

**COVID-19'S IMPACT ON SOUTH KOREA'S
ECONOMY AND COUNTERMEASURES**

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Executive Summary

1. South Korea's economy has been severely hit by the COVID-19 outbreak, with the year-over-year (YOY) economic growth rate slowing down to -2.9% in Q2 2020, the worst since the global financial crisis of 2008-2009.
2. Private consumption had dropped significantly in the first half of the year. Although South Korea has successfully curbed the quick spread of COVID-19 since April, the consumer confidence index remained relatively low at 81.8 in June compared to 96.9 in February.
3. South Korea's exports have been decelerating since 2019 due to the US-China trade war and Japan's export restriction. With the slowing down in exports after the virus outbreak, the country recorded its trade deficit in April 2020 for the first time since 2012.
4. Unemployment rate surged to 4.5% in May 2020, the highest since March 2018. In terms of absolute number, the unemployed had risen from 336,000 in December 2019 to 1,278,000 in May 2020.
5. Employment in the wholesale, retail trade, accommodation and food sectors was the worst hit, down by 287,000 in the first half of the year. The overall employment figures since May have shown some improvement compared to a month earlier with more temporary workers employed.
6. As the unemployed are mostly low-skilled workers in services, this has widened income inequality. The top 20% of the income bracket earned 5.41 times higher than the bottom 20% in the first three months of the year, up from 5.18 times a year before.
7. As of June 2020, the Moon Jae-in administration planned to inject more than 250 trillion won (US\$205 billion), or about 14% of the nation's GDP to support the

economy. The government debt to GDP ratio is expected to increase to 43.7% in 2020, from 38.1% in 2019.

8. The huge extra government spending may not be able to make up for the economic losses incurred by the COVID-19. As exports and private consumption are unlikely to pick up anytime soon, the Bank of Korea forecast in May the economy to grow by merely 0.2% in 2020.
9. The virus-triggered economic slump is further complicated by the growing US-China rivalry. The United States is advocating an anti-China “Economic Prosperity Network” with South Korea in it. On the other hand, the Regional Comprehensive Economic Partnership that includes both South Korea and China is expected to be signed in 2020.
10. Amid a volatile global economy, the Moon government is looking beyond the short-term economic stimulus and plans to advance its high technology industries through the “Korean New Deal” over the next five years. Semiconductors, biohealth, future cars, artificial intelligence, big data, 5G and cloud computing services have been earmarked for further development.

COVID-19'S IMPACT ON SOUTH KOREA'S ECONOMY AND COUNTERMEASURES

CHIANG Min-Hua*

Reviving the Economy amid the Ongoing Pandemic

- 1.1 South Korea's economy decelerated to -2.9% in the second quarter of 2020, from 1.4% in the first quarter year-over-year (YOY) due to the lingering effect of the pandemic outbreak at home and abroad. This is the slowest YOY quarterly growth after the economic dip during the 2008-2009 global financial crisis (GFC).¹
- 1.2 The confirmed cases skyrocketed since the end of February after the quick transmission among members of the Shincheonji Church. With effective control measures,² the daily new cases have clearly declined since April.
- 1.3 As of 22 July, there were 13,879 confirmed cases and 297 deaths due to COVID-19 in South Korea. Nearly 85% were local infections whereas imported cases accounted for 15%.³
- 1.4 The South Korean government's success in containing the virus spread turned the political tide in President Moon Jae-in's favour. Moon's Democratic Party of Korea took 163 seats in the 300-member National Assembly, an absolute majority after the legislative election on 15 April. The strong political position is expected to facilitate its lead in economic reconstruction.

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¹ Data source: Economic Bulletin, Vol. 42, No. 4, April 2020 and Vol. 35, No. 12, December 2013.

² South Korea's virus containment strategy, namely, "trace, test and treat", is widely reported. Mass quarantine measures have been implemented on all suspected cases and all foreign visitors. The government also recommended strict social distancing nationwide to contain the disease in the country.

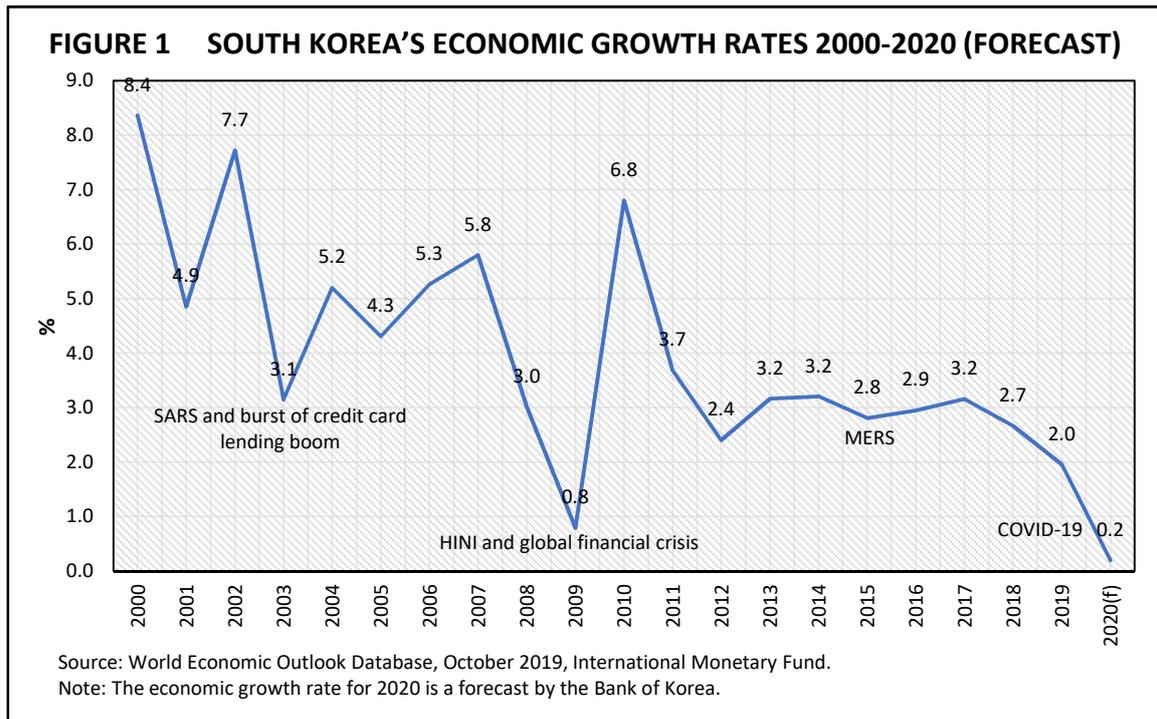
³ Data source: Korea Centres for Disease and Control Prevention (KCDC).

