

THE ECONOMIC DEVELOPMENT OF SOUTH KOREA: INSIGHTS FOR ROMANIA

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Abstract

This paper investigates the evolution of South Korea's economic development in recent decades. Export performance is analyzed along with the industrial model, by means of statistical data, economic indicators, country reports, and views from the literature. The findings of the research indicate a spectacular transformation of South Korea's economic structure, due to an intricate system combining macroeconomic policies, outstanding importance awarded to education, investment by private companies, especially chaebols, and a sound outward-looking orientation. Exports are found to be the main determinant of South Korea's economic rise in the first stages, followed by foreign direct investment outflows in the latter. This pattern of economic progress serves as an excellent model for countries such as Romania, striving to grow and to boost its competitiveness. From the bilateral cooperation until now, there are positive signs that Romania could capitalize on its trade and investment partnership with South Korea in key sectors.

Keywords: South Korea, economic development, exports, foreign direct investment, Romania

Classification JEL: F10, F20, F43

1. Introduction and context of the study

There are only few examples of countries in history to provide such a dazzling economic development as South Korea. Given this premise, the present research tries to investigate the reasons and facts behind the economic miracle witnessed by this country. We believe that the findings of this research can serve as a valuable lesson to other developing or emerging nations which struggle to find an efficient path to move forward in economic terms for the development and modernization of their own country.

A growing number of views in the literature sustain South Korea's spectacular economic turnaround. Eichengreen et al. (2012) call it a remarkable success story, in transforming the country from a poor status (after the Korean War) into an advanced economy [1]. After switching from an agricultural economy to an industrial one, and modernizing continuously its society by embracing new technologies, it is now recognized as a leader in IT infrastructure, e-government, and mobile business [2], and finally a knowledge-based economy [3]. South Korea currently exports an even larger portion of technology-intensive items, as a share of industrial exports, compared to the United States and Germany [4].

2. Analysis of South Korean Economic Development

Combining thorough desktop research, statistical data, sector-specific information, expert opinions in the literature and descriptive economic analysis, this section tries to shed some light on the mechanisms through which South Korea managed to transform its economy over the decades and achieve outstanding economic results. The implications of this process and future perspectives are discussed in the final section.

South Korea has undergone an impressive evolution, becoming a model for developing countries. It is one of the few countries that has succeeded in making the transition from a low-

income, resource-poor nation to a high-income economy in just three decades, achieving this result by implementing an export-based industrial strategy. Along with the other four “Asian Tigers” – Singapore, Hong Kong and Taiwan – South Korea went through fast industrialization starting in 1960 and kept a steady rate of economic growth up to 1996.

Investments only picked up after the tragic Korean War, when the country’s president, Park Chung-Hee, opened the economy to international trade, encouraged saving, and subsidized chaebols such as Samsung, the planet’s largest producer of semiconductors [5] and Hyundai, which went on to become famous internationally.

Much of South Korea’s export performance is connected to industrial conglomerates, called chaebols. Chaebols are a group of large corporations with a significant role for the economic structure of the nation. These stronghold companies were important drivers in transforming what was once a modest agricultural stance into one of the most comprehensive economies in the world. South Korea’s highest portion of investments, including research and development are largely driven by chaebols. These private industrial businesses are made up of multiple subsidiaries and are owned and managed on a family basis, usually that of the company’s initiator.

There are approximately two dozen chaebols active in the South Korean economy and Samsung, SK Hynix, Hyundai, and LG Electronics are among the largest and dominant. These four companies alone generate almost half of the country’s exports [6] and chaebols are the main reason why South Korea has been and continues to be an export-oriented country.

The economic rise of South Korea has unfolded over approximately 60 years. In 1960, South Korea was a poor country in terms of GDP per capita, with few natural resources, an economy devastated by war and only basic infrastructure in place. The miracle of economic development turned South Korea after six decades into one of the top fifteen economies in the world measured by GDP (see Figure 1).

