

Country Insight Report Korea (South)

November 2021



SAMPLE



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Overall Country Risk Rating: DB3b

Last change: November 2020



Slight risk: Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

Rating Outlook: Improving

WorldWatch Headline

South Korea's strong economic recovery and high vaccination levels could support another interest rate hike in 2021, aimed at containing financial risks.

Multi-Dimensional Analysis (MDA) Scores

Metric	S. Korea	China	Japan	Hong Kong (S.A.R.)	US
Country Risk Score	DB3b	DB4a	DB3b	DB3d	DB2c
Short-Term Economic Outlook	DB4c	DB4a	DB5c	DB5a	DB2d
Long-Term Economic Potential	DB3c	DB2b	DB4a	DB3c	DB2c
Market Potential	DB3b	DB2c	DB3c	DB5d	DB1c
FX Risk	DB3c	DB2d	DB3c	DB1d	DB1d
Transfer Risk	DB2a	DB3b	DB1d	DB2a	DB2b
Business Regulatory Environment	DB2d	DB5c	DB3b	DB3a	DB1c
Business Continuity	DB3a	DB3d	DB3c	DB3c	DB2d
Political/Insecurity Risk	DB3a	DB4c	DB3c	DB4c	DB2c
Expropriation/Nationalisation Risk	DB3d	DB4d	DB2a	DB1c	DB2b

Low Risk: DB1 - DB2 Medium Risk: DB3 - DB4 High Risk: DB5 - DB7

Source: Dun & Bradstreet

Recent Changes

- The current rating of DB3b is only a quarter off its historical low during the Asian financial crisis (1998-99) and the first year of the pandemic (April-November 2020).
- We upgraded the country risk score in late 2020 from DB3c to DB3b as the epidemic was contained and economic activity grew.
- We ameliorated the rating outlook to 'improving' in May 2021.

Events to Watch

- We expect a relatively broad-based economic recovery in 2022, driven primarily by a recovery in the service sector.
- South Korea's vaccination effort has been a success - more than 75% of the population are fully vaccinated, which has allowed the government to ease restrictions.
- The presidential election due in 2022 will test the public's disaffection with housing prices and corruption cases in the administration.
- The Regional Comprehensive Economic Partnership (RCEP), which South Korea signed with the Association of Southeast Asian Nations (ASEAN), China, Japan, Australia and New Zealand, is due to take effect by January 2022.

Call to Action

- Expect exports and service sector reopening to support growth in 2022.
- Be aware that South Korea's regions feature concentrations of different industries.
- Set credit terms conservatively, with a minimum of SD terms for small companies.



Global Insight

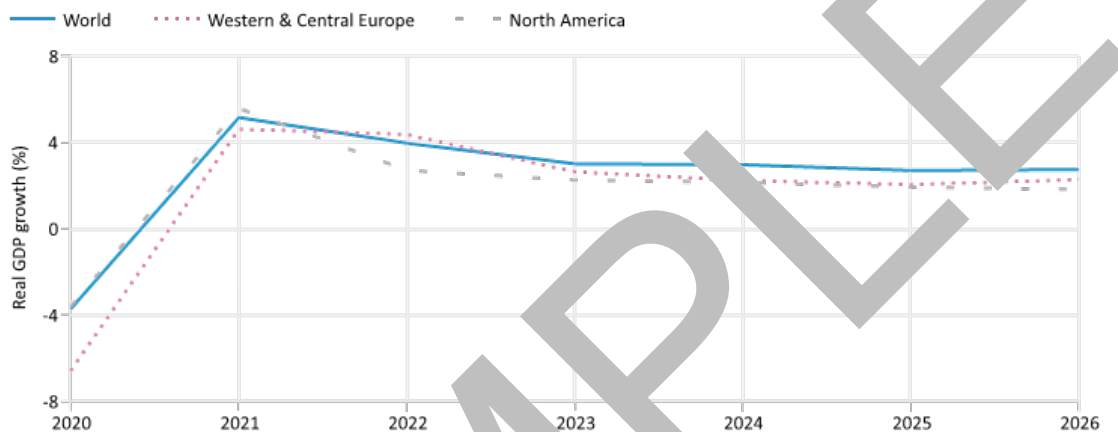
Trend: Stable

Last change: June 2021 (Deteriorating→Stable)

Recent Developments

- The natural gas crisis is boosting demand for crude oil and coal, which will remain high through the upcoming Northern Hemisphere winter.
- Stubborn inflationary pressures challenge monetary authorities, keeping producer and consumer prices elevated heading into 2022.
- Reduced tolerance for strict lockdowns suggests that ‘living with Covid-19’ is the next normal, as rising rates of vaccinated persons and falling caseloads facilitate reduction of restrictions and border reopenings.

Global Growth Forecast



Source: Haver Analytics/Dun & Bradstreet

Risks and Opportunities

- The global energy crunch, which began in Europe and Asia will likely continue into the first quarter of next year, exacerbating international supply bottlenecks and hindering business operations across sectors and geographic regions.
- While, according to the World Bank, energy prices have risen by 80% this year compared to 2020, precious metals’ prices are under pressure as major central banks begin tapering their quantitative easing programmes or will begin to do so shortly, clearing the way for an accelerated timetable for policy rate hikes amid resilient inflationary pressures.
- The erosion of households’ purchasing power caused by higher living costs and uncertainty related to the spread of the delta variant, weighed on consumer confidence in advanced economies in Q3, but there are signs of a bounceback in the fourth quarter.
- China’s Covid-19 policy and slowing growth momentum are risks to global trade and the prospects of export-dependent trade partners.

Call to Action

- Plan for potential increases in financing costs in the coming months as more central banks are expected to hike policy interest rates.
- Expect pandemic-weakened global supply chains to contribute to acute shortages during the year-end holiday season.
- If operating in a jurisdiction with a low corporate tax regime, assess the impact of the potential implementation of a global minimum corporation tax rate.
- Consider the increasing importance of environmental, social and governance activities and risk-mitigation for sustainable strategic growth.



