



SEOUL
FORUM

Annual Review
2018-2019

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ANNUAL REVIEW
2018-2019**

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THE SEOUL FORUM *for* INTERNATIONAL AFFAIRS (SFIA)

is an independent, non-profit, and non-governmental organization devoted to three major tasks. First, undertaking research and promoting dialogues pertaining to critical foreign and national security, international economic, and global issues. Second, contributing to international cooperation and understanding through the promotion of intensive exchanges between academics and leading experts. And third, providing policy recommendations on key national agendas.

1986

The Seoul Forum for International Affairs is founded by Lee Hong-Koo and twenty-two leading experts from the academic, business, media, and legal communities. Lee Hong-Koo is elected as the Seoul Forum's first President. The SFIA initially focuses on organizing bilateral forums with ASEAN countries.

* The Seoul Forum sponsors its first bilateral meeting, the Korea-U.S. Forum prior to its formal founding in 1985.

1987

The SFIA reviews South Korea's emerging foreign policy agendas and holds key bilateral forums: the First Korea-Malaysia Forum, the Second Korea-Thailand Forum, the First Korea-Philippines Forum, The First ASEAN-Korea Forum, and the Second Korea-U.S. Forum.



1988

Han Sung-Joo is elected as the second President of the Seoul Forum and Lee Hong-Koo is elected as President Emeritus. The Korea-U.S. "Wingspread Conference on Korea" and the Third Korea-Thailand Bilateral Forum are held. Two reports are published: *Korea-U.S. Relations: The Politics of Trade and Security*, *Korea-U.S. relations in transitions (in Korean)*, and *South Korea and the United States*.

1989

The First Western European Forum, the First Korea-Austria Forum, the First Taipei-Seoul Forum, and the third Korea-U.S. Forum are held. The SFIA continues to focus on major challenges facing the ROK-U.S. alliance and launches an in-house "ROK-U.S. Policy Study Committee." The SFIA conducts seminars and workshops on ROK-U.S. relations, and a policy recommendation report is submitted to the Korean and American governments.



1990

The SFIA is formally registered with the Ministry of Foreign Affairs as a non-profit organization. Conferences and forums with participants from the Soviet Union and Eastern European countries are organized.

1991

Kim Kyung-won is elected as the third President. Han Sung-Joo is elected as the Chairman and Lee Hong-Koo as the Chairman Emeritus.

1992

The SFIA plays a key role as a founding institution of the Council for Security Cooperation in the Asia Pacific (CSCAP), a non-governmental, multilateral organization that is devoted to spearheading track two security cooperation in the Asia-Pacific. A bilateral forum with China is launched.

1993

The first "Korea-U.K. Forum for the Future" is organized and the SFIA holds various meetings including the Salzburg seminar, a Korea-U.S. workshop on East Asian security, and an international conference on world order in the 21st century.

1995

A series of meetings are held on Korea-U.S. relations.

1996

The 10th Seoul Forum anniversary conference is held and a research project is carried out on the future of ROK-U.S. relations and South-North relations after the Cold War.



1997

The SFIA and the Council on Foreign Relations (CFR) conduct joint research on North Korea policy and co-organize a conference on Korea-U.S. relations.

1998

The first China Study Mission is organized.



2000

The Yongpyeong Seminar is launched as an annual meeting of members and their families.

2003

The SFIA hosts a conference on managing Korea-U.S. alliance and inter-Korean relations. The Fourth Yongpyeong Seminar is held.

2005

Han Sung-Joo is re-elected as President and former President Kim Kyung-won is elected as President Emeritus.

2006

The SFIA marks its 20th anniversary and sponsors a number of seminars including an international conference.

2007

Various meetings and seminars are held as an extension of the Seoul Forum's 20th anniversary.

2008

Kim Dalchoong is inaugurated as President.

2009

The SFIA and the CFR carry out a joint research project and co-organize a workshop on "North Korea Policy and the Korea-U.S. Alliance." The Tenth Yongpyeong Seminar and a special seminar is held to review Korea's hosting of the G-20 Summit.

2010

Six bilateral forums, including the first ones with Kazakhstan and Japan, are held. A joint research project with the CFR on North Korea policy is completed.

**2011**

A total of six bilateral forums and dialogue meetings are held. The first strategic dialogue with Israel is organized with the INSS. The Seoul Forum holds the 12th Yongpyeong Seminar, the 25th anniversary international symposium, and a workshop on "Emerging Issues in Nuclear Security."

**2012**

Jung Ku-Hyun is inaugurated as President.

2013

The SFIA, Asan Institute of Policy Studies, Australian Strategic Policy Institute (ASPI), and the Centre for International Governance Innovation (CIGI) hold a seminar on "Constructive Powers and Regional Security in the Asia-Pacific." The SFIA hosts a Korea-Canada Middle Power Workshop under the title "Korea-Canada Middle Power Leadership and Cooperation."

2014

With the dissolution of the YoungSan Foundation, its funds are transferred to SFIA along with its annual "Diplomat of the Year Award," which will be hosted by SFIA from 2015 under the name "YoungSan Diplomat Award."

2015

In June 2015, the Seoul Forum for International Affairs (SFIA) and Institute for International Policy Studies (IIPS) published a joint report under the title "Envisioning the Next Fifty Years of Korea-Japan Ties," in celebration of the 50th anniversary of diplomatic normalization between the Republic of Korea and Japan.

2016

The 30th Anniversary International Conference of the Seoul Forum for International Affairs is held to assess key contextual variables and changes that are affecting Korea, Asia and the rest of the world.

**2017**

Korea Remodeling (Cloud 9, 2017) is published.

The SFIA and the Yonsei University Museum create *The Seoul Forum for International Affairs Archive* to collect and preserve Seoul Forum's works (1986~).

New on-line newsletter *Seoul Perspective* is launched.

2018

The 2018 China Study Mission and the first US Study Mission are launched.

The annual Yongpyeong Seminar is re-named as the PyeongChang Seminar, and is held at Pheonix PyeongChang.

WHAT WE DO

1



INTERNATIONAL AND BILATERAL FORUMS

One of the SFIA's major functions is to host bilateral forums on critical and emerging global issues with particular reference to Korea and its linkages with the international community. Bilateral forums are co-organized or jointly held with international partners annually or bi-annually. They bring together senior policymakers, prominent scholars, and leading experts from home and abroad to engage in intensive dialogues.

2



SEMINARS AND WORKSHOPS

The Seoul Forum holds seminars and workshops in informal settings as a platform for discussing interdisciplinary issues amongst its members and outside experts. Many of these seminars are related to on-going research projects or ad-hoc study missions. In 2013, the SFIA began a new initiative called the "Asia Business Caucus" (ABC) focusing on major economic and financial developments, global and regional economic trends and corresponding business climates, and policy implications.

3



SPECIAL LECTURES AND DIALOGUES

Since its inception, the Seoul Forum has invited internationally renowned leaders as guest speakers from the political, academic, economic, and business communities. Previous guest speakers have included former Singaporean Prime Minister Lee Kuan Yew, former U.S. Secretary of State Henry Kissinger, former Florida Governor Jeb Bush, former U.S. Secretary of Defense Leon Panetta, and many others. The SFIA tries to attract a cross-section of experts and leaders from Korea and abroad.

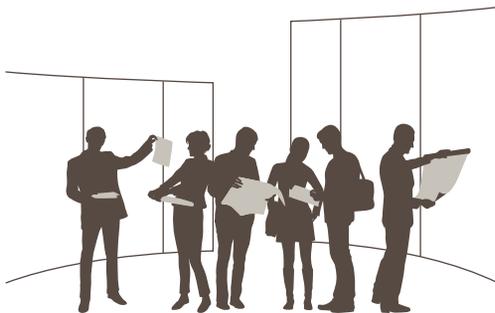
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RESEARCH ACTIVITIES

The SFIA is a think-net that fosters intensive dialogues among top experts and conducts tailored research projects in order to provide timely policy recommendations. In June 2013, the Seoul Forum created a research committee with the goal of identifying and conducting research on “Seoul Forum Agendas.” Specific research projects are led by in-house members with the participation of outside experts on a case-by-case basis. The research committee is tasked with looking into critical global and regional issues that are likely to affect Korea’s foreign policy.

5



ON-LINE AND OFF-LINE PUBLICATIONS

To effectively disseminate key activities of the SFIA and members’ opinions on a range of issues, the SFIA began publishing a quarterly on-line newsletter called the Seoul Forum Focus in 2013. Starting from 2014, the SFIA has added a Korean newsletter to its collection of publications called the Seoul Forum Brief. The Seoul Forum has published a number of books stemming from its numerous seminars, conferences, and research projects such as *Global Paradigm Shift: Political, Security & Economic Dimensions* (2008), “Seoul Forum-CRF Task Report on North Korea Policy and the ROK-US Alliance” (2010), and *India-Korea: Dialogue for a 21st Century Partnership* (2012) as well as other reports in Korean. Beginning with its first issue in June 2014, the Seoul Forum Annual Review is also published annually as part of an on-going effort to broaden SFIA’s outreach to the international community.



The 2018 PyeongChang Olympics seemed to have opened new diplomatic dynamics for the two Korean states and relations among major powers, particularly between the United States and China.

During the past twelve months between April 2019 and March 2019, North and South Korea had three summit meetings, and the United States and North Korea had two summits. Thirty years ago, the 1988 Seoul Olympics also seemed to have opened a gate for many historic developments like the German Unification in 1990. Could we expect today similarly dramatic developments on the Korean Peninsula, in East Asia, and the Sino-U.S. relations?

Not likely, in my opinion, for the following two reasons.

First, it might be easier to drive out or expel a state from a functioning international system than to bring in or re-admit a state which is known to be an exception from the global norms and practices; North Korea today seems to be a case in point. Three years after the Seoul Olympics in 1988, North and South Korea agreed to join the United Nations as two members, to work together to promote social, economic and cultural cooperation and integration, and signed a joint declaration to keep the Korean Peninsula nuclear free. Since then, the international environment fluctuated rather rapidly particularly after the 9.11 attacks on New York, and North Korea withdrew from the NPT. The country publicly committed itself to be an “exceptional” state to pursue its own values including becoming a nuclear power.

The most obvious consequence of North Korea’s self-imposed exceptionalism is isolation from the ongoing process of market globalization. In a single generation, China has moved from an underdeveloped economy to the second largest economy in the world. Another communist state, Vietnam, also followed a similar route to join the ranks of successfully globalized states.

The problem we face today is the following. Should a state determined to be a nuclear power while staying outside the NPT system be allowed to join the global market and institutions without giving up its exceptionalism and nuclear arms? The breakdown of the United States-North Korea summit in Hanoi between Trump and Kim in the last day of February 2019 dramatically demonstrated the very problem we face today.

Second, any viable way to counter such threats from exceptional states has to be based on active and pervasive internationalism like the one which burnished the foundation for the United Nations and the Bretton Woods institutions in the post-World War II period. Unfortunately, the current global leadership including the one in Washington DC has not shown such a high level of commitment to internationalism to counter the exceptionalist states, particularly ones with nuclear weapons.

In the meantime, the P5 members of the United Nations Security Council, whose designated role is to provide leadership in protecting the international peace have not discharged their responsibilities with any degree of enthusiasm. For example, China has not shown great zeal to block the attempts by an immediate neighbor to bypass the NPT and become a nuclear state. In short, the prospect for a stable and safe world is not very promising today.

What could be done to control and overcome the ominous confusion and uncertainty in the global politics and the Korean quagmire? Perhaps the simple answer is to go back to the fundamentals, which is to build a new and stable major power relationship to meet the challenges of our time. In the first two decades of the twenty-first century, wide ranging success of market globalization and emergence of China as the second largest economy have changed the color of the major power competition.

A contest between the United States and China in and security spheres have opened a new era often called “the second cold war.” At the same time, Asia has emerged as a central arena in the global contest. The problem of the North Korean exceptionalism issue and the nuclear adventure has dramatically highlighted such a historic transition in the world politics.

Even belatedly yet urgently, the United States and China must find a common formula to insure peace and prosperity for Asia. First of all, they should agree to keep East Asia a nuclear free region. Particularly, two major powers should firmly commit to the principle that the northeast Asian Countries (North and South Korea and Japan) should clearly understand that their region is not an exception to NPT and thereby not allowed to become nuclear armed states. United States and China should jointly guarantee the security of these countries. Perhaps the American policy of extended deterrence arrangement currently operating with Japan and South Korea could be extended to North Korea most naturally by China and Russia.

Superpowers are “super” because they create and enforce rules necessary for regional and global peace. The United States and China could make such a “super” contribution, starting in this spring of 2019. I am sure all the East Asian countries, particularly North and South Korea will welcome such a development, since there is not a viable alternative except war.

April 10, 2019



LEE Hong-Koo

Chairman of the Board

The Seoul Forum for International Affairs



As the situation on the Korean Peninsula and in the world experienced significant changes in 2018, the Seoul Forum for International Affairs hosted many discussions that led to policy research reports.

The most important developments for the Peninsula were the easing of North-South Korea tensions; a refreshed atmosphere for peace talks; the US-China hegemonic rivalry; and unabated acceleration of technological transformation. In addition, the Moon Jae-in administration's income-led growth strategy and labor market policies deepened concerns about Korea's weakening economic competitiveness.

At the PyeongChang Winter Olympics held in February 2018, North and South Korean athletes entered the opening ceremony under a unified flag. North Korea's ceremonial leader Kim Yong-nam, and Kim Yo-jong, younger sister of the country's leader, participated as part of team North Korea. The Olympics relaxed tensions, creating a mood for peace talks that transpired in quick succession.

On the 27th of April, 2018, Kim Jong-un and Moon met at the truce village, Panmunjom. The second inter-Korean summit followed only one month later, on May 26. Ultimately, United States President Donald Trump and North Korean leader Kim Jong-un held summit talks at Singapore on June 12. And finally, South Korean President Moon Jae-in visited Pyongyang on September 18-20 for a third bilateral summit.

Accordingly, the Seoul Forum focused its Agenda Workshop I (held in March 2018) and PyeongChang Seminar (August 2018) on the security issues pertaining to the Korean Peninsula. In September, the Seoul Forum dispatched a five-member group to Washington D.C. and Boston for closed-meetings and seminars with the US experts on North Korea issues.

However, the series of breathless inter-Korea talks on denuclearization and peace on the Korean Peninsula fell short of tangible results. Now, the Korean Peninsula is once again placed at a critical juncture, after the abrupt breakdown of the second Kim-Trump meeting in late February, 2019.

The Seoul Forum also focused on the Sino-U.S. competition for hegemony. The face-off has been a major disruption to the world order. In light of the fact that the Sino-U.S. competition is a race for technological supremacy, a fact-finding team of 21 experts (including Seoul Forum members) visited Shenzhen, China. In particular, the team visited China's key technology companies headquartered in Shenzhen, including Tencent, ZTE, and DJI (global market leader in drones). In-depth discussion stemming from the company visits, led to the Seoul Forum's 2018 China Study Mission report: "China's Technological Leapfrogging and Its Impact."

The Sino-US rivalry is a dual for leadership in the evolving Fourth Industrial Revolution. The United States has been on the cutting edge of technology during the past century. Thanks to its massive domestic market, the United States wields admirable efficiency in mass production and mass distribution. In-house research and development has flourished since the 1920s, and World War II allowed the nation to secure clear technological supremacy through communications and military technology. In addition, the strong US industrial grip continued during the Information Revolution in the 1980s.

The US view of China's robust economic growth was positive up to its entry into the World Trade Organization in 2001. The United States was confident that China would transition into a market economy and democracy as it became more affluent. However, China's political system led by President Xi Jinping since 2013 has steered towards stronger authoritarianism. As such, Washington has begun to consider China's system and institutions a threat to the U.S.-led global order. Thus, the stakes in the US-China confrontation are not trade only; it is technological hegemony and regime superiority. That sets the table for protracted tensions.

