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## **SOUTH KOREA IN THE GLOBAL ECONOMY IN POST-CRISIS PERIOD – AN ATTEMPT OF EVALUATION**

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## **KOREA POŁUDNIOWA W GOSPODARCE GLOBALNEJ W OKRESIE POKRYZYSOWYM – PRÓBA OCENY**

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**Summary:** The paper aims at diagnosing and evaluating the position of South Korea in contemporary, globalized economy. The basic problem of this publication is the assessment of South Korean economy internationalization in post-crisis period. The line of reasoning consists of four essential elements. At first socioeconomic situation in South Korea is presented and selected pro-development elements of its economic policy are discussed. The next part focuses on the analysis of South Korea's engagement in international trade. Then South Korea's participation in international transfer of capital in the form of foreign direct investment is described. Finally, international competitive position South Korea against the background of selected economies is shown. The research tools used in the paper include literature studies, descriptive and comparative analysis. The research proved a significant position of South Korea in international trade and world transfer of capital in the form of FDI.

**Keywords:** South Korea, foreign trade, foreign direct investment, competitive position, economic policy.

**Streszczenie:** Celem artykułu jest diagnoza i ocena pozycji Korei Południowej we współczesnej, zglobalizowanej gospodarce. Podstawowym problemem jest dokonanie oceny stopnia internacjonalizacji gospodarki Korei Południowej w okresie pokryzysowym. Praca składa się z czterech głównych elementów. Omówiono sytuację społeczno-ekonomiczną Korei Południowej oraz wybrane prorozwojowe elementy polityki ekonomicznej. Następnie przeanalizowano zaangażowanie Korei Południowej w międzynarodową wymianę towarów i usług. W kolejnej części skupiono się na uczestnictwie Korei Południowej w międzynarodowym transferze kapitału w formie zagranicznych inwestycji bezpośrednich. Ostatnim elementem badań była ocena międzynarodowej pozycji konkurencyjnej Korei Południowej na tle wybranych gospodarek. W pracy posłużono się metodami studiów literaturowych, analizy opisowej oraz analizy porównawczej. Badania potwierdziły znaczącą pozycję Korei Południowej w międzynarodowym handlu oraz światowym transferze kapitału w formie ZIB.

**Słowa kluczowe:** Korea Południowa, handel zagraniczny, zagraniczne inwestycje bezpośrednie, pozycja konkurencyjna, polityka ekonomiczna.

## 1. Introduction

The world economy, i.e. a collection of subjects which are either directly or indirectly engaged in economic activity, and are mutually tied up so as to create a system of international economic relations, undergoes quantitative and qualitative changes, observed both in its composition and structure [Kisiel-Łowczyk (ed.) 2003; Kleer, Wierzbicki (eds.) 2012]. Subjects of the world economy can be grouped into: domestic enterprises, international corporations, national economies [Maddison 2002], regional integration groupings [Bożyk, Misala 2003; Moussis 2015] and international economic organizations [Bednarz 2012; Kerr, Perdakis 2014]. They are tied internationally by: export/import relations, service relations, financial and capital relations, as well as technological ones [Tayeb 1993]. Characteristic features of contemporary world economy include interrelated processes of: globalization, internationalization and regional economic integration, which influence phenomena and processes observed on the level of the world economy as a whole. Globalization includes a number of processes, from high-speed communication to converging consumer tastes and consumption models [Stiglitz 2002]. Thanks to internationalization, enterprises gradually increase their international involvement; businesses operate in a multidimensional, multilayered and increasingly complex international environment [Johanson, Vahlne 1992; Morrison 2011].

The contemporary world economy is perceived as a global economy. World-wide economic activity between various countries, which are considered intertwined, is observed. Hence, phenomena and processes in one country can affect other countries negatively or positively [Worthington, Britton 2014]. In the global economy, economic activity takes place across the globe, it occurs much more rapidly; therefore, the economies of different countries with different cultures are irrevocably linked together [*Cambridge Business...* 2011]. In the globalized world, where economic, technological and political barriers are gradually reduced, the ability of an economy to participate in global activity is an important indicator of its performance and international competitiveness. International trade constitutes the first stage of building international co-operation and creating international position of an economy: the more open the economy, the higher the intensity of its international trade relations [Krugman et al. 2014]. Modern business relationships got extended well beyond the traditional international exchange of goods and services; nowadays, internationalization of enterprises embraces mergers, partnerships, joint ventures, licensing agreements, and other forms of business cooperation. Moreover, transfer of capital in the form of foreign direct investment (FDI) has become an important alternative economic strategy [Moran 2008]. The technological progress observed in the beginning of the 21<sup>st</sup> century resulted in deepening technological relations on a global scale. Information and communication technology (ICT) revolution brought new areas of economic co-operation in the globalized world economy. The so-called Fourth Industrial Revolution is a digital revolution that requires universal and reliable