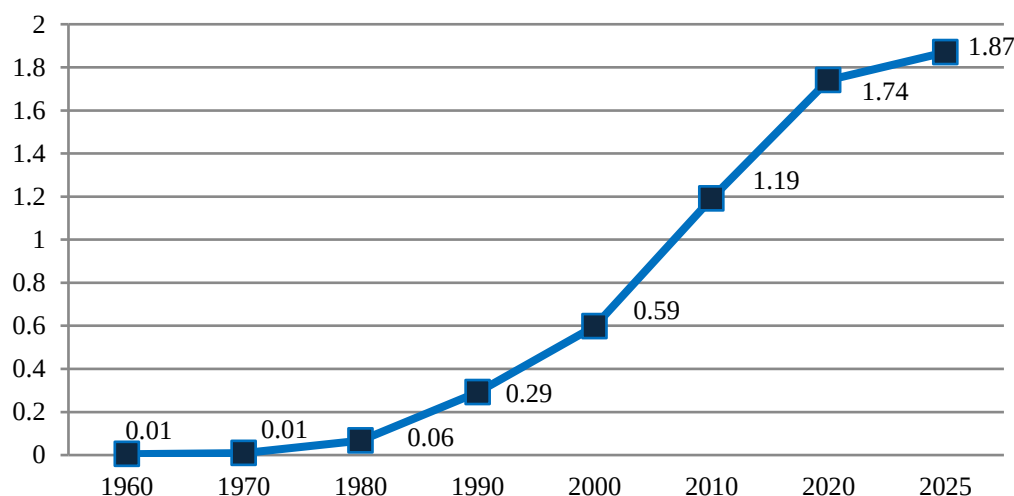


Figure 1. The evolution of South Korean GDP, 1960-2025 (trillion USD)

Source: World Bank Open Data, 2026 [7]

Starting from light industry sectors such as textiles, the South Korean government began to invest and apply macroeconomic policies in an aggressive attempt of industrialization and export-led development [8]. The outward-looking strategy was adequate at that time considering the small South Korean domestic market. It encouraged new sectors such as steel, machinery, chemicals, shipbuilding, and later electronics to create an impetus for economic development and improve the country’s competitiveness. Steel was one of the first, stimulated despite doubts and criticism regarding the efficiency of such an undertaking. Imitating the model of its rival, Japan, the success of this industry has led the path for other connected sectors. Japan supported South Korea’s chemical

industry development due to common national security concerns, heavy chemistry being closely intertwined with the defense sector [9].

At the same time, this approach highlighted that underdevelopment cannot be overcome solely by external support and that sound way to success is to be found in grounded solutions capable of transforming the core of the economy.

One significant area in which South Korea enacted an intelligent and persistent policy was education. The priority that South Korea has given to education from the very beginning and until the present day, has been essential to its progress. South Korea prides itself on its education system and its disciplined work ethic, viewing these as two major drivers behind its technological boom. The country invests approximately 5% of its GDP in education, a share that is higher than the average for advanced economies. This has allowed it to transform a modest, war-torn country into an advanced one over the span of six decades. The implementation of novel technologies into several industrial and economic sectors has sped up this process. Even today, South Korea is renowned worldwide thanks to its successful companies. Now, South Korea boasts one of the most educated and highly skilled workforces in the world and an enviable IT infrastructure.

South Korea joined the Organization of Economic Cooperation and Development (OECD) in 1996, which is synonymous to being recognized as a developed country. Even after the full negative impact of the 1997 financial crisis, with falling wages, rising unemployment and widening social inequalities, South Korea maintained relatively high growth, partly helped by the rapid increase of its exports to China.

South Korea is currently the world's eighth largest merchandise exporter, with a total annual amount of 709 billion USD [10]. The largest export merchandise categories consist of electrical machinery and equipment (especially semiconductors, smartphones, displays), cars and automotive parts, industrial machinery and computers, oil, plastic, and ships [6].

The automotive industry is a powerful engine for economic growth in South Korea. Although it has faced numerous ups and downs in its evolution, in recent times it has enjoyed a substantial increase. The reason why South Korea succeeded in the global market was its approach based on profound market research. To indicate a paramount example, in just a decade, South Korea secured a significant share in the world market and is currently one of the top three global leaders in the semiconductor industry, alongside Taiwan and Japan [11].

