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ECONOMIC AND POLITICAL OVERVIEW

ECONOMIC OVERVIEW

South Korea, a developed economy renowned for its dynamic export sector, has weathered various economic challenges while maintaining its growth trajectory. In 2023, GDP growth moderated to 1.4%, down from 2.6% in 2022, primarily due to factors such as elevated interest rates and energy prices, which dampened private consumption and investment. Despite these obstacles, the semiconductor sector showed signs of recovery, hinting at a potential economic resurgence. Projections indicate a rebound in growth to 2.3% in 2024 and 2.1% in 2025, driven by renewed export and investment activities, especially in semiconductors. These figures underscore South Korea's ability to adapt and thrive amid changing global economic landscapes.

In fiscal terms, South Korea witnessed a narrowing fiscal deficit in 2023, with the consolidated deficit decreasing to 1.1% of GDP, influenced by expenditure reductions. However, revenue collection faced challenges, with a 10.1% drop in the year to August, attributed to weak corporate performance, particularly in the semiconductor sector, and declining property capital gains tax. To address a revenue shortfall of KRW 59.1 trillion (2.6% of GDP) in 2023, the government utilized public funds, including KRW 20 trillion from the FX stabilization fund, to bridge the gap rather than resorting to additional deficit financing. The forecasted consolidated deficit for 2024 stands at 0.8% in line with the government's budget proposal, although revenue performance remains weak. Despite restrained spending growth of 2.8% relative to the 2023 budget, fiscal deficits are expected to persist, signalling the government's commitment to fiscal prudence amid revenue challenges. Looking ahead, the administration aims for modest medium-term deficits, anticipating a decrease to 0.2% of GDP in 2025. Nevertheless, the debt-to-GDP ratio - at 54.3% last year - is projected to marginally rise to 56.5% by 2025. Inflation in 2023 moderated considerably, dropping to 3.4%, with further decline anticipated to 2.3% in 2024, reflecting gradual stabilization and adjustment in the economy. Monetary policy is expected to maintain stability, as indicated by the Bank of Korea's policy rate at 3.5% since January 2023. Household borrowing trends remain concerning, despite a slight decline to 101.7% of GDP in 2Q23 from its peak in 2Q22, raising the potential for increased debt burdens. Nevertheless, financial sector risks appear manageable, with banks well-positioned to navigate potential pressures, supported by strong underwriting standards and macroprudential measures.

South Korea has experienced remarkable success in combining rapid economic growth with significant reductions in poverty. Income per capita increased from USD 100 in 1963 to more than USD 56,709 in 2023 (IMF). Unemployment rates in South Korea have shown remarkable resilience, remaining historically low at 2.7% in 2023, despite weakened demand and occasional shocks. Labour market conditions have demonstrated relative stability, supported by the country's diversified economic structure and strong export-oriented industries. Looking ahead, unemployment rates are projected to increase slightly to 3.2% in 2024 and 3.3% in 2025, reflecting potential challenges in sustaining job creation amid evolving economic conditions. However, despite these projections, South Korea's labour market remains robust, indicating a steady employment environment amidst ongoing economic changes. In the medium and longer terms, however, South Korea will spend more on preparing measures to tackle the low birth rate, elderly poverty and low employment among women.

Main Indicators	2022	2023 (E)	2024 (E)	2025 (E)	2026 (E)
GDP <i>(billions USD)</i>	1,673.92	1,709.23	1,784.81	1,873.34	1,957.35
GDP <i>(Constant Prices, Annual % Change)</i>	2.6	1.4	2.2	2.3	2.2
GDP per Capita <i>(USD)</i>	32,418	33,147	34,653	36,407	38,077
General Government Balance <i>(in % of GDP)</i>	-1.7	-1.1	-0.8	-0.2	-0.1
General Government Gross Debt <i>(in % of GDP)</i>	53.8	54.3	55.6	56.5	57.1
Inflation Rate <i>(%)</i>	n/a	3.4	2.3	2.0	2.0
Unemployment Rate <i>(% of the Labour Force)</i>	2.9	2.7	3.2	3.3	3.2
Current Account <i>(billions USD)</i>	29.83	22.76	30.58	36.80	48.89
Current Account <i>(in % of GDP)</i>	1.8	1.3	1.7	2.0	2.5

Source: IMF – World Economic Outlook Database , October 2021

Country Risk

See the country [risk analysis](#) provided by [La Coface](#).

