



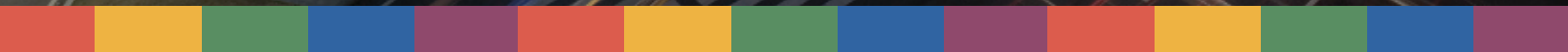
KOREA'S ECONOMY

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| 2 | 0 | 1 | 1 |

Part I: Overview and Macroeconomic Issues

Commentary

Korea and the World Economy

C. Fred Bergsten

1

Korea's Challenges and Opportunities in 2011

Chae Wook

3

Analysis

Korea: Economic Prospects and Challenges after the Global Recession

Subir Lall and Meral Karasulu

6

Part II: Financial Institutions and Markets - Focus on Green Growth

Commentary

Korean Green Growth in a Global Context

Han Seung-soo

13

An Ocean of Trouble, An Ocean of Opportunity

Philippe Cousteau and Andrew Snowwhite

15

Analysis

System Architecture for Effective Green Finance in Korea

Kim Hyong-tae

18

Korea's Green Growth Strategy: A Washington Perspective

Haeyoung Kim

25

Part III: The Seoul G-20

Commentary

A Reflection on the Seoul Summit

Paul Volcker

31

The G-20: Achievements and Challenges

SaKong Il

33



Part III: The Seoul G-20 (Continued)

Analysis

Achievements in Seoul and Korea's Role in the G-20 35
Choi Heenam

Africa and South Korea's Leadership of the G-20 42
Mwangi S. Kimenyi

Part IV: External Relations

Commentary

Korea's Green Energy Policies and Prospects 49
Whang Jooho

Analysis

Economic Implications for South Korea of the Current Transformation in the Middle East 52
Han Baran

Korea-Africa: Emerging Opportunities 59
Philippe de Pontet and James Clifton Francis

U.S.-Korea Economic Relations: A View from Seoul 67
Kim Won-kyong

Part V: Korea-China Economic Relations

Commentary

A New Phase in China-North Korea Relations 73
Gordon G. Chang

Analysis

Increasing Dependency: North Korea's Economic Relations with China 75
Dick K. Nanto

Korea-China Economic Partnership: The Third China Rush 84
Cheong Young-rok and Lee Chang-kyu

Part VI: North Korea's Economic Development and External Relations

Commentary

Human Resources and Korean Reunification 97
Nicholas Eberstadt

Analysis

The Economics of Reunification 99
Dong Yong-sueng

Leading Economic Indicators for Korea 105

About KEI 106

KEI Advisory Board 107

OVERVIEW AND MACROECONOMICS ISSUES

KOREA AND THE WORLD ECONOMY

By C. Fred Bergsten

The most important single variable for any trade-dependent country like Korea is robust and sustainable growth for the world economy. Korea takes a sharp hit to its exports, and thus its economic growth, from any sharp global turndown à la 2008–09, let alone a period of prolonged stagnation or especially recession as in the 1930s. Driven by the emerging markets, global growth looks like it's running at a highly satisfactory 4 to 4.5 percent at least through 2012—although a lagging Japan and a sluggish United States detract somewhat from Korea's export prospects.

A second key variable is equilibrium exchange rates. Korea, like virtually all countries, suffers from the substantial undervaluation and heavy manipulation of the Chinese renminbi and the currencies of several surrounding countries. Korea nevertheless continues to run a considerable bilateral surplus with China, and its trade-weighted exchange rate has reached a fully competitive level.

The third important variable is the openness of the international trading system. This normally requires continued forward momentum toward liberalization to avoid protectionist backsliding (the bicycle theory). The paralysis of the Doha Round jeopardizes this pattern, but Korea has played a central role, through its activist program of negotiating free trade agreements with a number of countries, in the compensating progress toward regional and bilateral liberalization.

Hence, all key factors are pointing in positive directions. The global environment and outlook are highly favorable for trade-dependent Korea.

Dr. Fred Bergsten is Director of Peterson Institute for International Economics.

Selected Commentary

Korea and the World Economy

C. Fred Bergsten, Peterson Institute for International Economics

Korea's Challenges and Opportunities in 2011

Chae Wook, Korea Institute for International Economic Policy

A Reflection on the Seoul Summit

Paul Volcker, Former Chairman of the Federal Reserve

The G-20: Achievements and Challenges

SaKong Il, Korea International Trade Association

Korean Green Growth in a Global Context

Han Seung-soo, Global Green Growth Institute

Korea's Green Energy Policies and Prospects

Whang Jooho, Korea Institute of Energy Research

Additional Commentary and Analysis

Korea: Economic Prospects and Challenges after the Global Recession

Achievements in Seoul and Korea's Role in the G-20

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Korea Economic Institute

1800 K Street, N.W.

Suite 1010

Washington D.C., 20006