

DRAMA IN K-DRAMA LAND: SOUTH KOREA 2024 ECONOMIC PLOT AND 2025 FUTURE SCENES

South Korea is known as a global leader in digital technology and for its influential pop culture. It has had significant growth in GDP rates since the 21st century and hosts the fifth largest motor vehicle production industry in the world. With companies like Hyundai and Samsung, South Korea presents itself as a strong leader in the innovation space yet has become vulnerable in the past year after suffering from political and structural economic issues.

South Korea featured heavily in the news after the emergency declaration of martial law on 3rd December 2024. Martial law is when the military takes control of the government and enforces strict rules, usually during emergencies like war, riots, or political crises. This declaration would suspend political activities, impose restrictions on the press and limit basic rights for the population. This 'emergency introduction' of martial law came after the President accused the majority Democratic Party (DPK) in the National Assembly of engaging in "anti-state activities" and collaborating with "North Korean communists" to undermine the nation. This declaration was met with such an immediate strong negative response, provoking riots and protest, that the law was lifted at 2:30 am on December 4th. This situation showed the rest of the world the political instability of South Korean and the vulnerability of its democratic institution.

This event had consequences for the Korean won. The Korean won held a downward trend against the dollar, but the value fell to a 15 year low after martial law was declared. The won was the worst performer in Asia against the US dollar last year, weakening by -12.43% in 2024. While a weaker currency often benefits export-oriented economies, South Korea's reliance on expensive imports, notably energy, outweighed any potential benefits, economists said. The currency weakness has contributed to the deterioration of the trade surplus South Korea held at the end of 2024, yet now it holds a trade deficit of 1.9 USD bn in Jan 2025. We are witnessing a real-life J-curve affect as South Korea hangs in the time lag where the trade deficit worsens due to the large reliance on imports.

In December 2024, South Korea's unemployment rate surged to a three year high of 3.8%. This increase was driven by a combination of political instability, including a brief martial law declaration and weakened consumer confidence, both of which restrained economic activity. Additionally, government employment programs were terminated causing further strain on the labour market and reducing job availability. The rise in unemployment contributed to a decline in consumer spending, which in turn led to a downward revision of the country's GDP growth forecast for 2025. However as of Jan 2025, the labour market seems to have somewhat recovered as the unemployment rate decreased to 2.9% as most jobs were gained in government-backed programmes.

On a more positive note, South Korea's fertility rate has risen in 2024 to 0.75 births per woman for the first time since 2015. This comes from a positive change in social values and mindsets after the country faced structural economic issues. With the government increasing parental leave and providing large allowances for childcare, the number of marriages has increased since 2019. The low number of births and marriages can be traced back to the pandemic and structural economic challenges. To combat these pressing issues, the Bank of Korea is expected to introduce fiscal policy and pension reforms to help ease labour shortages, reduce the high opportunity cost associated with motherhood, and allow fertility to rise to increase output.

Trump's tariffs have had a significant impact on South Korea's export-oriented economy, especially as the U.S. has become a major destination for South Korean investments in sectors like semiconductors and batteries. In 2023, South Korea was the largest source of foreign direct investment in the U.S., with its manufacturers setting up plants to supply these industries. However, this influx of goods and increased trade has led to a record trade surplus, which has long been a point of contention for the Trump administration. As a result, South Korea now faces the threat of retaliatory tariffs.

The Korean finance minister and experts like Shin Min-young from Hongik University have expressed concerns that Trump's tariffs could severely impact the country's financial markets and economic stability. The tariffs, while likely to be implemented gradually, are expected to exacerbate inflation, which has already accelerated in the past two months. The Bank of Korea (BoK) has revised its 2024 GDP growth forecast down to 2.2% and slashed its 2025 projection to 1.8%, a stark decline from the average growth rate of more than 3% seen in the 2010s.

South Korea's economic outlook remains uncertain, as the unstable political and economic environment continues to damage consumer confidence and discourage foreign direct

investment. While the jobless rate has improved, it's primarily due to government-sector employment, and rising import prices, fuelled by a weak Korean won, are adding pressure. Given these challenges, further macroeconomic policy support is expected in the coming months to stabilise the economy and encourage growth amidst growing uncertainty and external trade pressures.