Regional Insight

Trend: Deteriorating

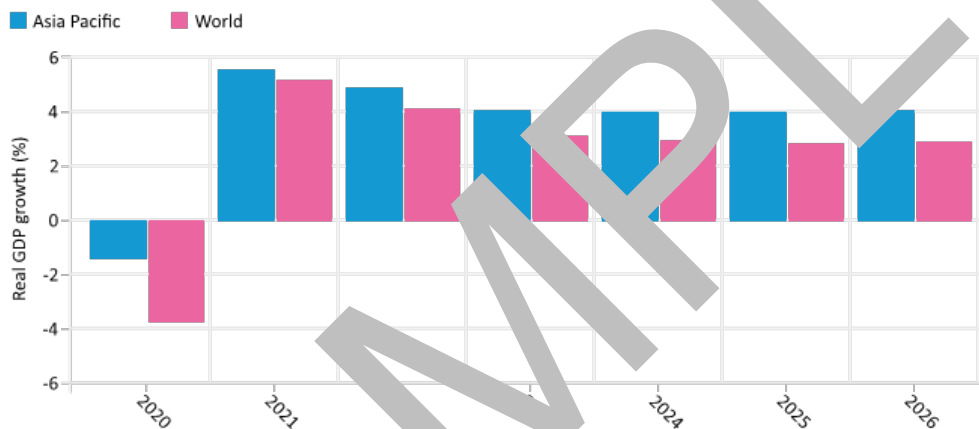
Last change: July 2021 (Stable→Deteriorating)

Recent Developments

- South Korea and New Zealand have initiated interest rate hikes, but others may not be ready to follow suit just yet due to growth considerations.
- At the end of September 2021, nearly 21% (+8pp vs. Aug) of the population in the region was fully vaccinated and 42% (+10pp vs. Aug) had received at least one dose.
- The pace of vaccination has picked up in Q3 2021, but country divergences are significant: 80% of Singapore's population vaccinated versus 25% in the Philippines.
- Growth forecasts for 2021 were revised downward due to delta variant infection outbreaks hurting Q3 2021 output, but 2022 growth outlook remains strong.
- In a precursor of coming times, the Chinese economy slowed significantly in Q3 2021 under the government's planned deleveraging effort targeting the property sector.

Regional Outlook

Regional Growth Forecast



Source: Haver Analytics/Dun & Bradstreet

Risks and Opportunities

- Despite risks from a China slowdown, the Asia Pacific region is still likely to be the fastest growing region in the world.
- Beyond economic factors, more concentrations in supply chains, such as rechargeable batteries for electric vehicles from South Korea, may become new bottlenecks.
- As home to four of the world's six biggest emitters, focus on climate policies in the region will be considerable after the UN COP26 summit in November.
- Completion of the Regional Comprehensive Economic Partnership by the remaining signatories (7 of 15) will continue to enhance trade opportunities in the region.
- A sooner-than-expected normalisation in US monetary policy could lead to capital flight from some developing countries such as the Philippines, Indonesia and Thailand.

Call to Action

- Monitor payments performance of companies tied to the Chinese property sector.
- Keep an eye on regulatory actions/incentives offered by governments to meet climate change policy commitments; consumers, producers, and exporters of fossil fuels will be in the spotlight, with opportunities in renewable energy sectors likely to increase.
- Companies reliant on Chinese demand such as agricultural products, metals, mineral and commodities should consider looking for alternate markets.
- Highly-leveraged corporates with a large share of foreign currency liabilities may see increasing defaults as monetary policies normalise.



Country Insight Headlines

Credit Environment

Score: DB3b



Last change: November 2021 (DB3c→DB3b)

Rating Outlook: Stable

Risks and Opportunities

- We have upgraded the credit environment score by one quartile to DB3b, thanks to the economic recovery and policy support.
- In August, the Bank of Korea became the first central bank in Asia to increase interest rates amid concerns about rising financial risks.
- The economic recovery should gather pace now that the government has begun easing restrictions; the plan is for a return to normality by early 2022.
- The credit spreads of BBB-rated corporate over-three-year government bonds have stopped short of 2009 levels, but would have been higher without emergency support.

Trade Terms

Description	
Minimum Terms	OA
Recommended Terms	SD
Usual Terms	30-90 days

Source: Dun & Bradstreet

Note: OA: Open Account; SD: Sight Draft (Documentary Collection); LC: Letter of Credit; CLC: Confirmed Letter of Credit; CiA: Cash in Advance

Export Credit Cover

Agency	Cover
US Eximbank	Full cover available
Eksport Kredit Fonden	Full cover available, conditions apply
ECGD	Full cover available
Euler Hermes AG	Full cover available

Source: Export Credit Agencies

Culture

- Be aware that South Korea's geographic regions feature concentrations of different industries and will face divergent shocks from demand shifts at home and abroad.
- Use credit terms conservatively, with a minimum of SD terms for small companies.



Supply Environment

Score: DB3a

A

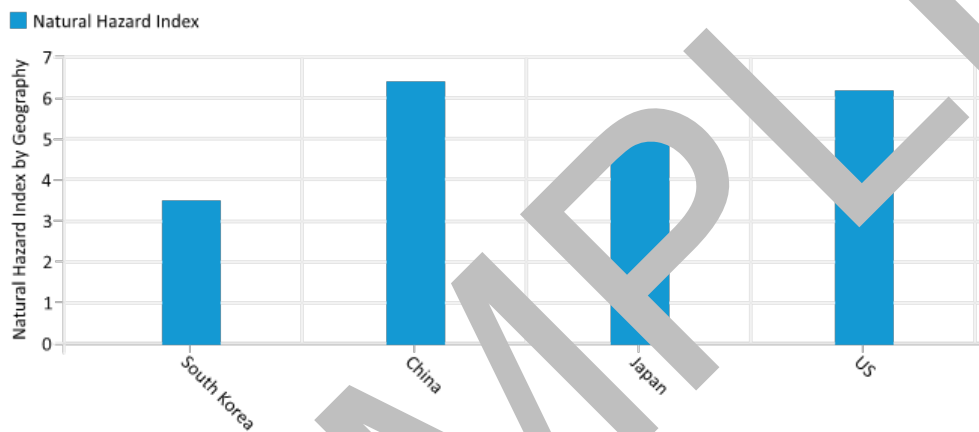
Last change: November 2021 (DB3b→DB3a)

Rating Outlook: Stable

Risks and Opportunities

- South Korean authorities have been effective at containing COVID-19, and the country has avoided the need for an economically damaging lockdown.
- Japan's removal of South Korea from its list of countries with automatic approval for high-tech exports since 2019 has not affected supply chains greatly.
- Global semiconductor shortages have hit the automotive sector hard, leading to big falls in output.
- In September 2020, Typhoon Haishen temporarily interrupted the operation of two nuclear reactors at the Wolsong plant in North Gyongsang province.

