

South Korea - Timeline

1 May 2018

A chronology of key events:

1945 - After World War II, Japanese occupation ends with Soviet troops occupying area north of the 38th parallel, and US troops in the south.



1948 - Republic of Korea proclaimed.

The Korean war (1950-1953) killed at least 2.5 million people. It pitted the North - backed by Chinese forces - against the South, supported militarily by the United Nations

In Depth: The Korean War

On This Day 1950: UN condemns North Korean invasion

1950 - South declares independence, sparking North Korean invasion.

1953 - Armistice ends Korean War, which has cost two million lives.

1950s - South sustained by crucial US military, economic and political support.

1960 - President Syngman Ree steps down after student protests against electoral fraud. New constitution forms Second Republic, but political freedom remains limited.

Coup

1961 - Military coup puts General Park Chung-hee in power.

1963 - General Park restores some political freedom and proclaims Third Republic. Major programme of industrial development begins.

1972 - Martial law. Park increases his powers with constitutional changes.

After secret North-South talks, both sides seek to develop dialogue aimed at unification.

1979 - Park assassinated. General Chun Doo-hwan seizes power the following year.

Gwangju massacre



Hundreds died as troops fired on 1980 rally

2005: Lingering legacy of Korean massacre

1980 - Martial law declared after student demonstrations. In the city of Gwangju army kills at least 200 people. Fifth republic and new constitution.

1981 - Chun indirectly elected to a seven year term. Martial law ends, but government continues to have strong powers to prevent dissent.

1986 - Constitution is changed to allow direct election of the president.

Return to democracy

1980s - Increasing shift towards high-tech and computer industry.

1987 - President Chun pushed out of office by student unrest and international pressure in the build-up to the Sixth Constitution. General Roh Tae-woo succeeds President Chun, grants greater degree of political liberalisation and launches anti-corruption drive.

Demilitarised zone



North (l) and South (r) Korean soldiers stand at arm's length

2002: Eyewitness - Korean no-man's land

2004: Koreas switch off loudspeakers

1988 - Olympic games in Seoul. First free parliamentary elections.

1991 - North and South Korea join United Nations.

1993 - President Roh succeeded by Kim Young Sam, a former opponent of the regime and the first freely-elected civilian president.

1996 - South Korea admitted to Organisation for Economic Cooperation and Development.

Sunshine policy

1998 - Kim Dae-jung sworn in as president and pursues "sunshine policy" of offering unconditional economic and humanitarian aid to North Korea.

"Sunshine policy"



Kim Dae-jung: Former president won Nobel Peace Prize

2002: Kim Dae-jung's tainted legacy

2000 June - Summit in Pyongyang between Kim Jong-il and South Korean President Kim Dae-jung. North stops propaganda broadcasts against South.

2000 August - Border liaison offices re-open at truce village of Panmunjom. South Korea gives amnesty to more than 3,500 prisoners. One hundred North Koreans meet their relatives in the South in a highly-charged, emotional reunion. Kim Dae-jung awarded Nobel Peace Prize.

2001 - Opening of Incheon International Airport, built on tidal land off port of Incheon.

2002 March - Group of 25 North Koreans defect to South Korea through Spanish embassy in Beijing, highlighting plight of tens of thousands hiding in China after fleeing famine, repression in North.

Naval battle

2002 June - Battle between South Korean and North Korean naval vessels along their disputed sea border leaves four South Koreans dead and 19 wounded. Thirty North Koreans are thought to have been killed.

2002 December - Roh Moo-hyun, from governing Millennium Democratic Party, wins closely-fought presidential elections.

2003 October - Biggest mass crossing of demilitarised zone since Korean War: Hundreds of South Koreans travel to Pyongyang for opening of gymnasium funded by South's Hyundai conglomerate.

2004 February - Parliament approves controversial dispatch of 3,000 troops to Iraq.

Union strikes



Labour unrest flares up regularly

2003: Korea's president takes on big business

2004 June - US proposes to cut its troop presence by a third. Opposition raises security fears over the plan.

Disputed island



Dispute over Dokdo, known as Takeshima in Japan, sours ties

2005: South Koreans vent fury at Japan

2005 June - Kim Woo-choong, the fugitive former head of Daewoo, returns and is arrested for his role in the industrial giant's \$70bn-plus collapse. In May 2006 he is sentenced to 10 years in jail.

2005 December - South Koreans are shocked by revelations that cloning scientist and national hero Dr Hwang Woo-suk faked landmark research on stem cell research. 2006 October - Foreign Minister Ban Ki-moon is appointed as the UN's new secretary-general. He takes office in January 2007.

2007 February - South and North Korea agree to restart high-level talks suspended since July 2006 in wake of North's nuclear test.

Head of the largest South Korean car maker, Hyundai, is jailed for three years for embezzlement.

2007 April - South Korea and the US agree on a free-trade deal after 10 months of talks, although US Congress only ratifies it in 2011.

Historic train crossing



Trains from North and South crossed the border in 2007

Korean trains in historic link-up

2007 May - Passenger trains cross the North-South border for the first time in 56 years.

2007 December - Conservative Lee Myung-bak wins landslide victory in presidential election.

2008 February - The country's greatest cultural treasure, the Namdaemun Gate, is destroyed by fire.

New freeze?



President Lee ended his predecessor's "sunshine policy" in 2008

Sunset for Korean Sunshine Policy?

Financial crisis

2008 October - Government announces \$130bn financial rescue package to shore up banking system and stabilise markets amid global financial crisis.

2009 January - North Korea says it is scrapping all military and political deals with the South.

2009 August - Former South Korean president Kim Dae-jung dies; North Korea sends a senior delegation to Seoul to pay its respects.

2009 October - North Korea expresses "regret" for unleashing dam water that drowned six campers downstream in South Korea in September. The two sides hold talks aimed at preventing flooding on the Imjin River which spans their militarised border.

2009 November - South and North Korean warships exchange fire across a disputed sea border, and again in January.

2010 January - North accepts an offer of food aid from South, the first such aid in two years.

Sinking of warship Cheonan sinking



North Korea denied claims it sank the Southern warship Cheonan in 2010

How the ship was sunk

Q&A: Inter-Korean crisis

2010 May - South Korea breaks off all trade with the North after naval ship Cheonan was sunk by a North Korean torpedo in March. Pyongyang describes the findings as a "fabrication" and cuts all diplomatic ties with Seoul.

2010 November - Cross-border clash near disputed maritime border results in death of two South Korean marines. South Korea places its military on highest non-wartime alert after shells land on Yeonpyeong island. Further exchange of fire in August.

2012 July - South Korea begins move of most ministries to "mini capital" at Sejong City, 120km south of Seoul. Key ministries will remain in Seoul.

2012 August - Lee Myung-bak becomes first president to visit the Liancourt Rocks, which Japan also claims. Tokyo recalls its ambassador in protest.

2012 October - South Korea strikes deal with the US to almost triple the range of its ballistic missile system to 800km as a response to North Korea's test of a long-range rocket in April.

2012 December - South Korea elects its first female president, Park Geun-hye, of the conservative Saenuri party. She takes office in February.

New spike in tensions

2013 January - South Korea launches a satellite into orbit for the first time using a rocket launched from its own soil. Comes weeks after a North Korean rocket placed a satellite in orbit.

2013 March - South Korea accuses North of a cyber-attack that temporarily shuts down the computer systems at banks and broadcasters.

2013 September - North and South Korea reopen Kaesong joint industrial complex and hotline.

2013 December - South Korea announces expansion of air defence zone, two weeks after China unilaterally announced its own extended air defence zone in East China Sea to include disputed Socotra Rock.

2014 March - North and South Korea exchange fire into sea across the disputed western maritime border during largest South-US military training exercise in region for 20 years.

Ferry disaster

2014 April - Sewol ferry sinks off west coast, killing at least 281 people, mainly high-school students.

2014 October - North and South Korea engage in rare exchange fire across their land border as South Korean activists launch balloons containing leaflets condemning North Korean leader Kim Jong-un. Gun fire also exchanged when Northern patrol ship crossed disputed western maritime border.

US and South Korea again postpone transfer of control over troops in South in event of war with North, citing "intensifying threat" from Pyongyang. Transfer due in 2012, and delayed until 2015. No new date set.

2014 December - Constitutional Court bans left-wing Unified Progressive Party, accused of being pro-North Korean.

President Park calls for cyber security at key facilities to be strengthened after data on its nuclear reactors is leaked.

2015 March - North Korea fires short-range surface-to-air missiles into the sea in an apparent show of force against annual military drills between South Korea and the United States.

2015 November-December - Mass protests in Seoul against government's economic policy and insistence on schools' using state-approved history books.

President impeached

2016 October - President Park Geun-Hye is embroiled in a political crisis over revelations that she allowed a personal friend, with no government position, to meddle in affairs of state. She is later impeached.

2016 December - South Korea's military says its cyber command came under attack by North Korean hackers.

2017 May - The centre-left candidate Moon Jae-in is elected president in a landslide, and pledges to solve the North Korean crisis by diplomatic means.

2018 January - North and South Korea agree to march under the same flag at next month's Winter Olympics in South Korea in a thaw in relations.

2018 April - Kim Jong-un becomes first North Korean leader to enter the South when he meets President Moon Jae-in for talks at the Panmunjom border crossing. They agree to end hostile actions and work towards reducing nuclear arms on the peninsula.

This page intentionally blank

Country Report

South Korea

Generated on September 17th 2019

Economist Intelligence Unit
20 Cabot Square
London E14 4QW
United Kingdom

The Economist Intelligence Unit

The Economist Intelligence Unit is a specialist publisher serving companies establishing and managing operations across national borders. For 60 years it has been a source of information on business developments, economic and political trends, government regulations and corporate practice worldwide. The Economist Intelligence Unit delivers its information in four ways: through its digital portfolio, where the latest analysis is updated daily; through printed subscription products ranging from newsletters to annual reference works; through research reports; and by organising seminars and presentations. The firm is a member of The Economist Group.

London

The Economist Intelligence Unit
20 Cabot Square
London
E14 4QW
United Kingdom
Tel: +44 (0) 20 7576 8181
Fax: +44 (0) 20 7576 8476
E-mail: eiucustomerservices@eiu.com

New York

The Economist Intelligence Unit
The Economist Group
750 Third Avenue
5th Floor
New York, NY 10017, US
Tel: +1 212 541 0500
Fax: +1 212 586 0248
E-mail: eiucustomerservices@eiu.com

Hong Kong

The Economist Intelligence Unit
1301 Cityplaza Four
12 Taikoo Wan Road
Taikoo Shing
Hong Kong
Tel: +852 2585 3888
Fax: +852 2802 7638
E-mail: eiucustomerservices@eiu.com

Geneva

The Economist Intelligence Unit
Rue de l'Athénée 32
1206 Geneva
Switzerland
Tel: +41 22 566 24 70
Fax: +41 22 346 93 47
E-mail: eiucustomerservices@eiu.com

This report can be accessed electronically as soon as it is published by visiting store.eiu.com or by contacting a local sales representative.

The whole report may be viewed in PDF format, or can be navigated section-by-section by using the HTML links. In addition, the full archive of previous reports can be accessed in HTML or PDF format, and our search engine can be used to find content of interest quickly. Our automatic alerting service will send a notification via e-mail when new reports become available.

Copyright

© 2019 The Economist Intelligence Unit Limited. All rights reserved. Neither this publication nor any part of it may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of The Economist Intelligence Unit Limited.

All information in this report is verified to the best of the author's and the publisher's ability. However, the Economist Intelligence Unit does not accept responsibility for any loss arising from reliance on it.

