

THE SPECTACULAR RISE OF THE SOUTH KOREAN ECONOMY

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Introduction

South Korea, an East Asian nation on the southern half of the Korean Peninsula, shares one of the world's most heavily militarized borders with North Korea. The economy of South Korea is the fourth largest economy in Asia and the 11th largest in the world. South Korea is the global leader of Consumer electronics, Mobile Broadband and Smartphone. South Korea grew from one of the poorest countries in the world to a developed country in just a few decades. South Korea has a population of 5.15 crores with a GDP of 1.53 lakh crores. South Korea is currently one of the fastest growing developed country. South Korea's military crisis with North Korea results in it suffering from a lower than expected credit rating and companies listed on the stock exchange are valued conservatively to compensate for the fact that the diplomatic relations with North Korea aren't good leading to instability in the region. South Korea has privatised some parts of its economy but the economic planning is centralized and there is a lot of government regulation in all industries. South Korea is a member of the Asia-Pacific Economic Cooperation (APEC) and the Asia-Pacific Trade Agreement (APTA).

Literature Review

An article by D Welle (2016) talks how South Korea transformed from one of the poorest economies to one of the richest in the world, in just a generation's time. The key factor to this success is innovation. It also talks about the emergence of the Korean conglomerates or chaebols which became essential to the economic transformation of the country, giving birth to successful multinational companies like Hyundai and Samsung. The article is concluded by stating that innovation is key to facing challenges and maintaining its position in the world economy.

An article by Ana Maria Santacreu and Heting Zhu (2018) talks how success of South Korea was mainly because of its export-oriented policies. The article talks about the main factors that contributed to the nation's success as a economy which are; an improvement in the

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business environment and policies incentivising investment in innovation. South Korea is now spending the largest share of its GDP on R&D.

In the chapter, 'The Gold Medalist' of the book "Breakout Nations" by Ruchir Sharma, the author primarily focuses on the South Korean economy with several comparisons made with Taiwan. Optimistic about the potential that lies in South Korea, the author argues that despite its large family run conglomerates, the country has a better chance to "grow faster than most people would expect". An economy which has grown at 5% annually for 50 years (only other one being Taiwan) while keeping a check on income inequality, Korea has done wonders to successfully position strong Korean brands on the global market such as Samsung, Hyundai, LG (which alone account for 16% of GDP) and even K-pop. Korea used the crisis of 1998 as a basis to clean up its economy. In economic terms, Korea was keen to pay off its IMF bailout package (\$58 billion) within a couple of years, ensuring its credibility and place on the global playing field.

An article by Michael J Seth (2017) has analysis of the South Korean economy from 1948-1996. He speaks about the effect of foreign aid, emergence of chaebols, government assistance, democratization and oil prices on the South Korean economy. He gives us a detailed analysis on the decisions taken by governments/regimes and how they affected the growth of South Korea. He focuses on how initially the chaebols were favoured since they were the key to development but post 1995 there was a crackdown on some of their unethical practices. He also speaks about the contributions of General Park Chung Hee to the spectacular rise of the South Korean economy. The effect of education on South Korea's success is also spoken about in this paper.

An article by Eleanor Albert (2018) talks about how a group of massive, mostly family-run business conglomerates, called chaebol, dominates South Korea's economy and wields extraordinary influence over its politics. The South Korean government has generously supported the chaebol since the early 1960s, nurturing internationally recognized brands such as Samsung, Hyundai, SK group, Lotte and LG. The article mentions how Chaebol have relied on close cooperation with the government for their success: decades of support in the form of subsidies, loans, and tax incentives helped them become pillars of the South Korean economy. The top five, taken together, represent approximately half of the South Korean stock market's value. Chaebol drive the majority of South Korea's investment in research and development and employ

people around the world. Over time, the chaebol expanded into new industrial sectors and tapped into lucrative foreign markets, providing more fuel for South Korea's engine. It shows how exports grew from just 4 percent of GDP in 1961 to more than 40 percent by 2016, one of the highest rates globally. Over roughly the same period, the average income of South Koreans rose from \$120 per year to more than \$27,000 in today's dollars.

According to Kae Chung (1974) in his article, in the 1960s, the country had assumed primary importance in the mobilization of national resources to achieve the ultimate goal of industrialization. The developmental strategy used in Korean industrialization is a dynamic one which moves from an unbalanced growth to a balanced one. At the initial stage of development, an attempt was made to expand the economy by increasing the manufacturing sector and at the same time by decreasing the size of the substance sector. The author made few recommendations in order to minimize industrial difficulties: Firstly, the increase in governmental intervention in business may reinforce the dependency of the private sector on the government. Secondly, investments should be made keeping in mind Return on Investment is higher than the cost of utilizing foreign capital. Thirdly, Korea needs to be cautious in developing any industries which demand heavy use of fossil energy resources such as petrochemical and auto industries. Finally, the nation should be cautious in inducing direct investments by foreign nationals.

An article by Emerson Chapin (1969) has analysis of the South Korean economy between 1948-1969. In his research paper he talks about the challenges faced by the South Korean economy and the Five-Year Plans introduced by the government. He also speaks about the war and its effect on the South Korean economy. He also speaks about the effect of South Korea's willingness to accept foreign aid.