- 1.5 The pandemic in South Korea is generally under control despite the emergence of cluster infections from time to time.⁴ On 3 May, the government announced a relaxation of containment measures, allowing reopening of schools and mass gatherings in public venues and entertainment facilities.
- 1.6 Although the virus spread has been curbed, the economy remains subdued. On 28 May, the Bank of Korea (BOK) cut its economic growth forecast to 0.2% for 2020. The persisting pandemic at home and abroad is expected to drag down both Korea's export prospect and private consumption.⁵
- 1.7 BOK's estimates showed that the economic impact from COVID-19 is expected to be greater than that of the previous crises. South Korea's economic growth rates were higher during the Severe Acute Respiratory Syndrome (SARS) and credit crisis in 2003, HINI and GFC in 2009 and MERS in 2015 compared to the current forecast for 2020 (Figure 1).
- 1.8 Before the virus hit, South Korea's exports-reliant economy was already in a clear slowdown in 2019 due to the trade dispute with Japan and the US-China trade war. While the clashes in trade have yet to be settled, the COVID-19 has emerged to add hail to snow in the Korean economy (Figure 1).
- 1.9 President Moon Jae-in described the current economic slump as a "war time situation".⁶ In response, as of 1 June 2020, the Moon administration has decided to pump more than 250 trillion won (US\$205 billion), or about 14% of the nation's GDP, into the economy.

⁴ There are lingering concerns of another virus spike after daily new cases have risen abruptly again after 10 May due to the outbreak in several nightclubs and bars. The 79 new cases reported on 28 May prompted officials to strengthen social distancing rules that were eased on 6 May. "South Korea reimposes strict social distancing rules after spike in coronavirus cases", *The Straits Times*, 28 May 2020 <<https://www.straitstimes.com/asia/east-asia/south-korea-reimposes-strict-social-distancing-rules-after-spike-in-cases>> (accessed 29 May 2020).

⁵ "Monetary policy decision", Press Release, Bank of Korea, 28 May 2020 <<http://www.bok.or.kr/viewer/skin/doc.html?fn=202005281038512371.pdf&rs=/webview/result/E0000634/202005>> (accessed 30 May 2020).

⁶ "Full text of President Moon's special address", *Yonhap News Agency*, 10 May 2020 <<https://en.yna.co.kr/view/AEN20200510001600325>> (accessed 30 May 2020).



1.10 Apart from the economic stimulus measures, the Moon government also plans to create new source of economic growth in the post-COVID-19 era through the “Korean New Deal” over the next five years. The budget for the Korean New Deal has been incorporated into the third supplementary budget which was approved by the parliament on 3 July.

1.11 The budget for the Korean New Deal is around 76 trillion won (US\$62.7 billion) over the next five years, including 31.3 trillion won (US\$25.6 billion) to be spent by 2022 and around 45 trillion won (US\$37.1 billion) for 2023-2025.

1.12 The Korean New Deal till 2022 will focus on developing Korea into a “digital powerhouse” and an eco-friendly country, and improving job security, which accounted for a respective 42.8%, 41.2% and 16% of the total 31.2 trillion won budget. The new deal is also expected to create an additional 555,000 jobs by 2022 (Table 1).

1.13 Under the Korean New Deal, the main industries for development are semiconductors, biohealth and future cars. The digital infrastructure such as

artificial intelligence (AI), big data, 5G mobile networks and cloud computing services will be expanded as well.⁷

TABLE 1 BUDGET DISTRIBUTION IN THE KOREAN NEW DEAL (2020-2022)

	Trillion won	As % of total	Number of jobs created (1,000 jobs)
Digital new deal			
Data, network and AI	6.4	20.4	222
Digital social overhead capital	4.8	15.3	65
Digital security and inclusiveness	0.8	2.6	15
Remote learning and working	1.4	4.5	28
Subtotal	13.4	42.8	330
Green new deal			
E-friendly and smart infrastructure	5.8	18.5	89
Low carbon energy	5.4	17.3	33
E-friendly manufacturing	1.7	5.4	11
Subtotal	12.9	41.2	133
Job security			
Support those outside the current security system	2.7	8.6	
Expand the employment insurance and industrial accident compensation insurance	0.9	2.9	
Provide job training	0.5	1.6	
Improve workplace safety	0.4	1.3	
Others	0.5	1.6	
Subtotal	5	16.0	92
Total	31.3	100	555

Source: “Economic Policies, H2”, Ministry of Economy and Finance, South Korea, 1 June 2020, <<http://english.moef.go.kr/pc/selectTbPressCenterDtl.do?boardCd=N0001&seq=4913>> (accessed 17 June 2020).

1.14 While large companies will have an upper hand in the development of high technology industries, the government will provide financial incentives for SMEs to invest as well.⁸ The government also plans to provide platforms between public and private sectors to work together to provide new job opportunities under the Korean New Deal.

⁷ “Terms of success: New Deal program requires deregulation, innovation”, *Yonhap News Agency*, 3 June 2020 <<https://en.yna.co.kr/view/AEN20200603000400320>> (accessed 17 June 2020).

⁸ For example, the government will also give vouchers for AI solutions to 600 SMEs and create a one trillion won fund that will invest in AI start-ups. “Moon’s Korean New Deal detailed”, *Korea JoongAng Daily*, 1 June 2020 <<https://koreajoongangdaily.joins.com/2020/06/01/economy/newdeal-digitalnewdeal-greennewdeal/20200601193300201.html>> (accessed 26 June 2020).

1.15 The COVID-19 has posed an unprecedented challenge to the Korean economy. The Moon government's policy aims to not only counterbalance the current daunting vulnerabilities, but also prepare the country to remain competitive in the new global economy after COVID-19.

Slump in Private Consumption and Services

2.1 The COVID-19 outbreak had impacted harshly South Korea's private consumption in the first two quarters of 2020. Despite a strong growth in government spending, the final consumption still dropped by -1.7% in Q1 and -1.4% in Q2 (Table 2).

TABLE 2 SOUTH KOREA'S ECONOMIC GROWTH RATES BY EXPENDITURE 2018-2020Q2

	2018				2019				YOY growth rate	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
GDP	2.8	2.9	2.1	2.9	1.7	2.0	2.0	2.3	1.4	-2.9
Final consumption	4.2	3.3	2.8	3.6	2.8	3.3	3.0	3.1	-1.7	-1.4
Private	3.6	2.9	2.3	2.4	1.9	2.0	1.8	1.9	-4.8	-4.1
Government	5.9	4.6	4.8	7.1	5.5	7.0	6.9	6.6	6.8	6.0
Gross fixed capital formation	4.7	-2.2	-6.9	-4.2	-8.6	-3.4	-2.1	0.5	4.7	1.1
Construction	1.2	-2.5	-8.7	-5.7	-7.2	-3.5	-3.7	1.1	4.2	0.1
Facilities	10.2	-4.3	-9.4	-5.3	-17.4	-7.0	-2.6	-2.5	7.3	1.5
Intellectual property products	4.5	2.2	1.6	1.0	2.9	2.7	2.5	2.5	2.4	3.2
Exports of goods and services	0.1	3.3	3.6	6.7	-0.2	1.2	1.8	3.7	5.6	-13.6
Imports of goods and services	2.4	0.9	-2.6	2.4	-5.1	0.0	2.3	1.2	0.9	-9.2

Source: Bank of Korea.

2.2 Although there was no lockdown,⁹ the sudden outbreak and unclear virus spread have prevented people from gathering and shopping. Private consumption was severely hit as a result.

⁹ Domestically, no mandated restriction was enforced in terms of the movement of people (with the exception of restricting large gatherings and school closures). The government also encouraged social distancing.

