

KOREA

PROFIT OPPORTUNITY RECOMMENDATION

1C. INCREASE BUSINESS ACTIVITY AT A SUSTAINED PACE

Most Probable Political Scenario: President Yoon Seok-youl of People's Power Party (PPP) takes the country further right amidst declining popularity. Pressure remains on the administration as economic conditions are challenging and Minjoo's majority in the legislative present a good opportunity for the party to provide effective opposition. The Democratic Party has internal struggles but is reenergized by the PPP loss in the by-elections. Relations with the U.S. improve considerably under the new president at the expense of relations with Beijing. South Korea takes measures to turn APEC attention to the Russia and North Korea arms deal and underlines the importance of strengthening security links.

KOREA'S RATINGS

	Combined Score	Political Risk Index	Operations Risk Index	Remittance and Repatriation Factor
2015	60	47	57	77
2016	59	42	58	76
2017	60	44	58	77
2018	66	51	64	83
2019	60	45	60	75
2020	62	55	58	72
2021	61	51	60	73
Present	60	50	60	71
+1 Year	63	52	64	73
+5 Years	67	57	68	75

KOREA'S OUTLOOK

Political ratings lost some ground. Yoon Seok-youl of the People Power Party (PPP) became the president in a closely contested race earlier last year. Despite the election of the new president and a change in policy direction, the PPP is in a minority position in the National Assembly having lost to Minjoo in the legislative elections. That picture makes policymaking challenging because the two parties do not get along well. President Yoon intensified his rhetoric against the opposition labeling them as "communists" in an effort to further his support among the conservative base of his party. The polarization of politics, however, will fuel animosity and widen the divisions resulting in voter apathy. Recent opinion polls showed that the disapproval ratings for the president climbed to 59% in the beginning of the fourth quarter, compared to 37% at the time when he was elected. General elections will be held in 2024. In October, the opposition Democratic Party of Korea won a by-election contest placing more pressure on the government. Foreign policy under the new administration will seek closer relations with Washington as South Korea hopes to gain economic concessions. In late November, the president urged APEC countries to realize the risks emanating from an arms agreement between Russia and North Korea. South Korea will take measures to strengthen relations with the West. In late November, Mr. Yoon visited the UK to seek closer security and economic links.

Revenue collection is expected to moderate next year, but responsible spending will assure that the budget deficit will continue to decline. Even though the economy remains on weak footing, the administration did not request supplementary budget for 2023. Government forecasts indicate that the shortfall will be 1.9% of GDP in 2024; however, BERI expects this target to be missed. Revised data showed that the national debt was ₩1,100 trillion as of early September. The banking industry is on stable trajectory. A rising number of domestic banks has unveiled plans to expand overseas during the forecast period. Central bank statistics showed that only nearly 10% of the total profits are derived from other countries. Woori Bank has been one of the most active institutions in the market having announced expansion plans in the U.S., Cambodia, India and Vietnam. In its latest meeting in October, Bank of Korea (BoK) left the key interest rate unchanged at 3.5% for the sixth straight meeting. Real GDP grew 0.6% in quarterly terms during July-September, the same magnitude in the previous three-month period. Private consumption and services-related expenditure drove growth at that time. Economic activity expanded 1.4% year-on-year in the third quarter of the year,

compared to 0.9% in the preceding three-month period. Industrial production was 0.3% higher in September than in that month last year, marking the first increase in a year. Output plummeted 13.4% in the beginning of the year. Manufacturing PMI decreased to 49.8 in October from 49.9 in the previous month. Despite having come close to the positive territory for the past two months, the index remained in the contraction zone for 16 months in a row. The consumer confidence index fell to 98.1 from 99.7 during the same period. Business confidence improved with the index rising to 69 in October from 68 in the previous month. Average consumer prices grew 3.8% year-on-year in October, marking the 3rd straight month inflation has accelerated. Higher food and energy costs were behind the increase in inflation.

R Factor risk has lessened in the past four months. The merchandise trade balance yielded a surplus of US\$1.641 billion in October from a deficit of US\$6.721 billion during the same month in 2023. This was the fifth consecutive monthly surplus for South Korea, thanks to 5.1% annual increase in export revenue and 9.7% contraction in import spending. Aggregate trade shortfall stood at US\$18.181 billion in the first ten months of the year. The current account surplus was US\$5.422 billion in September, compared to US\$4.984 billion in the month prior. In addition to the contribution from trade, the current account was pushed up by higher primary income surplus. Foreign direct investment (FDI) gained momentum with inflows reaching US\$23.952 billion by the end of the third quarter. Majority of the new investment came from the European Union as well as China. Both manufacturing and services industries registered overseas investment growth expanding 15.7% and 9.0%, respectively. The relaxation of environment regulations will assure more sustained FDI inflows into the country during the forecast period. The administration confirmed that South Korea would be easing regulations further for foreign investors. In June, South Korea eliminated the foreign investor registration system after three decades.

KOREA'S ECONOMIC AND FINANCIAL INFORMATION

(US\$ Millions unless otherwise indicated)

	2020	2021	2022	2023F	2024F
Population (millions)	51.52	51.69	51.85	52.00	52.15
Gross Fixed Capital Formation, % of GDP	28.6	29.1	28.8	28.4	28.5
Production-Industrial (% change)	-0.2	7.1	1.5	-3.9	3.6
Economic Growth (% change)	-1.0	4.0	2.6	1.6	2.3
Consumer Price Index (% change)	0.5	3.7	5.1	3.2	1.7
Budget Deficit (% of GDP)	4.0	1.8	3.3	2.8	2.5
External Debt	452118	559829	563552	568045	570185
Foreign Exchange Earned	724614	726748	721316	726310	732520
Current Account Balance	75281	86884	28711	32895	38765
Foreign Exchange Reserves (year-end)	429491	466142	399803	394515	401100
Average Exchange Rate: US\$1= ₩	1183.53	1140.05	1293.83	1307.75	1303.35

KOREA'S POLITICAL INFORMATION

Governmental System: South Korea is a republic. A new constitution was drafted by government and opposition representatives and approved by 90% of voters in an October 1987 national referendum. It liberalized the 1980 constitution, permitting direct election of the president to a single five-year term. Executive power is held by the president, who appoints the State Council (cabinet) led by the prime minister. Legislative power is invested in the *Kuk Hoe* (National Assembly), which has 299 members serving four-year terms.

Changes in Government: In the 15 April 2020 general election, the United Future (former Saenuri) lost 19 seats in the *Kuk Hoe*, reducing its representation to 103. Democratic Party and its satellite Together Citizens' had a landslide victory obtaining 180 seats (+57 from April 2012 elections). On 9 March, Yoon Suk-yeol of the People Power Party (PPP) was elected as the new president winning 48.6% of the votes against the incumbent Minjoo Party candidate, Lee Jae-myung, who garnered 47.8%.