



Economic Report 2022

REPUBLIC OF KOREA

30 June 2022

Executive Summary

A member of the G20, Korea was the 10th largest economy and the 7th largest exporter in the world in 2020. The Korean economy has held up well from the economic and health crisis linked to Covid-19, thanks to export growth and well-calibrated control measures. GDP only contracted by 0.9% in 2020 and rebounded by 4.0% in 2021. While the country is expected to be affected by global inflationary pressures, consumption is expected to remain strong due to robust demand in key sectors including semiconductors, pharmaceutical products, chemicals and shipbuilding. The effect of higher interest rates on household debt and housing prices is an ongoing risk to the South Korean domestic economy.

South Korea's high-technology, industrialized economy is attractive to Swiss high-precision and innovation based companies. The ever increasing purchasing power has also formed a lucrative consumer market with a particular appetite for high quality luxury products. In addition, the reach of the Korean economy goes well beyond Korea. Especially for big infrastructure projects and production facility investments, Korean conglomerates have a global footprint with opportunities for well-positioned Swiss businesses. Switzerland is also an important destination for Korean tourists, who are expected to visit the country in record numbers this year.

However, the business environment in Korea has become more difficult over the past two years, due to protection of local industries; insufficient adoption of international standards and regulations, a relatively inflexible labor market, strong unions and relatively high wage levels. The new government of president Yoon, which took office in May, has announced a more business-friendly direction. It remains to be seen if this will lead to better framework conditions for international businesses in Korea.

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1 ECONOMIC OUTLOOK AND ECONOMIC POLICY DEVELOPMENTS

A member of the OECD and the G20, Korea was in 2020 the 10th largest economy¹ and the 7th largest exporter.² Despite having been one of the world's poorest countries only a few decades ago, South Korea achieved its rapid economic rise in large part due its effective export-oriented industrialization.³

Korea is also amongst the world's **most innovative countries** and a **hub for startups and R&D investment**. It ranks 5th in the 2021 World Intellectual Property Organization's (WIPO) Global Innovation Index and 1st in Asia, trailing only Switzerland, Sweden, the United States and the United Kingdom.⁴ It is 6th in the Global Entrepreneurship Monitor's National Entrepreneurial Context Index, one spot above Switzerland.⁵ Venture investment in Korea has skyrocketed in recent years as a result of improved conditions, reaching US\$ 6.4 billion in 2021, a 78% y/y increase from 2020.⁶ Korea also ranks 2nd among OECD members when it comes to R&D spending as a portion of GDP with 4.81% (US\$ 75.4 billion), only behind Israel.⁷

Korea's economy has **weathered the Covid-19 pandemic well**, with calibrated control measures. The country did not experience a full lockdown and businesses were able to continue to operate with restrictions. Some sectors have suffered more than others. The country is now in the process to achieve a full reopening.

Effective pandemic management and remarkably strong export numbers allowed South Korea to record a robust 4.0% GDP growth in 2021, after a 0.9% downturn in 2020.⁸ In 2021, the country saw its highest export growth in eleven years at 25.8% y/y, raising the total to a record US\$ 644.54 billion. Semiconductors, which have become Korea's most important export sector, boasted an impressive 29% y/y growth to a record US\$ 128 billion compared to 2020. Other key export items, including petrochemicals (54.8%), cars (24.2%) and steel (37%), recorded strong numbers as well.⁹

Korea's total trade volume amounted to US\$ 1.26 trillion in 2021, making it the eight largest trading nation in the world. Total exports of US\$ 644.54 billion and total imports of US\$ 615.05 billion together resulted in a trade surplus of US\$ 29.49 billion. 2021 marks the thirteenth year in a row in which South Korea recorded a positive trade balance.¹⁰

In Q1 2022, the Korean economy grew by a further 0.6%, slightly underperforming expectations of a 0.7% growth.¹¹ At the beginning of 2022, the economic outlook for Korea was generally positive, albeit with significant uncertainties. With the removal of covid-19 restrictions, such as curfew for business hours, domestic demand in Korea may see a recovery in Q2 of 2022.

Korea added 369'000 jobs in 2021, the biggest increase in seven years. In 2020, the covid-19 pandemic led to a loss of around 218'000 jobs. Last year's recovery was largely due to the base effect, as well as robust exports and changes in industrial structures, such as demand for contactless services.¹² For 2022, another 250'000-280'000 added jobs are expected by the BOK and finance ministry respectively.¹³

The IMF listed several **downside risks** likely to limit growth in Korea¹⁴, including pandemic-related disruptions to supply chains, slowdown of China's economy, geopolitical uncertainties, rising interest rates, elevated household debt and real estate prices, inflation and weakened

¹ World Bank, [GDP \(current US\\$, Korea, Rep.\)](#) (31.05.2022)

² The Korea Herald, [S. Korea retains position as 7th largest exporter in 2020](#) (28.02.2021)

³ OECD, [Sustaining the Miracle on the Han River](#) (25.10.2021)

⁴ WIPO, [Global Innovation Index 2021](#) (20.09.2021)

⁵ World Economic Forum, [Which are the best countries in the world for entrepreneurs in 2022?](#) (05.04.2022)