- 2.3 The income losses are another reason for the decline in private consumption. The number of employed was down by 953,000 from November 2019 to April 2020.¹⁰
- 2.4 Consumer confidence dropped sharply from 96.9 in February to 70.8 in April 2020, the lowest since December 2008. Despite the gradual recovery to 77.6 in May and 81.8 in June, it is still lower than the index during the GFC 12 years ago.¹¹
- 2.5 Retail sales dropped by 6.4%, with car sales and semi-durable goods (eg: clothes, footwear, etc) recording the most noticeable decline in the first quarter.¹² Apart from the slowdown in domestic household consumption, the declining inbound tourists deteriorated retail sales as well.
- 2.6 Foreign tourists constituted an important part of local retailing sales. The number of inbound tourists largely declined though South Korea did not ban foreign visitors' entry.¹³ The number of tourists decreased by nearly 70% in 2020 (Jan-May) compared to the same period in the previous year.¹⁴
- 2.7 Unlike the feeble private consumption, capital formation and exports had decent growth in the first quarter (Table 2). However, capital formation has shown a clear slowdown and exports have declined sharply in the second quarter.
- 2.8 In terms of GDP by industry, manufacturing had the sharpest decline by 6.7% in the second quarter, followed by agriculture (-5.1%) and services (-1.7%). In comparison, electricity, gas and water supply, manufacturing and construction had sustained relatively well (Table 3).

¹⁰ Data source: Statistics Korea.

¹¹ Data source: CEIC.

¹² Economic Bulletin, Vol. 42, No. 5, Korea Development Institute, May 2020.

¹³ South Korea does not ban foreign visitors, but foreign visitors are required to sign up to a smartphone application to track whether they have any symptoms such as fever. Aside from these border controls, there were relatively few control measures implemented against other countries until suspected and growing outbreaks in Japan (9 March), Iran (12 March), Italy (12 March) and Europe (France, Germany, Spain, the UK, The Netherlands, all on 15 March). Special immigration procedures have been implemented for passengers from these countries. On the other hand, South Korea's coronavirus outbreak has also discouraged foreign tourists from visiting the country.

¹⁴ Data source: Korea Tourism Organisation.

2.9 The service activity index showed that among the service sectors, entertainment and leisure (-20.2%), and hotel and restaurants (-17.1%) had the most noticeable drop in the first quarter, while financial and insurance services had the highest growth (6.9%).¹⁵

**TABLE 3 SOUTH KOREA'S ECONOMIC GROWTH RATES BY SECTOR
2018-2020 Q2**

	YOY growth rate									
	2018				2019				2020	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
GDP	2.8	2.9	2.1	2.9	1.7	2.0	2.0	2.3	1.4	-2.9
Agriculture, forestry and fishing	8.0	2.3	-2.3	0.4	01.6	0.4	4.2	2.9	-0.4	-5.1
Manufacturing	1.4	3.3	3.0	5.6	1.3	0.8	1.8	1.7	3.5	-6.7
Electricity, gas and water supply	0.9	3.9	2.2	5.1	6.8	13.2	-1.9	-0.4	7.2	2.7
Construction	-0.8	-2.2	-7.0	-5.2	-4.0	-3.6	-3.5	1.0	3.0	-0.2
Services	3.8	3.4	2.7	2.7	2.3	2.7	2.7	3.0	0.2	-1.7

Source: Bank of Korea.

2.10 To counterbalance the negative effect on private consumption, the government plans to pursue an ambitious demand-driven economic agenda through implementing government spending and redistributive policies.

2.11 The world economy may not be able to pick up soon because a widely available vaccine and medication for COVID-19 is unlikely until much later on. The global economic slowdown is likely to have a major impact on Korean exports, which will lead to weaker investment and lower private consumption.

External Trade Hit by Virus and Trade War

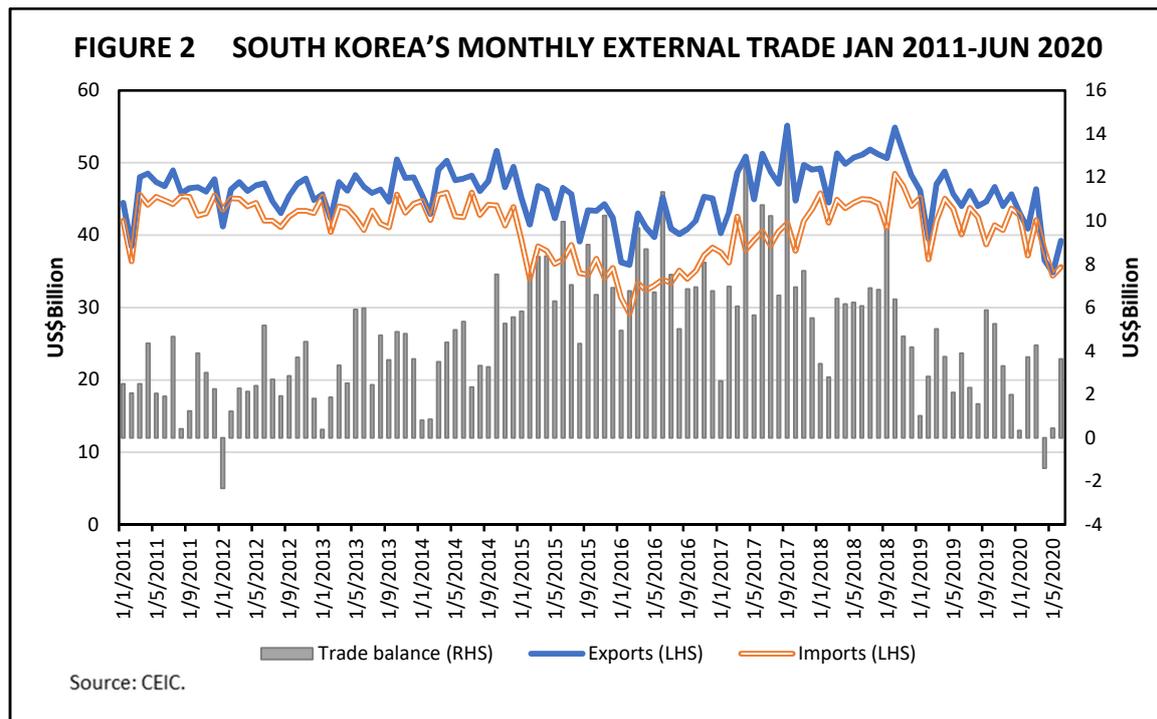
3.1 South Korea's total export and import shank by a respective 11% and 9% (YOY) in 2020 (Jan-Jun). The YOY trade surplus also declined by nearly 41% during the same period.

3.2 South Korea's waning exports have started since the end of 2018 due to the US-China trade war (Figure 2). Its total exports declined by 10%, with exports to Hong

¹⁵ Economic Bulletin, Vol. 42, No. 5, Korea Development Institute, May 2020.

Kong (-31%) and China (-16%) registering the most significant drop in 2019 (Appendix 1).

