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RUBIX COUNTRY INSIGHTS

SOUTH KOREA

Recovering from weak growth in 2023, South Korea's economy is expected to improve gradually on the back of export growth, stable inflation, and easing interest rates in the coming years.

EXECUTIVE SUMMARY

- The surge in semiconductor demand during the pandemic led to a 4.3% GDP growth in 2021 but global overcapacity and geopolitical crises in 2022, combined with high inflation and other economic pressures, slowed South Korea's GDP growth in 2022 and 2023.
- A modest recovery of 2.5% is anticipated in 2024, driven by improved export growth, rebounding external demand, and stable inflation and interest rates. However, chances are the growth momentum might not be sustained because of high interest rates leading to reduced domestic demand and resulting in 2.2% growth in 2025. Meanwhile, in October 2024, South Korea's central bank, the Bank of Korea (BoK) cut its benchmark interest rates by 25 basis points to 3.25% after holding rates for nearly two years. It remains to be seen how much of a positive impact it will have on the economy.
- South Korea's economy is highly dependent on international trade, with exports accounting for nearly 40% of its GDP. Its major trade partners are China and the United States, with Electronic Integrated Circuits (EICs)/semiconductors and automobiles being the primary export products.
- Overall, exports, crucial to South Korea's export-driven economy, fell by 7.5% y-o-y to USD 632 billion in 2023, marking the first decline since 2020.
- In 2023, South Korea experienced a trade deficit for the second year in a row totalling nearly USD 10 billion, a decrease from USD 48 billion in 2022. This deficit was primarily driven by diminished global demand, which was affected by higher interest rates in major economies.
- Although China continued to be South Korea's largest export destination in 2023, the gap between South Korea's exports to China and those to the US narrowed to the smallest level in 19 years. This shift is partly due to weaker Chinese demand in 2023 and increased competition from domestic Chinese producers.

- India is concerned about its growing trade deficit with South Korea, which has risen from USD 9.4 billion in FY2022 to USD 14.7 billion in FY2024. In response, while reviewing its Free Trade Agreement (FTA) with South Korea, India is seeking significant duty reductions on a wide array of exports, including agricultural products, textiles, pharmaceuticals, electronics, and petrochemicals, as well as increased market access for items such as steel, rice, and shrimp.
- In May 2024, South Korea unveiled a 26 trillion Won (USD 19 billion) support package for its semiconductor industry to boost competitiveness

under global market pressures. The plan, announced by President Yoon Suk Yeol, includes financial aid for infrastructure, Research and Development (R&D), and Small- and Medium-sized Enterprises (SMEs), along with tax incentives and investments in critical infrastructure to support the sector's growth.

- In the past year, with the objective of strengthening its global presence through alliances with trade partners, South Korea has embarked on a series of trade agreements with different countries, including the United Arab Emirates (UAE), New Zealand, and Thailand, and countries in Africa.

Key Economic Indicators: Summary

Indicator	2021	2022	2023 (E)	2024 (F)	2025 (F)	Forecast
GDP, current prices (USD Trillion)	1.82	1.67	1.71	1.76	1.84	●
GDP Growth, current prices (%)	4.3	2.6	1.4	2.5	2.2	●
GDP per Capita, current prices (USD '000)	35.1	32.4	33.2	34.2	35.8	●
Inflation rate, average consumer prices (%)	2.5%	5.1%	3.6%	2.5%*	2%	●
General government gross debt (% of GDP)	51.3	53.8	55.2	56.6	57.3	●
Current account balance (% of GDP)	4.7	1.5	2.1	2.9	3.4	●

*Latest inflation stands at 1.6% in Sep 2024.

Note: ● = positive outlook; ● = negative outlook; ● = stable/unchanged

Source: International Monetary Fund

Overview of South Korea's Political Landscape

In April 2024, the main opposition Democratic Party (DP) won a majority in South Korea's National Assembly, securing 175 out of 300 seats compared to the ruling People Power Party's (PPP's) 108. This victory suggests ongoing tension between President Yoon and the legislature, as his domestic policies have often faced strong opposition from the largely progressive National Assembly. President Yoon's proposed initiatives, including increasing housing supply and relaxing greenbelt restrictions, may now

face significant hurdles. Despite temporary boosts in popularity, the election outcome is likely to complicate these plans, which critics label populist. Nevertheless, President Yoon's foreign policy, which emphasises strengthening the US-South Korea alliance and addressing North Korea's provocations, is expected to remain consistent because it is less influenced by domestic political shifts. He has also worked to improve South Korea's relationship with Japan despite potential domestic backlash.

Overview of South Korea's Business Landscape

South Korea, officially known as the Republic of Korea, is a prime example of economic achievement in Asia and ranks as the region's fourth-largest economy with a GDP of more than USD 1.8 trillion. In just a few decades since the Korean War, South Korea has transformed from a war-torn nation into one of the world's wealthiest and most advanced countries. This remarkable growth is the result of various initiatives, including export-focused policies, Government-led industrialisation, and significant investments in education and technology.

Presently, South Korea has created a name for itself as a leading global producer of electronics, semiconductors, and automobiles, with many of its firms being household names. South Korea's Samsung is renowned for producing some of the most advanced chips essential in today's increasingly digital world. Hyundai and Kia are major players in the global automotive market, while LG holds a substantial share of the electronics sector.

South Korea's economy relies heavily on international trade, with exports constituting close to 40% share of its

GDP. This dependence makes the economy susceptible to fluctuations in external demand and global trade dynamics. The country's primary trade partners are China and the US with Electronic Integrated Circuits (EICs)/semiconductors and automobiles as the main export items.

