



# SOUTH KOREA

NOVEMBER 2023

COUNTRY REPORT

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# SOUTH KOREA

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# MAP



## KEY TAKEAWAYS

MOST LIKELY REGIMES & THEIR PROBABILITIES	
18-MONTH	Divided Government 65% (75%)
FIVE-YEAR	*DPK 40%

FORECASTS OF RISK TO INTERNATIONAL BUSINESS				
	TURMOIL	FINANCIAL TRANSFER	DIRECT INVESTMENT	EXPORT MARKET
18-MONTH	High	A-	A-	B+
FIVE-YEAR	Moderate	B+	A-	A-

() Indicates change in rating

\* Indicates forecast of a new regime

KEY ECONOMIC FORECASTS			
	REAL GDP GROWTH (%)	INFLATION (%)	CURRENT ACCOUNT (\$bn)
2018-2022(AVG)	2.3	2.0	65.62
2023(F)	1.1	3.6	28.40
2024-2028(F)	2.4	2.1	53.90

## PROSPECTS FOR PPP MAJORITY DIMMING

President Yoon Suk-yeol is counting on a victory for the governing PPP at legislative elections in April 2024 to provide his administration with the majority required to implement key items from his ambitious but mostly unfulfilled reform agenda. With less than six months to go before the elections, the political currents are not running in the incumbents' favor.

Last month, the PPP was trounced in a local contest closely watched as a barometer of public sentiment, particularly among the urban swing voters who are expected to greatly influence the outcome of next year's elections. The PPP tapped Ihn Yo-han to shake the party out of its complacency as chief of the party's innovation committee, but party leader Kim Gi-hyeon's quick rejection of Ihn's demand for control over the nomination of candidates effectively ended the rebranding effort.

Ihn has made overtures to Lee Jun-seok, a former PPP leader whose party membership was suspended in July 2022, amid an investigation into graft allegations. Lee Jun-seok was instrumental in attracting young males to the party and his subsequent banishment triggered an exodus of those same voters, to the detriment of the PPP's hopes in April 2024. The PPP recently lifted Lee Jun-seok's suspension, but he has floated the possibility of forming a new party, a development that would likely result in a loss of support for the PPP.

Opposition leader Lee Jae-myung has been indicted on corruption charges and the National Assembly has voted to lift his immunity from prosecution, but the Seoul Central District Court rejected prosecutors' request for an arrest warrant in September, a decision that supports the DPK's claim he is the victim of overzealous prosecutors. The scandal might encourage some defections from the DPK if Lee Jun-seok acts on his threat to launch a new party, but most DPK lawmakers have rallied behind their embattled leader, and there is so far no indication that the allegations against Lee Jae-myung have diminished the party's support among the electorate.

A divided government scenario is not necessarily a death sentence for Yoon's reform agenda. However, the room for bipartisan compromise is likely to narrow significantly in the run up to the April elections. The DPK has sharply criticized the stinginess of the government's proposed budget for 2024, which includes the smallest increase in total expenditures in two decades.

On the foreign policy front, recent conciliatory gestures by Beijing have at least temporarily assuaged fears of a diplomatic crisis. In late November, South Korea, China, and Japan agreed to resume annual trilateral talks for the first time since 2019. However, there is little reason to believe that the recent developments portend a fundamental shift in bilateral ties with China. Beijing likely sees the resumption of trilateral talks with Seoul and Tokyo as a means of reducing the incentive for South Korea and Japan to seek closer bilateral ties, particularly on security-related matters.

Easing inflation and falling unemployment underpinned a pickup in consumer expenditure in the second quarter, boosting growth to 0.6% for the period, but year-on-year real GDP remained stuck below 1% in the first half of the year, as slowing economic activity in key external markets weighed on the performance of the export sector. A broader mild recovery pushed real GDP growth up to 1.4% (year-on-year) in the third quarter, but an uptick in inflation since July rules out any near-term loosening of monetary policy.

High interest rates will limit the overall growth contribution from spending by heavily indebted households in the near term. External constraints are expected to ease going forward, but economic momentum will build only gradually, and annual real growth is forecast to slow to just 1.1% this year, before rebounding moderately to about 2.5% in 2024.

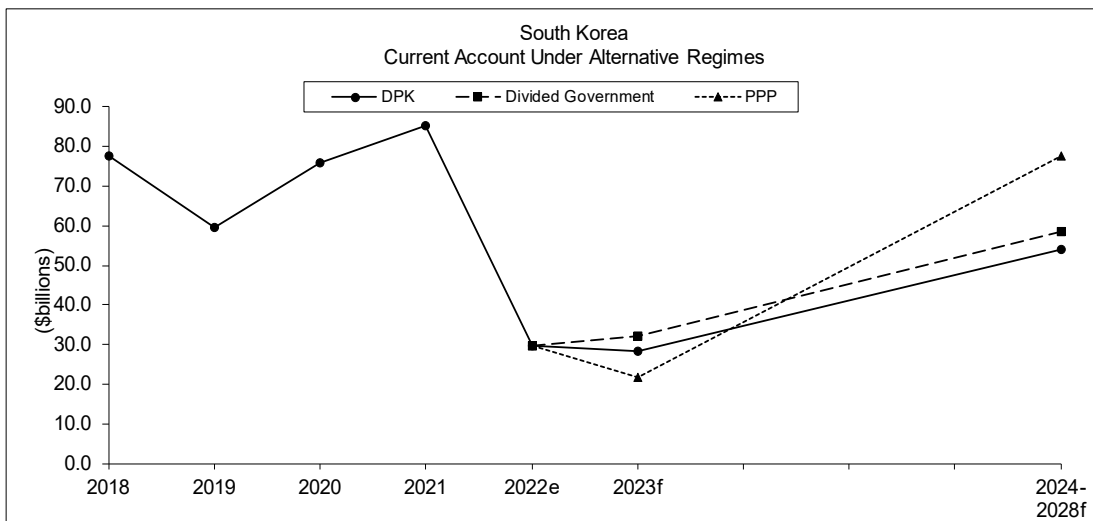
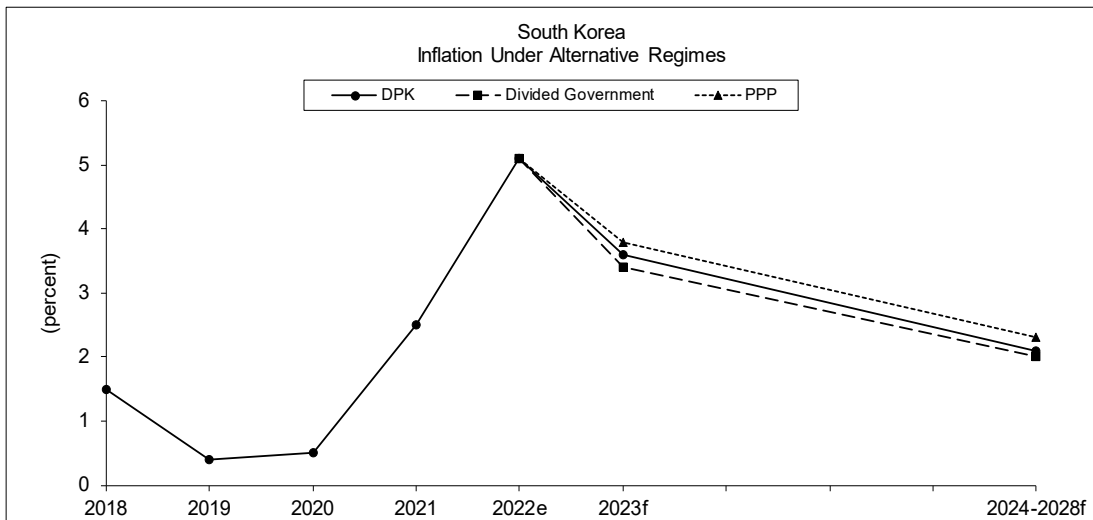
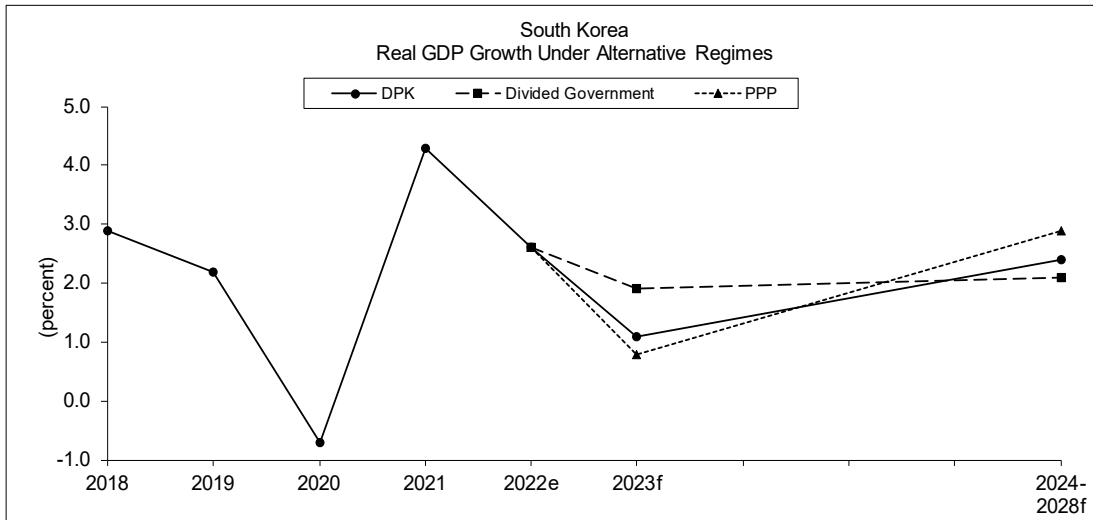
#### ECONOMIC FORECASTS FOR THE THREE ALTERNATIVE REGIMES

