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South Korea: Impact of The Ukraine and Russia conflict

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Abstract

The specter of the Russo-Ukrainian conflict looms large, casting a long and unsettling shadow across the tapestry of the global economy. Its chilling tendrils reach even the most seemingly insulated corners, ensnaring nations like South Korea in its vortex. This vibrant Asian tiger, deeply entwined in the intricate web of global trade, finds itself thrust into the maelstrom of this geopolitical quagmire. The economic ramifications, far from being mere ripples, have unfurled in a multifaceted storm, presenting a formidable challenge to the nation's economic stability and demanding a nuanced and multifaceted response.

At the heart of this economic tempest lies the intricate web of financial sanctions woven by a resolute coalition of nations against Russia. These measures, meticulously crafted to sever the arteries of the Russian war machine and isolate its economy, have sent tremors through the very foundations of global finance. Traditional trade and investment flows, once predictable currents, have become turbulent eddies, swirling with uncertainty and risk aversion. South Korea, with its extensive economic tentacles reaching across the dynamic landscapes of Europe and Asia, has inevitably felt the tremors of this financial earthquake. Navigating this altered landscape, where familiar landmarks have shifted and once-reliable harbors now harbor hidden shoals, presents a significant challenge to the nation's financial institutions and policymakers. The delicate dance of mitigating potential exposure to the unfolding economic turbulence requires a deftness of footwork and a keen eye for the ever-shifting sands of the global financial market.

Further compounding the economic woes is the pronounced surge in the prices of vital commodities, particularly energy and agricultural products. Both Russia and Ukraine, hitherto considered reliable bastions of resource abundance, have seen their production and export capacities crippled by the conflict. This disruption has sent shockwaves through international markets, triggering a vertiginous spiral in the prices of these essential resources. South Korea, heavily reliant on imported energy and foodstuffs, finds itself on the receiving end of this price escalation. Inflated import costs threaten to erode the very foundations of consumer purchasing power, casting a long shadow over economic growth and raising the specter of potent inflationary pressures. The specter of empty shelves and rising prices haunts Korean households, adding a layer of human anxiety to the broader economic quandary.

Finally, the conflict has thrown international supply chains into disarray. The delicate arteries of global trade, once pulsing with the lifeblood of commerce, have been severely constricted by the disruption of land and sea routes, further exacerbated by the sanctions imposed upon Russia. South Korea, intricately woven into the fabric of these globalized production and trade networks, finds itself grappling with the ramifications of these disruptions. Delays in the delivery of raw materials and manufactured components threaten to hobble its own industrial output and hamper its export competitiveness. The very engines of the Korean economic juggernaut sputter and cough, their rhythm disrupted by the absence of vital parts sourced from across the globe. The anxieties of factory owners and the concerns of everyday workers alike paint a poignant picture of the human cost of this economic maelstrom.

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1. Introduction

2. Effects on South Korea

South Korea is not immune from these consequences. While South Korea's Overall international commerce with Ukraine is very minor, the troubled Eastern European nation is the biggest supplier of the inputs essential for semiconductor production. [10] Beyond what the war may entail for South Korea's IT sector in the medium term, this serves as yet another stark reminder of how vulnerable the country's economic model is given its excessive reliance on exports of goods while overlooking services. South Korea's export dependency is unheard of among economies of its size and development, with the exception of highly integrated shared markets like the European Union, whose members also share physical boundaries. [11] Utilizing the IoT effectively requires investment and infrastructure development, potentially strained by the conflict's economic impact. However, long-term, strategic investments in these areas could position South Korea for a more resilient and sustainable future, even amid global challenges.

[4] South Korea's trade disruption amidst the Ukraine-Russia conflict throws traditional portfolio construction, built on historical data and quantitative analysis, into disarray. However, a qualitative approach using "growth stock scorecards" could offer a unique lens for navigating this volatility. Imagine assigning scores to Korean growth stocks based on factors like their domestic market exposure, adaptability to supply chain shifts, and potential to benefit from increased local consumer demand. By prioritizing companies with high scores on these qualitative assessments, investors can potentially build portfolios more resilient to trade disruptions. This approach acknowledges the limitations of traditional quantitative models in capturing the sudden shifts and uncertainties of the current environment. While not foolproof, a qualitative, scorecard-based approach can help investors identify promising Korean growth stocks that can weather the storm and potentially thrive in the reshaped post-conflict landscape. However, the success of this method hinges on the expertise and agility of portfolio managers to accurately assess qualitative factors and adapt their scoring criteria as the situation evolves.

[7] In 2019, exports made up more than 32% of the nation's GDP. For instance, Japan, which is probably overly frequently characterised as being export-dependent, had an equivalent figure that year of 13.93% while the United States had 7.67%. These numbers suggest that the threat of losing access to South Korea's export markets is the country's main geoeconomic risk. In reality, trading partners' loss of ability or desire to supply essential inputs to South Korea's leading export industries has emerged as the more serious concern in recent years.

