

## KOREA'S ECONOMIC AND GEOPOLITICAL RISKS POSE STRATEGIC QUANDARY

- The South Korean economy is being buffeted by a combination of cyclical headwinds, structural defects, and a deteriorating strategic position. Tough choices await its leaders.
- The sluggish semiconductors market will weigh against manufacturing activity and exports. China's reopening in trade and tourism is unlikely to compensate.
- The severe population headwinds are caused by entrenched and interlinked factors including labour market rigidities, costs of household formation, and cultural legacies.
- Geopolitical tensions also pose questions for South Korea's export-driven model of industrialization. Other Asian markets wishing to emulate this path should be cautious.

## WILL NORTH KOREA SPRING A NASTY SURPRISE?

- The chances of destabilizing actions emanating from Pyongyang have increased due to changes in domestic and external dynamics in the regime's decision making.
- Pyongyang's history of calibrated but high-risk provocations points to the regime trying to pressure the US to recognize the regime and nuclear power, bypassing Seoul.
- A series of weapons tests and demonstrations, a severance of communications, and domestic troubles mean that the risk of foreign adventurism has risen.

## CHINA'S ECONOMY REMAINS FRAGILE DESPITE HEADLINE RECOVERY

- The central bank's depositors' survey shows signs of recovery in sentiment, but household behaviour still leans towards rebuilding financial buffers and precautionary savings.
- Exporters are also facing difficulties, spurring policy support. A nascent recovery in the property sector, although this needs to be spread geographically for a significant upside.
- These pockets of fragility mean that spillovers from China's re-opening may be less than hoped, although outbound tourism remains a bright spot given pent-up demand.

## REGIONAL UPDATES

- The Reserve Bank of India pauses rate hikes unexpectedly despite still-high inflation. This strikes us as premature due to a lack of decisive disinflationary progress.
- Indonesia's inflation sees softening amidst easing food and housing cost pressures.

*Centennial Asia Advisors is an independent research and advisory firm focused on emerging economies in the Asia Pacific. We specialize in the intersection of economics, politics, and international affairs.*

[www.centennialasia.com](http://www.centennialasia.com)

**Manu Bhaskaran**  
Chief Executive Officer  
[manu@centennialasia.com](mailto:manu@centennialasia.com)

**Celine Tan**  
Economist  
[celine@centennialasia.com](mailto:celine@centennialasia.com)

**Lok ChenYue**  
Economist  
[chenyue@centennialasia.com](mailto:chenyue@centennialasia.com)