South Korea faces several challenges, including a rapidly ageing population, the world's lowest fertility rate, and a declining population, all of which are impacting private spending and placing pressure on fiscal resources. Additionally, tensions with North Korea and potential

regional conflicts, such as a possible dispute between China and the US over Taiwan, pose risks. Furthermore, competition from Chinese manufacturers could impact South Korea's market share in the global automotive, semiconductor, and electronics sectors.

Despite all this, in the coming years, South Korea's economic growth is expected to outpace that of many other advanced economies, thanks to its leading position in several high-tech industries and its proximity to rapidly growing Asian markets. However, adverse demographic trends are likely to increasingly hinder economic activity.

Business Entities in South Korea

At the end of 2022, South Korea had 6.1 million registered companies¹. Here is an overview of the most common company types of companies in South Korea²:

Sole Proprietorship: These are unincorporated businesses owned and run by a single individual and are a popular choice for small-scale businesses and entrepreneurs who desire simplicity, control, and minimal regulatory burden.

Partnership Corporations: These are business entities formed by two or more individuals who share ownership and management responsibilities. There are two main types of partnership corporations in South Korea: General Partnership Company (Hapmyeong Hoesa) and Limited Partnership Company (Hapja Hoesa).

- In a general partnership, all partners typically participate in the management. In a limited partnership, management responsibilities usually fall on the general partners.
- In a general partnership, all partners share unlimited liability. In a limited partnership, limited partners have protection over their personal assets beyond their investment in the business.

Limited Liability Companies (Yuhan Hoesa): This is a popular form of business entity that combines elements of both partnership and corporation structures. It is designed to provide its owners with limited liability while maintaining operational flexibility. One of the main attractions of a Yuhan Hoesa is that the liability of each member (shareholder) is limited to the amount of their investment in the company.

Stock Corporations (Jusik Hoesa): This type of business entity is particularly suitable for large-scale operations. In such corporations, the capital is divided into shares, which can be bought and sold by shareholders.

Limited Companies: Partners hold limited liability of their investment amount only, and thus, do not hold any responsibility to creditors. Transfer of shares may be restricted under the articles of association.

Foreign-Invested Companies: A local corporation, in which a foreigner has invested not less than 100 million Won for managerial participation and acquired not less than 10% of the company's newly issued or existing stocks with voting rights, is recognised as a foreign-invested company under the Foreign Investment Promotion Act.

Key Economic Indicators: Major Insights

GDP

South Korea's GDP Slows Amid Semiconductor Glut and Global Disruptions, but 2024 Promises Modest Recovery³

South Korea's economy is heavily dependent on goods exports, with semiconductor manufacturing playing a key role in its growth. The boom in semiconductor

demand, driven by increased investments in home offices and entertainment during the pandemic, led to a 4.3% GDP growth in 2021.

However, global overcapacity in semiconductors emerged in 2022 coinciding with the outbreak of the Russia-Ukraine war, which triggered an energy crisis and contributed to worldwide inflation.

¹ Statistics Korea, Preliminary Results of the 2022 Census on Establishments, September 2023

² Geos International and Invest Korea

This, along with post-COVID disruptions in global supply chains, high inflation, rising household debt, increasing interest rates, and falling housing prices, constrained private consumption. Further, sluggish export performance, particularly in semiconductors, adversely impacted the economic situation. As a result, South Korea's GDP slowed for two consecutive years in 2022 and 2023.

Looking ahead, a modest recovery is expected in 2024, driven by improved export growth due to a rebound in external demand complemented by steady inflation and interest rates.

Inflation

Inflation Hits 3.5-Year Low in August 2024, Fuelling Hopes for Monetary Policy Easing⁵

Consumer Price Index (CPI) inflation peaked at 6.3% year-on-year in July 2022, largely driven by the energy price shocks resulting from Russia's military action on Ukraine.

To keep the inflation in check, the Bank of Korea (BoK) undertook a series of cumulative rate hikes totalling 300 basis points and held the policy rate at 3.5% since January 2023.

Since the peak in July 2022, both headline and core inflation rates trended downward towards the Bank of Korea's 2% target and touched its lowest level in over three years, coming in at 1.6% in September 2024⁵.

Therefore, considering the stabilisation of inflation, the central bank cut its benchmark interest rates by 25 basis points to 3.25% in October 2024⁶.

Overall, the BoK's monetary tightening measures have been effective in reducing inflation from its peak levels and stabilising both short-term and long-term inflation expectations.

According to the BoK, inflation was stabilising more quickly than in other major economies, and it expects prices to maintain a stable trend, as consumer inflation slowed in August 2024 to the weakest in nearly 3.5 years, supporting market expectations for an easing of monetary policy.

³ OECD Economic Survey, South Korea, July 2024

⁴ Reuters 2024, OECD Economic Survey, South Korea, July 2024

⁵ CNBC, October 2024

⁶ CNBC, October 2024

Cross-Border Trade Dynamics

South Korea Faces Trade Deficit as Semiconductor Exports Decline but Automotive Shipments Reach Record High

South Korea recorded a trade deficit for the second consecutive year in 2023, amounting to nearly USD 10 billion, down from USD 48 billion in 2022. This deficit was driven by weaker global demand, influenced by higher interest rates in major economies.

Overall exports, crucial to South Korea's export-driven economy, fell by 7.5% to USD 632 billion, the first decline since 2020. This decline in exports was attributed to the

global economic slowdown and high interest rates.

