



THOMAS WHITE - GLOBAL INVESTING
CAPTURING VALUE WORLDWIDESM



Country Profile: South Korea

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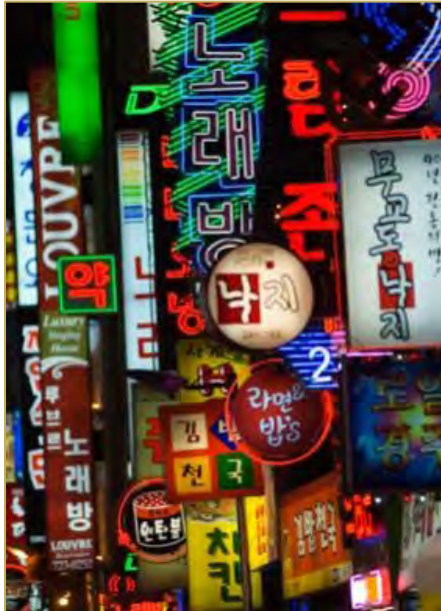
It has never been more important for you to understand what is occurring in the world beyond your country's borders. Whether you realize it or not, we are now all fellow citizens...Global Citizens.

The Thomas White organization was founded in 1992 with the goal of bringing the benefits of globalization to investors around the world. We believed that once investors understood that globalization was a positive force, they would also see the advantages of adding international equities to their portfolios. It only makes common sense that professional investors would begin searching the globe for the most attractive opportunities. Researching a wider universe of companies should improve long-term performance. Moreover, broad diversification typically lowers return volatility. Multinational corporations have been using this global strategy for years; why shouldn't investors do the same?

Now 15 years later, our firm growth and strong subsequent portfolio performance has confirmed our investment premise. Currently, Thomas White professionals are performing research and managing over one billion dollars in close to 50 countries. We believe one reason for our success is that the nationalities of these analysts are as globally diverse as our portfolios.

A handwritten signature in dark ink, reading "James S. White, Jr." in a cursive script.

South Korea: The Comeback Kid of Asia



Fast, furious and pulsating with life, Seoul, the country's capital, is home to over ten million people.

One of the most dynamic countries in the world, South Korea has emerged from a chaotic history, and has rightfully ascended the ladder to become a world power. Bordering North Korea in the south and separated from China and Japan by the Sea of Japan, Yellow Sea and Korea Strait, South Korea is an active participant in what is one of Asia's most historically volatile areas.

Clothed in green, verdant mountains dot its landscape, and the country has shown remarkable resilience by shuttering its stricken past to become one of Asia's most stable democracies. Its citizens enjoy one of the highest levels of political freedom and social rights – a stark contrast to the rigid and totalitarian regime of its neighbor North Korea. South Korea's transition from poverty to riches is one of modern civilization's most inspirational stories. Symbolic of the country's growth is its national flower – the mugunghwa or the rose of Sharon. The rose of Sharon is unique as it is one of the most tenacious of flowers, able to withstand the

vagaries of nature. In Korean, mugung means immortality – and the rose of Sharon is a vibrant motif for a flowering nation, reflecting well the determination, perseverance and endurance of its people.

Foreign rule divides nation

Koreans trace their roots a long way, with human habitation of the Korean peninsula dating back 500,000 years. Long centuries of dynastic rule by various kings were followed by Japanese colonization in 1910. Japan's surrender in World War II liberated a country that had been chafing under its occupation for many decades.

Post occupation: Liberation in 1945 however, did not mean freedom from the influence of foreign forces. Cold War rivals, the U.S, and the Soviet Union, divided the peninsula at the 38th parallel, with the U.S.-backed South and the Soviet Union-controlled North. It was a division that continues to have more repercussions than the hated Japanese occupation. North Korea's

President Kim Il Sung launched an attack on South Korea in 1950, which culminated in a bitter war. South Korea was all but lost under the invading communist forces, until UN intervention ended North Korean hopes in 1953. Strangely, the peace treaty was never ratified by South Korea, and the two countries remain, technically, at war.

Post-war South Korea underwent several decades of political hardship under autocratic rulers. The most notorious of these was Major General Park Chung Hee whose repressive rule ironically coincided with the country's spiraling economic growth. Increasing protests from the populace forced the military regime to hold democratic elections in 1987, resulting in a period of relatively stable governance in the 1990s. Lee Myung-bak assumed office in 2008, replacing Roh Moo-hyun.

Administrative setup: South Korea functions as a republic with powers shared between the president, the legislature and the courts. Governing the republic's structure is the Constitution of Korea, which was first drafted in 1948.

Supreme power rests with the President who is elected for a five-year term by direct popular vote. Administratively, the country is divided into nine provinces and seven metropolitan cities. Current President Lee Myung-bak, who won the December 2007 elections, is the leader of the conservative Grand National Party.