⁶ World Economic Forum, [This is how South Korea can become a global innovation hub](#) (31.01.2022)

⁷ Yonhap News Agency, [S. Korea ranks 2nd among OECD nations in R&D spending as portion of GDP: report](#) (20.04.2022)

⁸ Bank of Korea, [Real Gross Domestic Product: Fourth Quarter and Annual 2021](#) (25.01.2022)

⁹ Reuters, [S. Korea exports grow 25.8% y/y in 2021, sharpest in 11 years](#) (01.01.2022)

¹⁰ Yonhap News Agency, [S. Korea's exports rise 25.8 pct in 2021 to hit all-time high](#) (01.01.2022)

¹¹ Yonhap News Agency, [S. Korea's economy grows slower than earlier predicted in Q1 amid weak investment spending](#) (08.06.2022)

¹² Yonhap News Agency, [S. Korea reports largest job growth in 7 years in 2021 amid economic recovery](#) (12.01.2022)

¹³ Yonhap News Agency, [S. Korea reports largest job growth in almost 22 years in Jan.](#) (16.02.2022)

¹⁴ Reuters, [South Korea first-quarter growth likely slowed sharply by COVID curbs: Reuters poll](#) (22.04.2022)

economic activity caused by rising covid-19 infections.¹⁵

Inflation has become a prevalent issue for the South Korean economy in 2022. The surging oil and food prices as a consequence of Russia's invasion of Ukraine have created uncertainties for the Korean economy, which is highly dependent on imports. BOK chief Rhee Chang-yong noted that the central bank is more concerned about inflation than about growth, after it announced the third interest rate hike of the year in May 2022 to 1.75%.¹⁶ The recent decline in the Korean currency's (Won) value is also posing a challenge as soaring raw material prices boost import costs for local manufacturers, hurting their profitability.

Korea has been experiencing a real estate bubble. The average price of an apartment in Seoul has doubled in the last five years, despite government efforts to cool the market.¹⁷ Real estate policy was a key issue in this year's presidential election and the new government will be expected to introduce measures to reform real estate policies including plans for the construction of new homes and an overhaul of the tax system.¹⁸ The hot real estate market has also accelerated the growth of household debt, which has increased steadily over the last years. In Q1 2022, household debt showed a decline for the first time in twenty years, to now US\$ 1.4 trillion.¹⁹

A further factor of uncertainty in Korea's recovery from the pandemic is the slowdown of China's economy. For Korea, the reason behind a possible Chinese economic downturn matters: Generally, when China's economic growth rate declines by 1%, Korea's growth rate falls by around 0.1-0.15% as well. However, if the driving factor behind China's decreasing growth is real estate or domestic consumption, then the impact on Korea may be limited. On the other hand, a decline in Chinese exports represent the biggest risk for Korea.²⁰

Generally, Korea has been attempting to diversify its supply chains away from China, especially in key economic sectors like semiconductors, where Korea has a competitive advantage. China is still by far Korea's most important trading partner, but the new government's decisively pro-US stance means that Korea has started to significantly ramp up investment in the US compared to China.

These downside risks have led to several downward corrections of the economic outlook for Korea since the start of the year. Currently, growth projections for 2022 amount to circa 2.7% (OECD: 2.7%²¹, BOK: 2.7%²², IMF: 2.5%²³). While growth projections are going down, the opposite is true for inflation. In May 2022, the consumer price index (CPI) rose by 5.4% y/y, accelerating from a 4.8% rise in April.²⁴ The Korean government expects that inflation growth will exceed 5% for some time.²⁵ Institutional estimates for Korea's inflation rate for the year 2022 range between 4.0-4.8% (OECD: 4.8%²⁶, BOK: 4.5%²⁷, IMF: 4.0%²⁸).

2 PRIORITY SECTORS AND OPPORTUNITIES FOR SWISS COMPANIES

South Korea is a high-technology, industrialized economy led by the electronics, telecommunications, automobile, chemicals, shipbuilding and the steel sector. It is the world's largest producer of semiconductors. In addition, South Korea has been massively investing in its pharmaceutical industry to be one of its growth engines of the future.

¹⁵ IMF, [Strong Policies Help Korea Navigate Uncertain Times](#) (12.05.2022)

¹⁶ Yonhap News Agency, [BOK hikes policy rate over worries of fastest price growth in 14 yrs](#) (26.05.2022)

¹⁷ Al Jazeera, [South Koreans struggle to climb property ladder as prices explode](#) (28.04.2022)

¹⁸ The Korea Times, [Yoon tasked with stabilizing overheated housing market](#) (16.03.2022)

¹⁹ Pulse News, [Korea's household debt down for the first time in 20 yrs amid rate hikes](#) (25.05.2022)

²⁰ The Hankyoreh, [How big of an impact will China's economic downturn have on Korea?](#) It depends (09.12.2021)

²¹ OECD, [OECD Economic Outlook, Volume 2022 Issue 1: Preliminary version](#) (08.06.2022)

²² Bank of Korea, [Economic Outlook \(May 2022\)](#) (26.05.2022)

²³ IMF, [World Economic Outlook April 2022](#) (19.04.2022)