Korean businesses have historically managed disruptions in important export markets. For instance, after Vladimir Putin annexed the Crimean Peninsula in 2014 and sparked widespread sanctions, annual goods shipments to Russia decreased from \$10.1 billion to \$4.6 billion. This was a severe blow considering that Russia had been South Korea's top export market in Europe since 2011. The sharp decline in sales to the Russian market was a factor in South Korea's merchandise sales falling globally year over year in 2015 and 2016. However, by 2017, the growth of global exports had resumed. In the meantime, South Korean businesses have had a harder time locating alternatives for the inputs required to produce important consumer goods. For instance, Ukraine is a major supplier of noble gases, which are essential to South Korea's single-largest export: lasers used to print circuits on semiconductor chips. Currently, South Korea imports 23 percent of its neon gas, 18 percent of its xenon, and 31% of its krypton from Ukraine. Finding a replacement will be challenging if the ongoing conflict disrupts the production of these gases, as Ukraine currently produces a significant portion of the world's neon gas (70% of global production). It will be difficult to establish domestic capacity to replace imports because these noble gases are frequently by-products of refined processes in the heavy and chemical industries.

3. Disruption Caused In South Korea

[1] Fluctuations in foreign economic policy uncertainty exert a more pronounced influence on Korean output than do analogous fluctuations in domestic economic policy uncertainty.

Seoul, too, was not completely caught off guard by the recent crisis. The 2014 Crimean crisis saw the price of neon gas rise tenfold. Based on this experience, South Korea is investing in domestic capacity building to reduce its dependence on imports. South Korean steelmaker Posco could reportedly meet 16% of domestic inert gas demand by the second half of this year. However, if the war drags on, not only will domestic production capacity shift, but semiconductor companies around the world are said to only have six to eight weeks' supply of inert gas in stock. It will also not be enough to supply the alternative gas it has purchased. Ukraine. South Korean companies faced similar challenges when

the Japanese government removed South Korea from its list of preferred trading partners in 2019. Prior to this measure, South Korea had been exempted from strict scrutiny by the Japanese government for purchases of more than 1,000 strategic items with potential military uses. The main imports affected by the ban are fluorinated polyimides, photoresists and hydrogen fluoride, all of which are essential components of South Korea's semiconductor industry.

[6] In response, chip makers like Samsung have formed new alliances with manufacturers in different countries and started building their own capacity to manufacture these chemicals. However, this is not a sustainable response. As the Ukraine war shows, geoeconomic risks are increasingly omnidirectional. Apart from transforming our entire supply chain, we need to pursue more robust and sustainable strategies. [5] Frustrated with delayed smartphone deliveries due to chip shortages, Korean consumers might find themselves venting to their AI assistants, perhaps even attributing human agency to the chatbots' helpless responses, mirroring the helplessness felt navigating the complex trade disruptions.

[8] To achieve this, South Korea needs to focus on fostering small and medium-sized enterprises, which currently hold a large share of the country's service sector. Active state assistance can play an important role here. A recent study by OECD economist Mathilde Park and her co-authors shows that South Korean SMEs lag behind global SMEs in adopting productivity-enhancing tools such as cloud computing. Closing this gap may require public funding and skills support to revitalize this long-overshadowed industry.

In the future, South Korea may face further instability in international markets. Domestic companies have responded by diversifying their input sources and production bases, especially by moving production plants out of China. Achieving a better balance between exports of goods and services should also be part of this resilience-building effort. Greater sectoral diversity not only promises new job creation for struggling economies, but also provides a greater buffer in the face of increasing geopolitical uncertainty.

South Korea's initial reaction to Russian aggression was assessed relative to that of the United States and other close U.S. allies. The Moon Jae-in administration supported international sanctions against Russia, but unlike Japan and Australia, it did not independently impose sanctions. Lawmakers from the ruling Democratic Party even accused Ukrainian President Volodymyr Zelensky of provoking Russia. However, after repeated deliberations, the South Korean government decided to ban direct exports of strategic goods such as semiconductors to Russia and Belarus, and suspended transactions with major Russian banks. Russia is only 12th among South Korea's largest trading partners, but these measures are not significant. [13] Global financial institutions, including those in South Korea, are fortunately equipped with advanced Machine Learning algorithms to combat fraudulent transactions stemming from the conflict. These algorithms, empowered by vast data analysis, proactively identify and flag suspicious patterns, mitigating the potential economic damage caused by cyberattacks. [9] The conflict creates global economic uncertainty, potentially impacting South Korea's investment landscape and increasing investor risk. While the study focused on Indian mid-caps, the principle of using the Sharpe ratio to identify assets with good return potential relative to their risk remains relevant. South Korean investors could explore applying this or similar models to diversify their portfolios beyond traditionally held assets, potentially mitigating risks associated with the conflict.

