

ReadOn
Insights



**The Korean Wave: South Korea's
Dynamic Evolution and Global
Influence**

Samsung, LG and Hyundai.

These are not just companies that make electronics. These companies have laid the foundation for an entire country.

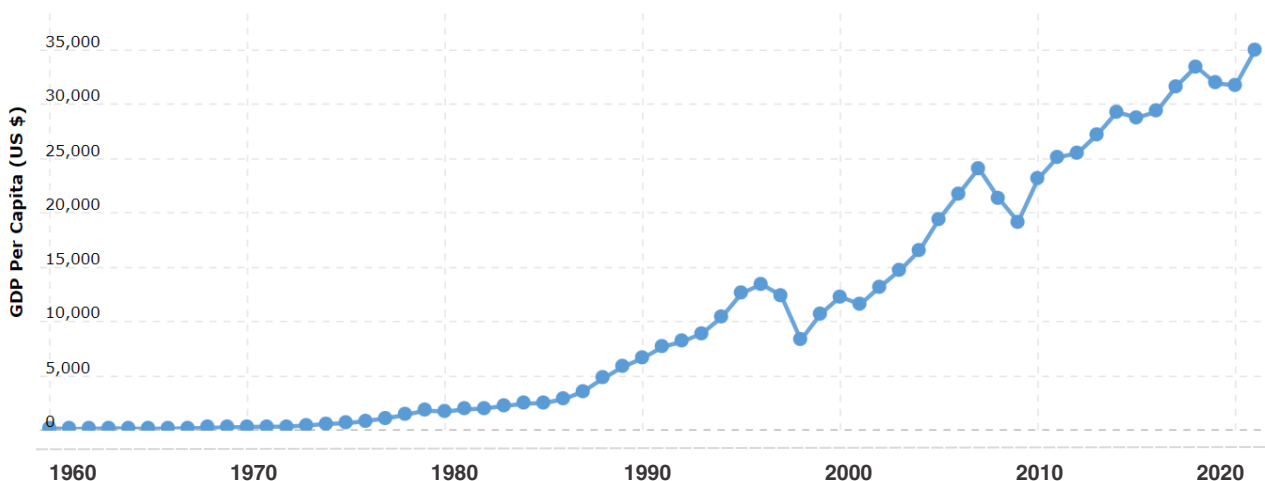
These are all South Korean companies, and they have helped South Korea completely transform itself.

1. **\$158** —————> **\$32,255**
per capita GDP in 1960 per capita GDP in 2022

2. South Korea topped the global list of the 60 most innovative countries in the Bloomberg Innovation Index 2021. It scored 90.49 points on a scale from 0 to 100, becoming the only country to obtain more than 90 points.

3. It is the **7th largest** exporter of goods, exporting mainly electrical and electronic equipment (30% of total), machinery, reactors, vehicles and plastics.

Korea's GDP per capita (US \$)



How did South Korea rise from the ashes of a war and transform itself to become the 11th largest economy in the world?

Part I: The History of South Korea

Like India, South Korea was also occupied by a foreign country for 35 years: Japan.

Korea was not divided into North Korea and South Korea. Like India and Pakistan, it was one nation: Republic of Korea.

In 1945, Japan lost Korea to the Allied Powers (majorly Great Britain, Soviet Union, and United States) after its defeat in the World War II.

Now, while the World War had come to an end, a cold war between the US and USSR had started brewing. Both of them wanted to gain control over Korea.



Two countries fighting for one. **Who would get control of Korea?**
Simple: divide the country into two parts and govern them until Korea could be made independent.

Now, in 1948, the US and USSR pulled out their militaries from Korea. But, till then, separate governments had already been established in the northern and southern parts of Korea.

The northern part had a communist government and the southern part had a capitalist government.

And both these governments wanted to rule the entire country.

This meant war.

The US backed the capitalist government and USSR backed the communist government.

In 1950, northern Korea attacked the South.

