

Domestic Politics

The New Frontier Party (NFP) Splits

On Dec 27, 30 anti-Park members of the New Frontier Party (NFP)¹, led by Kim Moo-sung and Yoo Seong-min, announced that they were leaving the “fake conservatives”² and establishing “the New Reform Conservative Party” (NRCP). They also elected Joo Ho-young as the party’s new floor leader while Lee Jong-gu was named policy chief. The new conservative party will officially launch on Jan 24 and will have more than the 20-seat requirement to become a negotiating body in the National Assembly. This is the first time in 26 years that the National Assembly will be occupied by four major parties with negotiating power³. Floor leader Joo stated that he hoped to have 60 members by Jan 24⁴, which is possible if former UN Secretary General Ban Ki-moon decides to join the party and convince more NFP members to defect. Even without Mr. Ban, however, more members, including Na Kyung-won, are expected to defect.⁵ In either case, the new party will likely have enough seats to surpass the People’s Party (PP, 38 seats) and become the third largest party behind the Together Democratic Party (TDP, 121 seats) and the NFP. Also, with more than 200 National Assembly seats being occupied by non-ruling parties, the NFP may not play any decisive role in important new reforms.⁶

Ban Ki-moon

Former UN Secretary General Ban Ki-moon all but formally announced his candidacy in the upcoming presidential election. During his final press conference as the UN Secretary General on Dec 20, he told the Korean correspondents that he would “sacrifice everything to help South Korea’s development.” At the same time, he dissociated himself from President Park and the NFP, and remained unclear about his party allegiance⁷. Meanwhile, the PP and NRCP have been warming to the possibility of having Ban run under their ticket.⁸ The recently established NRCP has been most active with Yoo Seong-min stating that he would “definitely bring UNSG Ban to the new party and conduct a fair presidential election.”⁹ According to

recent poll results by Gallup Korea, Ban Ki-moon, Moon Jae-in, and Lee Jae-myung are the three leading candidates for the upcoming election¹⁰.

The Choi Soon-sil Scandal

The Constitutional Court

In a 26-page document submitted to the Constitutional Court, President Park laid out reasons why the impeachment decision by the National Assembly was unjust. According to the document¹¹:

- There is no evidence that Choi Soon-sil was involved in state affairs. If her involvement had to be quantified, it would be less than 1% and, in the end, all decisions were made by President Park;
- Choi’s involvement in bribery and corruption had nothing to do with President Park;
- President Park never forced Korean conglomerates to contribute financially to the establishment of MIR and K-Sports Foundations;
- Accusation that President Park was involved in extortion is premature given that the investigation on this has been less than thorough;
- Choi was a member of President Park’s ‘Kitchen Cabinet’ and was simply a personal confidante of the President (many former presidents had their own ‘Kitchen Cabinets’);
- There were some inadequacies in responding to the Sewol ferry incident but that does not warrant an impeachment.

Former leader of the TDP and leading presidential candidate Moon Jae-in called the document “very embarrassing and humiliating.” He also added that President Park was “busy avoiding responsibilities” and that she “failed as the president of a country.”¹²

Lee Jae-myung, another leading presidential candidate and mayor of Seongnam City, labeled the document a

“despicable attempt by a criminal president.” He also stated that “Park Geun-hye is the one person that I would like to handcuff and put in jail.”¹³

On Dec 22, the Constitutional Court held its first hearing on whether the National Assembly’s decision to impeach President Park was justified.

The Special Investigation Unit

On Dec 21, the special investigation unit led by Special Prosecutor (SP) Park Young-soo began its official inquiry into the scandal surrounding Choi Soon-sil.¹⁴ The investigation scope has been comprehensive with a number of individuals being summoned to testify. Numerous companies have been subjected to search and seizure raids. The list includes, but is not limited to, the following:

- Choi Soon-sil
- Choi Jae-seok (Choi’s brother)
- Jang Si-ho (niece of Choi)
- Kim Ki-choon (former Senior Presidential Secretary for Civil Affairs)
- Ahn Jong-beom (former Senior Presidential Secretary for Policy Coordination)
- Jung Ho-sung (former Senior Private Secretary to the President)
- Kim Jong (former Vice Culture Minister)
- Kim Sang-ryul (former Senior Presidential Secretary for Education and Culture)
- Cho Yoon-sun (Minister of Gender Equality and Family)
- Moon Hyung-pyo (head of National Pension Service)
- Jung Kwan-joo (former First Vice Minister of Culture, Sports and Tourism)
- Kim Jong-deok (former Minister of Culture, Sports and Tourism)
- Kim Jae-yeol (executive at Cheil Worldwide)
- Kim Young-jae (Director of Kim Young-jae Plastic Surgery Clinic)
- Cho Yeo-ok (former Presidential Nurse Officer)

- Mo Chul-min (South Korean Ambassador to France)
- Ministry of Health and Welfare
- National Pension Service
- Chaum Life Center
- Ewha Womans University
- Seoul National University Hospital
- Arts Council Korea

The first phase of investigation is focused on President Park’s bribery charges involving the Samsung and Cheil Industries merger.¹⁵ Moon Hyung-pyo, head of the National Pension Service, was the first individual arrested for his involvement in the merger deal.¹⁶ The Blue House is also expected to be the target of search and seizure.¹⁷

The special investigation unit has also filed a ‘red notice’ to place Chung Yoo-ra on the Interpol’s wanted list.¹⁸ Another request was filed with the South Korean Ministry of Foreign Affairs to invalidate Chung’s passport as well.¹⁹ Chung was subsequently arrested in Denmark.

