

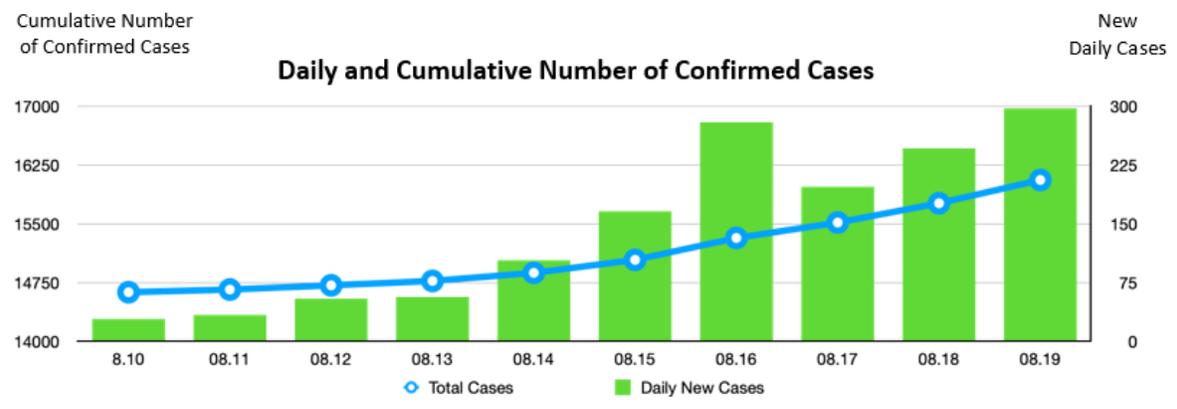
How Covid-19 Will Change Korea

August 20, 2020

With low Covid-19 infection and mortality rates for months, South Korea had been touted as one of the world’s success stories in handling the coronavirus. But since mid-August, daily new confirmed infections suddenly jumped to triple digits nationwide. This is highly concerning to the government and the public, which fear a possible resurgence as has happened in other countries around the world. In response to the uptick in cases, health authorities on August 16 raised social distancing measures back to level two in the greater Seoul area and the surrounding province for the next two weeks.



While being mindful of these latest worries, Korea’s business community and the government have been actively exploring new paths the pandemic may open. An overall sense of the future direction is beginning to emerge. BGA expects profound societal changes to transpire in the near future as Korea manages the pandemic.



Source: European Center for Disease Prevention and Control (ECDC)

Please see below for detailed explorations of how Covid-19 will affect Korea’s economy, society and place in the world, as well as a social intelligence survey. BGA will continue to monitor and keep you apprised as developments occur in Korea. If you have any questions or comments, please contact BGA Korea Managing Director BJ Kim at bjkim@bowergroupasia.com.

Best Regards,
BGA Korea



Economy

Will Korea's Corporate Giants Pursue New Opportunities?

Korea's largest companies recently released their 2020 first-half performance results, which show that most corporate giants suffered considerable losses. Airlines struggled the most, with Korean Air recording a one-third drop in its revenue. Petrochemicals and steel and iron followed with large losses. Retail suffered big revenue shortfalls year-on-year, while online and ICT businesses had robust revenue growth in the Covid-19 period, and electronics firms fared quite well.

Flagship Companies of Korea's Top 10 Chaebols: 2020 H1 Performance

| | | | | | |
|------------|---------------------------|--------------------------|--------------------------|--------------------------|-------------------------|
| COMPANY | SAMSUNG ELECTRONICS | HYUNDAI MOTORS | SK INNOVATION | LG ELECTRONICS | LOTTE SHOPPING |
| Revenue | KRW 108.3 T USD 91.4 B | KRW 47.4 T USD 39.8 B | KRW 18.4 T USD 15.5 B | KRW 27.6 T USD 23.3 B | KRW 8.1 T USD 6.8 B |
| Change Y2Y | -0.2% | -7.4% | -29.0% | -9.8% | -8.8% |
| COMPANY | POSCO | HANHWA SOLUTION | GS CALTEX | KSOE | EMART |
| Revenue | KRW 28.3 T USD 23.9 B | KRW 4.2 T USD 3.5 B | KRW 11.7 T USD 9.8 B | KRW 7.9 T USD 6.6 B | KRW 10.4 T USD 8.8 B |
| Change Y2Y | -12.6% | -8.6% | -25.0% | +9.4% | +13.4% |

Source: Korea Joongang Daily

As the world's 7th largest and Asia's 3rd largest trading economy, Korea depends on the export of manufactured products. **Consequently, the lockdowns worldwide that led to abrupt drops in demand and consumption have been ruinous for Korea's economy, and the global economic downturn, the push to roll back globalization and the disruption of global supply chains pose serious challenges for Korea's corporate giants.** Large corporations will be forced to explore alternative business models to survive in the post-Covid-19 world that may loosen their grip on Korea's economy and usher in dramatic changes to the country's corporate complexion.

Korea's Vision for the Post-Pandemic Economy

While the corporate world is busy envisioning its future direction, the government recently introduced its new vision for the post-Covid period. On July 14, it announced the "K-New Deal," a six-year, \$133 billion government-private sector joint investment plan charting the country's economic path in the post-coronavirus world. **Modeled on the U.S. depression-era New Deal, the government hopes to create 1.9 million new jobs to kickstart Korea's economy.**



In the government's "K-New Deal" and various corporate blueprints, common themes emerge: **content and new services, platforms, networks and green health survival businesses will dominate the future as Covid-19 shifts conventional human and economic interactions online.**

The government's plan clearly outlines its commitment to becoming the key driver in reimagining and transforming the economy. However, it is too early to tell how fast and how far Korea's corporate players will go in pursuing these new ideas.

