

1.0% Real GDP growth 2025 (~3.7% H1 2026)	\$1.87 trn Nominal GDP 2025	~\$37,900 GNI per head 2025; under \$200 in 1960	~46% Exports % of GDP 2025; C ~48%	\$123 bn Record current account surplus 2025 (~6.6% GDP)
2.1% CPI 2025; 3.2% in June 2026 (oil shock)	2.7% Unemployment 2025	0.80 Fertility rate 2025, world's lowest	0.33 Gini; elderly poverty 39.7% (OECD highest)	4.9% R&D % of GDP 2023; 2nd in world

STRUCTURE OF THE ECONOMY

	% OF VALUE ADDED (APPROX.)	% OF JOBS (2025)
Agriculture	~1.6	5.1
Industry	~37	23.4
Services	~61	~71.5

- Manufacturing ~27% of GDP, about three times the UK's share.
- AD mix:** very high exports, investment ~29% of GDP, consumption held back by household debt (~81% of GDP).
- Two economies:** productive chaebol vs low-productivity small firms that employ most workers.
- System:** market economy built by a strong state; liberalised after 1997.

MAIN INDUSTRIES

- Chips:** Samsung, SK Hynix ~60% of world DRAM, ~80% of AI memory; exports \$173 bn (2025).
- Autos:** Hyundai–Kia; record \$72 bn exports 2025 despite US tariffs.
- Ships:** 2nd to China; LNG carriers, naval ships.
- Batteries & chemicals:** LG, SK, Samsung SDI; petrochemicals hit by Chinese overcapacity.
- Steel:** POSCO, legacy of 1970s heavy industry drive.
- Culture:** K-pop, film, games boost services exports.

GROWTH STORY: TURNING POINTS

1962 First Five-Year Plan: directed credit, export targets	1973 Heavy & chemical industry drive: steel, ships, cars	1996 Joins OECD; short-term dollar borrowing grows	1997 Asian crisis: won halves; \$58 bn IMF rescue
2012 KORUS FTA after EU deal (2011)	2017 China's THAAD boycott: one-market risk	2020–24 Population falls; fertility 0.72 (2023); super-aged	2025–26 15% US tariff; AI chip boom; rates to 3.0%

Growth model: state directs credit → firms must meet export targets → world markets give scale and force quality → saving, education and R&D move industry up the value chain.

EIGHT PROBLEMS

PROBLEM	EVIDENCE	SPEC LINK
Lowest birth rate	Fertility 0.80; Seoul 0.63	Labour supply, LRAS
Fast ageing	Over-65s ~20% (2025)	Pensions, public finances
Chip dependence	~½ of exports (Sept 2026)	Trade cycle, volatility
China–US squeeze	China 18%, US 17% of exports	Protectionism
Household debt	~81% of GDP (Q2 2026)	C, financial stability
Energy imports	Won mid-1,500s/\$ in 2026	Cost-push, exchange rate
Dual labour market	Gender pay gap ~29%	Inequality
Seoul concentration	Over ½ of people in capital region	Regional inequality

INEQUALITY & DEVELOPMENT

- GNI per head from <\$200 (1960) to ~\$38,000; aid donor since 2010.
- Land reform and mass education: early "growth with equity".
- Gini ~0.33 (OECD average); relative poverty 14.9%.
- Elderly poverty 39.7%, 2.7× OECD average; down from 49.6% (2015).
- Wealth gap at record (2025), driven by Seoul housing.

Has Korea peaked? For: AI chips, R&D ~5% of GDP, most educated young workforce. Against: fertility 0.8, pensions, China–US exposure.

CLASSIC CHAINS USING SOUTH KOREA

Export-led growth: exports ↑ → (X–M) ↑ → AD ↑ → firms invest in larger plants → productivity & LRAS ↑ → but exposure to chip cycle and tariffs.

Low fertility: fewer births → smaller workforce in 20+ years → LRAS growth ↓ → dependency ratio ↑ → pension and health costs ↑, tax base ↓.

Currency crisis (1997): capital flight → won falls → dollar debts cost more in won → firms and banks fail → investment and output collapse.