	DPK			Divided Government			PPP		
	GROWTH (%)	INFLATION (%)	CACC (\$bn)	GROWTH (%)	INFLATION (%)	CACC (\$bn)	GROWTH (%)	INFLATION (%)	CACC (\$bn)
2023	1.1	3.6	28.40	1.9	3.4	32.20	0.8	3.8	21.70
2024-2028	2.4	2.1	53.90	2.1	2.0	58.40	2.9	2.3	77.60

# REGIME, BUSINESS & INVESTMENT FORECASTS

SUMMARY OF 18-MONTH FORECAST				
REGIMES & PROBABILITIES		Divided Government 65%	Reformist Coalition 30%	Unity Government 5%
RISK FACTORS	CURRENT			
Turmoil	Moderate	SLIGHTLY MORE	SLIGHTLY MORE	SLIGHTLY MORE
Investment				
Equity	Moderate	SLIGHTLY MORE	Same	SLIGHTLY MORE
Operations	Low	Same	Same	SLIGHTLY MORE
Taxation	Low	Same	Same	Same
Repatriation	Low	Same	Same	SLIGHTLY MORE
Exchange	Low	Same	Same	SLIGHTLY MORE
Trade				
Tariffs	Moderate	Same	SLIGHTLY LESS	Same
Other Barriers	Moderate	Same	Same	Same
Payment Delays	Low	Same	Same	SLIGHTLY MORE
Economic Policy				
Expansion	Low	SLIGHTLY MORE	SLIGHTLY MORE	SLIGHTLY MORE
Labor Costs	Moderate	SLIGHTLY MORE	SLIGHTLY MORE	SLIGHTLY MORE
Foreign Debt	High	Same	Same	SLIGHTLY MORE
SUMMARY OF FIVE-YEAR FORECAST				
REGIMES & PROBABILITIES		*DPK 40%	Divided Government 35%	PPP 25%
RISK FACTORS	BASE			
Turmoil	Moderate	Same	SLIGHTLY MORE	Same
Restrictions				
Investment	Moderate	Same	SLIGHTLY MORE	Same
Trade	Moderate	SLIGHTLY LESS	Same	SLIGHTLY LESS
Economic Problems				
Domestic	Low	Same	Same	SLIGHTLY LESS
International	Moderate	Same	Same	Same

