



RBC BlueBay
Asset Management

South Korea: Seoul searching

Notes from the road

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“Threats to hard-won democracy are not taken lightly, and within hours, South Korea’s constitution had held strong to force Yoon to retract his declaration.”

“I will dedicate my life to protecting the free Republic of Korea. Please trust in me.”

President Yoon, December 2024.

This was not typical Tuesday night television.

South Korea has only been a democracy since 1988. Prior to that, the country was under a military authoritarian regime. As President Yoon interrupted Koreans’ evening routines to declare martial law, concluding his televised statement with the above comment, the shock was visceral. The prospect of martial law dredged up many emotions and memories among a population who have either lived through, or learned about, military rule of old. Threats to hard-won democracy are not taken lightly, and within hours, South Korea’s constitution had held strong to force Yoon to retract his declaration. While the resilience of the nation’s constitution was heartening to see, the damage was done.

As we land in Seoul, we find a country still mired in political stalemate, awaiting the final outcome of impeachment proceedings against Yoon. What we discover, however, amidst global news coverage and a weakening currency, is that residents of emerging markets’ most “developed” market are largely going about their business as usual. In a sense, that is unsurprising given the fate that has befallen prior presidents. Impeachment, prison, and suicide have all featured in a political landscape that has seen more than its fair share of instability and upheaval. The leading opposition candidate for the presidency, the leader of the Democratic Party, continues to face his own legal charges. You have to wonder why anyone would want the top job.



President Yoon’s martial law declaration.

The main backdrop for December’s political drama was the country’s National Assembly building, which was also the setting for our meeting with a Democratic Party legislator. One of the big changes afoot, as part of a raft of measures to boost corporate governance standards and reduce the “Korea discount”¹, is a potential alteration to the country’s Commercial Act. At present, the fiduciary duty of a board director in South Korea is not to shareholders, but solely to the company. This is set to change. In a country with a deeply entrenched inheritance culture, and where family-run chaebols dominate, being able to hold board members legally accountable for actions that harm minority shareholders would represent a significant shift in the balance of power. With the “burden of proof” also shifting away from companies and in favour of investors, the potential impact of these developments should not be underestimated.

One of the worries about Yoon’s impeachment was that the corporate “Value-Up” initiative² and affiliated initiatives to improve shareholder value might dissipate, at least temporarily. Hearteningly, our meetings indicated that Democratic Party priorities, no matter who is at the helm, are likely to continue to align with those of minority shareholders. This is a country where the number of retail investors has tripled in the last five years. Now a significant portion of a politician’s voter base, shareholder rights are an increasingly bipartisan issue. You alienate equity investors at your political peril.

One takeaway from our discussions was the sense of anticipation among South Korean companies and investors. Within the next three months, the country could potentially see confirmation of President Yoon’s impeachment, the revision of the Commercial Act, the lifting of a short selling ban in the country, and the election of a new president. All of this also leaves activist investors waiting in the wings, for whom scope for corporate governance improvement creates a source of opportunity. Speaking to an activist with a corporate governance background, he shared his hopes that adding teeth to regulation will make it easier to sustain pressure on companies who are yet to fully embrace a shareholder-oriented mindset. While the extent of any change remains to be seen, we were encouraged to hear optimism that the change itself is afoot, with no shortage of agitators ready to hold companies’ feet to the fire.

The topics raised at our company meetings also re-emphasised that the penny has dropped for many South Korean corporates. Shareholder return agendas and increased dividends, share buybacks and cancellations were discussed across the board, with many proactively seeking feedback from investors on best practice.



A dab hand at stock picking and colour mixing!

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While it is not hard to find investors wary of historic corporate governance weakness, there are companies improving their practices towards minority shareholders at pace.

South Korea remains a heavily export-driven economy and has been a recent beneficiary of political flames being fanned through its defense and shipbuilding industries. Our meetings, however, shone a light on one of South Korea’s less industrial exports – its culture. K-beauty, specifically, after popularity in China in the mid-2010s, is now taking the West by storm. Anyone in earshot of a teenager is likely to have heard about K-cosmetics due to their viral presence online. These are high-quality products that are reasonably priced, increasingly created by desirable indie brands like Beauty of Joseon and made by cosmetics original design manufacturers (“ODMs”) with fast turnaround times and strong customer relationships. We met a range of companies from across the K-beauty value chain, from brands and ODMs to logistics providers and device makers, and were impressed by what we saw, visiting R&D facilities and even experiencing a colour make-up design studio to create our own shade.

¹ A term used to describe the tendency of South Korean companies to trade at much lower valuations compared to their global peers, largely due to concerns over corporate governance.

² The programme started at the beginning of 2024 when the Financial Services Commission established a framework to try to close the “Korea discount”. Further information: Press Releases - FSC ([fsc.go.kr](https://www.fsc.go.kr)).

While colour cosmetics are less my speed, as no stranger to SPF50, to sample the quality of South Korean skincare was a revelation. Light in texture and scent, and nothing like the sticky, pungent offerings we are accustomed to seeing here, you can see why South Korea's cosmetics reputation is now gathering pace globally. Olive Young, the country's leading beauty store, is ubiquitous in Seoul and hugely popular locally, while also something of a pilgrimage for foreign visitors. We paid our own visit and were overwhelmed by the range of skincare products on offer at very affordable prices. Standing in a buzzing store, it is not hard to understand Olive Young's appeal, and why from Sephora to Selfridges, South Korean cosmetics are taking centre stage.

“Demographic trends also mean that companies will have to fight even harder to attract the best of the country’s shrinking working population.”

From a demographic perspective, South Korea's ageing population and declining fertility mean that this technologically advanced country will need to continue to focus on robotics and AI. Evidence of this is already creeping into the public domain, with robotic drinks preparation and service in one of the malls we visited. Demographic trends also mean that companies will have to fight even harder to attract the best of the country's shrinking working population. South Korea is renowned for the toughness of its working culture, but our meetings reinforced that best-in-class companies are taking their staff's needs increasingly seriously. We discussed the difficulties of being a working parent with a memory chip manufacturer and found that maternity and paternity leave provisions are rising. In the case of this company, parental and childcare leave provisions outstripped most Western companies. Being a working parent in South Korea is by no means child's play, but we also found that childcare facilities are increasingly being provided onsite, to help mothers return to work more easily. Gender dynamics in the workplace are still complex in the country, with gender pay gaps and the number of women in senior positions less advanced than you would hope, but actions and measures like these should help improve the situation.



Visiting a K-beauty distributor.

We also toured the employee welfare centre of a leading pharmaceutical company, casting an increasingly envious eye over an array of facilities including leading food and drink outlets, a banking branch, gym, doctor's surgery, gift shop, hairdressers, dentist, dedicated mental health and counselling facility, and even an aesthetics centre! While we doubt that many employees are taking up the company's offer to use the "university" facility on the top floor to get married, we realised the extent to which employers were taking on employee feedback to build facilities that make their staff feel valued and content. With young workers a commodity that will become increasingly scarce, this focus will have to continue, and you could sense the collegiate atmosphere that a facility like this helps create.

As we left Incheon Airport, the 14-hour flight back was itself evidence of the fractured geopolitical environment we currently face, with flight times extended by two hours to avoid flying over Russia. That said, while South Korea remains export-focused and far from immune to geopolitical and domestic political turbulence, we feel a cautious optimism. From dramas to DRAM and hardware to skincare, exports are diversifying, and we leave with hope that positive change may be afoot in the country. Much like the flight, however, we could be in for a bumpy ride.

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