

GOVERNMENT

US-DPRK tensions could place South Korea's blossoming luxury industry at risk

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President Trump's administration and the DPRK leadership have traded threats over the past two months. Image credit: Gage Skidmore via Flickr

By DANNY PARISI

Luxury is an international industry with participants from many countries, so geopolitical tensions such as those that have been heating up between the United States and North Korea can be a major concern for luxury businesses and consumers.

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While the two countries seem to have calmed down in the past few days, tensions remain high thanks to both U.S. President Donald Trump and North Korean leader Kim Jong Un's penchants for idle threats. With these tensions high, it is important to keep an eye on what the wealthy, the core of luxury's customer base, is doing to change their shopping or investing habits in light of potential danger, specifically among South Korea's burgeoning luxury industry.

"If there's one thing we have learned in the last 15 years, after having been through Sept. 11, the great recession, and now North Korea, is that in the 21st century we are living in insecure times where anything and everything can or will happen," said Sean Cohen, president of **Van Zwam**, New York.

Boiling point

Since the Korean War in the 1950s, which technically never ended as the belligerents only signed an armistice, North Korea and the U.S. have hardly been the friendliest of countries.

But even in the most tense of times, there has been little fear of actual attack from the isolated Asian country on American soil, or vice versa.

However, President Trump's lack of filter and penchant for verbal intimidation has escalated tensions between the two nations in a unique way, leading some to fear active military clashes between the two.

How confident are you in the strength of your country's economy?

Extremely/Very Confident



ESTABLISHED



DEVELOPING

YouGov Affluent Perspective

Confidence in national economy is at 54 percent in developing countries. Image credit: YouGov

As always, whenever tensions are high it is important for the luxury world to pay attention to how geopolitical concerns can shape luxury spending.

One way that elites are responding to these tensions is with an increase in material investments as a safeguard for their wealth.

"We see people every day looking for tangible secure investments, turning to diamond investing and other forms of investment" Van Zwam's Mr. Cohen said.

These investments can protect wealth in times of turmoil, giving luxury consumers a safe way to store their capital.

For the South Korean luxury industry, these tensions are even more important. The small country has seen a massive growth in luxury spending recently, particularly when it comes to cosmetics.

The slowing of China's economy has afforded neighboring countries such as South Korea an opportunity to become a tourist destination, which in effect has brought increased exposure to the country's products.

South Korean beauty products in particular have seen a rise in popularity, at the expense of Western brands who entered the Chinese market when the playing field was more fruitful. According to L2's "The Beauty China: The Rise of Korean Brands" Insight Report, Western skincare and color cosmetics have seen share erosion while interest in South Korean beauty is skyrocketing, now accounting for nearly a quarter of cosmetic imports to China ([see story](#)).

Capital flight

South Korea has been one of the rapidly developing countries in East Asia with a growing luxury industry.

Although China is the prime target of marketers, its decelerating economy has been a boon for South Korea.

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But affluent consumers in developing countries are reliant on the performance of their nation's economy for stability, according to YouGov's "Affluent Perspective 2017: The Mood of the Global Affluent" report ([see story](#)).

For that reason, an unstable environment around South Korea, caused by potential military action and war right across its northern border, could severely stunt the growth of the country's luxury business, in addition to the general danger it would pose to the Korean people.



Estee Lauder's South Korean ecommerce site. Image credit: Estee Lauder

These affluent consumers could begin to store their wealth in investments, rather than continue to contribute to the burgeoning luxury industry within South Korea.

Luckily, President Trump seems to have backed off slightly in the last few days, hopefully signaling the tensions between the two countries were nothing more than bluster. But if the two continue to rattle sabers, valuable luxury consumption in South Korea and nearby China could be at risk.

"The 21st century is proving that the world is once again entering a period of instability," Van Zwam's Mr. Cohen said. "North Korea is making threats this week, we don't know where we or the stock market will be six months or six years from now, we don't know what our personal lives may face.

"Yet with investing we know that our money will be safe, secure and at our fingertips," he said.

"We will have access to it when and where we need it. That's a hard investment strategy to beat during times like this."