% in 2H; annual 3.4%**

Despite unit cost of import is slowly increasing, import growth in 2H is expected to accelerate, offset by the fall in exchange rates. However, growth is limited by sluggish demand at home and abroad, keeping the growth level at the 5% range. Annually, import growth is forecast to be 3.4%, falling short of the export growth rate.

**Current account surplus: US\$35.3 billion in 1H → US\$47.8 billion in 2H, annual US\$83.1 billion**

Total current account surplus is expected to widen further at US\$83.1 billion in 2H, hovering above the last year's US\$79.9 billion surplus, the highest on the record. Goods balance is forecast to outpace the import growth by a small margin, due to slump in domestic recovery in consumption and investment, widening the overall current account surplus in 2H.

Services balance is projected to maintain a negative growth trend, ascribable to low competitiveness of the service industry at fundamental level, deficit maintained in the cost of intellectual property and financial sector, travel account deficit following depreciation of foreign exchange rate and recovery in consumer sentiment.

**Consumer prices: 1.4% in 1H → 2.6% in 2H; annual 2.0%**

Lessened depreciating pressure of supply and demand has prompted the inflation rate to rise since 2H. On the demand side, a gradual recovery after 2H is expected to narrow the negative GDP gap (the degree of the real growth rate offsetting potential growth rate). On the supply side, rising costs of raw materials earlier this year, including crude oil, is expected to have ripple effects on the prices in 2H. However the rising inflation rate trend is projected to meet the ceiling as demand pressure is still low and stabilizing trend of USD/KRW is expected to limit the inflation rate to hover just below the inflation target of BOK.

**Corporate bond yield (3-yr, AA-): 3.3% in 1H → 3.5% in 2H; annual 3.4%**

Possibility of additional fall in global interest rates is forecast to be unimposing; limited upward pressure is expected, taken into consideration a gradual rise of US Treasury yield and possibility of base interest rate freeze in domestic market. With slow domestic economy and low inflation rates, the pressure to normalize the base interest rate is losing momentum, which will place the cap on the domestic interest rate increase.

**USD/KRW: 1,052 won in 1H → 1,018 won in 2H; 1,035 won/dollar yearly**

USD/KRW is expected to fall further affected by won-appreciating factors such as sound level of foreign reserves in Korea and weakened concerns over financial instability of emerging markets; however, the rate at which it is dipping is mitigated by upward pressure such as the strong dollar against the weakening euro and yen. As well, possibility of the won rally in 4Q compared to the level in 3Q remains. Exchange rate intervention is expected to be on the way as Japan struggles to stay afloat after the consumption tax hike and slump in export sector, while ECB aims to tackle against slump in economy and low inflations.

### Outlook for Korean Economy in 2014

(Unit: YoY(%), US\$100mil(Balance of Payment))

	2013	2014			Difference from April Outlook	
	Year	1 <sup>st</sup> Half	2 <sup>nd</sup> Half	Year(A)	Year(B)	(A)-(B)
GDP	3.0	3.6	3.1	3.4	3.5	-0.1%p
(SA, QoQ%)		1.6	1.5			
Private consumption	2.0	2.5	2.3	2.4	2.6	-0.2%p
Construction investment	6.7	2.3	2.3	2.3	2.6	-0.3%p
Facilities investment	-1.5	7.4	4.3	5.8	5.6	+0.2%p
Export(Goods and Services)	4.3	4.3	6.0	5.2	5.3	-0.1%p
Import(Goods and Services)	1.6	4.1	6.2	5.2	6.8	-1.6%p
Consumer prices	1.3	1.4	2.6	2.0	2.2	-0.2%p
Current Account Balance	798.8	352.9	477.9	830.9	767.2	+63.7
Goods Balance	805.7	411.6	504.7	916.2	824.4	+91.8
Export(BOP base)	6,171.3	3,139.1	3,326.7	6,465.8	6,466.8	-1.0
growth rate (%)	2.3	4.3	5.2	4.8	4.8	0.0%p
Import(BOP base)	5,365.6	2,728.1	2,822.1	5,550.2	5,642.3	-92.1
growth rate (%)	-3.2	1.5	5.4	3.4	5.2	-1.8%p
Service and Other balances*	-6.8	-58.6	-26.7	-85.4	-57.2	-28.2
FX rate(avg. won/dollar)	1,095.2	1,052.3	1,017.5	1,034.9	1,068.0	-33.1
Corp. bond yield (3-yr, AA-)	3.2	3.3	3.5	3.4	3.6	-0.2%p
Unemployment rate(%)	3.1	3.8	3.4	3.6	3.0	+0.6%p
Employment level changes(000)	385.8	630.4	444.1	537.3	461.3	+76.0