²⁴ Reuters, [S. Korea May inflation hits near 14-year high, beats expectations](#) (03.06.2022)

²⁵ Yonhap News Agency, [Inflation growth to top 5 pct for some time: finance minister](#) (27.05.2022)

²⁶ OECD, [OECD Economic Outlook, Volume 2022 Issue 1: Preliminary version](#) (08.06.2022)

²⁷ Bank of Korea, [Monetary Policy Report \(June 2022\)](#) (09.06.2022)

²⁸ IMF, [World Economic Outlook April 2022](#) (19.04.2022)

The highly diversified conglomerates – the chaebols – such as Samsung, LG, Hyundai and SK Group – are still the engine of South Korea’s economy. They drive the majority of South Korea’s investment in research and development and employ people around the world. Samsung electronics, the largest Samsung affiliate, employs 300,000 people globally (more than Apple and Google combined) and is for example the largest employer in Vietnam. Korean chaebols typically expand in new and high-tech growth industries and diversify. Besides being players in telecommunications, they also have affiliates in the construction and power sector.

Korean companies today rank among the top players in large infrastructure investments globally. Major contractors include Hyundai Engineering & Construction, Samsung C&T and SK ecoplant. South Korean general contractors are well positioned in Asia, the Middle East, the United States and Latin America. They have been able to expand their operations thanks to a high level of technical expertise acquired through decades of domestic infrastructure investments. Infrastructure financing mechanism supported by state-owned export credit agencies have also helped fuel growth in this sector. South Korean firms have especially played a role in power (renewable energy and nuclear power plant construction), natural resources, petrochemicals and oil refineries. They have also been involved in transportation infrastructure projects like roads, railways, metros, airports and seaports.

Seoul has also aspirations of becoming a regional hub, however so far with limited success. Due to its difficult framework conditions for foreign companies (challenges to obtain work permits, housing, language barrier, administrative obstacles and protectionism) it has been unable to attract companies currently leaving Hong Kong. Singapore remains the main destination for them. There are two exceptions, however: Due to attractive taxation and high local demand, Korea is becoming an important regional platform in the primary art market. A number of Anglo-Saxon media companies have also decided to move their regional headquarters to Korea for its democratic values.

South Korea has become a key market for some Swiss companies for its appetite for high-quality luxury (super premium) products, its widening regional clout and role in the East Asian supply chain. Korea is a large market for pharmaceutical products, watches and high precision machinery. Around 150 Swiss companies are represented in Korea. Sectors where Korea is leading, including shipbuilding, pharma, MEM, medtech, food ingredients, are all interesting for Swiss exporters.

While sometimes overlooked, South Korea can also be an attractive market for SMEs. Sectors such as medtech, precision machinery and chemicals are of particular interest, while there are niche opportunities in the consumer goods sector. In the areas of ICT, especially blockchain technologies, services in metaverse/electronic services new opportunities are emerging. Due to the economic policy focus on a few large corporations and core sectors, there are also areas in South Korea that are not at the highest technological level. Swiss companies can use these gaps in the value chain with their highly specialized products.

While massive investments in hydrogen/de-carbonization-related products and EVs/batteries production have been announced in Korea through the (green) new deal, it has not really materialized into contracts for Swiss companies so far. But Korean companies might be interested in Swiss technology in this field.

Increasing purchasing power has shaped a lucrative consumer market. Koreans are ready to spend for super premium, high quality and prestige products – which is a good fit for “Swiss made”. For mass consumption products the market is more difficult. Many Swiss companies are therefore successfully operating on the South Korean market, despite ongoing challenges in supply chains.

It is important to note that the reach of Korean conglomerates goes well beyond Korea. Especially for big infrastructure projects and production facility investments, these decisions are taken in Korea. Korean companies are currently trying to diversify their supply chain, de-emphasizing Chinese influence, which brings new investment in storage facilities etc. This

can be an opportunity for Swiss logistics companies (soft- and hardware), for whom a presence in Korea could create opportunities in other parts of the world. For example, Swiss technology is involved in new SK battery plants being built in the US.

3 FOREIGN ECONOMIC POLICY

3.1 Host country's policy and priorities

The newly inaugurated government of President Yoon Suk-yeol is taking charge in a very challenging economic environment. He has to handle rising inflation, complex supply chain issues due to the Ukraine war, all while hedging Korea's position between the US and China. Yoon proclaimed "economic security" as an overarching policy theme. This includes securing an "overwhelming lead" in the semiconductor, artificial intelligence and battery industries and diversifying its sources of chip and battery materials. The Yoon administration expects to increase semiconductor exports by over 30 percent from US\$ 128 billion last year to US\$ 170 billion by 2027.²⁹

Yoon's announcement of joining the US-led Indo-Pacific Economic Framework for Prosperity (IPEF)³⁰, is a clear indicator that **South Korea is trying to decouple its supply chains from China** to some extent. IPEF involves a total of 13 nations, including the United States, Japan, Australia, New Zealand, India, and seven out of the 10-member Association of Southeast Asian Nations (ASEAN). Korea plans to propose ways to cooperate on strengthening supply chains, transitioning to a digital economy and on clean energy and decarbonization.