Internet access. ICT development resulted in global interconnectedness. The increasing technological advances in developed nations are likely to exacerbate the already-existing economic gap between technological “have” and “have not” areas [World Bank 2016].

The development of the world economy in the 21<sup>st</sup> century resulted in pushing the stress from the West to the East. Nowadays, many Asian economies constitute important players on the global economic and political scene. South Korea plays an active role in the global economy as a middle power [Jarczewska, Zajączkowski (ed.) 2016; Marszałek-Kawa (ed.) 2012]. The global economy has become hotly controversial especially during global financial crisis 2008+ and in post-crisis period [Hirsch et al. 2002]. Due to really strong interregional ties and relations the 2008+ crisis was so widespread. It was considered a major testing for enterprises, national economies, regional economic integration groupings and international organizations. The consequences of the crisis are felt till today and beyond. The world economy is slowly picking up from the aftermath of the 2008+ crisis. Instability, however, is still prevailing over the global economy. The instability forces the economies (in that South Korea) to undertake actions in order to develop amid growing uncertainties. Eroding economic vitality, rising unemployment and social polarization have become tasks for countries throughout the world (also for South Korea). Those subjects of the world economy that meet the challenges and successfully use opportunities will improve their position and take greater advantages from international co-operation. High dynamics of changes, rising complexity of economic processes and increasing intensity of international competition lead to wide and deep adjustments. They result in changes in the structure of international economic system, in the character and intensity of international relations. South Korea has aspired for a larger international role both in the region and globally [Soon-ok Shin 2016; Ellington, Ferrarini 2017]. The main aim of the article is to diagnose and evaluate the position of South Korea in the global economy in post-crisis period. The study focused on the engagement of South Korea in international merchandise trade, commercial services trade as well as its participation in international transfer of capital in the form of FDI. International competitive position of South Korea against the background of selected economies was presented. Moreover, selected pro-development and pro-innovative elements of South Korea’s economic policy were discussed.

## **2. Socioeconomic picture of South Korea**

South Korea with its population of 50.9 million is classified as the 26<sup>th</sup> economy the world. Thanks to a pretty big GDP it constitutes one of medium-sized subjects of the world economy: it took the 12<sup>th</sup> position in the world in regard to GDP (PPP) in 2015. Intermediate position of South Korea between its neighbours, i.e. low-wage China and high-technology Japan creates important competitive challenges for the analysed country. What is more, South Korea’s difficult political relations with North Korea

constitute another challenge [Bridges 2006; Ward 2017]. During the 1970s and 1980s South Korea underwent rapid industrialization process, which resulted in its shift out of rural employment into manufacturing and services. The 21<sup>st</sup> century brought outstanding technological progress of the South Korean economy, particularly in information technology [Noland 2011, 2014]. South Korea joined the Organization for Economic Cooperation and Development (OECD) in 1996. In November 2010, South Korea hosted a G20 summit in Seoul (as the first non-G7 country). The theme of the summit was: “Shared Growth Beyond Crisis” [Revolv 2010]. It has been a member of World Trade Organization (WTO) since 1 January, 1995 and a member of GATT since 14 April, 1967 [WTO 2017b]. The question is what its socioeconomic situation was in 2015–2016, a few years after the global crisis which hit most economies in the first decade of the 21<sup>st</sup> century. Selected macroeconomic indicators for South Korea and the World were presented in Table 1.