An article by UK Heo(2008) talks about how from 1960's to 1990's South Korea was enjoying a phenomenal average growth rate of 6.6% p.a but it slowed down in mid 1990's when it was hit hard by a foreign exchange crisis. Foreign Banks pressured them to pay off their debts as a result of which they went to the IMF for an emergency rescue fund of 56 US Billion dollars which was granted. Even though the panic subsided the condition still deteriorated.

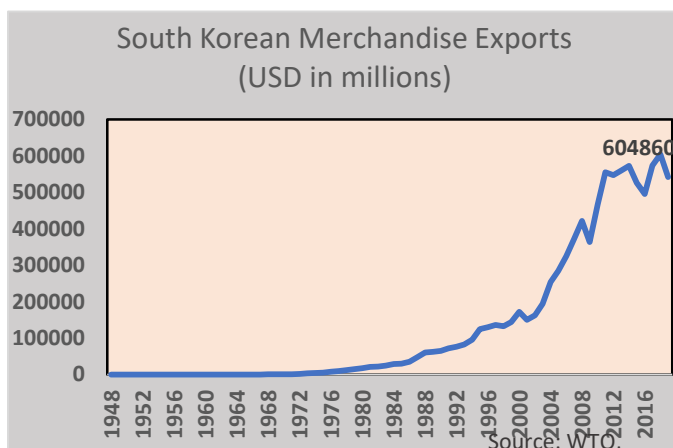
An article by Yung Park (1990) talks about how due to the low rate of savings and chronic current account deficits in the 1960s it required a continuous inflow of foreign lending. There was a shortage of entrepreneurs to undertake the development of an export-oriented economy

and this is when the government entered into partnerships with few chaebols. By late 1960s these producers became large exporters, but the government, instead of deregulating, tightened its grip over these industries. These industries were highly leveraged with loan guarantees through the banks owned by the government. So, to export with the benefits of scale economies, the groups were encouraged to build large plants, but because of marketing and other problems, export earnings were low and losses heavy. This setback motivated economic liberalization at the end of the 1970s.

This paper, by Kim Kwan S (1991), taking the historical perspective, critically examines the country's industrial policies and their consequences in development. The analysis focuses on the framework of strategies, the methods and policy instruments, and the implementation aspects of policies formulated. The discussions relate to sector-targeted policy measures as well as macroeconomic policies in the fields of foreign trade, foreign investment, financing and credit, public and private sectors, and technological development. The paper concludes with an overall evaluation of the efficacy and limitations of Korea's industrialisation strategies.

Mark Tran (2011) wrote an article in The Guardian titled South Korea: a model of development. In this article he briefly summarises the growth of the South Korean economy mainly due to the appropriate use of foreign aid. He also compares the South Korean economy with other countries that failed to achieve the success that South Korea did.

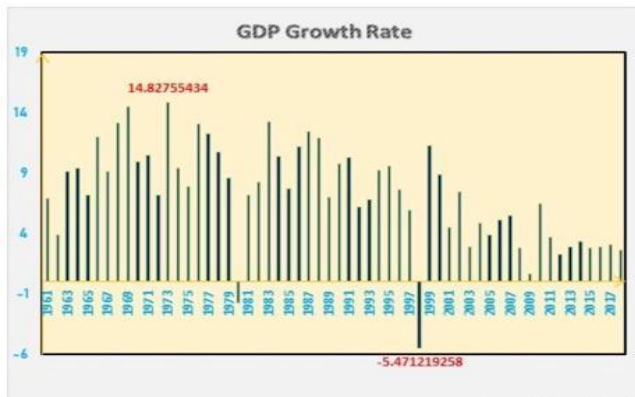
Research Objective



Our research objective is to understand the reasons behind the incredible growth rate achieved by South Korea. In this research paper we analyse all the important factors that we believe played a part in the rise of South Korea a poor, unstable economy to a developed, high income country.

Analysis

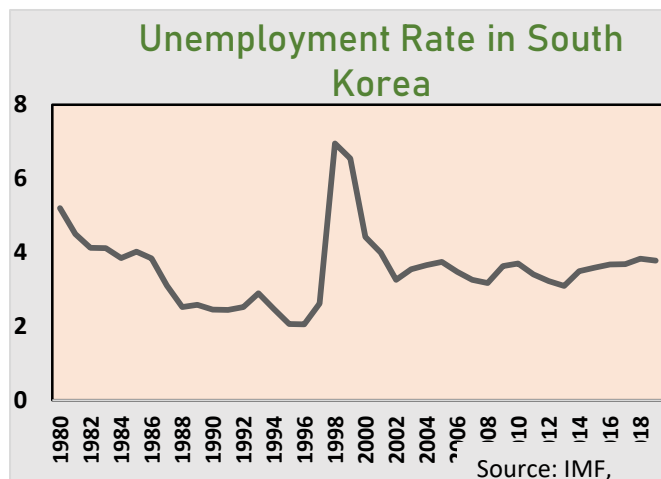
This graph shows us the merchandise exports of South Korea over the years. We can see that the growth of exports slowed down in 1998 and 1999 because of the Asian Debt crisis and it fell in 2008 because of the US sub-prime crisis. Sagging global demand, China's slowing



Source: World Bank, 2018

economy and low oil prices were the reasons for the fall in 2015. In 2015 almost 25% of its exports were to China. Thus, a slowing Chinese economy hurt them.