Risk Index: Hazard & Exposure



Source: Haver Analytics

Note: 0 = lowest risk, 10 = highest risk

Call to Action

- Be aware of suppliers with just-in-time inventory systems that rely heavily on [supplies from overseas](#) and may be affected by bottlenecks in the global container supply chain.
- Note that South Korea's integration with Asian suppliers means it is less exposed to inventory supply-chain shocks from Europe and the Americas.
- Check whether critical facilities and suppliers are within 30km of the four main nuclear sites; if so, check the terms of your business-disruption/contingency insurance.
- Be aware of the theoretical risk of conflict with North Korea affecting suppliers; we recommend contingency planning given the non-zero risk.



Market Environment

Score: DB3c
Last change: N/A → DB3c

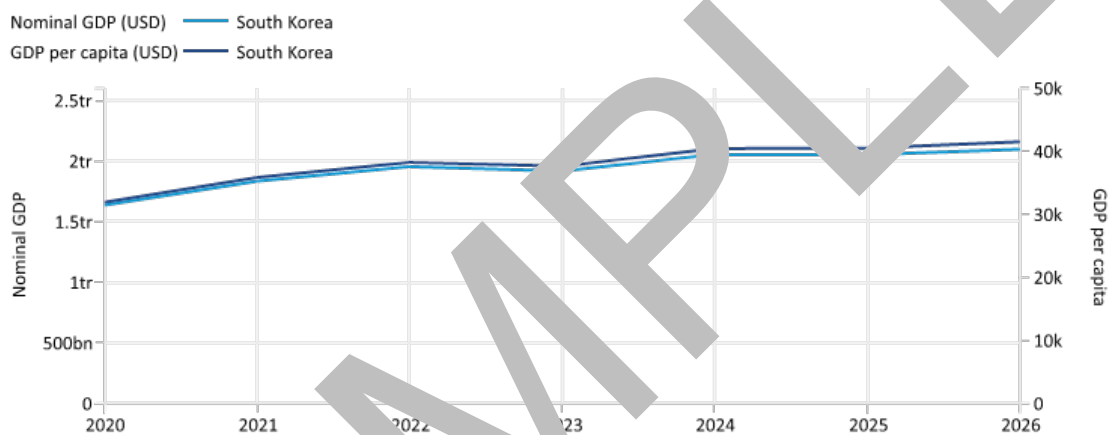


Rating Outlook: Stable

Risks and Opportunities

- The revised US-South Korea free trade agreement took effect in January 2019, doubling the annual quota for vehicle imports and easing non-tariff barriers.
- Trade relations with Japan entered a crisis in August 2019, when Japan deleted South Korea from its list of countries enjoying automatic approval for high-tech exports.
- South Korea has signed the Regional Comprehensive Economic Partnership (RCEP) along with the Association of Southeast Asian Nations (ASEAN), China, Japan, Australia and New Zealand; it may take effect by 2022.
- South Korea's per capita GDP stayed above USD30,000 in 2020, a show of resilience, making it the tenth-richest economy, displacing Italy.

Nominal GDP and GDP per capita



Source: Haver Analytics/Dun & Bradstreet

Call to Action

- Note common rules of origin for trade within the RCEP once it takes effect, due, at the earliest in early 2022, and South Korean tariff exemptions for RCEP members.
- Note further retaliation measures from Japan are possible if South Korean courts seize Japanese corporate assets to compensate wartime forced labourers.
- Note that every year South Korea's trade commission still investigates several applications for unfair trade practices and anti-dumping from affected companies.
- Look for opportunities created by South Korea's flexible preferential tariff system.



Political Environment

Score: DB3c
Last change: N/A → DB3c



Rating Outlook: Stable

Risks and Opportunities

- North Korea has demonstrated its short-range ballistic and cruise missiles with repeated tests since May 2019, and continues to evade UN sanctions.
- The security situation in the peninsula is at its most fluid in decades, in line with US-China, Japan-South Korea and inter-Korean relations.
- Key presidential elections are due to be held in early 2022.
- Victory for the ruling Democratic Party's candidate, would likely see further steps aimed at lowering inequality through increases in welfare spending financed by large budget deficits.
- Victory for the opposition People Power Party (PPP) would bring some reversal of these policies, and a more hawkish stance towards China.

Political Freedom

Location	Electoral Process	Pluralism and Particip.	Function'g of Govt.	Freedom of Express'n and Belief	Assoc'n and Org. Rights	Rule of Law	Personal Autonomy and Individual Rights
S. Korea	11	13	9	11	11	13	13
Asia Pacific	7	9	6	7	7	7	9
OECD Average	11	15	10	14	11	13	14



Source: Freedom House

Note: Higher score = greater degree of freedom

Call to Action

- South Korea is closely integrated into global supply chains; we advise contingency planning, given the low, but not impossible, risk of conflict with North Korea.
- Note that diplomatic relations with Japan have deteriorated and tension over military costs is complicating relations with the US.
- Be aware that a big change in policy is likely if the opposition People Power Party wins the upcoming presidential election.



Detailed Analysis

The following sections analyse in more detail the nine core elements that influence the risks and opportunities involved when doing business in/with a given country.

