

Scenario-Based Investment Risk Assessment: South Korea

Scenario: A Chinese investor is considering a potential investment in a luxury hotel in the centre of Seoul.

Investment Risk Assessment

Economic Environment for Foreign Investment

- South Korea has a favourable but cautious approach to foreign investment. There are some restrictions in geopolitically sensitive sectors, such as real estate and telecommunications. For example, government approval is required in cases where foreign investors intend to purchase property near military bases. The level of constraint that a Chinese investor would face when investing in a luxury hotel would depend on the precise location within central Seoul.
- Recent news of China bypassing US tariffs via South Korea (known as “origin washing”) has sparked concern. Goods have been rerouted through South Korea, labelled as Korean products. This breach of trade regulations could erode South Korea’s perceived reliability as a trading partner (especially with the US) which may have a detrimental impact on its economy.
- South Korea has a severe ageing population problem (fastest-ageing population rate among OECD countries) in conjunction with restrictive immigration policies. This is causing a “demographic trap” and poses a structural threat to the country’s long-term economic outlook.

Political Risks and Public Sentiment

- The risk of the South Korean government imposing martial law (substitution of a civilian government by a military government) has subsided since December 2024. However, the mere possibility of its implementation represented a major political statement and signals a tendency towards enhanced government control. This development should be viewed in a wider context of an unsteady political environment, as there is growing public discontent and President Yoon Suk Yeol is the third South Korean president to be impeached since 2004.
- A “new wave” of organised crime has emerged in South Korea, according to the Organised Crime and Corruption Reporting Project (OCCRP). This crime has been predominantly associated with online scams, which constitute a threat to all sectors, including the hospitality sector. However, this has been countered with disciplinary measures from South Korean authorities, which indicates that the issue is being prioritised.
- A 2025 Public Perception survey revealed that 45% of South Koreans perceive relations with China as “bad”, 46% perceive them as “neither good nor bad” and 6% perceive them as “good”. Despite the prevailing negative sentiment among South Koreans, China continues to be one of the key sources of direct investment in South Korea.

Geopolitical Tension and Uncertainty

- The image of South Korea as a tariff evasion centre adds complications to its diplomatic relations with China (a key trading partner) and the US (a key trading partner and ally). Chinese involvement in this practice will likely interfere with the landscape for Chinese investment going forward, as transactions will be under closer scrutiny.
- Even though North Korea is equipped with nuclear weapons (unlike South Korea), South Korea remains under the protection of the US’s “nuclear umbrella”. Trump is reducing America’s commitment to certain allies in line with his “MAGA” doctrine. However, South Korea is of high strategic relevance to the US, especially given Trump’s antagonistic approach to China. It is therefore unlikely that the US will roll back security spending in this instance, particularly as last

year the countries agreed on a five-year plan to split the defence costs of keeping US troops on South Korean territory.

- This environment of unpredictability may reduce tourism traffic to South Korea, which could lead to reduced demand in the hospitality sector (particularly for a luxury hotel as a cyclical asset). However, a protracted fall in demand is unlikely to occur unless there is major political turbulence. Overall, the outlook is positive, with tourist numbers and income continuing the trajectory of long-term growth, rising above record levels pre-COVID in 2024.

Overall, I would rate this investment scenario as low risk, as the demand for tourism is incredibly strong. Some of the risks detailed above may well not materialise, some can be mitigated, and all of them would have a limited impact on the luxury hospitality space.

The regulatory landscape in South Korea is broadly conducive to investment, with extra care taken over sectors that pose geopolitical risks. However, this is unlikely to have serious implications for a luxury hotel, especially given the investor's discretion in selecting a non-geopolitically sensitive location within central Seoul. China's circumvention of tariffs through South Korea is causing tension and is under investigation by South Korean authorities. However, the US has not yet offered official remarks on the issue of China's regulatory breach, so there are no major signs of worsened relations. In the long-term, South Korea's demographic challenge will weigh on its economic potential. Nevertheless, the scale of impact will be limited in the case of a luxury hotel, as demand levels will be upheld by affluent foreign tourists regardless of South Korea's economic conditions. The political environment has seen some turbulence, but this is unlikely to escalate to a level that would preclude business activities. Moreover, the domestic political environment will likely maintain an overall sense of equilibrium, given Trump's continued support of South Korea as a strategically significant ally in the context of his broader foreign policy objectives.