This graph shows us the GDP growth rate of South Korea. It had a high GDP growth rate in the initial years as it was a developing economy and after 2003 the growth rate slowed down as it became a developed economy. It had a negative growth rate in 1998 due to the Asian financial crisis (debt) and in

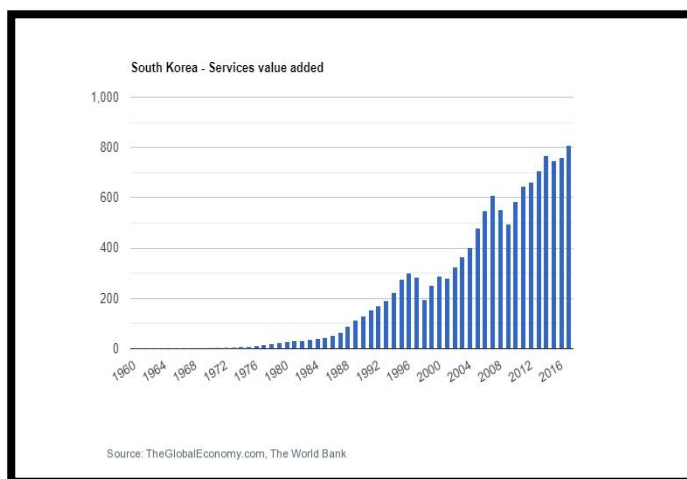


Source: IMF, 2019

1980 due to rising oil prices

This graph shows the unemployment rate in South Korea. The rate dropped drastically from 1980 till 1996. In 1998 there was a huge increase due to the Asian Financial crisis. After the economy recovered from the crisis completely in 2003 the rate has been

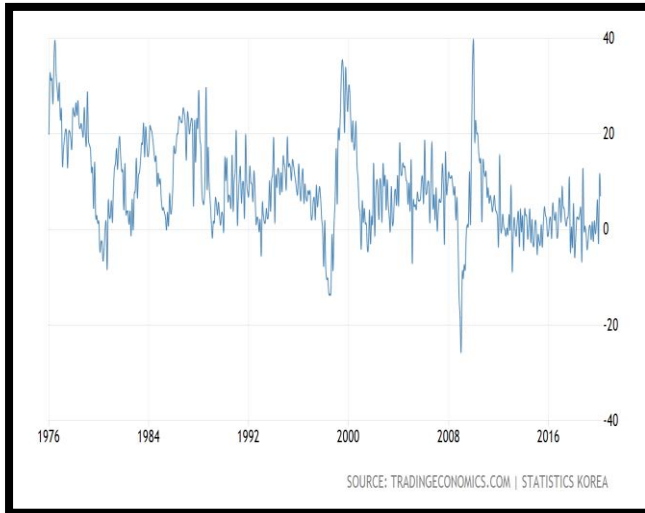
more or less the same.



Source: TheGlobalEconomy.com, The World Bank

This graph shows the export of services in billions of dollars. When it was a developing economy in the initial stages there was very low services rendered but as it started to gradually become a developed economy the export of services increased and it has continued

increasing till date.



This graph shows us the growth of exports rate. The growth of exports was high in the initial stages until around 2003 after which the growth rate slowed down. There was a fall in the export rate in 1998 due to the Asian financial crisis (debt) and in 2008 because of the USA sub-prime

crisis. The export rate increased a lot in 2009 as the world economy began recovering from the 2008 recession.

Foreign Policy:

One of the biggest factors for the spectacular rise of the South Korean economy is the excellent foreign policy maintained by the government. Post the Korean war (1950-1953) the economy of South Korea was extremely unstable. It was an agricultural economy. It's counterpart, North Korea had inherited most of the mining and 80% of the electric power generation. Agriculture formed a huge part of its exports and Japan was its major buyer, but due to diplomatic tension its relations with Japan had deteriorated.

USA:

After the war, the Korean economy was stressed. One of the reasons they got through those difficult times was because of US aid. The country had maintained good relations with the United States of America due to which it was a huge recipient of foreign aid. From 1953-1960 almost 80% of all government revenues and a substantial portion of South Korea's entire Gross National Product (GNP) was made up by American aid. Their relations with the USA resulted in them receiving billions of dollars' worth of government aid apart from the direct investment made by companies into the country. Over the years as South Korea developed as an economy, it reduced the amount of direct aid that it took from the USA but it remained heavily dependent on the technical skills that the USA provided. The USA was also the biggest importer of South Korean goods which was very beneficial to the economy.

President Park Chung Hee sent troops to help the Americans in Vietnam. This show of loyalty resulted in South Korean companies bagging lucrative contracts from the Americans,

the allied forces and the South Vietnamese. These contracts helped the companies gain some valuable experience which they then used to bag contracts in other countries.

Japan:

Japan had occupied the Korean peninsula from 1910-1945. After the end of the Second World War the relations between South Korea and Japan was stressed. Many Koreans looked upon the Japanese with hatred and fear. President Park decided to normalise relations with Japan in 1965. Many economists doubted this move but the combination of cheap Korean labour and Japanese capital and technology resulted in a good match. Over the next 15 years, Japan supplied almost 60% of foreign technology and invested billions of dollars' worth of foreign aid (second only to the USA). Trade grew ten-fold and the combination of US markets and Japanese technology contributed the economic growth of South Korea.

