

# Prospects

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## The point of view

### South Korea: does the election of Lee Jae-myung mark the end of the political crisis?

Following a campaign blitz that lasted just under a month, 44 million South Korean voters cast their ballots on 3 June to elect the successor to Yoon Suk-yeol who was removed from office in April after several months of political uncertainty. Democrat Lee Jae-myung, who was defeated by Yoon in 2022, secured a landslide victory obtaining 49.2% of the votes, compared to 41.5% for Conservative Kim Moon-soo.

This result is the beginning of a new chapter following a particularly intense political crisis, without however providing a solution to the deeper fragmentations that run through Korean society. Despite the weariness generated by months of turmoil and a campaign that had little focus on fundamental debates, voter turnout was high at 79.4%. The handover of power took place the day after the results were announced.

#### An unprecedented political and institutional crisis

First there was the declaration of martial law on 3 December<sup>1</sup>, which took everyone by surprise. Subsequent investigations showed that, far from being a moment of madness as initially thought, this decision was part of a more elaborate plan to give free rein to President Yoon, whose hands were somewhat tied by the turbulent coalition in place since the parliamentary elections in April 2024, which saw the Democratic Party increase its number of seats. Yoon also cited suspicions of electoral fraud and North Korean interference when justifying his decision.

Opposition MPs reacted immediately by demanding that the National Assembly lift the martial law. This was followed by several weeks of marked confusion, during which several proceedings were launched, both to remove President Yoon from office and to prosecute him on various charges (rebellion, abuse of power, obstruction) for which he theoretically risks the death penalty (still in force in South Korea, although no executions have been carried out since 1997)<sup>2</sup>.

Prime Minister and later acting President Han Duck-Soo, who was also suspended - for complicity - before being reinstated, ultimately resigned in April to launch a campaign for the presidency, but later withdrew from the race<sup>3</sup>. The Finance Minister Choi Sang-mok, who was appointed his successor in accordance with protocol when he was dismissed, and who should have taken over after his resignation, then also resigned, leaving the role of acting president to Education Minister Lee Ju-ho. Instability of a sort rarely seen.

#### Who is Lee Jae-myung, the new president?

The Democratic candidate was the favourite in the polls and successfully managed to maintain his lead. A human rights lawyer from a working-class background, he began his career working in factories while

<sup>1</sup> See "[Following his failed power grab, South Korean President Yoon escapes impeachment](#)", published December 2024

<sup>2</sup> See "[K-Drama in Seoul](#)", published January 2025

<sup>3</sup> See "[South Korea: what with fires, martial law and trade tariffs, the Year of the Blue Snake has not had the most auspicious start](#)", published April 2025

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studying for the - highly competitive in South Korea - university entrance exam. He entered the world of politics in the early 2000s, initially as Mayor of Seongnam, a city of approximately one million inhabitants in the province of Gyeonggi (south of Seoul) before being appointed province governor.

He ran for president in the 2022 elections but was narrowly beaten by Yoon. Less than 250,000 votes separated the two men following a campaign that was marked by numerous clashes and aggressive verbal attacks from both sides. In January 2024, Lee survived an attempted assassination. As leader of the opposition, he was actively involved in the advancement of Yoon's impeachment proceedings and was the natural candidate to represent the Democratic Party, which he has led since 2022. Threatened by legal proceedings - he is the target of investigations into false declarations, perjury and embezzlement of public funds linked to former local mandates - he benefited from a favourable court decision ruling that the trials would not be held before the presidential election.

With the Democratic Party still holding a parliamentary majority, Lee should have the flexibility and autonomy he needs to carry out his plans, at least until the next general election in 2028.

## And the economy?

### Externally, the uncertainty of customs duties...

The Korean political crisis has occurred in a particularly uncertain external context, as South Korea is hit with "reciprocal tariffs" of 25% on all its exports to the United States (20% of total Korean exports). Although the country immediately announced its intention to negotiate with the United States, the multiple U-turns in the State's governance since April have not allowed for high-level discussions on trade-related issues.

Negotiations are nonetheless underway, notably regarding Korea's commitment to increase its imports of American liquefied natural gas (LNG). South Korea, which is highly dependent on its imports of fossil fuels (18% of total imports in 2024) does have some flexibility in terms of boosting its purchases of American gas (\$7.5 billion in 2024, out of total LNG imports of \$35 billion). The challenge is for South Korea to (in part) address trade imbalances with the United States, while Korea's trade surplus has grown significantly since 2019 to reach a high of \$55 billion in 2024.