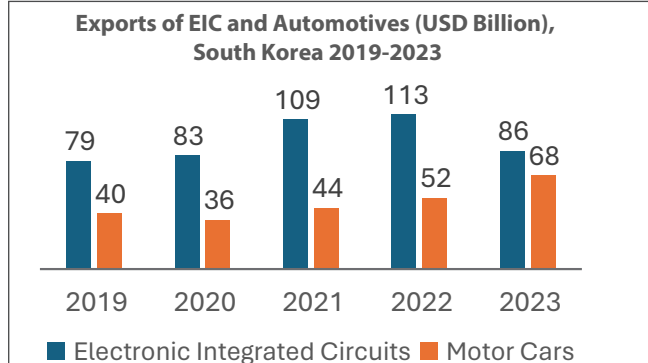
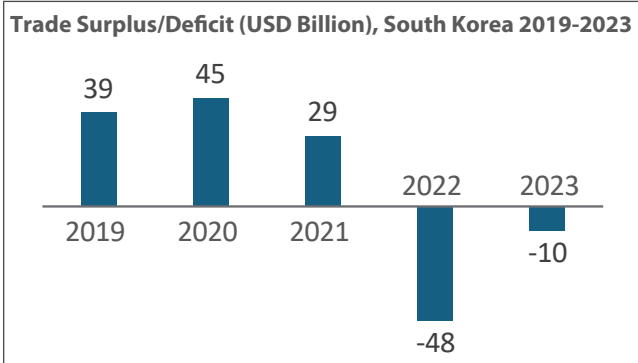
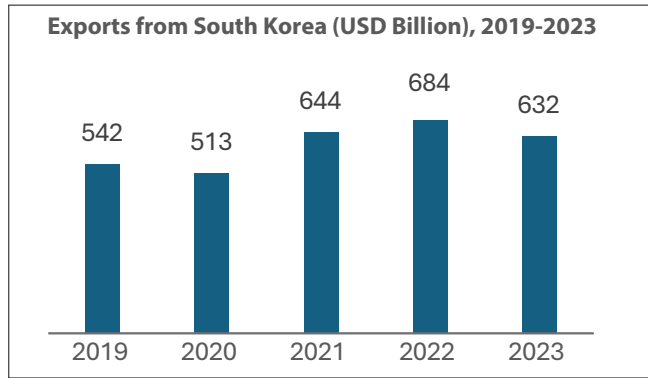
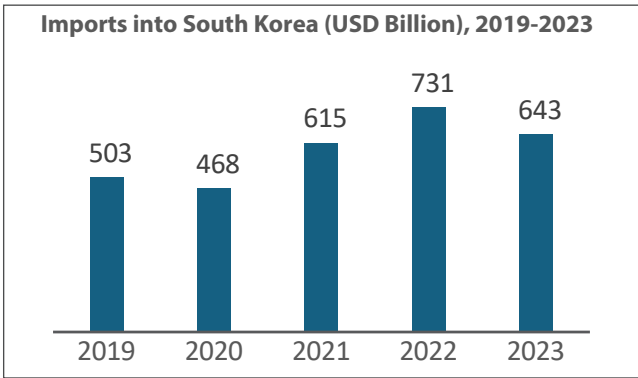
Overall imports decreased by 12.1% to USD 643 billion partly due to lower commodity prices.

Semiconductors and auto are two major export products. Semiconductor exports fell sharply by 23.7% to USD 86 billion, while automotive shipments surged by 32% to a record USD 68 billion.

“Going forward, unless there is any additional shock from weather conditions or global oil prices, consumer inflation is expected to stabilise in the lower 2% range.”

Kim Beomseok,

1st Vice Minister of Economy and Finance, Republic of Korea, September 2024



Source: International Trade Centre (ITC)

Country-wise Trade

The US is emerging as a potential top export destination for South Korea, and there is a high probability that it will replace China.

South Korea's economy is heavily reliant on the export of goods, particularly semiconductors with the US and China as its primary export markets.

Although China continued to be South Korea's largest export destination in 2023, the gap between South Korea's exports to China and those to the US narrowed to the smallest level in 19 years.

This shift is partly due to weaker Chinese demand in 2023 and increased competition from domestic Chinese producers. In addition, it is also influenced by trade restrictions, as the US is asking South Korea to impose restrictions on semiconductor technology exports to China (similar to those Washington has

already implemented). This is because a significant portion of South Korea's exports to China consists of semiconductors used in Chinese manufacturing.

South Korea's exports to the US surpassed those to China in the first five months of 2024. If this trend continues, the US could become the top export destination for South Korea for the first time in 22 years.

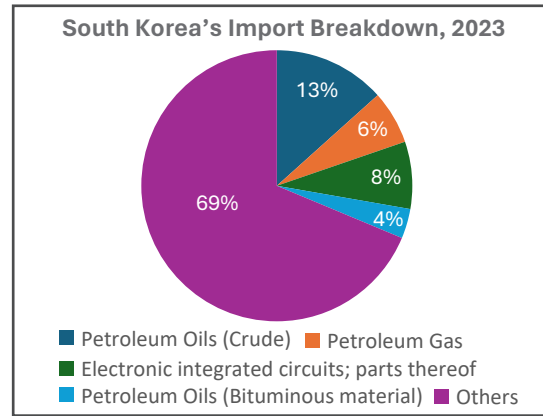
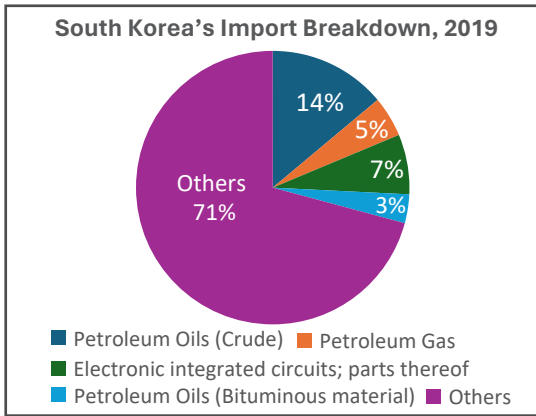
South Korea's heavy trade dependence on both the US and China, coupled with rising tensions between the two, creates vulnerabilities, especially given that much of this trade is concentrated in strategic high-tech sectors.

