



COUNTRY RISK - BREAKING NEWS

1. INDONESIA RISK ANALYSIS

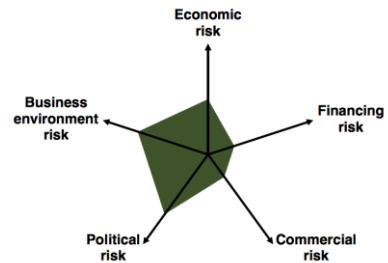
2. SOUTH KOREA RISK ANALYSIS

Solène Musso, Niccolò Bonetti

INDONESIA RISK ANALYSIS

Country Risk : Indonesia

- Increasing inequality poses a threat to social cohesion : Recent religious divisions
- Corruption, lack of transparency, and weak legal system
- Growth dependent on raw commodity exports, especially to the slowing Chinese economy



Latest News

- **On the 1st November, Finance Minister Sri Mulyani Tries To Calm Potential Foreign Investors' Fears Of Growing Ethnic Tension In Indonesia**
- The minister is concerned that the ethnic tension, particularly against the Chinese minority, which has been recently further intensified by a controversial remark by the newly inaugurated Jakarta governor, could scare off investors that have shown interest in investing in Indonesia.
- **"We are not a conflict country. We are not a violent country. The track record of Indonesia in terms of respecting the sanctity of contracts is very, very strong. So I will encourage all parties not to be discouraged, confused or afraid of investing in Indonesia,"** said Sri Mulyani.

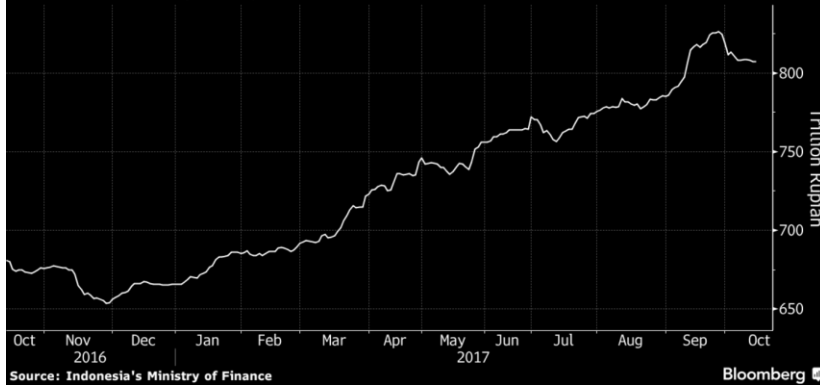


Bonds Foreign Ownership

Record Positions

High foreign ownership may make Indonesian bond vulnerable

■ Indonesia's Bond Outstanding Position by Overseas Investors

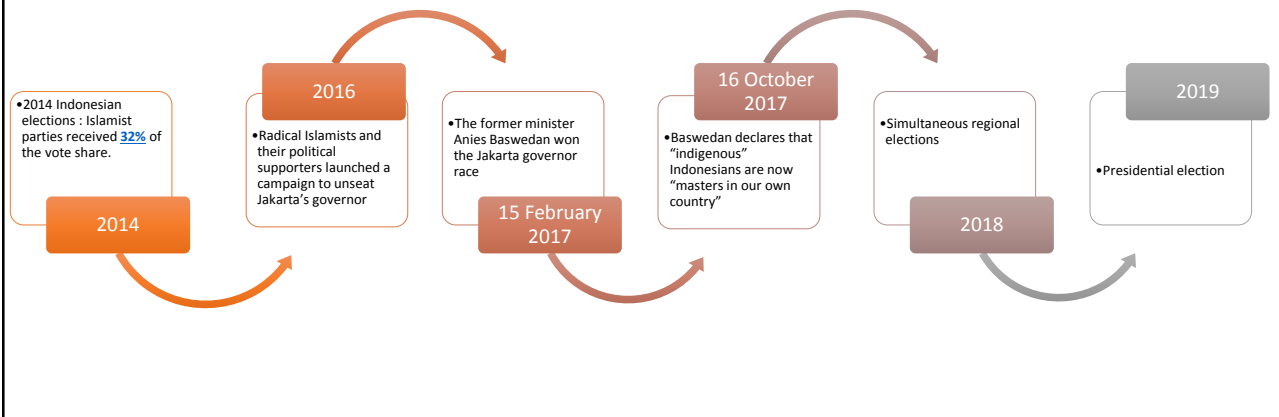


Overseas ownership of the Indonesia's bonds climbed to a record of almost 41 percent last month