**Table 1.** South Korea vs. the World – selected macroeconomic indicators

Specification	South Korea	World
Population (million) – 2016	50.9	7,323.2
Natural increase (%) – 2016	5.3	10.8
Life expectancy at birth (years) – 2016	82.4	69.0
Infant mortality rate (per 1,000 live births) – 2016	3.0	34.1
Inflation rate (%) – 2016	0.7	3.8
Unemployment rate (%)	3.5	8.0
GDP (official exchange rate) billion USD – 2015	1,377.0	74,150.0
GDP real dynamics – 2015 (previous year = 100)	102.6	103.0
GDP <i>per capita</i> (USD) – 2015	27,042.4	
GDP <i>per capita</i> (PPP) USD – 2015	36,500.0	15,800.0
GDP – composition by sector – 2015:		
Services (%)	59.7	62.4
Industry (%)	38.0	31.1
Agriculture (%)	2.3	6.5
Gross domestic expenditure on R&D (billion USD) – 2014	59.07	
Gross domestic expenditure on R&D (% GDP) – 2014	4.29	
Gross domestic expenditure on R&D <i>per capita</i> (USD) – 2014	1,160.12	
General government deficit (–) /surplus (+) (%GDP) – 2015	–0.2	–3.0
General government gross debt (%GDP) – 2015	34.9	58.8

Source: [[http://www.indexmundi.com/south\\_korea/](http://www.indexmundi.com/south_korea/); <http://www.indexmundi.com/world/>].

In 2016, natural increase in South Korea amounted to 5.3% (twice as high as the average for the world) and life expectancy at birth was 82.4 years (13.4 years more than the average for the world). Infant mortality rate for South Korea was 10 times lower than the average for the world (3 vs. 31 per 1000 live births). Inflation rate in South Korea in 2015 equalled 0.7%, while the average for the world was 3.8%.

Unemployment rate in South Korea was pretty low – 3.5% (with the average for the world amounting to 8%). Real GDP growth rate for South Korea was a bit lower than the world average – it amounted to 2.6% and 3%, respectively. GDP *per capita* (according to PPP) in South Korea equalled over 230% the world average (it was 36,500 USD PPP). GDP composition in South Korea was characteristic for a well-developed economy (services sector accounted for 60% and agriculture for a bit over 2% only).

Professor Ahn (Chung-Ang University) underlined the importance of 5-year plans which have been successfully implemented since the early 1960s for the creation of outward-looking and export oriented South Korean economy, in which competition and efficiency were cultivated. At the same time, however, Ahn listed the crucial challenges for South Korea in the beginning of the second decade of the 21<sup>st</sup> century, namely: a declining potential of growth rate, worsening income inequity and massive unemployment. According to Ahn South Korea should extend the underlying spirit of its outward orientation from the inception nexus of the five-year plans to service sectors such as finance, medical care, tourism, education, new town development and business services, which produce jobs and enhance linkage effects with competitive manufacturing. Ahn believes that the more sophisticated outward-looking orientation ought to be rooted in service sectors in order to ensure sustainable and resilient growth in the conditions of globalized world economy [Ahn Choong-yong 2012].

New paradigms of development were promoted in South Korea in post-crisis period. In 2013 Park Geun-Hye, South Korea's first woman President, came out with an idea of promoting "economic democratization" and narrowing social and economic disparities that became much too wide. The following threats for future development of the South Korean economy were listed:

- reduced global demand due to persistent low growth, coupled with expanding protectionism;
- weakened domestic demand affected by heavy household debt and a stagnant housing market;
- lack of sufficient tax revenues combined with increased demand for welfare spending – perceived as severe constrain for government stimulus;
- prolonged low interest which made it difficult for financial institutions to make a profit from their existing loans, therefore lending was unlikely to stimulate much growth and financial institutions had to focus on other revenue channels. including alliances or partnerships;
- the shift of consumption toward low-cost, high-value products [Kim Sung-Pyo 2013; Republic of Korea 2014].

The South Korean authorities stressed the need for:

- simultaneous promotion of public welfare, market dynamism and social trust;
- building a lower-cost, higher-efficiency business structure;
- concentrating on efficiency and optimizing investments by concentrating resources in promising areas;

- creation and maintenance of jobs;
- reform of pension system and in particular the extension of the retirement age [Kim Sung-Pyo 2013].

In 2014, the South Korean government revealed the *Three-Year Plan for Economic Innovation* [Yonhap News Agency 2014]. The plan embraced three strategies, namely:

- 1) fair and efficient economy;
- 2) growth through innovation;
- 3) balance between exports and domestic consumption [Ministry of Finance 2014].