ISSN 2047-5829

Symbols for tables

"0 or 0.0" means nil or negligible; "n/a" means not available; "-" means not applicable

South Korea

Summary

2 [Briefing sheet](#)

Outlook for 2019-23

4 [Political stability](#)
4 [Election watch](#)
5 [International relations](#)
6 [Policy trends](#)
6 [Fiscal policy](#)
6 [Monetary policy](#)
7 [International assumptions](#)
8 [Economic growth](#)
9 [Inflation](#)
9 [Exchange rates](#)
9 [External sector](#)
10 [Forecast summary](#)
11 [Quarterly forecasts](#)

Data and charts

12 [Annual data and forecast](#)
13 [Quarterly data](#)
13 [Monthly data](#)
15 [Annual trends charts](#)
16 [Quarterly trends charts](#)
17 [Monthly trends charts](#)
18 [Comparative economic indicators](#)

Summary

18 [Basic data](#)
20 [Political structure](#)

Recent analysis

Politics

23 [Forecast updates](#)

Economy

24 [Forecast updates](#)
29 [Analysis](#)

Briefing sheet

Editor: **Fei Xue**

Forecast Closing Date: **August 23, 2019**

Political and economic outlook

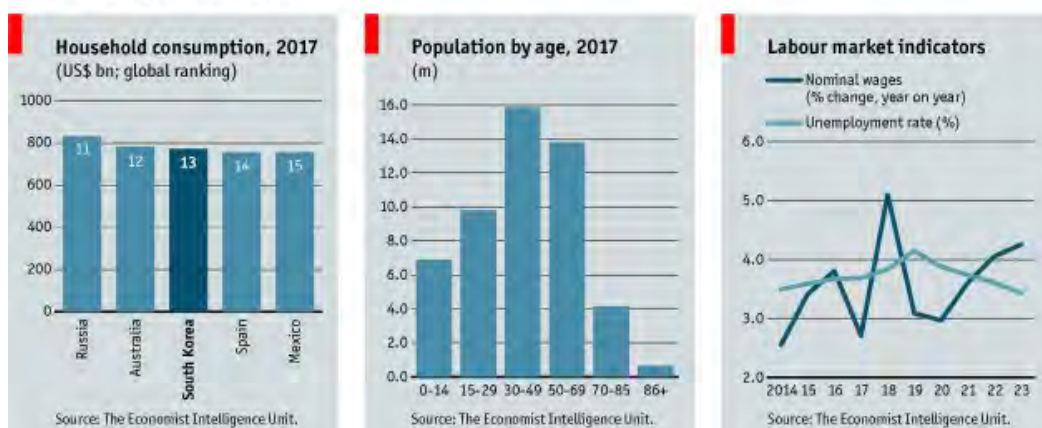
- The Economist Intelligence Unit expects the president, Moon Jae-in, to complete his five-year term, ending in 2022. We forecast that the ruling Minjoo Party will increase its parliamentary representation at the 2020 election but will fail to secure a three-fifths majority.
- Continued diplomatic engagement between the US and North Korea will help to control tensions on the peninsula, but we do not expect denuclearisation of the North in 2019-23. Disputes over historical issues and trade frictions will weigh on relations with Japan.
- The current administration will pursue an ambitious demand-driven economic growth agenda through increased government spending and redistributive policies. Support for domestic manufacturers will increase, to reduce reliance on Japanese high-tech materials.
- We forecast that real GDP growth will average 2.4% a year in 2019-23. External demand will weaken in 2019-20, owing to the US-China trade war, a slowdown in the US in 2020 and continuing trade frictions with Japan, but will pick up later in the forecast period.
- Consumer price inflation will average 0.7% in 2019 and remain weak, at 1.1%, in 2020. This will allow the Bank of Korea (BOK, South Korea's central bank) to loosen its monetary policy in 2020, before embarking on a moderate tightening in 2021-22.
- The current account will remain in surplus during the forecast period, averaging the equivalent of 3.9% of GDP. The goods trade surplus will continue to offset deficits on the services and secondary income accounts.

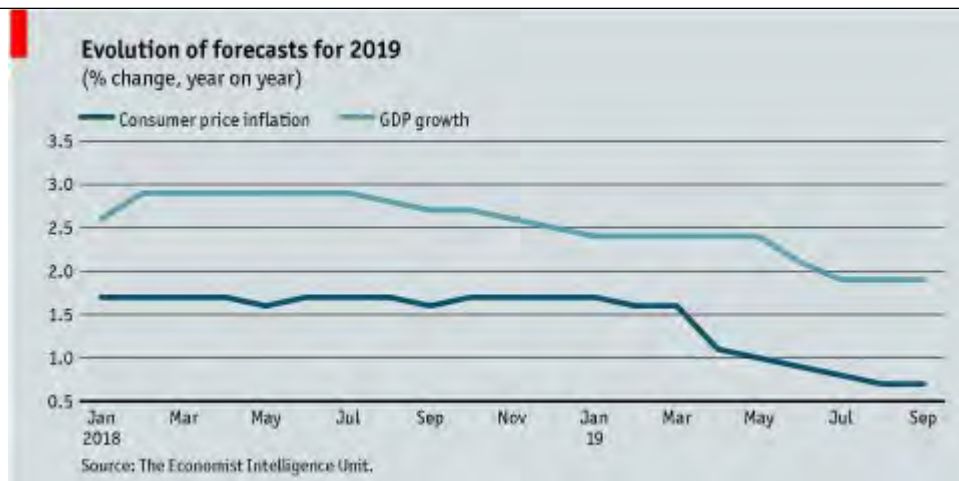
Key indicators

	2018 ^a	2019 ^b	2020 ^b	2021 ^b	2022 ^b	2023 ^b
Real GDP growth (%)	2.7	1.9	2.2	2.4	2.7	2.6
Consumer price inflation (av; %)	1.5	0.7	1.1	1.6	1.8	1.7
Government balance (% of GDP)	1.6 ^c	0.6	0.2	0.1	0.3	0.4
Current-account balance (% of GDP)	4.4	4.0	3.9	4.1	3.9	3.6
Money market rate (av; %)	1.5	1.6	1.4	2.1	2.6	2.8
Unemployment rate (%)	3.8	4.1	3.9	3.7	3.6	3.4
Exchange rate W:US\$ (av)	1,100	1,172	1,161	1,099	1,080	1,085

^a Actual. ^b Economist Intelligence Unit forecasts. ^c Economist Intelligence Unit estimates.

Market opportunities





Key changes since July 29th

- Data from July suggest that the won is depreciating at a faster pace than expected, owing to escalating trade frictions with Japan and a weaker Chinese renminbi. We now forecast that the won will average W1,172:US\$1 in 2019, from W1,159:US\$1 previously.

The month ahead

- **August 30th—BOK monetary policy meeting:** The meeting will shed light on the central bank's view of the economy, especially its expectations of price pressures in the country. We do not expect any movement in policy interest rates.
- **September 1st—International trade (August):** The trade war between the US and China will continue to weigh on external demand. Meanwhile, trade friction with Japan will disrupt imports. We expect merchandise exports to extend their year-on-year decline.

Major risks to our forecast

Scenarios, Q3 2019	Probability	Impact	Intensity
An escalating global trade war triggers deep recession	Moderate	Very high	15
The Minjoo Party secures a majority of more than three-fifths in National Assembly elections	Moderate	Very high	15
Stimulus efforts imperil the fiscal position and lead to higher taxes	High	Moderate	12
A cyberattack cripples the financial infrastructure	Moderate	High	12
Slumping profitability force banks to reduce lending	Moderate	High	12

Note: Scenarios and scores are taken from our Risk Briefing product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.
 Source: The Economist Intelligence Unit.

Outlook for 2019-23

Political stability

The Economist Intelligence Unit expects the president, Moon Jae-in of the liberal-leaning Minjoo Party, to serve out his constitutionally mandated single five-year term, ending in 2022. Moon Jae-in was voted into power with a strong mandate in 2017, after his predecessor, Park Geun-hye, was impeached. However, his approval ratings have slipped from the peak they hit in 2018, as he has been unable to deliver on several of the policy promises he made during his campaign.

In particular, the president has faced strong criticism over his domestic economic and labour policies. In order to address income inequality, he had promised to raise the minimum hourly wage to W10,000 (US\$8.48) by 2020. The minimum hourly wage increased to W8,350 at the start of 2019, 29% higher than when the president came to power. However, this has had negative economic consequences, which have sapped support for the policy. Firms have scaled back recruitment in response to higher labour costs. The unemployment rate stood at 4% in June, and youth unemployment remains particularly acute. Amid backlash from businesses, it was announced in July that the minimum wage would be raised by 2.9%, to W8,590, for 2020. This setback to achieving the president's wage promise has generated discontent among labour unions and may hurt support for the ruling party.

With only 128 of the 300 seats in the National Assembly (parliament), Minjoo lacks the three-fifths majority required to pass legislation unilaterally. The president's approval ratings have recovered to above 50% lately, as his hardline approach in the trade disputes with Japan gained popularity amid rising nationalist sentiment. We believe that Minjoo will increase its seat tally in the next parliamentary election (in April 2020), but will fail to achieve a three-fifths supermajority.

Despite not having a supermajority, we believe that Minjoo will be able to secure support from other small parties, allowing it to push ahead with its policy agenda on most issues. Still, dissent over the government's strategy towards North Korea will continue to divide conservatives and liberals, as the conservative opposition disagrees with Moon Jae-in's policy of increasing inter-Korean engagement.

The conservative camp will fail to shore up strong public support as it struggles to regain popularity after a series of corruption scandals involving its past leaders. These scandals have aggravated long-running factional divisions within the conservative movement.

Election watch

The next general election will be held on April 15th 2020 and will renew the National Assembly for its next four-year term. The president does not have the power to dissolve parliament and call early elections. As the influence of centrist parties fades, we expect Minjoo to succeed in attracting liberal voters who are drifting away from the political centre.

International relations

Increasing engagement with North Korea will remain a key policy priority for Moon Jae-in. However, we believe that differing expectations on denuclearisation will lead to stagnation in US-North Korea talks. Although Moon Jae-in previously enjoyed some success in manoeuvring the US administration in his country's favour, he will struggle to persuade the US to support closer North-South economic engagement. We do not expect that any agreement between the North and the US to ease international sanctions on the former will be reached during our forecast period (2019-23), and so this will preclude deeper North-South economic links. Inter-Korean ties have been hurt further by North Korea's multiple tests of short-range missiles since May 2019. South Korea believes that the tests were a breach of the Panmunjom Declaration, signed in April 2018, in which both sides agreed to cease all hostile acts against each other.

We believe that diplomatic talks between the US and North Korea will eventually founder in the next few years, owing to misaligned expectations and distrust. In this situation, the US will revert to a containment strategy. It could also justify escalation towards a more aggressive stance, which may include strategic strikes on the North. Nonetheless, this risk remains low, as a conflict would have catastrophic consequences.

If talks do fall through, the US will struggle to revert to its strategy of maximum pressure. Such an approach would now lack the necessary support from China that it previously received, owing to the ongoing US-China trade war, leaving South Korea in an uncomfortable position. Although the government would be likely to align itself with the policy line set by the US, it would continue engagement with North Korea and would receive China's support for this strategy.

Bilateral relations with Japan have deteriorated sharply since July and will remain frosty in the forecast period. On July 4th Japan imposed export controls on three chemicals critical to semiconductor and display manufacturing. South Korea believes this is in response to the decision by its courts to seize the assets of two Japanese companies to compensate wartime forced labourers. Tensions escalated further on August 2nd when Japan decided to exclude South Korea from its export "whitelist" of trusted trading partners, leading to more scrutiny and lengthier bureaucratic procedures for exports of more than 1,100 materials and components to South Korea. This was followed by retaliation from South Korea, which demoted Japan from its own list of trusted trading partners.

Sentiment towards Japan has remained sour in South Korea owing to historical issues originating in the period of Japanese colonial rule over the Korean peninsula. The escalation of trade friction has spilled over to other policy areas. South Korea announced on August 22nd that it would not renew the General Security of Military Information Agreement with Japan. This constitutes a blow to the bilateral security partnership in the region, as the agreement, signed in November 2017, has been instrumental in strengthening defence ties and sharing intelligence on North Korea's nuclear activities.

We believe that bilateral relations will remain strained, as neither a swift de-escalation of the disputes nor a drastic escalation into additional tariffs and export bans will take place anytime soon. Meanwhile, the US-Japan-South Korea triangular alignment will be undermined by the deterioration of relations between South Korea and Japan.

Policy trends

Moon Jae-in will continue to implement measures under his demand-driven economic programme, with emphasis on "income-led growth". Recent policies—such as measures to alleviate debt pressure on households, to increase taxes on corporate entities and wealthy individuals and to raise the minimum wage—aim to redistribute wealth and to create a fairer competitive environment. However, the decision to moderate minimum-wage growth to 2.9% for 2020 indicates that the government will be more cautious on the pace of labour policy reforms, in order to mitigate distortions in the labour market.