Foreign aid received by South Korea

Export Policy:

Post the Korean war the government followed an import substitution industrialisation policy. It helped protect consumer industries at the cost of economic growth. In 1961 when the government announced their first 5-year plan they decided to move on from the import substitution policy to an export oriented industrial development policy. This policy was a huge success as in the first 5 years exports grew at 29% a year and manufacturing at 15% a year.

The economy was heavily reliant on the technical assistance of the USA and Japan. With the changing diplomatic relations between the United States of America and South Korea (during President Nixon's tenure) it became important for South Korea to achieve self-reliant. Thus, to achieve self-reliance the government shifted its focus to Heavy and Chemical Industries (HCI) and helped them source the required equipment and gave them exemptions from import duties on such capital goods. They also favoured chaebols that invested in these industries as it helped them increase their export earnings and achieve self-reliance.

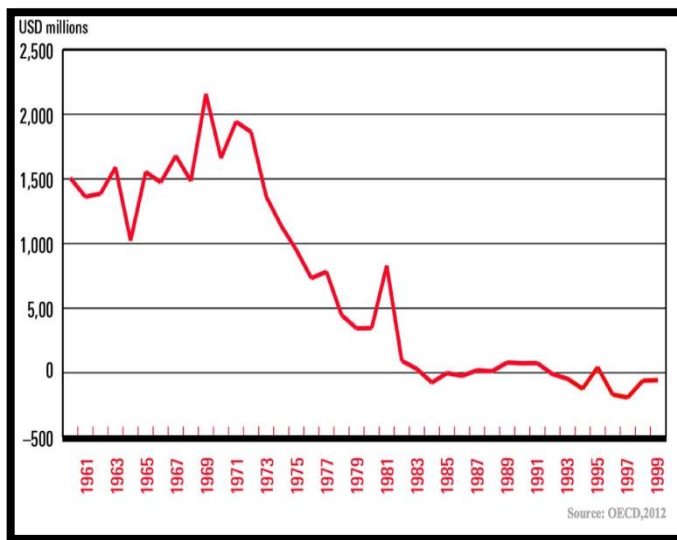
One of the biggest challenges that South Korea faced was the rising oil prices. Most of the South Korean industries were energy-intensive and the sharp increase in oil prices in 1973-74 inflated their import bill. Their focus on Heavy and Chemical Industries (HCI) helped them to reduce their trade deficit as they had earnings coming in from the Middle East due to construction projects. Thus, their focus helped them weather through an economic crisis.

The year 1979 was a turbulent year for the South Korean economy. President Park was assassinated, oil prices reached new highs and there was a bad harvest of crops compounded by inflation at an astounding 44%. The new President (Chun Doo Hwan) diversified the economy in a bid to make it stronger.

Net Foreign Aid of South Korea

South Korea focused on diversifying exports and shifting to medium and hi-tech goods. This shift resulted in the industry becoming more capital intensive. The economy continued to suffer from trade deficits mainly due to the imports of oil, capital equipment and industrial parts. The South Korean bureaucrats' brilliant foreign relations again helped as they were able to work out technology transfer arrangements so that the dependency reduced over time.

1997 crisis:



In 1997, during the Asian financial crisis the South Korean economy's good relations with other countries resulted in the International Monetary Fund (IMF) giving them a \$58.4 billion bailout package. They were in turn required to restructure the economy according to international standards.

Impact of Chaebols:

Introduction

A group of massive, mostly family-run business conglomerates, called chaebol, dominates South Korea's economy and wields extraordinary influence over its politics. These powerful entities played a central role in transforming what was once a humble agrarian market into one of the world's largest economies.

Chaebol is made up of two words *chae* (wealth) and *bol* (clan or clique). Family-owned businesses having subsidiaries in various fields placing the members of the family in ownership or management positions for control was the original structure of Chaebol when it started. Close cooperation from the government was received in terms of decades of support in the form of subsidies, loans, and tax incentives which helped them become pillars of the South Korean economy. The top five chaebols taken together, represent approximately half of the South Korean stock market's value. Chaebol drive the majority of South Korea's investment in research and development and employ people around the world. Samsung Electronics, the largest Samsung affiliate, employs more than 300,000 people globally (more than Apple's 123,000 and Google's 88,000 combined).

Top 5 chaebols in terms of size:

Samsung group.

Founded in 1938, South Korea's most profitable chaebol is run by the Lee family. They have diversified in electronics, insurance, ships, luxury hotels, hospitals, an amusement park, and an affiliated university in the last 80 years. Its largest and most recognized subsidiary is Samsung Electronics, which in the last 10 years has accounted for more than 14 percent of South Korea's gross domestic product (GDP).

Hyundai.

Opening in 1947 and having subsidiaries across the automotive, shipbuilding, financial, and electronics industries is the Hyundai group. In 2003, following the Asian financial crisis and the death of its founder, Chung Ju-yung, the chaebol broke up into five distinct firms. Among the standout offshoots are Hyundai Motor Group, the third-largest carmaker in the world, and Hyundai Heavy Industries, the world's largest shipbuilding company.

SK Group.

The conglomerate, also known as SK Holdings, dates back to the early 1950s, when the Chey family acquired Sunkyong Textiles. Today, the chaebol oversees around eighty subsidiaries, which operate primarily in the energy, chemical, financial, shipping, insurance, and

construction industries. It is best known for SK Telecom, the largest wireless carrier in South Korea, and its semiconductor company, SK Hynix, the world's second-largest maker of memory chips.