\* When present, indicates forecast of a new regime





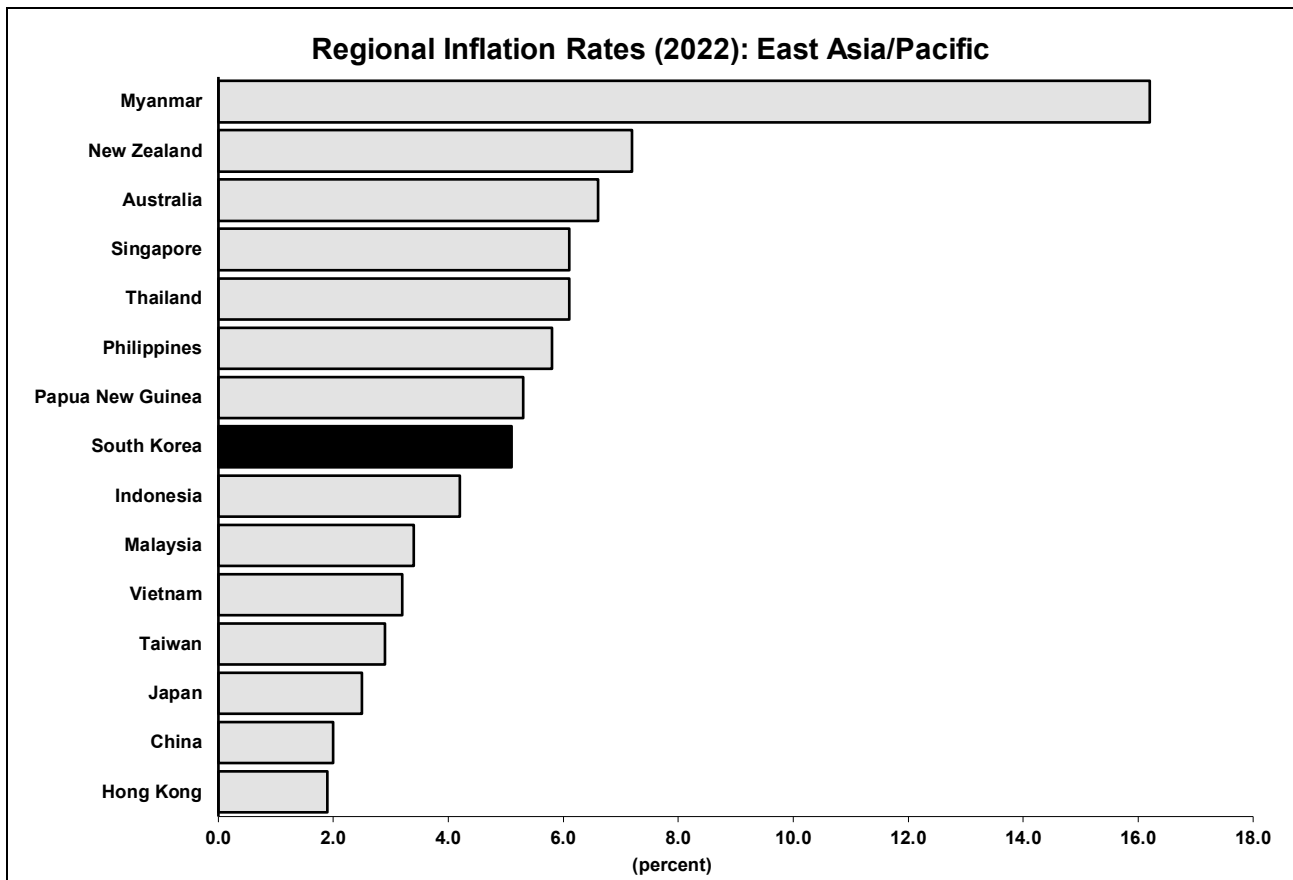
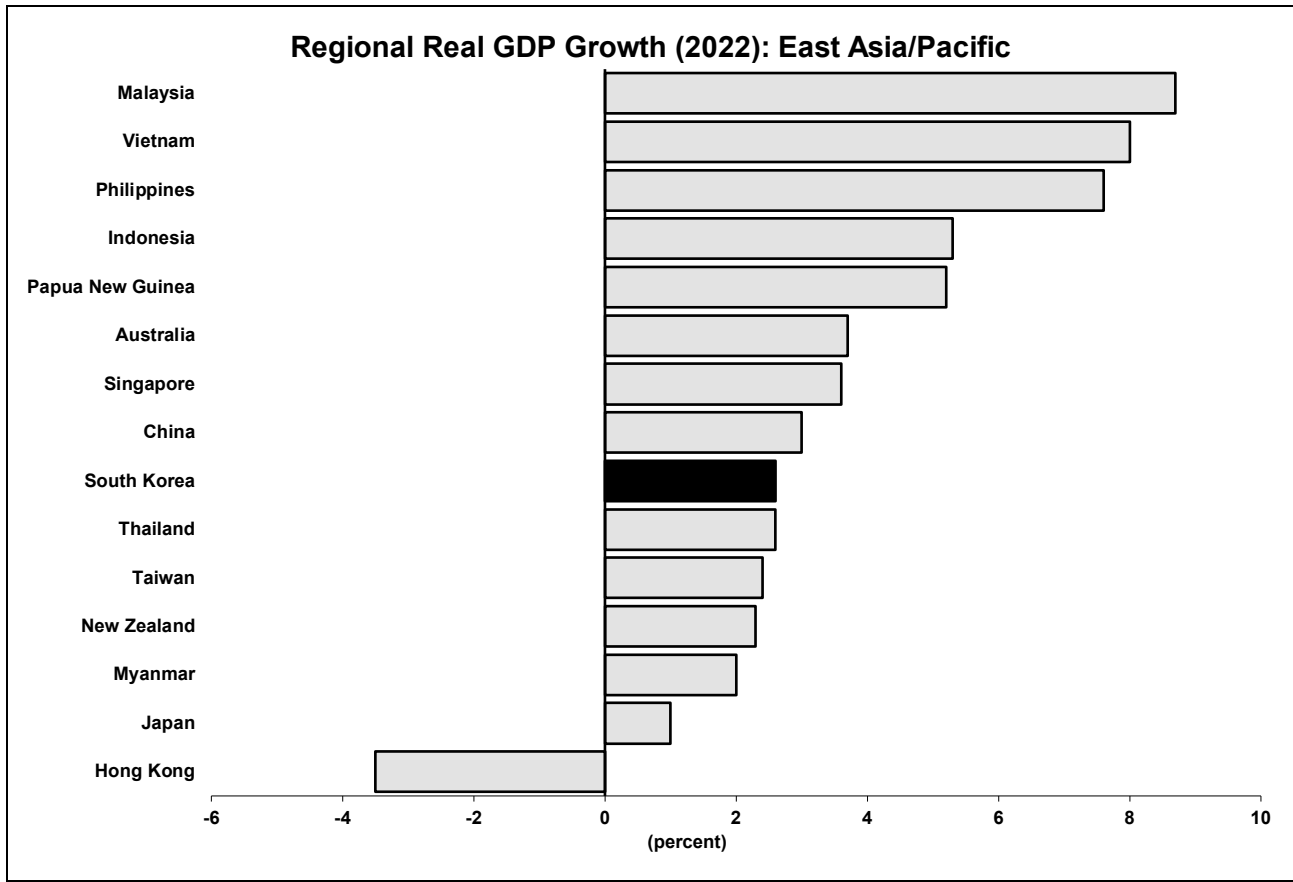
## South Korea Econometric Data

