Associated Press, Lee Jin-man

What Could Globalization After COVID-19 Mean for South Korea?

A global rethink of intertwined supply chains may be among the most consequential results of the outbreak for South Korea.

By **Kyle Ferrier**

A silver lining to any crisis is that it helps lay bare the structural flaws leading to its inception, providing valuable lessons to prevent or limit the fallout from future catastrophes. COVID-19 has certainly shown the world there is much room for improvement in addressing pandemics, but its implications will extend beyond the

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global health sphere. For international trade, how the virus has stalled supply chains is calling into question the way globalization has spread in recent decades. How this plays out after the coronavirus is contained may be among the most consequential results of the outbreak for South Korea.

Seoul's efforts to manage COVID-19 have been held up as an exemplar for governments around the world, and yet South Korea's economic growth projections for the year are being dramatically lowered regardless. That is reflective of how dependent the country is on the rest of the globe. After South Korea's patient 31 was linked to the explosion of coronavirus cases in Daegu and the surrounding area, the Moon administration scrambled to limit new infections. Testing for the virus was greatly ramped up – including the establishment of drive-through stations – so that by mid-March over 270,000 people had been tested, amounting to 5,200 tests per million inhabitants. For reference, by this point Italy had tested a little more than 1,000 people per million and the United States a mere 74. With the rise of South Korea's testing has come a corresponding fall in new cases and a lower death rate from the virus than most other countries. However, for all of South Korea's success, that much of the world is struggling to cope with the virus is constricting the prospects for the country's economic recovery.

To be certain, COVID-19 continues to hamper domestic demand, but headwinds from other major economies as they face the virus are a major factor contributing to South Korea's gloomy economic outlook for the year. In December, the Ministry of Finance set its GDP growth target for 2020 at 2.4 percent. Many credit agencies and major institutional investors saw this as too ambitious, but many projections around the same time had the economy growing between 2 and 2.2 percent. However, the latest numbers from the credit rating agency S&P put South Korea at 1.1 percent growth and a report from the Asian Development Bank (ADB) paints a similarly dour picture. With the rest of the world reeling from COVID-19 – which Bloomberg Intelligence stated could lower global economic growth to just 0.1 percent – it seems only a matter of time before

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others arrive at similar conclusions about the South Korean economy.

South Korea's reliance on the international trading system was, of course, well known before the ongoing pandemic. Much less understood was how fragile that system was. U.S. President Donald Trump's nationalistic trade agenda highlighted how vulnerable the international trading system was to political shocks from the United States, but on the logistical side the challenges were relatively limited. Disruptions to supply chains, however, have been widespread in recent weeks as governments attempt to contain the spread of COVID-19. For many lucrative industries, value chains are set up across multiple countries, consisting of components produced by dozens, hundreds, or even thousands of separate firms. If just one of those firms misses delivery on a component it will throw off final production, which is what we have been witnessing on a large scale. This was originally isolated to parts made in China, but given China's position as the world's largest manufacturer, disruptions have been felt up and down supply chains. Further, as the virus has spread, producers outside of China have also been forced to at least temporarily suspend activity.

These extensive supply chain disruptions shook what confidence was left in the international trading system and are likely to precipitate a major change in how companies source their inputs. The most probable first step is the hastening of decoupling from China. Washington's trade war against Beijing raised the political risk of doing business in China and Beijing's push in recent years to move the economy toward more consumer-led growth hastened rising labor costs. Still, many companies were reluctant to pack up and move elsewhere. With the risks of being too dependent on China now being laid bare by COVID-19, it seems inevitable that more companies will try to diversify supply chains.

For some major South Korean companies, this may be less of a direct burden than their counterparts. South Korean *chaebols* had previously been experiencing the same economic pressures of higher wages in China, but faced unique political risks that accelerated their departure from China. Beijing's retaliation against South Korean companies starting in 2016 over Seoul's decision to deploy the Terminal High Altitude Area Defense (THAAD) battery led conglomerates like Lotte to wind down their retail business in China and Samsung Electronics to speed up their move to Vietnam. Nevertheless, South Korea remains hugely dependent on trade with China. Last year, 25 percent of South Korea's exports went to China, also where 21 percent of imports originated. The Moon government has been pushing to decrease this reliance through initiatives such as the New Southern Policy and the New Northern Policy, but to little effect. COVID-19 will likely serve as a more effective catalyst.

Beyond firms leaving China, there is much less certainty about what globalization post-epidemic will look like. High-profile financial commentators and investors are noting that the current configuration of globalization is too lean. For global corporations, profit has been prioritized above all else, but BlackRock's chief global investment strategist, Mike Pyle, among others, suggests COVID-19 could lead to "supply chains that are less efficient but more resilient." It's difficult to see what the weak links in supply chains are when they are operating efficiently, but the slowdown is revealing chokepoints that can help firms shore up their production once the global economy stabilizes. As the crisis is still ongoing, it is not yet clear how exactly this will shape globalization afterwards.

South Korea semiconductor producers had a dry run to help them prepare for this possible widespread shift, which also serves as an effective example of what it could entail for others. When Tokyo removed Seoul from its whitelist of trusted trading partners, it endangered crucial components in Samsung and SK Hynix's semiconductor manufacturing business. According to a report by researchers at the U.S. International Trade Council, South Korea imported on average $33.6 million per month of the restricted chemicals from Japan, but $8.4 billion in monthly chip exports were dependent on these inputs. Although there is no evidence of Tokyo actually restricting these exports to South Korea, Samsung and SK have both looked elsewhere to source these critical parts, with a focus on more expensive domestic producers. This is

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expected to increase production costs, at least in the short term, but ultimately save money in the long run by limiting shocks to the supply chain.

Moving to more resilient supply chains could ultimately be worth the investment for the global trading system, but for South Korea it also poses challenges. As interdependence with the rest of the world is a major driving force of the economy, should that relationship become less profitable then South Korea would either need to come to terms with slower growth prospects or find new avenues to bolster the economy. The Moon administration's efforts to capitalize on Fourth Industrial Revolution technologies such as 5G are promising in this regard, but the country is also faced with demographic decline that is likely to curb domestic demand.

However, economic factors won't be the only forces at play in how globalization post-COVID-19 is shaped. In the best case scenario for South Korea, governments around the world would lend their support for continued transborder cooperation on trade, rather than turning inward toward protectionism. While this would have been viewed as a given prior to 2016, the past few years emphasize it should not be taken for granted. A fluid moment in globalization could provide a window of opportunity for anti-trade populist movements to reconfigure the global trading environment to better align with their nationalist values. Additionally, greater trade decoupling between China and the United States could sharpen the contours of competition between the two. Seoul strives to avoid making a choice between Washington and Beijing, but that may become more difficult if they become less economically interdependent and the rivalry intensifies.

South Korea's story of a miraculous economic rise is one of adapting to a changing international economic environment. Amid so much uncertainty, Seoul must continue to build on this foundation to face potential challenges to the global trading system from which it has greatly benefitted. South Korea has more influence in global economic governance than ever before, but only through leveraging that influence to promote cooperation with others can Seoul hope to shape globalization after COVID-19 for the better.

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