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The point of view

South Korea: a year after the political crisis, markets are buying the promise of stability

On 3 December 2024, South Korea was thrown into political crisis. Struggling in parliament, where he had lost his majority, President Yoon declared martial law in a move he claimed was justified by North Korean and Chinese interference.

The immediate mass mobilisation of opposition members of parliament and civil society put a stop to this attempted power grab and paved the way for proceedings that culminated in President Yoon's impeachment and the subsequent election of opposition leader Lee Jea Myung in June.

As soon as he was sworn in, President Lee set about delivering on his three priorities: restoring some degree of political stability by embarking on institutional reform; implementing a corporate governance reform agenda to support stock markets; and securing a trade deal with the United States.

The hidden side of a state scandal

The first and by no means the simplest priority is the issue of political stability.

While resolving this serious crisis was a resounding victory for South Korea's young democracy and an example for the whole world, **it also exacerbated deep divisions in society. These divisions, along gender and generational lines**, are polarised around populist discourse, fuelled in particular by the Yoon camp.

The arrested former president is now accused of insurrection, spying, treason and abuse of power and could, in theory, face the death penalty. Among the charges against him is the allegation that he dispatched drones into North Korea with the aim of provoking a response and thereby justifying the declaration of martial law.

However, Yoon retains the support of a section of the population that subscribes to his line of defence – he maintains that foreign interference (by North Korea and China) in the 2024 legislative elections enabled the Democrats' victory and led to parliamentary deadlock, particularly over the budget – despite his uncooperative behaviour towards the justice system (during initial interrogations, he removed his prison uniform and lay on the floor in his underwear).

Beyond the ridiculousness of the situation, **this entire sequence of events – from martial law to impeachment – finally convinced public opinion of the need for sweeping institutional reform**. Indeed, three of South Korea's last four presidents have been convicted of corruption upon leaving office.

President Lee has thus committed to reforming the constitution, in particular to more strictly regulate the use of martial law, and embarked on an overhaul of the Prosecutor's Office. This powerful institution has a habit of conducting investigations targeting opposition politicians and former leaders, and is regularly accused of political interference. Its powers will thus be split between the police for preliminary investigations and the Ministry of Justice for formal examinations and charges.

Said to be close to the conservative party (impeached president Yoon was himself a former prosecutor), the Prosecutor's Office carries the burden of a controversial heritage – presumed collaboration with the enemy during the Japanese occupation in the Second World War; extensive use as an instrument of control and repression under the country's dictatorship – justifying the decision to shift some of its powers to the police. While its loss of power will certainly not put an end to the scandals that sully political life in South Korea (collusion with the private sector, corruption, favouritism), it represents a necessary first step towards regulating the political sphere.

Markets are buying President Lee's promises

Renewed political stability is undoubtedly one of the factors behind the surge in South Korean stock prices. During the presidential election campaign, Lee pledged to lift South Korea's main stock market index, the Kospi, which in April stood at just over 2,500 points, to 5,000 points. With the index closing at around 4,000 points in recent weeks, this goal now appears to be within reach.

South Korea is set to post the world's best stock market performance of 2025. Share prices have been buoyed by the semiconductor sector, and particularly Samsung Electronics and SK Hynix, which alone account for 31% of South Korea's total market capitalisation. These two firms occupy extremely strong positions in new technology value chains, supplying memory components used in Nvidia chips.

The market had mainly been driven by domestic flows, but large amounts of foreign capital are now beginning to flow in: net purchases of South Korean securities by non-residents have totalled $11 billion since the beginning of May. Foreign investors are now betting on a transition like the one that took place in Japan, where a raft of corporate governance reforms fuelled a stock market surge in the 1980s.

The ownership structure of South Korean groups is still largely dominated by a small number of key families. South Korea's tax system encourages these families to moderate how far and how fast the prices of the shares they hold rise, which partly explains why assets are so undervalued, especially when compared with US tech firms.

Accordingly, **among the Lee government's first reforms is an overhaul of the rights of minority shareholders to make the governance of large conglomerates (*chaebols*) more transparent.** The planned measures are aimed at curbing the power of controlling shareholders and broadening boards' fiduciary responsibility and composition (giving minority shareholders greater representation).