The president will continue to pursue policies aimed at diversifying the economy and making it less reliant on exports, with a greater focus on high-value services. The government plans to spend W70trn (US\$59.7bn) between 2019 and 2023 to support the services sector. It also intends to promote convergence between the manufacturing and services sectors.

The finance ministry announced plans in August 2019 to spend W4.7trn in 2020 to support innovative growth in the manufacturing sector and investment in digital infrastructure. The spending plan, with emphasis on boosting domestic production in the semiconductor manufacturing and bio-health sectors, is part of the government response to Japan's export restrictions targeting South Korea's high-technology manufacturing sectors. We believe that the government will maintain its policy support for domestic manufacturers in 2019-23 as the country seeks to reduce reliance on imports from Japan in high-tech manufacturing.

Fiscal policy

In order to boost economic growth, we expect the government to maintain its loose fiscal stance throughout 2019-23. The initial budget for 2019 stood at W469.6trn, which is 9.5% higher than the 2018 budget and represents the sharpest rise in spending since the 2008-09 global financial crisis. In addition, a supplementary budget of W5.8trn was passed by the National Assembly on August 2nd. The supplementary budget includes a W273.2bn fund designed to support the manufacturing sector, which has been targeted by increasing export restrictions by Japan.

The government intends to continue increasing its expenditure until at least 2022, targeting an average annual spending increase of 7.3%. An expected slowdown in the US economy in 2020 will prompt the government to increase its support for the economy, especially for small and medium-sized enterprises. Although we believe that the government will maintain a budget surplus throughout our forecast period, we expect this surplus to narrow as a share of GDP until 2021, before widening again in 2022-23. This expansionary fiscal stance will reduce the annual surplus to the equivalent of 0.3% of GDP on average in 2019-23. Nevertheless, the government's fiscal policy will remain insufficient to boost the economy in the first half of the forecast period.

Monetary policy

The Bank of Korea (BOK, the central bank) cut the policy rate by 25 basis points, to 1.5% in July 2019, citing sluggish domestic consumption and investment, as well as deterioration in the global trade outlook. This was in line with our forecast that the lack of growth momentum and persistently low inflation would persuade the BOK to adopt a more accommodative monetary policy. We now forecast that the BOK will make another 25-basis-point cut by mid-2020. This will be in accordance with a dovish turn by central banks across the world in response to intensifying global trade tension and reduced pressure from a stronger US dollar. We forecast that the Federal Reserve (Fed, the US central bank) will respond to a domestic economic slowdown by cutting interest rates by 75 basis points by mid-2020.

The BOK also cited slower growth in household lending in support of its July interest-rate cut. However, we believe that mounting household debt, equivalent to 97.7% of GDP at end-2018, will limit the bank's ability to ease monetary policy more aggressively. Looking ahead, the central bank will resume monetary tightening and will raise rates by 75 basis points in 2021-22 as growth accelerates and inflationary pressures build up. However, it will keep rates unchanged in 2023.

International assumptions

	2018	2019	2020	2021	2022	2023
Economic growth (%)						
US GDP	2.9	2.2	1.7	1.9	2.0	1.8
OECD GDP	2.2	1.6	1.6	1.9	1.9	1.8
World GDP	2.9	2.4	2.5	2.9	2.9	2.9
World trade	4.4	2.9	3.4	3.7	3.9	4.0
Inflation indicators (% unless otherwise indicated)						
US CPI	2.4	2.0	1.4	2.2	2.1	1.8
OECD CPI	2.5	2.1	1.9	2.1	2.1	2.1
Manufactures (measured in US\$)	5.1	0.9	3.1	2.9	3.6	3.3
Oil (Brent; US\$/b)	71.1	67.7	62.0	67.0	73.2	75.0
Non-oil commodities (measured in US\$)	1.8	-4.7	4.0	3.5	1.4	0.7
Financial variables						
US\$ 3-month commercial paper rate (av; %)	2.0	2.4	1.7	1.7	2.2	2.5
¥:US\$ (av)	110.4	108.1	107.7	104.9	100.5	96.1
W:US\$ (av)	1,100	1,172	1,161	1,099	1,080	1,085
US\$:€ (av)	1.18	1.12	1.15	1.19	1.23	1.24

Economic growth

Economic fundamentals remain weak in 2019. Private consumption growth is below the average level of 2018, while fixed-asset investment is extending its contractionary trend, which has been in place since the second quarter of 2018. Meanwhile, merchandise exports declined by 8.5% year on year in the first half of 2019.

More headwinds are anticipated as economic growth moderates in the US and China, while export controls imposed by Japan on materials critical to South Korea's important semiconductor manufacturing sector will have an impact. We maintain our forecast that real GDP will grow by 1.9% in 2019 and 2.2% in 2020, as we expect broad-based weakness in capital formation to persist. Over 2021-23 we expect growth to average 2.6% a year.

We do not expect South Korea to diversify away from its export-led growth model within this period. The economy will thus remain heavily dependent on external demand, especially for semiconductor devices. The slowdown in the global consumer electronics cycle will have a negative impact on South Korea's external sector until at least 2020. Local exporters will look to expand into relatively untapped markets in South and South-east Asia. However, we do not expect growth in trade with these countries to be sufficient to offset the weakness of other drivers of export demand during the forecast period. Overall, we expect exports of goods and services to grow by 0.9% a year in 2019-23.

Private consumption will remain a key economic driver, rising by an average of 2.3% a year in 2020-23 on the back of robust income growth as minimum wages rise. However, high rates of youth unemployment and underemployment will dampen growth in household consumption early in the forecast period. In addition, household spending will be constrained by the burden of debt repayment, with the latter being compounded by interest-rate increases towards the end of the forecast period.

Growth in real government consumption, at 4.5% a year on average in 2019-23, will be marginally faster than in 2014-18 (4.4%). We expect annual fixed investment to rise more slowly, at an average of 0.4% in the forecast period, compared with 4.5% in the preceding five years, as the construction sector continues to suffer. However, investment growth should begin to recover in the later years of our forecast period as the government introduces tax breaks for businesses.

Economic growth

%	2018 ^a	2019 ^b	2020 ^b	2021 ^b	2022 ^b	2023 ^b
GDP	2.7	1.9	2.2	2.4	2.7	2.6
Private consumption	2.8	2.0	2.0	2.2	2.5	2.4
Government consumption	5.6	6.2	5.5	3.9	3.4	3.3
Gross fixed investment	-2.4	-4.0	0.2	0.8	2.3	3.0
Exports of goods & services	3.5	-0.3	0.0	1.2	1.8	2.0
Imports of goods & services	0.8	-4.2	-2.2	2.4	2.8	2.7
Domestic demand	1.6	0.5	1.4	2.1	2.7	2.8
Agriculture	1.5	0.7	0.6	1.2	0.9	0.9
Industry	2.1	2.2	2.0	2.5	3.4	3.8
Services	3.2	1.7	2.4	2.4	2.4	1.9

^a Actual. ^b Economist Intelligence Unit forecasts.

Inflation

We forecast that consumer price inflation will remain weak in 2019 and 2020, at an average of 0.7% and 1.1% respectively, amid sluggish economic growth and weak global oil prices. The decision to slow minimum wage growth to 2.9% for 2020 will also mitigate inflationary pressure. Persistently weak inflation will give the central bank more room to loosen its monetary policy, with another 25-basis-point cut in its benchmark policy rate in 2020. Nevertheless, price increases in South Korea will continue to be muted over the forecast period as a whole, owing to weak consumer demand. Risks to the forecast for 2019-20 are to the upside, as sharp depreciation in the currency, the won, might create inflationary pressure through more expensive imports. Moreover, South Korea will remain vulnerable to unexpected shifts in global energy prices throughout the forecast period, as it is one of the world's largest importers of oil and liquefied natural gas. Inflation will pick up in 2021-23 as global oil prices rise and economic conditions improve. We expect that the BOK's tightening of monetary policy in the second half of our forecast period will, to some extent, alleviate the inflationary pressure generated by ongoing increases in the minimum wage.

Exchange rates

The won has depreciated by 9% against the US dollar in 2019, making it the hardest-hit currency in Asia amid intensifying global trade tensions. South Korea's own trade disputes with Japan have exacerbated the currency's weakness; the won has lost more than 4% of its value against the US dollar since Japan imposed stricter export restrictions targeting South Korea's semiconductor manufacturing sector earlier in the year. The recent devaluation in the Chinese renminbi has also weighed on the won; the South Korean currency tends to move along with its Chinese counterpart as a result of China being the largest market for South Korean exports.

In light of the latest development, we have revised our forecast for the local currency. We now believe that it will average W1,172:US\$1 in 2019, from W1,159:US\$1 previously. We forecast that the won will appreciate slightly in 2020, to an average of W1,161:US\$1, as the Fed cuts its policy rate in that year. The won is expected to continue to strengthen, to an annual average of W1,090:US\$1 in 2021-22, as the BOK resumes rate increases. However, the currency will depreciate slightly in 2023 as the central bank keeps policy rates unchanged during that year.

External sector

The current-account surplus will shrink to an average of 3.9% of GDP in 2019-23, from 5.7% of GDP in 2014-18. The goods trade balance will continue to post surpluses during the forecast period. However, exports will stall in 2019-20 as the intensifying US-China trade war dampens growth of South Korean exports to both markets. Japan's export restrictions on high-tech materials essential to the manufacture of semiconductor devices will add to the difficulties facing South Korean exporters. The expected economic slowdown in the US in 2020 will also hurt South Korea's export performance in that year. More generally, the external sector will remain vulnerable to increased competition from regional neighbours, including China, especially in the electronics sector. We expect the primary income account to maintain a small surplus over the forecast period, while the secondary income account will remain in deficit.

Forecast summary

Forecast summary

(% unless otherwise indicated)

	2018 ^a	2019 ^b	2020 ^b	2021 ^b	2022 ^b	2023 ^b
Real GDP growth	2.7	1.9	2.2	2.4	2.7	2.6
Industrial production growth	1.4	-1.6	1.0	1.5	1.9	2.3
Gross fixed investment growth	-2.4	-4.0	0.2	0.8	2.3	3.0
Unemployment rate (av)	3.8	4.1	3.9	3.7	3.6	3.4
Consumer price inflation (av)	1.5	0.7	1.1	1.6	1.8	1.7
Consumer price inflation (end-period)	1.3	0.9	1.4	1.7	1.8	1.6
Short-term interbank rate	1.5	1.6	1.4	2.1	2.6	2.8
Government balance (% of GDP)	1.6 ^c	0.6	0.2	0.1	0.3	0.4
Exports of goods fob (US\$ bn)	625.4	569.9	567.4	590.3	612.1	630.6
Imports of goods fob (US\$ bn)	-513.6	-475.0	-477.6	-492.7	-512.5	-531.7
Current-account balance (US\$ bn)	76.4	66.2	66.8	77.3	76.2	73.2
Current-account balance (% of GDP)	4.4	4.0	3.9	4.1	3.9	3.6
External debt (end-period; US\$ bn) ^d	408.2	380.2	371.8	357.5	349.5	348.7
Exchange rate W:US\$ (av)	1,100	1,172	1,161	1,099	1,080	1,085
Exchange rate W:US\$ (end-period)	1,116	1,200	1,135	1,085	1,070	1,090
Exchange rate W:¥100 (av)	996	1,084	1,077	1,048	1,075	1,129
Exchange rate W:€ (av)	1,300	1,316	1,329	1,302	1,323	1,345

^a Actual. ^b Economist Intelligence Unit forecasts. ^c Economist Intelligence Unit estimates. ^d On a balance-of-payments basis; includes both foreign- and local-currency-denominated debt held by non-residents.