On its events calendar, the Seoul Forum continued its long-running bilateral forums with Japan, India and Canada and held three Agenda Workshops on pressing current issues.

Participants of the 9th Seoul-Tokyo Forum, held in Tokyo in June, engaged in intensive discussions on the changing world order. In 2018, the Seoul-Tokyo Forum's counter-party, the Institute for International Policy Studies, was renamed as the Nakasone Yasuhiro Peace Institute. The year of 2018 also marked former Prime Minister Nakasone Yasuhiro's 100th birthday. In celebration, former Prime Ministers Lee Hong-Koo and Nakasone Yasuhiro issued a joint statement on the future of Korea and Japan.

The 17th Korea-India Strategic Dialogue held in Korea discussed geopolitical changes in the Indo-Pacific region, as well as ideas for economic and industrial development for both countries during the current era of technological transformation. This year's Dialogue had high attendance from the Korean side, reflecting broad interest in India's rising strategic posture.

The 16th Korea-Canada Forum, held in Seoul in December, discussed the North Korean nuclear issue, the situation in East Asia, the current shift in the global order, and areas of Korea-Canada bilateral cooperation amid the Fourth Industrial Revolution led by artificial intelligence technology. Population and immigration issues were also discussed. The Forum had a particularly good turnout with 19 Canadian representatives traveling to Seoul. The contents and level of discussions also were very satisfactory. I would like to express deep gratitude to the six Seoul Forum members for their efforts in organizing these three bilateral meetings. The Seoul-Tokyo Forum was headed by members RYU Jin, and PARK Cheol-Hee; the Korea-India Strategic Dialogue by members AHN Choong Yong and CHAE Wook; and the Korea-Canada Forum by members YIM Sung-joon and AHN Dukgeun.

The Agenda Workshops focused on three areas: foreign affairs, economic policies, and energy and environmental policies. In particular, the key conclusions and policy suggestions of the second Agenda Workshop on Korea's economic policies were communicated to the current administration's economic policy makers. The 4th YoungSan Diplomat of the Year Award was awarded to H.E. Amb. AHN Ho-young, former ambassador to the United States for stably leading the Korea-U.S. relationship during a critical transitioning period, and Professor CHOI Jung-hwa of Hankuk University of Foreign Studies for her active participation in public diplomacy.

In 2018, the Seoul Forum also formed the “public interest sub-committee” to consider more public and external initiatives. First, the Forum's website was renewed, putting more emphasis on English contents. Moreover, *Seoul Perspective* was planned to be distributed as an English publication; this was thought to be a more effective way for globally conveying Korea's opinions on important diplomatic issues. However, results of this project were less than satisfactory. Compared to major international research institutes which distribute opinion papers via the internet with high frequency, the Seoul Forum's communication outreach is weak. Most Korean research institutes seem to be experiencing the same problem.

Given the Seoul Forum's role in Korea's interaction with the rest of the world, success in the *Seoul Perspective* project is a major task that needs to be achieved. In 2017, the Seoul Forum agreed to create the "Seoul Forum for International Affairs Archive" with the Yonsei University Museum. This project made significant progress in 2018. The secretariat already has transferred original copies of e-documents, publications, and other key documents produced between 2010 and 2015 to Yonsei University Museum. President Emeritus KIM Dalchoong also donated a large portion of his private collection of materials to the Seoul Forum. This collection includes valuable data originating from 1986. I would like to thank Professor KIM Dalchoong for his generous donation and devotion.

Seven new members were invited to Seoul Forum in 2018, bringing the membership to 110. Our new members are: CHO Youngtae (Professor, Graduate School of Public Health, Seoul National University); CHOI Byung-il (Professor, Graduate School of International Studies, Ewha Womans University); HWANG Haelyung (CEO, Lutronic Corporation); KIM Kap-You (Head of International Arbitration and Litigation, Bae, Kim & Lee LLC); KIM Myongsob (Professor, Department of Political Science and Diplomacy, Yonsei University); KIM Younghoon (Chairman & CEO, Daesung Group); and YUN Sun-Jin (Professor, Graduate School of Environmental Studies, Seoul National University).

Seoul Forum's projects in 2018 succeeded only because of the support of many institutions and financial supporters. Business members donated generously, and we also received support from the Korea Foundation. I also would like to express sincere gratitude to the steering committee members for volunteering their time and energy. Amid the increasingly complex and uncertain world, I hope that our Seoul Forum continues to build so that it may further contribute to the growth and prosperity of the Republic of Korea.

March 22, 2019



JUNG Ku-Hyun

President

The Seoul Forum for International Affairs

POLITICAL *and* ECONOMIC DEVELOPMENTS IN 2018

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POLITICAL OVERVIEW 2018-19

A YEAR OF SUMMITS: GREAT EXPECTATIONS AND STRATEGIC REALITIES



THE KOREAN PEACE DIVIDEND

For President Moon Jae-in and the ruling Democratic Party (DP), 2018 is going to be remembered as the highlight of the Moon administration's popularity. Beginning with a rapid thaw in inter-Korean relations in February 2018 during the PyeongChang Winter Olympics, South-North engagement resulted in three summits in 2018.



President Moon focused almost exclusively on accelerating South-North reconciliation throughout 2018 but with a sluggish economy that refused to turn around, the Moon administration's popularity reached its height in the summer of 2018.

President Moon was able to brand himself as the “peacemaker” on the Korean Peninsula and became the first South Korean leader to hold three summits with his North Korean counterpart in one year. 2018 also witnessed the first-ever meeting between a U.S. president and a North Korean leader. In June 2018, U.S. President Donald Trump met with Kim Jong Un in Singapore during an unprecedented summit although the meeting didn't result in any tangible breakthrough on North Korea's denuclearization. Regardless, Kim Jong Un gained a huge windfall by securing a face-to-face meeting with a U.S. president that eluded previous North Korean leaders. For Trump, his bold move to meet with Kim in June 2018 and subsequently, in February 2019, attested to his penchant for bravado over substance and his innate belief in his negotiating prowess.

In domestic politics, as President Moon marked his first year in power in May 2018, the DP recorded a resounding victory in the June 2018 local election. The main opposition Liberal Korea Party (LKP) was decimated at the polls although it managed to hold on to its enclave in Gyeongsang Province. President Moon continued to enjoy high approval ratings for most of 2018. Because of the single five-year presidency, South Korean presidents traditionally achieved high poll numbers well into their second year in office. However, almost all previous presidents' approval ratings began to drop sharply going into their third year. President Moon is unlikely to defy his predecessors' record.

As assessed in greater detail below, President Moon focused almost exclusively on accelerating South-North reconciliation throughout 2018 but with a sluggish economy that refused to turn around, the Moon administration's popularity reached its height in the summer of 2018, especially after the June 2018 local election. The failure of the second U.S.-North Korea summit in February 27-28, 2019 that was held in Hanoi, Vietnam was also a major setback for President Moon's peace agenda. During his April 11, 2019 meeting with Trump, President Moon emphasized the importance of sustaining the momentum. While a third U.S.-North Korea can't be ruled out, as Trump enters the presidential election season in earnest in the fall of 2019, he can't afford to have another failure with North Korea.

Although the lion's share of attention was focused on South-North relations and whirlwind summits, President Moon's second year in office was also marked by the sharpest downturn in Korean-Japanese ties, intense negotiations with the United States over defense cost sharing, and fallout from the government's haphazard policy on moving South Korea away from nuclear energy.

Like most voters in advanced economies, South Koreans vote with their wallets. While it's far too early to predict what may transpire in the all-important April 2020 National Assembly election, if the Korean economy doesn't pick up steam as is likely, the ruling party and President Moon will have to face voters with a dismal economic record. Indeed, the key lesson from 2018 is that despite the political boost that President Moon receive from his inter-

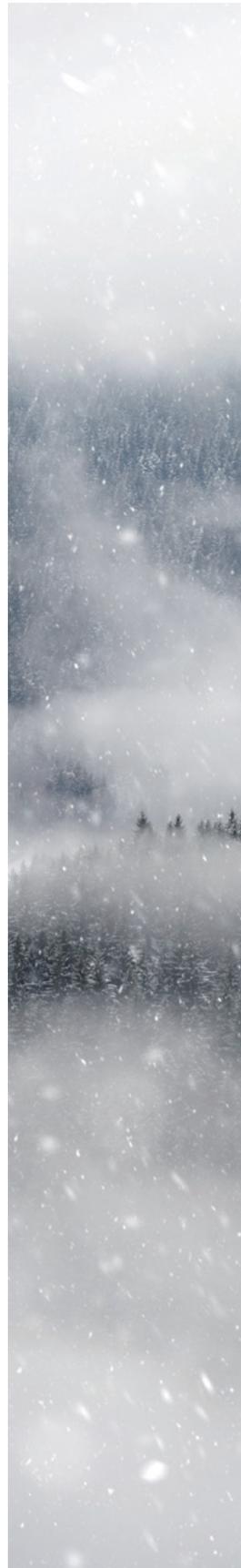
Korean summits, the “peace dividend” wasn’t strong enough to overcome the Moon administration’s economic policy failures. As South Korean members of the National Assembly prepare for the all-important 2018 parliamentary election, the ruling party members will continue to support President Moon until they secure their own nominations in the Democratic Party primaries.

Once they pass this hurdle, they will no longer be beholden to Moon and his key enforcers in the Blue House and the party. Hence, Moon’s ability to maintain a solid grip on domestic politics and key presidential agendas will begin to wane from the summer of 2020. By the end of 2020, attention will also begin to turn in earnest to contenders for the next presidential election slated for spring 2023. (Moon was elected in May 2019 after a snap presidential election following former President Park Geun-hye’s impeachment. If the current constitution remains in place, then the presidential election is going to be held in March 2023).

WHIRLWIND SUMMITS IN AND AROUND THE KOREAN PENINSULA

2018 was the year of summits. In a landmark visit on April 27, 2018, North Korea’s Supreme Leader Kim Jong Un crossed the DMZ and walked over to the South Korean side of Panmunjom. The third inter-Korean summit and his first meeting with Kim Jong Un (the first was between Kim Dae Jung and Kim Jong Il in 2000 and the second between Roh Moo-hyun and Kim Jong Il in 2011) was a dream-come-true for President Moon given his long-term goal of building a so-called irreversible peace regime (*pyeonghwa chaeje*) between the two Koreas. For Kim, the April 2019 summit enabled him to appear as an ambitious leader on the cusp of major change rather than the leader of a one-party dictatorship that refused to denuclearize.

The Joint Panmunjom Declaration of April 27 included three major points: comprehensive improvement and working towards independent reunification; to defuse acute military tensions; and to build a stable peace regime. While the statement placed a heavy emphasis on military confidence building measures and to “immediate cease hostile actions,” only general reference was made on North Korea’s denuclearization promises. Shortly thereafter on May 26, a second summit was held between Moon and Kim on the North Korean side of the DMZ in Panmugak. The second summit took place prior to the first U.S.-North Korea summit scheduled to be held in Singapore in June 2018. Kim reaffirmed his wish for Moon to visit Pyongyang in the fall. When he did ultimately make his first visit to Pyongyang in September 2018, he became the third South Korean head of state to land in Pyongyang. Moon stressed during the September 2018 Pyongyang meeting that Kim Jong Un would endeavor to visit Seoul by the end of 2018 but Kim never said so directly. In the end, Kim didn’t come to Seoul.





While the lion's share of attention was focused on the three inter-Korean summits in 2018, the world turned its focus to Singapore for the first-ever meeting between an American president and a North Korean leader. If 2017 was the year of "fire and fury," 2018 was the year of "forget and friendly." No U.S. president had threatened North Korea so directly as Trump. U.N. and unilateral sanctions imposed by the United States and other like-minded states began to have a major impact on the North Korean economy. Kim Jong Un needed an exit strategy. He wasn't ready to give up his nuclear weapons but at a minimum, he calculated that if you also pushed Trump to a corner, perhaps a deal could be reached.

If the three inter-Korean and two U.S.-North Korean summits in June 2018 and February 2019 were news worthy, so were the four visits to Beijing by Kim Jong Un. From March 25-28, 2018 or a month before Kim's first meeting with Moon, Chinese President Xi invited Kim for the first time. Ever since he succeeded Kim Jong Il in December 2011, Kim Jong Un longed to make a trip to China. All previous North Korean leaders paid homages to Beijing. China not only is North Korea's most important patron, she's the only one. For Xi, however, so long as Kim Jong Un rocked the boat by killing his uncle, Jang Seong-taek (2013), assassinating his older half-brother Kim Jong Nam (2015), and testing a thermonuclear bomb (2017), there was little reason for Xi to bestow legitimacy on Kim.

But as events accelerated on the Korean Peninsula from early 2018 when Kim made his Olympic move, Xi ran the risk of being sidelined if he continued to refrain from meeting Kim. In March 2018, Kim Jong Un made his maiden voyage to Beijing in secret and Xi rolled out the red carpet. Special mention was made of the historic ties between the two countries going back to Kim Il Sung and Mao Zedong and Deng Xiaoping. Even if North Korea bristled under China's undue influence, Kim also gained political dividends by demonstrating his ability to secure China's critical backing. Even as Kim sought to negotiate a new path with Seoul but particularly Washington, he knew that his bargaining chip would be strengthened by accentuating North Korean-Chinese ties.

On September 5, 2019, President Moon dispatched National Security Advisor Chung Eui-yong as a special envoy to North Korea and transmitted a letter to Kim Jong Un. From September 18-20, 2018, President Moon was in Pyongyang with a 100-member entourage including major CEOs. In an emotionally-charged summit, President Moon became the first South Korean leader to address 150,000 North Koreans in the May Day Stadium. The two leaders announced the Pyongyang Joint Declaration on September 19, 2018 which noted, in part, that "the two sides agreed to expand the cessation of military hostilities in regions of confrontation such as the DMZ to the substantial removal of the danger of war across the entire Korean Peninsula and a fundamental resolution of the hostile relations." The joint declaration also contained provisions on military confidence-building measures and to "cooperate closely in the process of pursuing complete denuclearization of the Korean Peninsula" but no concrete promises were made on actual denuclearization strategies.

High-level consultations between the United States and North Korea continued including a meeting between Secretary of State Mike Pompeo and Foreign Minister Ri Yong Ho on September 26 but North Korea continued



Putting the best face on botched diplomacy, Trump stated that he decided not to sign on to an incomplete deal and wondered aloud, again, that North Korea could have a “magnificent” economic future if I gave up nuclear weapons.

to heavily criticize the imposition of U.N. sanctions. The United States continued to maintain a two-track approach toward North Korea. Trump maintained that dialogue with North Korea would continue while the administration refused to remove any on-going U.S. sanctions on North Korea. Mixed signals continued to be sent to North Korea.

For example, in October 2018, Seoul and Washington decided to postpone the annual December “Vigilant Ace” military exercises as a goodwill gesture towards North Korea. In the same vein, then Secretary of Defense James Mattis announced that the planned “Fool Eagle” exercise would be cutback in order to provide legroom for diplomacy. By the end of November, work proceeded to remove the guard posts within the DMZ. Ambassador Steve Biegun who was appointed as the new special representative for North Korea in August 2018, accompanied Secretary Pompeo during his October 2018 trip to Pyongyang where he met with Kim Jong Un.

At the same time, Washington imposed new sanctions on North Korea including Choe Ryong-hae, the deputy chairman of the Central Committee of the Korean Workers’ Party (KWP), Jung Kyung-taek Minister of Security, and Pak Gwang-ho deputy chairman of the KWP for human rights violations.

On January 17, 2019, Kim Yeong-chul, deputy chairman of the KWP and former head of North Korea’s intelligence who U.S. and South Korean intelligence believes was the brainchild behind the 2010 North Korean sinking of the South Korean naval vessel, the Cheonan, visited Washington and met with Trump in the White House. He delivered a letter to Trump from Kim Jong Un and the White House announced that a second U.S.-North Korea summit was going to be held at the end of February 2019. In early February during his state of the union speech, Trump stated that the second summit would take place in February 27-28 in Hanoi and working-level discussions surged to overdrive.

