

# Korea Development Institute (KDI)

## Research Project 2005

### Major Collaborative Projects:

- ***Socio-Economic Impacts of Aging and Policy Issues II***

The rapid process of an aging population is forecasted to result in vast ripple effects to various areas, including economic growth, banking, finance, employment, and welfare, etc. Policy measures on population aging differ from country to country due to their unique economic structure and system. Hence, it is necessary for Korea to conduct independent research with a long-term perspective. Now in the second year of a three-year project, the research in 2005 purports to study the experiences and policy measures on population aging in foreign countries and to identify benchmarking cases for Korea. Based on the findings, the study provides sectoral policy recommendations.
- ***Medium-term Policy Priority and Fiscal Management***

With the official announcement of the “National Fiscal Management Plan” in 2004, a substantial change is expected in the government’s role in budget formation and comprehensive planning of national management. Hence, there is a need to firmly establish strategic management of the national economy while strengthening the capacity of planned research. This project purports to support the government by providing macroeconomic analysis and policy recommendations in the sectors of R&D, education, SOC, agriculture & fisheries, industry & SMEs, social welfare, foreign affairs, unification and innovation.
- ***Regulatory Reform for a Better Business Environment***

In order to strengthen growth potential, a business environment that allows for vigorous economic activity is essential. Therefore, reforms that aim to induce an effective business environment are important. The purpose of this project is to develop a business environment index that can systematically analyze the effects of various regulations on business activities and examine potential costs of regulation.
- ***Role of SMEs in the Innovation-driven Economy***

Since the economic crisis, the pattern of Korea’s economic growth is gradually converting from an investment-driven economy to one that is innovation-driven. Coping with this change with varying capabilities, a polarization is occurring in the economic structure. In order to correct the structural imbalance while spreading innovative performance throughout the economy, it is important to enhance the innovative capabilities of SMEs, and to facilitate their growth. This research presents a comprehensive study on the effects of the innovation-driven economy on SMEs and offers alternative policy measures to address institutional constraints in the process of SME restructuring.

- ***Study of the Market for Corporate Control: Empirical Analysis and Policy Recommendations***

As the prospect of hostile M&A increases, more attention is being focused on introducing institutional safety measures and customized protective schemes as requested by firms. However, it is necessary to consider Korea's economic situation, hostile M&A, and the economic effects that such protective means will bring about while using economic analysis when searching for future M&S policies. This research provides rigorous empirical analysis on the market of corporate control and draws policy implications.

### **General Research Projects:**

- ***The Effects of Monetary Policy on the Real Economy of Korea***

This research analyzes the operating procedure and the transmission mechanism of monetary policy following the economic crisis in Korea. It also examines the effects of monetary policy on investment and exchange rate policy by exploring its impacts on housing prices and the interest rate structure. Finally, it presents policy options to enhance the efficacy of monetary policy.

- ***Macroeconomic Impact of Bank Capital Requirements and Bank Loans in Korea***

This project purports to study the effects of strengthened regulations of bank capital requirements on bank behavior in equity and risk management, with a particular focus on the size and path of macroeconomic impacts through deepening procyclicality. It also offers policy measures for sound financial and monetary policy.

- ***Study on Macro Prudential Regulation***

The effectiveness of the traditional micro-approach of regulation to an economic crisis is very limited. This study examines the effects of financial regulation on the volatile economy in a macroeconomic perspective and presents concrete policy options for sound regulatory policies.

- ***The Implications of China's Economic Growth and Export Performance on the Korean Economy***

This study offers a comprehensive analysis on the economic impacts of China's rapid economic growth on the Korean economy. It focuses in particular on changes in the factor markets while the industrial structure in Korea will be examined in regards to changing trade patterns and the technological competitiveness of the two countries.

- ***Development of the National Evaluation System in Comparative Perspective***

This project provides a comparative study on the evaluation system of different countries from the initial stage, development, to institutionalization. It examines sources of the difference and draws implications for Korea.

