

Candlelight, Moonlight, Olympics: Korea in Transition

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After half a year in office President Moon has finally completed his government line-up and got the budget passed in the National Assembly amidst a boycott by the main opposition party – signs of the difficult political situation of a President who had to make a head start without a transition period and who has to rule without a majority in parliament.

An uncooperative North Korea steadfastly pursuing its nuclear and missile development programme was not responding to any overtures towards inter-Korean dialogue until January 2018, pushing the President to adhere to the tough line of the US and the international community to privilege sanctions over engagement. China put pressure on the Korean economy in rejecting the deployment of THAAD systems, highlighting the dependence of Korea on its large neighbour. Japan fully supports the hard-line vis-à-vis North Korea and is irritated by the new government's refusal to honour the agreement reached with the previous government on settling the issue of sex-slaves/comfort women. As President Moon tries to steer the US from consideration of military options on the peninsula, he finds himself obliged to succumb to President Trump's demands for a renegotiation the bilateral FTA and increased purchases of US defence systems. While the EU as well as South East Asia through ASEAN got the sign of increased attention in sending for the first time a presidential envoy after President Moon's election, interest has stalled as the other mentioned fields demanded full attention. Although finally scheduled for January 19, 2018, postponing twice the regular ministerial meeting on the implementation of the highly successful EU-Korea FTA, which in purely economic terms is more important than the US deal,

The surprising readiness of Kim Jong-un to re-open lines of communications and to participate in the 2018 PyeongChang Olympics could strengthen President Moon who needs to change course from announcement of policies to their implementation to live up to his promise to provide jobs through income and innovation lead growth with the aim of establishing a just and fair society for all Koreans. Enhanced EU-Korean cooperation could contribute to economic and political stability and security providing substance to the 55 years' jubilee.

was an expression of this diverted attention. Not engaging in the request for talks on tax systems under the umbrella of the EU's Code of Conduct programme led to the listing of Korea as one of seventeen non-cooperative tax regimes – a wake-up call which was heard too late but cooperation should allow a reclassification rather quickly.

Relying on his constantly high approval rate of about 70% President Moon will now have to deliver on the many promises made – job creation, technological innovation, improvement of quality of life for all - which will be costly if implemented fully. This is the most left-of-centre government in recent Korean history. The President seeks to shift the economic paradigm from the trickle-down effect of conglomerates (chaebols) to income led growth

in which jobs and wage rises are expected to boost consumption. Economic policy will be led through job creation in the public sector, a substantial rise of the minimum wage (+16,4%) along with the promotion of start-ups and ventures. Opportunities in the Fourth Industrial Revolution are seen as key in this process. This will require the raising of taxes which runs counter to international trends, in particular the US. It also requires more state intervention for instance to balance of the consequences of the considerable hike of the minimum wage for SMEs through special subsidy programs, potentially requiring a vicious circle of subsidies.

More strategic planning will be required in transposing Moon's political vision into policy. The debate on energy last year saw the government having to step back on its proposal to phase out nuclear power. This came after public consultations rejected the move, given the intense lobbying of the nuclear sector, but also the lack of alternative strategies and the fact that building more coal fired plants would endanger Korea's commitments under the Paris Agreement, not least as its renewable energy figures are the lowest in OECD terms.

There will be increasing strains on the budget from the need to increase defence spending and investment in social infrastructure. An aging society creates additional costs while young people have difficulties in finding employment in line with their education that can provide the security and quality of life thought necessary to plan a family. Precarious employment relationships for the young and the retirees who have to supplement their pensions have become a pressing problem. Developing affordable housing plans for the young and elderly alike is costly and also strains the budget, not to mention feeding into a potential real estate bubble. Critics deplore the strong focus on government-led measures that burden the business community, especially SMEs that actually want less regulation to boost competitiveness.

Taking on these domestic and international challenges needs a united and strong Korea. The successful candlelight movement was an encouraging sign of the strength of the relatively young Korean democracy which handled the situation without violence and within the constitutional process.

Nonetheless, Korean politics and society remain divided between older conservatives and young progressives. Middle-of-the-road voters, who were relieved to see of the impeachment of President Park, may begin to question the direction of economic and tax policy. The debate on substantive political issues will gain speed in the run up to provincial and local elections in June 2018.

President Moon intends to hold a referendum on constitutional reform simultaneously with the June local elections. His political reform agenda aimed at diluting the power and ensuring transparency in the presidency and other powerful state institutions such as the prosecution and intelligence services is welcomed, although the opposition argues that wide-scale prosecution of previous officials (who broke the law) shows little actual change in practice.

The fifty-five year old EU-Korea relationship has a solid base: three main treaties covering the full breadth and depth of the relationship; the EU is the second largest trading partner; shared values are reflected in common approaches to international politics. The EU's comprehensive approach to foreign policy as outlined in the 2016 Global Strategy contributes to stability through diplomacy, an asset on the Peninsula. Working primarily with non-military means, although the latter are not forgotten, should not be read as weakness in a regional environment with is characterised by geo-politics and geo-economics. The plant needs watering, some fertiliser and sunshine to bloom – the 2018 Summit provides the opportunity.

In 2018 Asia's fourth largest economy is expected to grow by 3%, up 0.2% from last year, which should facilitate reforms. Rallying around a common reform project, like preparing Korea for the Fourth Industrial Revolution where the service and knowledge industries, AI and big data play the crucial role has the potential of bundling national energies. However, the export oriented structure of the industry - Korea is among the top ten exporters worldwide - adds to the geopolitical vulnerability.

Sports diplomacy has provided the cover for an improvement in inter-Korean relations. Postponing the annual Korea-US military exercises until after

the Olympic Games and agreeing to inter-Korean military talks and the restoration of telephone hotlines has provided the space to move forward. The inter-Koreans talks have produced an agreement for the North to participate in the Games, by dispatching athletes, cheering squads and officials; to facilitate reconciliation and solve problems through dialogue and negotiations. The EU and the broader international community hope that this development and further inter-Korean exchanges will be a building block for peace and stability on the Korean Peninsula and also prepare the ground

for the DPRK to engage in a comprehensive, credible and meaningful dialogue, leading to the complete, verifiable and irreversible denuclearisation of the peninsula. Therefore, like in 1988 when the Seoul Olympics helped to consolidate the democratic process in the country, a successful hosting of the 2018 PyeongChang Olympics could contribute to the stabilisation of the Peninsula with positive global repercussions, boosting at the same time, Korean national self-confidence and dispelling notions of being a shrimp between two whales.

About the author



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The KF-VUB Korea Chair at the Institute for European Studies (www.ies.be) is the primary contact point in Europe on policy issues related to Korea and the Korean Peninsula.

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