As expected, Trump met with Kim in Hanoi in February 2019 and prior to the meeting, Trump was enthusiastic about the possible agreement that could be reached with Kim. For his part, Kim Jong Un began a 60-hour train journey to emulate Kim Il Sung’s travels. Discussions between Biegun and his North Korean counterpart continued right until Trump’s arrival in Hanoi. Right before his meeting with Kim, Trump boasted that “Boy, if you could have heard that dialogue, what you would pay for that dialogue. It was good... A lot of things are going to be solved, I hope. And I think it will lead to, really, a wonderful situation long-term.”¹ Yet despite high expectations, especially by the Moon government since it was banking on a significant breakthrough in Hanoi, Trump walked away without making any agreement with Kim. Putting the best face on a botched diplomacy, Trump stated that he decided not to sign on to an incomplete deal and wondered aloud, again, that North Korea could have a “magnificent” economic future if it gave up nuclear weapons. “I want to take off the sanctions so badly, because I want that country to grow. That country has got such potential, but they have to give up, or we could’ve done that deal.”²

According to news reports, Trump apparently showed Kim a piece of paper during the Hanoi summit that included “a blunt call for the transfer of Pyongyang’s nuclear weapons and bomb fuel to the United States, according to the document seen by Reuters.”³ This was the first time when it was revealed that Trump had given Kim Jong Un explicit definitions of final,

¹ Robin Wright, “After all the Swagger, Trump’s Talks with North Korea Collapse,” *The New Yorker*, February 28, 2019, <https://www.newyorker.com/news/our-columnists/after-all-the-swagger-trumps-talks-with-north-korea-collapse>

² “Remarks by President Trump in Press Conference,” The White House, February 28, 2019, <https://www.whitehouse.gov/briefings-statements/remarks-president-trump-press-conference-hanoi-vietnam/>

³ “The day North Korea talks collapsed, Trump passed Kim a note demanding he turn over his nukes,” *CNBC*, March 30, 2019, <https://www.cnbc.com/2019/03/30/with-a-piece-of-paper-trump-called-on-kim-to-hand-over-nuclear-weapons.html>



fully verifiable, denuclearization. While Trump maintained that the summit failed because North Korea wanted the U.S. to lift all sanctions in exchange for partial denuclearization, North Korea maintained otherwise. On February 28, North Korean Foreign Minister Ri Yong Ho stated during an impromptu press conference that North Korea only insisted on partial sanctions relief. Ri said that North Korea asked for partial sanctions relief and that it was prepared to agree to a permanent cessation of nuclear and ICBM tests. He also noted that Washington “wasted an opportunity that may not come again.”⁴

⁴ North Korea disputes Trump’s account of summit breakdown,” *NBC News*, February 28, 2019, <https://www.nbcnews.com/politics/donald-trump/north-korea-disputes-trump-s-account-summit-breakdown-n977836>

ALL EGGS IN THE DÉTENTE BASKET

The period between April and September 2018 will likely be remembered as the period when President Moon enjoyed the highest approval rating and his ability to bask in the aftermaths of the two ground-breaking inter-Korean summits. After the April 2018 summit, for example, Moon had an approval rating of 70% by Gallup Korea and 67.6% by RealMeter. When the third Moon-Kim summit was held in Pyongyang in September 2018, Moon’s approval rating still remained high in the early 60s and reached its highest point of 65% in October 2018.

As noted above, the ruling party’s resounding victory in the June 13, 2018 provincial and local elections contributed to the government’s growing sense of hubris. This election was the tail end of the anti-Park Geunhye sentiment that propelled President Moon into power in the May 2017 snap presidential election following her impeachment. Just a year after he entered the Blue House and with the Liberal Korea Party (LKP) still in shell-shock, the DP swept the election. All but two mayoral and gubernatorial seats (Daegu and Gyeongsang Namdo) were taken by the DP. The ruling party won 151 out of 226 local leadership contests and 652 provincial councils from a total of 824. The LKP suffered a major defeat on the coattails of President Moon’s first summit with Kim Jong Un and continuing fallout from Park’s downfall.

The June 2018 local election should have been a clarion call for deeper introspection. However, the ruling party and the government believed that the political momentum was on its side. Such a perception was not entirely wrong since the buildup to the September 2018 Pyongyang summit encapsulated Moon’s strategy: to lock-in inter-Korean détente together with major headway in U.S.-North Korea relations. For example, immediately after the June 12, 2018, President Trump tweeted that “there is no longer a Nuclear Threat from North Korea. Meeting with Kim Jong Un was an interesting and very positive experience. North Korea has great potential for the future!” Such hyperbole further emboldened the Moon administration in believing that their approach to South-North relations was not only fundamentally sound; they felt that the Trump administration could be nudged to looking at the North Korean nuclear issue through Seoul’s prisms. On both counts, Trump surprised Seoul by ulti-





mately walking away from the second U.S.-North Korea summit in February 2019 in Hanoi. Trump didn't believe in diplomatic protocol or following guidelines from Seoul. Trump depended on his own gut instincts.

In a major blow to the ruling party's political standing, it lost all two contested seats in a critical by-election on April 3, 2019. Two seats in the National Assembly were up for grabs in Changweon and Tongyeong, both in Gyeongsang Namdo. In Changweon, the Justice Party won with a razor-thin margin with the opposition LKP a very close second. In Tongyeong, the LKP candidate won with a healthy margin. In local council election, independent candidates won in Jeonju and Moonkyeong while the LKP won also in Moonkyeong. The April 4, 2019 by-election was an important win for the opposition although this small victory doesn't mean that it will also do well in the April 2020 National Assembly election. Nevertheless, given the low growth rate and high unemployment rate but a much more damaging under-employment rate, there is no indication that the economy is going to improve going into 2020.

On February 10, 2019, Seoul and Washington agreed on a one-year Special Measures Agreement (SMA) or defense cost sharing accord. The previous five-year SMA expired at the end of 2018 but a follow-on agreement wasn't reached due to intense pressure from the Trump administration. The one-year SMA capped South Korea's direct contributions at a little under \$1 trillion although Trump wanted South Korea to pay double what they had been paying. Trump also floated the idea that key allies including South Korea should pay 50 percent on top of whatever the final agreement was going to be. Negotiations will begin anew for a five-year SMA with a spike in frictions since the Moon government feels that it has done its best to increase South Korea's contributions.

As President Moon enters his third year in office in May 2019, it is clear that he has invested almost all of his political capital on two major tasks: rooting out corruption across-the-board in South Korea and wooing Kim Jong Un. On both counts, however, the returns have been mixed. Domestically, the anti-Park sentiment that catapulted Moon into office in 2017 is no longer the dominant force in domestic politics. Moon's signature campaign to root out corruption has turned into a political vendetta against those who served in previous conservative governments. Moreover, the Moon government's campaign against the mainstream media has also backfired. Throughout 2018, the president gained key political mileage from a series of inter-Korean summits and favorable foreign developments such as the North Korean-Chinese and U.S.-North Korea summits. However, without a sharp up turn in the South Korean economy, the political windfall from détente isn't going to result in support and votes for the ruling party. By April 2020, the government has to stand on its own record since the electorate won't blame the previous conservative government for key shortfalls. How President Moon opts to make up that deficit is going to define the rest of his political agenda throughout the end of 2019 and well into 2020.

ECONOMIC OVERVIEW 2018-19



OPTIMISM TO DESPAIR

2018 began with economic policies that engendered optimism. The new government’s “income-led growth” driven by domestic consumption through pro-labor distributional policies led to forecasts that nearly matched the 3.1% growth and 316,000 new jobs seen in 2017. However, growth fell to 2.7% and payrolls only added 97,000 workers. The global economic slowdown in the second half of 2018 was a factor. But the degree of deterioration suggested that the administration’s strategy was the main culprit. In addition, measures to promote innovation produced inadequate results.



Among the eleven major industries, only the semiconductor industry experienced a 24.2% rise in total production.

In particular, policies that favored income distribution over growth suppressed entrepreneurship. Corporate spending on plant and equipment plummeted from +14.6% in 2017 to -1.7% in 2018. Likewise, construction investment tumbled from +7.6% to -4.0%. On this front, Korea was an outlier among developed economies. US plant and equipment investment rose to 8.8% in 2018 from 6.0% in 2017. In the European Union, the spending increased to 5.4% from 4.2% in the two years. The corporate reaction to the administration’s policies stifled hope for a reversal of outbound foreign direct investment (FDI); it rose steadily to US\$49.4 billion in 2017, far exceeding the US\$22.9 billion of inward FDI. Consequently, overseas production accounted for 18.8% of total production

in 2016, a significant increase from 7.9% in 2006. Among the eleven major industries, only the semiconductor industry experienced a 24.2% rise in total production. Production in wireless communication equipment, oil refining, and general machinery remained stable, while output in the other 7 industries, including ship building and automobiles, decreased. The manufacturing sector’s contribution to Korea’s economic growth has contracted steadily in recent years; in 2018 it was 1.0%, a slight drop from 2017 and far off 3.6% in 2010.

Fortunately, semiconductor exports soared. One item—semiconductors—accounted for 91% of the increase in exports. And the government sharply expanded fiscal spending (3.6 percent in 2017, 7.1 percent in 2018 and 9.5 percent in 2019) to avoid a rapid economic downturn. The government’s contribution to growth reached 0.9 percent (one-third of the economic growth rate) in 2018, the highest since 1.1 percent in 2003 right after the credit card crisis, 2.1 percent in 2009 right after the global financial crisis and 1.0 percent in 2016.

As for inflation, consumer prices climbed 1.5%, a 0.4%p drop from 2017 despite higher oil prices and summer heat that pummeled crops. The core inflation rate, which measures cost of goods and services except food and energy, was around 1.2%. Relief also arrived in the last months of the year; oil prices rolled back sharply and government countermeasures in September cooled off surging real estate. The US dollar remained strong against other major currencies and appreciated sharply after the increase in interest rate on US Treasury notes in October 2018. Korea’s market interest rate briefly showed signs of downward stabilization. However, for the first time in a year since November 2017, the Bank of Korea raised its base interest rate by 0.25%p. Likewise, rising US Treasury yields are an upside risk to Korea’s market interest rate.

INCOME DISTRIBUTION, EMPLOYMENT WORSEN DESPITE POLICY ATTENTION

After the 2008-09 global financial crisis, income inequality has improved somewhat. But in 2016, the Gini coefficient, income quintile share ratio,¹ and relative poverty rate revealed a trend reversal at the same time. This was due to the worsening situation in market income distribution, despite the government's strengthened income redistribution policies. Although household income improved immediately after the Moon Jae-in administration took office in 2017, its policies failed to sustain redistribution. The top quintile's income increased by approximately 10% in 2018 while that of the bottom quintile rather decreased by 10%.



¹ The income quintile share ratio is the average income received by the top quintile (20% of the population with highest income) to that received by the bottom quintile (20% with lowest income).

² The effective unemployment rate refers to Statistic Korea's "auxiliary indicator 3: expanded unemployment rate." In addition to official unemployed (jobless for at least one week, willing to work and actively job searching for at least four weeks), the effective unemployment rate includes: 1. part-time workers working fewer hours than desired (less than 36 hours per week and capable of extra employment); 2. active job searchers who were unemployed due to personal or family illness; and 3. those willing to work and available for immediate employment but have been discouraged from actively seeking employment for at least four weeks.

Meanwhile, the number of new jobs only reached 97,000, a nearly 70% drop from 316,000 added in 2017. Korea had never experienced such a small increase except 1998 Asia financial crisis, 2003 credit card bubble collapse and 2009 global financial crisis. In addition, the overall private sector had 80,000 fewer hires while jobs increased in public administration (+52,000) and health and social welfare (+125,000). In particular, the manufacturing sector lost 56,000 workers. This sector is significant for its high quality jobs. Small business owners and temporary workers are easily affected by increases in minimum wage. Jobs in the wholesale, retail, food and lodging industries decreased by 117,000. The business support industry (temporary agencies for cleaning and property management) also lost approximately 63,000 jobs. When categorized by age groups, those ages 65 and older obtained 145,000 more jobs. On the other hand, the working age popula-

tion (ages 15 to 64) lost 48,000 jobs. Notably, the labor force shed 133,000 males in their 30's and 40's. In 2018, the youth (ages 15 to 29) unemployment rate was 9.5%, and the effective unemployment² rate for the age group was 22.8%. That was the highest since the statistic's introduction in 2015.

Required minimum wage hikes, part of the government's effort to raise household income, had a material effect on hiring. The situation of the self-employed has worsened. Small and medium-sized businesses, the main employers of the labor market, said they could not afford the mandatory salary increases. They laid off employees and pulled back on hiring, exacerbating income inequality and unemployment. In short, the wage policy backfired with regressive unintended consequences. Such adverse results in both employment and income distribution disconcerted the Moon administration, triggering a replacement of top economic policymakers.

Widening income inequality due to globalization, skill-biased technological development, and population aging are issues that most developed countries and even some developing countries are experiencing. The differences in severity emerge from each nation's labor market conditions, social safety net, and government policy responses. From the mid-1960s through the mid-1990s, Korea enjoyed a virtuous cycle of "high growth → high employment → improved income distribution." After the 1998 Asia financial crisis, however, Korea's economy fell into a vicious cycle of "low growth → low employment and income polarization → negative impact on growth and social integration." Although it is better overall, the economy has yet to revert to a virtuous cycle again.

Income polarization has become so severe that it is impeding growth. To promote inclusive growth, two propellers must function concurrently: 1) self-sustaining private sector growth based on innovation and 2) reinforce-

Figure 1 Update of Forecasts

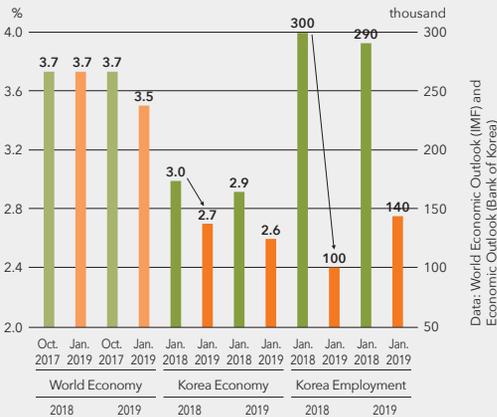


Figure 2 Trends of Growth

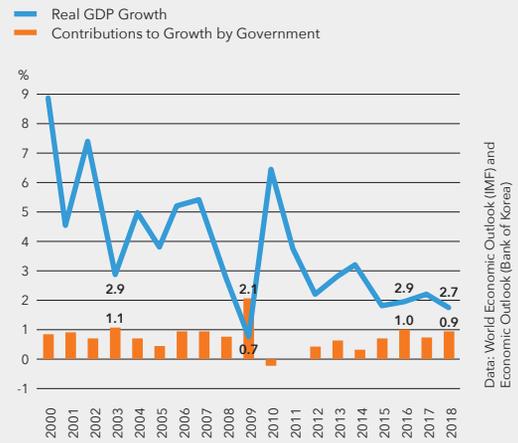


Figure 3 Income Quintile Share Ratio

Based on annual average of quarterly figures, two-person or more family

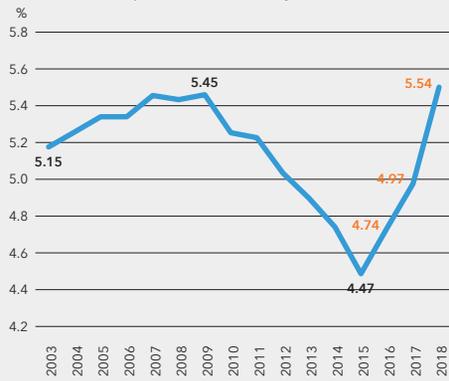


Figure 4 Trend of Employed Persons

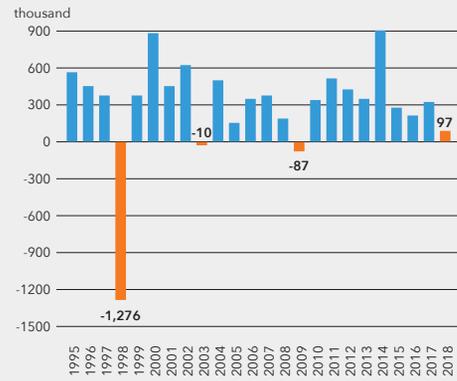


Figure 5 Household Debt

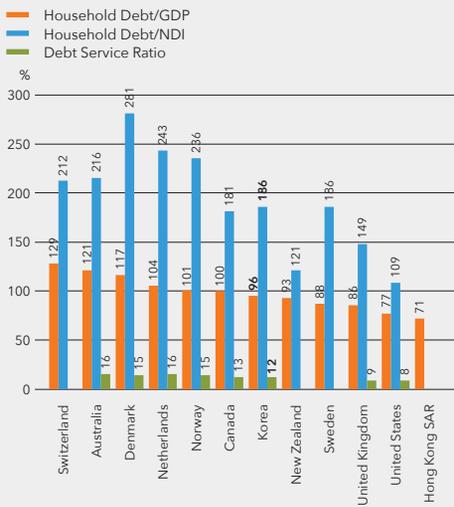
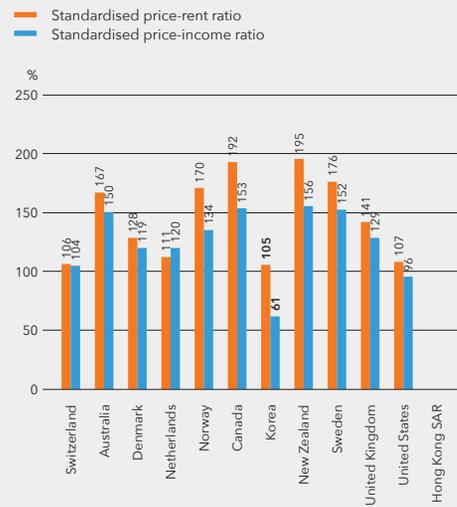