The core categories that we analyse as part of our broader risks and opportunities model are as follows:

Short-Term Economic Outlook

Long-Term Economic Potential

Market Potential

FX Risk

Transfer Risk

Business Regulatory Environment

Business Continuity

Political/Insecurity Risk

Expropriation/Nationalisation Risk

Descriptions for each of these categories can be found in the User Guide.



Short-Term Economic Outlook

Score: DB4c



Last change: November 2021 (DB4d→DB4c)

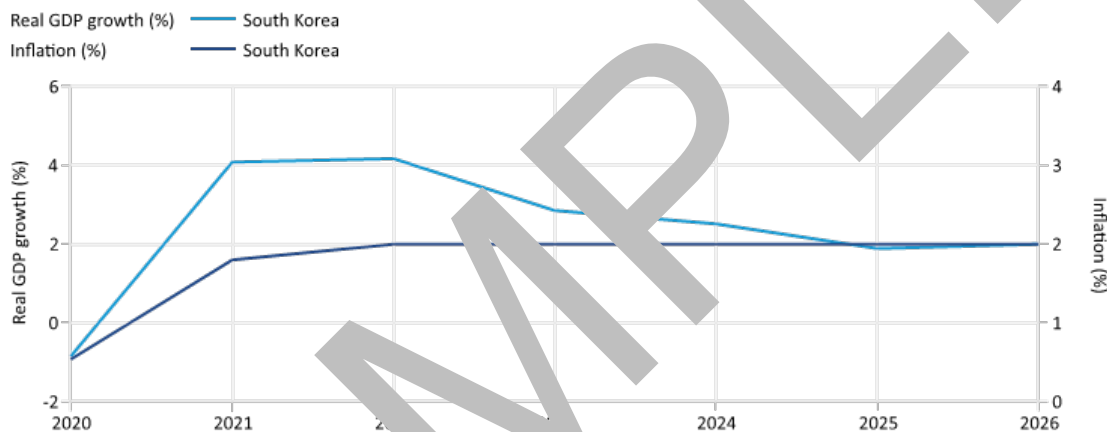
Rating Outlook: Stable

South Korea's macroeconomic prospects remain favourable, helped by its effective management of COVID-19 and strong demand for the country's exports. GDP is already above its pre-crisis level. We expect the country to make a full recovery from the crisis and that it will not experience any scarring from the pandemic.

Recent Developments

- In August, South Korea became the first high-income country in Asia since the pandemic began to see its central bank hike rates, citing inflation and growth.
- This underlines South Korea's relatively robust performance during the pandemic, thanks to its export industries and disease containment.
- The recovery should continue in 2022, helped by a further reopening of the economy, which should provide a boost to the service sector.

Real GDP Growth and Inflation



Source: Haver Analytics/Dun & Bradstreet

Risks and Opportunities

- CPI inflation peaked 3.2% y/y in October - its highest rate in nearly 10 years - mainly as a result of higher global energy prices; we think the impact will prove temporary.
- However, the central bank will need to keep a careful eye on developments to ensure that high price pressures do not become embedded.
- A bigger risk to the outlook is high and rapidly rising property prices and increasing levels of household debt: house prices increased by 16.3% y/y in October.
- The recent budget for 2022 indicates a strongly activist fiscal stance, with spending up more than 2% of GDP compared to spending in 2021.

Call to Action

- Expect the economic recovery to continue in 2022, helped a further reopening of the service sector.
- The central bank remains concerned about surging property prices - expect further interest rate hikes throughout 2022.
- Be aware that South Korea's geographic regions feature concentrations of different industries and will face divergent shocks from demand shifts at home and abroad.



Long-Term Economic Potential

Score: DB3c

Last change: N/A→DB3c



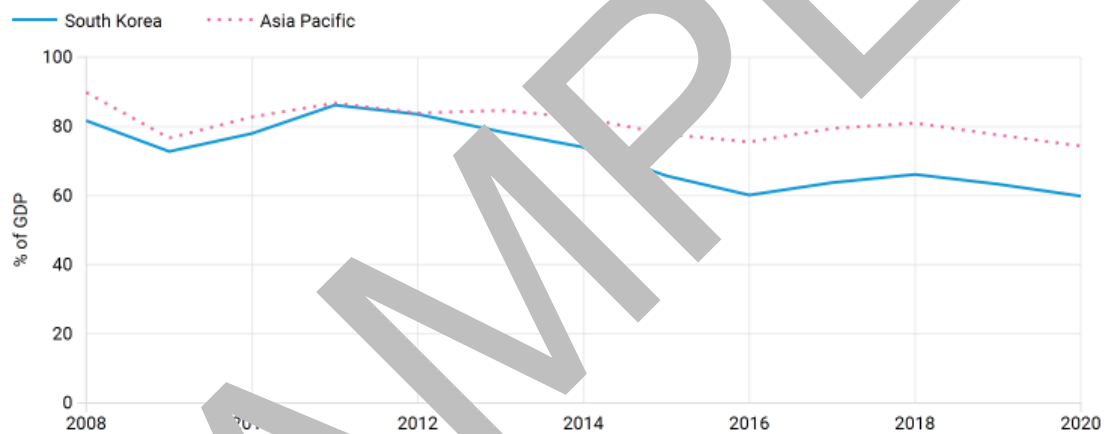
Rating Outlook: Stable

The country is the fourth-largest economy in Asia-Pacific (including Australia), with a sizeable market and a record of creating world-leading brands. Over the coming decades, a falling labour force will act as a drag on growth. But this should be offset by faster productivity growth, thanks to increased investment in new technologies.

Recent Developments

- Even in a benign global context, high debt levels in business sectors and households would have weighed on growth, which has declined towards the OECD average.
- The economy has yet to diversify from the powerful *chaebol* (wealthy clique) industrial groups, although they seem an effective business model with a record of innovation.
- Demographics have become quite unfavourable in the 2020s and social safety-net building, pro-competition, and human-capital-raising policies are needed.
- Because of its effective management of the pandemic and high levels of fiscal support, South Korea is likely to experience very little long-term scarring from the pandemic.