LG.

Since the 1960s, the company, under the direction of the Koo family, has heavily invested in the development of consumer electronics, telecommunications networks, and power generation, as well as its chemical business, which includes cosmetics and household goods. In 2005, LG split, spinning off a separate entity called GS, a chaebol whose core businesses are in energy, retail, sports, and construction.

Lotte.

The conglomerate's main businesses are concentrated in food products, discount and department stores, hotels, and theme parks and entertainment, as well as finance, construction, energy, and electronics. Lotte Confectionery is the third-largest gum manufacturer in the world. In 2017, the company opened the Lotte World Tower in Seoul, the tallest building in South Korea, with 123 stories.

How did chaebols emerge?

Following the footsteps of Japan's strong industrial and financial conglomerates, known as zaibatsu, some of the chaebols go back to having started before second world war . When united states of America and international aid flowed came to Seoul after the Korean War (1950–1953), the government provided billions of dollars in in the form of loans and other financial support to chaebol as part of a concerted effort to rebuild the economy, especially for critical industries, such as construction, chemicals, oil, and steel. Over time, the chaebol started to spread into new industries and tapped into lucrative foreign markets, providing more fuel for South Korea's engine. Exports grew from just 4 percent of GDP in 1961 to more than 40_percent by 2016, one of the highest rates globally. Over roughly the same period, the average income of South Koreans rose from \$120 per year to more than \$27,000 in today's dollars. As South Korea lifted millions out of poverty, the parallel rise of chaebol embedded the conglomerates into the narrative of South Korea's postwar rejuvenation.

How did democratization and the 1997 financial crisis impact them?

South Korea's democratic transition in the late 1980s affected the chaebol system minimally but the changes were important. Democratization led to the formation of strong labour unions, which promised an increase in wages, rise in quality of working conditions, and unravelled the closeness of the government with chaebol. Changes in the early 1990s led to

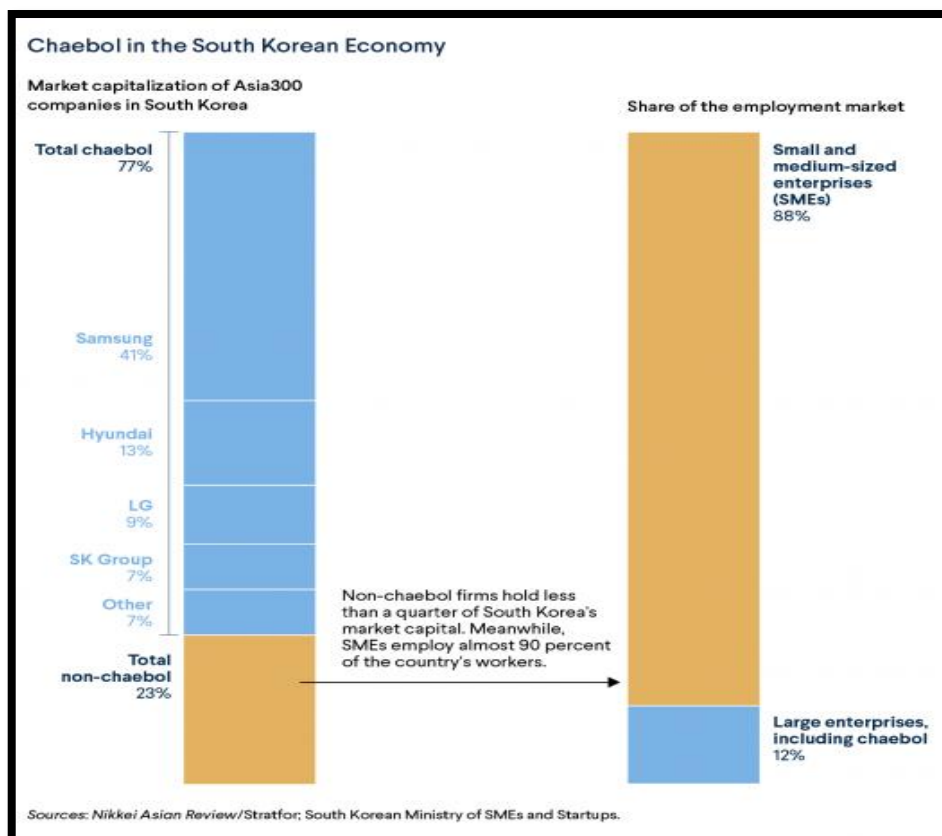
minimal improvements in economic governance and made way for South Korea to join the World Trade Organization and the Organization of Economic Cooperation and Development. On the other hand, the 1997 Asian financial crisis, in which countries across the region were hit by plummeting currencies, debt crises, and recessions, tested South Korea's chaebol-dominated economic model. In the lead-up to the crisis, South Korean banks aggressively lent to chaebol so to expand in new industries. Before and after the exchange rate crisis hit, fifteen of the top thirty conglomerates were allowed to go bankrupt. In December 1997, South Korea agreed to a more than \$50 billion international bailout package, a record amount at the time. As a condition of the rescue, led by the International Monetary Fund, Seoul instituted reforms intended to weaken the chaebol system, including new corporate transparency measures and cuts to government subsidies. More broadly, the bailout required major economic adjustments: reducing government deficits, restructuring insolvent financial institutions, and liberalizing trade and foreign investment.