Figure 6 House Price Indicators





Strategies for growth and redistribution must go hand in hand. And the role of the government and that of the private sector need to be clearly defined.

ment of government's redistribution policies with fruits of economic expansion. Stable economic growth is a necessary condition, if not a sufficient condition for improving income distribution. At the same time, if the issue of economic polarization becomes serious, it negatively affects economic growth and social integration. Therefore, strategies for growth and redistribution must go hand in hand. And rather than the government directly involved in everything and trying to solve it, the role of the government and that of the private sector need to be clearly defined.

Above all, development of emerging technologies and industries is the most viable pathway to sustainable economic growth and job creation. Shifts in the current global economic paradigm show that emerging industries based on digital innovation, platform economy, and technology convergence are rapidly growing. Globally, only the economies that succeed in offsetting the sluggishness of legacy industries with these emerging sectors are enjoying strong, sustainable growth. For example, the global automobile industry is facing three major transformations: 1) autonomous driving; 2) electricity and hydrogen fuel cells; and 3) car-sharing. Businesses and industries that fail to keep pace with this epochal shift will struggle to survive. Furthermore, although trade elasticity for growth is declining, items of trade are shifting from wage gap-based commodities to knowledge-based and skilled labor-based services.

Similarly, technological advancement has led to fewer jobs in traditional manufacturing and medium-skill jobs. Labor market polarization is intensifying as employment continues to increase both for high-skill fields such as technology-intensive services and for low-skill jobs in the health and welfare sector. Hence, in order to create jobs and growth, the private sector must spearhead self-sustaining growth strategies based on innovation. In particular, new growth engines are urgently needed in industries that produce quality jobs. Manufacturing and higher value-added service firms are among the potential employers. The government should actively support the creation of an innovation ecosystem in the private sector by breaking up regulations that hinder innovation in both longstanding and emerging industries.

Moreover, severe income inequality damages economic growth and social integration. Short-term growth is undermined by the shortage of effective demand. Income inequality may also damage long-term growth potential by fueling social conflict and impeding human resources development. Accordingly, major international organizations such as the IMF, OECD, and ILO advise that income inequality needs to be alleviated for sustainable economic growth. Therefore, government redistribution policies should be further augmented by expanding welfare spending. Also their effectiveness should be raised by directly targeting vulnerable groups.

The issue of income distribution is closely linked to employment. Korea's labor market can be largely divided into regular workers in large conglomerates and non-regular workers in small and medium-sized firms. It is difficult to move from non-regular to regular workers, which partly explains the increasing wage gap. Compared to the primary labor market, the secondary market consisting of contract and temporary employees in smaller firms is prone to substandard working conditions. Many workers cannot but feel vulnerable when even the employment safety net is fragile. On the

contrary, excessive job security of regular workers is becoming an obstacle for firms when it comes to adjusting their employment standards and needs in response to technological development and automation.

The government should expand the employment safety net to reduce worries that changing jobs or enrolling in vocational training could jeopardize one's daily livelihood. Similarly, expanding the employment safety net, reinforcing employment insurance and earned income tax credit programs, and introducing unemployment allowances are deemed critical for innovative growth and job creation. However, such initiatives need to be pushed forward simultaneously with measures for increasing labor market flexibility. Resolving structural and chronic problems such as income distribution and job creation require bipartisan efforts. In addition, communication and cooperation among the government, major conglomerates, and the public is crucial for meaningful progress.

ECONOMIC PROSPECTS AND RISK FACTORS

As world economic growth begins to ebb, the Korean economy is also expected to hover just below its potential growth rate, in the high 2% range. Most economic forecasting agencies foresee a 2019 growth rate at around 2.6%, similar to 2.7% in 2018. As expansionary fiscal policies continue, private consumption and exports are expected to grow steadily. Eventually however, deterioration of labor market conditions, household debt, and stabilization of real estate prices will likely constrain household consumption. Moreover, the downturn of the semiconductor industry, trade disputes between the US and China, as well as weakening global appetite for imports will inhibit Korea's export growth. Meanwhile, the manufacturing will likely drive an increase in plant and equipment investment but construction investment will continue to decline.

Declining entrepreneurship caused by internal and external uncertainties will crimp hiring. But the Korean government's decision to raise the number of civil servants by 32,000 and public-works for the senior population (65+) by 100,000 will mean approximately 140,000 to 150,000 more newly created jobs, compared to 97,000 in 2018.



The outlook for commodities in 2019 is mixed. Global oil prices are expected to be lower than in 2018 due to an increase in supply from countries including the US, as well as a smaller increase in demand resulting from economic slowdowns. Gradually rising international grain prices are expected due to abnormal global climate. However, downside factors such as lower demand stemming from trade disputes will temper the price increase. Global trade disputes and economic slowdown in major consuming countries, especially China, will damp down the price of non-ferrous metals. Wage increases will exert upside tension on service prices, but prices of international raw materials will apply downward pressure amid the absence of demand-driven inflationary pressure. Therefore, inflation is expected to reach approximately 1.4% in 2019, similar to 2018 (1.5%).

Meanwhile, the current account will remain in the surplus. However, the surplus in the goods balance will shrink, leading to a smaller overall surplus of US\$69 billion compared to US\$75 billion in 2018. Dollar strengthening factors such as increase US interest rates, Sino-US trade disputes, and financial instability of emerging countries are expected to continue in 2019. Hence, the KRW to USD exchange rate is projected to increase slightly to an annual average of 1,125 KRW per dollar. The average exchange rate in 2018 was 1,101 KRW per dollar.

The protracted Sino-US trade conflict is at the forefront of domestic and external risk factors surrounding the Korean economy. As the US trade deficit with China continues, the US-China relationship has morphed into competition for technological superiority. Since March 2018, the dispute has shifted into hegemony competition. The US imposed 10% and 25% tariffs on Chinese imports worth US\$200 billion and US\$50 billion, respectively (Table 2). The total affected was equivalent to nearly half of the imports from China in 2017 (US\$505.6 billion). China responded with tariffs on US\$110 billion worth of US imports, 85% of the total (US\$130 billion). At a summit of Presidents Trump and Xi Jinping on December 1, 2018, they agreed to a 90-day truce on tariffs to negotiate a new trade deal.

Meanwhile, the international trade order is undergoing a structural change prompted by US President Donald Trump, who took office in 2017 opposing multilateral and bilateral trade agreements. The global free-trade regime based on multilateralism is under pressure from the Sino-US trade standoff. The system is shifting towards a government-managed trade system in which the state actively engages in intervention and control. US-led discussions on reforming the WTO system are also underway. Specific agendas include reforming the Appellate Body so that it cannot deliberate on domestic legislation, and establishing new trade rules to deal with investment facilitation and emerging industries such as e-commerce.

Until now, it does not expect to have a significant impact on exports to China and the US from the Sino-US trade conflict. However, if the impasse becomes so prolonged that it causes a general blockage in global trade, Korea's exports may suffer considerable damage. In October 2018, the IMF predicted that the global economic growth rate will suffer a 0.2~0.4%p decline if the Sino-US conflict stagnates. The IMF subsequently issued a warning to emerging economies such as Turkey and Argentina regarding financial instability. It also warned Korea against intensifying uncertainty in the global trade environment.

Table 1

Economic Growth Forecasts

World	2018	2019	2020
IMF (Jan. 2019)	3.7%	3.5%	3.6%
OECD (Nov. 2018)	3.7%	3.5%	3.5%
WB (Jan. 2019)	3.6%	3.5%	3.6%

Korea	2018	2019	2020
BOK (Jan. 2019)	2.7%	2.6%	2.6%
MOEF (Dec. 2018)	2.6~2.7%	2.6~2.7%	-
KDI (Nov. 2018)	2.7%	2.6%	-

Table 2

Sino-US Imposition of Tariffs (2018)

US → China	
First Round (March 22)	· USTR starts review on applying tariffs to Chinese goods as a response to unfair trade practices (theft of US intellectual property); filing of WTO complaint
Second Round (July 6)	· 25% on US\$50 billion · 1,097 categories, including machinery, automobiles, communications equipment, semiconductors
Third Round (September 24)	· 10% on US\$200 billion (scheduled rise to 25% starting January 1, 2019 but now being negotiated) · 5,745 categories, including furniture, food, medical devices, household appliances

China → US	
Second Round (July 6)	· 25% on US\$50 billion · 878 categories, including soybeans, wheat, pork
Third Round (September 24)	· 5~10% on US\$60 billion · 5,207 categories, including LNG, aircraft parts



3 Unlike banks that are subject to strict prudential regulations and make loans based on deposits, non-bank financial institutions are dubbed “shadows” in that their profits and losses are not transparently shown due to the complex structure of their investments. China’s trust companies, securities firms, and insurance companies have jointly created shadow banking in order to provide more loans outside of government loan-deposit ratio regulations. The volume of China’s shadow banking has increased steadily since the 2008 global financial crisis, reaching 62% of the nation’s GDP in 2016. These loans cannot be easily tracked down and regulated.

The Korean economy may also face risks due to vulnerabilities in the Chinese and European economies. The Chinese economy already has significant risk factors such as shadow banking³ and corporate debt. Economic slowdown may accelerate if its disputes with US are aggravated or prolonged. China’s total debt is worth 2.5 times of its GDP, and shadow banking is estimated to be responsible for approximately a quarter of the debt. China’s debt defaults hit a record high in 2018, and its economic growth rate in 2019 is expected to decline to a low 6% range. This will increase the vulnerability of China’s national debt. In addition, emerging countries also are accumulating more national debt amid US interest rate hikes. Consequently, there is rising anxiety about capital outflows from vulnerable emerging economies that have fragile political stability and chronic current and financial account deficits.

The Eurozone is also expected to experience slower growth in 2019 due to worsening global trade conditions. The economic stimulus effect of central bank quantitative easing is also waning. In addition, Italy’s fiscal risks (relaunched due to political conflicts) and the Brexit deadlock will likely dampen economic sentiment. In particular, although the United Kingdom’s Withdrawal Agreement was agreed upon, published, and endorsed by the EU27 leaders in November 2018 after 17 months of UK-EU exit negotiations, UK public resistance to the deal is mounting. As the European Union steadfastly opposes renegotiation, the possibility of a no-deal Brexit is increasing.

Fortunately, among external risks, there is a less likelihood of further interest rate hikes by the US Federal Reserve. The Fed Open Market Committee’s target federal funds rate, which fell to 0~0.25% in December 2008 shortly after the global financial crisis erupted, remained unchanged for seven years. It was then raised by 0.25%p a total of nine times (once in 2015 and 2016, three times in 2017, and four times in 2018) until it reached the current 2.25~2.50% level. The Bank of Korea’s base interest rate has been raised by 0.25%p in both 2017 and 2018. It is currently at 1.75%, making the US-Korea interest gap 0.75%p.

At the end of 2018, the general consensus was two more Fed rate hikes in 2019. However, concerns over the economic situation have prompted the Fed to take a wait-and-see stance. For Korea, this will have a positive im-



Major domestic risk factors for the Korean economy include mounting household debt and real estate prices.

4 Net disposable income (NDI) is the net amount—after income taxes—of income available for investments, savings, or spending, and thus is equivalent to funds available for debt servicing. The household debt to NDI ratio is an indicator of a household's debt burden.

5 The debt service ratio (DSR) is an indicator that comprehensively assesses debt burden. It is calculated as the ratio of annual debt service (principal and interest) to annual gross income.

6 The price-to-rent ratio (PRR) is calculated by the ratio of a property's nominal price to yearly rent. This indicator measures profitability of buying a property.

7 The price-to-income ratio (PIR) is calculated by the ratio of a property's nominal price to disposable income. It is an indicator of a household's housing affordability.

impact on its financial and economic status as it will cut the domestic-external interest rate gap and modulate the strengthening dollar, ultimately reducing anxiety over foreign capital outflow. However, if worries about a US economic slowdown are realized, the positive effects of pacing the speed of monetary policy normalization may be considerably offset. In addition, nervousness over the Fed's thinking and next moves will resume. This could further lead to increased financial instability of emerging markets such as Argentina, South Africa, and Turkey.

Major domestic risk factors for the Korean economy include mounting household debt and real estate prices. Korea's household debt has been steadily increasing during the past decade. At the end of 2007—just before the global financial crisis—Korea's household debt was 72.3% of its GDP. By the second quarter of 2018, this figure reached 96.0%. Among the 43 nations ranked by the Bank of International Settlements (BIS) for high household debt, Korea ranks seventh. Until the 2008 global financial crisis, household debt increased in most developed economies. After crisis it has receded in the United States, United Kingdom, and the Eurozone but not in Korea, Australia, and China, where all three countries have low interest rates. In addition, retired Koreans are increasingly obtaining loans to start small business because they have inadequate savings and pensions. Many of the loans are from non-bank financial institutions. They are subject to relatively loose regulations, which exacerbate pressure on borrowers. Korea's household debt to NDI ratio⁴ and debt service ratio⁵ have reached 186% and 12%, respectively, and are steadily rising, thus menacing household financial health considerably.

Most of such household debt consists of mortgage debt, it is critical to keep track of the gap between housing prices and fundamentals. Korea's house price index (2015=100) is steadily increasing, from 82.6 in 2007 to 104.3 in 2018. Fortunately, Korea's standardized price-to-rent ratio⁶ and standardized price-to-income ratio⁷ are 105 and 61, respectively. Among the top twelve nations with the most household debt, such figures are on the lower side and further decreasing. This indicates a low possibility that overall housing prices will plunge.

A recession can occur when either housing prices fall or household debt decreases. The economic cost of such recessions is significant. By examining 124 cases of recessions that occurred since the 1970s, the Japanese Cabinet Office showed that 31 recessions (2.06% fall in economic growth, on average) were caused by a combination of both private debt decrease and housing price decline. Three cases were caused by private debt decrease only and 56 recessions (-2.28%) were the result of housing price decline only. The remaining 34 recessions (-0.85%) were due to other miscellaneous reasons. Recessions due to private debt decrease are in most incidents also relevant to drops in housing prices. Extreme cases of private debt decrease and housing price decline leading to financial crises include early 1990s Sweden, 1990s Japan, as well as the United States and Spain in 2008.