Exports and Imports



Source: International Monetary Fund, Direction of Trade Statistics/Haver Analytics

Risks and Opportunities

- The administration's 'Green New Deal' and 'Digital New Deal' are designed to channel more than USD 100bn in investments and create 2.9m jobs by 2025.
- Domestic demand will slow because of the shrinking working-age population, unless female labour-force participation can be increased or gender wage inequality reduced.
- Nuclear provided 27.9% of electricity generation in 2020, so plans to end large-scale coal generation by 2030 could increase prices and limit competitiveness.
- South Korea's terrain means it has little flat land for solar power, limiting options for carbon-neutral power generation.

Call to Action

- Do not presume that South Korea will be able to maintain the relatively rapid rates of GDP growth seen in past years.
- Note that the ageing of the population will not necessarily present significant opportunities, as poverty rates among the elderly are high.
- Nevertheless, when assessing opportunities, factor in demographic trends, which will become increasingly evident in the 2020s.
- Track the large direct fiscal support to R&D, of which more than half was for 'Korean (Green and Digital) New Deal' projects in 2020.



Market Potential

Score: DB3b
Last change: N/A → DB3b



Rating Outlook: Stable

In 2018, South Korea became one of only seven countries to have met the criteria for inclusion in the coveted '30-50' club, with a population of at least 50m and a per capita GDP of more than USD30,000. The country became the tenth-richest in the world in per capita terms in 2020, taking the place of Italy - which struggled with the pandemic.

Recent Developments

- Despite the pandemic, South Korea's per capita GDP is projected to stay above USD30,000 in 2021- 22 in a show of resilience.
- Its semiconductor manufacturers have benefited from demand changes during the pandemic, with high and rising chip prices boosting inventory demand.
- In 2020, South Korea, China, Japan, Australia, New Zealand and the ten Association of Southeast Asian Nations signed the Regional Comprehensive Economic Partnership.
- In July, the 'Green New Deal' agenda followed, including a net-zero carbon economy by 2050.

Main Restrictions on Imports

Tariff Barriers	S. Korea	China	Japan	Hong Kong (A.R.)	US
Overall Weighted Mean Tariff	4.8	2.1	3.5		13.8
Manufactures Weighted Mean Tariff	2.3	2.1	1.6		2.2
Primary Products Weighted Mean Tariffs	5.1	1.6	6.5		80.1
Overall MFN Tariff	3.1	1.8	9.9		5.9
Manufactures MFN Tariff	0.4	0.9	3.2		4.8
Primary Products MFN Tariff	0.3	1.1	26.6		10.6
Services Restrictiveness Index	23.1	36.6	23.4		14.6

Source: Haver Analytics/World Bank

Note: Tariff data displayed as %. For SRI data, 0 = completely open, 100 = completely closed

Risks and Opportunities

- The Regional Comprehensive Economic Partnership (RCEP) sets less ambitious standards than the Trans-Pacific Partnership, which South Korea did not join. However, RCEP membership should benefit South Korea's competitive industries, including its automotive, electronics and steel sectors.
- In January 2021, South Korea doubled the import quota for US cars to 50,000 annually, and eased environmental certifications for vehicles in 2021-25 as part of the renegotiation of the Korea-US Free Trade Agreement (KORUS).
- In December 2020, President Moon raised the prospect of South Korea entering the Trans-Pacific Partnership (TPP); while the TPP includes fewer countries than the RCEP, it focuses on reducing both tariff and non-tariff barriers.

Call to Action

- Note common rules of origin for trade within RCEP once it takes effect, and tariff exemptions for members.
- Note that trade and political relations with Japan have deteriorated; South Korea may retaliate against Japanese companies now that Japan has stepped up export controls.
- Note that every year South Korea's trade commission still investigates several applications for unfair trade practices and anti-dumping from affected companies.
- Look for opportunities created by South Korea's flexible preferential tariff system.



FX Risk

Score: DB3c
Last change: N/A → DB3c



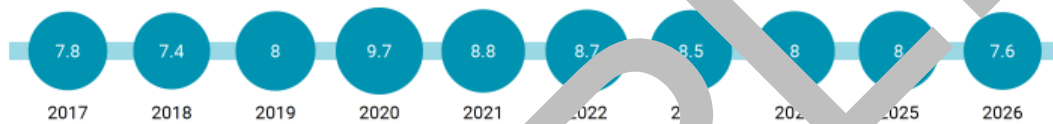
Rating Outlook: Stable

South Korea's won has shed the risk profile of an emerging-market currency in the past 20 years. South Korea's liquid and diversified FX market, net international investment surplus, official reserves, fiscal history and current account surplus reassure portfolio investors, but news flow from North Korea causes periodic, manageable volatility.

Recent Developments

- The won proved resilient during the pandemic, thanks to South Korea's large current account surplus, large foreign exchange reserves and success in containing the virus.
- South Korean exports fell sharply during the initial stages of the crisis, but have rebounded strongly throughout 2021, helped by strong demand.
- The won has weakened steadily against the US dollar throughout 2021, but this is not a big threat to the economy given the low level of foreign currency debt.

Import Cover (Months)



Source: Haver Analytics/Dun & Bradstreet

Risks and Opportunities

- Strong demand for South Korean semiconductors and electronic products will continue to provide support to the country's exports, and the current account is likely to remain in large surplus.
- Official foreign reserves still provide a substantial cushion for the won of more than three-times short-term external debt, and the FX market is liquid and diversified.
- South Korea ships almost 20% of its exports to Greater China, making South Korea vulnerable to a sharp slowdown in China's economy.
- A large current account surplus should provide a buffer to offset any volatility on the capital and financial accounts as a result of portfolio flows.
- Given that freight costs are typically less than 1.0% of GDP, we do not expect the surge in the rates for container shipping to affect South Korea's balance of payments.

Call to Action

- Be prepared for foreign investors to withdraw during bouts of volatility in global markets and as a result of doubts about South Korea's prospects.
- Expect that such volatility could arise from prolonged disruption to the country's major export markets during the pandemic.
- Expect authorities to intervene in the FX market to smooth the pace of adjustment for the won during disorderly conditions in both directions.