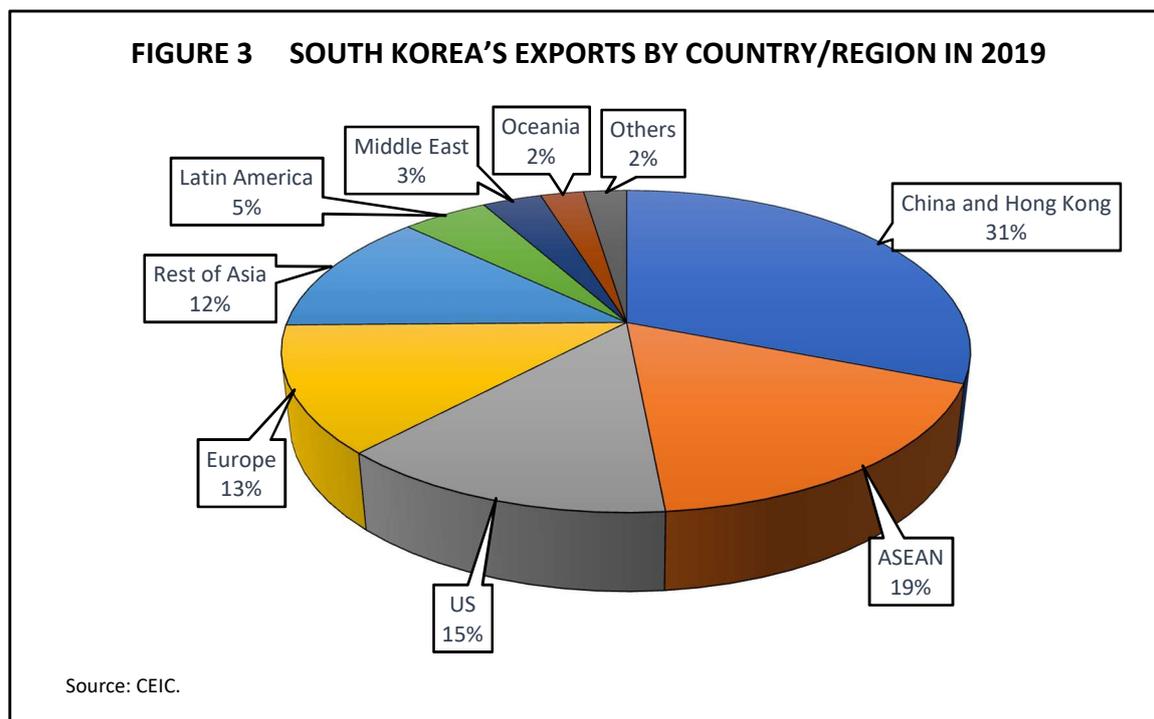
3.3 Korea’s weakening export sectors were further hit by the COVID-19. Export amounts in May were the lowest since February 2010. With the greater slump in exports than imports, the country recorded a trade deficit in April 2020 for the first time since 2012 (Figure 2).



3.4 Korea’s weakening exports after April had been mainly due to the sharp decline of exports to ASEAN, the United States and Europe. Exports to China have remained constantly weak despite the slowing down in COVID-19 cases in China (Appendix 1).

3.5 China’s industrial resumption is only a temporary solution to Korea’s ailing exports. The persistent pandemic in other countries poses a challenge for the sales of final goods produced in Asia. In addition, with the growing US-China rivalry, Korea’s export prospect is less likely to be bright.

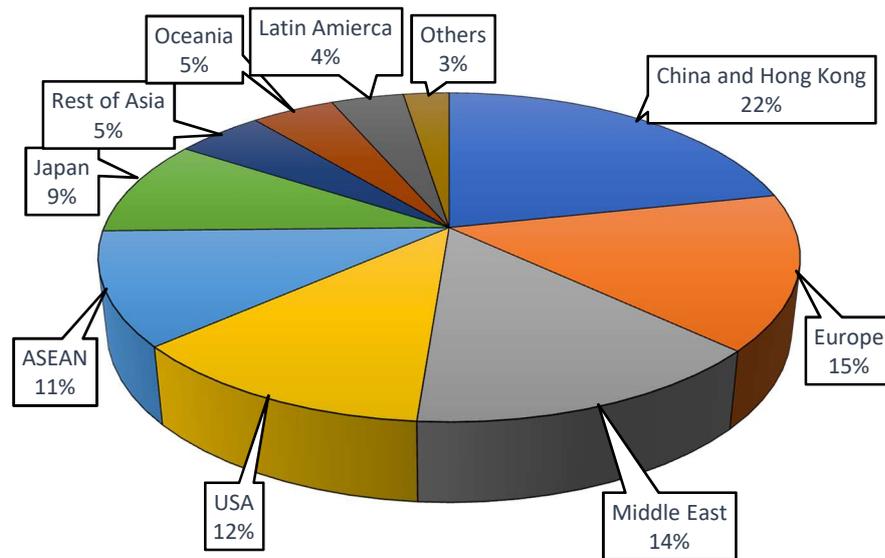
- 3.6 Korea's main export items, in particular electronic integrated circuits, petroleum products and motor cars (Appendix 2), which accounted for nearly one third of the country's exports, were likewise hit.
- 3.7 Apart from the disruption in regional production network, the falling oil price also explained Korea's decreasing imports. Petroleum, oil and gas accounted for 22% of Korea's total imports in 2019 largely from the Middle East countries.¹⁶
- 3.8 To counterbalance China's growing economic influence, the United States is pushing to create an "Economic Prosperity Network", a trade alliance of "trusted partners", which inevitably includes South Korea.¹⁷
- 3.9 The process of breaking away from trade with China could be lengthy and costly for South Korea. China including Hong Kong, still accounted for over a third of Korea's total exports and 22% of Korea's total imports in 2019 (Figures 3 and 4).



¹⁶ Data source: Korea International Trade Association.

¹⁷ Humeyra Pamuk and Andrea Shalal, "Trump administration pushing to rip global supply chains from China: officials", Reuters, 4 May 2020 <<https://www.reuters.com/article/us-health-coronavirus-usa-china/trump-administration-pushing-to-rip-global-supply-chains-from-china-officials-idUSKBN22G0BZ>> (accessed 4 June 2020).

FIGURE 4 SOUTH KOREA'S IMPORTS BY COUNTRY/REGION IN 2019



Source: CEIC.

- 3.10 Despite the growing manufacturing relocation to Vietnam in recent years,¹⁸ China remains an important industrial production partner for South Korea. Nearly 80% of Korean exports to China are intermediate goods, one third of which are for export to a third country after manufacturing in China.¹⁹
- 3.11 China's official figures show the strong industrial partnership in bilateral trade ties. Fifty-eight per cent of China's imports from and 48% of its exports to Korea are machinery and electrical equipment.²⁰
- 3.12 The United States' "anti-China" trade policy goes counter to South Korea's long-insisted diversified trade relations. After two decades of efforts, South Korea has secured free trade agreements (FTA) with 12 countries and four trade blocs in the

¹⁸ Jung Suk-ye, "South Korean companies increasing investment in Vietnam to utilize low labor cost", *Business Korea*, 13 May 2019 <<http://www.businesskorea.co.kr/news/articleView.html?idxno=31743>> (accessed 24 June 2020).

¹⁹ Jung Min-hee, "US-China trade war seriously affecting South Korean industries", *Business Korea*, 4 June 2019 <<http://www.businesskorea.co.kr/news/articleView.html?idxno=32500>> (accessed 4 June 2020).