SEOUL FORUM AGENDA

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2018 AGENDA
WORKSHOP I

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2018 AGENDA
WORKSHOP II

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2018 AGENDA
WORKSHOP III



KOREA'S DIPLOMATIC SECURITY: US-ROK ISSUES AND SYSTEM DIAGNOSIS

2018 AGENDA WORKSHOP I



The US-Korea alliance is at a crossroads in determining the future direction of the Korean Peninsula, and dissenting opinions are creating disharmony in the relationship. Amid increasing political strain and toughened US stances toward trade and commerce with Korea, the Seoul Forum for International Affairs, on March 29, devoted its first Agenda Workshop of 2018 to the current state of the alliance and its future.





SESSION 1: US-ROK RELATIONS DIAGNOSIS AND FUTURE

Unexpected developments have coalesced recently, including a China-North Korea summit, an inter-Korea summit, surprising remarks by US President Donald Trump and altered economic activity. The events could be the work of one person's planning, a domino effect at work or a coincidence.

The current situation began with Kim Jong-un's decision to send a team to the PyeongChang 2018 Winter Olympics. Kim's primary motive was to avoid maximum international pressure on his regime's behavior as well as step away from total isolation. The backdrop to his decision was a new administration in Seoul that was willing to open a dialogue with Pyongyang and President Trump's desire to score a breakthrough with North Korea as a diplomatic triumph before November congressional elections. At the same time, tension was rising in the US-ROK alliance; friction within South Korea had intensified, especially related to future relations with North Korea; and South Korea's security concerns were moderating.

The PyeongChang Olympics provided an opening for Kim to carve out his position and restore his dignity. He decided to leverage the opportunity and become receptive to summits with the United States and China.

Therefore, Kim's structured calculations and planning, Trump's self-promotion and preparation for the US November elections as well as South Korea's stance combined to create both hope and trepidation. There is hope for peaceful resolution of the North Korean nuclear issue as well as expectations of reunification on the Korean Peninsula. But anxiety lingers over possible disagreements during talks and loss of trust, which would snap relations back to the original issues.

Taking the proposed US-North Korea summit as an example, the meeting may be quashed by intractable hopes or requirements of either country. The United States already seems to be "walking back." Meanwhile, North Korea refuses to make immediate changes but wants step-by-step cooperation. Therefore negotiations between the two countries could be difficult.

Furthermore, America and North Korea interpret denuclearization differently. The United States says Complete Verifiable Irreversible Dismantlement (CVID) is at stake. North Korea says denuclearization involves the withdrawal of US military forces from the Korean Peninsula. Amid the loggerheads, the North Korea-China relationship continues to improve, and talks with Washington are being conducted to relieve tension. Therefore, there is still anticipation for the future.

The most important effect from these situations is that the US-ROK alliance could be jeopardized. Indirect forms of communication could break US-ROK trust, jeopardizing their alliance. The US-North Korea summit may never happen. If it is held, it could break down or conclude successfully. Whatever happens should not be allowed to devalue the US-ROK alliance.

Apart from these issues, there are five other obstacles that need to be addressed, beginning with sanctions on North Korea. South Korea will continue to consider reducing sanctions even if the US-North

Korea dialogue breaks down. While avoiding sanctions and looking for a new way to provide support, conflict with America can be preempted. The second obstacle is US-ROK military exercises. Their scale and the timing will continue to be controversial. The third obstacle is the "Three No's" promise of South Korea. It promises not to increase the number of THAAD (anti-missile system) placements; participate in US missile defense; and promote a ROK-US-Japan joint military, any of which could lead to conflict.

Korea has exhibited dissatisfaction with issues, such as the US THAAD launcher program not being properly established for the past year and Korea's Aegis not installing missile defense; however, Korea has also not properly provided a solution. Therefore, if these areas are needed in the future, there is a high possibility that they cannot be actively utilized.

The fourth obstacle is the difference between political and diplomatic stance between Washington and Seoul. When he was Chief of Staff to the president during the Roh Moo-hyun administration and Chairperson of the Promotion Committee for the 2nd South-North Summit in 2007, President Moon mentioned declarations to officially end the Korean War and peace agreements. The United States, however, does not have any institutional memories on the issues raised, which could be risky as well. Finally, there is also a problem with the military option because America does not recognize any veto by Seoul.

Therefore, the North Korea-US relationship is becoming more and more significant in US-ROK relations. Obviously, a steady US-ROK relationship is needed to help ensure North Korea-US relations can reach effective solutions. Although there are many obstacles to the US-ROK relations, it is important to not have incompatible goals when working together, and instead find harmonious solutions.

SESSION 2: KOREA'S DIPLOMATIC SECURITY MANAGEMENT AND DIAGNOSIS

The North Korean nuclear issue is at precarious intersection of conflict and dialogue. North Korea already has conducted six nuclear tests and three inter-continental ballistic missile tests. All of the missiles reached a high altitude and fell into the ocean near Japan. The last ICBM, Hwasong-15, appeared to have a potential range of 13,000 kilometers, able to reach Washington, D.C. or New York.

Every North Korean nuclear test has prompted UN sanctions, which have become harsher with each test. If exports are reduced by 90% and foreign financial transactions and foreign transportation also nearly impossible, a normal nation would struggle desperately to survive more than two years. Perhaps that is why North Korea is more open to negotiations. In November 2017, before another round of sanctions became effective, Pyongyang signaled a willingness to denuclearize. Maybe it was out of fear even more sanctions would be imposed, realizing that aid from its closest neighbor has limits.

If war erupts, North Korea could try to put the blame on United States for spearheading the sanctions. But that will not deter US support for the sanctions. From here, three scenarios could occur. The first is maximum pressure. If the sanctions (UN Resolutions 2371, 2375, and 2397) are not relaxed or lifted, the moment of truth could lead to either negotiations or a collision. The second scenario is a collision. Trump's sudden push for a summit with Kim Jong-un was a surprise. His administration may want the talks to gauge the sincerity of North Korea's changing voice. If North Korea is considered insincere, strong

countermeasures may ensue such as a cyber-attack or another type of "bloody nose operations." The third scenario is dialogues, if North Korea stops its provocations and displays genuine interest in denuclearization. However, if North Korea claims its status as a nuclear power then the conversation will stall. The United States is compelled to neutralize North Korea's ICBM capability. Dialogue will focus around security. Managing that issue through diplomatic channels will be pivotal.

A diplomatic security system needs to function well in times of crisis and non-crisis. If it functions well on a daily basis, a brewing crisis can be detected and stopped from escalating. Therefore system management is crucial. The Korean Peninsula is currently in a crisis situation but crisis management is lacking. That makes summit success questionable.

Broad, permanent principles are needed. They should stand apart from revolving administrations and policies. The US-ROK alliance can have these broad principles. Over the long term, the principles can be used to understand the positions of neighboring powerful nations and middle-power nations and also provide flexibility to action taken. The absence of these grand strategies,

makes diplomatic security systems are unsteady. Currently, the Ministry of Foreign Affairs and the Ministry of National Defense feel neglected because the Blue House (presidential staff) is handling most issues. The National Security Council should be used to strengthen broad principles, not just used on an ad hoc basis.

Another issue is group think. It has appeared in every administration. As time passes, it seems "Camp Politics" is strengthening. It is the description for a group that shares an ideological vision. Its members have worked together for so long that they know what each other is thinking about an issue by looking at each other's eyes. While efficient, group think may be ineffective.

For example, the scale and scope denuclearization may elicit different views from South Korea, North Korea and the United States. Their remarks could be interpreted in different ways. Group think reduces possible interpretations. However, in security matters every situation and interpretation needs to be considered. When it is not done, any issue could become a group-think failure. This was seen in 2002. The Kim Dae-jung administration refused to believe widespread warnings that North

Korea had a highly enriched uranium program. To do so would have doomed the administration’s “Sunshine Policy” toward Pyongyang. Now, North Korea is a nuclear power. More recently, Kim Jong-un’s position has highlighted various interpretations, including denuclearization in exchange for the withdrawal of US military forces from South Korea. Due to variety of possible scenarios, the only possible conclusion was agreement to a summit to gain clarification.

By considering all possible options, ideas on how to operate a crisis management system are formulated, early warning systems are established, and other accompanying systems are also formed. The Korean government cannot properly operate a crisis management system if it caught up in group thinking. Every gov-

ernment should be capable of preventative diplomacy and effective strategizing to handle a crisis before it escalates. That cannot be done if group think is present, blocking outside views.

In order to have a well-organized diplomatic security system operating on a daily basis, relevant institutions must have neutrality, consistency, financial resources, and confidence. In other words, the Ministry of Foreign Affairs, the Ministry of National Defense, and the National Intelligence Service should train specialists who can prevent and respond to critical situations with neutral general principles.

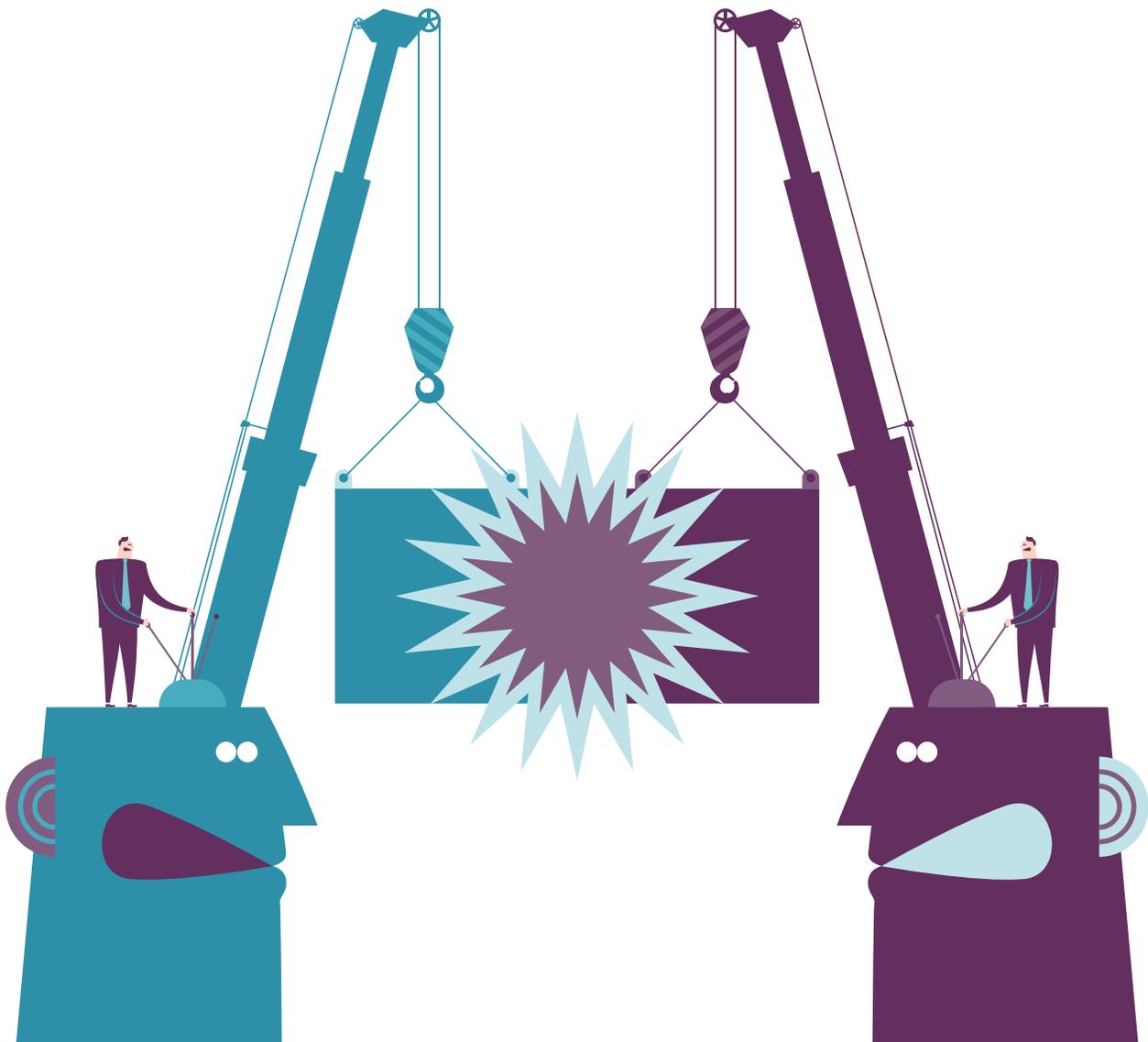
The broad principles must be unwavering, regardless of changes in administration. They can prevent problems such as controversy over which departments

will make various major decisions and how diplomatic relations are handled with neighboring states.

To that end, the NSC should design a national security guideline that meshes with the administration and has bipartisan, national consensus. Also, in order to avoid a collective problem, a complementary plan should also be prepared. National security related agencies, such as the Ministry of Foreign Affairs, the Ministry of National Defense and the National Intelligence Service (NIS), should strengthen the nation’s confidence through continuous innovation. This could directly play a role in resolving the North Korean nuclear issue. The agencies should tap foreign experts to expand Korea’s diplomacy.



TRADE WAR



STRUCTURAL CHANGES *and* ECONOMIC POLICIES: TRADE AND THE LABOR MARKET

2018 AGENDA WORKSHOP II



The trade protectionist stance of the Trump administration has triggered tariffs on Chinese imports into the United States. China has retaliated with new duties on American goods, and both sides are threatening further action. Thousands of categories of goods are affected on both sides. On October 4, the Seoul Forum devoted its second workshop of 2018 to the US-China trade war and shifting attitudes toward the global trade system.

SESSION 1: NEW PROTECTIONISM AND KOREA'S TRADE STRATEGY

Punitive US action against China's trade and investment is in reaction to China's violation of intellectual property rights (IPRs), unfair trade and investment duties, and deficits in trade with America.¹ Investment regulations have been reinforced and more and more Chinese exports to the United States are being exposed to higher US tariffs. China has combined criticism and trade retaliation against the United States with emphasis on the importance of dialogue with Washington.

On the surface, the Sino-US trade war is a clash of American capitalism and Chinese state capitalism. But underneath, the conflict expresses hegemonic competition. The United States is using the trade war with two supplementary goals in mind, ensure national security and keep China's competitiveness in check. For security, the "Indo-Pacific Strategy" is being planned, and for competition, technologies to confront "Made in China 2025" will be sought through trade.

Major changes are unlikely before the US mid-term elections in November. The United States will continue to take measures against China's unfair trade behavior.² However, the US Congress may clash with President Trump more and more as it challenges perceived abuse of power and controversial trade policies coming from the White House. On the other hand, China is expected to take softer policy decisions in order to resolve its conflict with the United States.

Reform of the international trade system will come under discussion as nationalism and populism spreads. The World Trade Organization, regional agreements and multilateral agreements will be examined. China is expected to take internal reforms to accept some US

demands, so their relationships with India, Brazil and others will mostly likely be strengthened. The North American Free Trade Agreement (NAFTA) has been revised and renamed the US, Mexico, Canada Agreement (USMCA). But the agreement still has not been ratified by the three nations. Canada agreed to widen access to US dairy products and Mexico agreed to wage increases and a higher percentage of North America auto parts at its plants, which produce global brands of cars. Meanwhile, US tariffs on steel and aluminum remain in place (Table 1).