The first strategy focused on three elements: A – reforming the public sector on the basis of efficiency, B – reforming the private sector on the basis of fair practices, and C – strengthening social safety nets. Growth through innovation strategy included another three focuses: A – promoting a creative economy, B – investing in the future, and C – developing overseas markets. The 3<sup>rd</sup> strategy, i.e. balance between exports and domestic consumption was based on the following three focuses: A – boosting investment, B – stimulating domestic consumption, and C – increasing female and youth employment [Ministry of Finance 2014]. OECD highly appreciated the South Korean *Three-Year Plan for Economic Innovation* and described it as the comprehensive plan involving bold structural reforms to overcome the crisis of low growth and expand growth potentials [Xinhua 2014].

The expected outcomes of the *Three-Year Plan for Economic Innovation* to be achieved by the year 2017 included (among others):

- reaching 70% employment rate;
- 4% growth potential;
- *per capita* income over USD 30,000 and into USD 40,000;
- increased opportunities for the young thanks to the development of work & study programs;
- developing family-friendly environment (better career-opportunities for young mothers);
- developing retirement pension plans and private pension plans;
- reduction of education costs;
- increasing investment in the creative economy;
- increased competitiveness and profit through training and tax incentives;
- better opportunities for SMEs;
- higher R & D investment;
- stronger service sector [Ministry of Finance 2014].

As far as economic policy of South Korea directed towards innovation and innovativeness is concerned one should stress the importance of setting up a creative economy innovation centre in charge of regional economic innovation and establishment of venture start-ups by 17 municipalities nationwide. Moreover, large companies and state-sponsored think tanks' unused ideas, patents and know-how

were put together in order to build a pool of database. Additionally, the South Korea government significantly increased the number of creativity-pioneering universities (from 23 in 2014 to 40 in 2017). What is more, the government spent USD 3.7 billion on the creation of a start-ups friendly ecosystem [Chun, Chung 2014].

Special presidential elections were organized in 2017, following the impeachment of President Park Geun-Hye. Despite the political scandal, South Korea's economy is doing pretty well. Moon Jae-in became the next president of South Korea in May 2017 [Glassman 2017; Wolf 2017]. It is believed that the success of Moon Jae's presidency will largely depend on his economic policies directed towards solving structural problems of the South Korean economy [Lee Jong-wha 2017; Rich 2017]. In July 2017 President Moon Jae-in revealed a 5-year plan of growth and development, assuming: reduction of inequalities, boosting growth, creating more jobs, raising the hourly minimum wage to 10,000 won and shifting the South Korean economy away from an economic strategy based around exports from large conglomerates (the so-called *chaebol*). Moreover, the plan includes the following elements:

- promoting fair competition;
- fostering new and innovative enterprises;
- higher benefits to companies that invest domestically;
- gradual converting non-regular employees in the public sector to regular status;
- recruiting more young people by public companies;
- much higher subsidies for women on their first three months of maternity leave;
- tighter regulation of the *chaebol*;
- increased punishment for stock manipulation;
- strengthening the powers of the fair-trade commission to monitor unfair deals [Kim Hooyeon 2017; CNBC 2017].

Undoubtedly, political stability accompanied by wise, consistent and constant economic policy are strongly required for further strengthening overall position of South Korea in the globalized, dynamic and turbulent world economy.

### **3. The engagement of South Korea in international trade**

Growing influence of South Korea in the global economy is strongly related to its engagement in international trade [Korea Economic Institute of America 2014]. The South Korean government adopted some measures aiming at creating better conditions for foreign trade. In 2014, the "cost-in, cost-out" approach was introduced in order to avoid introducing unnecessary new regulations; as a result of this action the number of economic regulations was cut by 10%. Merchandise trade of South Korea between 2005 and 2016 is presented in Table 2. In 2005, the South Korean merchandise exports amounted to USD 284.4 billion and it increased to USD 422.0 billion in 2008. The year 2009 brought a 14% reduction of merchandise exports of South Korea (to USD 363.5 billion). Then an upward tendency was observed till the year 2011 when the South Korean merchandise exports reached USD 555.2 billion.