Transfer Risk

Score: DB2a



Last change: November 2021 (DB2b→DB2a)

Rating Outlook: Stable

Since 1988, South Korea has accepted obligations under the IMF to refrain from imposing restrictions on payments and transfers for current international transactions, and from engaging in discriminatory currency arrangements and multiple currency practices. The currency is not traded overseas, but authorities adhere to a liberal regime of capital transactions.

Recent Developments

- South Korea does maintain security-related exchange controls in line with US policy, and national policy with regard to its neighbour, North Korea.
- Financial transaction reporting requirements were tightened in 2019 to better conform with international standards to counter money-laundering and financing of terrorism.
- The Financial Services Commission requires real-named bank accounts for crypto-accounts and has required crypto-currency exchanges to register with the Financial Intelligence Unit since Q3.
- South Korea was deemed by the Financial Action Task Force to have a sound anti-money-laundering and counter-terror finance framework.

Transfer Situation

Type	Delay
FX/Bank Delays	Not reported delays
Local Delays	0-1 month

Source: Dun & Bradstreet

Trade Payment Restrictions

Trade Payment Restriction	S. Korea	Asia Pacific	OECD Average
Restrictions on non-Residents' Accounts	0	0.18	0.06
Restrictions on Payments for Imports	0	1.18	0.06
Restrictions on Payments to Non-Resident and other Current Transfers	0	1.55	0.35

Source: International Monetary Fund

Note: for a definition of the Trade Payment Restrictions please see the online [user guide](#)

Risks and Opportunities

- From 2022, the RCEP (see Market Potential) is expected to guarantee most inward and outward investment income and capital-related transfers with member economies.
- South Korea has more portfolio investment liabilities (a subset of total asset types) to non-residents than its residents own in portfolio assets abroad.
- However, it would require a huge reallocation away from South Korea to bring about a balance-of payments crisis and the risk of emergency exchange controls.

Call to Action

- Expect further improvements in the payments capacity, given the launch of the new-generation BOK-Wire+ system in late 2020.
- Follow South Korea's moves on cryptocurrency regulation if you have exposure.



Business Regulatory Environment

Score: DB2d
Last change: N/A → DB2d



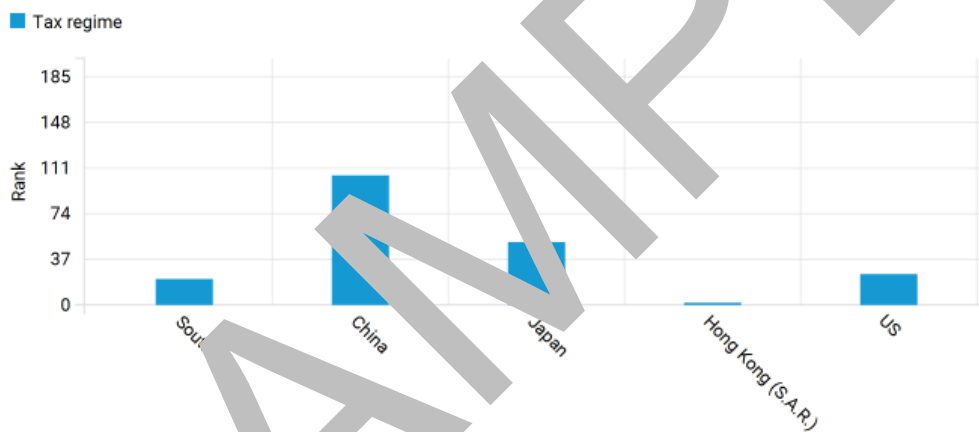
Rating Outlook: Stable

South Korea has a friendly business environment. The country earned fifth place in the World Bank's *Doing Business 2020* survey. However, the reporting methodology excludes labour relations, and may not reflect difficulties for foreign investors and entrepreneurs. The World Economic Forum, in its *Global Competitiveness Report 2019*, ranked South Korea only 13th overall.

Recent Developments

- The election of President Moon Jae-in in 2017, following the impeachment and arrest of President Park Geun-hye, presaged a more redistributive and interventionist approach to labour markets and taxation.
- Moon has made some progress on reducing the power of the *chaebol*, most notably with the passage in 2020 of the so-called 'fair economy' laws, which included stronger penalties for corruption and measures to make financial audits more transparent.
- A revised Monopoly and Fair Trade Act will become law in December; the law will regulate information exchange by cartels and transactions in corporate groups, and doubles fines for cartels, abuse of market dominance and unfair trade practices.

Ease of Paying Taxes, 2019



Source: World Economic Forum, *Doing Business*

Rating: Low score = best. High score = worst

Risks and Opportunities

- Family ownership structures can complicate corporate governance, succession issues and decision-making in leading companies and bring risks of judicial investigations.
- President Moon has implemented a pipeline of labour market and *chaebol*-linked reforms to boost the rights of workers and shareholders.
- In August, the revised Telecommunications Business Act banned major app store operators from forcing payment systems on vendors, which affected Apple and Google.

Call to Action

- Scrutinise cross-border tax issues, tax treaties, and new fiscal treatments and definitions well in advance to prevent difficulties.
- Ensure executives and employees know of the Anti-Corruption and Bribery Prohibition Act and its wider definition of illicit conduct.
- Be aware of new legislation and compliance risks involved in requesting intellectual property and ideas from small and medium-sized enterprises.