TOP-5 IMPORT ORIGINS AND EXPORT DESTINATIONS, SOUTH KOREA, 2019 AND 2023					
Top 5 Countries from Where South Korea Imported			Top 5 Countries to Which South Korea Exported		
Country	Share in 2019	Share in 2023	Country	Share in 2019	Share in 2023
China	21%	22%	China	25%	20%
US	12%	11%	US	14%	18%
Japan	9%	7%	Vietnam	9%	8%
Australia	4%	5%	Japan	5%	5%
Saudi Arabia	4%	5%	Hong Kong	6%	4%
Others	50%	50%	Others	41%	45%
Total	100%	100%	Total	100%	100%

Source: International Trade Centre (ITC)

Major Imports

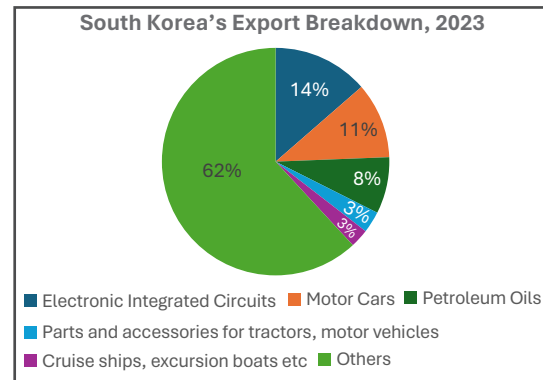
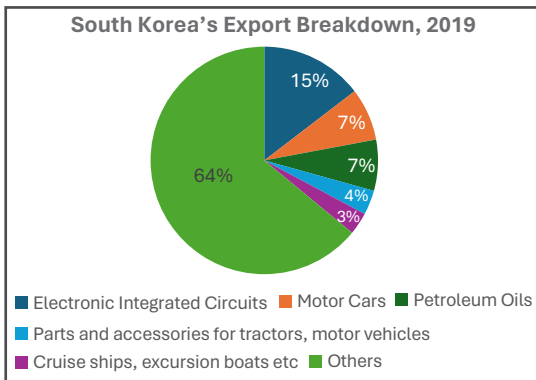
Energy products (crude, gas, petroleum oils—bituminous material) collectively account for nearly 23% of the total imports and their share has remained consistent.



Source: International Trade Centre (ITC). Note: 4-digit HS codes have been considered for the analysis.
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Major Exports

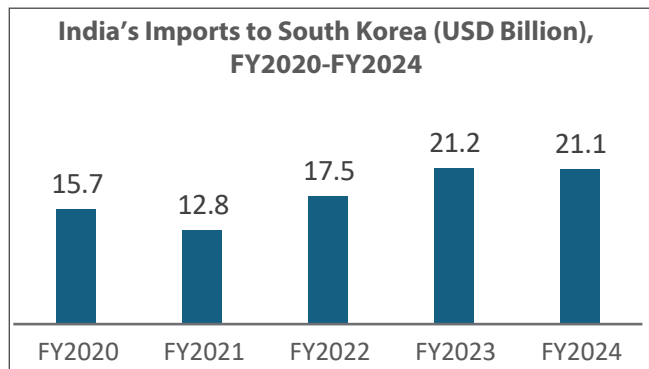
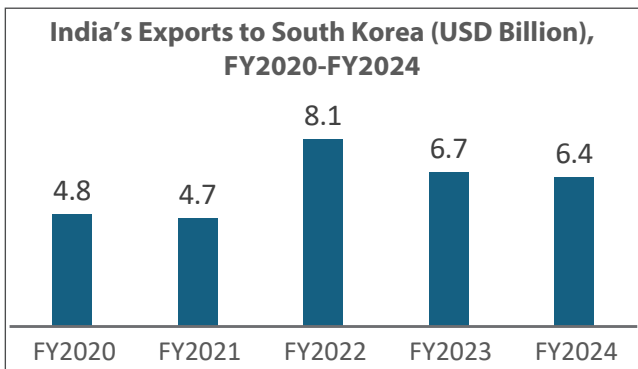
Electronic integrated circuits (chips/semiconductors) and automotive account for a majority of exports, owing to the presence of MNCs such as Samsung and LG in the semiconductor space and Hyundai and Kia in the auto space.