A slight reduction of merchandise exports of South Korea was observed in 2012, then it grew again to as much as USD 572.7 billion. The last two years of the analysis, i.e. 2015–2016 marked a substantial decrease of the South Korean merchandise exports to USD 495.4 billion in 2016. In 2005 merchandise imports of South Korea amounted to USD 261.2 billion and it increased to USD 435.3 billion in 2008. The year 2009 marked a notable reduction of the South Korean merchandise imports to USD 323.1 billion. The next two years brought a significant upward tendency as a result of which merchandise imports of South Korea reached USD 524.4 billion in 2011. The period 2012–2014, however, marked a stagnation of the South Korean merchandise imports at the level of USD 515–524 billion. The last two years brought a considerable reduction of the South Korean merchandise imports to USD 406 billion in 2016. In the analysed period of time South Korea noted surplus in its merchandise trade that ranged from USD 14.6 billion in 2007 to about USD 90 billion in 2015 and 2016; 2008 was the only year in which South Korea noted deficit in its merchandise trade – it amounted to USD 13.3 billion.

**Table 2.** South Korea's merchandise trade from 2005 to 2016 (billion USD)

Years	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Exports	284.4	325.5	371.5	422.0	363.5	466.4	555.2	547.9	559.6	572.7	526.8	495.4
Imports	261.2	309.4	356.8	435.3	323.1	425.2	524.4	519.6	515.6	525.5	436.5	406.2
Balance	23.2	16.1	14.6	-13.3	40.4	41.2	30.8	28.3	44.0	47.2	90.3	89.2

Source: WTO data [<http://stat.wto.org/StatisticalProgram/WSDBStatProgramSeries.aspx?Language=E>].

South Korea's share in world merchandise exports and imports from 2005 to 2016 is presented in Table 3. The share of South Korea in world merchandise exports ranged from 2.61% to 3.19% in the analysed period of time. It was lowest in 2008 and the highest share of South Korea in world merchandise exports was observed in 2015. South Korea's share in world merchandise imports ranged from 2.4% in 2005 to 2.83% in 2011. In 2015, South Korea took 6<sup>th</sup> position on the list of biggest merchandise exporters in the World and 9<sup>th</sup> position in regard to merchandise imports.

**Table 3.** South Korea's share in world merchandise exports and imports from 2005 to 2016 (%)

Years	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Exports	2.71	2.68	2.65	2.61	2.90	3.05	3.03	2.96	2.95	3.01	3.19	3.11
Imports	2.40	2.48	2.49	2.63	2.53	2.74	2.83	2.78	2.71	2.75	2.61	2.50

Source: own calculations based on WTO data [<http://stat.wto.org/StatisticalProgram/WSDBStatProgramSeries.aspx?Language=E>].

Commodity pattern of South Korea's merchandise trade in 2005 and 2015 is presented in Table 4. Both in 2005 and 2015 manufactures constituted about 90%, fuels and mining products represented 7–8% and agricultural products stood for 2%



of the South Korean merchandise exports. When it comes to the exports of manufactures the importance of machinery and transport equipment should be stressed (this section stood for 61% of South Korea's exports in 2005 and for about 59% in 2015. On the imports side of the South Korean merchandise trade one could observe a little different situation. Manufactures accounted for 60% of South Korea's imports in 2005 and for more than 66% in 2015. Fuels and mining products represented about 33% of its imports both in 2005 and 2015. The share of agricultural products in the South Korean imports increase from 4.4% in 2005 to about 6.4% in 2015.

The list of the most important trade partners for South Korea in merchandise exports included: China (25.4%), United States (12.3%), European Union (9.1%) and Japan (5.6%). On the imports side of the South Korean merchandise trade the following partner-economies were prevailing: China (17.1%), European Union (11.9%), Japan (10.2%) and United States (8.7%) [WTO 2017a].

**Table 4.** Commodity pattern of South Korea's merchandise exports and imports in 2005 and 2015 (%)

Commodity	Exports		Imports	
	2005	2015	2005	2015
Agricultural products	1.86	2.06	6.42	8.13
Ford	1.06	1.22	4.44	6.38
Fuels and mining products	7.22	8.32	32.56	32.70
Fuels	5.52	6.30	25.84	25.46
Manufactures	90.78	89.37	60.52	66.22
Iron and steel	5.04	4.43	5.75	3.83
Chemicals	9.75	11.18	9.38	10.66
Pharmaceuticals	0.18	0.44	0.75	1.28
Machinery and transport equipment	61.00	58.97	31.59	35.81
Office and telecom equipment	29.18	20.89	14.40	15.30
Electronic data processing and office equipment	6.24	2.25	2.70	2.37
Telecommunications equipment	13.27	7.76	2.56	4.03
Integrated circuits and electronic components	9.66	10.89	9.14	8.90
Transport equipment	19.88	22.07	3.12	5.88
Automotive products	13.27	13.48	1.57	3.72
Textiles	3.65	2.02	1.36	1.27
Clothing	0.91	0.40	1.12	2.10
Total	100.00	100.00	100.00	100.00

Source: own calculations based on WTO data [<http://stat.wto.org/StatisticalProgram/WSDBStatProgramSeries.aspx?Language=E>].

