

## Escalation on the Korean Peninsula

The tension on the Korean Peninsula is escalating with the leaders of North Korea and the US exchanging confrontational words. Following President Trump’s comment that North Korea will be met with “fire and fury,” Pyongyang has announced the possibility of targeting international waters 30-40km from Guam. In a telephone conversation with President Trump, President Moon emphasized that a second Korean War is unacceptable.<sup>1</sup>

So far the South Korean public mood is relatively subdued. Korean media, however, has expressed concerns over the Moon administration’s inability to manage the escalating crisis.<sup>2</sup> The Korean government has also failed to pass any resolution on North Korea.<sup>3</sup> Moreover, the South Korean public remains divided on many security-related issues including the deployment of THAAD. For instance, some Koreans see Mr. Trump’s strong rhetoric as a trigger for war while others see it as his way of trying to change North Korean behavior.<sup>4</sup> Some pundits worry about the possibility of “decoupling” or abandonment of South Korea by the US.<sup>5</sup> More people are calling for enhancing South Korea’s defensive capabilities, including the possibility of redeploying US tactical nuclear weapons.

## Ahn Cheol-soo’s bid to run for a new leadership race for the People’s Party

Ahn Cheol-soo, the co-founder of the People’s Party (PP) announced that he will seek the PP leadership position. He argues that his leadership is necessary in order for the PP to be victorious in next year’s local election. The party suffers from low public support, following the election misconduct scandal.<sup>6</sup>

Ahn’s decision drew sharp criticism from the public and PP members. His decision was considered untimely especially after 2 members of his party were arrested for attempting to manipulate the presidential election.<sup>7</sup> In a public apology, Ahn said he will take time off for introspection. 12 of his party members issued a statement stating that Ahn should take responsibility.<sup>8</sup> So far, the PP has accepted four people in an official bid for leadership; Ahn Cheol-soo, Chun Jung-bae, Chung Dong-young, and Lee

Un-ju.

## Real Estate Reform

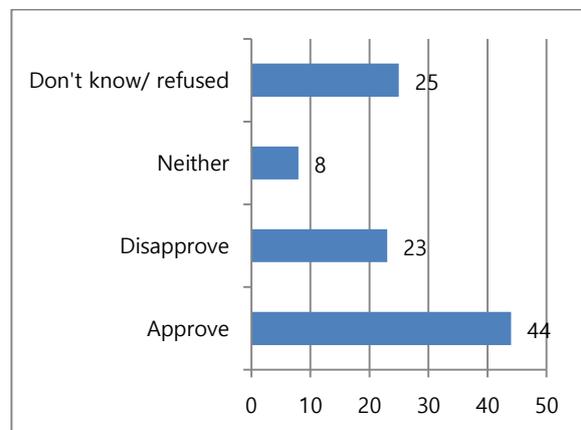
On Aug 2, the Moon administration announced changes to real estate tax.<sup>9</sup> The goal is to reduce short-term speculative investment in real estate.

### Revised Property Tax Code<sup>10</sup>

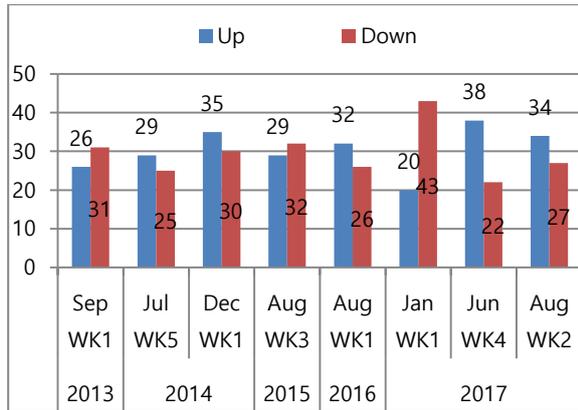
	Two houses	Over three houses
<b>Current</b>	6 to 40%	
<b>Revised</b>	16 ~ 50%	26 ~ 60%