Source: International Trade Centre (ITC). Note: 4-digit HS codes have been considered for the analysis.
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Cross-Border Trade Dynamics: With India

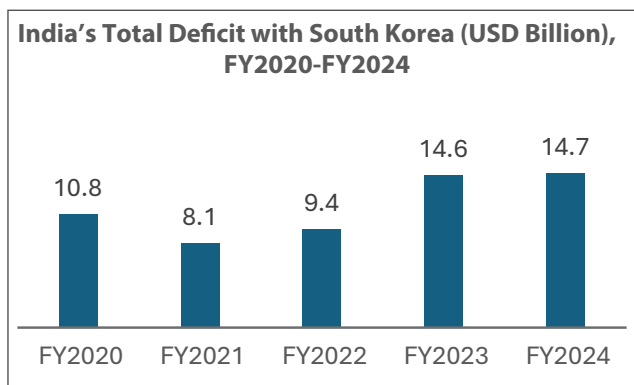
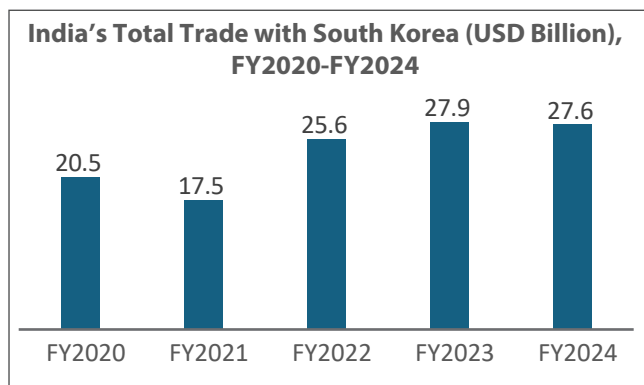
A growing trade deficit is proving to be a major concern for India, as imports from South Korea account for more than 2.5 times India's exports to South Korea.



Source: Ministry of Commerce and Industry, Department of Commerce, Government of India

In the past three years, from FY2022 to FY2024:

- India's exports to South Korea declined at 11% CAGR.
- India's imports from South Korea increased at 10% CAGR.
- Total trade (imports + exports) between the two countries increased by 4% CAGR.
- India's trade deficit (imports - exports) with South Korea increased by 25% CAGR.



Note: Total Trade = Imports + Exports. Source: Ministry of Commerce and Industry, Department of Commerce, Government of India

Three products, namely crude petroleum oil, electronic integrated circuits/micro assemblies and auto components collectively account for 26% of India's imports from South Korea.

INDIA-SOUTH KOREA TRADE, FY2020 AND FY2024					
Major Products Exported by India to South Korea			Major Products Imported by India from South Korea		
Product	Share in FY2020	Share in FY2024	Product	Share in FY2020	Share in FY2024
Refined petroleum oils	22%	22%	Crude petroleum oils	0%	11%
Unwrought aluminium	19%	14%	Electronic integrated circuits and micro assemblies	8%	10%
Turbo jets, propellers etc.	0%	7%	Flat-rolled products of iron or non-alloyed steel	5%	5%
Ferro alloys	4%	4%	Non-crude petroleum oils	4%	4%
Unwrought lead	2%	3%	Auto components	6%	5%
Others	53%	50%	Others	77%	65%
Total	100%	100%	Total	100%	100%

Note: 4-digit HS codes have been considered for the analysis.

Source: Ministry of Commerce and Industry, Department of Commerce, Government of India

India and South Korea Negotiate CEPA Upgrade to Address Trade Imbalances and Market Barriers⁷

India and Korea signed the Comprehensive Economic Partnership Agreement (CEPA) in 2010. With talks to upgrade the existing India-Korea Free Trade Agreement (FTA), the last round of discussion was held in July 2024. The talks aim to strengthen economic cooperation between the two countries by addressing issues related to implementation, rules of origin, customs procedures, and data sharing.

India has also raised concerns about the growing trade deficit between the two countries, which has increased from USD 9.4 billion in FY2022 to USD 14.7 billion in FY2024. India's exports to South Korea dipped to USD 6.41 billion in FY2024 from USD 8.1 billion in FY2022. Imports stood at USD 21.1 billion in FY2024 as against USD 17.5 billion in FY2022.

India is pushing for substantial duty reductions on a broad range of exports to South Korea as it begins a review of its FTA with the Asian economic giant. The request includes tariff cuts for agricultural products, textiles and apparel, pharmaceuticals, electronics,

⁷ Economic Times, July 2024 and Mint, July 2024

and petrochemicals. India is also pushing for greater market access for some of its products like steel, rice, and shrimp. Meanwhile, South Korea is seeking improved mobility access for its professionals in return.

A report by the economic think tank Global Trade Research Initiative (GTRI) stated that Indian exporters are facing various non-tariff barriers in South Korea, including stringent standards, regulations, and certification requirements, and these barriers are making it difficult for Indian goods to penetrate the South Korean market. Further, according to GTRI, India is looking for greater liberalisation in the services sector, including healthcare and Information Technology (IT), and easier access for Indian professionals and service providers in the South Korean market.

Electronic Transfer of Bills of Lading for Ease of Business⁸

India considers South Korea a key trade partner, as India's exports to South Korea touched USD 6.4 billion in FY2024. To enhance the ease of doing business, in September 2024, South Korea and India introduced the electronic transfer of Bills of Lading (BoL) between their customs authorities. The transition from physical to electronic document submission is expected to be fully implemented within the next year and a half. This move aligns with global initiatives to digitise cross-border trade documentation. The United Nations Commission on International Trade Law (UNCITRAL) is leading this broader effort, with several countries already involved in creating a digital framework for global trade.