\* Sum of service balance, primary balance, and secondary balance

# Policy Issue:

## Checking the possibility of private consumption rebound based on qualitative assessment of the labor market recovery

### Private consumption growth sluggish despite labor market recovery

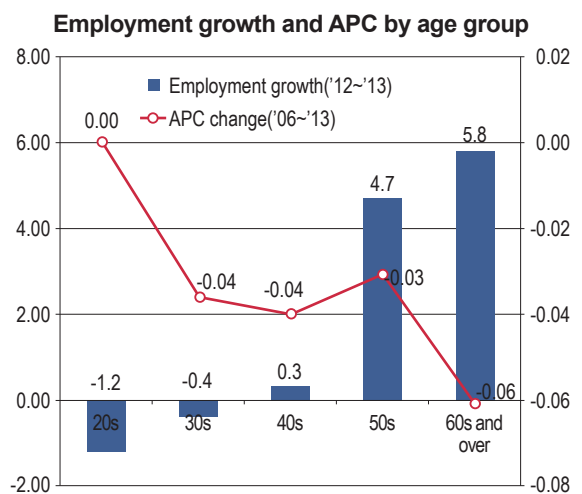
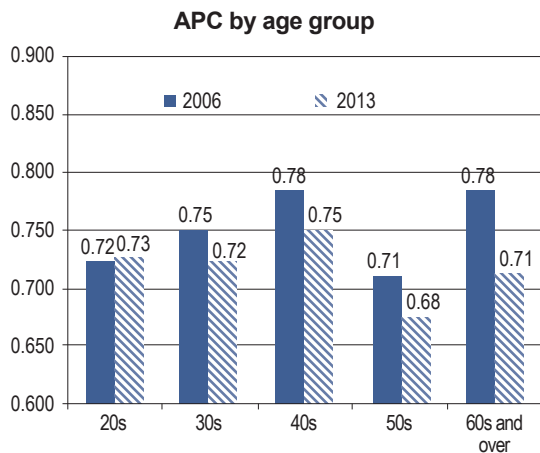
The growth rate of number of persons employed has been augmenting quicker than it was in 2010. That is, the growth velocity of both employed persons and wage workers is higher than those of in the past, while macro-economic growth rate is just about half the rate of 2010, when Korea's economy was thought to be passing through the recovery phase. In spite of this labor market recovery, the growth of private consumption is still stagnating. Recent average growth rate of private consumption recorded only 2.1%, a drop from 4.3% during the 2010 recovery cycle. The sluggish private consumption displays a distinctive pattern from that of the historical economic cycles, which alludes to us that there may be an imbedded structural problem.

### The analysis of average propensity to consumption by industry and age group tells us that recent labor market recovery may not easily lead to private consumption restoration

The average propensity to consumption (APC) of the age group of 30 years and over has reduced. In particular, the age group of 50 years and over, whose workforce has increased in number recently also showed a fall in APC. This means that the increasing number of the employed may not possibly lead to a jump in private consumption directly.