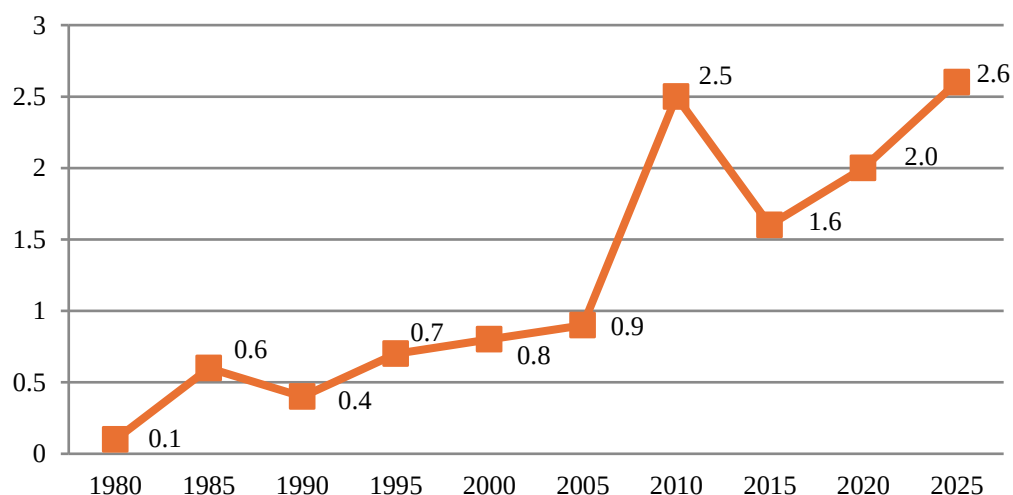


Figure 2. The evolution of South Korean FDI outflows, 1980-2025 (% of GDP)
Source: World Bank Open Data, 2026 [7]

Exports, which account for approximately 44% of GDP [7], have been the determinant of economic growth, and will be a continuous backbone for the economy, especially since South Korean high technology products are sought after. It is estimated that global demand for electronics and

semiconductors will remain at high levels. This ongoing growth in exports will, in turn, stimulate an increase in investments.

Foreign direct investment (FDI) outflows are important and useful for developing new markets and capitalizing on the international division of labor, responding flexibly to demand and production. According to FDI statistics [12], South Korea has recorded an upward trend in terms of FDI outflows (see Figure 2) during more than three decades.

In terms of FDI inflows to the country, the dominant part was undertaken as greenfield investment and more than half of all inward FDI took place in services, such as finance, retail, communications, and research [13], which is a powerful signal of a dynamic business environment, oriented towards the future.

The legal requirements for carrying out inward FDI in South Korea were updated and improved during the period 2017–2022. Public policies were designed both for the benefit of domestic businesses and foreign ones. For foreign affiliates, the government offers financial incentives for land acquisition, rental fees, construction costs, and subsidies for employment, as well as fiscal incentives for infrastructure, where 50% of construction costs are covered by the state. The government also offers support for setting up facilities in education and research. The authorities provide significant tax reductions, according to local regulations, and land can be leased for a period of maximum 50 years.

At the same time, Korean Free Economic Zones (KFEZs) offer various financial incentives such as cash grants, infrastructure and rent support, customs duty exemptions, reduced property taxes, both for domestic and foreign-owned companies, based on well-structured regulations. Of the total FDI carried out in KFEZs, almost 40% comes from the European Union [14]. Such incentives are meant to sustain inward FDI in South Korea, to reap benefits in the long term.

3. Bilateral Ties between Romania and South Korea

The first diplomatic ties between Romania and South Korea were established in 1990. In 2008, in Seoul, the Bilateral Strategic Partnership was signed between the two countries. The document sets out the framework for cooperation in the fields of politics and security, encompassing energy, trade and investment, as well as culture and education. As for bilateral economic relations, there has been a steady increase in the volume of trade starting 2015, when the EU’s free trade agreement with South Korea became fully operational, reaching around 1 billion USD annually, with a deficit on the Romanian side [15]. However, the estimated untapped potential remains high. Romania is therefore focusing its efforts on capitalizing on its strong points and on balancing the trade flow by promoting Romanian products and investment opportunities in South Korea. Some of Romania’s most exported products to South Korea fall in the categories of machinery and electronics, followed by cereals (see Figure 3).