After a full-blown war it was decided that the two parts will be separated into two different countries. But officially, they never signed a peace treaty, so technically they are still at war.

This three-year long war decimated Korea.

3-5 million people died

44%

factory buildings
were ruined

51%

mining industry
was destroyed

80%

power plants
were destroyed

Estimated amount of damage: US \$549 million

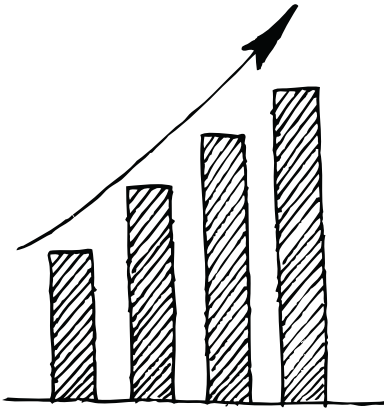
There was almost nothing left in Korea. 43,000 families were separated due to the rushed partition.

Though North Korea suffered more destruction, it was also left with more natural resources, like mineral deposits and mines. So, it could rebuild itself.

South Korea was the worst impacted, left with no wealth, no natural resources, and no allies.

Part II: The Transformation of South Korea

The war left South Korea with nothing but a corrupt government.



The GDP growth was slow, which was sustained by \$12.6 billion US aid received by South Korea during 1946-76.

In the mid-1950s, American aid accounted for nearly **80%** of all government revenues!

A major chunk of this financial assistance went towards relief, including food and building materials for reconstruction, and not for long-term development.

Though American officials complained that aid funds were being misallocated for political purposes, and were ultimately reaching the deep pockets of corrupt politicians, the foundation of economic development was in the making: **quality education**.

American aid helped thousands of Koreans gain essential training and technical skills.

South Koreans were inspired to learn and to grow. They were willing to spend money on education. Labourers would work 14-hour days in factories and then go to schools to study.



Labourers worked for long hours



earned money



were willing to spend it on education

South Korea was filled with passion, inspiration and determination to get a good education and live a better life.

As a result of this demand, the state was able to shift much of the cost of schooling to the public, thus building an impressive education system with modest expenditures.

In 1959, the government made primary education free for all, entitling every child a right to quality education.

By 1961, South Korea had an extremely high rate of school enrollment for a poor developing country - this rate of educational attainment was higher than all other nations within comparable GDP per capita range.

As a result, South Korea began its 1960s industrial takeoff with a better-educated population than most other nations when they began their respective economic upturns, including China, Vietnam, Thailand, or India.



Park Chung Hee

The 1960s also saw a student union uprising that forced South Korea's then President to resign. This led to a lot of political instability. Seizing the opportunity, Park Chung Hee, a powerful army commander at the time, took control over South Korea.

To strengthen South Korea's economy, he realized that South Korea had to open up its economy. You see, till the 1960s, South Korea had a closed economy, meaning trade with other countries was limited.

So, Chung Hee opened up South Korea for trade with other countries. He signed trade deals with Japan.

He introduced three major reforms to boost exports:

- Free trade regime for exports
- Currency devaluation for export competitiveness.
- No Indirect taxes on commodities used to make export goods.

Now, South Korea did not have a lot to trade.

So, it turned to what most of its people had, and were willing to trade: **hair**.

Yes, to bring the country out of poverty, Korean women were willing to sell off their long locks in exchange for money. Soon, this wig trade boomed.



The Rise of Exports

By the 1970s, one-third of wigs worn by North Americans were made by South Koreans. In fact, wigs accounted for 9.3% of the nation's total exports.



With a **87.6%** literacy rate, South Korea had an educated workforce ready to work hard and earn.

At the same time, the other developed economies like Japan were lacking such hungry-to-learn people who could be used for affordable labour.

As a result, by 1965, the labour-intensive and export-oriented manufacturing units were no longer profitable for Japan. Also, its prime market, the United States, was not allowing Japanese goods within its borders. To save its economy, Japan turned to South Korea.

