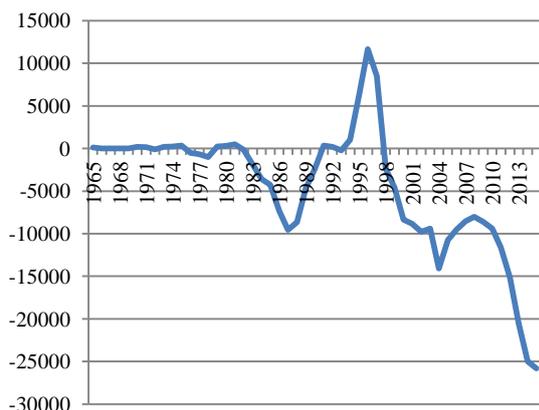


KORUS FTA

Concerns were raised about the implementation of the Korea-US Free Trade Agreement (KORUS FTA) when US Ambassador Mark Lippert described the Korean business environment as “not easy.” Citing the legal service market as an example, he urged Korea to work towards a “complete fulfillment of the free trade deal [between Korea and the US].”¹ He also emphasized the need for more deregulation (e.g. regulation of car seat size) as he lamented the possibility of Korea’s loss of appeal to foreign companies.²

US Trade Balance with South Korea, 1965-2015 (in USD Mil)



Source: KITA K-Stat

A recent report by Korea Trade-Investment Promotion Agency (KOTRA) confirms growing American dissatisfaction with the implementation of the KORUS FTA.³ One concern is the growing bilateral trade deficit. Among the 17 FTAs that the US has concluded since NAFTA, KORUS FTA ranks the lowest in terms of trade balance (See below).

The 20th National Assembly

Major party leaders agreed on June 8 that the Together Democratic Party (TDP) should hold the speakership of the 20th National Assembly. A six-term TDP National Assemblyman, Chung Sye-kyun, was elected to be the Speaker during a plenary session on June 9.⁴ This marks the first time since 2002 that an opposition lawmaker has been named as the Speaker of the National Assembly. Shim Jae-cheol from the New Frontier Party (NFP) and Park

Joo-sun from the People's Party (PP) were chosen as the Deputy Speakers.

In exchange for yielding the speakership, the ruling NFP will chair eight committees, including the House Steering Committee and the Legislation and Judiciary Committee. The TDP will also chair eight committees, and the PP, two committees.⁵

Leadership on the Floor and Committees

TDP (Speaker + 8)	NFP (Deputy Speaker + 8)	PP (Deputy Speaker + 2)
Chung Sye-kyun (NA Speaker)	Shim Jae-cheol (NA Deputy Speaker)	Park Joo-sun (NA Deputy Speaker)
Kim Hyun-mee (Budget and Accounts)	Chung Jin-suk (House Steering)	Yoo Sung-yop (Education, Culture, Sports and Tourism)
Baek Jae-hyun (Ethics)	Kweon Seong-dong (Legislation and Judiciary)	Chang Byoung-wan (Trade, Industry and Energy)
Yang Seung-jo (Health and Welfare)	Kim Young-woo (National Defense)	
Cho Jeong-sik (Land, Infrastructure and Transport)	Lee Cheol-woo (Intelligence)	
Shim Jae-kwon (Foreign Affairs and Unification)	Cho Kyoung-tae (Strategy and Finance)	
Hong Young-pyo (Environment and Labor)	Lee Jin-bok (National Policy)	
Kim Young-choon (Agriculture, Food, Rural Affairs, Oceans and Fisheries)	Yoo Jae-jung (Security and Public Administration)	
Nam In-soon (Gender Equality and Family)	Shin Sang-jin (Science, ICT, Future Planning, Broadcasting and Communications)	

Intraparty Factionalism

The ruling NFP reinstated seven ex-NFP independents on June 16 after a secret ballot.⁶ The

decision was made by the party's interim leadership, headed by Kim Hee-ok. Pro-Park NFP members argued that this decision should not have been handled by a secret ballot.⁷ The Blue House has yet to make an official statement.⁸ If the decision stands, the NFP will reclaim its status as the largest party in the National Assembly.⁹