Other areas of negotiation include a partnership with the US Navy in shipbuilding, as South Korea, the world's second-largest manufacturer after China in terms of volume, is the leader in high added-value ships and LNG carriers in particular. A specialisation that is of obvious interest to the US, which is seeking to further increase its fuel exports. Lastly, the cost of the American military presence in South Korea is an important factor. 28,200 US soldiers are permanently stationed in the country's military bases. South Korea has committed to paying \$1.19 billion in 2026, an increase of 8.3% on 2025, but the cost of this presence is an issue regularly raised by Donald Trump.

Korean companies, and the Hyundai group in particular, have already announced substantial investments in the United States (\$20 billion over three years for Hyundai), extending the trend for FDI initiated in 2020 and driven by the IRA (Inflation Reduction Act) and the American Chips Act, which led Korean conglomerates to take an American turn. The move could this time extend to vehicle manufacturers (\$43 billion in exports to the US in 2024), while South Korea, as per the rest of the world, is hit with 25% customs duties in the automotive sector (vehicles and components).

Less of a hardliner than the Conservatives with regard to North Korea and China, Lee is also keeping his distance from the United States, which he had described as an "occupying force" during the last campaign and accused of *de facto* authorising Japan's annexation of Korea in 1910 following the signature of the Taft-Katsura agreement. His attitude toward negotiations with the Conservatives could therefore be different, even though there is little doubt that he will try to defend the interests of national companies and the most exposed South Korean sectors, starting with the automotive and semiconductor industries.

### Internally, fiscal stimulus

Internally, Lee has announced a more expansionary fiscal policy via an amending budget that could be voted on over the coming weeks and would enable the funding of certain flagship measures on his agenda (child allowance, minimum wage for agricultural workers in particular). This additional budget could be as high as 20 trillion won (approx. \$15 billion). The fiscal stimulus plan could total 210 trillion won over five years (the presidential term of office in Korea). With debt standing at 54.5% of GDP in 2024, the country still has some budgetary room for manoeuvre, which the Democrats intend to use.

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The aim of this stimulus is to revive growth which has slowed significantly, with GDP even contracting (-0.3%) during Q1 2025, notably due to a sharp decline in investment. The growth forecast for 2025 is 0.8%, compared with 2% in 2024.

The markets had reacted to this political crisis, before being partly reassured by statements from the Finance Minister and the central Bank of Korea (BoK) who had confirmed that everything would be done to support the currency and liquidity level and avoid excessive volatility. Although the won has strengthened over the past month, the South Korean currency has been the worst performer since December 2024, a decline linked more to its domestic situation than the tariffs. In May, the won did fall below the symbolic mark of 1,400 to the dollar, after reaching almost 1,500 in December.

This situation should facilitate the decisions of the Bank of Korea, which has been committed since October 2024 to a more accommodating monetary policy and is planning further rate cuts before the end of 2025, to return to a key rate of around 2% (2.5% currently). Although inflation has risen sharply since the end of the year, it remains stable and could benefit from moderating global energy prices.

**✓ Our opinion –** *The Korean elections have, as in 2022, highlighted the deep fractures in society. Gender divides, with a female electorate voting overwhelmingly in favour of the Democratic candidate, while the Conservative camp, represented by two candidates, attracted more male voters. Divisions regarding alliances, while the rapprochement with former enemy Japan, particularly regarding military cooperation, has not gained unanimous approval, but especially in terms of the line to be taken with the United States and China. Although there is a free trade agreement between the United States and South Korea, the latter likely did not expect such harsh treatment from a close ally. Although the country does have strong arguments to put forward (investments in Korean companies on American soil, possible increase in certain imports, military cooperation, partnership in the shipbuilding sector), it is also in the firing line due to its sectoral specialisations (automotive, chips, semiconductors) which are extremely strategic for the US and therefore risk being subject to specific tariffs, even if a global agreement is reached.*

*President Lee therefore inherits a still prosperous South Korea, but one that has been weakened by a political crisis that has revealed the limits of a total presidential system and an overly strong politicisation of the judiciary. Issues he has promised to tackle, a task that could prove itself more than complex, with an opposition that has taken the fall of its president very badly and will surely use all its options to complicate the affairs of the new government.*

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