

PERSPECTIVE

South Korea's Presidential Impeachment

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South Korea's constitutional court decided to uphold the parliament's impeachment of President Park Geun-hye amid a corruption scandal that has plagued the president and her adviser, Choi Soon-sil. An election to replace her is to take place within 60 days. Despite the allegations and her low approval ratings, Park still had supporters, and tensions have been high.

The impeachment ruling was definitely not a surprise to me as the degree of anger regarding the behavior of President Park meant that the legislature seemed to have no choice but to impeach her. South Koreans have been particularly harsh when it comes to presidential corruption and abuses of power. Several South Korean presidents in the not-so-distant past have been jailed or gone into exile—one was even driven to suicide.

President Park's impeachment has important potential implications for the South Korean economy and market. Although the country has very strong Confucian traditions that have made it difficult to confront people of higher status, there has been movement toward reform and change in the society as a whole, and not only in government.

For example, in one case, a South Korean airline co-pilot was unwilling to confront the chief pilot about problems because of the chief pilot's superior status, with devastating results. One can also point to the continuation of family control of the Korean chaebols (conglomerates), where control passes down from father to sons, even though the family may not have majority control of the company. It is this system that I think could be reformed or dismantled as a result of the recent presidential corruption scandal.

Since the major chaebols are so important within the South Korean stock market, moves to reform the system could have major implications for the market. A weakening of the chaebol system could give an opportunity for smaller companies to grow and prosper without being dependent on the chaebols.

The impeachment ruling in South Korea does not have a major impact in terms of our investment strategy in the country or region. We are bottom-up investors and continue to look for what we view as potential investment bargains in all sectors and all companies. However, if we see the chaebol system weaken, we anticipate a greater focus on small- and medium-sized companies, which we would expect to realize faster growth.

What's happening in South Korea offers some broader potential implications, particularly for other countries with problems of corruption in the political arena. For example, prosecutors in Brazil took inspiration from Italian prosecutors who had been successful jailing corrupt politicians. While these scandals are unsettling and can create market volatility, they also offer opportunity for positive change.

Our analysts located in South Korea report the decision to impeach the president has been welcomed, and the immediate market reaction has reflected optimism. There is a feeling that Korea is moving in the right direction. It will be interesting to see how the presidential election in two months plays out, particularly in regard to chaebol reform, which is an opposition-party focal point.

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