SOUTH KOREA'S ECONOMY IN 2019/2020: SLOW RECOVERY, GROWING SOCIAL EXPENDITURE AND INDUSTRIAL UPGRADE

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Executive Summary

1. The Bank of Korea expects a slow recovery of the economy with GDP (gross domestic product) growth increasing from 2.0% in 2019 to 2.3% in 2020 and to 2.4% in 2021. Investment in semi-conductors and display production will be the main driver.

2. On 14 February 2020, the Ministry of Economy and Finance reported uncertainties as to how COVID-19 will influence the Chinese economy and the world economy, which will impact on South Korea's economic recovery.

3. Despite the expected recovery in the price of semiconductors, South Korea’s current account surplus will decrease from $57 billion in 2019 to $56 billion in 2020 because of the deficit in the service account balance.

4. Employment level is expected to pick up in 2019, creating 240,000 new jobs mainly in the social welfare sector and reducing unemployment from 3.8% in 2019 to 3.7% in 2020.

5. The manufacturing sector has the highest number of workers though the number has largely remained stagnant since 2015. In contrast, the number of workers in the social welfare sector has been on the constant rise in the past decade.

6. South Korea’s export dependency is evidenced by the fact that the 2018 net export was 4.6% of GDP in South Korea while it was only 0.3% in Japan and 0.9% in China. South Korea imports essential resources for its technology from China, USA and Japan, top export destinations of the processed goods in South Korea.

7. Vietnam is now the top three export destination of South Korea. In 2018 South Korea’s foreign direct investment in Southeast Asia reached $75 billion, lower than the $94 billion in USA and $83 billion in China but more than the $53 billion in the European Union.

8. South Korea's New Southern Policy aims to widen the range of trade partners. Besides the high growth potential and large population of the ASEAN (Association of Southeast Asian Nations) member countries, South Korea sees its cultural affinity to the region as an advantage to penetrate the region.

9. Productivity in Korea has continuously increased since the 1970s mainly due to automation in the manufacturing industry. The declining young population has enlarged the share of social expenditure relative to GDP. The government budget for social welfare, 34% of the total budget in 2019, will certainly increase in the future.

10. The government plans to support Korean companies developing semiconductor materials, parts and equipment, and invest in sectors related to data technologies, artificial intelligence and bio-health. The proposed 2020 national budget is set to increase the budget for R&D by 17.3% compared to 2019.

11. The new industries are expected to diversify the industrial structure and make the economy more competitive particularly in view of the US-China trade war. In the long run, the new industries may alleviate the negative effects of a declining population on the economy by increasing overall productivity and competitiveness.

12. While the industrial transition takes time, the challenge facing South Korea's economy is to allocate resources to allow for a structural transformation, invest in skills upgrading for its workforce and manage social welfare with a declining young population.