Brief Snapshot of Key Developments in South Korea: Impact Metrics

Key Developments	Impact		
	1–2 years	3–5 years	6–10 years
South Korea's tax incentives: A boost for its economy	High	High	High
Strengthening the supply chain ecosystem	High	High	High
Indonesia and South Korea advance de-dollarisation with new currency deal	High	High	High
Leveraging India's lower manufacturing cost for electric vehicle battery production	High	High	Medium
Partnering with India for green hydrogen developments	High	High	Medium
India seeking South Korea's support to strengthen the shipbuilding ecosystem	High	High	Medium
Moving Towards Sustainable Aviation Fuel (SAF)	High	High	Medium
US, South Korea sign nuclear guideline strategy to deter and respond to North Korea	High	Medium	Medium

Key Developments

South Korea's Tax Incentives: A Boost for its Economy⁹

In July 2024, South Korea unveiled a set of proposed tax benefits designed to strengthen its economy and stock market and cater to an ageing population. The new tax incentives aim to stimulate investment and consumption, offering relief to both businesses and individuals. Some of the proposed tax reforms include:

- Lowering the inheritance tax ceiling to 40% from 50% and eliminating a rule that imposes additional burdens on controlling shareholders
- Extension of tax breaks for key technology sectors, particularly semiconductors, by three years and postponement of taxes on cryptocurrency holdings for an additional two years

- Encouraging marriage and addressing the country's low fertility rate by providing tax breaks to couples and easing tax burdens on employers supporting workers with childcare expenses

Strengthening the Supply Chain Ecosystem¹⁰

- **3050 Strategy:** In December 2023, to enhance the stability of supply chains for essential raw materials and equipment, South Korea's Ministry of Trade, Industry and Energy (MOTIE) identified 185 key 'supply chain stabilisation items' from imported materials, components, and equipment. These items were selected based on their import dependency and economic significance. Alongside this, the Government introduced the Industrial Supply Chain 3050 Strategy, which aims to reduce reliance on these critical items from specific

⁸ Ministry of External Affairs, September 2024

⁹ KaoHoon International, July 2024

¹⁰ OECD Economic Survey, South Korea, July 2024

countries from an average of 70% in 2022 to 50% or less by 2030.

- Framework Act on Supporting Supply Chain Stabilisation:** South Korea's Framework Act on Supporting Supply Chain Stabilization for Economic Security came into effect in June 2024, covering all imported essential items and services, including logistics. Under this law, the Ministry of Economy and Finance (MOEF) identified 300 'economic security items' in June 2024 to enhance their stable procurement, production, and inventory management. The law also establishes an early warning system for these items and develops crisis management manuals to address potential disruptions.
- Protecting Critical Items:** To ensure resource security, the Government intends to progressively increase its stockpiles of 20 essential minerals and 35 critical items to an average of 100 days' supply. Additionally, it plans to enhance its overseas development assistance for supply chains by connecting resources from major mineral-producing countries with Korean technology. The Government will also actively engage in multilateral cooperation platforms to support these efforts. For example, it participated in the Indo-Pacific Economic Framework (IPEF), a key multilateral channel for responding to supply chain disruptions, and signed its Supply Chain Agreement in November 2023, creating a joint response system among Indo-Pacific countries.

Indonesia and South Korea Advance De-Dollarisation with New Currency Deal¹¹

In August 2024, BoK and South Korea's Ministry of Finance formed a strategic alliance with the Bank Indonesia (BI) for a cooperation framework to implement Local Currency Transaction (LCT) between Indonesia and South Korea. This initiative promotes the usage of the Indonesian Rupiah and South Korean Won in bilateral transactions, reducing the dependency on the US Dollar. It also includes enhancements for Appointed Cross-Currency Dealer (ACCD) banks to facilitate these local currency exchanges.

Leveraging India's Lower Manufacturing Cost for Electric Vehicle (EV) Battery Production¹²

In March 2024, Hyundai Motor Co and Kia Corp signed a memorandum of understanding with India's Exide Energy Solutions Ltd to localise EV battery production in India, focusing on Lithium-iron-phosphate (LFP)

cells. Hyundai plans an investment of USD 2.4 billion for 10 years from 2023 onwards to introduce six new EV models and charging stations in India, while Kia will launch small-sized EVs tailored to the local market starting in 2025. The collaboration is seen as a strategic move to leverage India's lower manufacturing costs and abundant lithium resources, boosting the shares of all involved companies.

Partnering with India for Green Hydrogen Development¹³

In May 2024, India's Sustainable Projects Developers Association (SPDA), in collaboration with the Embassy of India in Seoul and the Korea Chamber of Commerce and Industry, organised a visit for Indian green hydrogen producers to South Korea. The delegation, led by the Indian Ministry of New and Renewable Energy, highlighted India's competitive green fuel offerings and proposed joint ventures and technology collaborations with South Korean companies. Meetings with South Korean ministries and legal firms focused on hydrogen policy and export regulations. The Indian delegation highlighted India's commitment to backing South Korea's ambitious decarbonisation objectives by providing competitive pricing for fuels like green hydrogen, green ammonia, and green methanol. They invited their South Korean counterparts to explore mutually advantageous opportunities, including forming joint ventures with Indian companies, facilitating technology transfer, engaging in collaborative R&D, and entering into offtake agreements.

India Seeking South Korea's Support to Strengthen the Shipbuilding Ecosystem¹⁴

Nearly 60% of the country's ship repair work is currently outsourced abroad. The ministry aims to elevate India from its 22nd position in global shipbuilding to among the top 10 by 2030 and within the top 5 by 2040. To achieve this, India is seeking investments and technology transfers from South Korea and Japan to develop shipbuilding and repair clusters and boost the domestic shipping supply chain. An Indian delegation has engaged with South Korean authorities and entities to explore their interest in investing in India to establish shipbuilding and repair facilities at proposed mega shipbuilding parks.

