

# ASAN KOREA PERSPECTIVE

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## THAAD

On July 8, Seoul and Washington announced their decision to deploy the Terminal High Altitude Area Defense (THAAD) in South Korea by the end of 2017.<sup>1</sup> The decision came two weeks after North Korea test fired its intermediate range missile, Musudan. In response to the announcement, North Korea fired a submarine-launched ballistic missile (SLBM), which failed in the early stage of flight.<sup>2</sup>

The government designated Seongju, approximately 300 kilometers south of Seoul, as the location for THAAD. Local residents have strongly opposed the decision, citing health risks from exposure to electromagnetic waves.<sup>3</sup> As anti-THAAD demonstrations continue, ex-opposition leader Ahn Cheol-soo stated that the government should “seriously consider putting the decision to a public vote.”<sup>4</sup> In addressing such objections, President Park responded, “It is time to stop unnecessary dispute regarding the THAAD decision.” She also added, “Our government will continue to listen to and communicate with the residents of Seongju in the process of deploying THAAD.”<sup>5</sup>

A recent survey on THAAD reveals that 50% of the respondents are supportive, while 32% are opposed.<sup>6</sup> The survey also suggests that partisan affiliation is a critical intervening factor, with 74% and 48% of supporters for the New Frontier Party (NFP) and People's Party (PP), respectively, approving the THAAD decision.<sup>7</sup> Supporters of the Together Democratic Party (TDP) and the Justice Party (JP) tended to oppose the decision, with 50% and 58% disapproving, respectively.<sup>8</sup>

### Public Support for Government Decision on THAAD

Approve	Disapprove	Don't know/refused
50%	32%	18%

Source: Gallup Korea Daily Opinion

### Reasons for Approval

For national security/public safety	51%
Response to North Korea's nuclear/missile threats	17%
Pressure on North Korea	10%
Help from a superpower is unavoidable	7%
Strengthen relationship with the US	2%
Trust in President Park's decision	1%
Others	2%
Don't know/refused	11%

Source: Gallup Korea Daily Opinion

### Reasons for Disapproval

Don't need it/ineffective	15%
Korea is being dragged into by the U.S.	14%
Deteriorate relations with neighboring countries including China	13%
Negative impact on economy	7%
Not in Korea's national interests	7%
Government did not inform the public/one-sided decision	5%
Public safety/radiation	5%
Losses/damages to the site area	4%
Concerns of war/raises tension	4%
Deteriorate inter-Korean relations	3%
Others	2%
Don't know/refused	21%

Source: Gallup Korea Daily Opinion

## UNCLOS

On July 12, the Permanent Court of Arbitration in the Hague ruled that China has no legal claim to the areas within the so-called “nine dash line” in the South China Sea. The Philippines filed the case against China in 2013 under the United Nations Convention on Laws of the Sea (UNCLOS).<sup>9</sup>

The South Korean government released its official response 16 hours after the decision, stating that it “takes note of the arbitral ruling” and “hopes that the disputes in the South China Sea will be resolved through peaceful and creative diplomatic efforts.”<sup>10</sup> According to experts, this delicate response reflects, in part, Seoul's balancing act between China and the

United States, as well as its concern that Japan might initiate UNCLOS proceedings against South Korea over Dokdo.<sup>11</sup>

On the other hand, Japan immediately welcomed the UNCLOS decision, reaffirming that “China must follow the ruling.”<sup>12</sup> Emphasizing that the South China Sea dispute is an issue of common interest for the international community, Prime Minister Abe stated, “The rule of law is a fundamental principle by which we must continue to abide.”<sup>13</sup>

### US Sanction of North Korea

On July 10, the Obama administration introduced additional sanctions against key individuals and entities in North Korea, including Kim Jong-un, for alleged human rights violations.<sup>14</sup> This marks the first time the North Korean leader has been personally targeted by US sanctions regime.

Kim Jong-un called the measure a “declaration of war” and severed the only existing communication channel between North Korea and the United States (i.e. informal channel of communication through the UN missions).<sup>15</sup>

Meanwhile, North Korean media did not mention the US sanctions against Kim Jong-un until July 13. Observers claim that the regime exercised significant care in announcing this issue internally, due to concerns that it may undermine the legitimacy and reputation of the Kim leadership.<sup>16</sup>

### Individuals designated by E.O. 13722 and E.O. 13687<sup>17</sup>

#	Name (in alphabetical order)	Title
1	Cho Il-U	Director of the Fifth Bureau of the Reconnaissance General Bureau
2	Cho Yon Chun	First Vice Director of the Organization and Guidance Department
3	Choe Chang Pong	Director of the Investigation Bureau of the Ministry of People’s Security
4	Choe Pu Il	Minister of People’s Security
5	Kang Song Nam	Bureau Director
6	Kim Jong Un	Chairman of the Workers’ Party of Korea
7	Kim Ki Nam	Director of the Workers’ Party of Korea Propaganda and Agitation Department
8	Kim Kyong Ok	First Vice Director of

		the Organization and Guidance Department
9	O Chong Ok	Director of the First Bureau of the Reconnaissance General Bureau
10	Ri Jae Il	First Vice Director of the Workers’ Party of Korea Propaganda and Agitation Department
11	Ri Song Chol	Ministry of People’s Security Counselor