Quarterly forecasts

Quarterly forecasts

	2018			2019				2020				
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
GDP												
% change, quarter on quarter	1.0	0.6	0.5	0.9	-0.4	1.1	0.5	0.4	0.5	0.5	0.6	0.4
% change, year on year	2.9	2.9	1.9	3.0	1.6	2.1	2.1	1.6	2.5	1.9	2.0	2.0
Private consumption												
% change, quarter on quarter	0.7	0.5	0.4	0.8	0.1	0.7	0.6	0.5	0.4	0.4	0.6	0.4
% change, year on year	3.6	2.9	2.2	2.4	1.9	2.0	2.2	1.9	2.2	2.0	1.9	1.8
Government consumption												
% change, quarter on quarter	1.9	0.6	1.6	2.8	0.4	2.5	-2.0	7.4	-1.2	1.3	1.0	1.0
% change, year on year	5.8	4.8	4.8	7.1	5.5	7.4	3.6	8.2	6.5	5.3	8.5	2.0
Gross fixed investment												
% change, quarter on quarter	1.6	-3.8	-3.9	1.9	-2.8	1.3	0.5	-3.4	0.8	0.9	1.0	0.8
% change, year on year	4.2	-2.4	-7.0	-4.3	-8.5	-3.6	0.9	-4.4	-0.8	-1.2	-0.8	3.5
Exports of goods & services												
% change, quarter on quarter	3.5	0.7	4.0	-1.4	-3.2	2.3	1.0	-1.1	-0.1	-0.1	0.0	-0.1
% change, year on year	0.2	3.4	3.5	6.8	-0.1	1.5	-1.4	-1.1	2.1	-0.3	-1.3	-0.3
Imports of goods & services												
% change, quarter on quarter	4.3	-2.3	-1.1	1.6	-3.4	3.0	-5.4	-1.7	0.4	0.4	0.6	0.4
% change, year on year	2.4	0.9	-2.6	2.4	-5.1	0.1	-4.4	-7.5	-3.8	-6.2	-0.3	1.8
Domestic demand												
% change, quarter on quarter	1.2	-0.6	-1.6	2.2	-0.4	1.3	-2.2	1.3	0.3	0.7	0.6	0.6
% change, year on year	4.0	2.1	-0.5	1.1	-0.4	1.4	0.9	0.0	0.6	0.0	2.9	2.3
Consumer prices												
% change, quarter on quarter	0.5	0.5	0.5	0.4	-0.7	0.6	0.5	0.4	0.1	0.2	0.3	0.5
% change, year on year	1.1	1.5	1.5	1.8	0.5	0.7	0.7	0.7	1.5	1.2	0.9	1.0
Producer prices												
% change, quarter on quarter	0.5	0.4	0.9	-0.4	-0.6	0.6	1.1	1.0	0.0	0.1	0.4	0.0
% change, year on year	1.2	2.1	2.8	1.5	0.3	0.4	0.7	2.1	2.7	2.3	1.6	0.5
Exchange rate W:US\$												
Average	1,073	1,079	1,122	1,127	1,125	1,167	1,195	1,201	1,181	1,164	1,157	1,142
End-period	1,067	1,122	1,113	1,118	1,138	1,157	1,198	1,200	1,172	1,160	1,149	1,135
Interest rate (%; av)												
Money market rate	1.5	1.5	1.5	1.6	1.8	1.8	1.6	1.2	1.3	1.5	1.4	1.5
Long-term bond yield	2.7	2.7	2.4	2.2	2.0	1.8	1.9	1.5	1.4	1.5	1.5	1.5

Data and charts

Annual data and forecast

	2014 ^a	2015 ^a	2016 ^a	2017 ^a	2018 ^a	2019 ^b	2020 ^b
GDP							
Nominal GDP (US\$ bn)	1,484	1,466	1,500	1,623	1,721	1,655	1,722
Nominal GDP (W trn)	1,563	1,658	1,741	1,836	1,893	1,940	1,999
Real GDP growth (%)	3.2	2.8	2.9	3.2	2.7	1.9	2.2
Expenditure on GDP (% real change)							
Private consumption	2.0	2.2	2.6	2.8	2.8	2.0	2.0
Government consumption	4.3	3.8	4.4	3.9	5.6	6.2	5.5
Gross fixed investment	3.1	5.4	6.6	9.8	-2.4	-4.0	0.2
Exports of goods & services	2.1	0.2	2.4	2.5	3.5	-0.3	0.0
Imports of goods & services	1.3	2.1	5.2	8.9	0.8	-4.2	-2.2
Origin of GDP (% real change)							
Agriculture	5.1	-0.2	-5.6	2.3	1.5	0.7	0.6
Industry	2.9	2.4	3.1	4.2	2.1	2.2	2.0
Services	3.1	3.1	2.9	2.6	3.2	1.7	2.4
Population and income							
Population (m)	50.6	50.8	51.0	51.1	51.2	51.2	51.3
GDP per head (US\$ at PPP)	35,421	38,051	39,585	41,485	43,001 ^c	44,683	46,506
Recorded unemployment (av; %)	3.5	3.6	3.7	3.7	3.8	4.1	3.9
Fiscal indicators (% of GDP)							
General government revenue	20.5	20.5	21.3	22.0	23.1 ^c	23.2	23.0
General government expenditure	20.0	20.5	20.4	20.7	21.5 ^c	22.6	22.8
General government balance	0.5	0.0	1.0	1.3	1.6 ^c	0.6	0.2
Public debt	41.5	43.1	42.6	42.0	40.8	41.0	41.4
Prices and financial indicators							
Exchange rate W:US\$ (end-period)	1,099.3	1,172.5	1,207.7	1,070.5	1,115.7	1,200.0	1,135.0
Consumer prices (end-period; %)	0.8	1.2	1.3	1.4	1.3	0.9	1.4
Producer prices (av; %)	-0.5	-4.0	-1.8	3.5	1.9	0.9	1.8
Stock of money M1 (% change)	13.6	20.9	12.3	6.8	1.9	6.4	7.5
Stock of money M2 (% change)	8.1	8.2	7.1	5.1	6.7	5.0	7.0
Lending interest rate (av; %)	4.3	3.5	3.4	3.5	3.7	3.6	3.4
Current account (US\$ m)							
Trade balance	86,145	120,275	116,462	113,593	111,867	94,915	89,743
Goods: exports fob	613,397	543,083	511,926	580,310	625,437	569,905	567,369
Goods: imports fob	-527,252	-422,808	-395,464	-466,717	-513,571	-474,990	-477,626
Services balance	-3,290	-14,626	-17,338	-36,734	-29,737	-28,516	-22,869
Primary income balance	5,159	4,455	4,567	5,337	2,778	7,973	6,750
Secondary income balance	-4,985	-4,985	-5,767	-6,965	-8,499	-8,173	-6,783
Current-account balance	83,030	105,119	97,924	75,231	76,409	66,198	66,841
External debt (US\$ m)							
Debt stock ^d	407,001	376,642	356,739	380,507	408,180	380,169	371,778
Debt service paid ^d	19,139 ^c	42,419 ^c	38,474 ^c	35,964 ^c	41,461 ^c	48,174	43,293
Principal repayments ^d	11,589 ^c	35,256 ^c	30,281 ^c	25,740 ^c	26,977 ^c	32,095	29,692
Interest ^d	7,550 ^c	7,163 ^c	8,193 ^c	10,223 ^c	14,484 ^c	16,079	13,601
International reserves (US\$ m)							
Total international reserves	363,580	367,944	371,103	389,248	403,575	407,176	409,093

^a Actual. ^b Economist Intelligence Unit forecasts. ^c Economist Intelligence Unit estimates. ^d On a balance-of-payments basis; includes both foreign- and local-currency-denominated debt held by non-residents.

Source: IMF, International Financial Statistics.

Quarterly data

	2017		2018		2019			
	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr
General government finance (W bn)								
Revenue	100,264	94,045	114,632	116,311	108,666	98,653	114,056	117,936
Expenditure	85,446	82,671	116,397	118,066	91,115	81,521	131,377	139,107
Balance	14,818	11,374	-1,765	-1,755	17,551	17,132	-17,321	-21,171
Output (seasonally adjusted)								
GDP at constant 2010 prices (W bn)	444,064	443,600	447,909	450,496	452,561	456,770	455,081	459,958
GDP at constant 2010 prices (% change, year on year)	3.8	2.8	2.9	2.9	1.9	3.0	1.6	2.1
Industrial production index (2010=100)	105.1	105.2	104.8	106.9	107.8	106.2	103.1	104.3
Industrial production (% change, year on year)	3.1	1.6	-0.7	2.7	2.5	1.0	-1.7	-2.4
Employment, wages and prices								
Employment ('000)	26,998	26,883	26,284	27,019	27,015	26,971	26,461	27,256
Employment (% change, year on year)	1.0	1.0	0.7	0.4	0.1	0.3	0.7	0.9
Unemployment rate (% of labour force)	3.4	3.2	4.3	3.9	3.8	3.4	4.5	4.1
Average monthly wages, all industry (W m)	3,575	3,541	3,919	3,457	3,737	3,677	4,022	n/a
Average monthly wages, all industry (% change, year on year)	3.2	1.7	8.1	3.7	4.5	3.8	2.6	n/a
Consumer prices (2015=100)	103.1	103.3	103.8	104.2	104.7	105.1	104.3	104.9
Consumer prices (% change, year on year)	2.2	1.4	1.1	1.5	1.5	1.8	0.5	0.7
Producer prices (2010=100)	101.3	102.3	102.8	103.2	104.1	103.7	103.1	103.7
Producer prices (% change, year on year)	3.4	2.9	1.2	2.1	2.8	1.5	0.3	0.4
Financial indicators								
Exchange rate W:US\$ (av)	1,132	1,107	1,073	1,079	1,122	1,127	1,125	1,167
Exchange rate W:US\$ (end-period)	1,147	1,071	1,067	1,122	1,113	1,118	1,138	1,157
Deposit rate (av; %)	1.6	1.9	2.0	2.0	2.0	2.1	2.1	2.0
Lending rate (av; %)	3.4	3.5	3.7	3.7	3.6	3.7	3.7	3.7
3-month money market rate (av; %)	1.2	1.3	1.5	1.5	1.5	1.6	1.8	1.8
Money supply, M1 (end-period; W trn)	837	850	852	862	853	866	879	892
Money supply, M1 (% change, year on year)	11.7	6.8	7.3	5.6	1.9	1.9	3.2	3.5
Money supply, M2 (end-period; W bn)	2,510	2,530	2,584	2,632	2,662	2,700	2,763	2,814
Money supply, M2 (% change, year on year)	5.5	5.1	6.0	6.8	6.0	6.7	6.9	6.9
KOSPI Composite stockmarket index (end-period; Jan 4th 1980=100)	2,394	2,467	2,446	2,326	2,343	2,041	2,141	2,131
KOSPI Composite stockmarket index (% change, year on year)	16.0	27.1	21.9	1.8	-1.2	-18.7	-16.5	-15.3
Foreign trade (US\$ m)								
Exports fob	151,051	143,539	145,055	151,617	153,641	154,547	132,678	138,593
Imports cif	-	-	-	-	-	-	-	-
Trade balance	30,198	20,139	12,629	18,465	23,330	15,233	9,125	9,913
Foreign payments (US\$ m)								
Merchandise trade balance	33,091	28,499	22,532	29,947	34,718	24,670	n/a	n/a
Services balance	-8,616	-10,614	-9,314	-6,486	-7,611	-6,327	n/a	n/a
Primary income balance	3,940	2,944	1,312	-4,221	2,825	2,861	n/a	n/a
Net transfer payments	-2,470	-1,978	-2,877	-1,992	-1,817	-1,813	n/a	n/a
Current-account balance	25,945	18,851	11,653	17,248	28,116	19,392	n/a	n/a
Reserves excl gold (end-period)	379,879	384,472	391,959	395,504	398,205	398,900	400,458	398,277

Sources: Bank of Korea; IMF, International Financial Statistics.