Korea also plans on boosting its economic independence through a return to nuclear power, reversing plans of a nuclear phase-out. For clean energy and decarbonization, South Korea intends to use its advanced nuclear energy and hydrogen technology to establish carbon-reducing infrastructure and develop technologies through bold investments.

The new government has vowed to deregulate, cut taxes and uphold a market economy. Faced with more pressing economic issues such as runaway home prices, small business owners struggling from the pandemic and inflation, chaebol reform - to address issues like concentration of economic power - has been pushed aside.

The Korean government itself has also taken on debt to finance covid-19 relief measures, specifically stimulus packages aimed at supporting small business owners who suffered under the social distancing rules and business curfews. Two days after his inauguration, President Yoon announced the biggest extra budget yet. The US\$ 49.3 billion package includes direct cash handouts and grants to regional governments.³¹ In Q1 2022, Korea had the highest household debt-to-GDP ratio among major economies with 104.3 percent.³²

As of April 2022, Korea has 18 Free Trade Agreements with ASEAN, Australia, Canada, Central America (Partial), Chile, China, Colombia, EFTA, EU, India, New Zealand, Peru, Singapore, UK, US, Turkey, Vietnam and RCEP.

South Korea updated its FTA with the UK, as the two countries signed a new strategic agreement to bolster supply chain resilience, which is the first UK agreement of its kind with an Asia-Pacific partner. The two countries held the UK-South Korea FTA Committee in London and discussed to increase trade in digital, the environment, and supporting small business. South Korea and Israel FTA was clinched in August 2019 and signed in May 2021, but is yet to be ratified. President Yoon said the FTA will be ratified in the National Assembly as soon as possible, mentioning that there was bipartisan support for the ratification.

²⁹ Business Korea, [Incoming Government Aiming for Considerable Increase in Semiconductor Exports](#) (2022.05.04)

³⁰ U.S. Embassy in South Korea, [Fact Sheet: In Asia, President Biden and a Dozen Indo-Pacific Partners Launch the Indo-Pacific Economic Framework for Prosperity](#) (22.05.2022)

³¹ Ministry of Economy and Finance, [2nd Supplementary Budget of 2022](#) (29.05.2022)

³² The Korea Herald, [S. Korea ranks No. 1 in household debt-to-GDP ratio in Q1](#) (24.06.2022)

South Korea and Singapore have concluded a digital economy agreement in December 2021, making it Singapore's first digital economy agreement with an Asian country. This agreement will further intensify bilateral cooperation in the digital economy between the two countries, enabling cross-border data flows and a secure digital environment.

In addition, South Korea has launched a digital dialogue with the EU in view of modernizing the EU-South Korea FTA. The discussions are still in early stages.

South Korea officially announced its decision to accede to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which was signed by 11 Asia-Pacific countries in March 2018. If South Korea joins the CPTPP, it would strengthen its geopolitical standing in the region. Korea is currently working on due domestic procedures to submit an application. Korea hopes that joining the CPTPP will ensure stable supply chains in the Asia-Pacific region.

3.2 Outlook for Switzerland

EFTA members have been calling for a **modernization of its Free Trade Agreement** with South Korea for some time. The Korea-EFTA FTA has been in force since 2006, covering all major areas of trade relations including trade in goods and services, competition, technical barriers to trade (TBT), intellectual property and others.³³ From a Swiss perspective, the EFTA-Korea FTA has been a success. According to Korean data, total trade value between EFTA and Korea amounted to US\$ 8.05 billion in 2021, a 23.2% increase from 2020 (Exports to EFTA: US\$ 1.74 billion, Imports from EFTA: US\$ 6.31 billion). Trade volume between EFTA members and Korea has increased significantly since the FTA came into effect in 2006. The trade surplus in 2021 amounted to US\$ 4.58 billion from the perspective of EFTA. Compared to the previous year, Korean exports decreased by 21.7%, while imports grew by 46.2%.³⁴ In 2020, US\$ 199 million tariff savings were achieved under the FTA.³⁵

There is, however, a risk for Switzerland to fall behind in terms of market access. The European Union, which has signed a more favourable FTA in 2011 – 5 years after the EFTA-Korea agreement – is also looking to modernize its agreement. A range of other countries are discussing updating their respective agreements or signing new ones. There has been movement especially in the field of digital trade.

Until now, it has been very difficult to gather interest from the South Korean authorities for a modernization of the outdated agreement. Issues for Switzerland include improved market access for agricultural products, a further opening of financial services markets, as well as a reduction of TBTs. The Yoon administration, notably, has announced its intention of transferring the responsibility for international trade issues from the Ministry of Trade, Industry and Energy (MOTIE) to the Ministry of Foreign Affairs (MOFA). MOFA is considered more open to international cooperation than MOTIE, thus renewed efforts of raising the modernization issue could be made.

