

Country Insight Snapshot Korea (South)

November 2021





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.

Recent Changes

- The current rating of DB3b is only one quartile 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 exports 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 70% 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 government 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.



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 been 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

Call to Action

- 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.
- Set credit terms conservatively, with a minimum of SD terms for small companies.



Supply Environment

Score: DB3a



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.

Call to Action

- Be aware of sectors 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 inward supply-chain shocks from Europe and the Americas.
- Check whether critical facilities and suppliers are within 50km of the four main nuclear sites; if so, check the terms of your business-disruption/continuity insurance.
- Be aware of the theoretical risk of conflict with North Korea affecting suppliers; we advise 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.

Call to Action

- Note common rules of origin for trade within the RCEP once it takes effect, 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 victims of forced laborers.
- Note that every year South Korea's trade commission will investigate 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.

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.



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