The change of labor market recovery and APC

(Unit: %)



Source: Household survey, Economically active population survey

Footnote: Average Propensity to Consume has been computed by the raw data of Household survey, with the equation of (consumption expenditure/disposable income)

While the number of wage workers expanded, the real consumption capacity decreased as APC slid down as well. In 2006, wage workers grew by 370 thousands and approximately 930 billion won of consumption expenditure has increased per month. However, in 2013, wage workers grew by 476 thousands only to increase the consumption expenditure of 767.9 billion won per month, on the basis of prices in 2006, due to the decline of APC. This is ascribable to the fall in the contribution of consumption expenditure per new wage worker which has slid down by 35.8% between 2006 and 2013. Moreover, APC downsizing in the age groups of the 30s and the 40s has also contributed to the fall in consumption capacity as the employment increase of these age groups was not sufficient enough to outpace. It is important to note that the group of 50 and over, who displayed the biggest jump in labor recovery, showed a huge drop of APC, which offset any positive effects of the labor increase.

If calculated by the contribution of wage worker growth to consumption capacity, current labor market improvement may not lead to the expansion of private consumption. The incremented 476 thousands persons of wage workers in 2013 is equivalent to 305 thousands workers on the 2006 basis. In this manner, it is difficult to assume that huge quantitative improvement in the labor market would lead to a quick recovery of private consumption.

### The consumption capacity change due to the fluctuation of number of wage workers

(Unit: Billion won/month)

Period	20s	30s	40s	50s	60s and over	total
2006 (A)	-164.8	225.7	412.9	333.8	122.5	930.0
2013 (B)	-36.3	27.1	212.4	405.5	159.2	767.9
Change (B-A)	128.4	-198.6	-200.5	71.7	36.8	-162.1

Source: Calculated from the raw data of Labor force survey at establishments, Household survey, and Economically active population survey

Footnote: Excluded agriculture and fishery, mining, sewage and waste disposal, and public administration department



## **A Study on the National Assembly-Initiated Regulations in Korea: Problems and System Enhancement Alternatives based on the Analysis of the Institutional Control Mechanisms of Advanced Countries**

Research Monograph 14-03

Kim Tae Yoon, Hong Wan Sik, Yun Seongyi, Han Seung Jun, Kim Ju Chan and Lee Hyuk Woo

The purpose of this study is to analyze some institutions/systems in advanced countries designed to improve the quality of assembly-initiative legislation and thereby find more relevant institutional arrangements in Korea. We have found some common characteristics of such legislative systems that guarantee the quality of regulation: 1) close collaboration and two-way communication between the National Assembly and the government 2) a faithful legislative support mechanism 3) a credible review of assessment devices and 4) the transparent legislative process. In conclusion, we suggest ways to upgrade the quality of assembly-initiative legislation in Korea such as the provision of screening process and the guidelines for evaluating and designing better regulations.

## **A Cohort Analysis on Korean Labor Force Participation from 1986 to 2012**

Research Monograph 14-04

Lee, Jin Young

The labor force participation (LFP) rate in Korea has leveled off since 1991. There are three phenomena which are widely believed to be associated with the plateau in Korean LFP: a rise in educational attainment among men and women in their twenties, a low LFP rate among married women with young children, and babyboomers' early retirement. To see how the trends in the LFP rate, educational attainment, and marital status are inter-related, I investigate changes in LFP rates and the related socioeconomic outcomes of men and women by birth cohort using Economic Activity Survey data from 1986 to 2012. I also conduct a series of shift-share analyses that decompose changes in LFP into composition and within-group effects, with groups defined by educational attainment and marital status. I find that for men in their late twenties, changes in their LFP rate are mostly explained by changes in their educational attainment. For women in their late twenties, however, changes in their LFP rate are mostly explained by changes in their marital status. For men and women aged 30 or older, changes in their educational attainment and marital status did not contribute much to changes in their LFP rate. These analyses imply that policies that impact educational composition of the population, such as providing incentives to hire high school graduates rather than college graduates, may have more effects on men than women. To raise LFP rate and employment-population ratio as government intended, policies should be implemented with more focus on women.

Keywords: Labor force participation rate, Educational attainment, Marital status, Shift-share analysis, decomposition, within-group effect, composition effect.

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