Korea Announces New Deal Budget Proposal Aimed at Developing its Post-COVID Economy

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Original post here.

The Korean government recently released a new proposal to increase the 2020 budget to promote recovery following the economic shock caused by the COVID-19 pandemic. The proposal intends to promote economic growth and employment over the next few years. Total support is valued at KRW 35.3 trillion ($29 billion), funded through debt issuance (67 percent), restructuring spending and prioritizing the measures outlined in the bill above other government expenses (29 percent) and borrowing from social security funds (4 percent).

The current proposal is the third request for increased support submitted by the Korean government since the onset of the COVID-19 crisis. The first stimulus package of KRW 11.7 trillion was unveiled on March 4, followed by a second proposal for KRW 7.6 trillion on April 16. The first two bills were passed within 15 and 20 days of their respective proposal. As of June 22, the current proposal has not officially passed.

While the first two packages were meant to support “disease control efforts, as well as to help businesses and local economies affected [by the pandemic]”, the current proposal is focused on recovery. It is one of the first country post-pandemic plans to be announced. President Moon Jae-in placed the proposal in the context of an ongoing effort to strengthen the Korean post-recovery economy by creating 550,000 new jobs and spending KRW 31 trillion through 2022 when he leaves office. The plan is to spend an additional KRW 45 by 2025 for total support of KRW 76 trillion ($62 billion) through 2025. The government has said that it will provide more details in July.

The current proposal includes KRW 23.9 trillion in new spending towards this effort. The funds will serve to support workers, businesses and promote further development of the Korean COVID-19 response model as a global standard. In addition, the proposal provides for a KRW 11.4 trillion revenue adjustment. This post discusses the use of the KRW 23.9 trillion of new spending allocated under the proposal:

- KRW 5 trillion to marginal firms and promote job retention
- KRW 9.4 trillion to improve job security and expand social safety nets
- KRW 3.7 trillion to boost consumption, exports and local economies
- KRW 5.1 trillion for the Korean New Deal
- KRW 2.5 trillion to further develop and promote the Korean Covid-19 response model

(The bill states that there will be KRW 23.9 trillion in new spending, however, the stated itemized parts amount to KRW 25.7 trillion.)

Although, unlike many countries, Korea did not experience a large increase in unemployment during the pandemic, support for workers in the proposal includes measures designed to fight unemployment, including funding for job retention programs, improved job security and expanded social safety nets. In May, the unemployment rate stood at 4.5 percent, up from 3.3
percent in February. The shock to the labor market was contained to a small sector of the Korean economy as the government did not implement a general lockdown policy to contain the spread of the virus.

Under the new budget proposal, job retention efforts are focused on the provision of emergency funds for businesses with a special focus on small and medium-sized enterprises (SMEs), an approach similar to the Paycheck Protection Program implemented in the US. This includes KRW 1.9 trillion to finance the KRW 40 trillion emergency fund for SMEs established in March. The fund, which provides government guarantees of loans to SMEs, had also been included in the two previous funding bills. Other support for workers includes KRW 8.9 trillion to “expand wage support to help businesses retain jobs and create over 550,000 jobs,... including remote jobs and digital jobs for young adults.” Some critics have suggested that many of these positions will be temporary and called for the creation of more sustainable jobs. Finally, the proposal provides KRW 500 billion to expand “social safety nets, such as by increasing household emergency reliefs, microcredit and affordable housing.” These measures also include plans to support workers left out of the employment insurance system by expanding job safety to all workers.

Businesses will benefit from the proposal through increased investment. The proposal provides KRW 3.1 trillion to an emergency fund for key businesses in the “airline, automobile, shipbuilding, maritime shipping, machinery, power and communications” industries. Additional funds are provided to support corporate bond purchase programs established previously. The government also allocated a share of the funds for direct investment in domestic firms, specifically reshoring incentives and support to Korean exporters.

The proposal also provides for KRW 5.1 trillion for the Korean New Deal, including a Digital New Deal, Green New Deal, and various employment protection measures discussed above.

The Digital New Deal focuses on supporting the implementation of a 5G network throughout the country and promoting the use of artificial intelligence by businesses. The government also intends to increase investments in digital infrastructure, including “[setting] up high-speed internet in remote villages and Wi-Fi in public facilities” as well as “[improving] public administration networks with 5G and cloud computing.” Digitizing all public schools and creating 100,000 new AI and software jobs are also part of the plan, which has at its core digitizing the provision of services and facilitating working remotely. COVID has provided the opportunity to jump-start these initiatives, which dovetail with previously announced projects.


Finally, the government expects to spend KRW 2.5 trillion “on further developing the [Korean] COVID-19 response model.” Specifically, officials wish to establish the country’s test, trace and treat formula, known as the 3T COVID-19 response model, as a global standard. The country’s methods, which relied heavily on wide-spread testing, contract tracing, emergency text messaging and face coverings, succeeded in helping it flatten its curve quickly and avoid the broad-based economic lockdowns that other countries implemented. To date, South Korea has recorded only 12,400 cases and 280 deaths — far less than most other developed countries of any size.