Monthly data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate W:US\$ (av)												

2017	1,185	1,145	1,135	1,133	1,125	1,130	1,134	1,131	1,132	1,132	1,105	1,086
2018	1,067	1,080	1,072	1,068	1,076	1,093	1,123	1,121	1,121	1,131	1,129	1,123
2019	1,122	1,122	1,131	1,141	1,183	1,176	1,175	n/a	n/a	n/a	n/a	n/a
Exchange rate W:US\$ (end-period)												
2017	1,158	1,132	1,116	1,130	1,124	1,140	1,119	1,123	1,147	1,125	1,082	1,071
2018	1,072	1,071	1,067	1,076	1,081	1,122	1,117	1,109	1,113	1,141	1,122	1,118
2019	1,117	1,118	1,138	1,158	1,190	1,157	1,182	n/a	n/a	n/a	n/a	n/a
General government revenue (W bn)												
2017	45,058	23,842	37,316	48,047	30,471	24,796	41,950	30,305	28,009	40,903	24,865	28,277
2018	48,754	24,654	41,224	46,166	41,995	28,150	45,145	33,379	30,142	41,506	27,522	29,625
2019	49,100	23,987	40,969	46,981	42,804	28,151	n/a	n/a	n/a	n/a	n/a	n/a
General government expenditure (W bn)												
2017	30,207	34,685	45,242	35,058	28,250	38,250	23,698	29,013	32,735	26,334	22,913	33,424
2018	33,706	38,825	43,866	44,157	33,569	40,340	32,405	26,605	32,105	26,884	18,767	35,870
2019	42,206	42,685	46,486	55,553	36,015	47,539	n/a	n/a	n/a	n/a	n/a	n/a
General government balance (W bn)												
2017	14,851	-10,843	-7,926	12,989	2,221	-13,454	18,252	1,292	-4,726	14,569	1,952	-5,147
2018	15,048	-14,171	-2,642	2,009	8,426	-12,190	12,740	6,774	-1,963	14,622	8,755	-6,245
2019	6,894	-18,698	-5,517	-8,572	6,789	-19,388	n/a	n/a	n/a	n/a	n/a	n/a
Money supply, M1 (% change, year on year)												
2017	11.9	10.3	9.8	10.7	9.5	9.8	8.4	7.2	11.7	7.9	7.0	6.8
2018	6.1	7.0	7.3	5.5	5.7	5.6	5.0	4.1	1.9	2.7	2.0	1.9
2019	2.9	2.3	3.2	3.6	3.7	3.5	n/a	n/a	n/a	n/a	n/a	n/a
Money supply, M2 (% change, year on year)												
2017	5.7	6.2	6.2	6.6	5.7	5.4	4.5	4.3	5.5	4.6	4.9	5.1
2018	6.4	5.9	6.0	5.6	6.5	6.8	6.7	6.4	6.0	7.2	6.5	6.7
2019	6.2	6.6	6.9	6.8	6.3	6.9	n/a	n/a	n/a	n/a	n/a	n/a
Industrial production (seasonally adjusted; % change, year on year)												
2017	8.0	3.1	5.1	4.4	1.9	0.6	2.3	3.5	3.5	5.1	0.5	-0.7
2018	-1.7	1.6	-1.9	2.5	2.0	3.5	3.2	3.7	0.8	2.0	0.0	0.9
2019	0.1	-4.1	-1.0	-1.5	-2.9	-2.9	n/a	n/a	n/a	n/a	n/a	n/a
Unemployment rate (%)												
2017	3.7	4.9	4.1	4.2	3.6	3.8	3.4	3.6	3.3	3.2	3.1	3.3
2018	3.7	4.6	4.5	4.1	4.0	3.7	3.7	4.0	3.6	3.5	3.2	3.4
2019	4.5	4.7	4.3	4.4	4.0	4.0	3.9	n/a	n/a	n/a	n/a	n/a
Deposit rate (av; %)												
2017	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.7	1.8	2.0	1.9
2018	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.1	2.2	2.2
2019	2.2	2.1	2.1	2.0	2.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lending rate (av; %)												
2017	3.5	3.5	3.5	3.4	3.5	3.4	3.5	3.4	3.5	3.5	3.6	3.6
2018	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.6	3.6	3.6	3.7	3.7
2019	3.7	3.7	3.7	3.7	3.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a
KOSPI Composite stockmarket index (end-period; Jan 4th 1980=100)												
2017	2,068	2,092	2,160	2,205	2,347	2,392	2,403	2,363	2,394	2,523	2,476	2,467
2018	2,566	2,427	2,446	2,515	2,423	2,326	2,295	2,323	2,343	2,030	2,097	2,041
2019	2,205	2,195	2,141	2,204	2,042	2,131	2,025	n/a	n/a	n/a	n/a	n/a
Consumer prices (av; % change, year on year)												
2017	2.3	2.1	2.3	1.9	2.0	1.8	2.2	2.5	2.0	1.7	1.2	1.4
2018	0.8	1.2	1.2	1.5	1.5	1.5	1.1	1.4	2.1	2.0	2.0	1.3
2019	0.8	0.5	0.4	0.6	0.7	0.7	0.6	n/a	n/a	n/a	n/a	n/a
Producer prices (av; % change, year on year)												
2017	3.8	4.4	4.3	3.8	3.4	2.9	3.0	3.4	3.7	3.6	3.0	2.2
2018	1.2	1.1	1.2	1.5	2.1	2.6	3.0	2.9	2.5	2.0	1.4	0.9
2019	0.3	0.2	0.5	0.6	0.5	0.2	-0.3	n/a	n/a	n/a	n/a	n/a
Goods exports fob (US\$ m)												
2017	40,257	43,167	48,638	50,844	44,927	51,272	48,830	47,106	55,115	44,791	49,707	49,040
2018	49,221	44,524	51,310	49,850	50,688	51,079	51,810	51,180	50,650	54,860	51,480	48,207
2019	46,184	39,484	47,010	48,810	45,736	44,048	46,094	n/a	n/a	n/a	n/a	n/a
Goods imports cif (US\$ m)												
2017	37,645	36,203	42,579	37,959	39,288	40,551	38,607	40,550	41,696	37,857	42,014	43,529
2018	45,805	41,722	44,898	43,694	44,459	45,000	44,917	44,361	41,033	48,481	46,808	44,025
2019	45,084	36,529	41,940	44,971	43,634	40,075	43,691	n/a	n/a	n/a	n/a	n/a
Trade balance fob-cif (US\$ m)												

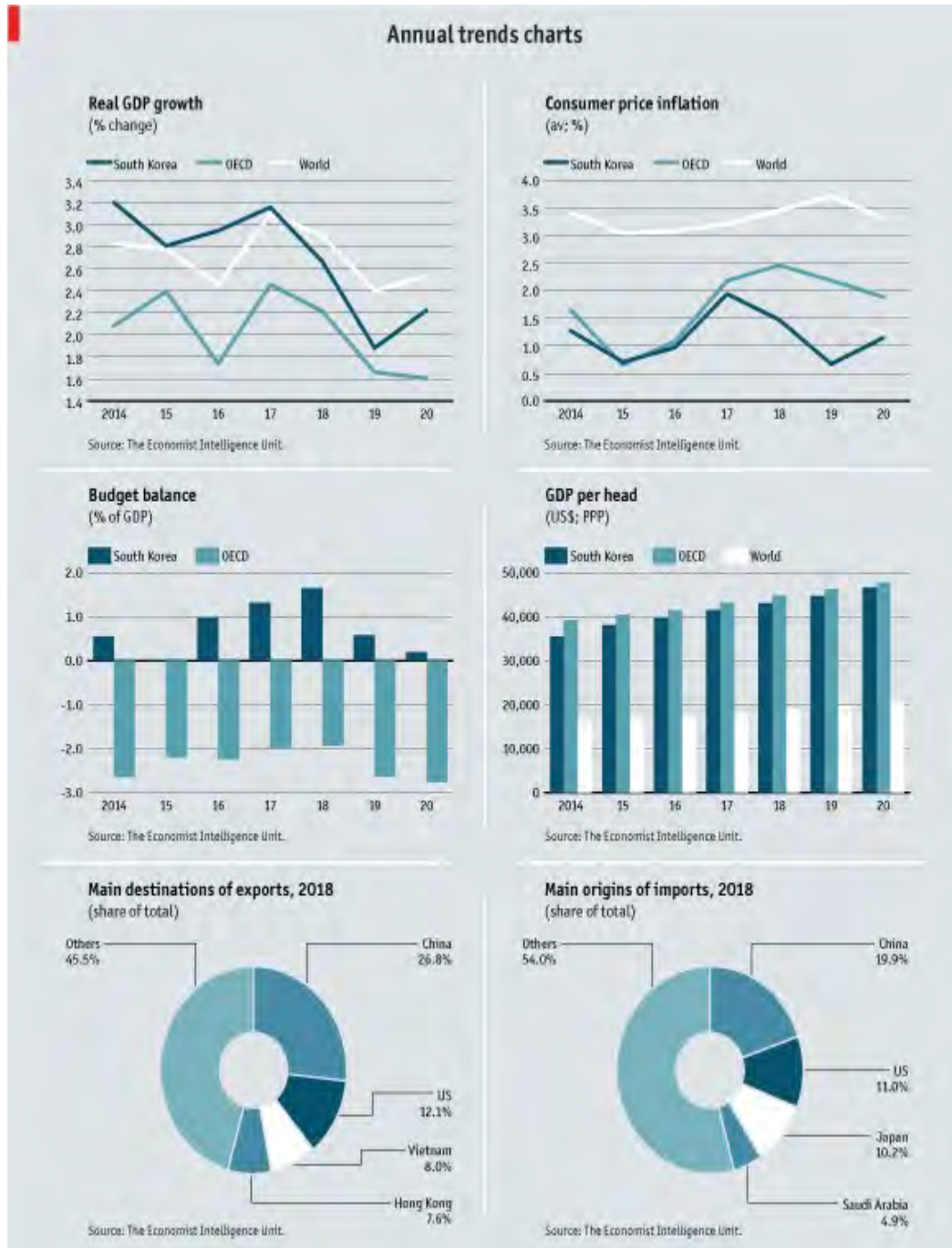
2017	2,612	6,963	6,058	12,884	5,639	10,721	10,223	6,556	13,419	6,935	7,694	5,511
2018	3,416	2,801	6,412	6,156	6,229	6,079	6,893	6,820	9,617	6,380	4,671	4,182
2019	1,100	2,955	5,070	3,838	2,102	3,973	2,403	n/a	n/a	n/a	n/a	n/a

Foreign-exchange reserves excl gold (US\$ m)

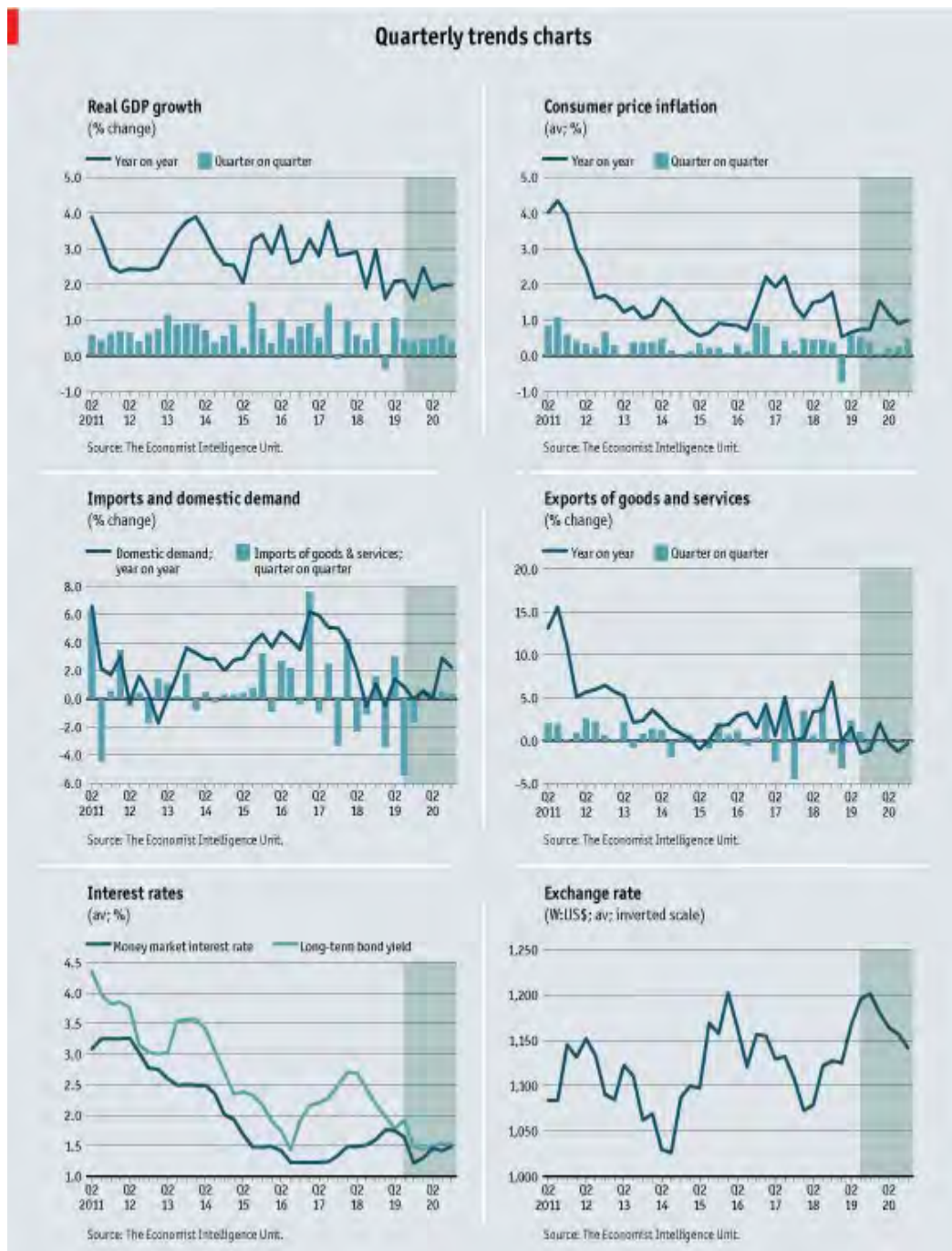
2017	369,242	369,114	370,507	371,779	373,661	375,773	378,961	380,044	379,879	379,668	382,456	384,472
2018	390,960	390,004	391,959	393,627	394,186	395,504	397,653	396,336	398,205	397,953	398,192	398,900
2019	400,718	399,879	400,458	399,234	397,178	398,277	398,318	n/a	n/a	n/a	n/a	n/a