South Korea agreed because labour was cheap in the country and it needed to boost exports. Soon, it started manufacturing everything from semiconductors, to cars, to ships to LCDs.



This changed the fortune of South Korea. Soon, the US market was flooded with South Korean goods.

The South Korean government heavily funded the family-owned conglomerates (called Chaebols), gave them subsidies, tax incentives and low cost loans. The chaebols, in turn, created millions of jobs and pulled South Korea out of poverty.

The largest and most prominent chaebols are Samsung, Hyundai, and LG, which have transformed into extremely profitable businesses. Today, these chaebols account for more than **58.3%** of South Korea's GDP.



Just when everything was finally going its way, just when South Korea was creating its place in the world, it was hit by the 1997 Asian Financial Crisis.

You see, in 1990s, developed nations like the US were investing heavily in developing Asian countries as they saw potential.

These investments accelerated the growth of developing nations, increasing the prices of real estate and other assets. So, investors started investing loads into these assets, creating a bubble.



Now, eventually, investments made from borrowed money were much greater than the returns could be. **So, the bubble burst.**

Investors started losing money. This spooked other investors who started pulling money out of Asian countries, including South Korea.

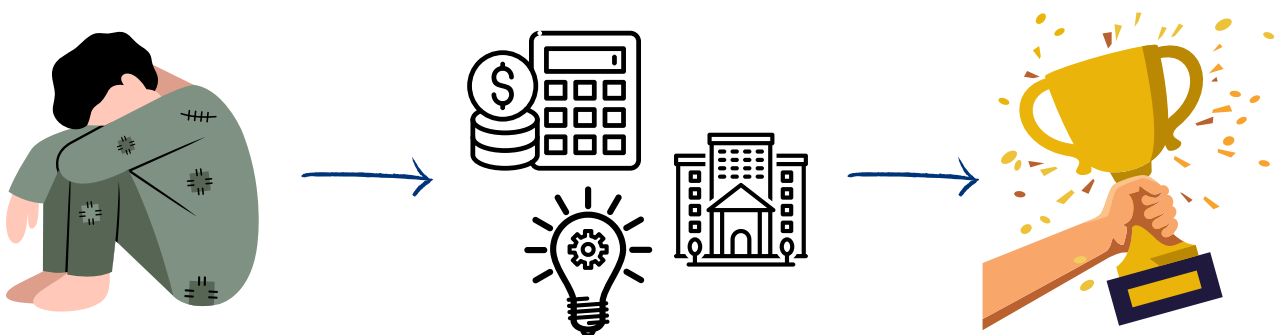
This triggered a Balance of Payments crisis in South Korea. How?

To grow the economy, the South Korean government had taken a lot of loans from foreign countries. But in 1990s, these countries lost confidence in South Korea's ability to pay back these loans and pulled their money out.

As a result, South Korea was left with very little money.

Now, this crisis could have caused the country to spiral back into poverty. But instead, it introduced many financial reforms, rebuilt viable institutions and planned exit strategies for unsustainable institutions.

Soon, South Korea made it through this crisis as well.



But since the early 90s, it had realised that making manufacturing units with the help of cheap loans and subsidies was not a great strategy, after all.

So, while South Korea did focus on manufacturing, it started developing other moats. It started making itself irreplaceable.

Part III: The Soft Power of South Korea

To become irreplaceable, South Korea had to leverage something that other countries did not possess: **its culture**.

Yes, Korea decided that it was going to be the first non-English speaking country to successfully export its pop culture.



In May 1994, South Korea's Presidential Advisory Council on Science & Technology suggested that if Jurassic Park matched the annual revenue of 1.5 million Hyundai cars, South Korea should enter the blockbuster movie industry.

After all, making movies would cost lesser time, lesser effort and lesser money than setting up manufacturing plants.

But this transformation was not possible just by movies. The country had to push all soft industries representing its culture: music, movies, makeup, food and fashion.