	2013-2017 Average	2018-2022 Average	2013	2014	2015	2016	2017
<b>Domestic Economic Indicators</b>							
GDP (Nominal, \$bn)	1488.68	1702.34	1370.64	1483.80	1465.12	1499.77	1624.09
Per Capita GDP (\$)	29423	33151	27320	29446	28961	29529	31857
Real GDP Growth Rate (%)	3.1	2.3	3.2	3.2	2.8	2.9	3.2
Inflation Rate (%)	1.2	2.0	1.3	1.3	0.7	1.0	1.9
Capital Investment (\$bn)	442.21	529.96	398.86	430.30	424.88	445.43	511.59
Capital Investment/GDP (%)	29.7	31.1	29.1	29.0	29.0	29.7	31.5
Budget Revenues (\$bn)	310.87	415.34	283.72	302.70	297.42	316.45	354.05
Budget Revenues/GDP (%)	20.9	24.3	20.7	20.4	20.3	21.1	21.8
Budget Expenditures (\$bn)	293.52	426.68	272.76	293.79	288.63	292.46	319.95
Budget Expenditures/GDP (%)	19.7	25.0	19.9	19.8	19.7	19.5	19.7
Budget Balance (\$bn)	17.35	-11.34	10.96	8.91	8.79	23.99	34.10
Budget Balance/GDP (%)	1.1	-0.7	0.8	0.6	0.6	1.6	2.1
Money Supply (M1, \$bn)	615.44	949.26	472.57	557.84	626.89	687.50	732.38
Change in Real Wages (%)	2.4	2.0	3.4	2.7	2.5	2.7	0.5
Unemployment Rate (%)	3.5	3.6	3.1	3.5	3.6	3.7	3.7
<b>International Economic Indicators</b>							
Foreign Direct Investment (\$bn)	11.23	14.13	12.77	9.27	4.10	12.10	17.91
Forex Reserves (\$bn)	357.79	411.55	335.65	353.60	358.51	361.70	379.48
Gross Reserves (ex gold, \$bn)	362.87	423.39	341.65	358.79	363.15	366.31	384.45
Gold Reserves (\$bn)	4.79	4.80	4.79	4.79	4.79	4.80	4.80
Gross reserves (inc gold, \$bn)	367.66	428.19	346.44	363.58	367.94	371.11	389.25
Total Foreign Debt (\$bn)	408.72	549.53	423.50	424.30	396.10	380.90	418.82
Total Foreign Debt/GDP (%)	27.5	32.3	30.9	28.6	27.0	25.4	25.8
Debt Service (\$bn)	58.25	73.81	55.04	60.23	60.03	57.78	58.15
Debt Service/XGS (%)	8.2	9.6	7.2	7.9	8.9	9.0	8.2
Current Account (\$bn)	87.71	65.62	77.26	83.03	105.12	97.92	75.23
Current Account/GDP (%)	5.9	3.8	5.6	5.6	7.2	6.5	4.6
Current Account/XGS (%)	12.5	8.7	10.1	10.9	15.6	15.3	10.6
Exports (\$bn)	573.42	608.16	618.39	613.40	543.08	511.93	580.31
Imports (\$bn)	470.07	535.90	538.13	527.25	422.81	395.46	466.72
Trade Balance (\$bn)	103.35	72.26	80.26	86.15	120.27	116.47	113.59
Exports of Services (\$bn)	100.45	109.45	108.32	111.90	97.50	94.81	89.70
Income, credit (\$bn)	27.65	45.17	28.98	28.23	25.10	26.47	29.47
Transfers, credit (\$bn)	8.99	10.16	8.78	8.87	8.84	8.74	9.71
Exports G&S (\$bn)	710.51	772.95	764.47	762.40	674.52	641.95	709.19
Liabilities (\$bn)	68.99	54.31	90.15	89.10	72.12	44.63	48.96
Net Reserves (\$bn)	298.67	373.88	256.29	274.48	295.82	326.48	340.29
Liquidity (months import cover)	7.8	8.6	5.7	6.2	8.4	9.9	8.7
Currency Exchange Rate	1114.190	1176.406	1094.974	1053.328	1131.659	1160.698	1130.291
Currency Change (%)	0.0	-2.5	2.9	4.0	-6.9	-2.5	2.7
<b>Social Indicators</b>							
Population (million)	50.58	51.35	50.17	50.39	50.59	50.79	50.98
Population Growth (%)	0.4	0.3	0.4	0.4	0.4	0.4	0.4
Infant Deaths/1000	4	3	4	4	4	3	3
Persons under Age 15 (%)	14	13	15	14	14	14	13
Urban Population (%)	83	82	83	82	83	83	83
Urban Growth (%)	0.4	-0.1	0.4	-0.8	1.6	0.4	0.4
Literacy % pop.	98	98	98	98	98	98	98
Agricultural Work Force (%)	6	5	6	7	6	6	5
Industry-Commerce Work Force (%)	24	25	24	24	24	24	24
Services Work Force (%)	70	70	70	69	70	70	71
Unionized Work Force (%)	10	10	10	10	10	10	10
Energy - total consumption (10 <sup>15</sup> Btu)	12.49	13.19	11.95	12.08	12.39	12.96	13.07
Energy - consumption/head (10 <sup>9</sup> Btu)	0.25	0.26	0.24	0.24	0.24	0.26	0.26