The USMCA affects the auto industry significantly. A country of origin certification process on automobiles and its parts were added to encourage domestic production of automobiles. Innovative changes will be realized by drastically strengthening the value of domestic production.³ In addition, a new Labor Value Content, including quantitative discussions on labor and environmental standards in current trade agreements, was established.⁴ These rules on the country of origins are stronger than NAFTA and TPP standards. Besides automobiles and parts, they will to other goods, including chemicals, steel-intensive products, glass, fiber optics, etc.). However, up to 2.4 million cars imported into the United States are exempted from the 25% steel tariff; this is already included in NAFTA 2.0.⁵

The production and investment strategy of manufacturers, especially automakers, will be influenced. Production costs of manufacturers who moved operations to Mexico will increase because of the revised agreement. The North American supply chain will remain intact but Mexico's role as a bridgehead for US and Canada entry will need to be assessed.

The United States may use the revised NAFTA as a template to try to revise bilateral trade agreements such the US trade pact with China, which Trump condemns, and agreements with Japan

Table 1
Revised NAFTA: USMCA (2018.8.27)

	Main Points
Auto content	<ul style="list-style-type: none"> · NAFTA's Proportion of parts in the region raised to 75% from 62.5% · Automobile's parts 40~45%, Compulsory minimum wage (\$16 per hour)
Sunset Clause	<ul style="list-style-type: none"> · Agreement review every 6 years at which point the nations decide on extension. The agreements sunsets, or expires, in 16 years.
US keeps tariffs on steel and aluminum	<ul style="list-style-type: none"> · US tariff on Mexican and Canadian steel and aluminum, 25%, 10% respectively, stays in place

and the European Union. The revision has six more categories than TPP – chemicals, cosmetics, telecommunications, pharmaceuticals, medical devices, energy efficiency standards – and discusses a host of topics, including SOE, temporary visits, digital trade, and exchange rates. Thus, the revised NAFTA could be a basis of TPP if the United States rejoins the deal. Trump pulled out of TPP in his first week in office.

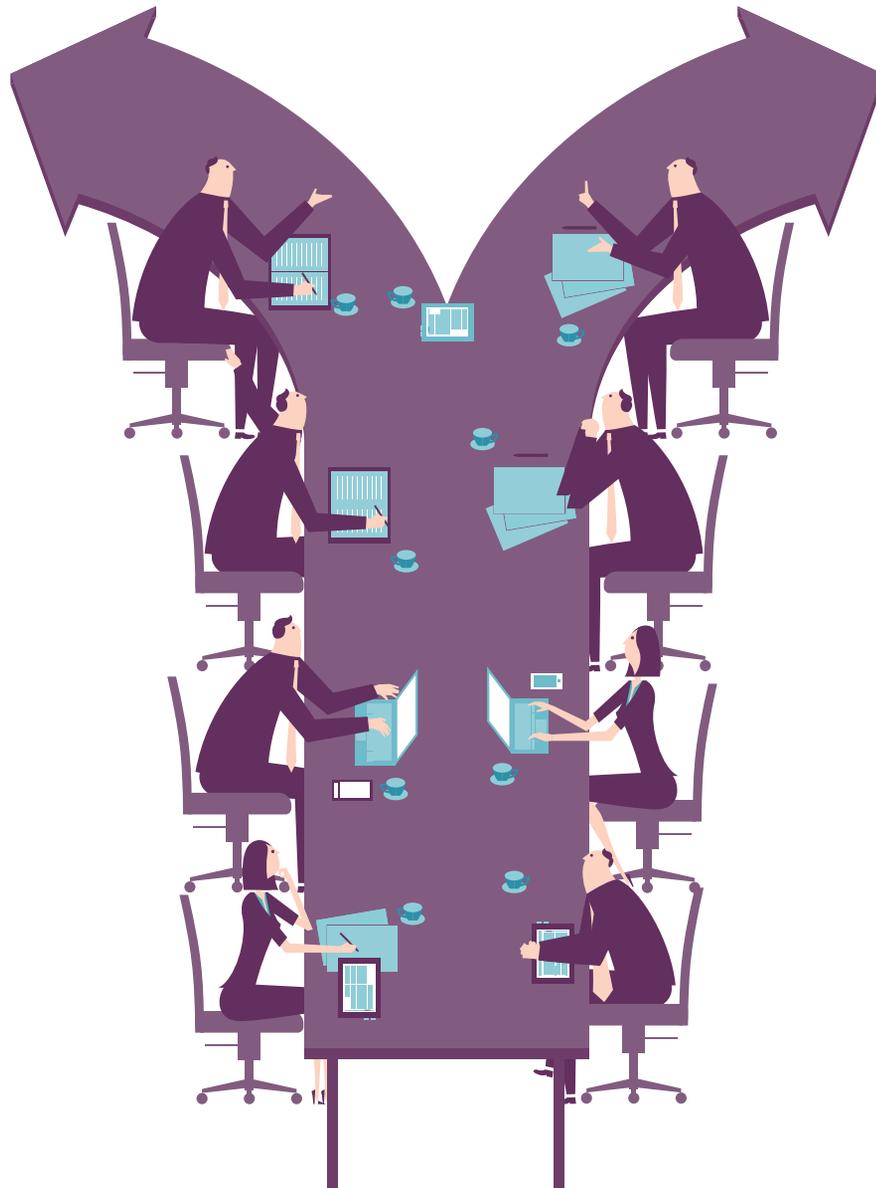
The Trump administration used Section 232 of the US Trade Expansion Act to impose tariffs on steel from Canada,

Mexico and the EU. US presidents are given broad power under Section 232 to adjust imports, including tariffs, if they goods are deemed to be a threat to national security.

Steel is an important item in terms of security because it is used in the defense industry and various major infrastructures. In addition, job losses and squeezed profits in the U.S. steel industry due to increasing foreign steel imports is a sensitive issue that Trump can focus on to solidify his political support. Following steel and aluminum, investi-

gations on import restrictions could be imposed on automobile and their parts based on Section 232.

The future direction of the negotiation is unclear. Retaliation by trade partners, resistance by the US Congress and from Corporate America to Trump protectionism will pressure the Trump administration. Opponents to Trump's trade policy say it is irrational to label steel imports from allies a security threat. They believe Section 232 is being used to pressure allies into trade concessions while risking diplomatic relations.



There is a case of Washington pressuring Japan and Korea by using Voluntary Export Restraint (VER) and Section 301 to protect their domestic automobile industry in the 1980s-90s. This is similar to Section 232, which can act as leverage for the NAFTA re-negotiations between Canada and Mexico about the automobile industry, and as a card to put economic pressure on the EU and Japan.

These types of trade action could affect Korea significantly. First, 25% US tariffs on passenger cars would be major blow to Korea's auto exports, which already are in decline after peaking in 2015 with 106 million vehicles. Second, tariffs on autos could sour efforts to revise the US-Korea free trade agreement. Reworking the pact is another trade priority of the Trump administration.

The USMCA could be considered a US volley fired at China as Canada and Mexico do not have bilateral FTAs with China. The United States has had bilateral negotiations with the EU and Japan over auto exports and steel. If the United States manages to build a coalition with the EU and Japan, it would probably doom Japan's Prime Minister Abe's TPP structure. If this goes beyond trade problems with China and limits direct investment, M&A, and technical cooperation, a full-scale trade war could erupt. That would expose Korea to damaging fallout.

Paradoxically, a dilemma could arise in Korea-US relations as major manufacturers such as Samsung and LG set up production bases in the United States, a highly welcomed move for Trump, who has promised job creation. As trade with the United States becomes more precarious, Korea may try to intensify trade with China and become more reliant on its neighbor. But if the Trump administration tries to contain China, Korea will toil to define its position.

Korea's per capita gross national income is about \$30,000 and potential economic growth is decreasing. Trade continues to be the most important en-

gine for long-term economic growth. Parts of the manufacturing sector that are trade dependent such as the chemical industries and IT industries face strong headwinds, including the "New Normal," China's geo-economics (economic retaliation for military and diplomatic disputes) and Brexit.

The New Normal can be divided into two parts: China's "Made in China 2025" and Trump protectionism. Trump wants to renegotiate FTAs, blaming them for the ballooning US trade deficit. He also wants to separate the United States from multilateral agreements, which use the concept of "most favored nation," and rather have a web of bilateral relations.⁶

The influence of Korean exports is waning. Korea must accept the resiliency of the New Normal and focus on manufacturing that creates jobs, which increase income, consumption and investment. Korea's strategy of manufacturing-led economic development has failed over the long term because it focused too much on the foreign market, deemphasizing the domestic market. Now, China's rapid technology advancement is weakening the structure of the global value chain (domestic components, foreign assembly). Meanwhile Trump's call to invest, not export, to the United States is leading to new transitions. Therefore, although investment in the Fourth Industrial Revolution could increase productivity, it could have no impact on increasing employment.

Companies are trying to reduce international risk by increasing domestic investment. However, we cannot delay the changes in the paradigm any longer. As the Fourth Industrial Revolution becomes more fully developed, Koreans working the manufacturing sector will have to compete not only against Chinese counterparts but also robots. Manufacturing-led trade will have difficulty overcoming China's rise, Trump's new protectionism, and the Fourth Industrial Revolution's consequences. A strategy is

needed to revive depressed domestic demand and expand the growth potential to survive the challenges.

Even if domestic demand is raised, Korea's population of 50 million people means demand will always be limited. One solution is to tap global consumers through a "Big Bang" in service exports. This can be done by utilizing digital platforms that export services like culture, entertainment, tourism, and health. This would require revamping systems that Koreans use for their own lifestyle, culture and health. Korea's new goal for growth is to attract foreign consumers, manpower, capital, and technology.

Changing the business landscape for the Service Big Bang would inevitably arouse concern for the small domestic businesses. There should be more focus on strategies that can help them grow instead of isolationist or protectionist policies. Therefore, Korea's service sector should shift from a suffocating policy to a policy that has both efficiency and sustainability.

However, if there are concerns regarding the sustainability of small businesses related to necessities for example wholesale and retail, accommodations, and restaurants; there should be more focus on strategies that can help them grow instead of isolationist or protectionist policies. Therefore, Korea's service sector should shift from the previous suffocating policy to the next policy that has both efficiency and sustainability.

¹ 2018. 8. FIRRMA (Foreign Investment Risk Review Modernization Act) passed

² Trade remedy, preventing infringement of intellectual property rights, US investment regulation

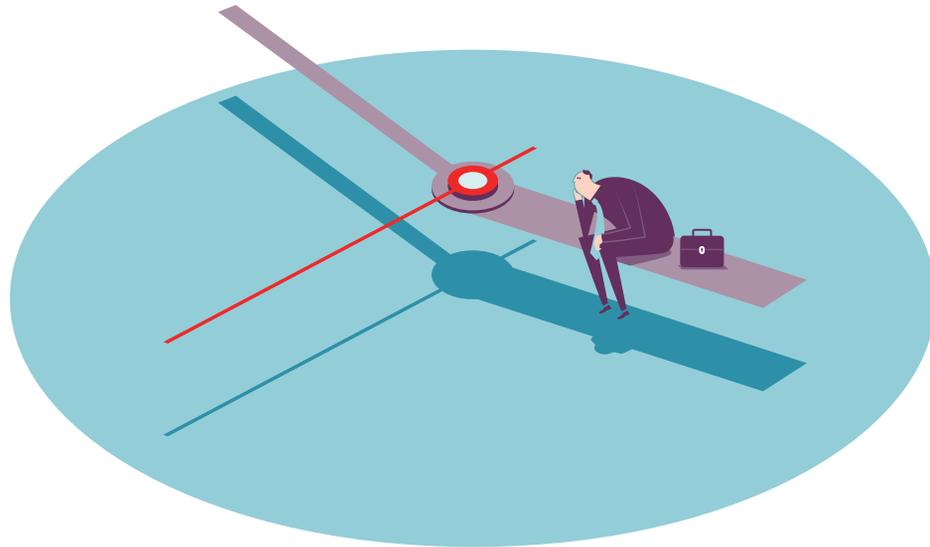
³ Upward adjustment ratio of components within the area from 62.5% to 75%

⁴ To reduce the wage gap and promote R&D Investment, 40-45% of the regional production of automobile parts are managed by workers who have an hourly salary of at least \$16

⁵ Same applies to imported automobile parts up to \$90 billion per year

⁶ Rule-based free trade to power-based managed trade

SESSION 2: CHANGES IN FUTURE SOCIETY AND LABOR MARKET RESPONSE



Labor Policy Issues and Evaluations

The Moon administration's labor policy wish list includes full-time workers, an eight-hour work day, and higher quality of labor. If the wishes are fulfilled, there would be "a life with an evening" instead of incessant overtime, the administration says.

However, labor conditions eroded in the first half of 2018, and in July, new jobs plummeted by 40% year-on-year (5,000 to 3,000). If the trend is not arrested as soon as September, a financial crisis could ensue, leading to negative economic growth.

There is no overriding culprit. Long-term factors include the structure of the Korean population and labor policies. More recent factors include trade protectionism and the US-China trade war.

Considering this complex backdrop, minimum wage requirements should be treated carefully. Korea's per capita GDP is about US\$30,000. Among OECD member nations like Korea, it is diffi-

cult to raise economic growth with that amount. In the last two years, the Moon administration has raised Korea's minimum wage 29%, exceptional in scale and speed. Business community reaction has been negative. Small and medium business owners say they cannot handle the higher labor cost. They have withheld hiring and even laid off workers. In addition, the Moon administration is hindering the formation of a dynamic business atmosphere by creating measures to artificially raise the number of jobs. Thus, envisioned consumption-fueled economic growth has not been realized.

Recently, the administration has discussed different minimum wages on a regional and industry basis. However, Korean factories are not based on regions, and nor are labor collective bargaining agreements decided by regions. Therefore, differentiating wages could spark regional political conflicts. Therefore, the top priority should be stabilizing the minimum wage at 2-3% annual increase.

Job creation, another high priority, has led to discussion of shorter work

weeks. Two features of the labor market, however, raise doubts.

First, Korea is the world's top robotic country with the highest density of robots per worker. Most of these robots are used to offset unfilled manufacturing jobs or climbing labor costs. For example, 25% of Lotteria's sales come from automated orders. For situations where automated workers are not possible, foreign labor is employed. Officially, there are 330,000 foreign workers in Korea but there are many more who are undocumented, working illegally. Most of the foreign labor is from poor nations and much of the work they take is the kind Koreans typically had. Therefore, there is a miscalculation that the shortening of working hours would create more employment for the Korean people.

In order to revitalize the Korean economy and employment, laws should be provided to reach a win-win cooperation between large, medium and small businesses. Deregulation should also be reached in a similar way.

Issues on Policies for Income-driven Growth

The issues of income-driven growth can be summarized as the following:

1) First, in economics, income does not lead to economic growth. On the other hand, growth is a factor that enables income-driven growth.

2) Second, strengthening redistribution through wage and labor income distribution policies is not a widely proven guarantee for economic growth. Economic growth policies such as the ones now being pursued may lead to several problems. Redistribution policies may be able to reduce social conflicts and establish a single economic community. However, even if they are applied separately from economic growth, their effectiveness would be questionable.

3) Contrary to public perception, it is hard to say that income inequality in Korea is unreasonably high among OECD countries. Poverty, on the other hand, is the real problem. In particular, poverty among the elderly is at an incomparable rate with the rest of the world. Designing labor policies to help the income and living standards of the bottom income earners poverty class is effective. But there are still hurdles to infusing them into economic growth policies.

4) It is highly possible that regulations aimed at income distribution could exacerbate rigidity in the labor market. For example, during the Kim Dae-jung administration (1998-2003) temporary workers were not allowed to be employed more than three years. The regulation worsened labor conditions and youth unemployment. Unemployment, of course, is a direct cause of poverty and slow economic growth rates. During this period, the employment term restriction stiffened the labor market, which led to unemployment issues.

5) Scholars who emphasize the importance of income distribution focus on minimum wage based on the model by Michal Kalecki, who incorporated the Keynesian model in the sphere of socio-economics. This model shares some theoretical characteristics with the Marxist theory under-consumption, distribution conflict, and falling profit rates.

