Kang Man Soon wept on the day 15 years ago that she gave her gold wedding ring to the government, joining the millions who donated heirlooms to boost South Korea’s reserves during the Asian financial crisis.

“We just couldn’t let the country go bankrupt after all the sacrifices and hard work to save it from Japanese colonial rule and civil war,” said Kang, whose husband fulfilled a promise to replace the gold band by giving her a one-carat diamond ring this year for her 60th birthday. “The economy is much bigger and stronger now and our cars and products and pop songs are famous around the world.”

Since the 1997-1998 slump, South Korea has ridden economic crises better than most advanced economies. The stock market has risen fivefold, led by Samsung Electronics Co. (005930), which now makes almost a quarter of the world’s mobile phones, and Hyundai Motor Co. (005380) and its affiliate Kia Motors Corp. (000270) are the most profitable of the six biggest global automakers. With growth this year set to beat Asia’s other wealthy nations, the three biggest credit rating companies upgraded South Korea’s debt, citing the ability to weather shocks better than its peers.

“It’s this expensive lesson we learned that made us prepare so well for the next crisis,” said Kwon Dae Young, who was in charge of injecting foreign capital into banks at the finance ministry in 1997. “Korean companies now have much healthier balance sheets and the government is backed up well with a solid amount of foreign exchange reserves.”

**Bright Spot**

With Japanese exporters hampered by a strong yen, Europe encumbered by debt, and U.S. unemployment hovering near 8 percent, South Korea’s resilience offers a bright spot in the developed world. The International Monetary Fund forecasts Asia’s fourth-largest economy will grow 2.7 percent this year, compared with 2.2 percent in Japan, 1.8 percent in Hong Kong and 2.1 percent in Singapore.

“I think South Korea will probably grow by around 4.8 percent over the next decade, which means it will continue to see its GDP per capita rise notably and relative to other developed
countries, especially Japan and European countries,” said Jim O’Neill, chairman of Goldman Sachs Asset Management.

Gross national income per capita was $20,870 last year, compared with Japan’s $45,180 and Hong Kong’s $35,160, according to World Bank data.

South Korea’s resilience has given it the status of a safe haven in the bond market, where investors held 88.3 trillion won of local currency debt at the end of last month, double the amount in 2009, data from the nation’s financial regulator show.

**Rising Won**

South Korea’s won has appreciated 5.6 percent this year to 1,091.50 per dollar as of yesterday, the third-best performer among Asia’s 11 most-used currencies. The won will strengthen another 0.6 percent by the end of the third quarter of 2013, according to the median estimate in a Bloomberg News survey.

The currency is “structurally undervalued” said Eric Stein, a Boston-based portfolio manager at Eaton Vance Management, which oversees $198 billion. “It will slowly but surely continue to appreciate.”

Standard & Poor’s, Moody’s Investors Service and Fitch Ratings boosted South Korea’s rating between late August and September, with all three citing strong fiscal fundamentals and room to respond to external shocks. The Bank of Korea has $322 billion of foreign exchange reserves, the world’s seventh largest, compared with a low of $20.4 billion at the end of 1997.

While opposition lawmakers have called for more public spending, the government on Sept. 25 released a budget proposal for 2013 that would reduce the fiscal deficit to 0.3 percent of gross domestic product, the smallest in six years.

**Chaebol Base**

Underpinning the nation’s industrial success are the chaebol, large, family-controlled conglomerates held together by a network of crossholdings. Their size, government support and access to capital have made many world leaders -- Samsung, for example, in mobile phones and flat screens, Hyundai Heavy Industries Co. (009540) in shipbuilding.

“Korea has a number of advantages over other countries such as a large domestic market and economies of scale that will help the tech sector and the rest of the economy grow,” said Alaistair Chan, a Sydney-based economist at Moody’s Analytics Australia. “I think Korea is quite well placed in the near to medium term to weather slow global growth.”

This year, Hyundai’s Elantra was voted North American car of the year at the Detroit Motor Show, while Samsung’s Galaxy smartphones helped it end Nokia’s 14-year reign as the biggest
maker of mobile phones, according to shipment estimates by industry researchers including Strategy Analytics.

**Gangnam Style**

Samsung, whose annual sales are the equivalent of 13 percent of gross domestic product, reported record profit that beat analysts’ estimates on Oct. 26. Industrial production rose in September for the first time in four months, a sign economic conditions are improving while global uncertainties persist, Finance Minister Bahk Jae Wan said in a statement today.

Nor is South Korea’s rising global audience confined to the products of its manufacturers. Rap sensation Psy’s “Gangnam Style” became the most-liked video in Youtube history, while this year’s Golden Lion, the top prize at the Venice Film Festival, went to Kim Ki Duk’s “Pieta,” about a loan shark and a woman who turns up in his life, claiming to be his mother.

That’s a long way from where the country was in July 1997, when the collapse of the Thai Baht precipitated a domino effect across six Asian countries, including South Korea. By December, the government was forced to accept a $57 billion bailout led by the IMF to avoid sovereign default.