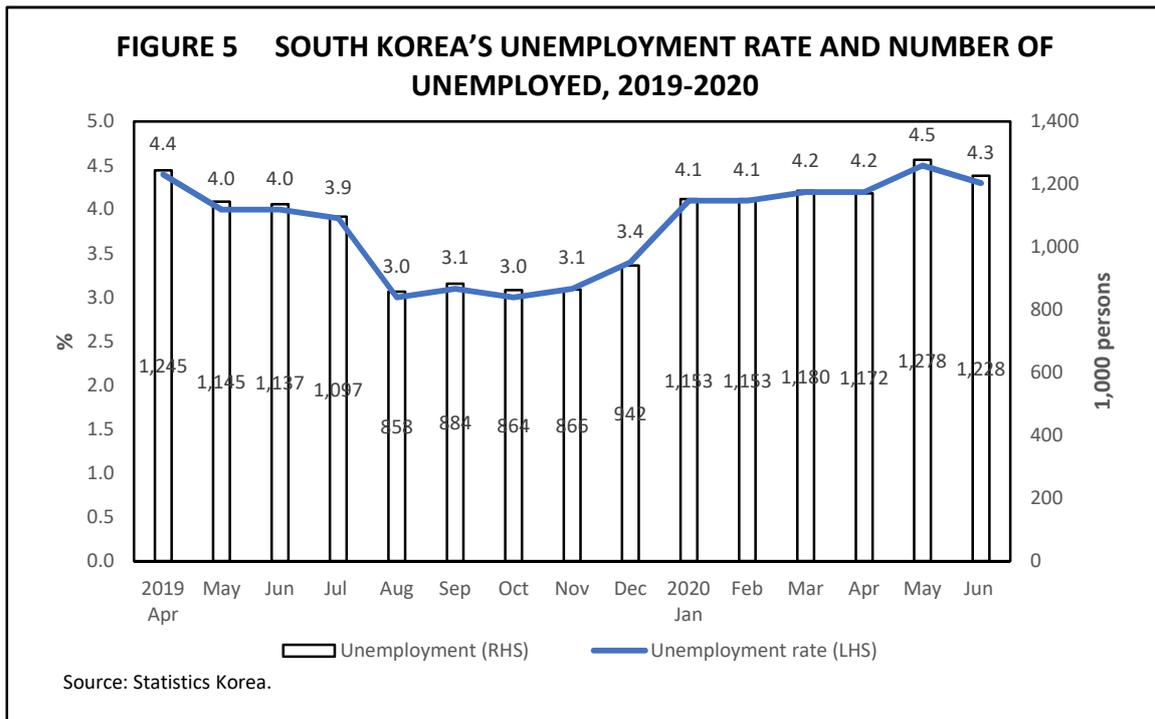
²⁰ Data source: CEIC.

world.²¹ Korea may face tremendous difficulties withdrawing from its multilateral trade network strategy to side with one in the G-2 trade structure.

3.13 South Korea may be able to counterbalance the challenges from US-China trade war through its extensive involvement in regional FTAs. It is estimated to reap US\$23 billion national income gain from the Regional Comprehensive Economic Partnership by 2030 amid the protracted US-China trade war.²²

Unemployment Woes

4.1 South Korea’s unemployment rate was on a gradual incline from 3.4% in December 2019 to 4.5% in May 2020, the highest since March 2018. Unemployment rate had improved in June (Figure 5).



²¹ The United States, China and India are the three largest countries among the 12. The four trade blocs are the European Union, Association of Southeast Asian Nations, European Free Trade Association and Central American bloc. Kim Yon-se, “Korea in FTA talks with ASIAN, South American powerhouses”, *The Korea Herald*, 2 January 2020 <<http://www.koreaherald.com/view.php?ud=20200102000300>> (accessed 4 June 2020).

²² Gary Clyde Hufbauer, Jeffrey J Schott and Zhiyao Lu, “China and the Trans-Pacific Partnership: In or out?” Peterson Institute for International Economics, 23 June 2020 <<https://www.piie.com/blogs/trade-and-investment-policy-watch/china-and-trans-pacific-partnership-or-out>> (accessed 25 June 2020).

- 4.2 The number of unemployed in May stood at 1,278,000, a surge of 336,000 compared to that in December 2019 (Figure 5). The total number of unemployed in May 2020 was the highest since August 1999.²³
- 4.3 Unemployment has improved slightly in June with the number of unemployed people declined to 1,228,000 (Figure 5).
- 4.4 The improving job market in June can also be observed by the employment figures. The employment statistics showed that the number of employed had increased from 26,609 in March to 27,055 in June (Table 4).

TABLE 4 SOUTH KOREA'S EMPLOYMENT BY SECTOR IN 2020

Unit: 1,000 people

	Jan	Feb	Mar	Apr	May	Jun	Change (Jan-Jun)
Agriculture and mining	1,185	1,208	1,415	1,494	1,565	1,585	400
Manufacturing	4,447	4,445	4,423	4,377	4,377	4,351	-96
Construction	1,974	1,951	1,960	1,934	1,979	1,995	21
Wholesale, retail trade, accommodation and food	5,941	5,848	5,662	5,613	5,656	5,654	-287
Electricity, transport, communication and finance	3,212	3,219	3,170	3,157	3,181	3,168	-44
Business, personal, public service and others	10,038	10,167	9,979	9,987	10,172	10,285	247
Total	26,798	26,838	26,609	26,562	26,930	27,055	257

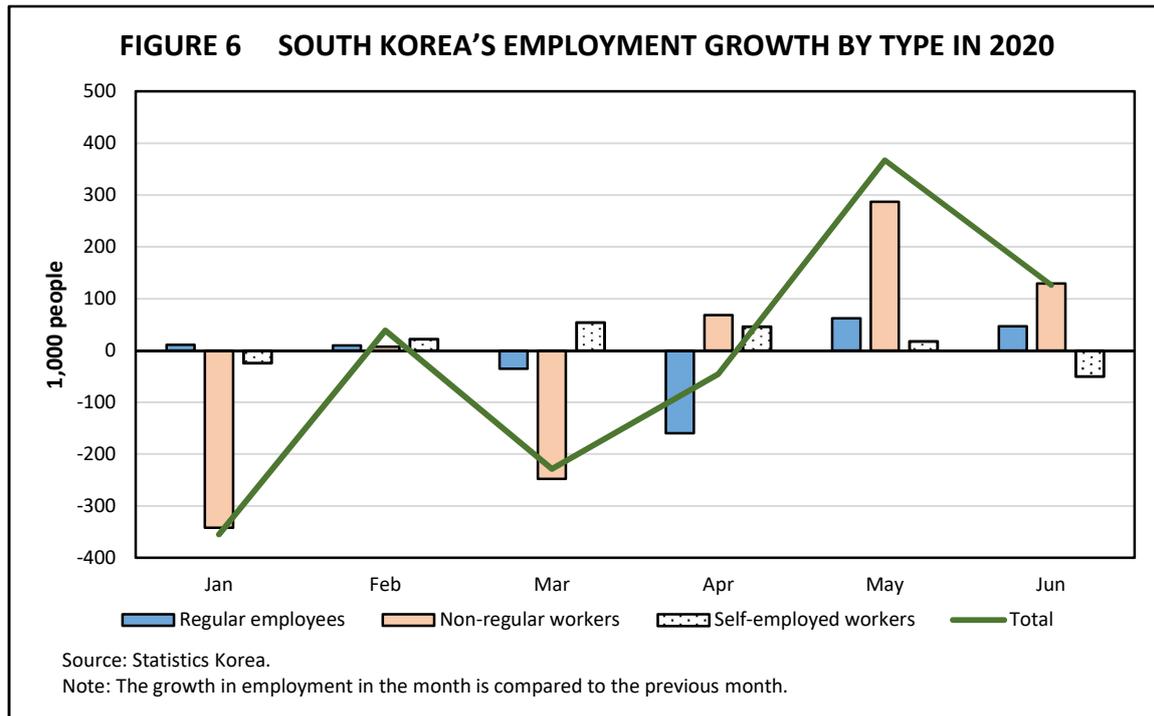
Source: Statistics Korea.

