

## Matthews Asia Perspective

### South Korea—The Next Economic Rebirth



**Elli Lee**  
**Research Analyst**  
**Matthews Asia**

It's been three decades since South Koreans were this excited about the Olympics—that is, when Seoul hosted the 1988 Summer Olympics.

In the years leading up to that landmark event, the country's economy depended heavily on labor-intensive and low-value production in areas such as textile and machine assembly. Following in Japan's footsteps, South Korea invested in infrastructure and industries such as steel, chemicals and shipbuilding. With a hardworking and low-cost labor force, the country transformed into a thriving home to steel mills and chemical plants and started to win larger contracts in shipbuilding and industrial construction.

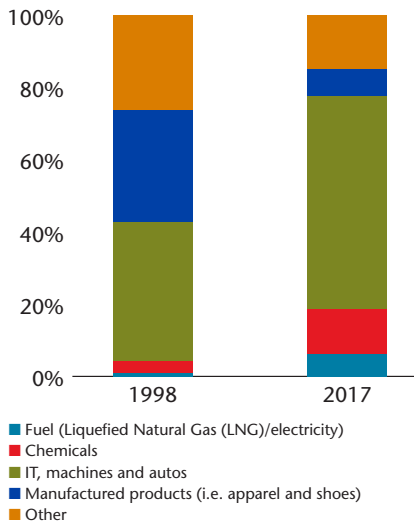
By the time my hometown of Seoul was ready to host the country's first Olympics, South Korea was already changing its image. Instead of being considered a poor developing nation that had suffered under Japanese colonialism and civil war, it was seen as a swiftly evolving country experiencing an economic rebirth. Thirty years later, with the PyeongChang Winter Olympics now under way, South Korea is ready to showcase its next level of economic development—one driven by talent and research and development (R&D).

#### The Evolution of South Korean Exports

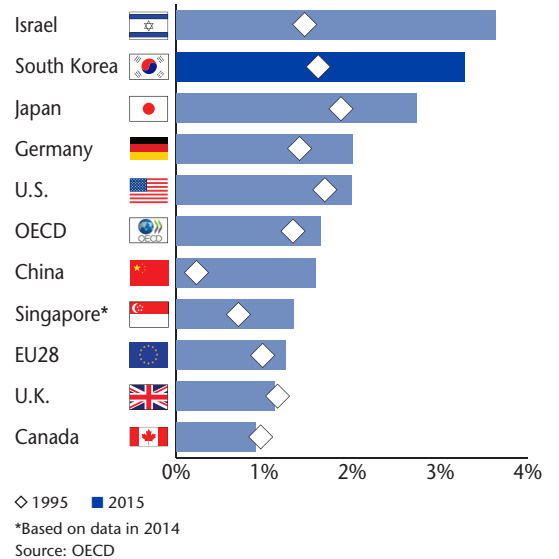
Korean household incomes have grown five-fold since the early 1990s and the country is now the world's 11<sup>th</sup> largest economy by GDP in 2016, according to the World Bank. In 2015, South Korea's business enterprise sector spent 3.3% of its gross domestic expenditure on R&D, followed by Japan and Germany.<sup>1</sup>

As Asia specialists, we have watched as South Korean companies have progressed over time to become top global players in many sectors. Innovation has been a key to the economy as South Korea has faced well-established global competitors, carving out its own solid reputation to challenge Japan's advanced technologies and China's lower labor costs. By outspending other countries in R&D, many South Korean companies now report that their domestic consumer base demands have set a high bar for new advancements in business services and tech. Starting in 2012, South Korea was among the world's trailblazers in fourth generation data technology for cellular networks (4G LTE), meaning that its consumers—young and old—were early adopters. Its telecom market thus enjoyed a fast pace of growth and a dynamic rise in data traffic and mobile penetration. This led its consumers to be among the first to drive demand for such improvements and higher quality technology.

**Figure 1. South Korea's Shift in Exports**



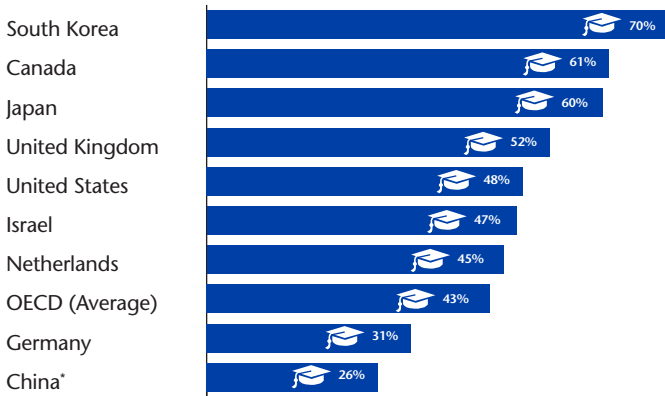
**Figure 2. Business Enterprise Expenditure on R&D, % of GDP**



And while South Korea (like Japan) may face its own challenges related to low birth rates and a quickly aging society, it still boasts a population of nearly 51 million and a strong education system<sup>2</sup>.

There is a saying in South Korea: “In this country where we do not have a drop of oil, people are our biggest resource.” Not surprisingly, it has invested heavily in education—an area of great focus in Korean culture. South Korea holds the highest percentage of undergraduate college degrees earned by 25- to 34-year-olds among all OECD (Organisation for Economic Co-operation and Development) countries<sup>3</sup>.

**Figure 3. Undergraduate College Degree Earned, % of those aged 25 to 34**



Sources: OECD, UNESCO as of 2016

\*China data represents the graduation ratio for entire population

### Queen Yuna

Merely two decades ago, far less government funding was available for athletics and South Korean households also spent far less on leisure and sporting activities. While South Koreans have found international success in some summer sports such as archery, badminton and table tennis, the country had not been well-known as a hub for winter sports—traditionally more difficult and expensive to support. Few too were Korean celebrity athletes garnering major corporate sponsorships and endorsements. But household incomes rose, priorities shifted and aspirations evolved. Then came figure skater Yuna Kim.

A two-time Olympic medalist often referred to as “Queen Yuna,” she began changing the way people view South Korea’s place in the sporting world. One of the most decorated skaters in women’s figure-skating history, Kim is a natural role model and ambassador to the 2018 PyeongChang Olympics.

We believe she represents South Korea’s efforts to nurture its talents and innovation. We see this in the widening appeal of its “K-Pop” Korean pop culture trends and advances in marketing and developing everything from cosmetics to semiconductors.

The Olympics are a showcase for the host nation’s athletic talents along with its economic progress. The winter games in PyeongChang are an opportunity for South Korea to show how it has become a global leader in innovation across a variety of industries.

1 OECD

2 TradingEconomics.com

3 OECD and UNESCO

### Disclosure and Notes

The views and information discussed herein are as of the date of publication, are subject to change and may not reflect current views. The views expressed represent an assessment of market conditions at a specific point in time, are opinions only and should not be relied upon as investment advice regarding a particular investment or markets in general. Such information does not constitute a recommendation to buy or sell specific securities or investment vehicles.

Investment involves risk. Investing in international and emerging markets may involve additional risks, such as social and political instability, market illiquidity, exchange-rate fluctuations, a high level of volatility and limited regulation. Past performance is no guarantee of future results. The information contained herein has been derived from sources believed to be reliable and accurate at the time of compilation, but no representation or warranty (express or implied) is made as to the accuracy or completeness of any of this information. Matthews International Capital Management, LLC (“Matthews Asia”) does not accept any liability for losses either direct or consequential caused by the use of this information.