Political instability and Religious divisions

- Indonesia is the most populous Muslim-majority country on earth
- Islam is becoming more and more dominant in all areas of life
- Dangers of identity politics as the proliferation of social media exacerbates resurgent racial and religious tensions ahead of a series of key elections

Political instability and Religious divisions



Indonesia's business environment suffers from widespread corruption

Business environment ranking

Score: 6.09
World Rank: 56/82

- Public officials often exploit ambiguous legislation to extort informal payments
- Law on Eradication of Criminal Acts of Corruption : criminalizes active and passive bribery, abuse of office and extortion
- Indonesia's Criminal Code forbids embezzlement and gifts to public officials
- Corruption legislation is poorly enforced and does not address **facilitation payments**

Raw commodity exports

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
China	12%	1	23%	China
United States	11%	2	13%	Singapore
Japan	11%	3	9%	Japan
Singapore	8%	4	7%	Thailand
India	7%	5	5%	Malaysia

By product (% of total)

Exports		Rank		Imports
Fixed vegetable oils	12%	1	13%	Petroleum products
Coal and coke	10%	2	6%	Electrical machinery
Articles of apparel	5%	3	6%	Industrial machinery
Gas	5%	4	5%	Iron and steel
Manufactured articles	4%	5	5%	Telecommunication

- Low China's growth has a direct effect on Indonesia as China is the key trading partner of Indonesia
- Growth in China's manufacturing output slowed in October, threatening to chill activity across Asia as tough steps to reduce air pollution forced factories to reduce production

Sources

- [The Economist - Business Environment Rankings 2014-2018](#)
- *Financial Times*
- *Coface*

SOUTH KOREA RISK ANALYSIS

CHINA – S.KOREA MEETING last Saturday

- Agreement to manage North Korea peacefully: Xi told Moon to resume dialogue with North Korea
- Agreement to normalize bilateral exchanges in all sectors after the THAAD dispute

TRUMP TRAVEL IN ASIA

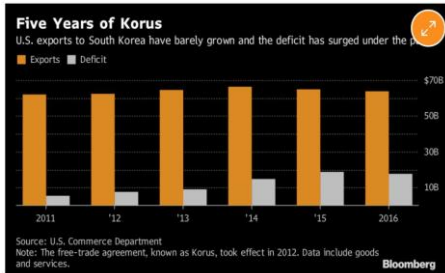
Yesterday S.Korea
S.Korea will buy
more military
equipment from the
U.S. to help reducing
the deficit

- “I really believe it makes sense for North Korea to come to the table and make a deal that’s good for the people of the North Korea and the people of the world”

Monday JPN
Japan will buy US
Hardware to Shoot
North Korean
missiles

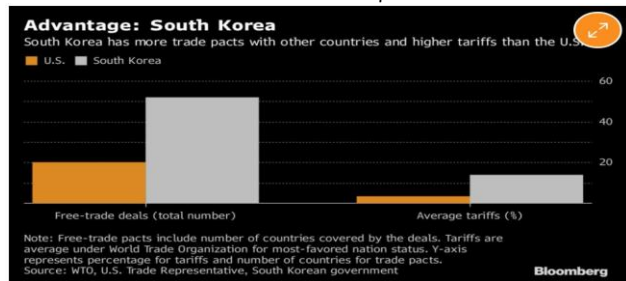
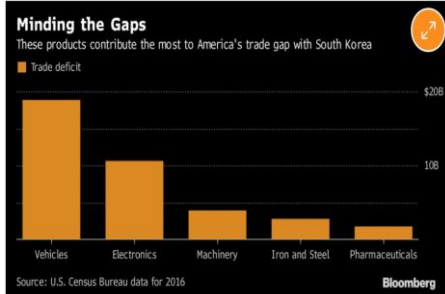
S.KOREA VS CHINA