Sources: IMF, International Financial Statistics; Haver Analytics.

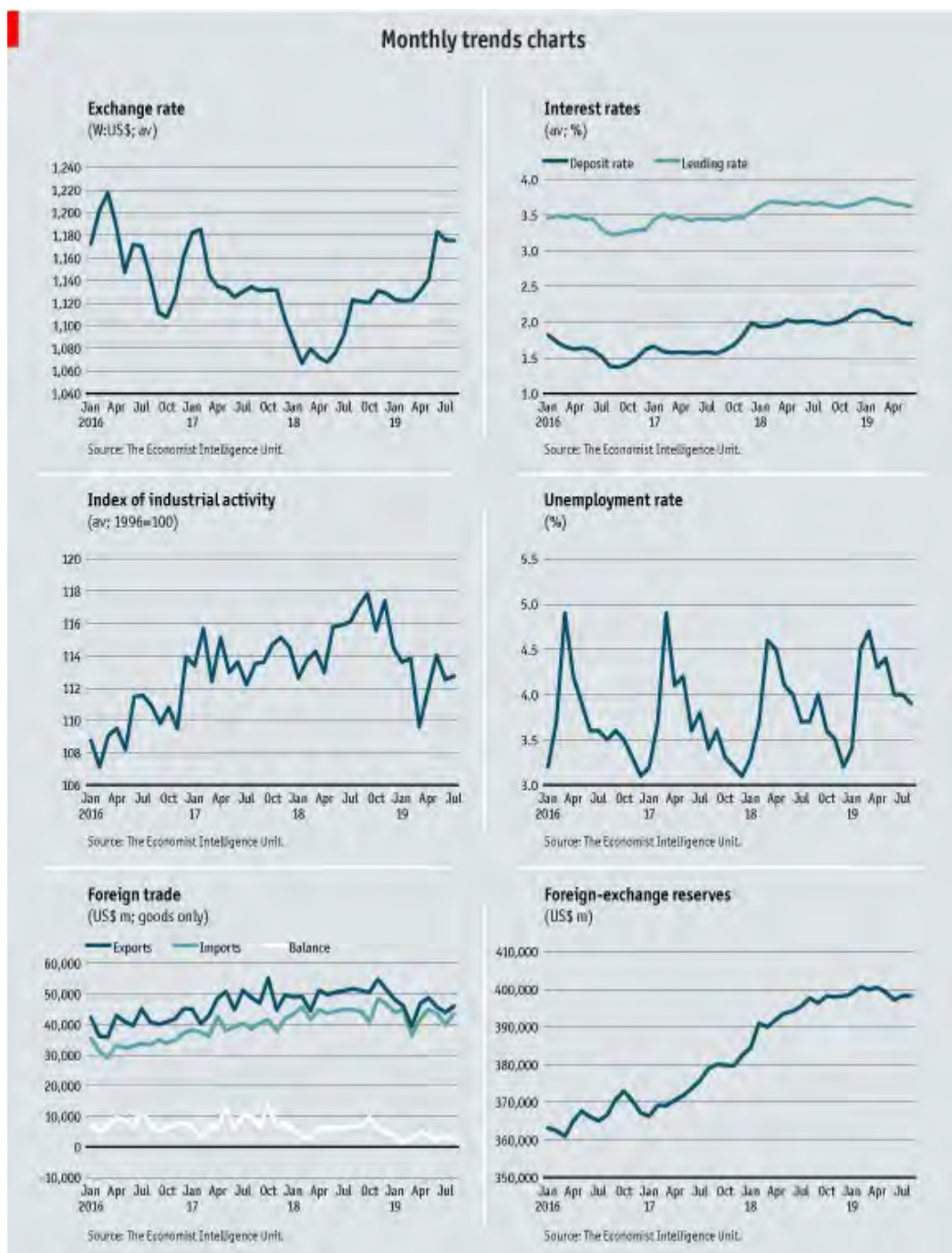
Annual trends charts



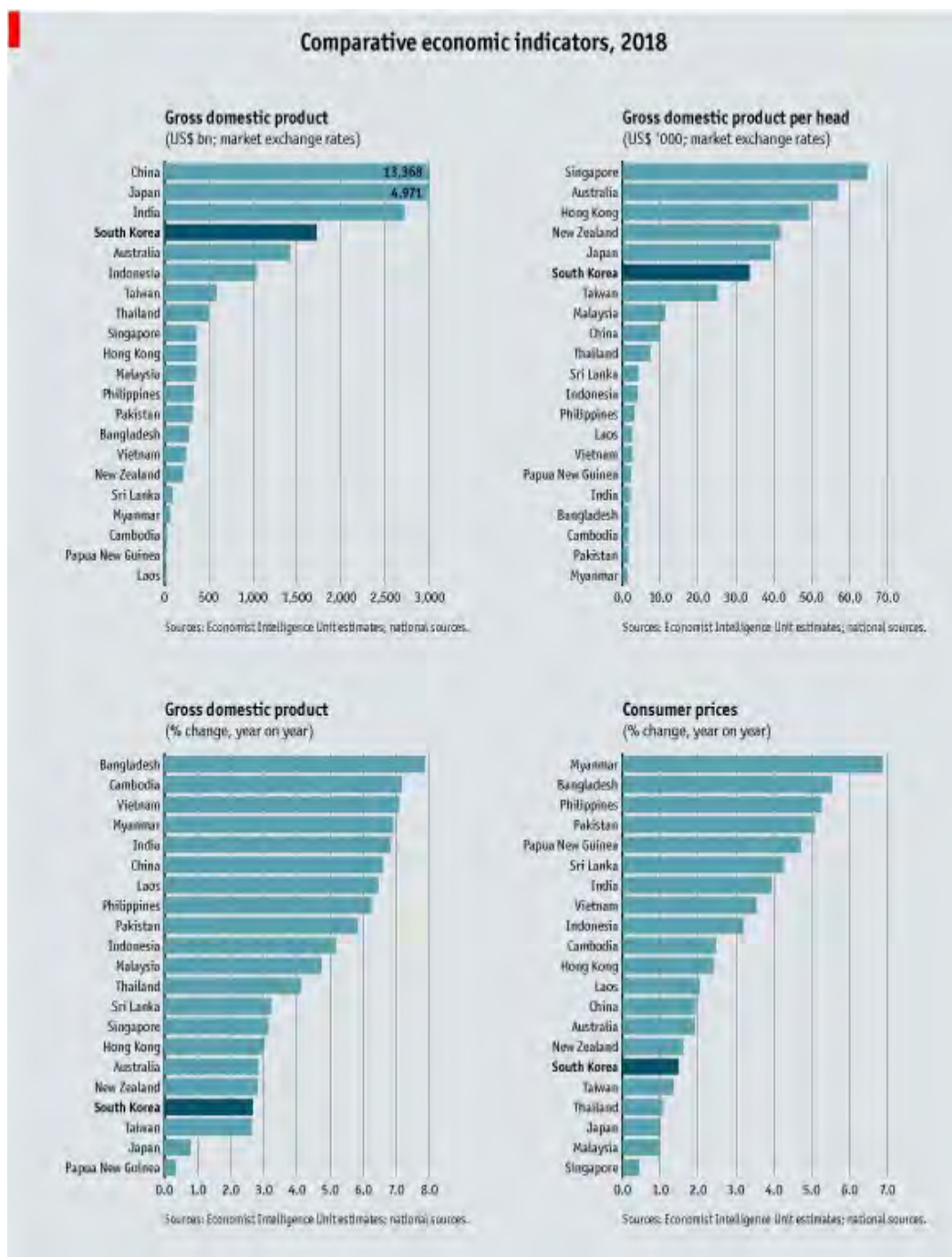
Quarterly trends charts



Monthly trends charts



Comparative economic indicators



Basic data

Land area

99,678 sq km

Population

51m (2019; UN)

Main towns

Population in '000 (2017; UN)

Seoul (capital): 9,776

Busan: 3,429

Incheon: 2,923

Daegu: 2,465

Daejeon: 1,531

Gwangju: 1,501

Climate

Continental, with extremes of temperature

Weather in Seoul (altitude 87 metres): Hottest month, August, 26.5°C; coldest month, January, minus 0.4°C; driest month, January, 10.8 mm average rainfall; wettest month, July, 274.1 mm average rainfall

Language

Korean

Measures

Metric system. Some local measures are:

1 pyong = 3.3058 sq metre

1 chungbo = 0.992 ha

1 suk = 100 dai = 180.39 litres

1 kwan = 1,000 don = 3.75 kg

Currency

Won (W). Average exchange rate in 2018: W1,100.2:US\$1

Time

9 hours ahead of GMT

Public holidays

January 1st (New Year's Day); February 4th-6th (Lunar New Year); March 1st (Independence Movement Day); May 5th-6th (Children's Day); May 12th (Buddha's birthday); June 6th (Memorial Day); August 15th (Liberation Day); September 12th-14th (Chuseok holidays); October 3rd (National Foundation Day); October 9th (Hangeul Day); December 25th (Christmas Day)



Political structure

Official name

Republic of Korea

Form of state

Presidential system; the president and the National Assembly (parliament) are directly elected; members of parliament are elected using a mixed system of first past the post and proportional representation

The executive

The president (elected for a single term of five years) appoints the State Council (the cabinet), which comprises the president, the prime minister and 15-30 ministers. Cabinet ministers are not normally members of the National Assembly

Head of state

Elected president

Legislature

Unicameral Kuk Hoe (National Assembly) elected for a four-year term. The current assembly, which was elected in April 2016, has 300 seats. Most of the assembly's seats are filled by election from geographical constituencies, with the remainder distributed among the various parties in proportion to their shares of the national vote

National elections

The next parliamentary and presidential polls will be held in April 2020 and May 2022 respectively. The last parliamentary and presidential elections were held in April 2016 and May 2017 respectively

National government

The government is led by the president, Moon Jae-in, who was elected in May 2017 for a single five-year term. He succeeded Park Geun-hye, who was impeached in March 2017 following a corruption scandal

Main political organisations

Minjoo Party, Liberty Korea Party, Bareunmirae Party, Party for Democracy and Peace, Justice Party

Main members of the State Council

President: Moon Jae-in

Prime minister: Lee Nak-yeon

Deputy prime minister: Hong Nam-ki; Yoo Eun-hae

Key ministers

Defence: Jeong Kyeong-doo

Economy & finance: Hong Nam-ki

Employment & labour: Lee Jae-kap

Environment: Cho Myung-rae

Foreign affairs: Kang Kyung-wha

Health & welfare: Park Neunghoo

Interior: Chin Young

Justice: Park Sang-ki

Education: Yoo Eun-hae

Land, infrastructure & transport: Kim Hyun-mee

Trade, industry & energy: Sung Yun-mo

Unification: Kim Yeon-chul

Central bank governor

Lee Ju-yeol

Recent analysis

Generated on September 17th 2019

The following articles have been written in response to events occurring since our most recent forecast was released, and indicate how we expect these events to affect our next forecast.