The National Assembly Inquiry

The National Assembly Inquiry Committee held its fifth hearing on Dec 22. While former Senior Presidential Secretary for Civil Affairs Woo Byung-woo was in attendance, other key individuals such as Choi Soon-sil and former Senior Presidential Secretary for Policy Coordination Ahn Jong-beom failed to make an appearance citing health reasons²⁰. The committee decided to hold the sixth and final hearing at the detention center where Choi and Ahn were detained²¹.

On Dec 26, 9 committee members visited the detention center to interrogate Choi but she declined to participate. Committee members then requested the detention center and the Ministry of Justice to allow them to interrogate Choi in her cell. Although the request was denied, Choi eventually agreed to participate in a closed hearing.²²

During the private hearing, Choi apologized to the public for “causing chaos,” but denied knowing Kim Ki-choon, Woo Byung-woo, and Ahn Jong-beom. She also denied the accusation that establishing the MIR and K-Sports Foundations was her idea, and that she had asked Samsung for financial contribution. She admitted to being financially broke and that her daughter did not

receive any preferential treatment during the Ewha Womans University admissions process. She added that her “life has not been that much fun” and that she was “ready to serve a life sentence.”²³

Restructuring in 2017

Finance Minister Yoo Il-ho announced his intention to continue the restructuring of troubled sectors in 2017.²⁴ In this spirit, the Ministry of Trade, Industry and Energy announced on Dec 21 that LG Chem along with four other small/midsize companies in the shipbuilding equipment sector were approved for expedited legal/administrative processing to implement voluntary restructuring.²⁵ The Financial Services Commission (FSC) also defended its decision on Hanjin Shipping's court receivership when Chairman Yim Jong-yong stated on Dec 27 that Hanjin had about KRW 2.5 trillion in debt and the company possessed no healthy assets.²⁶ As part of the liquidation process, Hanjin has begun selling off its assets including the Long Beach Terminal which was announced on Dec 20 to be sold to the Swiss shipping company MSC.²⁷

There are questions about the extent to which the government is willing to let the market forces dictate the terms of restructuring, however. The FSC, for instance, denied mergers of the Big Three shipbuilding companies due to an industry outlook that is predicting a demand spike in 2018.

Economic Outlook for 2017

Meanwhile, the Finance Ministry recently revised its growth outlook for 2017 to 2.6%, which is lower than the Bank of Korea's forecast of 2.8%.²⁸ Combination of domestic problems arising from corporate restructuring coupled with rising oil price and benchmark interest rate hike in the US as well as uncertainties arising from a Trump presidency and Brexit were all major factors in the revised forecast.²⁹ The Finance Ministry has announced that the government will spend 31% of the budget in the first quarter of 2017 and increase financing

of state supported banks by KRW 8 trillion.³⁰ Inflation is expected to rise by 1.6% (up from 1% for 2016) and jobs are likely to increase by 260,000 (lower than 290,000 for 2016).

The Bank of Korea also raised some red flags by pointing out that the outstanding household debt has risen to a record high with private credit to GDP ratio at 197.8%, which is 3.4%P increase from 2015.³¹ Most disconcerting are the high interest loans taken on by low-credit borrowers, who accounted for 8% of all borrowers (KRW 78.6 trillion) as of the third quarter in 2016. A growing number of small and medium enterprises are also turning to high interest loans with SME loans from non-bank financial institutions making up KRW 76.6 trillion as of October 2016, which is an increase by 31% from 2015.³² Part of the reason for the rise in high interest rate loans are more stringent screening measures adopted by major banks.

In addition to frontloading government spending in the first quarter of 2017, the government has also announced that it will consider supplementary spending as it has done every year since 2013.³³ If the government resorts to the use of supplementary budget in 2017, the Park administration's reliance on this measure will surpass that of the Kim Dae-jung administration during the immediate aftermath of the Asian Financial Crisis.

The negative outlook is impacting other areas, such as immigration, where the government's Foreign Workforce Policy Committee announced on Dec 22 that the number of E-9 visas for 2017 will be capped at 56,000 with 43,000 for new hires and 13,000 for re-entry.³⁴ This number is a drop from 58,000 in 2016. According to a survey of 259 executives conducted by Korea Employers Federation, nearly 50% of the respondents stated that they will be focused on cost-saving while 73% planned to either scale back or maintain the same level of investment for 2017.³⁵

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