This is where the government stepped in to accelerate growth. It allocated funds, reduced the censorship laws in cinema to allow more creative and appealing Korean movies, and increased the ease of doing business in the country.

This government support led to the rise of the Korean wave, called **Hallyu**, across the globe.



The key to the global success of the Korean wave lies in the interconnectedness of its products.

You see, one industry supports the other. For instance, K-pop and K-beauty go hand-in-hand. K-pop fans are likely to be drawn to Korean cosmetics, and K-beauty fans are likely to learn about K-pop, since most K-beauty lines are endorsed by K-pop stars.

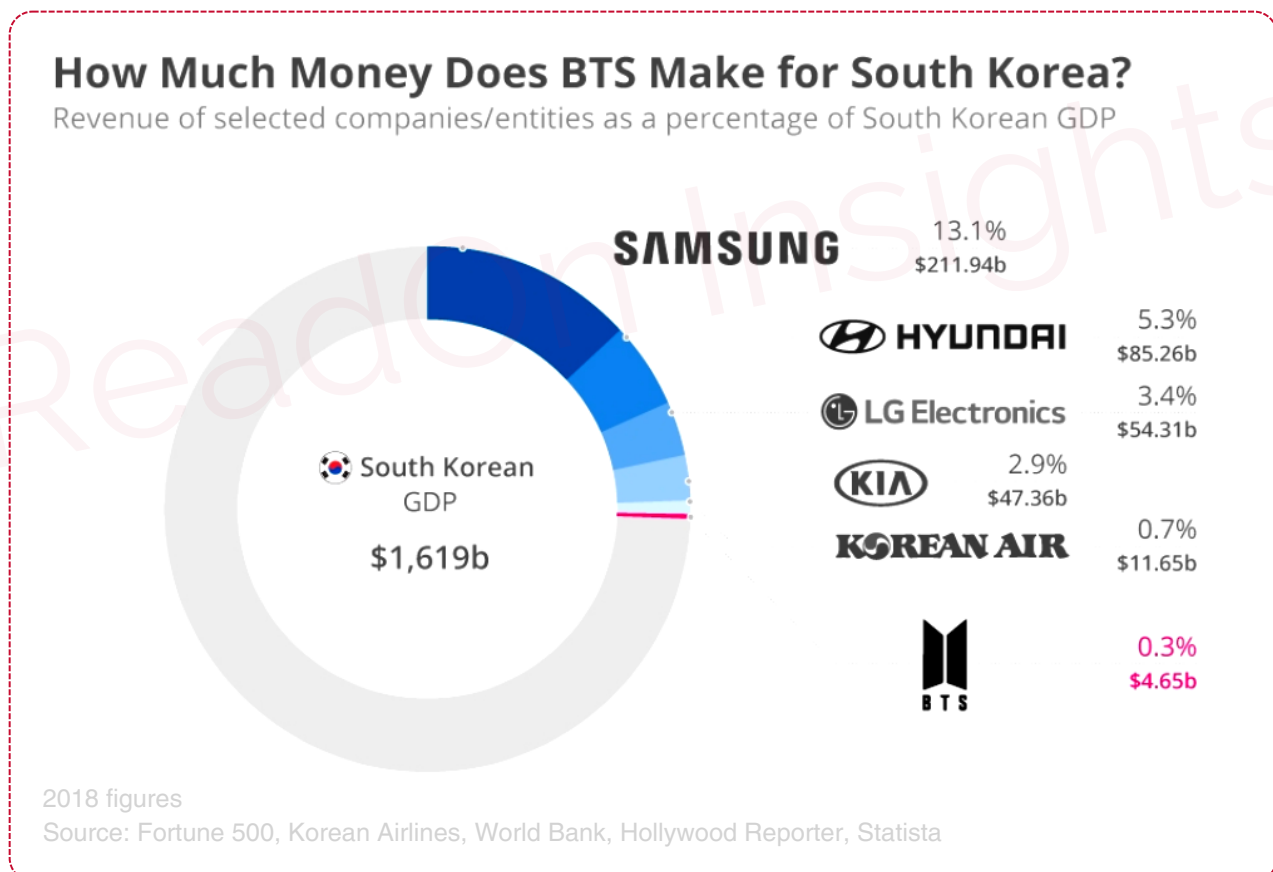
This cross-selling is printing a lot of money for Korea.