Recent market performance rewards not only President Lee's early reforms but also South Korea's industrial positioning, with the country still at the forefront of technology in the semiconductor sector.

After a slowdown at the start of the year linked to uncertainty around US trade policy and expectations among importers, who had ramped up purchases in anticipation of Donald Trump's announcements, **the cycle once again reversed. Semiconductor exports have seen double-digit growth since March 2025**, buoyed in particular by US investment in software, which greatly benefits South Korean firms involved in this value chain. They have also fuelled a record trade surplus of more than $80 billion over a rolling 12-month period.

Excluding exports, however, **stock market performance has yet to really filter through into other activity indicators, particularly on the demand side**. Improvements in purchasing power and employment have so far been modest, since businesses related to the sector are primarily capital-intensive. Another transmission channel might have been wealth effects, but these remain relatively muted in South Korea, where consumer holdings of financial assets are limited, with the majority (75%) of household wealth invested in real estate.

South Korea thus runs the risk of becoming locked into a two-speed model focused on the contribution made by the most competitive *chaebols* (notably Samsung and SK Hynix) despite their success being of only modest benefit to the rest of the economy, particularly as regards the labour market (*chaebols* account for around 20% of total employment, taking into account indirect employment) and purchasing power gains.

US deal: unbalanced but hardly disastrous

President Lee's third priority is securing a trade deal with the United States.

Yet South Korea faced a number of impediments going into these negotiations. At the time of Trump's tariff announcement, the state was in the grip of a political crisis, with the impeachment proceedings against Yoon and the subsequent election campaign creating a vacuum at the top of government. The interim president had neither the authority nor the necessary powers to engage in high-level talks and reach an agreement with the US administration.

Moreover, with a bilateral trade surplus of over $70 billion, South Korea knew it was in America's crosshairs, with Trump regularly citing it as among those countries that "took advantage" of the US.

South Korea's goal was thus to come out with tariffs below their 2 April level (25%) – comparable to those applicable to its main neighbours and competitors, Japan and Taiwan – and secure exemptions for some key products (vehicles, pharmaceuticals and semiconductors). With a "reciprocal" rate of 15%, also applicable to the automotive sector (versus 25% for the rest of the world), and some exemptions (generic drugs, semiconductors), **South Korea has struck a deal which, while still unbalanced, is aligned with those of Japan and Taiwan. It has also succeeded in protecting its agricultural market by avoiding opening it up to American beef and rice – a highly sensitive political issue.**

In exchange, **South Korea has had to enter into a string of commitments, including lifting non-tariff barriers**, particularly in the automotive sector, where American cars and parts will benefit from direct certification without quotas, **and stepping up imports of liquefied natural gas** (the US is already the number two supplier of gas to South Korea, though trailing far behind Qatar). **It also plans to spend around $25 billion on US defence equipment by 2030** and allocate around $33 billion in support of US forces stationed in South Korea – a point often highlighted by Trump.

South Korea has also committed to invest $350 billion in the US ($200 billion in cash and $150 billion in investment) in shipbuilding cooperation, including construction of nuclear submarines. **This cooperation is crucial: the US needs South Korean expertise and production capacity to revive its shipbuilding industry**, especially if it wants to increase its hydrocarbon exports (South Korean shipbuilders specialise in building tankers).

☑ **Our opinion –** *Six months after he was elected, President Lee is thus already getting to grips with his key priorities – not without success – and, for the time being, has the markets' confidence. However, he has inherited a fractured country facing huge structural challenges that raise questions about South Korea's development model. Shifting corporate governance away from family capitalism, sharing the benefits of growth, reducing reliance on foreign trade and positioning the country geopolitically between China and the US: all these issues demand clear strategic choices, even as public opinion remains deeply divided, especially on international relations. Lastly, let us not forget that South Korea faces these choices at a time when it is experiencing an acute demographic crisis with deep and multifaceted roots (the place of women and young people in society; access to housing, the labour market and higher education). With the population perhaps set to halve by 2100, the authorities will have to reckon with this new demographic reality – ideally by mitigating it or, at worst, by adapting to it.*

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