Composition of NA

(with reinstatement of 7 ex-NFP Members)

Party	SMD	PR	Total	%
NFP	112	17	129	43
TDP	109	13	122	40.67
PP	25	13	38	12.67
Justice	2	4	6	2
Independents	5	0	12	1.67
Total	253	47	300	100

Presidential Candidates Approval Ratings¹⁰

Name	Party	Approval % (± from previous month)
Ban Ki-moon	-	26%
Moon Jae-in	TDP	16% (-2)
Ahn Cheol-soo	PP	10% (-10)
Park Won-soon	TDP	6% (-)
Oh Se-hoon	NFP	4% (-5)
Sohn Hak-kyu	TDP	3%
Yoo Seong-min	Independent	3% (-)
Kim Moo-sung	NFP	2% (-3)

Source: Gallup Korea Daily Opinion

Party Approval Rating

	June 7-9 ¹¹ (± from previous week)	June 14-16 ¹² (± from previous week)
NFP	29% (-)	32% (+3)
TDP	24% (-3)	25% (+1)
PP	17% (-4)	15% (-2)
Justice Party	6% (+1)	4% (-2)
Don't know/Refused	24% (+6)	23% (-1)

Source: Gallup Korea Daily Opinion

Recapitalization Fund

The government and the Bank of Korea (BoK) agreed to establish a recapitalization fund worth KRW 11 trillion. Under this arrangement, the BoK will provide KRW 10 trillion and the Korea Asset Management Corporation (KAMCO), KRW 1 trillion. The Industrial Bank of Korea (IBK) functions as a pass-through entity and the Korea Credit Guarantee Fund (KODIT) will guarantee the BoK loan.¹³ Skeptics criticized the latest move by suggesting that the bailout is an excessive use of public finance and falls short of necessary reforms.¹⁴

Functional Adjustment of Public Entities

Yoo Il-ho, the Deputy Prime Minister and the Minister of Strategy and Finance, announced "the framework for functional adjustment of state-owned enterprises in energy, environment, and education" on June 13.¹⁵ The latest announcement came as part of an ongoing effort to "normalize public entities,"¹⁶ with focus on the energy sector, which suffers from huge debt and inefficiencies.

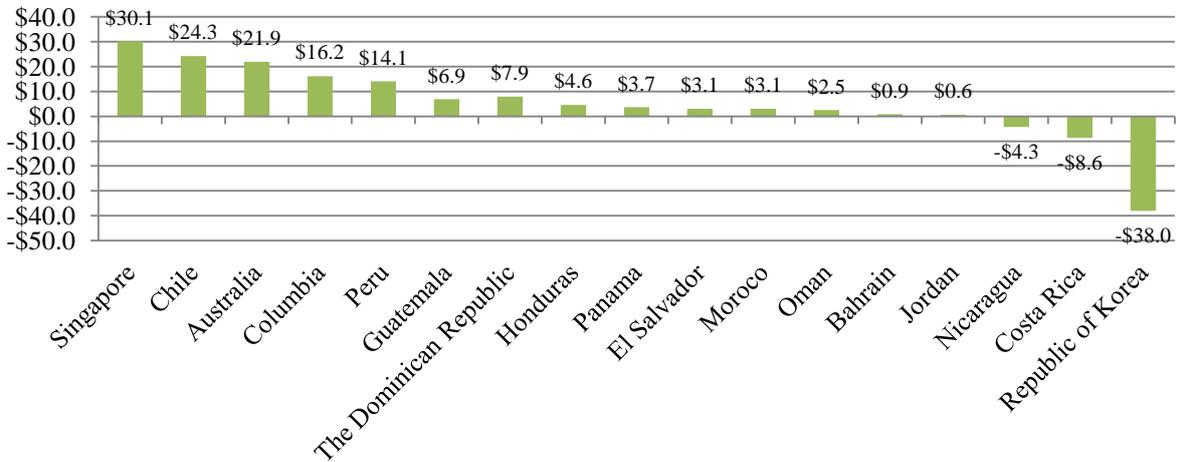
The government outlined four objectives: i) unify overlapping businesses dispersed across different organizations; ii) reduce debt and size of non-core business functions; iii) open mono/oligopolistic public sectors to private investors; and iv) improve financial transparency.

