

6. South Korea

Key statistics	South Korea	Peer average
Manufacturing GDP CAGR (2010-13)	4.0%	2.3%
Manufacturing GDP percentage of total GDP (2013)	31.1%	16.7%
Labor costs (US dollars per hour) (2015)	\$20.7	\$18.7
Manufacturing exports percentage of total exports (2014)	86.2%	60.2%
Highest corporate tax rate (2015)	24.5%	25.3%
Researchers per million population (UNESCO 2013)	6,457	2,852
Per capita personal disposable income (US dollars, 2015)	\$14,513	\$14,910
Per capita personal disposable income (US dollars) CAGR (2005-2015)	3.1%	3.8%

Supplemental analysis South Korea – Competitiveness at a glance

Manufacturing highlights

- More than four-fifths of South Korea's merchandise exports were from manufacturing industry with manufacturing exports forming 86 percent of merchandise exports in 2014.
- South Korea is the global market share leader in the manufacturing of LCD (Liquid Crystal Display) TVs and memory chips, and second to China in the manufacture of smartphones.
- The world's largest shipbuilder – home to the top four of the 10 biggest shipbuilding companies in the world – South Korea ranks fifth, globally, in automobile production in 2014.
- South Korea delivers R&D intensive, high-tech finished products – such as computers, televisions, and mobile phones – to end markets across the globe. High-technology exports comprised 58 percent of South Korean manufactured exports in 2014, according to United Nations data.

Advantages to manufacturers

Competitive labor costs and high quality products relative to peers:

- South Korea's average manufacturing compensation of US\$20.7/hour is 45.4 percent lower than US wages at US\$38.0/hour, according to latest comparative data (2015).
- GDP per person engaged in South Korea increased at a CAGR of 2.5 percent during 2005-2015, eclipsing the United States (0.9 percent CAGR) and Germany (0.2 percent CAGR) in the same period. Higher productivity tends to reduce labor costs.
- South Korean auto brands were rated the highest in new vehicle quality in a 2015 study by J.D. Power, besting gold standard Japanese brands, and offering a better and cheaper auto export alternative to Chinese rivals.

Strong innovation: An innovation leader, South Korea ranked first among the world's 50 most innovative countries according to the 2015 Bloomberg Innovation Index, grabbing top honors in R&D, postsecondary education, and patents categories.

Growth in Free Trade Agreements (FTAs): After the establishment of FTA Roadmap in 2003, South Korea has actively pursued FTAs with more than 50 countries. South Korea currently has eight FTAs in force, two concluded FTAs, 11 under negotiation and four under consideration with economies across the world.

Supplemental analysis South Korea – Competitiveness at a glance

<p>Advantages to manufacturers (continued)</p>	<p>Well-educated workforce: South Korea invests heavily in education, and ranks third on education spending among OECD countries in 2011. Approximately 66 percent of South Koreans aged 25-34 have completed tertiary education, the highest among OECD countries in 2013. South Korea's high-tech labor force is replete with well-educated science and technology graduates, and ranks fourth for percentage of researchers as a share of total employment in 2011, according to the OECD.</p>	<p>Favorable policies to spur high-tech, manufacturing growth:</p> <ul style="list-style-type: none"> • Korea's 3rd Science & Technology (S&T) Basic Plan (2013-2017) aims to cultivate a creative economy that will invest in 120 national strategic technologies and 30 core technologies to drive the contributions of R&D to national economic growth from 35.4 percent (1981~2010) to 40 percent (2013~2017). • Support for innovation in manufacturing is identified as a strategic policy priority with investment for R&D for SMEs to increase from 12.4 percent (in 2011) to 18.0 percent in 2017, while innovation vouchers and supply of venture capital to high-tech start-ups and SMEs, alike, are intended as part of the 3rd S&T Basic Plan.
<p>Challenges</p>	<p>Slowing global economy affecting growth prospects:</p> <ul style="list-style-type: none"> • With exports accounting for 56 percent of South Korea's gross national income in 2013, compared with 34 percent in 2002, the country remains reliant on exports for growth and vulnerable to slowing economic growth. • A slowing economy in China, which accounted for 25.4 percent of South Korea's exports in 2014, is particularly concerning. <p>Bureaucratic complexities:</p> <ul style="list-style-type: none"> • Despite favorable government attitude towards FDI, South Korea's business environment remains difficult due to the continuing complexities of registration, notification, licensing and approval requirements, as well as a perception among foreign investors that the country lacks legal and regulatory transparency. • In response, in May 2015 the government outlined plans to ease regulations in key sectors – including industrial materials that can underpin manufacturing applications – to boost FDI in excess of 50 percent in the next three years. 	<p>Aging demographics:</p> <ul style="list-style-type: none"> • South Korea faces longer-term challenge in the form of demographic crisis with rising elder population and falling working-age population. • Share of population aged 65 or higher increased from 5.1 percent in 1990 to 13.1 percent in 2015 and will likely rise to 40.1 percent by 2060. At the same time, population aged 15-64 years will peak at 37 million in 2016 and then will witness a gradual decline. • These demographic challenges are likely to slow down the economic growth to less than 3 percent for the rest of this decade and less than 2 percent in the first half of next decade compared to the country's 3.6 percent annual growth in the last 10 years.
<p>Things to watch out</p>	<p>Weakening exports to drive measures to spur domestic side of economy:</p> <ul style="list-style-type: none"> • With external headwinds likely to curtail export growth, spurring domestic side growth will be a priority. • Lower oil prices and interest rate cuts by the central bank – which has reduced the benchmark rate in 2015 to 1.75 percent, a historic low – will continue to improve consumer finances, which coupled with an increase in real personal income, could accelerate retail spending, according to Deloitte's Asia Pacific Economic Outlook. 	<p>Investment opportunities from development of green technologies and renewable energy (RE):</p> <ul style="list-style-type: none"> • South Korea depends on imports for 96 percent of its energy demands, according to EIU. Under the second national energy plan, finalized in 2014, the country has set goals to increase share of RE in primary energy supply from 2.75 percent in 2011 to 11 percent by 2035. • Also in 2014, President Park Geun-hye announced plans to invest heavily in South Korea's clean energy market, pledging nearly US\$2 billion to create a collective of six businesses focused on solar energy development and leasing.

Source: Deloitte Touche Tohmatsu Limited analysis ^(xxvii)