

# [South korea’s economic situation](https://assignbuster.com/south-koreas-economic-situation/)

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Our country takes pride in being an extraordinary example of a war-ravaged and devastatingly impoverished nation remarkably turned into a high-income economy. Now we stand as the 11th largest economy in the world, but growth rates have recently been taking a slowing trend. This movement towards low growth is of concern, not because of the numbers themselves but rather in that they reveal structural limitations to our current economic arrangement.

To a great extent, South Korea’s exceptional economic performance from the 1970s and onwards can be attributed to the country’s devotion towards maintaining sound fundamentals: growing human capital, high savings, strong institutions, and relatively well-managed fiscal and monetary policies. Another feature often highlighted is its high level of economic openness, which subsequently allowed domestic industries access to cheap raw materials, massive markets, and advanced technology, through which economic growth based on high productivity was attained. But a glitch in this type of strategy is that the country becomes disproportionately dependent on trade, and thereby highly vulnerable to shocks in both global demand and supply.

Forecasts for Korea’s GDP growth lie at around 2. 9%, but Korea can regain its momentum by taking measures to reshape and diversify its sources of growth. There are largely two paths, demand-side stimulations and supply-side productivity boosts. President Moon, you are actively pursuing the former with your increased government spending, expansion of public-sector jobs, redistributive policies, and minimum wage hikes. However, the two paths are not mutually exclusive and in fact, the latter strategy has potential to drive more long-lasting growth effects. Therefore, my first recommendation is that along with your policies to raise income and consumption, a simultaneous pursuit for supply-side innovation needs to be realized. The most effective means to this would be to increase competition and hence boost innovation by lowering barriers to foreign investment, supporting start-ups and SMEs by encouraging entrepreneurship, and tackling chaebol monopoly.

President Moon, we live in a globalized world. The fate of a single country’s economy does not entirely rest in its own activities but is critically swayed by the circumstances and actions of other states. Therefore, my second suggestion is to make efforts to promote regional economic integration, especially with underdeveloped ASEAN countries, to further utilize and strengthen the global value chain. Much potential lies in the heterogeneity of factor endowments among Asian economies as this can be translated into international division of labor. Moreover, now is the time to improve regional cooperation in dealing with financial crises, drawing from our experience that such crises cannot be contained nor solved within the confines of one country.

Lastly, I propose a more active diversification in trading partners. Although market mechanisms should be able to naturally direct trade flows, the government should intervene if too many eggs are going into one basket. Methods of intervention can include additional preferential trade agreements and inspiring companies to expand their business ties with Russia, India, and Latin America.

To conclude, the Korean economy has done well, but for it to continue to set a model for developing countries, several structural problems need to be addressed. I am confident that you will consider my suggestions and accompany them with social welfare measures to bolster long-term growth and sustain the Korean dream.