**IMF Crisis**

“The IMF crisis changed everything,” said Kim Nyeon Jae, 41, who heads a derivatives trading team at Korea Investment & Securities Co. in Seoul. “I was lucky as I got a job just before the outbreak. Most of my friends graduating later had to stay idle for years. It was a nightmare. Every morning started with news that a company went bust or fired workers.”

Resentment toward the IMF and its demands for austerity -- in South Korea the slump is still called “the IMF crisis” -- fueled resentment against foreign companies.

“The gas station I used to work for refused to sell fuel to customers driving foreign cars,” said Moon Jeong Hyeok, now a 31-year-old office worker in Seoul. “We loathed people who drove BMWs and Mercedes when the country was so debt-ridden.”

Kwon, the former finance ministry official, says that in November 1997 he poured $3.6 billion into local banks in a single day. At around the same time, he remembers telling then-President elect Kim Dae Jung that South Korea’s reserves would be depleted in two months.

**Sleepless Nights**

“Companies went bankrupt, people lost their jobs and policy makers had months of sleepless nights,” he said. “The experience of ‘97-’98 helped us set up the capital flow management that we have now.”
The government campaign to raise reserves saw 3.5 million Koreans donate 227 tons of gold, valued at $2.2 billion, according to the former Financial Supervisory Service Governor Kim Yong Duk’s book, “The Asian Financial Crisis and the New International Financial System.”

“I still get startled sometimes when I hear ‘IMF’ on television,” said Kang, a mother of three, who is planning to take a cruise in Europe with her husband next year.

South Korea’s financial restructuring after the crisis has been supplemented by further steps since 2010 to smooth hot money flows that often cause sharp swings in the won. The Finance Ministry capped banks’ currency forward positions and imposed a levy on non-deposit foreign-currency liabilities held by domestic and foreign banks. It revived a tax of as much as 14 percent for foreigners on interest income from treasury bonds, as well as a 20 percent levy on capital gains from their sale.

**Fast Internet**

Behind the nation’s industrial growth and revival from the 1997 slump is an education system that rose from having few domestic teachers at the end of Japan’s 1910-1945 occupation to ranking second in the world in reading, fourth in mathematics and sixth in science in the latest Programme for International Student Assessment report. The country has the highest average Internet connection speeds in the world.

While the intensive education system and powerful chaebol have increased South Korea’s industrial might, they have also fostered divisions in the society that are now being highlighted by political candidates as the country prepares for Dec. 19 elections to replace President Lee Myung Bak. Ruling New Frontier Party candidate Park Geun Hye, 60, whose father helmed South Korea as a dictator for 18 years, leads the polls, promising to tackle a widening wealth gap while creating jobs in the technology and software industries.

**More Welfare**

The opposition Democratic United Party’s Moon Jae In, 59, wants an expanded welfare state as well as stronger regulation of the chaebol, which he says stifle competition and innovation from small and medium-sized businesses. Independent candidate Ahn Cheol Soo, 50, a software mogul, advocates expanding the budget for services such as childcare and health.

The nation’s richest 20 percent earned 7.86 times more than the bottom 20 percent last year, the biggest margin since Statistics Korea began publishing the data in 2006.

South Korea also has one of the world’s fastest aging societies, with a working-age population that will begin to contract by 2016, curbing growth by as much as 1.7 percentage points to 2.5 percent by 2050, according to a Royal Bank of Scotland Group Plc report.
Even so, South Koreans are far better off than at the end of the Korean War, when per capita income was less than $100.

“When I was young, we were so poor that I spent hours a day searching for pine mushrooms and catching snakes,” said An Sun Hyun, 59, who owns a home-decoration business. “Everyone was hungry all the time. Now my son is having a life the president of the country back in the 1970s would be jealous of. Sometimes I think South Korea is a totally different country.”

**Nuclear North**

The war ended in 1953 without a peace treaty, and South Korea has developed as a nation under threat. North Korea conducted nuclear tests in 2006 and 2009. Tensions escalated further in 2010 with the sinking of the South’s warship Cheonan, which killed 46 sailors, and the shelling eight months later of a South Korean island that killed four people.

Kim Jong Un, who took power in North Korea last year after the death of his father, is “an unpredictable ruler,” Army General James Thurman, commander of U.S. forces in South Korea, said earlier this month. The levels of poverty that remain in the North are a reminder of how far the South’s economy has grown. Should the two halves reunite, the merger with an economy that is about one-fortieth its size would drag down the South’s gross domestic product by as much as 6.6 percent a year for a decade, according to the Korea Institute of Public Finance.

**Gucci Enclave**

Within striking distance of North Korea’s long-range artillery is Gangnam, the high-class district of Seoul made globally famous by Psy, whose name is Park Jae Sang. The former rice paddies now contain the country’s most expensive real estate with streets filled with luxury brands like Louis Vuitton, Prada and Gucci.

“One of the big challenges is how to keep growing and create more decent jobs,” said Kim at Korea Investment & Securities, who lives in a three-bedroom riverside apartment in Mokdong, about 20 minutes away from Gangnam.

“When I was young, my parents bought me new clothes once a year and I had to share them with my brothers,” he said. “Now, I’m sending my daughter to an expensive kindergarten and private classes and buying her whatever she wants.”

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