The Korean beauty and cosmetics market is among the top 10 in the world, with an estimate worth of over **\$14 billion** in sales in 2019, contributing to 3% of the global beauty market.

K-beauty contributed around \$6 billion worth of exports in 2018.

According to official estimates, K-pop generates about \$10 billion for the country each year.

In 2018, the annual revenue of BTS was estimated to be **\$4.65 billion**, about 0.3% of the GDP at the time.



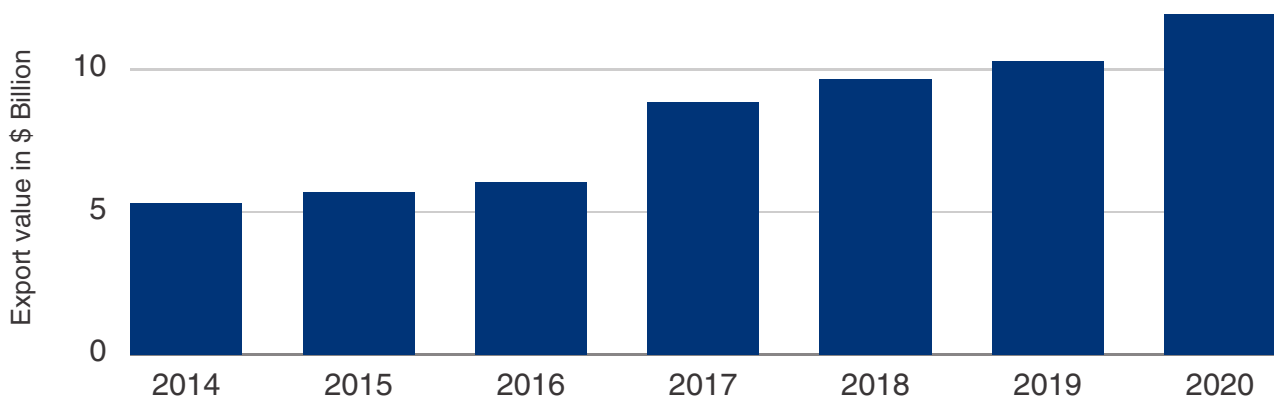
BTS also has had an annual influence on consumer goods such as clothing (US\$ 2.026 billion), cosmetics (US\$ 2.8 billion), and food (US\$ 3.966 billion) in 2019.

In 2018, one in every 13 tourists visited South Korea just for BTS!

Content is South Korea's 7th largest export and cosmetics is the 9th largest export.

In 2020, the content industry contributed to over **\$11.9 billion** worth of exports.

Total export value of the content industry in South Korea (in \$ Billion)



Thanks to new export industries such as cosmetics, agriculture, marine products, content and robots, South Korea's exports posted \$644.5 billion in 2021, the highest ever.

According to the Motion Picture Association of America (MPAA), the value of the cinema of South Korea in 2018 was \$1.6 billion out of the global film market of \$41.1 billion, putting South Korean cinema at the fifth largest in the world following North America, China, Japan, and the United Kingdom.

Parasite, release in 2019, made history by becoming the first non-English language film to win the Academy Award for Best Picture.

South Korean movies have also been gaining great popularity through OTT platforms.

'Alive', a South Korean zombie film released in June 2020, topped the global movie charts in 35 countries just two days after its release on Netflix.