4 FOREIGN TRADE

4.1 Developments and general outlook

4.1.1 Trade in goods

Korea's **total trade volume** in 2021 amounted to US\$ 1.26 billion, which represents a 28.5% increase from 2020. **Exports increased by 25.7%** to US\$ 644.4 billion, while **imports increased by 24.0%** to US\$ 615.1 billion. This resulted in a **trade surplus of US\$ 29.3**

³³ EFTA, [Free Trade Agreements and Trade Relations by Partners – Republic of Korea](#) (14.06.2022)

³⁴ Korea Customs Service, [Trade Statistics for Export/Import](#) (30.06.2022)

³⁵ EFTA, [EFTA and Korea celebrate the 15-year anniversary of their free trade agreement](#) (19.11.2021)

billion, which is 34.7% smaller than the surplus in 2020. The strong growth in both export and import demonstrates Korea's impressive economic recovery from covid-19 so far. Exports have been rising consistently throughout 2021 (Q1: +12.5% y/y; Q2: +42.0%; Q3: +26.5%; Q4: +24.5%), driven by surging demand for some of Korea's key export items, such as semiconductors. In Q1 of 2022, last year's strong export growth has continued at a rate of 18.3% y/y. Imports have also continued last year's trend (Q1: +12.4% y/y; Q2: +37.7%; Q3: +37.5%; Q4: +39.4%) in Q1 2022 (+29.5% y/y), leading the total trade volume in Q1 2022 to rise to US\$ 350.1 billion, a 23.7% y/y increase.

South Korea is the 7th biggest exporting country in the world. In 2021, **China** was Korea's biggest export market (US\$ 162.9 billion, +22.9% y/y), followed by the **United States** (US\$ 95.9 billion, +29.4%), **European Union** (US\$ 63.6 billion, +32.9%), **Viet Nam** (US\$ 56.7 billion, +16.9%), **Hong Kong** (US\$ 37.5 billion, +22.2%) and **Japan** (US\$ 30.1 billion, +19.8%). The most important export goods are machines (elec.) (US\$ 200.8 billion), vehicles, aircraft etc. (US\$ 91.5 billion) and machines (non-elec.) (US\$ 76.0 billion).

China is also by far Korea's biggest source of imports (US\$ 138.6 billion, +27.3% y/y), followed by the **United States** (US\$ 73.2 billion, +27.3%), **European Union** (US\$ 65.9 billion, +18.8%), **Japan** (US\$ 54.6 billion, +18.7%), **Australia** (US\$ 32.9 billion, + 76.0%) and **Saudi Arabia** (US\$ 24.3 billion, +51.9%). The most important import goods are energy sources (US\$ 137.6 billion), machines (elec.) (US\$ 114.8 billion) and machines (non-elec.) (US\$ 69.1 billion).³⁶

4.1.2 Trade in services

Services account for 62.5% of the Korean economy (2021: 61.1%), but Korea suffers from low productivity compared to the OECD average. In 2015, Korea's service sector productivity was only 44% of that in manufacturing, compared to the OECD average of 84%.³⁷ Trade balance from trade in services, latest quarter trends.

Korea is a net consumer of cross-border services. In 2021, Korea recorded US\$ 121.2 billion in service exports³⁸ and US\$ 124.3 billion in service imports³⁹, resulting in a services trade balance of US\$ -3.1 billion.

The financial sector suffers from the fact that the Korean Won (KRW) is de facto not a fully convertible currency because of licensing requirements for capital transactions. Korean banks with a presence abroad serve mostly Korean customers. Entry for foreign institutions is difficult in the financial sector because of numerous special rules. In recent years, Western banks and securities houses have increasingly withdrawn, while the presence of Japanese and Chinese financial institutions has increased. In recent years, the South Korean government has been trying to liberalize the financial services sector as part of its efforts to promote FinTech.

4.2 Bilateral trade

4.2.1 Trade in goods

Bilateral trade between Switzerland and South Korea has significantly grown over the past few years. The **bilateral trade volume** in 2021 amounted to a total of **CHF 5.39 billion**, a **27% increase** from 2020. Even compared to the previous record high volume of CHF 4.53 billion in the pre-pandemic year 2019, this represents roughly a 16% increase. Switzerland has consistently recorded a trade surplus with Korea since 1990, with the exception of 1998 and 1999. In 2021, the trade surplus amounted to CHF 1.27 billion (2020: CHF 1.94 billion).

Swiss exports did not quite recover the slump experienced during the pandemic year 2020, when they shrank by 19.9%. However, there was still a significant **increase of 13.4%**

³⁶ Korea Customs Service, [Trade Statistics for Export/Import](#) (13.06.2022)

³⁷ Korea Economic Institute of America, [Korea's Potential Growth Rate has Fallen to Around 2%](#) (26.01.2022)

³⁸ Knoema, [Republic of Korea – Service exports in current prices](#) (15.06.2022)

³⁹ Knoema, [Republic of Korea – Service imports in current prices](#) (15.06.2022)

compared to the previous year, totaling at CHF 3.33 billion (with gold). The most important categories of export goods were pharmaceutical products, watches and components, precious stones and metals/jewelry, machines (non-elec.), optical/medical instruments and beauty products or detergents. Machines (non-elec.) (-17.4%) and beauty products and detergents (-16.8%) recorded decreased volume, while pharmaceutical products (+22.8%), watches and components (+22.5%), precious stones and metals/jewelry (+12.3%) and optical/medical instruments (+7.9%) showed an increase compared to 2020. Between **January and April 2022**, exports grew by 5.0%. Among the major categories of goods, only precious stones and metals/jewelry saw a decrease in volume (-17.3%). Pharmaceutical products (+14.7%), watches and components (+3.0%), machines (non-elec.) (+2.2%), optical/medical instruments (+16.9%) and beauty products and detergents (+45.8%) all recorded increased trade volume.