- China and S.Korea trade relationship has recently shown signs of improvement: **“unofficial” sanctions have been lift**, big winners are cosmetic, tourism and car companies.
- In August 2016 the U.S. missile defence system installation (THAAD) in South Korea triggered **“unofficial” sanctions from China**, which accounts for **25% of South Korea’s Total Export**. This year tourism and the automotive industry reported heavy losses: inbound of Chinese tourists -49% compared to last year and -64% car sold in the 2nd Quarter compared to 2016. **Total losses expected at \$7.6 billion.**



S.KOREA VS. U.S.

- US wins South Korea's agreement to amend free trade deal known as KORUS. Negotiations will likely focus on the automotive industry and the U.S. will try to reduce its deficit in the sector that amounts \$18.8 billion.



STRUCTURAL PROBLEMS

(Lee Jong-Wha, Director of Asiatic Research Institute at Korea University)

- Aging population:** South Korea's fertility rate fell to 1.17 last year – one of the world's lowest – and continues to decline.
- Productivity in the services sector** amounts to just 45% that of the manufacturing sector, on average, compared with an OECD average of 90%.
- Household debt** as percentage of disposable income is increasing rapidly

AGING POPULATION

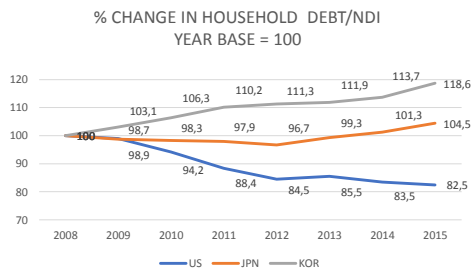
Sex	Age	2015	2020	2025	2030	2035	2040	2045
Both sexes combined	65+	13.0	15.7	19.9	23.9	27.7	31.1	33.4
	70+	8.6	10.5	12.9	16.5	20.1	23.5	26.5
	75+	5.3	6.5	8.0	9.9	13.1	16.2	19.0
	80+	2.6	3.6	4.5	5.6	7.1	9.7	12.1
	85+	1.0	1.5	2.1	2.7	3.4	4.5	6.4
	90+	0.3	0.5	0.7	1.0	1.3	1.7	2.4

Average Annual Rate of Population Change						
	2015 - 2020	2020 - 2025	2025 - 2030	2030 - 2035	2035 - 2040	2040 - 2045
Republic of Korea	0.36	0.28	0.18	0.04	-0.15	-0.32

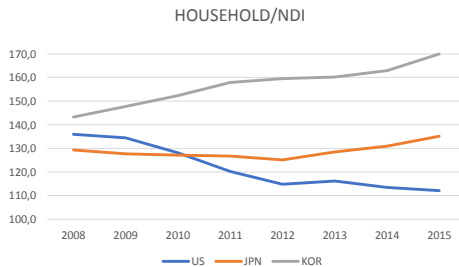
Source: OECD

HOUSEHOLD DEBT

%CHANGE IN HOUSEHOLD DEBT/NDI				
YEAR	US	JPN	KOR	
2008	100	100	100	100
2009	98.9	98.7	103.1	103.1
2010	94.2	98.3	106.3	106.3
2011	88.4	97.9	110.2	110.2
2012	84.5	96.7	111.3	111.3
2013	85.5	99.3	111.9	111.9
2014	83.5	101.3	113.7	113.7
2015	82.5	104.5	118.6	118.6



HOUSEHOLD DEBT/NDI			
YEAR	US	JPN	KOR
2008	135.9	129.3415	143.2666
2009	134.5	127.6	147.7
2010	128.1	127.1324	152.357
2011	120.2	126.7	157.9
2012	114.8	125.0621	159.4467
2013	116.2	128.4	160.2
2014	113.5	130.9692	162.8796
2015	112.1	135.1	170.0



Source: OECD