## Appendix: Research Projects in 2004

### Major Collaborative Projects:

- ***Socio-Economic Impacts of Aging and Policy Issues I***  
This is the first-year output of a three-year concerted research project on population aging by various government-sponsored research institutes. The output comprised of six volumes of study and it analyzed the impact of a rapidly aging population in Korea from various points of views such as the macro-economy, labor market, social security system, old-age housing, and the government sector. It also reviewed reform proposals necessary for maintaining sustained growth as Korea becomes an aged society. In particular, the fifth volume, edited by KDI, covered the macroeconomic impacts of population aging in growth potential, consumption and savings as well as in financial markets.
- ***Population Aging in Korea: Policy Agenda and Reform***  
Population aging in Korea is occurring much faster than in other countries. Past experience of advanced countries tells us that a major difficulty in preparing for an aging society lies in the process of building consensus for reforms. Recognizing this, KDI launched the second round of collaborative research on population aging with an emphasis on policy issues. This research presents an in-depth discussion on various policy options and suggestions, providing a useful starting point for building consensus on necessary reforms.
- ***Enhancing Efficiency and Effectiveness of Public Spending***  
The purpose of this research project is to support the National Fiscal Management Plan 2004-2008 prepared by the Korean government in 2004. This plan announced medium-term macro-fiscal objectives and the government's plan for allocating future resources. This project reviewed Korea's current spending structure and proposed directions for change in various areas of budgeting, such as welfare expenditures, educational spending, job creation programs, agricultural sectors, SOC investment, R&D program, and transfers to local governments.
- ***Economic Structural Changes and Job Creation in Korea***  
The Korean economy is recently showing signs of deterioration in its ability to create jobs. Furthermore, the employment structure is rapidly changing as Korea enters a period of economic maturity. This timely collaborative research project covered a wide range of issues related to job creation: long term changes in employment structures, structural changes in labor market performance during the crisis, job flow dynamics in the service sector, long-term labor supply projections, economic activities of the marginal labor force, youth unemployment post-crisis, problems related to temporary workers, industrial relations, governance structures of SMEs, and the effect of FDI on employment. Most papers in this volume provided analytical results as well as policy suggestions.

- ***Analyses of Housing Markets and Related Policy Issues***

This project dealt with Korea's housing market and related policies, which are of the utmost importance, considering that land is scarce and the population is large. It provided analyses of major determinants of housing prices and future institutions related to the housing market including the tax system, housing finance market, and residential improvement programs. It also presented policy suggestions related to each issue.

**General Research Projects:**

- ***Macroeconomic Trends and KDI Quarterly Economic Outlook***

As a quarterly publication, KDI produces an economic outlook with policy recommendations based on analyses of major economic trends in the Korean economy. The project in 2004 witnessed a record-high performance in exports as well as record-long stagnating consumption in Korea.

- ***Policy Suggestions for Restructuring Korean Small and Medium-sized Enterprises***

This research shows that the distresses of most SMEs stem from structural rather than cyclical problems such as stagnant productivity and dwindling profitability. Based on this recognition, the study recommends the implementation of several institutional reforms to more efficiently carry out restructuring efforts.

- ***An Empirical Analysis of Potential Foreign Competition and Market Structures: Evidence in Korean Manufacturing***

This study empirically shows the existence of pressure from foreign competition in the domestic market. Therefore, the study argues that potential competition from foreign firms must be taken into account to adequately measure the degree of competition in domestic industries.

- ***Performance Management in the Public Sector***

This research monograph argues that it is necessary to establish a performance management system to improve efficiency and effectiveness of the national budget. It addresses the improvements required in current systems of performance management and gives examples of performance management in the health and education sectors.

- ***Study on the Development of National Statistical System***

National statistics in Korea are far less developed than those in advanced countries and this stems from a weakness in the national statistical system. Under such recognition, this study examines Korean national statistics, the compilation system and suggests future development plans.