Imports from South Korea grew by an impressive 107.5% in 2021 (2020: 15.0%), amounting to a total of CHF 2.06 billion. Pharmaceutical products represented more than half of all imports at CHF 1.13 billion, surging by 535.5% compared to the previous year. Other important categories of export goods recorded significant increases as well, such as vehicles and aircraft (+24.6%), machines (elec.) (+37.8%) and chemical base products (+109.6%). Imports of precious stones and metals/jewelry (-44.8%) and machines (non-elec.) (-12.5%) decreased in volume. Between **January and April 2022**, imports from Korea grew by 27.5%. Imports of chemical base products (+388.0%) and precious stones and metals/jewelry (+302.0%) grew the most in that period.

Notably, the trade statistics do not include the import of Korean cars and electronics from third countries (e.g. Eastern Europe and Vietnam), nor the significant deliveries of ships to Swiss shipping companies.

In terms of trade volume, **Switzerland is of limited significance for the Korean economy**. In 2021, according to Korean statistics, Switzerland ranked 31st among importers of Korean goods (2020: 30th) and 54th among exporters to Korea (2020: 53rd).

It is important to note that the Korean trade numbers significantly deviate from the Swiss numbers. This is the case especially concerning Korean exports to Switzerland, where Switzerland indicates a much larger trade volume than Korea (more than double, see Annexes 4 and 5). This significant difference may lead to a mismatch in perception regarding the importance of Switzerland as an export destination for Korean goods.

4.2.2 Trade in services

Figures on bilateral trade in services were not available.

Swiss banks are present in Korea mainly in the securities and asset management sectors. Of the insurance companies, only Swiss Re currently has a local presence. The retail business does not seem to be particularly lucrative and some foreign providers have withdrawn. As a major commodity importing country, Korea seems to be of some importance to Swiss commodity traders, although the available information is limited.

5 DIRECT INVESTMENTS

5.1 Developments and general outlook

Although Korea was among the first to contain the covid-19 pandemic and the Korean economy proved itself to be robust, a sharp decline in cross-border M&A's caused a drop in FDI. In 2020, M&A's fell from US\$ 3.8 billion in 2019 to US\$ 1.9 billion, driven by large disinvestments. Despite the overall decline, FDI inflows continued to be robust in some sectors, particularly in sectors related to artificial intelligence (AI), big data, cloud computing, as well as electric cars and biotechnology. Inflows of FDI pledged to these industries grew by 9.3% to US\$ 8.4

billion. According to data from OECD, Japan, the US, the Netherlands and the UK hold most of FDI stock. Investments have been mainly oriented towards manufacturing, finance and insurance, trade, hospitality, real estate, information and communication, and transportation.⁴⁰

South Korea's appeal in terms of foreign direct investment is the result of the country's rapid economic development and the country's specialization in new information and communication technologies. The World Bank esteems that the Republic of Korea is a country with a highly developed business environment as testified by its 5th position in ranking of the last 2020 Doing Business report.⁴¹

5.2 Bilateral investment

Korea is a key player in FDI worldwide due to the global reach of its conglomerates. According to UNCTAD, Korea has been in the top 10 home countries of FDI outflow in 2020, with an outward stock of 30.7% of the GDP and a value of US\$ 32 billion. Most of the investment is going to the region and US. In the past few years, Korean conglomerates have invested more in Europe, mainly to seek bilateral R&D cooperation.⁴²

South Korea has been chosen as a focus market by the Steering Committee *Landesmarketing* in 2018 for the Investment Promotion Mandate 2020-2023. The basis for this decision is the goal to strengthen national promotion activities in far markets. The potential of South Korea as a fast growing and dynamic market has been recognized by the Swiss cantons, whose interests are represented in the Korean market through Investment Promotion entities.

Many Korean companies are generally interested in innovative R&D collaborations with Swiss companies or institutions. While "Open Innovation" is receiving a lot of attention in large Korean corporations, SMEs and start-ups are also showing great interest in working with progressive countries such as Switzerland. Switzerland Global Enterprise is pushing the five technologies robots/drones, AI, blockchain, advanced manufacturing and personalized healthcare.

Major conglomerates such as Samsung, Hyundai and SK Group have merged or invested in several Swiss university spin-offs over the past few years, pursuing R&D cooperation with Swiss universities. Hanwha and Doosan Group have continued to expand in Europe in recent years, opening production facilities in Germany, and knocking on the door of Switzerland for joint research and development in Switzerland Innovation Parks. In 2022, Korean startups received the highest Series A funding ever⁴³; it is expected that they will expand their opportunities, including setting up R&D labs in Switzerland with a particular focus on AI and blockchain.