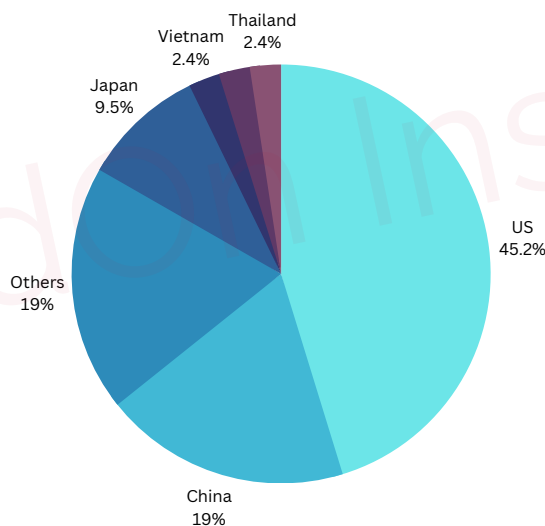
'Squid Game' hit a record-breaking 1.65 billion Netflix hours within its first month in September 2021.

This is 2.6 times that of Netflix's next biggest show, 'Bridgerton' Season 1, which generated 625 million hours over its first month.

These Korean movies and shows have also made Korean food very popular, and in turn, have increased the overseas consumption of Korean food.

Snacks, instant noodles and ready-made meals are top categories for the top-10 Korean listed food companies' overseas production.

Overseas K-noodles consumption



2019 figures

Source: Korea Customs Service, Morgan Stanley Research

This Hallyu wave has created fans all across the world.

According to a report by the Korean Foundation, there were **89 million** Hallyu fans in 113 countries in 2019. Out of these, over 70 million live in Asia and Oceania, 11.8 million live in the Americas and 6.6 million live in Europe.

Hallyu is not just printing money for the economy, but also creating soft power for South Korea.

'Soft power' is a popular term coined in 1990 by Harvard political scientist Joseph Nye. It is the intangible power a country wields through its image, rather than through hard force. Hard force refers to military power or economic power (through the possession of nuclear weapons).

With this soft power, South Korea is creating lovers for itself.



Part IV: What India Can Learn from South Korea

South Korea started from about the same place that we did.

It also gained independence in the late 1940s after undergoing post-freedom violence.

Now, while India is one its way to become a super power, we can learn two major things from South Korea:

- It focused on research and development to become the best at what it does.
- It identified a moat for itself to become irreplaceable - to earn money and influence the world at the same time.

Today, India has two major advantages:



A large young population



Rich natural resources

India has the largest youth population in the world. Around 66% of our total population is below the age of 35.

We need to ensure that our young population is not just cheap labour but expensive experts that the world cannot do without.

We should focus on skill development and education to boost India's competitiveness in the global market.

India also needs to increase the ease of doing business. The government is working towards boosting businesses with its 'Make in India' mission and product-linked incentive (PLI) schemes.

This ease of doing business has to trickle down to the micro, small

and medium enterprises (MSMEs) in India.

The MSME sector contributes to 30% of the GDP and employs over 100 million people.

Yet, out of **64 million** MSMEs in India, only 14% have access to credit. This translates to a credit gap of about US\$ 530 billion in the MSME sector.

The government is now trying to bridge this gap. In Budget 2023-24, the government revamped credit guarantee scheme for MSMEs to take effect from 1st April 2023 through the infusion of INR 9,000 crore (US\$ 1.09 billion) in the corpus. This scheme would enable additional collateral-free guaranteed credit of INR 2 lakh crore (US\$ 24.41 billion) and also reduce the cost of the credit by about 1%.



India's cultural diversity and heritage are significant strengths to leverage.

And we have started realising this. We have started promoting homegrown industries like yoga and wellness, Ayurveda, and homemade unique recipes that can take the world by storm.

One of the finest techniques for wellness, The Panchakarma of Ayurveda has now become the world's best theory in providing benefits to the preventive healthcare measures and curing chronic disorders.



K-pop and K-dramas became a hit and instantly gained worldwide popularity because they gave the world a sneak-peek into the South Korean culture.

