

# South korea economic problems

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Between 1990 and 2015, the growth of the Korean economy has been one of the most dynamic in the world. The average annual growth rate of the country's GDP was 5%, higher than that of the world economy (3%), but lower than that of the emerging and developing economies of Asia (7%).

The Korean economy is highly integrated with global value chains, as well as trade (near 90% opening rate) and global financial markets, exposing it to external shocks and making it vulnerable (2008-2009 Crisis). In 2017, the recovery in global trade and China's import demand pushed ROK's GDP growth to more than 3% (compared with 2.8% in 2016), with the recovery in semiconductor exports (exports account for about 50% of the country's GDP). The IMF forecast indicates a growth of the Korean economy of 2.8% in 2018 and 3% in 2019.

But, the economic growth rate of ROK has been declining since 2011. A few factors may explain the current weak performance of the South Korean economy: The decline in exports; the drop in domestic consumption (because of the high level of indebtedness of households); the steady decline in the growth of the economy; unequal competition between SMEs and conglomerates (chaebols).

Despite this difficult context, and despite a costly state stimulus package, the country's public finances have remained solid: the budget surplus has consolidated, public debt is manageable, inflation has been contained and a low unemployment rate (under 4%) but higher among youth (10%).

According to the World Bank, in 2017, S. Korea's GDP was ranked 11th in the world. The economic outlook remains weak, as the recent growth trend remains downward / stagnant. S. Korea's economy will still be dependent on the global context, as well as exports and domestic consumption.

The country will have to solve the structural problems of optimizing the financial markets, the ageing of the population, the dependence on exports and the erosion of its competitiveness in the face of the rise of other emerging economies following the example of China and its strong competition in several sectors (automotive, electronics and shipbuilding).

S. Korea's current export-based and chaebol-dominated economic model can no longer provide enough jobs and growth. Reforms are needed to diversify the economy, at the expense of excessively export-oriented growth. The necessary measures would be:

Assist labor market flexibility and employ among young people who are often well-trained and competitive and encourage the development of SMEs and ensure equal treatment with chaebols (fair competition);

Korea is a major importer of raw materials (fuels). More investment in nuclear / renewable energy is needed to ensure energy security;

The country's agricultural sector (2. 2% of GDP) is low and is expected to feed more than 50 million Korean people. The state must develop this sector and subsidize it (as US and many European countries do) to reduce its food dependency (food security);

S. Korea, should support research and innovation in priority to preserve its competitiveness to face up the rise of the giants;

Sectoral diversification of the economy through the development of tourism that can create wealth and employment;

Broaden and diversify its trading partners to supply its industry with raw materials and enter additional markets to sell its industrial products;

International competitiveness and the profitability of activities could suffer from the increase of the minimum wage, so a well reflection and profound study must be established by the government with the consultation of the social partners (companies, unions and employees) to increase the minimum wage or not;

Concerns persist over US trade policy: after the Trump administration threatened to pull out of the bilateral FTA, Seoul agreed to renegotiations. In early 2018, the US imposed deterrent import duties on washing machines and solar panels, targeting Korea, among others. Korea must rely on aggressive economic diplomacy to defend its external economic and trade interests.