How close are the chaebols to the government?

The South Korean government and the chaebol have long had a symbiotic relationship. Many leaders in Seoul have equated the success of the chaebol with South Korea's post war prosperity. "The large conglomerates and Korean economy cannot be separated from the politics and the culture and history," says Rhyu Sang-young, a professor at Yonsei University in Seoul. Today, some politicians look to chaebol for financial support during campaigns and often tout chaebol economic successes as national ones. Meanwhile, the chaebol lobby for favourable legislation and public policy.

Innovation:

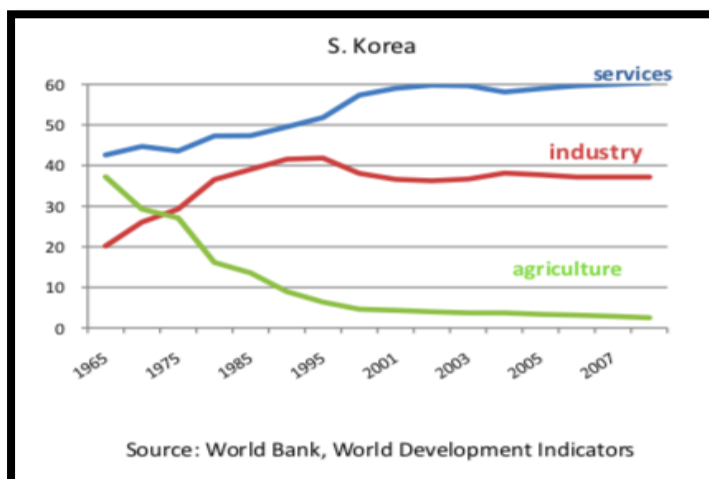
- The progress made by the Research and development system played an important role in the sectoral change and rapid economic growth of South Korea. The major increase in R&D expenditures as well as rapid transition to high value-added high-tech products in production and exports since the 1980s led to the positive development of R&D.
- By 2017, South Korea had a global reputation for technological innovation, its GDP per capita was slightly above the EU average, and it ranked among the highest in the world in health standards and educational attainment.
- The improvements in innovation and R&D system of South Korea is usually classified under three main processes: Imitation Process (1960s and 1970s), Transformation Process (1980s) and Innovation Process (1990s onwards). In the imitation process, labor-intensive sectors were at the fore front and industrialization process was facilitated by foreign direct investments and transfer of technology. In the transformation process where the import substitution and protectionism started to take a backseat and just technology transfers and research by universities and public institutions alone were insufficient, the private sector was encouraged to establish and develop its own R&D structure. In the third process, the innovation process, South Korean government, along with the Asian crisis that become visible particularly by the second half of 1990s, felt the urge to shift technology policies from large



industrial firms prioritized until then to relatively more flexible, dynamic and innovative Small and Medium Enterprises.

- South Korea was an agricultural economy until early 1960s. But the downfall of agricultural sector had begun by 1965. South Korea witnessed rapid industrialization by 1970 , thanks to which the share of industrial sector in GDP reached as high as 40% in 1990s.
- South Korea's private sector stood at 30% in overall R&D in 1970s whereas by 1976 share of public sector declined while that of private sector rose. By 1983, private sector carried out 50% of overall R&D and the upwards trend in the share of private sector in R&D was established from thereon. As data for 2008 suggests, the picture is contradictory as of that in 1970s where currently private sector carries out 75% of the R&D. R&D expenditures in GDP doubled from 1980 to 1985. But the critical point here is the domain and efficiency of expenditures. As of 1980, rise in R&D of the private sector led to an increase in total R&D expenditures while contributing as well to economic growth through product development, commercialization of developed products and entering in international markets.

Economic growth and development in developing countries in the form of technology, product and process development was in tune with the needs. Beginning with 1990s, South Korea implemented policies encouraging research in line with the needs of the country and the industry. How the Korean economy fares in the medium- to long-term future will depend



on how the domestic challenges of low productivity and an aging population are addressed as well as show international demand responds to new developments in the global economy, say experts.

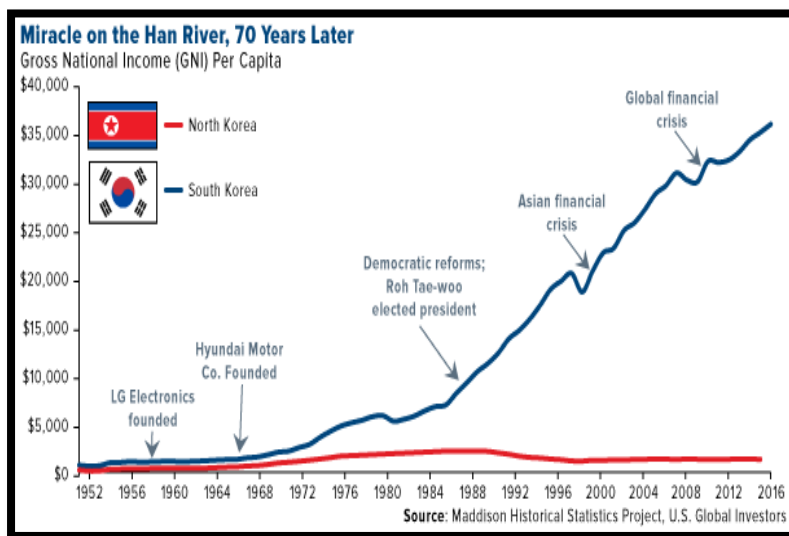
In light of this, Korea will need to maintain its position as a global leader in technology and innovation in order to retain its

global competitive advantage. A key priority for Korea is also to diversify its economy, including through high-value innovation and measures to increase global competitiveness, and create new growth industries for the future, particularly in the service sector.