A · DATA RECALL (1 MARK EACH)

1. Total fertility rate in 2025: _____
2. Real GDP growth in 2025: _____
3. Current account surplus in 2025: _____
4. R&D as % of GDP (2023): _____
5. Elderly poverty rate: _____
6. Year of the Asian financial crisis: _____
7. Bank of Korea base rate, Aug 2026: _____
8. Exports as % of GDP (approx.): _____

B · MATCH THE EVIDENCE TO THE ECONOMIC CONCEPT

SOUTH KOREA EVIDENCE	LETTER	CONCEPT
1. State gave cheap credit to firms that hit export targets		A. Capital flight
2. Investors pulled dollars out of Korea in 1997		B. Trade diversion
3. Exports to US −3.8%, to ASEAN +7.4% (2025)		C. Industrial policy
4. Fertility rate of 0.80		D. Human capital
5. ~70% of young adults have a degree		E. Rising dependency ratio
6. Oil and won shock push up import prices		F. Cost-push inflation

C · COMPLETE THE CHAINS

1. Chip exports rise → _____ → AD rises → _____ → higher real GDP.
2. Very low fertility → smaller future workforce → _____ → _____
3. Bank of Korea raises rates → _____ → _____ → inflation falls.

D · EXAM-STYLE QUESTIONS

Extract. South Korea's exports rose 83.5% year-on-year in September 2026 to a record \$120.9 billion. Chip exports rose over 260% to \$60.3 billion on AI demand. Exports for January to September already exceeded the 2025 total. The Bank of Korea raised its 2026 growth forecast to 3.3% and its base rate to 3.0%.

(5 marks) With reference to the extract, explain how the rise in chip exports is likely to affect South Korea's real GDP.

(8 marks) Examine two risks for South Korea of relying heavily on semiconductor exports.

E · PLAN A 25-MARK ANSWER

(25 marks) Evaluate the extent to which state intervention explains South Korea's economic development since the 1960s.

STATE INTERVENTION (WITH KOREA EVIDENCE)	OTHER FACTORS / COSTS OF INTERVENTION
OVERALL JUDGMENT: IT DEPENDS ON...	

A · DATA RECALL

1. 0.80 (accept 0.75–0.80)
2. 1.0%
3. \$123 bn (accept about \$120 bn)
4. About 4.9% (accept 4.5–5%)
5. 39.7% (accept about 40%)
6. 1997
7. 3.0%
8. About 46% (accept 40–50%)

B · MATCHING

1 → C · 2 → A · 3 → B · 4 → E · 5 → D · 6 → F

C · CHAINS

1. Net exports (X–M) rise → multiplier effect as chip firms invest, hire and pay higher wages (induced consumption).
2. Labour supply / LRAS grows more slowly → lower potential growth; dependency ratio rises, pension and health costs rise, tax base shrinks.
3. Borrowing costs rise / won appreciates → consumption and investment fall, import prices fall → AD falls.

D · EXAM-STYLE GUIDANCE

5 marks: Define real GDP or identify exports as a component of AD (1). Use data: exports +83.5%, chip exports \$60.3 bn, forecast raised to 3.3% (1–2). Chain: $X \uparrow \rightarrow (X-M) \uparrow \rightarrow AD \uparrow \rightarrow$ output and employment $\uparrow$, multiplier as income is re-spent (2). Brief limit: imports of chip equipment and higher rates (3.0%) reduce the net effect. Must use extract data.

8 marks: Knowledge/application: (1) price volatility: memory chip prices are cyclical; the 2023 slump cut growth to 1.6%; (2) trade-policy risk: US tariffs and chip controls, China as market and rival; (3) concentration in a few firms. Analysis: chain from falling chip prices → export revenue ↓ → AD ↓ → growth ↓, won weakens. Evaluation (2 points for full marks): high barriers to entry and Korea's ~80% share of AI memory; record surplus and reserves cushion shocks; other exports (cars, ships) also strong.

E · 25-MARK PLAN: POINTS TO LOOK FOR

State intervention

- Five-year plans from 1962; directed bank credit.
- Export targets disciplined supported firms.
- 1973 heavy and chemical industry drive (POSCO, ships).
- Mass public education → human capital.
- Today: chip tax credits, clusters, growth fund.

Other factors / costs

- High saving; US aid and open US market.
- 1950s land reform; cheap, disciplined labour early on.
- World trade boom; liberalisation and FTAs after 1997.
- Costs: chaebol over-borrowing → 1997 crisis.
- Market power; suppressed labour rights.

Judgment: the state was necessary but not sufficient. Intervention worked because it was tied to export discipline and backed by education and saving; where it protected failing firms (1990s chaebol), it led to crisis. Compare Nigeria or Kenya, with similar income in 1960.