

Economic News Briefing

Korea and China to further improve bilateral relations

On January 9, 2012, President Lee Myung-bak and Chinese President Hu Jintao held a summit in China and agreed to join efforts in ensuring peace and stability on the Korean Peninsula, resume the six-party talks aimed at denuclearizing North Korea, and explore ways to boost cooperative ties between the two nations. As this year marks the 20th anniversary of establishing diplomatic relations between Korea and China, the leaders vowed to enhance the strategic cooperative partnership especially on the economic front. In particular, the two leaders expressed interest in working out a Korea-China free trade agreement (FTA) so that the economic partnership is further strengthened.

Korea to front-load 60% of budget in the first half

The Ministry of Strategy and Finance will spend 60 percent of the 2012 budget in the first half. To maximize the benefit from the early expenditure, the government will focus its spending on promoting job creation, building social overhead capital, and stabilizing the lives of the working class. To prevent any waste of the budget, the government will closely monitor the budget spending.

<2012 Fiscal expenditure plan>

(trillion won)

	2012 Expenditure	Q1		Q2		Q3	
		Amount	Percentage of budget to be spent	Amount	Percentage of budget to be spent	Amount	Percentage of budget to be spent
Total	276.9	83.1	30.0%	166.1	60.0%	221.1	79.8%
Budget	187.6	58.9	31.4%	115.1	61.4%	155.1	82.7%
Funds	35.9	9.8	27.5%	20.5	57.0%	26.8	74.6%
Public firms	53.4	14.4	27.0%	30.5	57.1%	39.1	73.2%

Korea unveils plans to improve KSP

The Korean government unveiled plans to improve the Knowledge Sharing Program (KSP), in response to the rising demand for KSP from developing countries and the growing importance of knowledge sharing in international development talks. The program will be expanded in both scope and scale to reflect the needs of the developing world, and quality management in all stages of the KSP will be reinforced. In addition, the government will encourage the participation of relevant authorities and the cooperation of international organizations to ensure that the policies are being properly implemented. The KSP is a policy consultation program that provides assistance to developing countries based on Korea's own development experience, and has conducted around 300 projects in 34 countries since 2004.

IT exports hit record high for second consecutive year

Korea's IT exports achieved a record level for the second year in a row, the Ministry of Knowledge Economy announced on January 9. Despite unfavorable external factors such as the global financial crisis and the devastating floods in Thailand, IT exports were estimated to have reached US\$156.97 billion in 2011, a 2 percent gain from the previous year's US\$153.94 billion. Smartphones, system semiconductors and other hardware-software integrated products led the growth, with smartphones exports in particular surging 53.5 percent. The IT industry contributed to the nation's positive trade balance, with a surplus of US\$75.45 billion that was 2.3 times greater than the all-industry surplus. By region, exports to China (*up 6.5%, y-o-y*), Japan (*up 6.8%, y-o-y*) and the ASEAN nations (*up 10.1%, y-o-y*) increased, while those to the United States (*down 4.2%, y-o-y*), European Union (*down 22.9%, y-o-y*), and Oceania (*down 0.8%, y-o-y*) decreased.

<Trade figures for IT industry>

(US\$ billion, % y-o-y)

		2010 ^P	2011 ^P
Export	All industries	466.38 (28.3)	557.77 (19.6)
	IT industry	153.94 (27.3)	156.97 (2.0)
Import	All industries	425.21 (31.6)	524.46 (23.3)
	IT industry	75.62 (21.9)	81.52 (7.8)
Surplus	All industries	41.17	33.31
	IT industry	78.32	75.45

P: preliminary

Government expands R&D support to SMEs

The Korean government announced new research and development (R&D) spending plans on December 21, 2011. The strategy is to bolster the R&D capabilities of small-and medium-sized enterprises (SMEs) in order to sustain job growth and create a more R&D friendly environment. The government will increase the share of SMEs in its R&D spending from 12 percent in 2010 to 16.5 percent in 2015. In addition, SMEs will be given more opportunities to participate in industry-university cooperation projects, which are expected to allow them to boost their capacity to develop innovative technologies.

A larger budget will be allotted to human resources development in the R&D sector. To provide more subsidies to companies that create R&D related jobs, the Ministry of Knowledge Economy will expand the share of labor costs in its total R&D spending from 29.7 percent in 2012 to 40.3 percent in 2012. In addition, the government will provide a job-matching service to match universities and research institutions with SMEs that are looking for talented personnel.

Acknowledging the importance of patent protection as a prerequisite for a company to expand globally, the government will facilitate the creation and use of intellectual property in all stages of R&D. A team consisting of patent attorneys and other experts will provide patent consultation services as well as training programs to SMEs. The government will also set up a response system to prepare for any possible international patent disputes.

3.3 trillion won earmarked for SMEs in 2012

The Small & Medium Business Administration (SMBA) and Small & Medium Business Corporation (SBC) will operate a 3.3 trillion won fund this year for SMEs, aiming to create

jobs by supporting young entrepreneurs and fostering promising startup companies. Of the fund, 210 billion won will be used to finance start-ups by those under the age of 39, and a 150 billion won investment and finance fund will be created for businesses with high growth potential. In addition, 250 billion won has been allocated as emergency funds for struggling SMEs, and the rest of the fund will be used for other various purposes, such as supporting new technology developments and financing small businesses owners.