The public opinion appears to generally favor the change with 44% of respondents supporting the policy and 23% opposing. Similar measures were adopted under the Roh Moo-hyun administration, which temporarily stabilized the housing market but failed to stem the rise in real estate price in the long term. The Moon administration argues that the previous failures were due to excess liquidity. Under the latest measures, the loan-to-value (LTV) and the debt-to-income (DTI) will be set at 30% for multiple homeowners. The current LTV ratio is at 70% and DTI set at 40%. Experts say that this is the toughest regulation on the housing market to date but that the government may still fall short of stabilizing the housing price since there is no way to increase supply in the central metropolitan areas.<sup>11</sup>

### Q: Do you approve the real estate reform?<sup>12</sup>



**Q: Do you think prices of house property will go up or down in the next year?<sup>13</sup>**



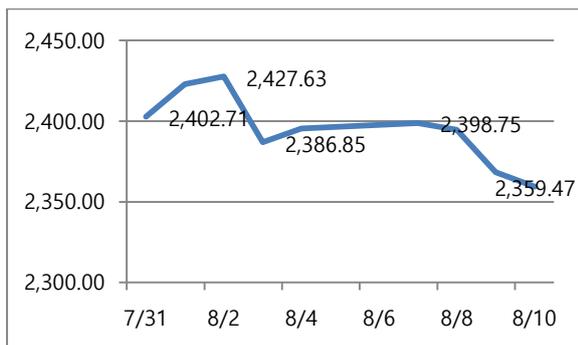
**Tax Code Reform**

On Aug 2, the administration released plans to overhaul the existing tax code.<sup>14</sup> The proposal raises the tax rate on high-income earners and large corporations.

There is strong disagreement on the corporate tax issue. The government's proposal suggests increasing the top corporate tax rate from 22% to 25%. The Liberty Korea Party strongly opposes this change.<sup>15</sup> The parties, however, have expressed some willingness to negotiate on other proposed changes.

The market response has been somewhat negative with KOSPI showing a steady decrease by 40.78 points (1.68%) in the wake of these announcements.<sup>16</sup>

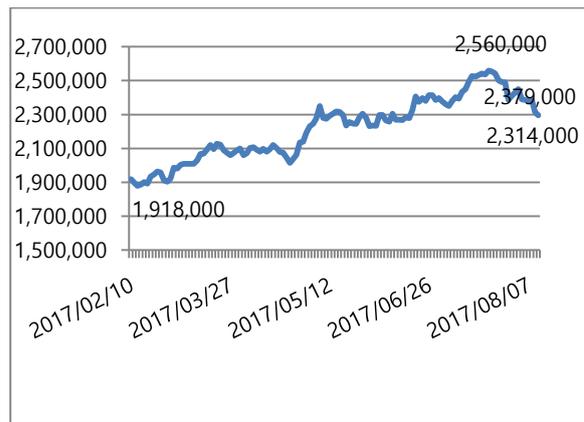
**KOSPI**



**Special Prosecution and JY Lee**

The special prosecution (SP) is seeking twelve years behind bars for JY Lee's bribery charge. The penalty is considered to be on the harsher side. This would be one of the longest prison terms for white collar conviction among chaebols if the sentencing follows the SP recommendation.<sup>17</sup> The court will deliver the sentence on Aug 25. The sentencing decision will depend on whether the evidence is circumstantial.<sup>18</sup>

**Samsung Electronics Stock Performance**

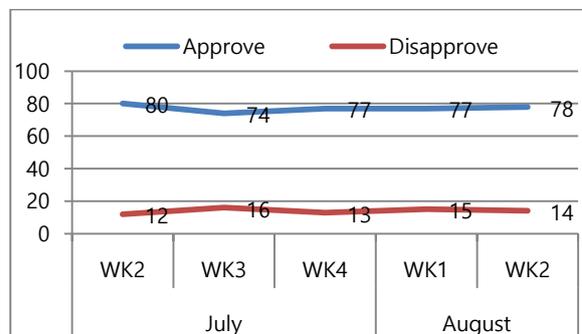


The court decision, however, appears to have little bearing on Samsung Electronic's market value. Samsung's stock, for instance, has performed consistently well over the past six months. Samsung Electronics also announced the record high quarterly sales profit of KRW 14.1 trillion for the Q2.<sup>19</sup> In short, the litigation appears to have had little impact on the stock performance. Samsung Electronics is expected to report a record profit in Q3.