Government Factors

First period (1953-1961): Import Substitution

Soon after the WW2, the government aimed at making South Korea a self-sustainable economy and wanted to manufacture within the country. This led to an increase in import tariffs by 77%, which in turn resulted in the growth of 'Chaebol's'. The government soon realized that their GDP was too low for a developing economy and had to export their produce.



Second Period (1962-1972): Export Orientation

No individual company was willing to take the risk of exporting as it required huge capital investments with unsure returns. This is when the government stepped in with their 5 year plans and entered into partnerships with few large

conglomerates to boost the economy. The exports grew from 2.4% of the GDP in 1962 to 15% of the GDP in 1972.

Third Period (1973-1980): Development of Heavy and Chemical Industries

In 1979-80 when the oil crisis hit, a bad harvest occurred, President Park was assassinated, inflation was at an all-time high and the economy suffered from a huge fiscal and trade deficit the government was forced to take action. They decided that it was time to develop Heavy and Chemical Industries as it would help the economy in the long term. To do so entrance into such industries was subsidized at the expense of a few chaebols that had been enjoying subsidies for a long time. Thus, the government moved to create more equal opportunities.

Fourth Period (1981-2017): Correction of Errors

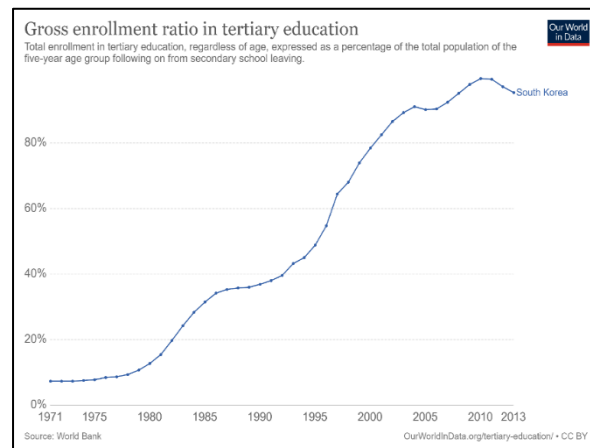
Until this period every major economic decision was taken by the State. It is almost impossible to predict whether the economy would've been better or worse off without this state intervention, although one thing is for sure and that is that the economy would've been

very different if it weren't for the State intervention. The government realized that their intervention in each business was complicating the management in the country. This is what led to the economic liberalization. Large chaebols became strong power houses, but it was not until the Asian crisis in 1997 that the government reduced its control. The nation had strong banking sector problems along with corruption. Daewoo which was largely financed by government funds went bankrupt and this led to the major economic and structural change in the country. The government reduced import tariffs and provided subsidies to exporters which has led to the spectacular economic growth since.

Education:

South Korea's education policy was a major factor in its economic growth.

South Korea's good relations with the United States of America meant that many young South Korean students would go to the USA for further education and on their return would be employed as technocrats in the government. These students studied subjects ranging from science and engineering to economics and public administration. These highly educated technocrats formed a part of the Economic Planning Board (EPB), a council that formulated five-year plans for economic growth. This Economic Planning Board (EPB) was very successful and was one major factor for the high economic growth rates achieved by the country.



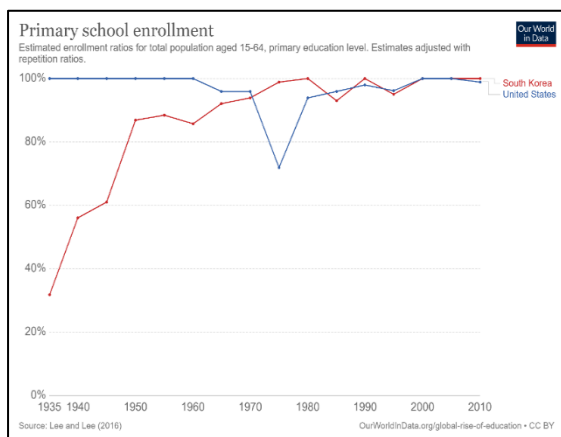
Between 1945-1960 the government made several efforts to ensure that children received a good education. They carried out several awareness campaigns and provided a very good education. Their efforts paid off as enrolment in primary (300%), secondary (800%), and higher education (1000%) increased significantly. By 1960, almost all children who could attend primary school were attending it. State and private institutions carried out adult literacy programs to improve the efficiency of the current workforce. The adult literacy programs helped the labourers acquire important technical skills while the better education gained by the youth helped the country to shift its focus to Heavy and Chemical Industries (HCI) in the future. The educated youth were also able to perform important Research and Development (R&D). In 1960, farmers made up 61% of the population. This number fell to 38% by 1980. This was due to the mass migration of millions of Koreans from rural areas to

urban areas in the search for a better education and more job opportunities. After shifting to urban areas and getting a good education, the youth rarely ever shifted back. This migration increased the labour workforce and helped the economy to produce more.