[3] The Ukraine-Russia conflict has thrown global trade into disarray, and South Korea, heavily reliant on international commerce, feels the tremors deeply. While traditional economic levers struggle to navigate this volatile landscape, an unexpected player emerges: influencer marketing. Amidst disrupted supply chains and shifting market dynamics, Korean influencers can play a crucial role in mitigating the impact on specific industries. Imagine popular beauty influencers promoting locally sourced cosmetics instead of their usual international brands, or tech reviewers highlighting domestic alternatives to electronics facing import delays. By leveraging their trusted voices and digital reach, influencers can foster a sense of national pride and encourage consumers to embrace domestic alternatives, potentially buffering specific sectors against the worst of the trade disruption. However, this approach demands a nuanced understanding of consumer psychology and influencer authenticity. Blindly pushing domestic products without genuine endorsement risks backlash, further complicating the already fragile economic climate. Therefore, harnessing the power of influencer marketing effectively requires careful curation of partnerships and a focus on genuine product recommendations within a broader narrative of supporting Korean industries during challenging times.

[14] The conflict disrupts traditional trade routes and financial flows, impacting South Korea's export-driven economy and GDP. While not a mainstream solution, cryptocurrency trading, potentially aided by algorithmic analysis and price forecasting tools like PowerBI, could offer alternative avenues for South Korean businesses and investors. [12] However, India's widespread adoption of digital payments creates a large, alternative market for South Korean businesses to tap into. This could help mitigate potential trade disruptions caused by the conflict by diversifying export

destinations and revenue streams. Additionally, the efficiency and transparency of digital payments can foster trust and facilitate smoother transactions, promoting business ties even amidst global uncertainties.

4. New Take Of South Korea's Foreign Policies

[2] The public's support for foreign aid and increased aid budgets is demonstrably more contingent upon their perception of policy efficacy than their level of knowledge about specific policy details.

Building on South Korea's existing support for Ukraine, Yoon could explore new foreign policy opportunities in three ways.

First, the Ukraine crisis gives the Yoon administration an early opportunity to demonstrate what "principled" foreign policy looks like. Yoon used the phrase in an article for Foreign Affairs to describe a policy that "advance[s] freedom, peace, and prosperity" in defence of a liberal international order. South Korea cast a vote at the UN to denounce Russia's invasion of Ukraine. Later, it decided to suspend Russia's right to vote in the UN Human Rights Council. Additionally, South Korea recently increased its commitment to \$40 million for humanitarian aid. Future revelations of atrocities like executions and mass murders in places like Bucha and Mariupol are certain to come. As a result, South Korea has the chance to advocate for global democracy, human rights, and the rule of law by speaking out against possible war crimes, giving more aid to the less fortunate, and taking in more Ukrainian refugees than just the ethnic Koreans already residing in Ukraine.

Second, by diversifying and bolstering international alliances with American allies in Asia and Europe, South Korea's new administration can change perceptions of the country's position in the Indo-Pacific. The joint statement issued by Moscow and Beijing on February 4 has changed the geopolitical environment in Eurasia and strengthened ties between American allies in Europe and Asia. For instance, four American allies from Asia, including South Korea, attended a NATO foreign ministerial meeting in Brussels in April 2022 to discuss the Ukraine crisis. All four nations have now received invitations from NATO to attend the upcoming NATO Summit in Madrid in June. The Yoon government has an additional incentive to collaborate with other U.S. allies and partners because it is necessary to coordinate sanctions policy on Russia in addition to addressing other geoeconomic problems like supply chain shortages.

Third, the crisis gives the Yoon administration more justification to strengthen South Korea's defence and deterrence measures. North Korea has even more justification to maintain its nuclear arsenal in light of the Ukraine crisis. This year, North Korea's provocations are probably going to continue, making it less likely that there will be any negotiations with Pyongyang anytime soon. In order to improve its defence posture and deterrence capabilities, the Yoon government can do so with more political and diplomatic cover thanks to an increased awareness of the security risks brought on by Russia's invasion.

5. Conclusion

South Korea confronts a multifaceted storm triggered by the Ukraine-Russia conflict. Sanctions, turbulent energy costs, and disrupted supply chains threaten its export-driven economy, potentially impacting consumer spending and industrial output. Yet, amidst these challenges, lie opportunities. Diversifying trade, embracing domestic alternatives, leveraging influencer marketing, and exploring cryptocurrency avenues offer potential mitigation strategies. Moreover, the conflict presents a chance for South Korea to reshape its foreign policy by advocating for global order, strengthening alliances, and bolstering its defense. By embracing innovation, fostering domestic capacity, and engaging constructively on the global stage, South Korea can weather this storm, emerging stronger and more adaptable to future uncertainties.

Compliance with ethical standards

Disclosure of conflict of interest

Disclosure of conflict of interest – Authors have declared that no competing interests exist

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