

**Focus on Korea**  
**May 12, 2017**  
**by Team**  
**of Matthews Asia**

The election this week of human rights lawyer Moon Jae-in as South Korea's new president is a positive milestone for the country's long-term competitiveness and the durability of its institutions.

Moon's victory concludes months of political turmoil, which started with a presidential corruption scandal that led to remarkable public outcry and the impeachment of his predecessor, President Park Geun-hye. While South Korea's young democracy handled the test of the scandal well, demonstrating strong civic activism, there is ongoing debate over a separate pressing issue: whether tougher sanctions or a warmer stance toward North Korea would produce greater national security and prosperity. Regardless of what level of pressure incoming President Moon's administration will ultimately place on Pyongyang, we view Moon's victory earlier this week quite optimistically.



Voter turnout of more than 77% for this election is said to be the highest in 20 years. And Moon's leadership may possibly play a more meaningful role in addressing the North Korean issue, along with the U.S. and other regional stakeholders such as China and Japan. Moon, 64, is expected to bring a more conciliatory approach to engagement with the North while both of his immediate conservative predecessors had abandoned the "sunshine policy" of engagement, arguably without realistic alternatives. However, rather than diverting our attention to short-term geopolitical events, at Matthews Asia, we consider the country's development from a much broader context.

Our investment case in South Korea is built around its people, their resilience and achievements: high education levels, globally competitive businesses, a well-diversified industry portfolio and a strong fiscal balance sheet. We believe this election and other recent political events support our investment case.

We also expect that voters will hold Moon accountable for pushing through his reform-minded agenda that seeks to improve transparency and curb the concentration of economic power in the hands of large, often family-owned conglomerates known as chaebol—whose ties to government were exposed during the Park drama. As active, long-term investors, we continue to stay focused on bottom-up stock selection in this dynamic economy, rather than the noise of short-term market-moving news event. We continue to see positive growth prospects for the Korean economy.