### Entities designated by E.O. 13722 and E.O. 13687<sup>18</sup>

#	Name	Alternate Names
1	Ministry of People’s Security	Ministry of Public Security or MPS
2	Ministry of People’s Security Correctional Bureau	Ministry of People’s Security Correctional Management Bureau or Ministry of People’s Security Prison Bureau
3	Ministry of State Security	State Security Department
4	Ministry of State Security Prisons Bureau	Ministry of State Security Farm Bureau or Ministry of State Security Farm Guidance Bureau or Ministry of State Security Farming Bureau or State Security Department Prisons Bureau
5	Organization and Guidance Department	-

### Service Economy Development Strategy

On July 5, the government announced the Service Economy Development Strategies Plan, which aims to add 250,000 new jobs in the service sector in order to raise the share of employment contribution by services from 70% to 73% during 2015-2020.<sup>19</sup> The plan calls for providing different types of tax breaks and financial support to manufacturing, infrastructure, and seven specific industries, namely medical services, tourism, contents, education, finance, software and logistics.<sup>20</sup>

To promote financial services, the Financial Services Commission (FSC) is also working on an auxiliary measure to nurture large investment banks. The plan is likely to be announced by the end of this month but it is already gaining traction in Seoul. The plan is expected to include incentives, such as expanding

credit extension cap, for companies whose equity capital is larger than KRW 5 trillion.<sup>21</sup> As of 2015, only Mirae Asset Daewoo meets the standard with equity value at KRW 5.837 trillion.<sup>22</sup>

The above measure is seen as an alternative to implementing the necessary reforms in the service sector, given the National Assembly's repeated failure to pass the Service Industry Development Act.<sup>23</sup> The administrative measure, however, falls short of structural reforms.<sup>24</sup> Current plans also face significant legislative hurdles. For instance, one measure calls for expanding access to medical services in remote rural areas, which will require revising the Medical Act. This attempt will face stiff opposition in the National Assembly and the medical service sector.<sup>25</sup>

### Economic Growth

The Bank of Korea (BOK) estimated South Korea's economic growth rate at 2.4% for the remainder of 2016, bringing the annual average to 2.7%.<sup>26</sup> The government's stimulus, including the supplementary budget worth KRW 10 trillion and lowered benchmark interest rate, is expected to boost the economy by 0.2%.<sup>27</sup> Increasing global uncertainties and restructuring of troubled sectors explain the Bank's revised outlook.

### Restructuring

Shipping companies are in the final phase of the conditional voluntary workout. Creditors demanded the two largest firms to meet three requirements before converting their investments to stocks: i) lower charter rates; ii) reduce debt and increase liquidity; and iii) join a shipping alliance.<sup>28</sup> Hyundai

Merchant Marine (HMM) met all three conditions<sup>29</sup> and the creditors will move to implement the debt-equity swap and extend the maturity on loans. The largest creditor, KDB, will become the largest shareholder as a result of this arrangement.<sup>30</sup>

Hanjin Shipping, on the other hand, is struggling to lower charter rates and increase liquidity. Hanjin is thinking about requesting an extension on the current negotiation deadline, which is scheduled for August 4.<sup>31</sup> If left to expire, Hanjin will be placed under court receivership.

Restructuring in the shipbuilding sector has drastically raised the unemployment rate in Gyeongsangnam-do, where all three of the largest shipbuilders are located. Although the province-wide unemployment is low by general standard at 3.9%, this is still 1% up from the same month last year and 0.3% higher than the national average.<sup>32</sup>

### Presidential Candidates Approval Ratings<sup>33</sup>

Name	Party	Approval % (± from previous month)
Ban Ki-moon	-	27% (+1)
Moon Jae-in	TDP	16% (-)
Ahn Cheol-soo	PP	11% (+1)
Park Won-soon	TDP	6% (-)
Sohn Hak-kyu	TDP	4% (+1)
Yoo Seong-min	NFP	4% (+1)
Kim Moo-sung	NFP	3% (+1)

Source: Gallup Korea Daily Opinion

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 33 Date: July 12-14; sample size: 1,004; margin of error: ±3.1 at the 95% confidence level.

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**Address** 11, Gyeonghuigung 1ga-gil, Jongno-gu, Seoul 110-062, Republic of Korea

**Website** <http://www.asaninst.org>

**Email** info@asaninst.org

**President/Chairman:** Hahm Chaibong

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**Contributing Staff** (in alphabetical order by last name):

Han Minjeong

Eun A Jo

John J. Lee

**Editorial Staff:**

Eun A Jo

J. James Kim