China influences cultural heritage

With a population that is one of the most homogenous in the world, South Koreans share a common cultural and linguistic heritage. Korea has been strongly influenced by Chinese culture, and elements of Buddhism and Confucianism find their artistic expression in traditional Korean art forms in sculpture, painting and ceramics.

South Korea and the World	
Nominal GDP (\$)	832 billion
GDP Rank	15/192
Per Capita GNI	\$19,830
Per Capita GNI Rank	54/213
Population Rank	26/227
Geographical Area Rank	108/249
Global Competitiveness Rank	19/133
Economic Freedom Index Rank	31/179
Human Development Index Rank	26/182
Major Industries	Steel, Automotive, Electronics

Family remains an important unit of an individual's life and Korean cuisine is slowly gaining global recognition with the now ubiquitous *kimchi*, a familiar favorite of the western palate. Korean festivals such as *Chuseok* and New Year's Day are an occasion to feast, and people dress in traditional attire called the *hanbok*.



The traditional Hanbok attire worn in South Korea today is patterned after the Confucian-oriented Joseon Dynasty.

Explosive economic growth and dramatic fall

South Korea's economic transformation from poverty to one of Asia's biggest economies remains one of the enduring stories of the 20th century, dubbed the 'Miracle on the Hangeang River.' An isolated nation of farmers now leads the world in Internet access, is a global innovator in consumer electronics, and is now home to some of the biggest automotive, electronic, and shipbuilding companies. Per capita GNP, only \$100 in 1963, exceeded \$16,000 in 2005. How was this accomplished?

Economic history: Wrecked in spirit, and wounded economically by the Japanese occupation, World War II, and the Korean War of the 1950s, South Korea literally rose from the ashes. Subsisting initially on aid from the U.S, the South Korean government substantially encouraged manufacturing, leading to phenomenal export-driven growth.

Although political strife was rampant during South Korea's formative post-war years, the country embarked on an economic revival program through a series of five-year plans, which promoted industrialization. The government directly intervened in the economy by offering strong incentives to businesses, regulating foreign exchange, and implementing highly centralized fiscal policies. The result was impressive – South Korea's gross domestic product (GDP) expanded by more than 9% yearly between the mid-1960s and the mid-1990s.

Initially an exporter of mainly shoes and textiles, South Korea began to be a major producer of automobiles, fabrics, telecommunication and sound equipment, metal goods, electronics, chemicals and steel.

Major export destinations: China, the U.S., Japan, Hong Kong and Taiwan

The country imports industrial machinery, petroleum and its derivatives, and transportation equipment, among others, from chief trading partners such as the U.S., Hong Kong, Japan, Singapore and Germany.

Industry contributes nearly 35% of GDP and employs 27% of the labor force. With this primarily-industry driven economy, agriculture accounts for just 8% to 12% of the labor force, while services account for around 65%. South Korea is also one of the world's leading fishing countries with a fleet of more than 650 boats, apart from being one of the world's largest shipbuilders with several Korean companies dominating the global market.



South Korean chipmakers represent about 11% of the global semiconductor market.

Traditionally not rich in energy resources, South Korea has been trying to reduce its dependence on imported oil. Investing heavily on building alternative energy sources, nuclear plants now meet around 40% of the country's electricity requirements, with this figure expected to reach 60% in the next three decades.

Growth burgeons in 1990s

By the 1990s, economists were referring to this OECD-member as one of the four Asian tigers, along with Hong Kong, Singapore, and Taiwan, known for their rapid growth and increasingly high standard of living. The fall, however, was just around the corner – the Asian economic crisis of 1997 hit South Korea hard.

Economic fall: Crucially, the crisis helped to identify certain structural weaknesses in the economy. Foreign reserves were insufficient, foreign borrowing was extensive (by the end of 1996, 58% of external debt was short-term), and corporate debt/equity ratios were extremely high. Many of the country's biggest conglomerates, known as *chaebol*, went bankrupt. Encouraged by both government and banks, the chaebol had borrowed heavily to help finance high-risk foreign investments. Korea's foreign reserves were severely depleted, and to prevent a total collapse of the economy, the government obtained one of the biggest emergency loans from the International Monetary Fund (IMF) in 1997.

An extensive restructuring of the corporate and banking sector took place after the crisis. By mid-2001, the government had re-paid all the emergency IMF loans. President Kim Dae-jung's reforms helped the country maintain growth rates of 10% in 1999 and 9% in 2000. Despite a global slowdown, which contributed to a plunge of 3.3% in 2001, economic performance improved to 4.6% in 2004, increasing to 5% in 2006.

South Korea is now the seventh-largest trading partner of the U.S. and is the 11th-largest economy in the world. In the 2010 Index of Economic Freedom, the country's freedom score is

69.9, making its economy the 31st freest in the Index. The survey praised South Korea's selling points: the 'relative openness to global trade and investment' and a regulatory environment that has moved towards greater efficiency and transparency.