6 ECONOMIC AND TOURISM PROMOTION

6.1 Swiss foreign economic promotion instruments

Switzerland Tourism Korea was established 2005 to promote Switzerland as a tourist destination to attract Korean tourists. The emphasis is placed on providing Switzerland with a strong, classically modern brand profile on the international markets. Its main Swiss partners are Jungfrau region, Lake Luzern region, Matterhorn region, RhB, Schilthorn, Zermatt and Zurich. It consists of three full-time staff, including a market manager, sales manager, media manager, and one part-time personnel in accounting.

The **Swiss Business Hub** South Korea is the Seoul-based representative of the official international trade and investment promotion agency Switzerland Global Enterprise (S-GE). Part of the Embassy of Switzerland in Seoul, it is responsible for implementing Swiss export

⁴⁰ Santander, [South Korea: Foreign Investment](#) (June 2022)

⁴¹ World Bank Group, [Doing Business 2020](#) (2020)

⁴² UNCTAD, [World Investment Report 2021](#) (2021)

⁴³ The Korea Economic Daily, [South Korean startups raise record-high Series A funding](#) (2022.06.08)

strategies in South Korea. The Swiss Business Hub South Korea is the key contact point for Swiss and Liechtenstein small and medium-sized enterprises (SMEs) looking for export opportunities in South Korea. The Hub's services include: market information; certification support; detailed market and product analysis; search for distributors, local representatives and partners and support for the establishment of communication channels; B2B / B2C sales pipeline development; individual consulting and coaching of SMEs; site location evaluation; organization of events and fact-finding missions for Swiss companies, associations and official delegations. The Hub also provides free advice to Korean companies and organizations looking to set up a subsidiary or establish partnerships in Switzerland and promotes R&D collaboration in Switzerland Innovation Parks.

The Science & Technology Office – an entity of the Embassy of Switzerland in Seoul - is an integral part of the Swiss Knowledge Network, which is a key component of Swiss foreign policy to promote science, technology, innovation and higher education. The S&T office in Seoul is the knowledge hub that connects Swiss and Korean universities, research institutes, start-ups and R&D focused companies. It builds networks and creates partnership for joint collaborative efforts between Swiss and Korean scientists, students, and researchers.

The **Swiss-Korea Business Council (SKBC)** was established in 1993 with the objective to encourage the development of business relations between Switzerland and Korea. It promotes the interests and activities of companies and individuals with connections between the two countries. The SKBC provides tailored consulting and services and provides assistance in establishing networks between potential business partners upon the request of member companies. It also identifies potential business partners in the two countries and work to establish business partnerships.

The **European Chamber of Commerce in Korea (ECCK)** represents the interests of companies from the EU and EFTA member states operating in Korea. The ECCK's primary objective is to provide its members with information, communication, and access pertaining to the business and regulatory environment of Korea.

6.2 The host country's interest in Switzerland

South Korea is highly interested in Switzerland's advanced science technologies and is seeking to establish science and R&D exchanges, especially in the areas of Life Science and AI. As Switzerland is one of the most innovative countries in the world, its scientific institutions and universities enjoy a good reputation in Korea. Regular exchanges take place on all levels, from startups and businesses to universities and government.

As Switzerland has always been one of the top destinations for Korean travelers particularly for summer holidays, there will be a soar of Korean tourists during this summer in the post-Covid era, especially with the South Korean government lifting mandatory quarantine measures for all travelers regardless of vaccination status. In 2019, there were 290,464 South Korean arrivals to Switzerland but the numbers drastically declined to 2,502 arrivals in 2022 due to the pandemic.

ANNEX 1 – Economic structure

Economic structure of the host country

	2016	2021
Distribution of GDP		
Primary sector	2%	2%
Manufacturing sector	37.5%	35.5%
Services	60.5%	62.5%
- of which public services ⁴⁴	10.5%	11.4%

Distribution of employment⁴⁵		
Primary sector	0.2%	0.2%
Manufacturing sector	26.4%	25.6%
Services	73.4%	74.2%
- of which public services	3.3%	3.4%

Source: Economic Statistics System of Bank of Korea (ecos.bok.or.kr)

**Remark: Bank of Korea does not provide GDP/employment composition of three sectors, thus the calculation was made by the Embassy.*

⁴⁴ Figure includes public administration, defence and social security services

⁴⁵ The most recent data available for employment figures is that of 2019. Thus the figures provided here are that of 2019 and 2014, five year prior to 2019.

ANNEX 2 – Main economic data

Host country's main economic data

	2020	2021	2022
GDP (US\$ bn, current)*	1'638.26	1'798.54	1'804.68
GDP per capita (US\$, current)*	31'638.46	34'801.09	34'994.20
Growth rate (% of GDP, constant)*	-0.85	4.02	2.54
Inflation rate (%)*	0.54	2.50	3.96
Unemployment rate (%)*	3.94	3.68	3.64
Fiscal balance (% of GDP)*	n/a	n/a	n/a
Current account balance (% of GDP)*	4.63	4.91	2.18
Total external debt (% of GDP)**	33.3	35.1	38.0
Debt-service ratio (% of exports)**	n/a	n/a	n/a
Gross international reserves (US\$ bn)**	438.3	458.3	482.3

* Source: IMF, World Economic Outlook (April 2022)

- <https://www.imf.org/en/Publications/WEO/weo-database/2022/April>

** Source: IMF, Article IV Consultation (March 2022)

- <https://www.imf.org/en/Publications/CR/Issues/2022/03/24/Republic-of-Korea-2022-Article-IV-Consultation-Press-Release-Staff-Report-Staff-Statement-515711>

Note: Numbers with a grey background are estimates or projections.