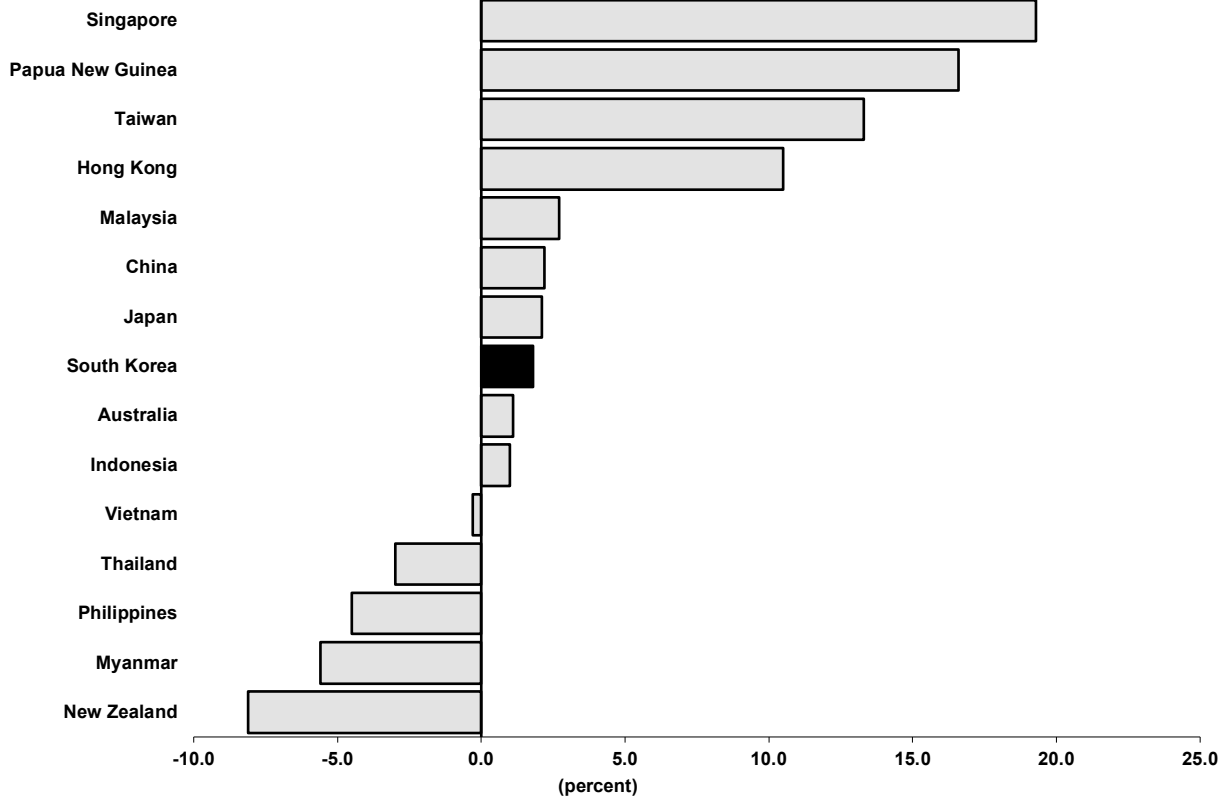
## South Korea Econometric Data

	2013-2017 Average	2018-2022 Average	2018	2019	2020	2021	2022
<b>Domestic Economic Indicators</b>							
GDP (Nominal, \$bn)	1488.68	1702.34	1724.77	1651.52	1645.51	1816.66	1673.26
Per Capita GDP (\$)	29423	33151	33700	32143	32095	35406	32409
Real GDP Growth Rate (%)	3.1	2.3	2.9	2.2	-0.7	4.3	2.6
Inflation Rate (%)	1.2	2.0	1.5	0.4	0.5	2.5	5.1
Capital Investment (\$bn)	442.21	529.96	524.33	497.11	515.04	574.95	538.37
Capital Investment/GDP (%)	29.7	31.1	30.4	30.1	31.3	31.7	32.2
Budget Revenues (\$bn)	310.87	415.34	394.97	378.20	376.82	498.22	428.50
Budget Revenues/GDP (%)	20.9	24.3	22.9	22.9	22.9	27.4	25.6
Budget Expenditures (\$bn)	293.52	426.68	351.85	373.24	413.02	524.86	470.45
Budget Expenditures/GDP (%)	19.7	25.0	20.4	22.6	25.1	28.9	28.1
Budget Balance (\$bn)	17.35	-11.34	43.12	4.96	-36.20	-26.64	-41.95
Budget Balance/GDP (%)	1.1	-0.7	2.5	0.3	-2.2	-1.5	-2.5
Money Supply (M1, \$bn)	615.44	949.26	775.23	817.03	997.96	1198.48	957.62
Change in Real Wages (%)	2.4	2.0	5.0	3.0	2.2	-1.0	0.8
Unemployment Rate (%)	3.5	3.6	3.8	3.8	3.9	3.7	2.9
<b>International Economic Indicators</b>							
Foreign Direct Investment (\$bn)	11.23	14.13	12.18	9.63	8.76	22.06	18.00
Forex Reserves (\$bn)	357.79	411.55	392.49	397.81	430.12	438.32	399.00
Gross Reserves (ex gold, \$bn)	362.87	423.39	398.89	404.02	437.36	458.32	418.36
Gold Reserves (\$bn)	4.79	4.80	4.80	4.80	4.80	4.79	4.80
Gross reserves (inc gold, \$bn)	367.66	428.19	403.69	408.82	442.16	463.11	423.16
Total Foreign Debt (\$bn)	408.72	549.53	440.60	466.98	542.45	632.39	665.24
Total Foreign Debt/GDP (%)	27.5	32.3	25.6	28.3	33.0	34.8	39.8
Debt Service (\$bn)	58.25	73.81	68.13	69.81	64.91	80.96	85.24
Debt Service/XGS (%)	8.2	9.6	8.8	9.8	9.9	9.7	9.6
Current Account (\$bn)	87.71	65.62	77.47	59.68	75.90	85.23	29.83
Current Account/GDP (%)	5.9	3.8	4.5	3.6	4.6	4.7	1.8
Current Account/XGS (%)	12.5	8.7	10.0	8.4	11.6	10.2	3.4
Exports (\$bn)	573.42	608.16	626.27	556.67	517.91	649.48	690.46
Imports (\$bn)	470.07	535.90	516.18	476.86	437.30	573.74	675.40
Trade Balance (\$bn)	103.35	72.26	110.09	79.81	80.61	75.74	15.06
Exports of Services (\$bn)	100.45	109.45	103.68	103.84	89.60	119.95	130.18
Income, credit (\$bn)	27.65	45.17	34.83	41.37	37.95	55.12	56.60
Transfers, credit (\$bn)	8.99	10.16	9.48	10.43	10.19	10.07	10.65
Exports G&S (\$bn)	710.51	772.95	774.26	712.31	655.65	834.62	887.89
Liabilities (\$bn)	68.99	54.31	56.19	46.32	41.87	77.11	50.04
Net Reserves (\$bn)	298.67	373.88	347.50	362.50	400.29	386.00	373.12
Liquidity (months import cover)	7.8	8.6	8.1	9.1	11.0	8.1	6.6
Currency Exchange Rate	1114.190	1176.406	1100.546	1165.288	1179.404	1145.065	1291.729
Currency Change (%)	0.0	-2.5	2.7	-5.6	-1.2	3.0	-11.4
<b>Social Indicators</b>							
Population (million)	50.58	51.35	51.18	51.38	51.27	51.31	51.63
Population Growth (%)	0.4	0.3	0.4	0.4	-0.2	0.1	0.6
Infant Deaths/1000	4	3	3	3	3	3	3
Persons under Age 15 (%)	14	13	13	13	13	13	13
Urban Population (%)	83	82	82	81	81	82	82
Urban Growth (%)	0.4	-0.1	-0.8	-0.8	-0.6	1.0	0.5
Literacy % pop.	98	98	98	98	98	98	98
Agricultural Work Force (%)	6	5	5	5	5	5	5
Industry-Commerce Work Force (%)	24	25	25	25	25	25	25
Services Work Force (%)	70	70	70	70	70	70	70
Unionized Work Force (%)	10	10	10	10	10	10	10
Energy - total consumption (10 <sup>15</sup> Btu)	12.49	13.19	13.17	13.26	13.25	13.34	12.95
Energy - consumption/head (10 <sup>9</sup> Btu)	0.25	0.26	0.26	0.26	0.26	0.26	0.25

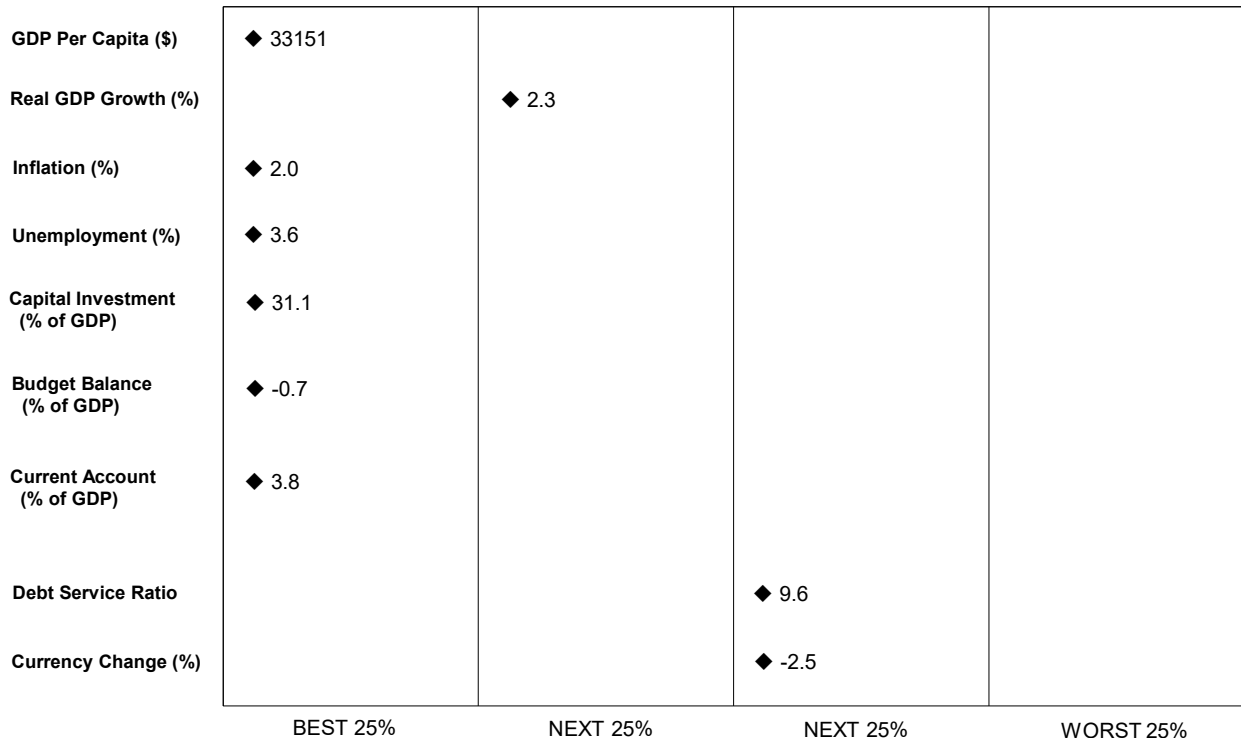
# INTRA-REGIONAL COMPARISONS



### Regional Current Account/GDP (2022): East Asia/Pacific



### Economic Performance Profile Country's Ranking Relative to All Countries Covered by Political Risk Services 2018-2022