- 4.5 The improving employment was particularly clear in the category of business, personal, public service and others since May, indicating the greater hiring in both business and public sectors after the easing of virus-containment restrictions and the provision of economic stimulus policy (Table 4).
- 4.6 However, the COVID-19 has hit the domestic services severely. The number of employed in wholesale, retail trade, accommodation and food sector witnessed the sharpest drop by 287,000 during the first half of the year (Table 4).
- 4.7 Employment in the manufacturing sector contracted by 96,000 in the first half of the year. The economic contractions in trading partners as a result of COVID-19 have

²³ Data source: Statistics Korea.

spilled over to South Korea, denting its exports, which took a toll on employment in the manufacturing sector.

4.8 The improvement in employment is also a result of greater hiring for temporary work. The number of non-regular workers²⁴ had the most noticeable increase in May whereas the growth in regular employees and the self-employed was relatively small (Figure 6).



4.9 As exports continue to fall and private consumption remains sluggish, local businesses might continue to minimise production cost through maintaining a smaller number of employees. As such, unemployment is unlikely to improve in the coming months.

4.10 Equity concerns are exacerbated by the low share of non-regular workers covered by social insurance. During his speech on 10 May, President Moon announced plans to expand unemployment insurance coverage to those who are engaged in all forms of employment by the end of the year.

²⁴ Non-regular employees include temporary workers, daily workers, unpaid family workers and unpaid workers.

- 4.11 As low-skilled workers suffered the most from job loss due to COVID-19, the income inequality has widened. The top 20% of the income bracket earned 5.41 times more than the bottom 20% in the first three months of the year, up from 5.18 times a year before.²⁵
- 4.12 In response to rising unemployment, the Moon government announced on 14 May the creation of 1.56 million jobs in the third supplementary budget which is still waiting for the parliament's approval. A total of 945,000 jobs will be funded by the conventional budget. Of the 550,000 jobs coming from both public and private sectors, 48,000 will be permanent jobs in public sectors.²⁶

Comprehensive Stimulus Package to Stabilise Both Economy and Financial Market

- 5.1 To support the economy amid the ongoing pandemic, the government has proposed a series of economic stimulus measures since February. The overall stimulus package can be divided into three categories, including supplementary budget (in currency), emergency financing (mostly in loans) and extra support measures (Table 5).
- 5.2 The first 11.7 trillion won (US\$9.7 billion) of supplementary budget was first proposed on 28 February and approved by the parliament on 17 March, with the aim to keep small businesses afloat and sustain employment (Table 5).
- 5.3 The second supplementary budget of 12.2 trillion won (US\$10 billion) was approved on 30 April to fund emergency relief payments to each household in the country.²⁷

²⁵ "Widening income gap", *The Korea Times*, 22 May 2020 <https://www.koreatimes.co.kr/www/opinion/2020/05/202_289958.html> (accessed 12 June 2020).

²⁶ Of the 945,000 jobs, 600,000 will be remote work and offered to the elderly and socially disadvantaged people. Bae Hyunjung, "S. Korea to add 1.56 million new jobs in public sectors", *The Korea Herald*, 14 May 2020 <<http://www.koreaherald.com/view.php?ud=20200514000702>> (accessed 12 June 2020).

²⁷ Households with four or more members in the bottom 70% income bracket would receive up to one million won (US\$828). Single-person households will receive 400,000 won, while two-person households and three-person households will receive 600,000 won and 800,000 won, respectively. "S. Korea unveils 2nd extra budget of 7.6 trillion won for aid to virus-hit household", *Yonhap News Agency*, 16 April 2020 <<https://en.yna.co.kr/view/AEN20200416000851320>> (accessed 16 June 2020).

TABLE 5 SOUTH KOREA'S ECONOMIC STIMULUS PACKAGE

Date of approval		Policy measures	Amount (trillion won)	Amount (US\$ billion)
Supplementary budget				
1	17 March	<ul style="list-style-type: none"> • Disease control • Support for SMEs • Support for private consumption and employment 	11.7	9.7
2	30 April	<ul style="list-style-type: none"> • Household emergency relief programme 	12.2	10.0
3	3 July	<ul style="list-style-type: none"> • Finance emergency support • Improve job security and expand social safety nets • Korean new deal 	35.3	29.2
Subtotal			59.2	49.0
Emergency financing				
1	19 March	<ul style="list-style-type: none"> • Emergency financing package for small business and the vulnerable 	32.0	26.5
2	24 March	<ul style="list-style-type: none"> • Increase wage subsidies from 100 billion won to 500 billion won • Emergency financial support for exporters and Korean businesses overseas 	100.0	82.8
3	30 March	<ul style="list-style-type: none"> • Emergency disaster relief fund to each household with four members in the bottom 70% of income bracket 	20.0	16.6
4	8 April	<ul style="list-style-type: none"> • Financial aid and support for retailers, airline companies, sport industries and childcare 	5.0	4.1
5	22 April	<ul style="list-style-type: none"> • Financial support to car industries, airline companies, shipping industries, oil refining companies and shipbuilders 	Not specified	
<ul style="list-style-type: none"> • Overlapping with other measures 			-8.0	6.6
Subtotal			149.0	123.4
Extra support measures				
1	Various dates from February	<ul style="list-style-type: none"> • Loan and guarantee extension 	241.3	200.0
2	March 19	<ul style="list-style-type: none"> • Korea-US swap line 	77.1	63.9
3	March 30	<ul style="list-style-type: none"> • Social security contribution relief and tax payment deferrals 	27.1	22.4
4	April 8	<ul style="list-style-type: none"> • Frontloaded investments and prepayment 	3.3	2.7
Subtotal			348.8	288.8

Source: Ministry of Economy and Finance, South Korea; Policy response to COVID-19, International Monetary Fund <<https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>> (accessed 15 June 2020).

5.4 In view of the still sluggish economy, the largest-ever extra budget of 35.3 trillion won (US\$29.2 billion) was approved on 3 July 2020 (Table 5). The third supplementary budget will be used to help improve job security and key industries overcome the current coronavirus crisis.

5.5 The three combined supplementary budgets is worth 59.2 trillion won (US\$49 billion) (Table 5) and the government debt to GDP ratio will go up to 43.7% in 2020, from 38.1% in 2019.²⁸

5.6 For the total supplementary budget, 63.3% will be financed by issuing government bonds, 31.9% by the restructuring of government spending and the remaining 6% from the government fund (Table 6).

TABLE 6 SOURCE OF FINANCE FOR THE SUPPLEMENTARY BUDGET

Unit: trillion won

	1st supplementary budget	2nd supplementary budget	3rd supplementary budget	Total by source of finance (in %)
Surplus fund	1.4	0	0	1.4 (2.4)
Borrowings from public fund reserve	0	0	1.4	1.4 (2.4)
Spending restructuring	0	8.8	10.1	18.9 (31.9)
Debt issuance	10.3	3.4	23.8	37.5 (63.3)
Total by supplementary budget	11.7	12.2	35.3	59.2 (100)

Source: Ministry of Economy and Finance, South Korea.