ANNEX 3 – Trade partners

Trade partners of South Korea Year: 2021

Rank	Country	Exports from the host country (US\$ million)	Share	Change ⁴⁶	Rank	Country	Imports to the host country (US\$ million)	Share	Change
1	China	162'913	25.3%	22.9%	1	China	138'628	22.5%	27.3%
2	USA	95'902	14.9%	29.4%	2	USA	73'213	11.9%	27.3%
3	Viet Nam	56'729	8.8%	16.9%	3	Japan	54'642	8.9%	18.7%
4	Hong Kong	37'467	5.8%	22.2%	4	Australia	32'918	5.4%	76.0%
5	Japan	30'062	4.7%	19.8%	5	Saudi Arabia	24'271	3.9%	51.9%
6	Taiwan	24'285	3.8%	47.5%	6	Viet Nam	23'966	3.9%	16.5%
7	India	15'603	2.4%	30.7%	7	Taiwan	23'486	3.8%	31.7%
8	Singapore	14'149	2.2%	44.0%	8	Germany	21'996	3.6%	6.4%
9	Mexico	11'290	1.8%	37.0%	9	Russia	17'357	2.8%	63.3%
10	Germany	11'110	1.7%	16.0%	10	Qatar	11'611	1.9%	53.5%
54	Switzerland	855	0.1%	19.4%	31	Switzerland	3'360	0.5%	22.2%
	EU	63'614	9.9%	32.9%		EU	65'930	10.7%	18.8%
	Total	644'400	100%	25.7%		Total	615'093	100%	31.5%

Source: Korea Customs Service (https://unipass.customs.go.kr/ets/index_eng.do), as of June 2022

⁴⁶ Change from the previous year in %

ANNEX 4 – Bilateral trade

Bilateral trade between Switzerland and the host country

	Export (CHF million)	Change (%)	Import (CHF million)	Change (%)	Balance (in million)	Volume (in million)
2017	3'258.1	12.3	735.1	-11.6	2'523.0	3'993.1
2018	3'516.5	7.9	789.2	7.4	2'727.3	4'305.8
2019	3'662.6	4.2	863.6	9.4	2'799.0	4'526.2
2020	2'935.5	-19.8	991.7	14.8	1'943.8	3'927.3
2021	3'331.5	13.5	2'058.3	107.5	1'273.3	5'389.8
(Total 1)*	(3'208.4)	(12.2)	(1'926.5)	(130.0)	(1'282.0)	(5'134.9)
2022**	1'449.5	8.7	811.5	35.5	638.0	2261.0

Exports	2021 (% of total)	2022** (% of total)
1. Pharmaceutical Products	22.8	23.9
2. Watches, components:	22.5	22.0
3. Precious stones and metals; jewels	12.2	11.1
4. Machines (non-elec.)	10.6	11.1

Imports	2021 (% of total)	2022** (% of total)
1. Pharmaceutical products	54.7	39.4
2. Vehicles, aircraft, etc.	10.3	9.7
3. Machines (elec.)	6.6	6.6
4. Chemical base products	4.6	6.8

*) 'Economic' total (total 1): not including gold bars and other precious metals, currencies, precious stones and gems, works of art and antiques

**) Data includes trade between January and May 2022, change in % compares to the same period in the previous year.

Source: Federal Office for Customs and Border Security, Foreign Trade Statistics. TN103: Swiss Foreign Trade by Countries and Chapters

ANNEX 5 – Main investing countries

Main investing countries in the host country Year: 2021

Rank	Country	Direct investment (US\$ Million) ⁴⁷	Share	Variation ⁴⁸	Inflows over past year (US\$) ⁴⁹
1	USA	5,256	17.8%	-7.7%	N/A
2	Malta	4,888	16.6%	+6.9%	N/A
3	Singapore	4,193	14.2%	+3.2%	N/A
4	Germany	2,836	9.6%	+7.1%	N/A
5	China	1,888	6.4%	-3.2%	N/A
6	Ireland	1,801	6.1%	+6.1%	N/A
7	Japan	1,211	4.1%	+0.3%	N/A
8	The Netherlands	974	3.3%	+0.5%	N/A
9	UK	815	2.8%	-0.7%	N/A
10	Hong Kong	636	2.2%	-3.2%	N/A
...	EU	12,796	43.4%	+20.4%	N/A
...	<i>Switzerland</i>	100	0.3%	-0.08%	N/A
	Total	29,514	100%	+42.3%	

Source: Ministry of Trade, Industry and Energy

⁴⁷ Stock figures of FDI unavailable; Figures from countries associated with international tax evasion excluded

⁴⁸ As above

⁴⁹ Figures unavailable