**Trial Schedule and changes in stock prices**

Date	Event	Change	Value
2/17	Lee JY arrested	-	8,000
2/28	Samsung's future strategy office dissolved	+	19,000
4/7	Trial on JY Lee begin	-	12,000
7/12	Jung Yura appears as witness	+	44,000
7/26	Choi Soon-sil appears as witness	-	8,000
8/3	Litigation	-	61,000
8/4	Litigation	-	4,000
8/7	Final arguments. SP asks for 12 years	-	6,000
8/25	Court sentencing date		

**President Moon's Approval Rating (%)<sup>20</sup>**



**Party Approval Rating (%)**

	WK 1 <sup>21</sup>	WK 2 <sup>22</sup>
Together Democratic Party	46	50
Liberty Korea Party	11	11
People's Party	5	4
Righteous Party	10	6
Justice Party	6	5
Don't know/refused	22	24

- 1 “대북 대화보다 ‘힘’ 강조한 문 대통령,” *중앙일보*, 2017년 8월 8일.
- 2 “[사설] 극도의 경각심 갖고 한반도 8월 위기설 대처해야,” *중앙일보*, 2017년 8월 10일.
- 3 “[사설]對北결의안 하나 없이 정쟁에 매몰된 정치권,” *동아일보*, 2017년 8월 10일.
- 4 “트럼프, ‘대북 협상’ 거론 하룻만에 “군사해법 완벽 준비,”” *한겨레*, 2017년 8월 11일.
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- 7 “[기자의 시각] 국민의당 ‘새 정치’의 수준,” *조선일보*, 2017년 8월 9일.
- 8 “[전문]국민의당 의원 12명 “안철수 당대표 출마 반대...희생은 지도자의 숙명,”” *동아일보*, 2017년 8월 3일.
- 9 “실수요 보호와 단기 투기수요 억제를 통한 주택 시장 안정화 방안,” *국토교통부*, 2017년 8월 2일.
- 10 Capital gains tax increase applies only to Seoul, 7 cities in Gyeonggi province, 7 cities in Busan, and Sejong. These rates apply to only those who have two or more houses.
- 11 “최고강도 규제 종합세트... 노무현 정부 실패 되풀이 우려도,” *중앙일보*, 2017년 8월 3일.
- 12 “한국갤럽 데일리 오피니언” 제 271호, *한국갤럽*, 2017년 8월 2주.
- 13 Ibid.
- 14 “2017년 세법개정안 보도자료,” *기획재정부*, 2017년 8월 2일.
- 15 “8·2 대책 18개 법안 개정 필요 ... 여야, 가장 이견 큰 건 법인세,” *중앙일보*, 2017년 8월 4일.
- 16 “코스피 40P 급락, 2400선 무너져,” *한겨레*, 2017년 8월 3일.
- 17 “기업 총수 중 김우중 이후 최고 구형량,” *동아일보*, 2017년 8월 9일.
- 18 “특검, 靑수첩·문건이 뇌물증거라는데... 작성자들은 ‘그건 아니다,’” *조선일보*, 2017년 8월 12일.
- 19 “오너 약재는 삼성전자 화재?... 주가는 ‘강세,’” *세*

*계일보*, 2017년 8월 8일.

20 Gallup Korea. Date: August 1-3; sample size 1,004; margin of error: ±3.1 at the 95% confidence level; Gallup Korea. Date: August 8-10; sample size 1,002; margin of error: ±3.1 at the 95% confidence level.

21 Gallup Korea. Date: August 1-3; sample size 1,004; margin of error: +3.1 at the 95% confidence level

22 Gallup Korea. Date: August 8-10; sample size 1,002; margin of error: +3.1 at the 95% confidence level

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