5.7 A series of emergency financing measures have been released to finance Korean companies through extending loans, increasing the amount and extending the maturity of trade credit, expanding trade insurance and facilitating the purchase of corporate bonds, commercial paper and financial bonds (Table 5).

5.8 On 22 April, a key industry stabilisation fund of KRW40 trillion was announced to support seven key industries: airlines, shipping, shipbuilding, autos, general machinery, electric power and communications.

5.9 Several extra support measures have been implemented since February to facilitate business operations in the country such as measures to frontload public sector investment and purchases, tax relief and loan extension (Table 5).

5.10 To prevent anxiety in the market that leads to growing demand for dollars and instability in currency rates, BOK and the Federal Reserve established a temporary

²⁸ Data source: Ministry of Economy and Finance, South Korea.

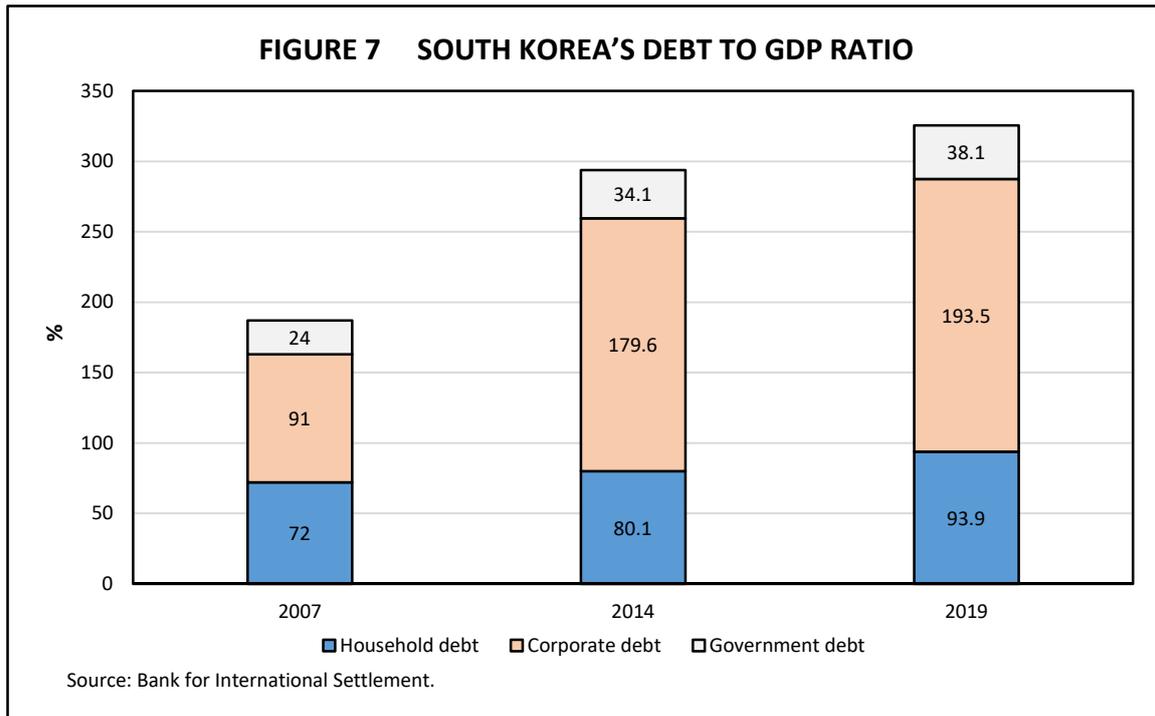
bilateral currency swap arrangement (swap line) for the provision of US dollar liquidity.²⁹

- 5.11 To prevent a virus-triggered recession, BOK slashed the Base Rate from 1.25% to 0.5% on 28 May. Several other measures have also been taken by BOK to facilitate financial liquidity.³⁰
- 5.12 While BOK's loose monetary policy may help businesses avoid a credit crunch as a result of falling sales and disrupted operations, it has been blamed for propelling property market boom and household debt over the past few years.
- 5.13 Apart from household debt, government and corporate debts have been rising in recent years (Figure 7). Although its government debt to GDP ratio is relatively low by international standard, its household debt and corporate debt are higher than that of major economies in the world.³¹ The COVID-19 outbreak is likely to further drive up debt due to the contraction in income and sales revenue and the huge government spending.

²⁹ "Bank of Korea announces SWAP arrangement with US Federal reserve", Press Release, Bank of Korea, 19 March 2020 <<https://www.bok.or.kr/eng/bbs/E0000634/view.do?nttId=10057144&menuNo=400069>> (accessed 16 June 2020). Other measures taken for maintaining financial market stability include expansion of BOK repo operations to non-banks, creation of a BOK lending programme to non-banks with corporate bonds as collateral, a temporary prohibition of stock short-selling in the equity markets, temporary easing of rules on share buybacks, and temporary easing of loan-to-deposit ratios for banks and other financial institutions and domestic currency liquidity. International Monetary Fund <<https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>> (accessed 15 June 2020).

³⁰ Other financial measures include 1) making unlimited amounts available through open market operations (OMOs); 2) extending the list of eligible OMO participants to include select non-bank financial institutions; 3) expanding eligible OMO collateral to include bank bonds, certain bonds from public enterprises and agencies, and government-guaranteed mortgage-backed security issued by Korea Housing-Finance Corporation; 4) easing collateral requirements for net settlements in the BOK payments system; and 5) purchasing Korean Treasury Bonds (KRW3.0 trillion). To augment available funding for SMEs, BOK also increased the ceiling of the Bank Intermediated Lending Support Facility by a total of KRW10 trillion (about 0.5% of GDP) and lowered the interest rate to 0.25% (from 0.5% to 0.75%). International Monetary Fund <<https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>> (accessed 15 June 2020).

³¹ Korea's household debt to GDP ratio reached to 95.5% in Q4 2019, higher than that of 43 reporting economies. Its household debt to GDP ratio is higher than that of main economies in the world, such as the United States (75.4%), Euro area (57.9%), China (55.2%), Japan (59.1%) and Singapore (51.8%). South Korea's corporate debt to GDP ratio (197.6%) in Q4 2019 was also higher than the 150.3% of the United States, 165.4% of the Euro area, 163% of Japan, but lower than China's 204.6%. Data source: "Total credit to household (core debt) as percentage of GDP", Bank for International Settlement. <https://stats.bis.org/statx/srs/table/f3.1?f=pdf> (accessed 16 June 2020).



Slow Recovery amid Uncertainties in the Global Economy

- 6.1 The virus outbreak since February has slowed down South Korea's economic activities. Nonetheless, the Korean economy is expected to perform relatively well thanks to its effective virus containment measures and quick economic response.³² The IMF forecast 1.2% of economic shrinkage for Korea, which is better than the global average of -4.9%.³³
- 6.2 South Korea's economy is not free from virus concern even though the virus spread is generally under control. Due to its high reliance on global trade, South Korea's economy is challenged by other countries' ongoing virus transmission.³⁴

³² "S.Korea's economy to shrink 1.2pct in 2020 due to coronavirus: IMF", *Yonhap News Agency*, 14 April 2020 <<https://en.yna.co.kr/view/AEN20200414008100320#:~:text=If%20the%20pandemic%20is%20brought,grow%203.4%20percent%20in%202021.&text=The%20global%20economy%20is%20expected,percent%20expansion%2C%20the%20IMF%20said.>> (accessed 29 June 2020).

