7 Trends in Korea’s Economy and Society

The advent of an aging society and insufficient economic growth create seven trends in the Korean economy and society.

1. The Age of Moderate Growth
The Korean economy, having emerged from the age of low growth since the 2008 financial crisis, is likely to enter a moderate growth era, encountering limitations of high growth. The characteristics of an age of moderate growth are a shift from the manufacturing to the service industry and from export to domestic demand, the slower recovery of household consumption and insufficient corporate investments. Taxpayers’ burden will increase with the advent of an aging society, expanding welfare expenditure and leading to an insufficient economic growth rate.

2. Inflation in the Housing Market
The housing market has recently shown signs of inflation, a phenomenon in which elements of inflation and deflation coexist. The housing market in the capital city and its surrounding area remains in a depression whereas other regions continue to improve. Small- and medium-sized houses are selling well while large ones are not due to the downsizing phenomenon of households. Therefore, housing policies should be differentiated accordingly; a policy to ensure the soft landing of the housing market by dealing with over-supplied houses in the capital, and a policy to prevent a housing market bubble in non-metropolitan areas. A possible shortage of small- and medium-sized houses should also be taken into account.

3. Growing Need for Deleveraging
With household and public debt approaching critical value, as suggested by the World Economic Forum, the need for “deleveraging” (disposal of assets to reduce debt) is on the rise. Household debt passed the KRW 1,000 trillion (USD 943 billion) mark in 2013, and public debt is set to reach KRW 1,000 trillion in 2014. Therefore, households and public enterprises will face a situation in which they are forced to dispose of their least profitable assets to reduce debt.

4. Purple Collar Expansion
Purple collar workers who manage jobs and housework at the same time will increase as flexible workplace arrangements prevail, such as good-quality part-time work. Although on the increase, the number of part-time workers in Korea is well below that of major OECD member countries. Various policies to expand flexible workplace arrangements will be maintained. They will help young people have a job while in school, women to work while maintaining the home and baby boomers (born in 1955 - 1963) to remain in the workforce.

5. Leapfrogging in the ICT Convergence Industry
The Korean ICT industry has gone from being a follower to a first mover in the ICT convergence industry. With ICT convergence actively taking place, the ICT convergence industry is expected to provide new vitality for economic growth in the areas of products, services and industries as a whole.

6. A Society in Need of Comfort
With widespread anxiety related to employment, housing and life as a senior, Koreans will need, above all, comfort and rest. The “comfort industry,” which includes services related to healing, mentoring and religion, will see progress, and the value of family will be regarded highly. However, we cannot eliminate the possibility of deepening social conflict motivated by those who have failed to be comforted. If the government cannot provide sufficient social welfare services, it should instead find ways to relieve insecurities and provide comfort.

7. 3.0 Era in South and North Korea’s Economic Cooperation
Having passed through the introductory and adjustment phases, economic cooperation between South and North Korea is now entering phase 3 — the 3.0 Era. The focus here should be on laying foundations to build a win-win economic cooperation system. The creation of favorable conditions for the Korean Peninsula Trust Process, the promotion of multilateral cooperation projects and the seeking of new growth engines for South and North Korea’s economies will help build this system.

By Lee Jun-hyup
Research Fellow
Hyundai Research Institute
sododukl@hri.co.kr