To incorporate Kalecki's model in the real world, some assumptions need to be made. First, investment should be strongly influenced by the utilization of production facilities. Secondly, there should be a wide gap between the saving tendencies of the capitalist and working classes. However, there is a gulf between these assumptions and reality. Furthermore, in open economies, salary increases at exporting companies may necessitate price hikes on goods to cover the higher operating cost. International price competitiveness would weaken, hurting the overall economy.

Nowadays, it is impossible to exclude politics from the issue of economic growth. However, if we look at Korea's economic policy programs after democratization, a huge difference between progressive and conservative governments is not found. This means that regardless of election campaign promises, after seizing power, there is little policy discretion in a small, open economy. Nonetheless, "income-driven growth" strays from the global trend.



THE END *of* THE OIL AGE *and* NUCLEAR POWER GENERATION

2018 AGENDA WORKSHOP III



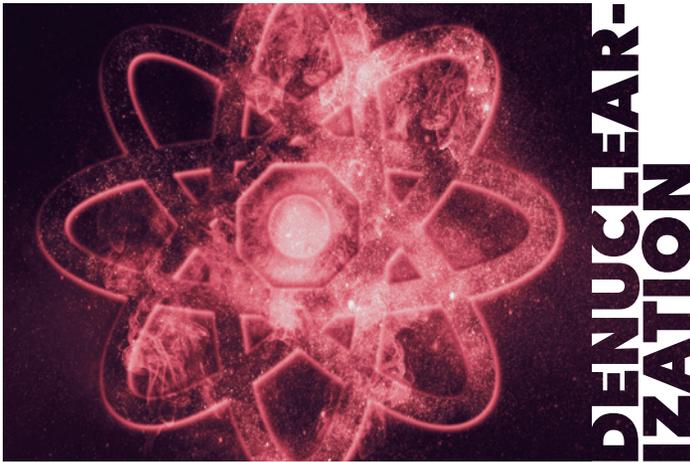
The principal sources of energy are coal, oil, fossil fuels, and the sun. Oil is the most convenient and profitable source. Although there are pollution issues linked to oil, it is expected to continue to be the main source of energy for many countries until at least 2040. Due to the rising significance of this topic, the third Agenda Workshop of the Seoul Forum, in November 2018, examined energy usage strategies for the future.



WEC'S SCENARIOS 2060

SESSION 1: GRAND ENERGY TRANSITION

Signatory countries of the Paris Agreement are currently conducting Nationally Determined Contributions (NDCs) in order to reduce carbon emission. The effort is a follow-up to their Grand Energy Transition plan.



In its “Scenarios 2060,” the World Energy Council (WEC) focused on three possibilities in relation to future energy usage and the environment, after considering several factors. The first scenario, called “Unfinished Symphony,” envisions strong regulations and cooperation, leading to the most ideal situation. The second scenario, “Modern Jazz,” looks at developing technologies, deeming it more realistic than the first scenario. The third scenario, “Hard Rock,” believes that there will be fragmented opinions on climate change. Its inefficiency makes this scenario the worst outcome. All three scenarios predict that by 2030 the energy

demand for one person will peak. After that, the amount of energy usage will be most likely be reduced.

One of the most important factors is continuing to develop and improve technologies to increase efficiency. One of the main characteristics of energy used in the future is increasing the amount of electricity used. Through this, change in the electricity market can be predicted in the future global energy market.

One of the WEC’s goals is to keep the global temperature from rising 2°C. This will not be easy unless more disruptive technology emerges. Another preventative action would be installment of an

integrated grid and pipeline energy network in Northeast Asia, similar to the system in Europe. Korea could act as an important link between Northeast Asian countries and the global energy networks.

An important question is what should be done after coal consumption peaks this year or next year. More focus should begin on using natural gas and other energy resources. In this regard, the relationship between denuclearization and international relations can influence a nation’s view on an international energy network.

Many countries already are trying to reduce coal consumption. For example, all of Canada’s 10 provinces have regulations and restrictions to control the emission of greenhouse gases. Canadian government has worked on developing technology that can be sold commercially. China and India have also been successful in using solar energy in order to safely minimize and get rid of nuclear energy. Germany is also an example of a country that has continuously worked on denuclearization; however, they still have many other issues. All of these changes need technology, however many countries, especially developing ones, have difficulties in reaching a solution to these problems.

SESSION 2: TOWARD MORE SUSTAINABLE ENERGY FUTURE

To gain knowledge on how to change Korea's energy plan, Germany and Denmark were studied as models. Germany had two issues: Lower use of nuclear energy would hinder efforts to reduce GHG and higher use of renewable energy could increase financial pressure on consumers. Denmark has been using windmills to gain wind energy and use it as their main source of energy. Many of Denmark's important companies have tried to use 100% renewable energy. By looking at these two case studies, Korea's future methods towards a sustainable energy future can also be considered.



Germany's model focuses on new and renewable energy and has continued to invest in this area. Nuclear energy usage is being reduced, coal is still being used; strong labor unions protect longtime coal companies. As new renewable energy usage increases, there will be less dependency on fossil fuels. The ways that energy is sold domestically and traded differ. If energy is freely sold like it is domestically, then the price of energy would drop. However, as the German government controls the price of energy

especially while trading, the amount of renewable energy that can be invested can be decided.

Both Korea and Germany have a wide difference in population but import a similar amount of energy. Germany uses an interconnected power grid. Korea has an island system. Also, Germany is a power market with strong competition, while Korea has an integrated market.

Denmark's energy policies currently focus on integrating variable production along with the energy system. Since

1970, Denmark has turned to offshore and onshore wind energy in response to oil prices. The effort is product of cooperation between local government, academia and industry. In tandem with the emphasis on renewable energy, Denmark also strives to have an efficient and transparent electricity market.

As Denmark plans its electricity market and hydropower, it is sharing the plans with 13 other countries, including Korea. The objective is that all of the countries cooperate and share their capabilities. In Korea's case, it has the technology to move forward but lacks a specific plan and project manager. Korea can also use wind energy like Denmark, or also use their geography to their advantage by also developing hydro-electricity power.

Germany, Denmark, and Korea all have their differences. In order to further develop renewable energy, the country needs support, land, and technology. All three factors exist in Germany and Denmark, but not in Korea yet. The key point is to first set a long-term goal and then fulfill that goal through small projects. As renewable energy usage becomes a more independent choice among nations, they should prepare to act more independently.

2018 BILATERAL FORUMS

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THE 9TH
SEOUL-TOKYO
FORUM

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THE 17TH
KOREA-INDIA
STRATEGIC
DIALOGUE

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THE 16TH
KOREA-CANADA
FORUM



THE 9TH SEOUL-TOKYO FORUM



The 9th Seoul-Tokyo Forum was held during June 15 and 16, 2018, at the Capitol Tokyu Hotel, Tokyo. The overarching focus was the need to maintain a solid Korea-Japan relationship amid summit talks on North Korean denuclearization and escalating global trade protectionism.

The 100th birthday of former Japanese Prime Minister Yasuhiro Nakasone was the backdrop to the Forum. The timing of the meeting was intentionally scheduled to be close to his May 27 birthday, and it was the first held after the Forum's Japanese representative, the Institute for International Policy Studies (IIPS), was renamed the Nakasone Yasuhiro Peace Institute (NPI) in recognition of the centenarian.

In conjunction with the Forum, former Prime Ministers Nakasone Yasuhiro and Lee Hong-Koo released a joint declaration on Korea and Japan's "Shared Five Values and a Common Visions: Strengthening the Relationship based on Mutual Trust." The so-called "Nakasone-Lee Declaration" emphasized the need for a stronger bilateral relationship based on five mutual values: democracy,

peace, liberty, human rights, and rule of law. It was meaningful in that the two former leaders re-affirmed the deletion of "shared system and values," in describing Korea-Japan bilateral cooperation after the end of the Cold War. The phrase had been on the Japanese Ministry of Foreign Affairs' website.

Before the Forum, the Korean delegation delivered a special gift to former Prime Minister Nakasone. It was prepared by Ryu Jin, Poongsan Group Chairman and CEO. He and Mimura Akio, NPI Vice Chairman, are Forum co-chairs this year, the start of a new leadership structure. Both participated in the keynote speeches and keynote addresses along with Seoul Forum for International Affairs President Jung Ku-Hyun and NPI President Sato Ken.

Led by President Sato Ken, the Jap-



Japanese delegation consisted of 21 participants. The Korean delegation had 16 participants, including Chairman Lee Hong-Koo. Three of the Korean representatives paid their own travel expenses to Tokyo, a reflection of the active participation of the Korean side.

The theme of the 2018 Forum was “A Solid Korea-Japan Relationship Amidst an Unstable Future.” The first session focused on responses to structural changes on the Korean Peninsula. Two Japanese participants emphasized the need for a comprehensive understanding of international changes led by Chinese President Xi Jinping and U.S. President Donald Trump. To that end, they stressed the Korea-Japan cooperation in Northeast Asia, where instability is increasing. A Korea participant cautioned that while changes in the Korean Peninsula pur-

sued by the Moon Jae-in administration have merits, many security precautions still are needed.

The second session focused on the United States’ increasingly protectionist tendencies as well as necessary responses. Both presenters agreed that Korea-Japan leadership is needed to protect multilateralism and the free-trade-based international order. During the third session, participants confirmed that the Korea-Japan bilateral relationship should be further developed based on the two nations’ shared values and principles.

After the official proceedings on June 16, Chairman Mimura Akio invited the participants to Kurosawa, a soba and shabu shabu restaurant near the conference venue. Participants of the Seoul-Tokyo Forum agreed that this year’s

meeting was fruitful in terms of both content and structure, resulting in a memorable Forum during which the two parties agreed on many major issues.

Reminded that the year 2019 is the 10th anniversary of the Seoul-Tokyo Forum, the participants adjourned the meeting by agreeing to another promising and meaningful Forum the following year.



THE 17TH KOREA-INDIA STRATEGIC DIALOGUE



The 17th Korea-India Strategic Dialogue brought together leading policy makers, academics, defense and security analysts, and representatives from business for in-depth discussions under the theme of “Co-Navigating Turbulent World Order and the Fourth Industrial Revolution.”

The forum jointly organized by the Seoul Forum for International Affairs, the Korea Foundation, and the Ananta Aspen Centre was held from October 31 to November 1, 2018, in Seoul. Participants highlighted opportunities and challenges in strengthening the Korea-India bilateral relations and offered concrete policy recommendations and suggestions on ways Korea and India can cooperate to strengthen their positions in the changing global community.

The first session dealt with bilateral cooperation in promoting peace on the Korean Peninsula. The Indo-Pacific Strategy continues to act as an approach to nurture long-term security relationships among like-minded countries although Korea’s formal participation has not been officially declared and still uncertain. Overall cooperation between

India and Korea can be augmented via President Moon Jae-In’s “New Southern Policy,” which strengthens Korea’s relations with India and ASEAN countries. In relation to the unresolved North Korean nuclear issue, India can play a meaningful role as it supports a peaceful and prosperous Korean Peninsula. India could act as a mediator by sharing its aerospace platform with both Koreas, and supporting South Korea’s effort to broaden nuclear energy for economic purposes.

The second session discussed trade protectionism. As trade tensions between the United States and China continue to rise, India and Korea would be impacted greatly. Although the tension leads to uncertainty, middle power countries may use it as an opportunity to increase cooperation among each

other. As trade between India and Korea continues to steadily increase, the trade barriers need to be removed even beyond the CEPA agreement. In addition, if Korea shares its successful corporate growth models with India, Indian and Korean SMEs can learn from each other. Korea and India should also maximize service exports such as culture, tourism, and people-to-people exchanges to build stronger economic relationships.

The third session focused on collaboration between the digital industries. India enjoys viable digital software required for various domains, while Korea has some advantages in ICT hardware. President Moon's summit talks with Prime Minister Shri Narendra Modi in July 2018 stated that India and Korea agreed to expand bilateral trade by 1) upgrading their Comprehensive Economic Partnership Agreement (CEPA), 2) supporting India's infrastructure development through Korea's EDCF (Economic Development and Cooperation Fund) and export credit, and 3) implementing specific R&D projects. Four specific agendas include 1) forming a representative dialogue platform for collaboration and joint R&D projects, 2) increasing rapid connectivity especially for India, 3) increasing Korea's participation in India's flagship projects, and 4) creating a sustainable IoT development ecosystem. There should also be more support for Korean SMEs entering the Indian market, as well as promotion of bilateral SME collaboration. However, miscommunications and lack of communications among SMEs interested in entering each other's market are some problems that the two countries need to work out.

The fourth session examined SMEs and start-ups cooperation during the Fourth Industrial Revolution. The Korean government has played an active role in supporting venture businesses through priority allocation of public R&D budget, recognizing the importance of knowledge-based job creation.

Still, Korean SMEs and start-ups face many challenges. On the other hand, 99% of India's enterprises are SMEs and they account for 90% of employment. Therefore, Korea and India should cooperate to utilize each other's strengths. KOVA (The Korea Venture Business Association) has produced a collaboration proposal for bilateral technology and business cooperation. In order to tackle the difficulties associated with entering India's markets, the Indian government, the Korean Ministry of Industry, Trade & Energy, and Korea Trade-Investment and Promotion Agency (KOTRA) jointly launched a technology exchange center in 2016—the Korea Plus Cell. Through this, approximately 200 SMEs have been assisted into the Indian market. This type of bilateral support mechanism must be enhanced.

The fifth session focused on political and social trends. Prime Minister Modi's popularity had risen due to his policies having a positive impact on India's economy and is expected to win the majority in the 2019 elections. Nevertheless, the government still has issues including demonetization and the unified goods and services tax (GST) regime. In the case of Korea, President Moon's *Nordpolitik* in a framework of engaging with North Korea has worked as a base for the administration's popularity. The current Korean government has also pushed a New Southern Policy to broaden its external economic linkages. Currently, India-Korea relations are mainly focused on economic aspects; more efforts need to be put into strengthening geopolitical cooperation. As India and Korea both oppose sharp geopolitical polarization, the two countries can work together for an inclusive security network that supports a multipolar world order.

Finally, the sixth session discussed cultural exchange between the two countries. Korea and India have tried to connect with each other through current visa expediency and state-sponsored cultural

events. Such an approach has its limits, and positive national branding by both parties can improve the sustainability of bilateral culture and people to people exchanges. Social media and advertisement also play an important role.

The 17th Strategic Dialogue in Seoul touched upon diverse bilateral topics of common interest for India and Korea. The Dialogue participants concluded that the Korea-India relationship is now driven by a series of factors including not only the economic domain but also security interests. In particular, both countries have a shared interest in managing the escalating tensions between the United States and China not for solely economic reasons, but also for sustainable geopolitical stability in the Asia-Pacific region. Meanwhile, ongoing cooperation in energy, business, the digital sector, the political atmosphere and cultural exchanges should be upgraded than ever. Overall, the participants agreed that the Korea-India Strategic Dialogue series is a valuable platform to search for effective collaborations needed for sustainable and stable growth of the two nations.



THE 16TH KOREA-CANADA FORUM



The 16th Korea-Canada Forum, held in Seoul in December 2018, brought together a distinguished group of experts from the Korean and Canadian governments, academia, think tanks, and industry. The participants attempted to fathom shifts and changes in six subject areas and discern opportunities for bilateral strategic and technological cooperation.

The first session dealt with the security situation on the Korean Peninsula. In the wake of inter-Korean reconciliation talks, concerns were raised about North Korea's commitment to denuclearization. The central issue is North Korea's chosen method of denuclearization, which is at odds with Korea and the United States' desired method. One participant linked the situation on the Korean Peninsula to the "great game" between China and the United States, with Russia assisting China on the side. The participants agreed that Canada should offer to play a bigger role in the Korean Peninsula, particularly in leveraging multilateralism. Canada also can be impactful in the humanitarianism sphere, and help address North Korea's crimes against humanity.