Business Continuity

Score: DB3a



Last change: November 2021 (DB3c→DB3a)

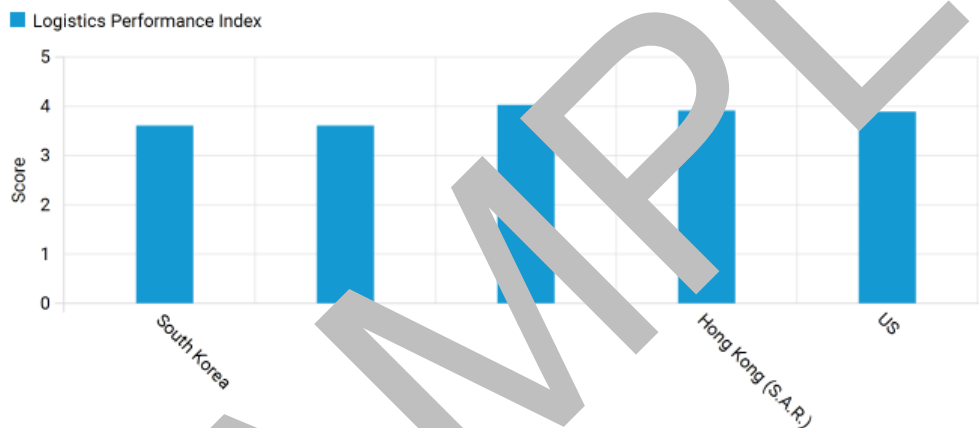
Rating Outlook: Improving

World-class infrastructure reflects South Korea's status among the earlier industrialisers of Asia. The port of Busan was the world's sixth-largest container port by volume in 2019. A relatively low level of economic costs from natural disasters since the 1970s is evident, but a mountainous geography and rapid changes in land use have made landslides more frequent: although small in scope, they can affect residential and industrial zones even in urban areas of Seoul.

Recent Developments

- South Korea has contained COVID-19 without the need for an economically damaging lockdown, which has allowed most businesses to remain open during the pandemic.
- Since Japan re-imposed administrative controls on high-technology exports to South Korea in 2019, national stockpiles of such 'strategic' items have doubled.
- Semiconductor shortages are likely to last well into 2022, and will continue to affect the automotive industry by limiting production and bringing output suspensions.

Logistics Performance Index, 2018



Source: World Bank

Note: 1 = worst performance, 5 = best performance

Risks and Opportunities

- The administration has U-turned on a nuclear phase-out policy that would have compromised its ability to meet its carbon targets: it now backs the development of small modular reactors.
- Global semiconductor shortages have highlighted the importance of semi-conductors to global supply chains.
- Europe and the US are planning to boost domestic output of semi-conductors, which, over the long-term, could threaten South Korea's position as major global semiconductor producer.
- South Korea's port infrastructure is poised for further investments to stay competitive but is still experiencing its share of the global wave of pandemic-related congestion.

Call to Action

- Be aware of sectors with just-in-time inventory systems that rely heavily on supplies from overseas.
- Check whether critical facilities and suppliers are situated within 30km of the four main nuclear sites.
- Note the theoretical risk of conflict with North Korea affecting suppliers.



Political/Insecurity Risk

Score: DB3a
Last change: N/A→DB3a



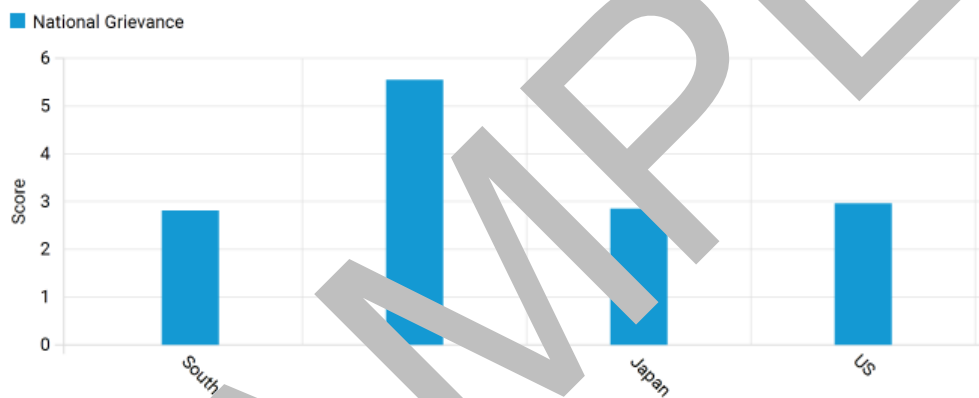
Rating Outlook: Stable

President Moon Jae-in's Democratic Party (Minjoo, DP) won a landslide victory in the April 2020 legislative election, winning an outright majority for the first time since the 2000s. The results indicated widespread disillusionment with the conservative wing of South Korean politics after the impeachment of his predecessor in 2017. Moon's popularity has since slipped because of high housing prices and corruption scandals. The next test for the DP is the 2022 presidential election.

Recent Developments

- Campaigning ahead of the March 2022 presidential election is heating up.
- Victory for the ruling Democratic Party's candidate - who backs universal income - would likely see a continuation of President Moon's efforts to reduce inequality through increases in welfare spending financed by large budget deficits.
- The conservative wing of national politics has not recovered fully from President Park's impeachment in 2017, limiting its chances of power in 2022; the DP's candidate Lee Jae-myung is ahead in the opinion polls.

Level of National Grievance, 2020



Source: Fund for Peace, 'Fragile States Index'

Note: 1.0 = lowest grievance, 10.0 = highest grievance

Risks and Opportunities

- A victory for the opposition PPP would bring a sharp reversal of many of President Moon's policies, especially with regard to increased social security spending.
- An opposition PPP victory could also lead to South Korea taking a more hawkish stance towards China.
- Ties with Japan have deteriorated sharply since 2018 as a result of local court rulings for the expropriation of Japanese corporate assets to compensate wartime labourers.
- President Moon has not supported such court orders, but the latest such ruling against Mitsubishi Heavy Industries came in August and could impair ties with Tokyo.

Call to Action

- Be aware of the low risk of conflict with North Korea: note that North Korea is still developing strategic weapon systems.
- Take note that North Korea is struggling with food insecurity, sanctions and the impacts of coronavirus.
- Note that the amended Act on Press Arbitration takes effect in April 2022, after the presidential election, increasing penalties for media disseminating false information.