MAIN SECTORS OF INDUSTRY

South Korea has experienced one of the largest economic transformations of the past 60 years. Given its limited geographical size, insufficient natural resources and population size (a labour force of 29.2 million people out of its 51.74 million population), the country has devoted special attention to technology development and innovation to promote growth, growing from a predominantly rural, agricultural nation into an urban, industrialized country. Industry represents 31.7% of the GDP and employs 25% of the workforce (World Bank, latest data available). Once characterized by resource scarcity, South Korea has emerged as a global leader in various industries, thanks to strategic government policies, heavy investments in research and development, and a skilled workforce. The main industries include textile, steel (with POSCO being the world's seventh-largest steelmaker), car manufacturing, shipbuilding and electronics (South Korea is the world's second-largest producer of semiconductors, which represents its main export). In 2023, the seasonally-adjusted production index across all industries, excluding agriculture, livestock, and fishery sectors, increased by 0.7% compared to the previous year, as per Statistics Korea. While industrial output continued to rise for the third consecutive year, the manufacturing sector experienced its most significant decline since 1998, amidst the fallout of the foreign exchange crisis in Asia. Manufacturing output plummeted by 3.9% last year, primarily due to a sharp decline in semiconductor production, marking the first downturn in 22 years since 2001. Manufacturers reported an average capacity ratio of 71.3% in 2023, reflecting a decrease of 3.5 percentage points from the previous year.

The agricultural sector in South Korea only makes a negligible contribution to the country's GDP (1.6%) and employs only 5% of the active population (World Bank). Rice is the main agricultural crop; barley, wheat, corn, soybeans and sorghum are extensively cultivated. The sector also includes large-scale livestock farming. Less than one-fourth of the land is cultivated. South Korea's mineral resources are limited to gold and silver. Statistics Korea (KOSTAT) issued its final assessment of 2023 rice production, indicating a total of 3.7 million metric tons, marking a 1.6% decrease compared to the previous year.

The service sector is the largest and fastest economic sector, accounting for 57% of GDP and employing 70.2% of the active population (World Bank), especially department stores, store chains and supermarkets. Tourism is one of the leading sectors: from January to November 2023, South Korea welcomed a total of 9,995,000 visitors, reflecting an impressive surge of 275.9% compared to the corresponding period in the previous year. However, despite the rebound, the number of visitors only reached 62% of the levels observed during the same timeframe in 2019 (data Korea Tourism Organization). Overall output in the services industry went up 2.9% in 2023 after advancing 5% in 2021 and 6.7% in 2022 (data Statistics Korea).

Breakdown of Economic Activity By Sector	Agriculture	Industry	Services
Employment By Sector <i>(in % of Total Employment)</i>	5.3	24.6	70.0
Value Added <i>(in % of GDP)</i>	1.6	31.8	58.2
Value Added <i>(Annual % Change)</i>	-1.3	1.2	4.2

Source: World Bank - Latest available data.

Monetary Indicators	2016	2017	2018	2019	2020
South Korean Won (KRW) - Average Annual Exchange Rate For 1 USD	1,160.27	1,130.42	1,100.56	1,165.40	1,180.27

Source: World Bank - Latest available data.

FOREIGN TRADE

The export-oriented policies of South Korea are one of the most important factors in its economic success. The country was the world's sixth-largest exporter of goods and the eighth-largest importer of goods in 2022 (WTO), with trade accounting for 97% of its GDP (World Bank). In the same year, the country exported mainly electrical and electronic equipment (16.5% of the total), petroleum oils (9%), motor cars (7.6%), telephones (4.2%), and parts and accessories for vehicles (1.9%). Conversely, petroleum oils (18.1%), electronic integrated circuits (8.5%), petroleum gas (7.8%), coal (3.8%), and machines used for the manufacture of semiconductors (2.8% - data Comtrade).