The second session discussed the direction and potential of middle-power diplomacy amid the rise of an assertive

China and resulting Sino-U.S. competition in the Asia-Pacific region. China is assuming an expanded role while trying to neutralize U.S. influence in Asia. In response, the United States is adopting confrontational policies against Beijing. Korea and Canada should cooperate and form a partnership to increase middle-power diplomacy. They could have a key presence in representing global security interests, bringing diplomacy into Asia-Pacific regional issues, and defending and reforming the international rules-based order. MIKTA is a benchmark example that highlights the effects of a concrete strategic initiative among middle powers.

Implications of the Sino-U.S. trade war were the focus of the third session. The core aim of both sides is securing digital supremacy as technological development unfolds. Canada and Korea are at a critical juncture in the changing global trading system. They must adjust



to cope with rising pressure by China and the United States to choose sides. To that end, diversification of trade partners is crucial going forward.

The USMCA (United States-Mexico-Canada Agreement) – a revision of the North American Free Trade Agreement (NAFTA) – is representative of America’s exclusionary efforts. It contains an article that seeks to steer Canada and Mexico away from trade agreements with China. Assuming it is approved by the US Congress, the USMCA puts an additional burden on the TPP (Trans Pacific Partnership) and on the RCEP (Regional Comprehensive Economic Partnership) negotiations to find ways to diversify markets and to avoid choosing sides. The world is clearly seeing a rise of regionalism over multilateralism. While attempts at reforming the WTO and multilateral concepts should continue, regional trading blocs of like-minded countries and ‘coalitions of the willing’ may have merit at the moment.

The fourth session examined demographic change and immigration policies in Canada and Korea. Special attention was placed on how Canada’s successful experience with immigration may assist Korea, where a steadily declining birth rate is threatening the future availability of workers. Canada’s long-term solution to the same problem is immigration and multiculturalism. A Canadian expert on immigration suggested an immediate solution to boost Korea’s working force, which would widen immigration opportunities to migrant workers. The main obstacle is cultural adjustment and naturalization. Canada has enjoyed economic benefits from its wide immigration policy thanks to effective government leadership in assimilating immigrants in a multicultural setting and working to retain public support. Korea has relevant programs, but lacks leadership in making multiculturalism a priority. The nation’s immigration-related programs are geared to indoctrinating migrants

but more attention should be placed on educating Koreans about the benefits from immigration. Experts from Canada repeatedly emphasized and advised that benefits—both economic and social—of immigration policies are amplified when immigrants feel secure about their future place in the country.

The fifth session dealt with Korea-Canada cooperation amid technological innovations—artificial intelligence (AI), in particular—of the Fourth Industrial Revolution. Derived from the 1950s’ dreams of thinking machines, today’s AI technology is shifting from managed deep learning to unsupervised learning. Arguments both for and against privacy regulations have intensified. Most participants in the Forum agreed that smart regulations are necessary for consumers to enjoy the benefits of technology based on informed decisions concerning impacts on their privacy. In this process, it was pointed out that middle powers such as Korea and Canada are well positioned to develop universal regulations for international jurisdictions. Participants agreed that Korea and Canada should exercise solidarity when laying a foundation for AI policies.

The last session discussed gender equality and women’s role in business. Presenters said both Canada and Korea are still progressing slowly. While Canada has tried to increase women’s participation in the work force (and succeeded to some degree), the “leaky pipeline” continues to shed women before they reach senior leadership positions. Korea is further behind, ranking last among key categories in the OECD’s 2017 Glass Ceiling Index. With gender equality in business finally being embraced on a wide scale, there is now the risk of complacency. Government affirmative action policies and regulations are critical to maintaining the current momentum and altering company and the public’s behavior, which would ultimately lead to attitude change.

SEOUL FORUM ACTIVITIES

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YOUNGSAN
DIPLOMAT OF
THE YEAR
AWARD

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SEMINARS AND
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PUBLICATIONS

**IN 2018,
THE SEOUL FORUM HOSTED
OVER 12
EVENTS
FEATURING SPEAKERS AND EXPERTS
FROM ALL OVER
THE WORLD
TO SHARE INSIGHTS ON CRITICAL REGIONAL AND
GLOBAL ISSUES.
THE FOLLOWING SECTION PROVIDES
BRIEF DESCRIPTIONS OF SFIA'S MAJOR PAST EVENTS.**

CALENDAR *of* ACTIVITIES: 2018

JANUARY 15

New Year's Meeting

MARCH 29

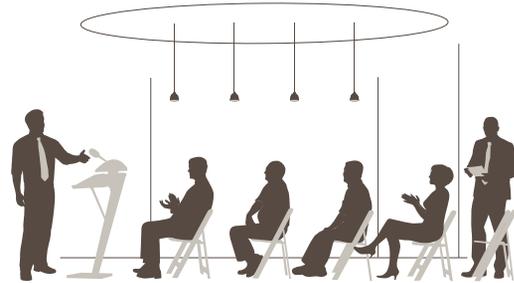
Agenda Workshop I

APRIL 25~28

China Study Mission 2018

MAY 29

Dialogue with Michael Doyle



JUNE 15~16

The 9th Seoul-Tokyo Forum

JULY 4

The 4th SFIA YoungSan
Diplomat of the Year Award

AUGUST 24~26

The 19th PyeongChang Seminar

SEPTEMBER 25~29

US Study Mission 2018

OCTOBER 4

Agenda Workshop II

OCT. 30~NOV. 1

The 17th Korea-India Strategic
Dialogue

NOVEMBER 27

Agenda Workshop III

DECEMBER 13~15

The 16th Korea-Canada Forum



YOUNGSAN DIPLOMAT *of* THE YEAR AWARD



JULY 4, 2018

The Seoul Forum for International Affairs hosted its 2017 YoungSan Diplomat of the Year Award at the Seoul Plaza Hotel on 4 July, 2018. This year, the Diplomat of the Year Award for an outstanding member in public sector was awarded to H.E. Amb. Ahn Ho-young, former ambassador to the United States. Ambassador Ahn was recognized for his proactive role as a bridge between Korea and the United States. Ambassador Ahn is especially known for his support in empowering Koreans living in the U.S., and helping them become major players in the U.S.' mainstream society. The YoungSan Diplomat of the Year Award for an outstanding member in the civil sector was awarded to Choi Jung-hwa, Professor at Hankuk University of Foreign Studies. Professor Choi has served as a professional interpreter for summit meetings. Professor Choi also has established the Korea Image Communications Institute, a nonprofit organization promoting Korean culture around the world to further strengthen the global ties between Korea and other countries.

SEMINARS *and* WORKSHOPS



THE 19TH PYEONGCHANG SEMINAR

AUGUST 24-26, 2018

The Seoul Forum held its 19th PyeongChang Seminar during August 24-26, 2018, in PyeongChang, Gangwon-do province. This year's Seminar was held at a new venue, the Pheonix PyeongChang, in accordance to the event's change of title. The 19th PyeongChang Seminar was aimed particularly on Korea's security and economic situation. On the security front, discussions focused on diagnosing the current status of the North Korean nuclear issue, and the future of Korea's security and diplomacy in light of the ongoing denuclearization talks. On the economic front, Seoul Forum's experts first led a comprehensive review of the Moon administration's "income-led growth," followed by policy recommendations to address the challenges that Korea's economy is currently facing.

CHINA STUDY MISSION 2018

APRIL 25-28, 2018

The Seoul Forum's China Study Mission 2018 was precluded by a preparatory seminar held in Seoul, on April 17, 2018 at the Seoul Club. The preliminary seminar served as a general brainstorming session regarding the objectives and goals of the China Study Mission to be held in Shenzhen, China. A briefing of the tentative schedule was also presented. On April 25, a team of 28 participants departed for Shenzhen, China. In addition to company visits to Tencent, DJI, and ZTE headquarters, the participants engaged in in-depth discussions regarding the business ecosystem as well as strategies of China's leading ICT firms. The Seoul Forum for International Affairs and the Korea Foundation for Advanced Studies co-hosted the China Study Mission 2018.



US STUDY MISSION 2018

SEPTEMBER 25-29, 2018

The Seoul Forum launched the US Study Mission 2018 in order to examine the impacts of the North Korean nuclear issue and current situation on the Korean Peninsula on the future of inter-Korean relations, Korea-US alliance, Sino-North Korea relations, and the overall stability of Northeast Asia. Accordingly, the Seoul Forum formed a small task force of experts consisting of Seoul Forum members. On September 25, 2018, the task force departed for Washington DC. The task force visited various think-tanks (CSIS, CFR, Brookings Institution, the Stimson Center) located in Washington DC as well as Harvard University's Belfer Center for Science and International Affairs to discuss via private seminars, roadmaps and scenarios for resolving the North Korean nuclear issue. The task force conveyed its opinions concerning the situation on the Korean Peninsula as well as the direction of the Korea-US alliance. At the same time, the task force collected valuable opinions from relevant US experts.



DIALOGUES



MAY 29, 2018

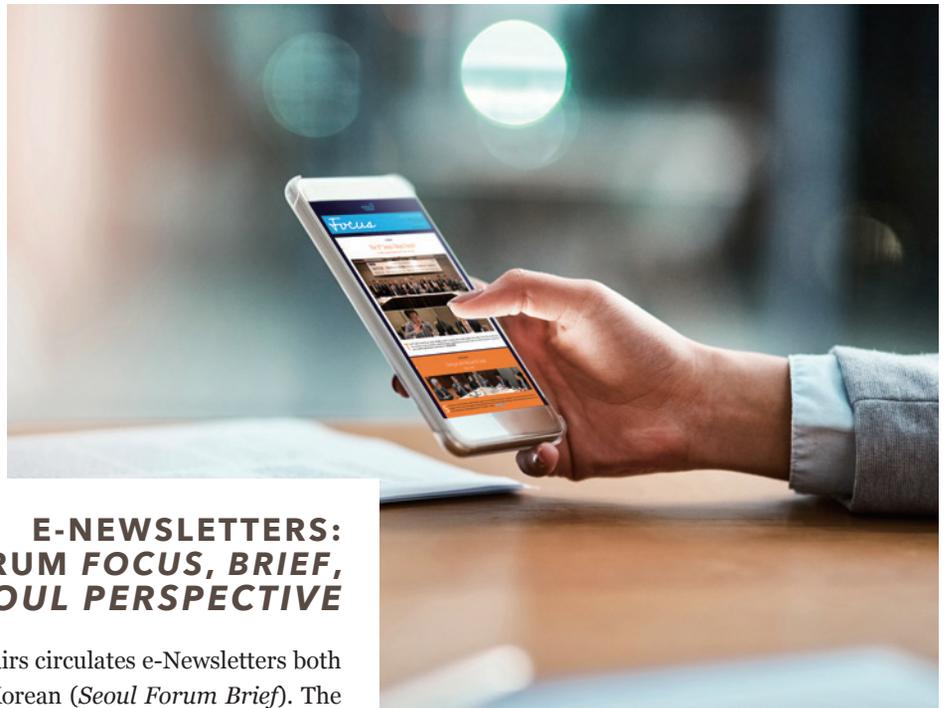
The Seoul Forum invited Professor Michael W. Doyle from Columbia University for a luncheon discussion session to share his insight on the current atmosphere of the global arena. According to Professor Doyle, we are entering a new geopolitical world where New Cold war has made US a unipolar country. Russia descended into democratic kelpocracy, Eastern Europe fled west to depend on NATO and EU, and China succeeded on market economy withholding the democracy. Professor Doyle introduced that this is the price we are paying right now for a failure of the past to overcome the first Cold War which fought through arms races and proxy wars. Thus, this New Cold War should be our generation's concern, who is living in a more humane world in which human rights can be protected.

PUBLICATIONS



SEOUL FORUM POLICY DIALOGUE

In 2017, the Seoul Forum launched its *Policy Dialogue* series, an on-line and off-line publication that summarizes discussions from Seoul Forum's seminars and workshops, and provides policy suggestions for time-sensitive issues. Topics for this publication series pertain to current issues that require expedient review and attention. One volume was published in 2018: "Tectonic Shifts and Korea's Economic Policy."



E-NEWSLETTERS: SEOUL FORUM FOCUS, BRIEF, AND SEOUL PERSPECTIVE

The Seoul Forum for International Affairs circulates e-Newsletters both in English (*Seoul Forum Focus*) and Korean (*Seoul Forum Brief*). The contents of these e-Newsletters include descriptions and summaries of Seoul Forum events, members' contributions in journals and newspaper columns, and information on upcoming events. In 2017, the Seoul Forum launched a new opinion e-Newsletter called *Seoul Perspective*. *Seoul Perspective* collects periodic contributions from Seoul Forum members, and publishes biweekly. In 2018, two issues of both *Seoul Forum Brief* and *Focus*, and nine issues of *Seoul Perspective* were published.

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FINANCIAL HIGHLIGHTS (KRW 1,000)

	<u>2018</u>	<u>2017</u>
<u>INCOME</u>	<u>636,011</u>	<u>522,409</u>
Annual Dues	45,500	37,000
Investment Return	154,222	135,890
Grants and Contributions	436,289	349,519
 <u>EXTRAORDINARY INCOME</u>	 <u>18,702</u>	 <u>195,625</u>
 <u>EXPENDITURES</u>	 <u>641,994</u>	 <u>548,133</u>
Program Activities	341,399	282,451
Supporting Service	300,595	265,682
 <u>SURPLUS (OR DEFICIT)</u>	 <u>5,436</u>	 <u>167,588</u>
 <u>FINANCIAL POSITION</u>		
Assets	4,292,771	4,237,192
Liabilities	80,165	19,150
Net Assets	4,212,605	4,218,042

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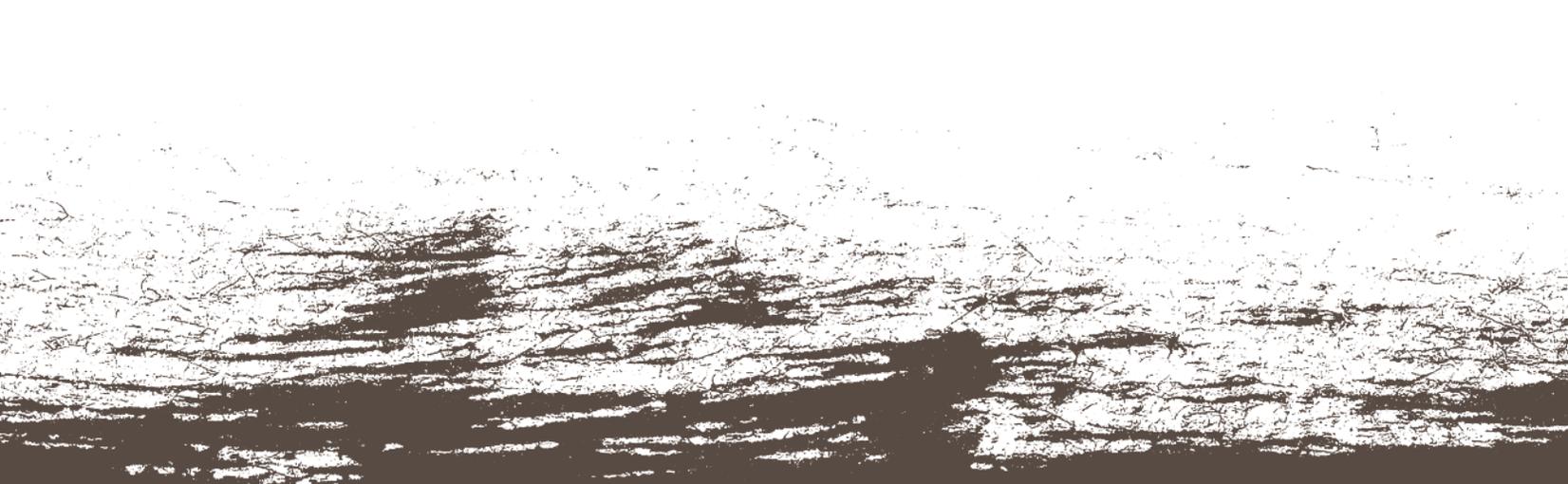
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