

South Korea: At Another Tipping Point?

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The boom in the AI economy centred on the US has taken wing. One country in which it has landed is South Korea, whose successful transition from underdeveloped to developed country status was based on integration into global value chains. Export success came from diversification into newer areas, including electronics. As part of that diversification, South Korea had established a presence in the random-access memory (semiconductor) field. But, competition among South Korean and other firms had transformed memory chips into “commodity” intermediates: low-cost inputs into a range of products offering low margins and subject to cyclical demand-supply imbalances.

That situation has changed. Rapid expansion in the AI space has increased the demand for and created a shortage of high-end memory chips. South Korea and its chip majors, Samsung Electronics Co. and SK Hynix Inc., are reaping the benefits. The spike in memory chip demand has ratcheted up sales and the country’s exports. Aggregate exports have risen by nearly 75 per cent in a short period, from \$159.5 billion in the quarter ended March 31, 2025, to \$275.95 billion in the quarter ended June 30, 2026. Chips are the drivers, and their share in exports has risen to around 25 per cent.

With the semiconductor business covering materials, equipment, logistics, and construction estimated at 7 to 8 per cent of the GDP, the boom has helped revive lagging GDP growth. South Korea’s Semiconductor Production Index rose from 104.4 in January 2023 to 215.4 in February 2026. On the other hand, the index of production of all sectors excluding semiconductors was flat throughout, standing at 101.5 in January 2023 and 103.5 in 2026.

Such concentration is pervasive. Within the semiconductor business, memory chips, which account for about two-thirds of Korea’s semiconductor exports, are the winners. And in memory chips it is just two firms Samsung and SK Hynix that are walking away with the AI bonanza. Even by 2025, SK Hynix accounted for 61 per cent of the market for high-bandwidth memory chips, and Samsung for a significant, though much smaller, 17 per cent.

Overwhelmed by the recent boom in demand, the two companies, with enthusiastic backing from the South Korean state, are planning huge investments to expand capacity. Early July saw South Korean President Lee Jae Myung and senior executives from the two corporations jointly announcing investments totalling around 1,350 trillion won (\$880 billion) in new chipmaking plants.

Similar announcements of massive investments by AI companies in the US are known to underpin exponential and surprising increases in the stock values of those firms. There is no guarantee that the demand warranting huge investments in the US will materialise. But the reading by financial investors and speculators is that the companies know what they are doing. Their bets are speculative, resulting in volatility in stock values and the market capitalisation of AI firms.

The story is being repeated in Korea. Samsung and SKHynix, riding on surging sales and ambitious investment plans, are recording a similar spiral in valuations driven by speculation. Between January and June 2026, the market capitalisation of SKHynix rose from \$342 billion to \$1.36 trillion and of Samsung Electronics from \$493 billion to \$1.36 trillion. Riding on this boom, speculators are raking in profits.

A stark example of such speculation is the market obsession with single-stock exchange traded funds (ETFs), led by leveraged exchange-traded funds linked to SK Hynix stock. Buying into such instruments allows investors to bet on movements in the shares of a company, even if they cannot get direct access to the actual underlying share.

Managers of such funds in search of high returns ride on the principle of buying when prices are expected to rise and selling when prices are expected to fall. If successful, that allows them to offer, in good times, better returns than the shares on which they ride. ETF values are often a multiple of the value of the underlying shares. Such valuations are unsustainable and can unwind with damaging effects. But riding on the euphoria, the South Korean government has adopted a liberal attitude towards the issue of such ETFs on the grounds that they help increase market liquidity.

Illusion and Reality?

That the boom will unwind if expectations of growth in demand for memory chips do not materialise is clear. In fact, driven by assessments that the stocks of the two chipmakers have risen to unsustainable levels, foreign investors are pulling back. That is affecting the market as a whole. On July 2, the benchmark Kospi index fell by nearly 8 per cent, with SK Hynix losing almost 15 per cent and Samsung Electronics 9.1 per cent. The fall was reportedly precipitated by foreign investors selling \$2.8 billion worth of shares included in the index.

That should be sobering. But retail investors attempting to make a quick fortune are not convinced. There are an estimated 14 million retail investors in South Korea, referred to as “ants” since each is small but there are hordes of them. These individuals are borrowing money, in a country where household debt is already at troubling levels, to invest in the market in the hope of making large gains. Margin trading loans outstanding are reported to have doubled over the year to May 2026 to touch 34 trillion won. These retail investors are the ones driving the surge in the Kospi, which rose by 200 per cent over the 12 months preceding July 2026.

This kind of retail exposure would mean that if the boom proves to be a bubble, bankruptcies will abound, demand can collapse, and the disruption can be severe. But the South Korean government is, for now, choosing to ignore these risks, despite the country’s experience in 1997. That is surprising. It is true that in many senses South Korea is doing well. GDP growth has recovered. Exports are booming. And so is the stock market. But there are warning signals.

Strong exports notwithstanding, the South Korean won is trading at a 17-year low, reviving memories of crisis times. In May, the Bank of Korea admitted that the won was “excessively weak relative to economic fundamentals”. A major explanatory factor is the exit of foreign financial investors. That exit has triggered expectations of currency weakness and encouraged speculation in the currency with exporters, including the memory chip giants, holding back on repatriating their dollar earnings. Overseas investments are also on the rise.

This suggests that the won is the target of a speculative attack. But in those circumstances, Korean policymakers, desperate for recognition as a developed country and inclusion in the MSCI index to attract more foreign finance, have decided to allow 24-hour trading of the won. This can increase volatility and even precipitate a run on the currency. The AI-driven party may well end.

One parallel is too stark to ignore. In 1997, South Korea was a miracle growth country with stable macroeconomic indicators. But it was open to speculative capital flows, dependence on which precipitated a currency and financial crisis. Even SK Hynix, today's market leader established in 1983 and originally owned by the Hyundai group, accumulated huge volumes of debt and faced bankruptcy after that crisis. Today, South Korea is a major beneficiary of the AI-led boom. But it shows multiple signs of fragility. That signals that the country could be at another tipping point.

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