³³ World Economic Outlook Update, International Monetary Fund, June 2020.

³⁴ South Korea's total trade in goods and services to GDP ratio (83%) in 2018 was higher than China's 38%, Japan's 37%, OECD's 58% and North America's 31%. Data source: The World Bank <<https://data.worldbank.org/indicator/NE.TRD.GNFS.ZS>> (accessed 19 June 2020).

- 6.3 The disruption in overseas production and demand also posed challenges to South Korean firms. Samsung forecast declining revenue in the second quarter due to the persistent threat from COVID-19.³⁵ Given Samsung's importance in Korea's economy, its pessimistic forecast implies a less bright prospect for the whole economy.
- 6.4 The growing US-China rivalry is another devastating factor. South Korea is a long-term US ally. However it could not risk China's economic sanctions, as it did in 2016 in retaliation of South Korea's deployment of US antiballistic-missile defence system.
- 6.5 China's strong demand for Samsung's key components explains its importance in Korea's exports. China's market accounted for more than 30% of Samsung electronics' global sales in 2018. In comparison, the United States' share had declined to 27% in 2018, from 32% in 2016.³⁶
- 6.6 China's Huawei particularly relied on Samsung's DRAM and NAND flash memories for its smartphones. Samsung's semiconductor production benefitted from Huawei's large share (50%) in China's smartphone market despite being competitors.³⁷
- 6.7 The US effort to curb Huawei's business expansion may be advantageous for Samsung to expand its global market share. However, Samsung may lose an important source of sales revenue if the United States requests for a stoppage of components supply to Huawei.

³⁵ "Samsung Electronics announces first quarter 2020 results", Samsung News Room, 29 April 2020 <<https://news.samsung.com/global/samsung-electronics-announces-first-quarter-2020-results> > (accessed 19 June 2020).

³⁶ Kim Eun-jin, "Huawei effect: China becomes Samsung electronics' biggest client", Business Korea, 3 April 2019 <<http://www.businesskorea.co.kr/news/articleView.html?idxno=30529>> (accessed 5 June 2020).

³⁷ Apple, Best Buy, Deutsche Telekom and Verizon are also Samsung's important clients. Michael Herh, "Huawei becoming a double-edged sword to Samsung electronics", Business Korea, 5 December 2019 <<http://www.businesskorea.co.kr/news/articleView.html?idxno=38899>> (accessed 22 June 2020).

- 6.8 Korea's exports have been an important engine for propelling private consumption and domestic investment. The weak export prospect suggests that government spending will play a key role in boosting the economy.
- 6.9 Nonetheless, the government's financial aid to the low-income group may not boost private consumption as spending power remains concentrated in households with high income. In 2019, 38% of all household expenditure was incurred by the first 20% of the highest income household, while households in the two lowest income groups (40% of total households) accounted for only 20% of all household expenditure.³⁸
- 6.10 Past experiences showed that South Korea was always at risk of rising income inequality when the economy stopped growing. The rising gini coefficient during and after the Asian Financial Crisis and GFC are two stark examples. It would take the government several years before income inequality could be curbed.
- 6.11 While the government's massive investment in high technology industry³⁹ is expected to improve efficiency, it may squeeze out low-skilled workers who could not keep pace with the development towards a more capital and more high technology-oriented economy.
- 6.12 To counter rising income inequality and growing government debt, the Moon administration will impose from 2022 a new income tax on all gains made from financial investments.⁴⁰ More measures to curb income inequality are expected as the rising income gap would hurt the long-term economic growth prospect and create more social problems.

³⁸ Data source: Korean Statistical Information Service.

³⁹ Apart from the Korean New Deal, the Moon government also plans to spend KRW7.8 trillion (US\$6.47 billion) over the next five years to nurture its materials, parts and equipment sectors and trim its dependence on Japanese imports. "S. Korea to spend W 7.8 trillion to reduce economic reliance on Japan", *The Korea Times*, 5 August 2019 <https://www.koreatimes.co.kr/www/nation/2019/08/356_273427.html> (accessed 19 June 2020).

⁴⁰ Bae Hyunjung, "S Korea to impose tax on all financial investment gains", *The Korea Herald*, 25 June 2020 <<http://www.koreaherald.com/view.php?ud=20200625000804>> (accessed July 2020).

APPENDIX 1 ANNUAL GROWTH RATE OF SOUTH KOREA'S EXTERNAL TRADE BY SELECTED ECONOMIES IN 2019 AND 2020

Unit: YOY monthly growth rate (%)

South Korea's exports							
	China	Hong Kong	ASEAN	US	Europe	Total	
2019	-16.0	-30.6	-5.0	0.9	-7.9	-10.4	
2020 Jan	-11.0	-1.1	9.2	-7.6	-16.3	-6.6	
Feb	-7.4	10.2	7.6	9.0	-6.1	3.6	
Mar	-6.9	-2.9	3.9	15.4	-3.2	-1.4	
Apr	-18.2	-7.9	-5.9	-14.2	-8.9	-25.1	
May	-2.4	-19.6	-10.4	-29.2	-12.3	-23.6	
Jun	9.6	-18.4	-10.5	-8.3	-13.2	-10.9	
South Korea's imports							
	China	ASEAN	US	Europe	Japan	Middle East	Total
2019	0.7	-5.8	5.1	-11.1	-12.9	-16.3	-6.0
2020 Jan	-8.8	1.0	5.5	-7.7	-21.9	-1.1	-5.2
Feb	-15.7	3.5	24.3	0.3	-0.9	-6.8	1.4
Mar	1.6	3.7	7.3	2.7	1.8	-12.6	0.2
Apr	-1.8	-1.6	-9.8	-0.2	-13.9	-24.0	-15.8
May	-9.6	-3.2	-22.2	-0.7	-16.5	-32.7	-21.0
Jun	2.9	-2.8	-1.8	0.1	-8.0	-36.5	-11.2

Source: Korea International Trade Association.

APPENDIX 2 ANNUAL GROWTH RATE OF SOUTH KOREA'S EXTERNAL TRADE BY SELECTED ITEMS IN 2019 AND 2020

Unit: YOY monthly growth rate (%)

South Korea's exports				
HS Code	8542	2710	8703	Total
	Electronic integrated circuits	Petroleum products	Motor cars	
2019	-28.0	-12.2	5.8	-10.4
2020 Jan	-1.0	-7.0	-22.1	-6.6
Feb	10.0	-7.5	-15.4	3.6
Mar	-3.5	-21.0	7.2	-1.4
Apr	-19.5	-56.8	-35.6	-25.1
May	6.3	-68.8	-53.1	-23.6
Jun	-4.3	-48.0	-32.8	-10.9
South Korea's imports				
HS Code	2709	8542	2711	Total
	Petroleum products	Electronic integrated circuits	Petroleum gases and other gaseous hydrocarbons	
2019	-12.6	3.4	-10.8	-6.0
2020 Jan	12.0	4.1	-7.3	-5.2
Feb	-6.1	34.4	-5.2	1.4
Mar	-16.1	13.1	7.1	0.2
Apr	-53.3	-6.6	-13.4	-15.8
May	-68.4	-2.9	-9.1	-21.0
Jun	-65.3	4.8	-23.3	-11.2

Source: Korea International Trade Association.