South Korea's engagement in international trade in commercial services from 2005 to 2016 is presented in Table 5.

**Table 5.** South Korea's trade in commercial services from 2005 to 2016 (billion USD)

Years	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Exports	49.3	55.7	70.0	90.1	71.6	82.2	89.7	102.3	102.5	111.0	96.7	91.8
Imports	59.1	69.6	83.9	96.9	81.6	96.5	102.0	107.8	109.2	114.7	111.3	109.0
Balance	-9.8	-13.9	-13.9	-6.8	-10.0	-9.8	-13.9	-13.9	-6.8	-10.0	-9.8	-13.9

Source: WTO data [<http://stat.wto.org/StatisticalProgram/WSDBStatProgramSeries.aspx?Language=E>].

The South Korean exports of commercial services amounted to USD 49.3 billion in 2005 and it increased to USD 90.1 billion in 2008. The year 2009 marked a notable reduction in the South Korean exports of commercial services to USD 71.6 billion. The following five years brought a strong upward tendency which resulted in South Korea's exports of commercial services worth USD 111.0 billion in 2014. The last two years of the analysis, however, marked a reduction of the South Korean exports of commercial services to USD 91.8 billion in 2016. When it comes to South Korea's imports of commercial services the situation was very similar. The South Korean imports of commercial services amounted to USD 59.1 billion in 2005 and it gradually grew till the year 2008 when it reached USD 96.9 billion. The year 2009 marked a reduction of South Korea's imports of commercial services to USD 81.6 billion. From 2010 to 2014 a significant rise in its imports of commercial services was observed – in 2014 the South Korean imports of commercial services reached USD 114.7 billion. The last two years of the analysed period of time brought a decrease of South Korea's imports of commercial services to USD 109 billion in 2016. From 2005 to 2016 one could observe a deficit in the South Korean trade in commercial services which ranged from USD 6.8 billion to USD 13.9 billion.

South Korea's share in world trade in commercial services from 2005 to 2016 is presented in Table 6. There were no significant changes in the position of South Korea in the world trade in commercial services: South Korean share in world exports of commercial services ranged from 1.9% (in 2005–2006 and 2016) to 2.3% (in 2008 and 2012); its share in world imports ranged from 2.3% (in 2005, 2014 and 2016) to 2.6% (in 2010). In 2015, South Korea was classified as the 16<sup>th</sup> economy in the World with respect to commercial services exports and as the 11<sup>th</sup> one in terms of commercial services imports.

South Korea's pattern of trade in commercial services in 2005 and 2016 is presented in Table 7. Transportation accounted for almost 49% of the South Korean

**Table 6.** South Korea's share in world trade in commercial services from 2005 to 2016 (%)

Years	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Exports	1.9	1.9	2.0	2.3	2.0	2.1	2.1	2.3	2.2	2.2	2.0	1.9
Imports	2.3	2.5	2.5	2.5	2.4	2.6	2.5	2.5	2.4	2.3	2.4	2.3

Source: own calculations based on WTO data [<http://stat.wto.org/StatisticalProgram/WSDBStatProgramSeries.aspx?Language=E>].

exports of commercial services in 2005, while in 2016 the share of transportation in its exports was reduced to 28.8%. The share of travel in South Korea's exports of services increased from 12% in 2005 to almost 19% in 2016. The share of other commercial services noted a rise by as much 15 percentage points in the analysed period of time (from 35% in 2005 to nearly 50% in 2016). Goods related services accounted for 3–4% of the South Korean exports in both 2005 and 2016. When it comes to the imports of services, a reduction of the share of transportation from over 35% in 2005 to less than 25% was observed. In addition to that one should note a significant rise of the share of other commercial services (from 34% in 2005 to more than 43% in 2016). The share of goods related services in South Korea's imports rose by 3 percentage points between 2005 and 2016 (from 4 to over 7.5%).

