

HUR KYUNG-WOOK

Chairman of Seoul Financial Forum, Chairman of the Board of the Korea Center for International Finance, former Vice Minister for the Ministry of Strategy and Finance

Thank you very much for a wonderful overview of all the elements of the global economy and the market. I feel a bit embarrassed, but I really have to start with an update on the Korean political situation because that is what really matters in Korea right now.

As of today, the current President, Mr. Yoon, has been impeached politically by the National Assembly after 12 congress members from the ruling party decided to vote for this measure. His powers as President have been suspended and now all the power is delegated to Prime Minister Han, who luckily is a very able and well-respected technocrat, with a PhD in economics from Harvard with over 40 years in Korean bureaucracy, including serving as Prime Minister about 10 years ago, as well as serving as Ambassador to the US. One silver lining is that, at least for a while, we are in very stable and capable hands with skills in running government. The case of the legal dispute is now one for the Constitutional Court but the regulations in our constitution mean that that there will probably be the Presidential election in April, May or June and no later than August. Until that time, the Prime Minister will take over in order to work on that. After the Presidential election, it looks as if the current opposition party is ahead, but its leader has five criminal cases against him, so his fate is also hanging in the balance and it is a race to see which comes first, the court decision or the Presidential election, so there is still an element of uncertainty.

Having said that, I would say that there are three political problems. One is that, if you follow Korean politics, previous Presidents have always had misfortunes by the time they retire. This is not necessarily because of their characters but rather that the constitution and power structure we designed in 1987 is too old and is no longer a good fit, so that has to be changed. Second, the political culture is very confrontational between the extreme right and extreme left so that they have to converge to the middle. Third, which is more relevant to today's topics is that, as the IMF pointed out, Korea also has a problem with a lack of structural reforms and when we try to push for them in the National Assembly they fail to make any progress because of the extreme confrontation. I am afraid that at least until the next presidential election we can probably not make much progress in structural reforms because we have a caretaker government. Again, my hope is that once there is a new president, from whichever party, the situation will be less confrontational, and we will get new impetus to push for structural reform.

When it comes to the Korean economy, I think this year it will probably grow by around 1.9% but because of what happened plus President Trump coming in, there is a much bigger downside risk. The 1.9% is the most recent projection from the central bank but I think the

performance is likely to be lower rather than higher. With President Trump, we find ourselves particularly vulnerable in three ways. First, our trade dependency is very high at around 85% to 86% and Germany is probably the only one of the top 12 countries to reach anything similar. That means that anything that hurts the predictable rules-based regime can hurt Korea more severely and in terms of the economy, the export sector is pushing the economy forward and domestic demand is very low, actually coming up with a negative for the last couple of quarters. This makes Korea very vulnerable when Mr. Trump comes in.

The second element that makes Korea more vulnerable than other countries is that we are caught between the US and China. Traditionally, China is the country that we have relied on economically at around 25% - 26% but since Covid and China's slump that has changed and the US is now our largest strategic partner, closely followed by China. More interesting is that we have always had a big surplus against China but last year we had a negative trade account against China, while our surplus with the US increased very fast to around USD 44 billion. I do not think Mr. Trump is going to like that because in the first Trump, 1.0, our trade surplus was one-third of that, still we have to revise Korea's US FTA. At this level, I am sure that there will be big pressure and, as Madame Lagarde said, we are willing to import energy, LNG, etc., to reduce it. On the other hand, it is interesting that in terms of FDI to the US, believe it or not, Korea emerges as the largest investor in the US for the last three years, mainly attracted by the Chips and IRA Acts. For the last three years, altogether Korea occupied 32% of FDI triggered by the IRA and Chips Act so we can create a lot of jobs. On the other hand, all the benefits promised by the IRA are now up in the air and there will probably be quite a lot of lobbying because a lot of that money goes to the state because it is public-dominated, so there is a lot of negotiation to do.

We have three chip plants in China and the one run by Samsung and the other two by Hynix operating in China and including those, the export 30% of our chips are being sold to China. Now the US is putting brakes on that by saying that high-end products cannot be exported to China while China keeps pushing us to provide them, so we are stuck in the middle and in that sense, Korea is more vulnerable than other countries. Many countries are caught between China and the US but for us we have around 20% exports each to two countries so we find ourselves in the middle of the two.

However, the biggest concern is on the security side because one of the things that Mr. Trump has done is to appoint Alex Wong as Deputy National Security Advisor. You may not know him, but he was the guy who actually worked on the Hanoi deal and Trump's meeting with the North Korean leader, so he also knows the South. I think the reason he was appointed was to send a signal that he is also interested in meeting his peer, Mr. Rocketman, some time down the road. That is our biggest worry because it would be good if he could get him to the negotiating table but we hope that he will only do that in close consultation with Korea and that makes Korea more vulnerable, at this point of time, because we will have no president when he is inaugurated in January, just a caretaker prime minister and it would be four or five months before we have a president. I think the former House Speaker talked to Mr. Trump yesterday and we really have nobody to talk to, at least for the four or five months, which is another worry. Mr. Trump is known to be even notoriously transactional but the problem we have is we can have transactions for all kinds of economic things, we did it for the revision of Korea's FTA last time, and we are ready to do it but the last thing we want to see is security

being used as leverage against economic concessions. I think that is pretty much our greatest fear of Mr. Trump's presidency because I know that he can try to create advantages but this time North Korea has much more advanced ICBM technology, has sent troops to Russia and there is heightened distrust of Mr. Trump on the North Korean side because of the previous failed deal in Hanoi. When you put all those things together, it is very important to realize that pushing your agenda and the transaction is one thing, but to do it with North Korea and the security concerns, you have to be very careful and I do not know how careful he might be, so that is another concern.

Jean-Claude Trichet, former President of the European Central Bank, Honorary Governor of the Banque de France

Thank you very much, Mr. Chairman. I am afraid your time is up, but I am sure you will have to respond to a lot of questions. I will give you a bit more time because we are clearly in one of the regions of the world that is most geostrategically tense, and you were eloquent about that. You can have 30 seconds for a last message.

Hur Kyung-Wook

Another concern is whether the US will continue to look inwards. For the financial market, I think the Korean financial market is stable despite impeachment, with government debt is 53% and short-term foreign debt to our reserves is around 35%.

The last thing I want to mention is cybersecurity and there have been 1.5 million attempts per day at cyber hacking from North Korea. Cyber hacking is very dangerous in general but particularly in the Korean context because of North Korea, and that means that we are very careful and have invested a lot in cybersecurity. I will stop there.

Jean-Claude Trichet

Thank you very much, Mr. Chairman and again, thank you for enlightening us on this tense region and all the fears you have about the new administration in the US, which totally contradicts the idea of establishing peace and lowering tension everywhere.