Politics

Forecast updates

President appoints Cho Kuk as minister of justice

September 10, 2019: Election watch

Event

On September 9th the president, Moon Jae-in, appointed six ministerial-level officials, including Cho Kuk as minister of justice.

Analysis

Cho Kuk, a former law professor, has been at the centre of a political storm for the past month, since Moon Jae-in nominated him for the justice portfolio. The conservative opposition, led by the Liberty Korea Party (LKP), has vehemently opposed his appointment because of concerns over corruption allegations surrounding members of his family. Presidential appointments require hearings at the National Assembly (South Korea's parliament), even though the president has the power to appoint ministers without parliamentary approval.

Cho Kuk served as senior presidential secretary for civil affairs and has been the closest aide to Moon Jae-in in the highly personalised Office of the President since 2017. He is widely viewed as the chief ideologue behind the president's left-leaning political agenda. As justice minister, he is tasked with tightening control over more than 2,000 top and rank-and-file prosecutors. The ability to influence the prosecutorial force is important for a South Korean president to maintain a strong grip on power. It is even more important for Moon Jae-in's policy agenda, driven by anti-corruption and reform efforts, as his single-term five-year presidency approaches the midway point.

Moon Jae-in's decision to press ahead with Cho Kuk's appointment shows his continued willingness to confront the conservative opposition at least until the crucial parliamentary elections scheduled for April 2020. The ruling Minjoo Party currently holds 128 of the 300 seats in parliament, against the LKP's 110 seats. With presidential approval ratings hovering above 40% and the conservative opposition struggling to regain support after a series of corruption scandals, Minjoo aims to increase its parliamentary majority at the general election. However, the corruption scandal surrounding Cho Kuk's family risks damaging the ruling party's anti-corruption credentials and derailing its election plans.

Impact on the forecast

We believe that the appointment of the controversy-ridden Cho Kuk will weaken support for the Minjoo Party. However, the conservative opposition will not be able to capitalise on this as it struggles to recover from previous corruption scandals. We maintain our view that Minjoo will increase its parliamentary representation but will fail to achieve the three-fifths supermajority that would enable it to pass legislation unilaterally.

Economy

Forecast updates

Industrial activity rebounds amid uncertainty

September 3, 2019: Economic growth

Event

On August 30th Statistics Korea reported that the index of industrial production increased by 0.5% year on year (non-seasonally adjusted) in July. Meanwhile, the contraction in industrial production in June was revised to 0.8%, from the previously reported 1.1% drop.

Analysis

July's industrial output data defied mounting worries about broad weakness in South Korea's economy amid a prolonged [trade war](#) between China and the US—the country's two biggest trading partners—and South Korea's own [trade dispute](#) with Japan. Manufacturing output expanded by 0.6% in July over a year ago, recovering from a revised 2.6% year-on-year drop in June. This constitutes a positive sign for the broader economy, because manufacturing activity is heavily linked to exports, which drive the country's economy as a whole. However, electronic parts, including semiconductors, registered an 11.8% fall compared with July 2018.

On July 4th Japan placed export controls on fluorinated polyimide, hydrogen fluoride and photoresist—three materials critical to the manufacturing of semiconductors and displays in South Korea. However, any resulting supply chain disruption has not manifested yet, as South Korean manufacturers have been able to rely on their existing inventories. Other metrics of manufacturing activity improved moderately in July. Factory utilisation averaged 74.8%, up from 72.2% in June and better than the 73.5% average for all of 2018. The equipment investment index fell by 4.7%, but the decline was more moderate than a revised 9% drop in June.

The government is ramping up fiscal spending to support the manufacturing sector, especially materials, parts, and equipment, to replace imports from Japan. The Ministry of Economy and Finance has proposed a record budget of W513.5trn (US\$424bn) for 2020—an increase of 9.3% from this year—not counting the W5.8trn [supplementary budget](#) for 2019 approved by the National Assembly (parliament) in August. The Bank of Korea (South Korea's central bank) also cut its [benchmark interest rate](#) in July. This combination of expansionary fiscal spending and a loose monetary policy will provide some support to industrial activity, but it will not fully offset the impact of external headwinds.

Impact on the forecast

The latest data do not change our view that manufacturing activity will face increasing headwinds in 2019. We maintain our forecast that industrial production will drop by 1.6% in 2019.

Exports continue double-digit decline in August

September 3, 2019: External sector

Event

South Korea's merchandise exports slumped by 13.6% year on year to US\$44.2bn in August, according to data released by the Ministry of Trade, Industry and Energy on September 2nd. Imports also dropped by 4.2%, to US\$42.5bn. Overall, the trade balance stood at a surplus of US\$1.7bn, down from US\$2.4bn in July.

Analysis

The August trade statistics marked the fourth consecutive month of double-digit decline in the country's outbound shipments, extending the year-on-year contraction of merchandise exports since December 2018. Although exports grew slightly in volume terms, expanding by 0.1% in August, this was a sharp deceleration from the 2.9% expansion in July.

The prolonged [trade war](#) between the US and China, South Korea's two biggest trading partners, has significantly weakened external demand for South Korean goods. Exports to China registered their tenth consecutive monthly decline, falling by 21.3% in August on the back of decreasing sales of semiconductors and petrochemicals. Shipments to the US similarly dropped by 6.7%. Demand from both markets will remain sedate as both countries face slower economic growth and [escalating tariffs](#) across their bilateral trade flows.

Semiconductor exports—which account for one-fifth of total South Korean exports—plunged by 30.7% compared with August last year, as manufacturers grapple with the downturn in global consumer electronics demand. Although export volumes remained resilient, growing by 4.5% over the same period, consistently low international prices for memory chips—of which South Korean firms dominate production globally—indicates no immediate end to the slump before end-2019.

Meanwhile, the impact of Japan's [tighter restrictions](#) on South Korea-bound exports appears to still be limited. The contraction in imports from Japan also moderated to 8.2% in August, compared with the 12.7% slide in the first seven months in 2019. However, imports of hydrogen fluoride fell by 83.7% in July, according to separate data from South Korea's customs. Hydrogen fluoride is one of the three chemicals—crucial to South Korea's semiconductor and display manufacturers—that Japan has put under stricter export screening since early July. Although South Korea's current inventory levels should help to limit the impact of these moves in 2019, we expect that the maintenance of Japan's trade restrictions on high-tech materials and components will cause strains to emerge more fully in 2020.

Impact on the forecast

The latest data are in line with our view that exports of goods and services (on a national-accounts basis) will decline by 0.3% in 2019.

Government submits record budget plan to parliament

September 3, 2019: Fiscal policy outlook

Event

On September 3rd the government submitted its budget proposal of W513.5trn (US\$443bn) for 2020 to the National Assembly (parliament).

Analysis

The budget has grown by 9.3% from the 2019 budget proposal (excluding the W5.7trn [supplementary budget](#) approved by the National Assembly in August). This marks the second consecutive rise of over 9% in the government's budget plan. Spending on health, welfare and employment is set to rise by 12.8% from 2019 and will constitute over a third of total proposed expenditure. In particular, the government proposed a 21.3% jump in spending on job-creation, reflecting its determination to support employment through so-called income-led growth, in the face of broad-based [economic headwinds](#).

The budget plan for 2020 also includes W24.1trn specifically committed to research and development (R&D)—a surge of 17.3% from 2019. The inflated R&D expenditure will focus on promoting the local production of strategic materials, parts and manufacturing equipment to reduce the country's reliance on Japanese exports. Rather than a one-off investment, the government intends to maintain a rapid pace of growth in R&D spending, which will rise at an annual average rate of 10.8% between 2020 and 2023, compared with the 5.2% average growth proposed in the 2019 budget for 2019-22.

According to the budget proposal, total government revenue is projected to rise by 1.2% to W482trn in 2020. This will lead to the country's first fiscal deficit since the global financial crisis of 2008-09. The government plans to issue W60.2trn of Treasury bonds to fund the shortfall.

The budget plan will need to be approved by a majority in the National Assembly, where the ruling Minjoo Party currently holds 128 of the 300 seats. The Economist Intelligence Unit believes that the budget will secure parliamentary approval, with Minjoo achieving the necessary support from other small parties. The government will maintain its expansionary fiscal approach, to stimulate economic growth and promote domestic industry, until at least 2022, when Moon Jae-in's five-year presidency ends. The expanded government expenditure will push the fiscal balance into deficit in 2020-22.

Impact on the forecast

The proposed expansion of the budget is bigger than we had anticipated. As a result, we will be making an upward revision to our forecast for government expenditure in 2020-22. It will also result in a fiscal deficit during the same period, compared with our previous forecast of a small surplus.

Headline inflation falls to zero for first time

September 4, 2019: Inflation

Event

On September 3rd Statistics Korea reported that the consumer price index (CPI) remained unchanged in August from a year ago. This is the first time that headline inflation has stayed flat since the government began compiling monthly inflation data in 1965.

Analysis

According to the data release, the CPI actually declined by 0.04% year on year in August (with rounding error). The Ministry of Economy and Finance and the Bank of Korea (BOK, South Korea's central bank) held a joint macroeconomic policy consultation on September 3rd to dispel worries about deflation following the first ever sub-zero inflation figure. The ministry cited supply-side factors—rather than falling demand—as reasons for the weak consumer price inflation this year.

The CPI has averaged around 0.5% in the first eight months, considerably below the inflation rate of 1.5% for full-year 2018 and the BOK's 2% inflation target. Agricultural inflation has remained moderate owing to mild weather conditions. Prices of oil products, another major swing factor, have been subdued owing to lower global prices and the implementation of fuel tax discounts for ten months since November 2018. We expect these factors to wane and for the CPI to recover in early 2020, owing to low base effects.

In August prices of agricultural products plunged by 11.4% year on year, resulting from good harvests of fruits and vegetables, while petroleum prices fell by 6.6%. Manufactured goods prices, including petroleum products, declined by 0.2% from a year ago. Meanwhile, the services price index retained relative strength, with a year-on-year increase of 1%. Core inflation, which excludes food and energy, climbed by 0.8% year on year in August, compared with a 0.9% rise in July. The [BOK's cut](#) to the benchmark interest rates in July has not yet generated enough upward inflationary pressure on the demand side to boost core inflation. However, we now believe that the unexpectedly weak inflation and sluggish economic growth weighed down by [slumping exports](#) will persuade the BOK to cut the benchmark interest rates once again before end-2019.

Impact on the forecast

The latest data are weaker than we expected. As a result, we will be making a downward revision to our 2019 forecast of a 0.7% rise in consumer price inflation. Meanwhile, we now believe that the BOK will implement another 25-basis-point cut to its benchmark interest rates before end-2019, compared with our previous forecast of a cut in the first half of 2020.

Central bank revises down Q2 economic growth

September 4, 2019: Economic growth

Event

On September 3rd the Bank of Korea (BOK, South Korea's central bank) revised down the real GDP growth rate in the second quarter of 2019 to 2% year on year (in seasonally adjusted terms), in contrast to its [preliminary estimate](#) of a rise of 2.1%.

Analysis

Strong government spending and robust growth in services exports helped the economy to avoid a technical recession in the second quarter, following a quarter-on-quarter [contraction of 0.4% in January-March](#). However, the 0.1-percentage-point downward revision in the second quarter was driven by weaker than estimated export growth and lower government spending than was previously accounted for.

According to the revised data, exports of goods and services, which account for around half of the country's economy, increased by 1.2% year on year in April-June, 0.3 percentage points lower than the initial estimate. Services exports grew more slowly than initially estimated, while goods exports remain in contraction. Meanwhile, government spending rose by 7%, compared with the expansion of 7.3% in the preliminary estimate. Conversely, the downturn in fixed-asset investment was less gloomy, as was the contraction in overall investment. This is largely owing to a 0.8-percentage-point upward change to investment in facilities, which includes transport, machinery and equipment critical to industrial activities.