Moving Towards Sustainable Aviation Fuel (SAF)¹⁵

South Korea is the leading global exporter of aviation fuel and is committed to advancing R&D in carbon-

¹¹ *Jakarta Globe, August 2024*

¹² *Reuters, April 2024*

¹³ *PV Magazine, March 2024*

¹⁴ *Business Standard, September 2024*

¹⁵ *The Chosun Daily, March 2024 and Reuters, August 2024*

neutral aviation biofuels, also known as bio-jet fuel, to support the aviation industry's efforts to achieve global net-zero targets. South Korean jet fuel producers are wary that some regions, like the European Union that are implementing mandatory bio-jet fuel usage, might jeopardise South Korea's status as a top jet fuel exporter. To address this, South Korea aims to mandate that all international flights departing from the country use a blend containing approximately 1% Sustainable Aviation Fuel (SAF) starting from 2027.

US, South Korea Sign a Nuclear Guideline Strategy to Deter and Respond to North Korea

South Korea and the US approved a guideline for creating an integrated extended deterrence system on the Korean Peninsula to address nuclear and military threats from North Korea. This guideline formalises the deployment of US nuclear assets in and around the Korean Peninsula with an aim to strengthen the security posture of the region and reassure allies of the United States' commitment to countering North Korean aggression.

Key Sectoral Initiatives

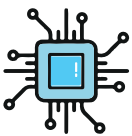
Small and Medium Enterprises (SMEs)



Robust Support for the SME Sector¹⁶

A strong network of support programs and regulations has been established to bolster the SME sector, which accounts for 85% of employment. Central Government expenditure on subsidies for SMEs has been substantial and is on the rise. In 2023 alone, there were 1,646 distinct programs designed to support SMEs. Of these, 530 programs were administered by 18 different ministries and Central Government agencies, while the remaining 1,116 programs were managed by 17 regional governments. In addition to these direct subsidies, SMEs benefit from preferential treatment in various areas. This includes advantageous conditions in public procurement processes, reduced tax rates, exemptions from certain regulatory requirements, and other supportive measures. These efforts collectively aim to foster the growth and sustainability of SMEs, which are crucial to the economy.

Semiconductor Industry



South Korea's Fiscal Boost for the Semiconductor Industry

In May 2024, South Korea announced a 26 trillion Won (USD 19 billion) support

package for its semiconductor industry aiming to enhance its competitiveness amid global market pressures. The initiative, revealed by President Yoon Suk Yeol, includes financial aid for infrastructure, R&D, and support for SMEs. The plan addresses liquidity issues for large-scale chip projects and offers tax incentives to offset R&D and facility costs. Additionally, the Government will invest in critical infrastructure like electricity and water to support industry growth¹⁷.

In April 2024, the Government announced that it would invest 9.4 trillion Won (USD 6.94 billion) in Artificial Intelligence (AI) by 2027 in an effort to maintain a leading global position in the semiconductor chips industry. It also included a separate 1.4 trillion Won (USD 1.01 billion) to support domestic AI semiconductor firms¹⁸.

Secondary Battery Production



Maintaining Global Leadership in Secondary Battery Production¹⁹

South Korea is a prominent global leader in secondary battery production, next only to China. To solidify and expand this position, the South Korean Government, in partnership with leading battery manufacturers, such as LG Energy Solution, Samsung SDI, and SK Innovation, has committed to investing USD 15.1 billion by 2030. This substantial investment aims to advance cutting-edge battery technologies,

¹⁶OECD Economic Survey, South Korea, July 2024

¹⁷The Korea Times, May 2024

¹⁸Total Telecom, May 2024

¹⁹Embassy of Switzerland in the Republic of Korea, Economic Report 2024, Republic of Korea, June 2024

“Semiconductors are a field where all-out national warfare is underway. Win or lose, that depends on who can make cutting-edge semiconductors first.”

Yoon Suk Yeol, Hon'ble President, Republic of Korea, May 2024

including the development of next-generation solid-state batteries. This strategic move reflects South Korea's ambition to enhance its competitive edge in the rapidly evolving global EV battery market, ensuring continued leadership and innovation in the sector.

Quantum Technology



Strengthening Quantum Technology Capabilities²⁰


South Korea is also aiming to establish itself

as a leading quantum technology hub, with a strong emphasis on developing essential technologies and infrastructure. It is attempting to close the gap in quantum capabilities with leading nations such as the US, Japan, China, and the European Union. In 2023, South Korea's Ministry of Science and ICT unveiled a USD 2.3 billion investment plan that will continue till 2035, supported by major conglomerates. This roadmap for quantum technologies encompasses key areas, including quantum computing, quantum communications, particularly cryptography, and quantum sensors. Notably, South Korea also plans to integrate its quantum technology advancements with its defence industry.

Major Trade Agreements




South Korea and the UAE Agree to Cut Import Duties and Enhance Bilateral Ties²¹

 In May 2024, South Korea and the UAE signed a trade agreement aimed at significantly reducing import duties and strengthening business and investment relations. The UAE reaffirmed its commitment from last year to invest USD 30 billion in South Korean businesses, spanning sectors such as nuclear power, defence, hydrogen, and solar energy. The Comprehensive Economic Partnership Agreement agreed upon in October 2023, was officially signed by industry ministers from both countries. Once ratified, this agreement will eliminate all tariffs on South Korean arms exports, remove import duties on automobiles in the UAE over the next decade, and abolish South Korea's tariffs on crude oil imports. Ultimately, the deal will eliminate tariffs on over 90% of imports between the two nations.