Expropriation/Nationalisation Risk

Score: DB3d
Last change: N/A → DB3d



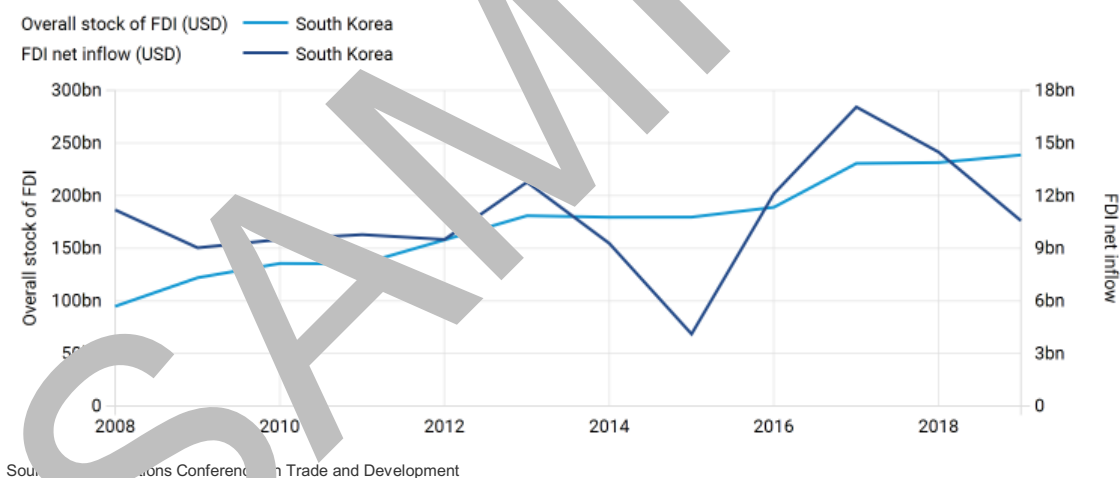
Rating Outlook: Stable

Companies are unlikely to be expropriated or nationalised, but the government can expropriate for public works or other public purposes. Since 2018, courts have upheld compensation claims for wartime reparations on pain of expropriation. The constitutional court holds that ‘just compensation’, based on a fair market price, should be paid to expropriated parties, but South Korean law does not recognise ‘indirect expropriation’ (loss of rights through regulatory measures).

Recent Developments

- South Korea has signed 95 bilateral investment treaties, of which 88 are in force, according to the United Nations Conference on Trade and Development (UNCTAD).
- South Korea is also a signatory to 23 active trade agreements, of which 19 include investment provisions.
- Since 2018, there have been several new investor-state International Centre for Settlement of Investment Disputes (ICSID) disputes with South Korea as defendant.
- The above increases South Korea’s historic number of cases at the International Centre for Settlement of Investment Disputes to at least 12.
- The 2012 Lone Star ICSID case motivated the government to weaken investor-state dispute provisions in the US-South Korea free trade agreement revised in 2019.
- Japanese corporations deemed legal successors to firms operating with Korean forced labour in 1910-45 face compensation claims and potential expropriation.

Foreign Direct Investment



Risks and Opportunities

- Court decisions since 2018 are creating expropriation risks for Japanese corporations in South Korea, including Mitsubishi Heavy Industries and Nippon Steel.
- President Moon Jae-in has not given his support to the courts’ rulings, but equally has not taken any decisions to block the judiciary.
- South Korea’s accession to the RCEP, anticipated in 2022, could augment member state investor protections, but the RCEP lacks investor-state dispute mechanisms.

Call to Action

- Even though direct expropriation is unlikely, consider political risk insurance for abrogation, repudiation or contract impairment by government interference.
- Expect further Japanese corporations to face claims from individuals for unpaid forced labour in the colonial period (1910-45), and legal uncertainty as to the outcomes.



Statistical Reference

Key Indicators and Forecasts

Historical Data/ Forecasts

Metric	2017	2018	2019	2020	2021f	2022f	2023f	2024f	2025f	2026f
Real GDP growth (%)	3.2	2.9	2.2	-0.9	4.1	4.2	2.9	2.5	1.9	2.0
Nominal GDP in USDbn	1,623	1,725	1,651	1,638	1,837	1,957	1,920	2,056	2,055	2,100
Nominal GDP in local currency	1,836tn	1,898tn	1,924tn	1,934tn	2,048tn	2,154tn	2,283tn	2,365tn	2,466tn	2,561tn
GDP per Capita in USD	31,765	33,717	32,238	31,954	35,897	38,313	37,698	40,008	40,566	41,567
Population (year-end, m)	51.1	51.2	51.2	51.3	51.2	51.1	50.9	50.8	50.6	50.5
Exchange rate (yr avge, USD-LCU)	1,131.0	1,100.2	1,165.4	1,180.3	1,115.0	1,101.0	1,100.0	1,150.0	1,150.0	1,220.0
Current Account in USDbn	75.2	77.5	59.7	75.3	85.5	104.6	110.0	133.0	127.3	124.5
Current Account (% of GDP)	4.6	4.5	3.6	4.6	4.7	5.3	6.1	6.5	6.2	5.9
FX reserves (year-end, USDbn)	384.5	398.9	404.0	438.3	460.0	475.0	485.0	470.0	502.0	500.0
Import Cover (months)	7.8	7.4	8.0	9.7	9.7	8.7	8.5	8.0	8.0	7.6
Inflation (annual avge, %)	1.9	1.5	0.4	0.5	1.8	2.0	2.0	2.0	2.0	2.0
Govt Balance (% GDP)	1.3	1.6	-0.6	-0.5	-0.5	-0.5	-1.1	-0.5	-1.0	-2.0

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	South Korea	China	Japan	Hong Kong (S.A.R.)	US
Income per Capita (USD)	35,897	12,451	39,754	49,799	69,386
Country Population (m)	51.2	1,444.2	125.5	7.5	332.9
Internet users (% of population)	93.3	73.3	84.6	89.4	87.3
Real GDP Growth (% p.a., 2022 - 2031)	2.5	4.5 - 6.5	-0.8 - 1.3	1.5 - 2.5	1.5 - 3.5

Source: Various sources/Dun & Bradstreet

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