South Korea is heavily integrated into international trade and finance and is subsequently highly vulnerable to external influences, especially from China, which is its main trade partner (22.8% of total exports in 2022), followed by the United States (16.1%), Vietnam (8.9%), Japan (4.5%) and Hong Kong (4%). Its main suppliers are China (21.1%), the United States (11.2%), Japan (7.5%), Australia (6.1%) and Saudi Arabia (5.7% - data Comtrade). South Korea has concluded free-trade agreements with many countries (the last one with five Central American countries) representing more than 70% of the global economy. The country recently decided to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which was signed by 11 Asia-Pacific countries in March 2018. On the 15th of November 2020, South Korea signed the Regional Comprehensive Economic Partnership (RCEP) with 14 other Indo-Pacific countries. This free trade agreement is the largest trade deal in history, covering 30% of the global economy. It includes the Association of Southeast Asian Nations (ASEAN: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam) and ASEAN's free trade agreement partners (Australia, China, India, Japan, New Zealand and the Republic of Korea). The RCEP covers goods, services, investment, economic and technical cooperation. It also creates new rules for electronic commerce, intellectual property, government procurement, competition, and small and medium-sized enterprises.

South Korea's trade balance is structurally positive. According to WTO, exports of goods amounted to USD 683.5 billion in 2022, while imports reached USD 731.3 billion (+6% and +18.9% y-o-y, respectively). As per services, exports stood at USD 133 billion against USD 136 billion in imports. Despite overall exports reaching an all-time high, 2022 saw South Korea's largest-ever trade deficit on high global energy prices. According to preliminary governmental figures for 2023, exports declined 7.4% as restrictive monetary policies in many countries and a slowing Chinese economy weakened demand for Korean goods. Moreover, South Korea experienced a trade deficit of USD 18 billion with China, marking the first time in 31 years that such a bilateral shortfall occurred between the two countries.

Foreign Trade Values	2018	2019	2020	2021	2022
Imports of Goods <i>(million USD)</i>	535,202	503,343	467,633	615,093	731,370
Exports of Goods <i>(million USD)</i>	604,860	542,233	512,498	644,400	683,585
Imports of Services <i>(million USD)</i>	133,047	130,684	104,266	124,296	136,025
Exports of Services <i>(million USD)</i>	103,678	103,839	89,596	121,187	133,023

Source: World Trade Organisation (WTO) ; Latest available data

Foreign Trade Indicators	2018	2019	2020	2021	2022
Foreign Trade <i>(in % of GDP)</i>	79.0	75.8	69.0	80.5	96.8
Trade Balance <i>(million USD)</i>	110,087	79,812	80,605	75,731	15,061
Trade Balance (Including Service) <i>(million USD)</i>	80,717	52,967	65,935	70,444	9,513
Imports of Goods and Services <i>(Annual % Change)</i>	1.7	-1.9	-3.1	10.1	3.7
Exports of Goods and Services <i>(Annual % Change)</i>	4.0	0.2	-1.7	10.8	3.2
Imports of Goods and Services <i>(in % of GDP)</i>	37.3	36.5	32.7	38.5	48.5

Foreign Trade Indicators	2018	2019	2020	2021	2022
Exports of Goods and Services <i>(in % of GDP)</i>	41.7	39.3	36.4	42.0	48.3

Source: World Bank ; Latest available data

Foreign Trade Forecasts	2023	2024 (e)	2025 (e)	2026 (e)	2027 (e)
Volume of exports of goods and services (Annual % change)	2.4	3.3	3.5	3.4	3.3
Volume of imports of goods and services (Annual % change)	3.0	3.7	3.4	3.4	3.2

Source: IMF, World Economic Outlook ; Latest available data

Note: (e) Estimated Data

International Economic Cooperation

South Korea is a member of the following international economic organisations: IMF, Asia-Pacific Economic Cooperation (APEC), OECD, G-20, Association of Southeast Asian Nations (ASEAN) (dialogue partner), ICC, WTO, among others. For the full list of economic and other international organisations in which participates South Korea click [here](#). International organisation membership of South Korea is also outlined [here](#).

Free Trade Agreements

South Korea is a member of Regional Comprehensive Economic Partnership ([RCEP](#)) signed on 15 November 2020. The complete and up-to-date list of Free Trade Agreements signed by South Korea can be consulted [here](#).