Key Themes in Corporate and Government Visions for the New Economy

| THEMES | BUSINESSES |
|--|---|
| <ul style="list-style-type: none"> Content & New Services | <ul style="list-style-type: none"> Shows, Videos, Games, Big Data, Online Education, Telecommuting (Home Office) Supports, Online Retail & Delivery, Telemedicine, Online Businesses (Security-Privacy) Services |
| <ul style="list-style-type: none"> Platforms | <ul style="list-style-type: none"> Software, Apps, AI Relevant Techs, Portals, Social Media, Search Engines |
| <ul style="list-style-type: none"> Networks | <ul style="list-style-type: none"> 5G Telecom Infrastructure, IoT Networks, Telework-Telemedicine Infrastructure, Network Security |
| <ul style="list-style-type: none"> Green-Health-Survival | <ul style="list-style-type: none"> Carbon Reduction Techs, Renewable Energy, Bio-medicals, Hygiene, Agriculture-Food |

Labor Market Adjustment Dreaded

Regardless of Korean businesses' decisions, Korean workers and citizens must come to terms with a new reality. Even before the pandemic hit the country, decreases in labor demand were widely discussed in the context of the fourth industrial revolution; this may accelerate with Covid-19. The worldwide lockdown reduced consumption, cut manufacturing and services and disrupted global supply chains, thus decreasing labor demand. More workers may be asked to become part-time telecommuters and case-by-case contract-based platform workers. Low-skilled workers will run into greater difficulties and economic polarization could intensify.

These changes may be accompanied by drops in the availability of workers in the labor market. Korea has been recording the lowest birth rate among OECD members for years. The rapidly aging population is leading to a dwindling labor supply. Furthermore, Covid-19 fears may result in workers refusing to relocate and the rejection of immigrant workers is creating increasing labor supply disruptions.

Unemployment Rate (Total, % Labor Force)



Source: OECD Data



Society and Politics

Familiar Faces of Korea May Fade

Over the years, foreign visitors in Korea have noted that the 52 million Koreans are a “passionate” people — passionate in education, religious practices, street protests and professional sports like baseball and entertainment performances. In short, Koreans were known for their competitiveness and drive. **Now, in the Covid-19 era, the complexion of Korea may change.** Private after-school teaching institutes can no longer host students in packed rooms. Famous online instructors may polarize the market, driving smaller offline competitors out of business.

The Korean population is about 20 percent Buddhist, 20 percent Protestant and 10 percent Catholic. Among them, Protestant churches have been very visible in their religious, social and political activities. However, with the current restrictions on large meetings, there will be major changes in Korea’s religious landscape. What is more, the older Protestant population in the country, which tends to be politically conservative and had persistently staged street protests against the current progressive Moon Jae-in government since inauguration, has been virtually silenced by the pandemic.

This year, Korea’s professional baseball games have been held without spectators in the ball parks, which has been a cause of sorrow for baseball fans not just in Korea, but worldwide. In entertainment, K-Pop stars are now busy planning for the future as they turn to virtual, online performances. Together, all these developments augur considerable changes to Korea’s civil society that may have lasting impact on the country’s future social institutions and national identity.



Social Intelligence Spotlight: Korea

This week’s social intelligence spotlight looks at discussions in Korea’s digital space on the government’s management of the Covid-19 pandemic. Social intelligence located mentions throughout the country (pictured in the graphic), as conversations on Covid-19 continue to trend across the peninsula. A large share of social media users disapproved of the government’s response, blaming Korea’s second-wave outbreak on President Moon Jae-in’s lack of effective border control and failure to stop travel to and from China.

The uptick in negative sentiment reflects criticism of certain segments of the population that have disregarded Covid-19 prevention measures, like social distancing, in recent weeks. Much of this week’s coverage focused on the thousands of churchgoers who have been ordered to quarantine after Korea’s spike in Covid-19 cases over the past few days. In particular, social media users faulted Lee Man-hee, leader of the Shincheonji Church of Jesus, as his congregation is said to account for more than one-third of Korea’s current number of Covid-19 cases.

More recently, the president of the Christian Council of Korea, pastor Jeon Kwang-hoon, has captured the public’s attention after his rallies led to a surge in Covid-19 transmissions. Anti-government sentiment also accounts for a significant portion of negative sentiment mentions, as resentment toward the government has culminated in public demonstrations in Seoul’s Gwanghwamun area, further contributing to the spread of Covid-19.

Mentions that supported the government tended to emphasize policies promoting economic recovery, such as the K-New Deal. There was limited discussion on the recent announcement of the K-New Deal’s “data dam,” which is expected to lay the foundation for Korea’s future digital economy, create jobs, boost the skills of the workforce and revitalize the economy in the wake of the Covid-19 pandemic. In addition, social media users praised cooperation between Moon and Australian Prime Minister Scott Morrison on Covid-19 vaccine supply during their phone conversation on August 14, in which Moon invited Australia to join the International Vaccine Institute in Seoul.

Distribution of Social Media Discussions on Covid-19
August 13 to 19