The revised data confirm our view that South Korea will have its weakest year of economic growth since the global financial crisis of 2008-09. We believe that real GDP growth will remain subdued [in the second half of 2019](#) amid sluggish domestic demand and a persistently challenging external environment. Consumer price inflation has remained far below the BOK's target level of 2% and [stalled in August](#). Meanwhile, goods exports have been in [double-digit contraction](#) for four consecutive months. We believe that the broad-based headwinds will lead the BOK to another cut in the benchmark interest rate before the end of 2019. However, the effects of loosening monetary policy will not materialise until early 2020.

Impact on the forecast

The revised real GDP data for the second quarter are in line with our view that economic growth will decelerate this year, because of weak fundamentals and continuing global trade frictions. We maintain our forecast that real GDP growth will average 1.9% in 2019.

Unemployment rate hits six-year low in August

September 11, 2019: Economic growth

Event

On September 11th Statistics Korea reported that the seasonally adjusted unemployment rate fell to 3.1% in August, from 4% in July, while the total number of people employed increased by 449,000 from August 2018.

Analysis

The number of jobs added in August was the largest year-on-year gain since March 2017. This has pushed the overall unemployment rate down to its lowest level since November 2013. Both are the best metrics seen during the term of the current president, Moon Jae-in, who is about to reach the midway point of his single five-year term of presidency.

The improvement in labour-market conditions was partly attributable to increased government support. A [supplementary budget](#) of W5.8trn (US\$5bn) was approved in early August by the National Assembly (parliament). This aims to boost job creation through additional funding for healthcare, welfare and labour programmes, and to promote domestic manufacturing.

In August 172,000 new jobs were created in healthcare and social work compared with a year earlier—the highest gain among all industries. Meanwhile, the decline in manufacturing sector jobs eased to its slowest rate in 17 months. However, the increase in employment owed more to a low base of comparison in the year-earlier period than to the effects of the supplementary budget, which will take several weeks to implement.

There are also concerns about the sustainability of overall job growth, as much of the increase came from the agriculture, construction and accommodation sectors, which are vulnerable to cyclical swings. Moreover, the number of self-employed people with employees on the payroll was down by 116,000 from a year earlier, suggesting that small businesses continue to face difficulties. Small businesses have been hit the hardest by the government's implementation of steep minimum wage increases in 2018 and 2019.

Although economic foundations remain weak and global trade frictions continue to suppress export growth, The Economic Intelligence Unit believes that increasing budgetary support from the government will help to shore up employment and to keep the unemployment rate below 4% for the rest of 2019. The fall in the unemployment rate will continue in 2020, as government spending on job-creation will increase by 21.3% to W25.8trn, according to the [proposed budget](#) for the year.

Impact on the forecast

The latest employment data are stronger than our expectations. We will be making a downward revision to our unemployment forecast, which currently projects the rate to stand at 4.1% in 2019.

Analysis

South Korea promises further investment in Laos

September 16, 2019: Economic growth

South Korea has unveiled in Laos a new vision for the Mekong region, on top of its existing ["New Southern Policy"](#) to expand outreach to countries in South-east Asia. Hydropower generation remains the focus for South Korea in Laos, given the latter country's abundant water resources. While the [collapse of a partly South Korean-built dam](#) in 2018 cast a shadow over South Korean investment in the country and led to a moratorium on hydropower projects in Laos, we expect the ban to be lifted in 2020, given the important role that electricity exports play in economic growth. However, South Korea will have to deal with strong competition from China if it wants to secure new hydropower projects in Laos.

On September 6th South Korea's president, Moon Jae-in, finished his two-day state visit to Laos—the first to the country by a South Korean leader. During the visit, the South Korean president

vowed further investment and aid for Laos. He also discussed with his Laotian counterpart, Bounnhang Vorachith, the collapse in 2018 of a dam built with South Korean involvement. Laos was the last leg of a regional trip that also covered Thailand and Myanmar.

During the state visit, Moon Jae-in announced for the first time a South Korea-Mekong vision for sustainable growth and co-prosperity, which aims to elevate ties with countries along the Mekong River, namely Cambodia, Laos, Myanmar, Thailand and Vietnam. The decision to make the announcement in Laos could indicate that the country has been allocated a special place in the plan, given that it lags behind others in the region when it comes to trade and investment with South Korea, and could offer opportunities to South Korean firms in the hydroelectric power industry.

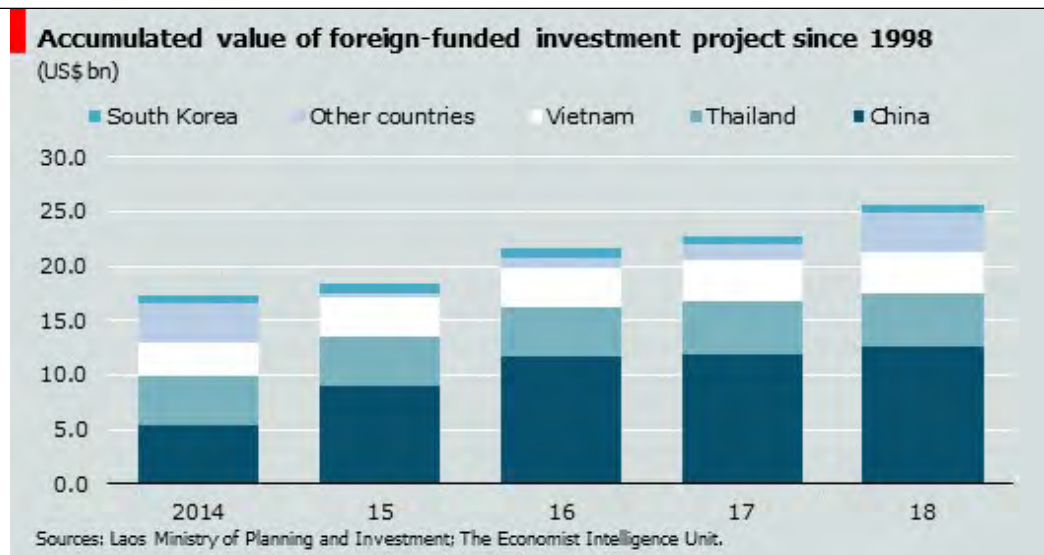


The state visit was important to lay the groundwork for an inaugural South Korea-Mekong summit to be held on November 27th. The event will take place after the South Korea-ASEAN Commemorative Summit in Busan, also in November.

Untapped potential

South Korea has provided significant overseas development assistance to Laos. According to the OECD, South Korea provided around US\$125m in overseas development assistance to Laos in 2015-16, ranking second after Japan. The funds went to projects such as the Xe Pian Xe Namnoy hydropower plant and the Mekong River Integrated Management Project, both in Champasak Province, and a hospital in the capital, Vientiane.

However, Laos has been far from the centre of South Korea's trade and investment in the region. Laos's share of South Korea's combined trade flows with ASEAN members has remained less than 0.2% (or US\$200m) over the past decade. South Korea financed projects worth US\$751m in Laos between 1989 and 2013, ranking fourth behind China, Thailand and Vietnam. However, it has not made any new investments since 2013.



Disaster strikes

In July 2018 a saddle dam at the Xe Pian Xe Namnoy hydropower plant collapsed, killing at least 70 people and leaving more than 14,000 homeless. The project, which commenced in 2013, is South Korea's most recent infrastructure investment in Laos. The plant was built by PNPC, a joint venture formed in 2012 by South Korea's SK Engineering and Construction, Korea Western Power, Ratchaburi Electricity Generating Holding (Thailand) and Lao Holding State Enterprise. South Korea sent a relief team and US\$2m in aid after the incident.

The co-operative stance adopted by the South Korean and Lao governments following the incident is indicative of the importance they place on the bilateral relationship. In May 2019 a Lao official announced that the government had received a report in March based on the findings of an investigation team, which named poor construction methods, with soil used in place of concrete, as the cause of the dam collapse. The report has not been published owing to ongoing talks with South Korea on what information should be released. During his visit the South Korean president thanked the Lao authorities for maintaining trust in South Korean companies.

In the aftermath of the collapse, Laos issued a moratorium on all hydropower projects in order to increase scrutiny of construction standards. While the existing pipeline is enough to keep exports strong for now (there are 63 operational hydropower plants and 37 under construction), the moratorium is unlikely to remain in place beyond the end of 2019, as Laos's economic development strategy will remain centred on electricity exports during our forecast period (2019-23). In 2018 power exports were worth US\$1.5bn. This will open the door for new South Korean investment in the energy sector.

The electricity-generation sector offers opportunities for South Korean firms to sell storage systems and other technologies. In advance of the state visit, the Korean-Trade Investment Promotion Agency (KOTRA) organised two events in September: a meeting for South Korean companies like the Korean Electric Power Corporation to showcase their products and seek local partners, and a workshop on renewable-energy technologies. Their main potential client is the state power utility, Électricité du Laos.

The Lao government has prioritised diversification of energy generation away from hydropower. By 2025 the government aims to increase the share of non-hydro renewable energy to 30% of total consumption. Solar power production currently accounts for a small share of the country's electricity output, but there is strong potential given strong direct sunlight during the dry season (October-April). However, South Korean companies will face intense competition from China in the solar sector, as they have done both domestically and in other countries. Chinese government subsidies for the solar sector have led to overcapacity and a global fall in prices for the technology.

Nuclear power could also be an option for South Korean investment, as the Lao government has also indicated it is considering embarking upon such a programme. However, in this sector South Korea will have to compete with Russia. Since 2016 Laos has signed several agreements with a

Russian state-owned enterprise, Rosatom, for the construction of the South-east Asian country's first nuclear-power plant.

Diversifying engagement

Moon Jae-in's visit to Laos was largely symbolic, with only Memorandums of Understanding (MoUs) being signed, rather than concrete deals, owing to the country's current moratorium on capital investment projects (aimed at improving debt sustainability). Under one MoU South Korea will set up an Economic Development Co-operation Fund, to which it will commit US\$500m between 2020 and 2023.

The agreements that were signed on tourism co-operation and support for the construction of local transport infrastructure have the potential to boost Laos's services exports (tourism receipts accounted for 95.2% of services exports in 2018), although the details of the agreements remain unconfirmed. South Koreans were the largest group of high-spending tourists that year, totalling 174,405 visitors, but arrivals from the country [contracted](#) in the first half of 2019. New government initiatives could help to bring numbers back up.

The South Korean president's proposal to work together on removing unexploded ordinance could also deliver a positive economic impact. There are still more than 80m unexploded devices left from the second Indochina war (1964-75). The removal of ordinance would free up new land for farming and reduce costs for development projects. It could also help to boost tourism flows to historical sites. However, international organisations and other nations are already involved in the clear-up operation and have only removed 20m pieces of ordinance in the past 45 years, raising questions over the additional benefits to be gained from South Korean assistance.



Philippines

Subject	Page
Ambassador Sung Kim	177
US Relations with Philippines	179
CultureGram 2019.....	181
BBC Timeline	191
Economist Intelligence Unit Country Report.....	199

This page intentionally blank

Ambassador Sung Kim - Philippines



On November 3, 2016, Ambassador Sung Kim was sworn in as the U.S. Ambassador to the Republic of the Philippines, and started this important posting on December 1, 2016. From 2011 to 2014, he was the U.S. Ambassador to the Republic of Korea. In between the two ambassadorships, Ambassador Kim served as Special Representative for North Korea Policy in Washington.

Earlier, Ambassador Kim also served as the Special Envoy for the Six-Party Talks with the rank of Ambassador. His previous overseas diplomatic assignments have included Tokyo, Kuala Lumpur, and Hong Kong. Prior to joining the Foreign Service, he worked as a prosecutor in Los Angeles, California.

Ambassador Kim was born in Seoul, Korea, and grew up in Los Angeles. He earned his undergraduate degree from the University of Pennsylvania and completed a degree in law from Loyola University. He also holds a Master of Laws degree from the London School of Economics and an honorary doctorate from the Catholic University of Korea. Ambassador Kim is married and has two daughters.