# GEOPOLITICAL & ECONOMIC ANALYSIS

## PPP STRUGGLING AHEAD OF LEGISLATIVE ELECTIONS

Now past the 18-month mark of his five-year term, President Yoon Suk-yeol has made only limited progress in repairing the damage to his popularity from early missteps, which will be essential if his People Power Party (PPP) is to have any chance of securing a majority at legislative elections scheduled for April 2024. The governing party controls just 112 seats in the 300-member National Assembly, compared to 168 for the main opposition Democratic Party of Korea (DPK), whose outright majority precludes the passage of any measures without its consent, which it has only sparingly extended to the Yoon administration.

The PPP's defeat next April would dim the prospects for implementing key items from an ambitious but mostly unfulfilled reform agenda that included the first tax cuts in more than a decade, economic deregulation (including the loosening of labor-market restrictions), and changes to the pension and education systems. With less than six months to go before the legislative contests, the political currents are not running in the PPP's favor.

Last month, the PPP was trounced in a by-election to choose the ward chief of Seoul's Gangseo district. Although a local contest, the vote was closely watched as a barometer of public sentiment, particularly among the swing voters who are expected to greatly influence the outcome of next year's elections and who tend to be more numerous in urban areas than in the countryside, where partisan allegiances are stronger. To the dismay of PPP leaders, the DPK candidate won by a 17.5-point margin.

Following the defeat, the PPP tapped Ihn Yo-han to shake the party out of its complacency as chief of the innovation committee. Ihn (born John Alderman Linton) is a career physician who enjoys widespread public recognition as a "blue-eyed Korean" (he is the son of American parents but was born and raised in Jeolla Province and is a naturalized citizen). Since taking on the role, Ihn has not refrained from publicly criticizing Yoon and his inner circle, and he has bluntly stated that the PPP must choose its candidates based on competence and qualifications, rather than loyalty to the president or party leaders.

Frustrated by the weak response of the party leadership to his reform proposals, Ihn issued an ultimatum on November 30, demanding that his committee be granted the power to nominate candidates. PPP Chairman Kim Gi-hyeon's responded with a flat rejection within hours, effectively declaring the end of the party's rebranding effort.

Arguably the most significant initiative by Ihn was his overture to Lee Jun-seok, a former PPP leader whose party membership was suspended in July 2022, amid an investigation into graft allegations. He was formally removed as leader of the PPP the following month.

Lee Jun-seok was just 36 when he became leader of the PPP in 2021, and he was instrumental in attracting young male voters to the party, a constituency that played a key role in carrying Yoon to victory at last year's presidential election. His subsequent banishment triggered an exodus of those same voters, to the detriment of the PPP's hopes in April 2024.

The PPP recently lifted Lee Jun-seok's suspension, but he is keeping his estranged colleagues at arm's length, and has floated the possibility of forming a new party, possibly with the support of Yoo Seong-min, a four-term former PPP lawmaker who has been outspoken in his criticism of President Yoon. Although a new party might attract some wavering supporters of the DPK, most of its support would come at the expense of the PPP, and it is an open question whether a rival party headed by Lee Jun-seok would be more favorably disposed than the DPK to pursuing constructive cooperation with Yoon's administration.

Lee Jun-seok has stated that he will make good on his threat to form a new party if Yoon fails to shift direction by December 27. Although he has not specified what changes he wants to see, the former PPP leader's most recent public jabs at the president have focused on the administration's foreign policy and security strategy.

The opposition is facing problems of its own. DPK leader Lee Jae-myung was indicted in March on corruption charges related to real-estate developments during his tenure as mayor of Seongnam in 2010-2018 and is also accused of offering political favors to companies providing financial support to the city's struggling football club. Lee Jae-myung contends that he is the victim of a partisan witch hunt, and launched a hunger strike to protest his treatment, but that did not prevent a handful of DPK lawmakers from backing a measure to lift his immunity from prosecution.

However, the DPK chief scored a legal victory in late September, when the Seoul Central District Court rejected prosecutors' request for an arrest warrant, a decision that supports the DPK's claims of that Lee Jae-myung is the victim of overzealous prosecutors. The scandal might encourage some defections from the DPK if Lee Jun-seok acts on his threat to launch a new party, but most DPK lawmakers have rallied behind their embattled leader, and there is so far no indication that the allegations against Lee Jae-myung have diminished the party's support among the electorate.

Ironically, Lee Jae-myung's legal troubles appear to have reinforced a lack of trust in the political class more generally that makes uncommitted voters (who account for about one-third of the total electorate) reluctant to give any party united control of both the executive and legislative branches. Barring some development that produces a seismic shift in thinking on that score, it seems likely that the PPP will struggle to attract swing voters and Yoon will be handicapped by the lack of a legislative majority for the entirety of his five-year term.

A divided government scenario is not necessarily a death sentence for Yoon's reform agenda. Although the president failed to eliminate the top corporate tax rate, which would have effectively reduced the rate for the wealthiest companies to 22%, the 2023 budget included a reduction in the rate for each of the four corporate tax brackets (10%, 20%, 22%, and 25%) by one percentage point, effective from January 1. The budget also included roughly \$7.7 billion in additional funding required for some components of Yoon's broader plan for reforming higher education, which includes the development of new curricula and training for graduates in high-tech sectors.

The room for compromise is likely to narrow significantly in the run up to the April elections. The DPK has sharply criticized the stinginess of the government's proposed budget for 2024, which includes the smallest increase in total expenditures in two decades, and the opposition is demanding a 6% increase in overall spending, with a particular emphasis on investment in research and development, which the DPK insists is crucial to reviving a sluggish economy.

## **EASING OF DIPLOMATIC TENSIONS MAY BE TEMPORARY**

With the room for maneuver to implement his domestic agenda limited by the PPP's minority status, Yoon has devoted attention on the diplomatic arena, where the president enjoys greater freedom from the restraining hand of the National Assembly. Unfortunately, he has not enjoyed appreciably greater success in foreign affairs than on the home front.

Seoul's diplomatic strategy is complicated by regional tensions stemming from unresolved historical grievances with Japan, the aggressive expansionism of China, and ongoing provocations from Pyongyang. Each of these external sources of risk casts a pall over the climate for trade and investment, which successive governments have attempted to offset by nurturing close relations with the EU and the US.

Despite a strong incentive to avoid alienating China, the largest market for Korea's semiconductor exports, the early nuance in Yoon's approach to relations with Washington and Beijing has more recently given way to a cruder "friends vs. enemies" approach that critics contend is naïve (perhaps dangerously so) and contrary to the national interest. Similarly, the president's enthusiastic pursuit of a rapprochement with Japan, despite Tokyo's failure to accept responsibility for historical abuses committed under colonial rule or acknowledge a Korean court's order for Japanese companies to shell out billions in reparations for those abuses, has been castigated by critics as a humiliating display of obsequiousness.