**Table 7.** Structure of South Korea's exports and imports of commercial services in 2005 and 2016 (%)

Specification	Exports		Imports	
	2005	2016	2005	2016
Goods related services	3.95	3.09	4.32	7.62
Transportation	48.84	28.80	35.27	24.82
Travel	11.77	18.75	26.06	24.43
Other commercial services	35.44	49.36	34.36	43.13
Total	100.00	100.00	100.00	100.00

Source: own calculations based on WTO data [<http://stat.wto.org/StatisticalProgram/WSDBStatProgramSeries.aspx?Language=E>].

The list of the most important trade partners for South Korea in commercial services exports embraced: China (20%), United States (15.4%), European Union (10.3%) and Japan (9.1%). On the imports side of South Korea's commercial services trade the following partner-economies were crucial: United States (24.8%), European Union (18.5%), China (12.5%) and Japan (7.6%) [WTO 2017a].

#### **4. Participation of South Korea in international transfer of capital in the form of foreign direct investment**

International transfer of capital (especially in the form of foreign direct investment – FDI) is considered an important stimulus of economic development. One should try to balance country's attractiveness for FDI inflow and aggressiveness of its companies on foreign markets, i.e. the possibility and willingness to enter foreign markets. South Korea's investment attractiveness is really strong thanks to: highly skilled labour, advanced R&D capabilities, customer factor (high level of disposable household income combined with consumers' willingness to spend their money on quality products), high quality infrastructure (in that strong shipping and air cargo infrastructure which makes the country a great hub for expansion into other markets).

On the other hand, however, a number of elements seem to adversely affect the investment attractiveness of the analysed country, namely: comparatively high cost of labor and real estate, unique industry standards as well as regulatory frameworks that can be restrictive and opaque. The South Korean government has undertaken some measures in order to motivate and encourage inflow of FDI and to protect foreign investors, in particular: identical business operations regulations for foreign and domestic companies, external remittance guarantees and tax deduction provisions [Santander Trade Portal 2017]. What is more, the Office of the Foreign Investment Ombudsman was established in 1999 in order to resolve the grievances of foreign-invested companies operating in South Korea. According to both UNCTAD and APEC, the South Korean system of Foreign Investment Ombudsman is an effective way of preventing investor-state disputes [Invest Korea 2017].

South Korea's engagement in international transfer of capital in the form of FDI is presented in Tables 8, 9 and 10. Inward FDI flows into South Korea ranged from USD 2.6 billion in 2007 to as much as USD 12.8 billion (with the average for the period 2005–2016 amounting to USD 8 billion. Outward FDI flows from South

**Table 8.** South Korea – inward and outward FDI flows – from 2005 to 2016 (billion USD)

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Inward FDI flows	7.1	4.9	2.6	8.4	7.5	9.5	9.8	9.5	12.8	9.3	4.1	10.8
Outward FDI flows	4.3	8.1	15.6	20.2	17.2	28.2	29.7	30.6	28.3	28.0	23.8	27.3

Source: [UNCTAD 2009, 2011, 2014, 2016, 2017].

**Table 9.** South Korea – inward and outward FDI stock in 2000 and from 2007 to 2016 (billion USD)

Year	2000	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Inward FDI stock	38.1	119.6	94.7	117.7	134.2	133.7	157.9	180.9	179.3	179.5	185.0
Outward FDI stock	26.8	74.8	97.9	120.4	143.2	171.5	202.9	238.8	260.5	285.9	306.1

Source: as in Table 8.

**Table 10.** South Korea's inward and outward FDI stock in 2000 and from 2007 to 2016 (% GDP)

Year	2000	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Inward FDI stock	7.1	11.4	9.8	14.1	12.6	12.0	13.8	13.9	12.7	13.0	13.1
Outward FDI stock	5.0	7.1	10.3	14.5	13.8	15.4	17.9	18.3	18.5	20.7	21.7

Source: as in Table 8.

Korea ranged from USD 4.3 billion in 2005 to over USD 30 billion in 2012. Since 2010 annual outward FDI flows from South Korea have been well over USD 20 billion and the average for the period 2005–2016 equalled USD 21.8 billion.

Inward FDI stock in South Korea reached USD 185 billion in 2016, while in 2000 it was just USD 38 billion. In the same period of time the South Korean outward FDI stock increased from USD 26.8 billion to USD 306 billion. A rising significance of South Korea's engagement in international transfer of capital (both as an importer and exporter of FDI) has been reflected in a notable increase of inward and outward FDI stock as percentage of South Korea's GDP:

- inward FDI stock represented 13% GDP of South Korea in 2015–2016, while in 2000 it stood for just 7% of its GDP;
- South Korea's outward FDI stock accounted for over 20% in 2015–2016, while in 2000 it represented only 5% GDP.