India can also create soft power by exporting its films, music and art. Our cultural influence, combined with rich history and diaspora

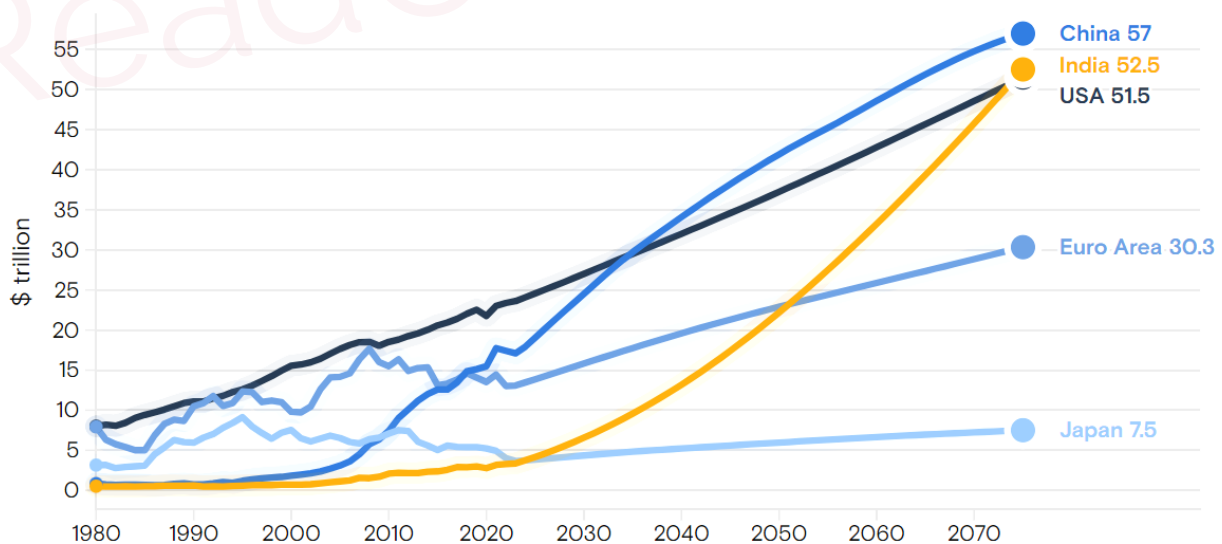
communities, can facilitate stronger relations with other nations.

We have one of the world's largest collections of songs, music, dance, theatre, folk traditions, performing arts, rites and rituals, paintings and writings. In order to preserve these elements, the Ministry of Culture implements schemes and programmes to provide financial support to individuals, groups and cultural organisations engaged in performing, visual and literary arts.

India is one of the fastest growing economies in terms of both aggregate and per capita gross domestic product (GDP) among developing economies. The World Bank projected India's growth forecast at **6.3%** for FY24.

This growth will be realised through public-private partnerships, as we boost entrepreneurship and help businesses scale with ease.

Goldman Sachs Research report projects that India will have the world's second-largest economy by 2075.



Source: Goldman Sachs Research

**Goldman
Sachs**

To realise this potential, we need to boost participation within our labour force, invest in human capital and infrastructure, and innovate in technology and automation.

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About Us

ReadOn is a research focussed digital content company led by Shantanu Jain.

Shantanu completed his graduation from St. Xavier's College, Kolkata. After he qualified as a Chartered Accountant with an All India Rank 10, he took the path less travelled and joined a startup – Swiggy. After working across different strategic functions at Swiggy, he started working with other new-age businesses to help them scale. Over the last 3 years, Shantanu has given lectures on business and finance at prestigious institutions like IIM-Kozikode, NIT-Jamshedpur, Lady Shree Ram College-Delhi, MDI-Gurgaon, NMIMS-Mumbai and Hyderabad, Ramjas College-Delhi and many more. His typical day involves talking to founders and helping them solve their business problems.

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