China has inserted itself into the domestic political debate over Yoon's diplomatic strategy. In a meeting with Lee Jae-myung in June 2023, Chinese Ambassador Xing Haiming reportedly accused Yoon of

damaging Seoul's relations with Beijing and blamed a growing trade deficit with China on "de-risking" by South Korean companies that are following the US lead in reducing China's role their supply chains.

Most controversially, Xing warned that Yoon was making a mistake by betting on the US coming out on top in its rivalry with China, a remark perceived as an implicit threat of economic retaliation and possibly worse. The incident led to the ambassador being summoned by the Foreign Ministry to explain his "senseless and provocative" comments.

The signs of growing tension in relations with China raised concerns that the largest customer for South Korea's exports might impose punitive restrictions on bilateral trade. Beijing's signals of displeasure with South Korea also created a danger that Pyongyang might see an opportunity to adopt a more aggressive posture, contributing to a simultaneous heightening of peninsular tension that negatively affects business sentiment and investment.

However, more recent conciliatory gestures by Beijing have at least temporarily assuaged fears of a diplomatic crisis. In late November, South Korea, China, and Japan agreed to resume annual trilateral talks for the first time since 2019. Earlier in the month, China unexpectedly consented to Seoul's demand that Chinese fishing boats be equipped with tracking devices that will enable the South Korean coast guard to prevent illegal fishing in its exclusive economic zone (EEZ), a requirement that is scheduled to go into effect in May 2024.

But there is little reason to believe that the recent developments portend a fundamental shift in bilateral ties with China. Beijing likely sees the resumption of trilateral talks with Seoul and Tokyo as a means of reducing the incentive for South Korea and Japan to seek closer bilateral ties, particularly on security-related matters.

More broadly, it is no coincidence that China's adoption of a more conciliatory diplomatic posture since mid-2023, highlighted by Chinese President Xi Jinping's decision to meet with his US counterpart at the Asia-Pacific Economic Cooperation (APEC) Summit in San Francisco in early November, comes at a time when mounting evidence of trouble for the Chinese economy makes it unwise for Beijing to pick fights with its most important global partners. However, if economic difficulties on the mainland come to pose an explicit threat to Xi's political control, the danger that a regime on the defensive might feel compelled to lash out cannot be dismissed out of hand.

## **GRADUAL RECOVERY EXPECTED**

There is little about the economic outlook that suggests Yoon and the PPP might receive a popularity boost from that quarter in the near term. GDP grew by 0.3% (quarter-on-quarter) in January-March 2023, with the rebound from a 0.4% contraction in the previous quarter mostly attributable to strong



automotive exports. Easing inflation and falling unemployment underpinned a pickup in consumer expenditure in the second quarter, boosting growth to 0.6% for the period, but year-on-year real GDP remained stuck below 1% in the first half of the year, as slowing economic activity in key external markets weighed on the performance of the export sector.

A broader mild recovery pushed real GDP growth up to 1.4% (year-on-year) in the third quarter, but an uptick in inflation since July rules out any near-term loosening of monetary policy, and high interest rates will limit the overall growth contribution from spending by heavily indebted households in the near term. External constraints are expected to ease going forward, but economic momentum will build only gradually, and annual real growth is forecast to slow to just 1.1% this year, before rebounding moderately to about 2.5% in 2024.

The year-on-year rise in the consumer price index accelerated for a third consecutive month in October, with higher prices for energy and food pushing the inflation reading to a seven-month high of 3.8%. A base effect should help to put inflation back on a downward trajectory, and the Yoon government's fiscal restraint figures to create room for the Bank of Korea (BoK) to implement interest-rate cuts that will reinforce the economic rebound in the first half of 2024. However, the possibility of spreading conflict in the Middle East that triggers a renewed surge in oil prices would complicate matters for policy makers.

The central government fiscal deficit is forecast to narrow to 2% of GDP this year. The spending plan for 2023 included deep cuts in subsidies and spending on small- and medium-sized enterprises, as well as a 10% reduction in public infrastructure spending, but a revenue shortfall will prevent the government from hitting the official target of 0.6% of GDP.

A similar dynamic will persist in 2024, sustaining a deficit of close to 2% of GDP next year, despite continued spending restraint. The debt-to-GDP ratio will continue to rise in the near term but is projected to remain quite manageable at about 51% and start on a downward trajectory in the second half of the current decade, based on the planned fiscal consolidation.

The negative impact of steeply higher prices for imports of fuel and other essentials on the trade balance contributed to the smallest current account surplus (in GDP terms) in more than a decade in 2022. The beneficial effect of reduced commodity prices on the external balances will be offset by weaker growth of exports, but another current account surplus of 1.5%–2% of GDP is forecast this year. Foreign exchange reserves amount to more than six months of import cover, providing a strong buffer against external shocks.

# INTERNATIONAL COUNTRY RISK GUIDE (ICRG) RATINGS

PRS' Country Reports and Economic Forecasts (CREF) and the International Country Risk Guide (ICRG) have been independently back-tested for accuracy and relevance for over 40 years.

In a landmark 2014 study published in the International Journal of Business Studies\* – using data on political risk claims and a unique textual-based database of risk realizations – both CREF and ICRG forecasts were found to have “predictive power for both political risk insurance claims as well as political risk events measured by news coverage.”

It is therefore instructive to present the scores from Table 1 of the ICRG for a complimentary look at the composite risk scores – calculated by using a combination of the overall political, financial, and economic risk metrics – for the 141+ countries covered each month. Please contact [custserv@prsgroup.com](mailto:custserv@prsgroup.com) for more information.

TABLE 1  
COUNTRY RISK, RANKED BY COMPOSITE RISK RATING  
NOVEMBER 2023 VERSUS DECEMBER 2022

RANK IN 11/23	COUNTRY	COMPOSITE RISK RATING 11/23	COMPOSITE RISK RATING 12/22	11/23 VERSUS 12/22	RANK IN 12/22
<i>Very Low Risk</i>					
1	Norway	86.3	87.0	-0.8	2
2	Switzerland	86.0	87.3	-1.3	1
3	Denmark	85.0	84.8	0.3	6
4	Taiwan	84.8	84.3	0.5	7
5	Singapore	84.3	86.0	-1.8	3
6	Luxembourg	84.0	86.0	-2.0	3
7	Ireland	83.8	82.3	1.5	7
8	Saudi Arabia	82.5	85.5	-3.0	5
9	Brunei	81.5	81.8	-0.3	10
10	Qatar	80.8	80.0	0.8	17
11	Canada	80.5	81.8	-1.3	10
11	Iceland	80.5	80.5	0.0	15

\* C Harvey, et al., “Political Risk Spreads,” Journal of International Business Studies, (2014), 471-493.