## 5. International competitiveness of South Korea

International competitiveness of national economy used to be defined as the way in which “nations and enterprises manage the totality of their competencies to achieve prosperity or profit” and “the facts and policies that shape the ability of a nation to create and maintain an environment that sustains more value creation for its enterprises and more prosperity for its people” [IMD 2006]. A new definition of competitiveness stresses “the ability of a country to facilitate an environment in which enterprises can generate sustainable value” [IMD 2015]. No national economy has succeeded internationally in a sustainable way without preserving long-term value creation. Competitiveness refers to such an objective: it determines how countries manage their competencies to achieve long-term growth, generate jobs and increase welfare. Competitiveness can therefore be viewed as a way towards progress. Changes in competitive position of South Korea from 2005 to 2017 against the background of selected economies according to World Competitiveness Scoreboard were presented in Table 11.

**Table 11.** Competitive position of South Korea against the background of selected economies according to World Competitiveness Scoreboard from 2005 to 2017

Years	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Change of position between 2005 and 2017
South Korea	29	32	29	31	27	23	22	22	22	26	25	29	29	0
Japan	21	16	24	22	17	27	26	27	24	21	27	26	26	-5
China	31	18	15	17	20	18	19	23	21	23	22	25	18	+13
India	39	27	27	29	30	31	32	35	40	44	44	41	45	-6

Source: [IMD 2005–2017].

In the analysed period of time the position of South Korea in World Competitiveness Scoreboard published by Institute for Management Development, Lausanne underwent some changes. In 2005 South Korea was classified as the 29<sup>th</sup> economy. A year later its position was the lowest (32<sup>nd</sup>). Years 2010–2013 marked a notable improvement of competitive position of South Korea – it was classified as the 23<sup>rd</sup> most competitive economy in 2010, and as the 22<sup>nd</sup> economy in terms of competitiveness in 2011–2013. Unfortunately, the following years brought worsening rating of South Korea and in 2016–2017 it took the 29<sup>th</sup> position again.

There was no change of South Korea's position between 2005 and 2017, while:

- China improved its competitive position considerably – by 13 places;
- Japanese competitiveness weakened – its position in 2017 was 5 places lower than in 2005;
- competitive position of India was significantly reduced in the analysed period of time – by 6 places.

## 6. Conclusions

South Korea should be viewed as an open economy with strong international relations. The analysis of its engagement in international merchandise trade and international trade in commercial services proved strong integration into the world economy (it was reflected by the high ratio of its trade in goods and services to GDP which stood at almost 85% in 2015). The South Korean participation in international transfer of capital in the form of FDI measured by inward and outward FDI stock increased notably in the analysed period of time (though there were ups and downs in FDI flows, resulting from external shocks mostly). Undoubtedly, South Korea's appeal in terms of foreign direct investment (FDI) is the result of the country's rapid economic development and the specialization in information and communication technologies (ICT). What's more, the South Korean government implemented measures aiming at protecting and encouraging foreign investment.

According to WTO experts South Korea's economic fundamentals are mainly solid but some risks to the economic outlook for the studied economy remain. The South Korean economy remains vulnerable to exogenous shocks, including a delayed rebound in international trade. It is strongly connected with its heavy reliance on exports of manufactures produced mostly by a few large business conglomerates and global financial linkages [WTO 2016].

The program of reforms initiated by President Park Geun-Hye in 2013 was widely appreciated (also by OECD). Political instability in South Korea, however, resulted in special presidential elections in 2017 won by Moon Jae-in. The new President will have to deal with necessary structural reforms. The reforms will have to focus on creating jobs, strengthening new and innovative companies, reducing the importance of *chaebol* in South Korea's economy.

The top position of South Korea as the world leader of innovativeness according to *Bloomberg Innovation Index* both in 2016 and in 2017, resulting from its number one position in the World in regard to high R&D intensity, value-added manufacturing and patent activity and its top-five rankings in high-tech density, higher education and researcher concentration, indicates incredible potential of this Asian economy (even though its current overall competitiveness is assessed much lower) [Jamrisko, Wei Lu 2017].

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