New Zealand and South Korea to Explore Strategic Partnership and Discuss Upgrading Free Trade Agreement²²

 In September 2024, New Zealand and South Korea held bilateral meetings with a focus on elevating the bilateral relationship to a Comprehensive Strategic Partnership. This would include enhancing collaboration across various areas, including defence, security, trade, and multilateral engagements, as well as fostering stronger people-to-people connections. The discussion also announced plans to explore the possibility of upgrading the existing bilateral FTA between the two countries.

South Korea Strengthens Ties with Africa: Over 50 Deals Signed²³

 In June 2024, South Korea signed nearly 50 agreements with 48 African nations

²⁰ Embassy of Switzerland in the Republic of Korea, Economic Report 2024, Republic of Korea, June 2024

²¹ Reuters, May 2024

²² Asia Media Centre, September 2024

²³ Reuters, June 2024

during its inaugural summit, focusing on the mining, energy, and manufacturing sectors. Notable deals include a USD 30 million contract for electric transformers with Mozambique by Hyosung Corp and critical mineral partnerships with Madagascar and Tanzania. The South Korean Government also announced a USD 10 billion increase in development aid and USD 14 billion in export financing over the next six years to African countries. The summit aimed to enhance South Korea's economic footprint in Africa, which currently represents only 1% to 2% of its trade.

South Korea and Thailand Initiate EPA Negotiations²⁴

In July 2023, South Korea commenced its first round of negotiations with Thailand to establish an Economic Partnership Agreement (EPA) aimed at enhancing bilateral trade and investment. Although existing trade agreements like the Korea-ASEAN FTA and the Regional Comprehensive Economic Partnership (RCEP) are in place, the new EPA seeks to further improve economic relations between the two countries.

OUTLOOK

South Korea is emerging from a period of sluggish growth. During the pandemic, global demand for semiconductors and other manufactured goods boosted exports, but overcapacity in semiconductor production and a general decline in demand due to global inflation shocks have tempered this momentum. With inflation now easing and renewal of interest in computer chips, driven by a surge in artificial intelligence investment, export prospects are improving. The outlook for exports is positive, supported by strong semiconductor demand. While trade dependencies have caused some disruptions and price increases, these have been manageable so far, and diversifying the trade can mitigate future risks.

In the short term, i.e., in the current year (2024), total exports are projected to rise by 7%, a significant recovery from the 7% decline in 2023, driven by stronger-than-expected performance in the semiconductor market. This rebound is expected to lead to a current account surplus of USD 77 billion, reversing the trade deficit seen in 2023²⁵. With inflation under control and anticipation of further interest rate cuts, consumer demand is likely to increase. For small businesses and self-employed persons, the Government will offer policy loans with extended repayment periods and lower interest rates, along with initiatives to reduce fixed costs, such as

rent and utility fees. The Government also plans to boost financial support for small businesses by 1 trillion Won (USD 721.8 million) in the second half of the year, helping them cover utility expenses, interest payments, and wages²⁶. To stimulate the sluggish construction sector, the Government plans to ramp up public-sector investments and infrastructure projects, increasing policy financing by an additional 15 trillion Won²⁷. These measures are expected to spur economic activity by creating jobs, supporting small businesses, and revitalising key industries like construction, which will contribute to overall economic growth, leading to a forecasted growth of 2.5% in 2024.

However, external risks could impact this growth scenario as the GDP growth forecast stands at 2.2% in 2025. Trade restrictions, particularly between the US and China, are starting to influence South Korean companies' value chains, although the effects have been limited and managed effectively so far. Supply chain dependencies have led to occasional shortages, but these issues have been resolved with minimal impact. The Government is taking steps to reduce the risk of critical input shortages. While a more abrupt economic decoupling remains unlikely, it would have significant repercussions for the South Korean economy. Much will depend on future geopolitical developments.

²⁴ *The Korea Times*, July 2023

²⁵ *EKorea Development Institute, KDI Economic Outlook, Update, August 2024*

²⁶ *Reuters*, July 2024

²⁷ *Reuters*, July 2024

“Indian exporters face various non-tariff barriers in South Korea, including stringent standards, regulations, and certification requirements. These barriers make it difficult for Indian goods to penetrate the South Korean market.”

The Indian Team led by Anant Swarup, Additional Secretary, Department of Commerce, Ministry of Commerce & Industries, Government of India, July 2024



RECENT CREDIT RATINGS FOR SOUTH KOREA

Date	Credit Rating Agency	Outlook	Brief Details
March 2024	Fitch Ratings, Inc.	Affirmation of Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'AA-' with a Stable Outlook	South Korea's rating balances robust external finances, resilient macroeconomic performance, and a dynamic export sector, as credit and policy buffers remain sufficient to manage near-term risks.
April 2024	S&P Global Ratings	Affirmation of 'AA' long-term and 'A-1+' short-term foreign and local currency sovereign credit ratings	<ul style="list-style-type: none"> • Sovereign credit indicators have remained resilient for the past few years. • Exports should benefit from steady global economic growth and improving demand for electronics.
May 2024	Moody's	Affirmation of credit rating at "Aa2," with a stable outlook	South Korea has a very high degree of economic diversity and competitiveness. Its fiscal buffers are still strong and the country shows vigilance in institutional management.

Source: S&P Global Ratings, Fitch Ratings Inc., and Moody's

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