The plan calls for downsizing the Korea Coal Corporation (KOCOAL) and the Korea Resource Corporation (KORES). Korea National Oil Corporation (KNOC) and Korea Gas Corporation (KOGAS) are to sell non-core business assets. Ultimately, overseas resource development function of KORES will be moved to KNOC and KOGAS, while their existing portfolio will also be reduced. Under the current arrangement, both the electricity and gas markets should be opened to private retailers. Details are to be released in the months ahead.¹⁷

Eight corporations – Korea Electric Power Corporation (KEPCO)'s five daughter companies, Korea Hydro & Nuclear Power (KHNP), KEPCO KDN, and Korea Gas Technology Corporation (KOGAS-Tech) – are to be publicly traded as of 2017. Labor unions opposed the measure calling it a step toward privatization, but the government maintained that it will be the majority shareholder with control of more than 50% of the total stock offering. Precedents suggest that this move may not be easy. In 2001, the government divided KEPCO's electricity generation business into 6 companies and tried to list the Korea South-East Power Company on the public market. However, the attempt failed due to a large gap in the government and the market's offering price.¹⁸

Energy companies came under serious scrutiny for recording huge losses after failed investments in overseas energy resources during the Lee Myung-bak presidency. The government's short-sighted energy policies have been criticized for making investments when commodity prices were high and sold when prices were low.¹⁹

Changes in US Trade Balance 3 Years Before and After Implementation of FTA (unit: \$ 1 billion)



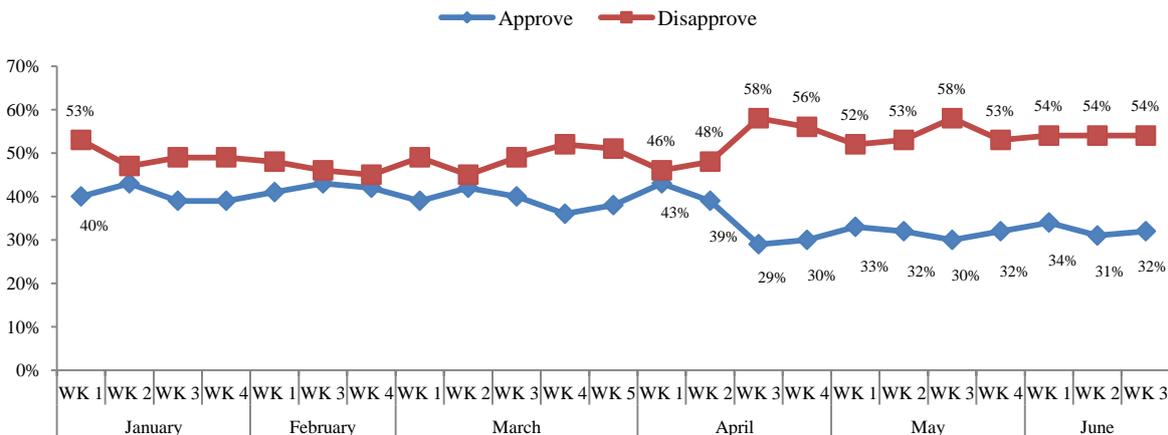
Source: Global Market Report by KOTRA (Data: Third Way)

Rate of Increase in US Trade Deficit (unit: \$1 million)

	2011	2012	2013	2014	2015	Rate of Annual Increase
China	295,250	315,103	318,713	343,079	365,695	6.0%
EU	99,395	116,383	125,557	142,058	153,318	14.0%
Canada	34,033	31,613	61,803	35,377	14,864	-12.1%
Mexico	64,585	61,719	54,485	53,825	58,364	-2.5%
Japan	63,128	76,456	73,358	67,176	68,648	2.7%
Korea	13,200	16,616	20,747	25,047	28,329	23.0%

Source: Global Market Report by KOTRA (Data: US Consensus Bureau)

President Park's Approval Rating



Source: Gallup Korea Daily Opinion

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11 Date: June 7-9; sample size: 1,002; margin of error: ± 3.1 at the 95% confidence level.

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