Conclusion

The above given factors were the ones that impacted the spectacular growth of the South Korean economy the most. South Korea used the resources available at its disposal brilliantly and efficiently. South Korea's success can also be due to the fact that for several years (in the initial stages) the country was under a somewhat dictatorship rule. President Park along with his highly educated bureaucrats created economic plans that helped benefit the economy in the long run.

The South Korean economy faced several challenges in the beginning. Lack of economic planning, an unstable government, hesitancy of investors to invest in the economy because of their relationship with North Korea were some of the challenges faced by the economy.



The economic plans drawn up by the highly educated technocrats combined with a stable regime under President Park Chung Hee, an impressive foreign policy and an increased focus on innovation and self-sufficiency led to the Korean economy being brought on track for growth.

They faced several challenges in the middle as well but the determination and grit of the South Koreans to break free from the poverty trap that they were in helped them achieve this spectacular feat.

Many developing economies can try to emulate them but it will be a difficult task since they had several factors that helped them and also they had a somewhat dictatorship regime that helped the higher authorities to pass legislations and tweak labour laws that were beneficial for the economy but not for the individuals.

Korea Current Economic Outlook

Korea's traditional business model of growth by favouring Chaebols is not as effective as it was. Growth rate has slowed down and is now closer to the OECD average. A new model is required since Small and Medium Enterprises (SMEs) are slowly losing their value and the country is becoming heavily dependent on the large enterprises. The labour productivity has lowered over the years and it has been balanced by longer work hours. This is not viable in the future since it compromises on the quality of life of the workers. Unbalanced growth due to exports and manufacturing has also led to economic and social polarisation.

The current working population of South Korea is ageing fast and they could soon have a situation on their hands if not addressed correctly. Their low population growth rates have resulted in this situation. Since many years there has been a huge pay gap between men and women and if this pay gap is reduced and women are encouraged to work it is possible for the country to overcome the situation since the working population shall increase

Korea has a low government debt of 45% of its GDP which is less than the 110% OECD average. It is also a net creditor (assets>liability). The government has been running a fiscal surplus since 2012. This is good news since the government can afford to increase public sector spending, without compromising on the financial situation of the country, in a bid to drive growth.

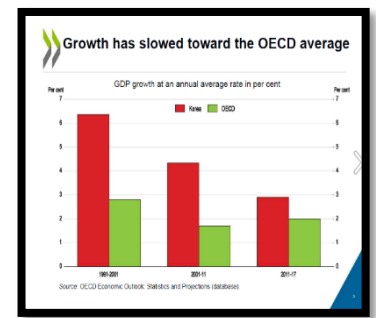
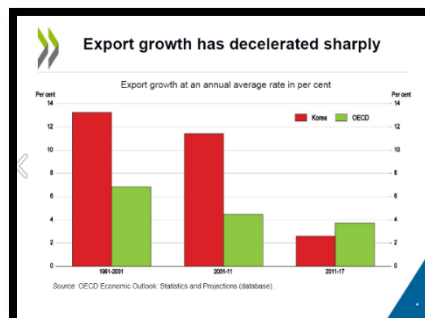
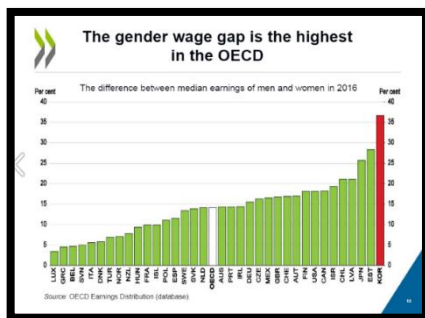
Korea's major challenge is its dependence on chaebols for economic growth. They should lend more money to SMEs depending on their business models and they should provide technological support to these companies to aid their growth. Since most of the SMEs are a part of the service sector this will not only help the country to reduce dependence on chaebols but also expand into the service sector. Concentration of economic power among a few chaebols has also stifled entrepreneurship.

We spoke about the effect of oil prices on the Korean economy and the economy is still affected by changes in oil prices. A sharp increase in oil prices will not affect them as it would have 30 years ago due to energy efficiency but it will definitely slow down the economy for one or two quarters.

COVID-19

With trade between most of the countries having stopped/reduced drastically, South Korea will face huge business shocks. The country was heavily dependent on manufacturing (mainly semiconductors) and construction. With both these activities taking a back seat in the current situation the outlook for the country is grim. IMF expects the economy to contract by 1.2% this year.

Although the country will be affected by the Covid-19 situation, it can increase public sector spending in a bid to revive growth. It has run a fiscal surplus for eight years now and it can



afford to run a fiscal

deficit for a year or two without compromising on the financial situation. The books can also be balanced by increasing VAT rates or Corporate Income Tax rates since they were low.

Another major concern for South Korea will be its high Household Debt. With the income of most people projected to fall there shall be concerns regarding the ability of individuals to repay loans. A Debt Moratorium was announced that may help alleviate the risk.

The government announced an economic stimulus package. A package for SMEs was also introduced. The Covid-19 situation is fluid and changing every day, thus it is too early to predict the effectiveness of the package.

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