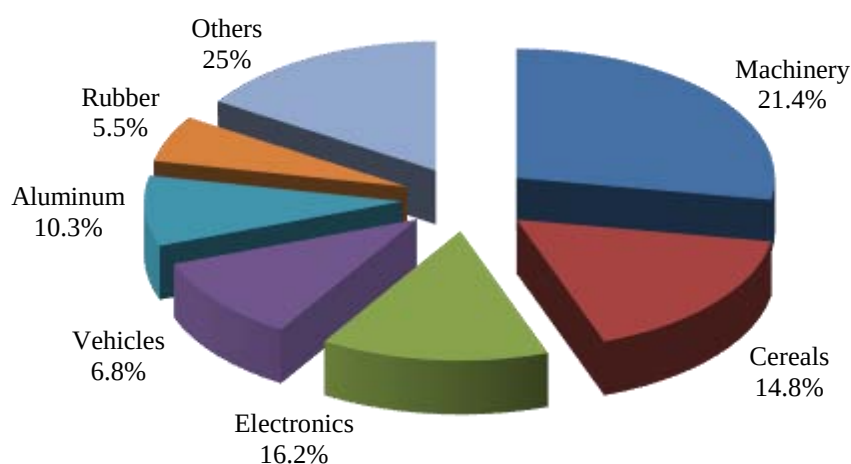


Figure 3. Composition of Romanian exports to South Korea, 2025 (million USD)

Source: Trading Economics, 2026 [16]

Romania represents an attractive destination for investments by South Korean companies, mainly due to the country's geographic location and the partnerships facilitated by the European Union membership. According to the National Trade Register Office, 295 South Korean companies are operating on Romanian territory [17]. The most relevant examples of South Korean companies that have subsidiaries in Romania are Samsung Electronics Romania, Hyundai Auto Romania and KIA Romauto. These are branch offices of the famous South Korean chaebols, which entered the Romanian market between 1994 and 2007, each having fewer than 250 employees but consistent financial results. In addition to those mentioned above, other significant South Korean FDI in Romania include Dual Borgstena Trim Romania and Hyosung Romania which produce textiles destined for the automotive sector, Shinheung Electronics for electronic parts, Dynamic Design Europe RO which produces machinery for tires, and others.

As an EU member state, Romania benefits not only from free access to the EU market, but also from free trade with the European Free Trade Area and the Eastern Neighborhood. In addition, Romania has vast agricultural land, abundant natural resources including minerals, well-prepared human capital, and a dynamic investment climate. This makes it a favorable location for the development of South Korean investments. The strategic partnership with South Korea, as well as the free trade agreement in place provide a promising stimulus.

Energy, infrastructure and medical equipment are priority areas in which South Korean companies wish to invest in Romania. Besides the automotive and electronics sector, South Korean companies are interested in setting a strong foothold in Romania in several engineering-based industries [18].

4. Conclusions

The analysis undertaken in this paper reveals the importance of an intricate ecosystem combining sound economic policy on behalf of the government, the importance of enhancing education, strong private investment, and an outward-looking model destined to boost exports, which bore exceptional fruits in the case of South Korea's economic development. The authors consider that such a recipe for economic progress is of paramount importance nowadays, when many developing countries still seek the proper way to expand beyond their domestic market and boost economic competitiveness.

However, considering the recent geopolitical trends in the new world economic order, even the successful South Korean model needs adapting. As Lee (2024) suggests, the country should make the shift to an economic growth model led by domestic demand, for more stability [19]. Also, South Korea needs to find new growth engines in the context of the slowdown of some of its traditional industries [20]. One such direction is the growth of copyright exports. Another direction is its booming cultural services exports in the forms of K-Pop music, K-Pop movies and K-Pop culture in general, which became a worldwide phenomenon in recent years.

The way in which the Romanian policymakers and companies should leverage their human capital and financial resources to drive national change can be inspired by South Korea's model and its economic development. Major investments in education and infrastructure are necessary so that Romania can have a solid foundation on which to build a healthy economy. South Korea successfully invested in educating its people, which conferred it one of the most advanced and well-prepared workforce in the world.

At the same time, Romania should capitalize on the attractiveness of its domestic market and promote a more promising business environment for all enterprises, both domestic and foreign, to stimulate linkages between local companies and multinationals. Two of South Korea's successful stories are the energy and IT sectors. These are areas where Romania displays a growth potential. By means of South Korean investment, Romania could spur new jobs, enhanced know-how and competitiveness, improved business practices and a solid contribution to economic development.

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