South Korea Firsts:

- 🌐 Most innovative country in the world, according to the Global Innovation Index
- 🌐 Ranked first in the Digital Opportunity Index
- 🌐 Most wired economy in the world

Global crisis and its aftermath

The global economic recession that began in 2007 with the collapse of Lehmann Brothers struck down South Korea's burgeoning economy. Its key automotive industry suffered as customers in the U.S. and Europe cut back on buying and spending.

Stimulus packages: The government's response was immediate. It announced a massive \$120 billion bailout package in November 2008 and followed with another \$11 billion infusion in the form of tax cuts and other stimulus. In January 2009, South Korea launched its \$38 billion economic stimulus package, with over 80% of the total earmarked for green investment. Spurred by the United Nations Environment Program (UNEP), which had urged governments to increase spending in the green sector, the initiative was further expanded into a 'Green Growth Plan' or 'Green New Deal,' worth \$83.6 billion and spanning five years. This, together with another \$21.6 supplementary budget announced in March 2009, enabled the South Korean economy to narrowly avoid recession in the last quarter of 2008 when it grew just 0.1%. That said, South Korea's economy grew 2.2% in 2008, easily its worst performance since the Asian financial crisis when the country contracted 6.95% for the year in 1998.



Since then, the economy has stuttered through



Seoul is the world's third most expensive city, with a pound of beef costing ten times more than in China.

the global recession, but has shown significant resilience in the wake of heavy government spending, a rise in domestic consumption, and a revival in the country's key export sector. In 2009, the economy expanded 0.2%, (*Source ADB*) which considering the kind of carnage witnessed in global economic markets, was a much better performance than expected. Private investment remained flat in 2009, but exports benefited from the continuing demand from emerging economies in Asia, especially China. Lower interest rates and tax cuts aided the recovery. The Bank of Korea has maintained its benchmark interest rate at a low of 2% for much of 2009 as well this year. The bank has thus far maintained that inflation remains well within its comfort range, and with South Korean President Lee Myung Bak also focusing on growth and curbing unemployment, it appears that there will be no immediate rate hike, at least at the time of writing this report.

Forecasts:

-  The Asian Development Bank, in its latest outlook in April 2010, expects the South Korean economy to grow at 5.2% this year.
-  The South Korean central bank expects GDP growth of 5.2%, the fastest in four years.

Future bright with a few hurdles

Apart from the concerns over economic recovery post recession, South Korea also faces certain other endemic challenges that may hamper its growth. A rapidly aging population (it is estimated that by 2030, more than 20% of the population will be 65 or older) and increasingly difficult labor regulations are causing economic headaches. Strikes are common at major automakers, often halting production for weeks at a time. The fertility rate remains low at 1.6 children for every woman and overall life expectancy is 77.23 years.

Although South Korea integrated itself into the world economy after the 1997 Asian market crash, certain structural concerns remain. For one, there is a lack of regulatory transparency, which has led to the downfall of many a chaebol. Also disquieting is an appreciating won, especially given that the South Korean currency is forecast to rise 15% in 2010.

North Korea: Relations with nuclear-powered North Korea have always been fractious, although former president Roh's 'Sunshine Policy,' which encourages greater cooperation, had stemmed the flow of ill feeling between the two nations. However, the sinking of a South Korean

battleship, Cheonan, allegedly by North Korea, recently heightened tension between the neighbors. The sinking claimed the lives of 46 South Korea sailors and the matter was referred to the United Nations Security Council. Lee Myung-bak is known to take a hard-line stance when it comes to relations with tempestuous North Korea although concerns about the nuclear-armed country have always tempered any fractiousness.

North Korea remains however, a volatile neighbor, and South Korea's economic future depends to a large extent on the actions and antics of that reclusive country.

Yet, there are reasons to be optimistic about the country's future prospects. A recent Goldman Sachs report predicted that South Korea has the potential to become the world's third richest



Towering a mammoth 748 feet tall, the World Trade Center in Seoul stands as a colossal symbol of South Korea's rising economic status.

country by 2025, and 25 years later eventually reach second position behind the U.S. The government continues to remain committed to reform and may continue to implement financial and corporate restructuring while advocating flexible macroeconomic policies conducive to growth. GDP per capita has been steadily rising – and is now \$25,000.

South Korea's meteoric rise is akin to the restoration of the Cheonggyecheon River, once totally covered by a vast motorway in 1968. Thirty-seven years later, the huge masses of concrete were demolished; tons of water poured in, and a river and park were magically restored to life. In a way, that transformation symbolizes South Korea's growth. From autocracy to democracy, from war to peace, and from poverty to riches, this nation has seen it all. South Korea has well and truly arrived on the world stage. No matter the hurdles it may face, it's a stage that the country is set to occupy for years to come. 🌍

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