Main Partner Countries

Main Customers <i>(% of Exports)</i>	2022
China	22.8%
United States	16.1%
Vietnam	8.9%
Japan	4.5%
Hong Kong SAR, China	4.0%
See More Countries	43.7%

Main Suppliers <i>(% of Imports)</i>	2022
China	21.1%
United States	11.2%
Japan	7.5%
Australia	6.1%
Saudi Arabia	5.7%
See More Countries	48.3%

Source: Comtrade, Latest Available Data

POLITICAL OUTLINE

Current Political Leaders

President: Yoon Suk Yeol (since 10 May 2022)

Next Election Dates

Legislative: April 10, 2024

Presidential: 2027

Current Political Context

The Korean peninsula remains one of the most protracted and volatile conflict zones in the world. Ex-President Moon Jae-in has pushed the denuclearization and the 'peace economy' concept as the cornerstones of its North Korea policy. In its five-year plan, the government was working to lay the foundations for economic unification by restarting inter-Korean cooperation and seeking a single market for Seoul and Pyongyang. The purpose is to achieve peace and unification by 2045. Under the previous administration, Seoul has undertaken its first unified diplomatic initiative aimed at advancing ties with India and the Association of Southeast Asian Nations (ASEAN). This policy is an extension of South Korea's need to diversify its economic and strategic relationships amid the uncertainty posed by competition between its closest ally, the United States, and its largest trading partner, China. By elevating ties with India and Southeast Asia, particularly in the economic realm, Seoul hopes to insulate itself from the risks posed by trade and strategic friction between the two great powers.

Under the newly elected President Yoon Suk-yeol (former Prosecutor General), South Korea is adapting to a rapidly changing geopolitical environment by seeking to elevate its international profile and improve relations with key allies. But sustaining this important strategic shift will require its deeper institutionalization, both at home and in the U.S. and Japan. More broadly, South Korea also will need to strengthen its participation in multilateral institutions and networks, so that it can work with other countries to provide international public goods, mitigate supply-chain problems, and address other global issues.

In June 2023, the Yoon Suk-yeol administration of South Korea unveiled its National Security Strategy (NSS). The strategy vows to transform Korea into a "global pivotal state," actively defending liberal democracy and fostering global prosperity. It further solidifies the Yoon administration's strategic realignment with longstanding allies and partners like the United States and Australia, especially amidst ongoing North Korean missile tests and diplomatic strains with China.

Main Political Parties

The most influential parties in South Korea include:

- **Democratic (Minjo) Party**: centrist-liberal political party, advocating for human rights, improved relations with North Korea, and a "new progressivism" economic policy
- **People Power Party or PPP** (formerly Liberty Korea Party): right-wing, conservative, currently the second-largest party in the National Assembly
- **Justice Party**: centre-left; organised around progressivism
- **Green Party**: founded in 2012, champions ecological wisdom, social justice.

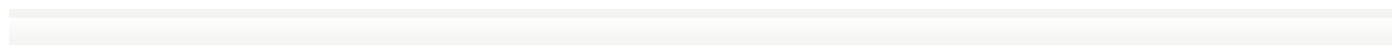
Other parties include the **Basic Income Party** (BIP), the **Progressive Party** (Minjung), and the **New Reform Party** (NRP).

Executive Power

The [President](#) is the chief of the state, head of the Government and commander-in-chief of the armed forces. He or she is elected by a popular vote for a single five-year term. The President enjoys executive powers and appoints both the Prime Minister and the [State Council](#) (cabinet) with the consent of the parliament. The Prime Minister is not required to be a member of parliament and his or her main role is to assist the President.

Legislative Power

The legislature in South Korea is unicameral. The Parliament, called the [National Assembly](#), has 300 statutory seats distributed among parties in proportion to their share of the vote. Each member is elected to serve four-year terms. The executive branch of the government is directly or indirectly dependent on the support of the National Assembly, often expressed through a vote of confidence.



COVID-19 COUNTRY RESPONSE

Travel restrictions

Regularly updated travel information for all countries with regards to Covid-19 related entry regulations, flight bans, test and vaccines requirements is available on [TravelDoc Infopage](#).

To find information about the current travel regulations, including health requirements, it is also advised to consult Travel Regulations Map provided and updated on a daily basis by [IATA](#).

Import & export restrictions

A general overview of trade restrictions which were adopted by different countries during the COVID-19 pandemic is available on the [International Trade Centre's COVID-19 Temporary Trade Measures](#) webpage.

Economic recovery plan

For the general overview of the key economic policy responses to the COVID-19 pandemic (fiscal, monetary and macroeconomic) undertaken by the government of South Korea, please consult the country's dedicated section in the [IMF's Policy Tracker platform](#).

Support plan for businesses

For an evaluation of impact of the Covid pandemic on SMEs and an inventory of country responses to foster SME resilience, refer to the OECD's [SME Covid-19 Policy Responses](#) document.

You can also consult the World Bank's [Map of SME-Support Measures in Response to COVID-19](#).