**TABLE 1**  
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<b>RANK IN 11/23</b>	<b>COUNTRY</b>	<b>COMPOSITE RISK RATING 11/23</b>	<b>COMPOSITE RISK RATING 12/22</b>	<b>11/23 VERSUS 12/22</b>	<b>RANK IN 12/22</b>
11	United Arab Emirates	80.5	82.3	-1.8	7
14	Netherlands	80.3	80.5	-0.3	15
15	Kuwait	80.0	81.0	-1.0	13
<b><i>Low Risk</i></b>					
16	Australia	79.5	81.8	-2.3	10
17	Botswana	79.3	77.3	2.0	24
17	Japan	79.3	76.5	2.8	26
19	Sweden	79.0	81.0	-2.0	13
20	New Zealand	78.8	76.0	2.8	28
21	Germany	78.5	79.0	-0.5	18
21	Hong Kong	78.5	74.3	4.3	35
21	Korea, Republic	78.5	78.3	0.3	20
24	Finland	77.5	78.3	-0.8	20
25	Bahamas	76.8	74.3	2.5	35
25	Trinidad & Tobago	76.8	77.5	-0.8	23
27	Austria	76.5	78.3	-1.8	20
27	Costa Rica	76.5	72.3	4.3	47
27	Oman	76.5	78.5	-2.0	19
27	Portugal	76.5	75.3	1.3	32
31	Czech Republic	76.0	76.0	0.0	28
32	Guyana	75.5	75.5	0.0	31
32	Kazakhstan	75.5	76.5	-1.0	26
34	Uzbekistan	74.8	73	2.3	43
35	Belgium	74.5	74.5	0.0	34
36	Italy	74.3	73.3	1.0	41
37	Latvia	74.0	71.8	2.3	51
37	Malaysia	74.0	74.0	0.0	39
37	Slovenia	74.0	73.0	1.0	42

**TABLE 1**  
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40	Azerbaijan	73.8	72.5	1.3	43
40	Libya	73.8	70.8	3.0	58
40	Panama	73.8	73.5	0.3	40
40	Uruguay	73.8	75.3	-1.5	32
44	Croatia	73.5	74.3	-0.8	35
44	Israel	73.5	76.0	-2.5	28
44	Malta	73.5	74.3	-0.8	35
44	United Kingdom	73.5	76.8	-3.3	25
48	Jamaica	72.5	72.3	0.3	47
48	Poland	72.5	71.3	1.3	54
48	Spain	72.5	72.5	0.0	43
51	Dominican Republic	72.0	72.3	-0.3	47
52	Chile	71.8	71.5	0.3	52
52	France	71.8	72.5	-0.8	43
52	Philippines	71.8	70.8	1.0	58
55	Brazil	71.5	70.0	1.5	64
55	Vietnam	71.5	71.3	0.3	54
57	India	71.3	70.5	0.8	61
58	Bulgaria	71.0	70.8	0.3	58
58	China, Peoples' Rep.	71.0	69.3	1.8	66
58	Hungary	71.0	71.3	-0.3	54
58	Paraguay	71.0	64.3	6.8	93
58	Thailand	71.0	65.5	5.5	87
63	Guatemala	70.5	71.0	-0.5	57
63	United States	70.5	72.3	-1.8	47
<b>Moderate Risk</b>					
65	Gabon	69.8	66.8	3.0	82
65	Lithuania	69.8	70.5	-0.8	61

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67	Cyprus	69.3	70.0	-0.8	64
68	Bahrain	69.0	68.8	0.3	71
68	Indonesia	69.0	68.3	0.8	75
68	Papua New Guinea	69.0	69.3	-0.3	66
71	Greece	68.8	68.5	0.3	73
72	Congo, Republic	68.5	64.3	4.3	93
72	Iraq	68.5	70.5	-2.0	61
72	Mexico	68.5	68.0	0.5	77
72	Peru	68.5	68.0	0.5	77
72	Slovakia	68.5	68.8	-0.3	71
77	Estonia	68.3	71.5	-3.3	52
77	Namibia	68.3	69.3	-1.0	66
79	Algeria	68.0	69.3	-1.3	66
79	Russia	68.0	66.0	2.0	86
81	Ecuador	67.5	68.5	-1.0	73
81	El Salvador	67.5	63.3	4.3	99
81	Romania	67.5	66.8	0.8	82
84	Armenia	66.8	60.0	6.8	111
84	Gambia	66.8	65.3	1.5	88
84	Honduras	66.8	66.8	0.0	82
84	Morocco	66.8	64.5	2.3	90
88	Mongolia	66.5	64.5	2.0	90
88	South Africa	66.5	67.8	-1.3	79
90	Tanzania	66.3	65.0	1.3	89
91	Serbia	65.8	67.0	-1.3	80
92	Guinea-Bissau	65.3	64.0	1.3	95
93	Zambia	65.0	62.8	2.3	100
94	Albania	64.5	63.8	0.8	98

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95	Iran	64.3	66.8	-2.5	82
96	Bangladesh	64.0	62.5	1.5	102
96	Bolivia	64.0	67.0	-3.0	80
96	Cote d'Ivoire	64.0	62.3	1.8	104
99	Jordan	63.8	64.5	-0.8	90
99	Nicaragua	63.8	62.8	1.0	100
101	Togo	63.5	62.3	1.3	104
102	Colombia	63.3	64.0	-0.8	95
103	Madagascar	63.0	62.5	0.5	102
104	Suriname	62.5	58.5	4.0	116
105	Moldova	62.3	59.0	3.3	114
106	Cuba	61.8	69.0	-7.3	70
107	Cameroon	61.3	61.0	0.3	107
108	Ukraine	61.0	51.8	9.3	132
109	Ghana	60.5	58.5	2.0	116
110	Angola	60.3	68.3	-8.0	75
111	Mozambique	60.0	54.5	5.5	127
111	Uganda	60.0	59.5	0.5	112
<b>High Risk</b>					
113	Guinea	59.8	57.5	2.3	123
113	Tunisia	59.8	61.0	-1.3	107
115	Liberia	59.5	58.0	1.5	121
115	Sri Lanka	59.5	48.8	10.8	137
117	Belarus	59.3	57.0	2.3	125
118	Mali	58.8	58.8	0.0	115
118	Senegal	58.8	58.3	0.5	120
120	Burkina Faso	58.5	59.5	-1.0	112
121	Myanmar	58.3	56.0	2.3	126

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122	Zimbabwe	58.0	61.5	-3.5	106
123	Argentina	57.5	64.0	-6.5	95
123	Ethiopia	57.5	58.5	-1.0	116
125	Egypt	57.3	57.5	-0.3	123
126	Kenya	57.0	58.5	-1.5	116
127	Haiti	56.8	54.0	2.8	129
127	Sierra Leone	56.8	53.5	3.3	130
129	Congo, Dem. Republic	56.3	60.3	-4.0	109
130	Nigeria	55.8	60.3	-4.5	109
130	Yemen, Republic	55.8	48.3	7.5	138
132	Turkey	55.5	54.3	1.3	128
133	Venezuela	55.0	58.0	-3.0	121
134	Somalia	51.8	52.0	-0.3	131
<b>Very High Risk</b>					
135	Pakistan	49.8	51.3	-1.5	134
136	Korea, D.P.R.	49.3	51.0	-1.8	135
137	Malawi	49.0	51.0	-2.0	135
138	Niger	47.8	51.8	-4.0	132
139	Syria	44.5	44.0	0.5	139
140	Sudan	43.5	43.3	0.3	140
141	Lebanon	34.5	41.3	-6.8	141

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