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Now I think we should move to what is not exactly a geopolitical thing, but perhaps it is a domestic problem: South Korea. Hur?

Hur Kyung-Wook, Chairman of Seoul Financial Forum, Chairman of the Board of the Korea Center for International Finance

Thank you very much. I am very pleased to be here, but not quite pleased to have to explain what is going on in Korean politics. However, let me try my best. Number one, originally we had a different speaker who happens to be a member of parliament, so he had to stay at home because of what is going on in Korean politics. As it has been grabbing mass media headlines internationally, let me say a few words of explanation of what is going on in Korea.

John Andrews

Sorry, one quick question regarding the original speaker. Was Mr. Kim with the president's party or the opposition?

Hur Kyung-Wook

He is a member of the ruling party. First of all, what I would like to emphasize is that this unfortunate martial law was a single isolated individual event engineered by President Yoon and some of his high school alumni, a small number of high school alumni in the army. It is mostly not consistent with the Korean level of political and economic development and it is not supported by the mass of people on the street. Let me explain in a little bit more detail. On 3 December, 10 days ago, there was an ill-conceived, badly misjudged and unfortunate event. However, it was very short-lived. It was just six hours. Second, not a shot was fired. Nobody was injured.

It was declared in the night and by the morning it was all gone. However, more importantly, it is the people on the street who resisted this martial law. They just voluntarily swarmed to the National Assembly, blocking soldiers from intervention and from trying to pull out our National Assembly members. It is fair to say, actually, even the soldiers were very reluctant to obey the order, so they are not aggressive at all, creating enough space for the members of parliament to get in, and according to the constitution, they voted unanimously. Not only the opposition members but also some members of the ruling party who were present over there, unanimously agreed to lift this martial law. Actually, it was just two hours and 30 minutes after the imposition of martial law.

Therefore, what we have seen is not the decay of a democratic Korea, but rather a test of the democratic resilience of Korea because it was just the people on the street who clearly said no to this ill-conceived attempt. Having said that, it creates political uncertainty, and it is most likely that by tomorrow the current president will be impeached politically, by the Congress first, and if he is impeached then the ball will be passed over to the constitutional court. However, when he is impeached in the National Assembly his power as president will be suspended instantly, and then the power will go to the prime minister, who will act as interim leader until the new presidential election, which if everything goes as planned, will probably happen by around April or at least by May. It still creates some uncertainty, but I think that by tomorrow most of the uncertainty will be gone and that it will be more or less a legal battle in the constitutional court.

Another thing I would like to point out is that, yes, there was some short-term turbulence in the financial market, but it was basically contained to an acceptable degree. All the credit rating agencies, like S&P and Moody, all said that Korean economic stability is intact, and they do not have any intention to change their rating of the Korean sovereign rating. This is unfortunate, but we saw this before eight years ago, and even at the time, despite the short-term turbulence in the market, the economy came back after a couple of months, and we are probably going to see the same thing in this unfortunate event. That is the explanation of what is going on in Korean politics.

I think I have to go back to the main subject of discussion. As you said, Asia is the most dynamic region. In the 1970s, the Asian economy was about 20% of global GDP. However, last year, for the market exchange rate, it was 36%, and most likely it will reach 50% in the 2040s, which is what they are talking about, the so-called coming of the Asian century. However, we are now facing some unfavorable winds. It is basically a dilemma between economic reality and geopolitical pressure, particularly the rivalry between the US and China, which is getting more and more serious. The Asian economies are very closely integrated with not only the Chinese economy, but also with the US economy. There is now increasing political tension to pressure Asian countries to take sides, politically at least. For most Asian countries, China is the biggest trading partner and either the biggest or the most significant investor in Asian countries. There is the Belt and Road Initiative. There is a swap arrangement between all of these central banks. Also, there is a large number of the Chinese diaspora in the region. Therefore, for many Asian countries, Chinese linkage is almost inseparable.

However, in terms of geopolitical reality, everybody talks about the South China Sea tensions and about the Taiwan Strait, which is a flashpoint. Also, a new development, as you know, is that North Korean troops are now in Russia, which adds another layer of instability in the region. Although I must admit that Asia's development is inseparable from China's own development in Asia, sometimes China plays the role of sort of a bully in the schoolyard, and we need countervailing forces, which have mostly been provided by the US. Now, increasingly, with the new administration coming, we all know that Mr. Trump is very much transactional, and we do not know what kind of instability and uncertainty he might add to this existing political balance. I guess the biggest concern of most Asian countries is how to maintain this economic and financial linkage with both China as well as the US without taking sides with either one of them – they do that in their own country's interest, not by being

pressured by these two giant economies – and to try to keep the stability in the region, which has been one of the building blocks for Asian prosperity up to now.

Let me focus particularly on the Korean situation. The biggest worry about South Korea is that we have seen the Hanoi deal before, when Mr. Trump and Mr. Kim Jong Un sat down together, even though the deal finally broke out, and in the process many Koreans believe that the expectations of the Korean authorities and people were overlooked in the process. The biggest worry here is that we do not want to see a repeat of that kind of deal, particularly as mentioned by our speaker this afternoon. President Trump really likes to negotiate, and now we have, as I said, North Korean troops already in Russia, so there is very much an instability factor in the region. Whatever deal or negotiation that the incoming President Trump might have with the North Korean leader, we hope that it will be made in very close consultation with South Korea, without skipping over Korean interests. That is number one.

Number two is that we have something called the Camp David Declaration, where Korea, Japan and the US all committed to a closer tripartite relationship in the region. Despite all of these changes in the political government in all three countries, we hope this relationship is going to continue as a stabilizing force in the region. You might tend to forget, but it is just a one-hour drive from South Korea's capital of Seoul to North Korea. It is just a one-hour drive up into the north. As I said, North Korea is not the North Korea from before because they now have far more nukes, far more developed ICBMs and a new alliance with Russia. They can be a very destabilizing force, adding on the South China Sea, as well as the Taiwan Strait issue.

One thing I must add, as Mr. Narayanan already mentioned, is that there is a growing importance of India in the region. It is already the fifth largest economy, and pretty soon it will be the third largest economy, and it is very neutral to both China as well as to the US, so it can be very much a stabilizing force in the region. Korea is also strengthening its relationship with India, and not only India, but all the rest of the world. I guess India is going to play a more important role. There was a brief mention about the CPTPP. Now that the WTO is in paralysis, I think this kind of regional arrangement is now very important. Korea also wants to join the CPTPP. Also, even though it is not a trading regime itself, it has also actively participated in the IPEF. I think all of these regional arrangements, whether it is trading or just a talking shop, can play a stabilizing force in the region.

John Andrews

Thank you. It is quite ironic in the sense that the UK is now a member of the CPTPP. Just one quick question: if I remember correctly, Kim Jong Un had a sunshine policy towards North Korea. Do you see any prospect of a future or present South Korean leader following the same policy, or is the action now of Kim Jong Un so much that there will never be that sort of attempt to reconcile?

Hur Kyung-Wook

I cannot say for sure, but many Koreans now believe that the sunshine policy, despite its good intention at the beginning, actually earned time for North Korea to develop its nuclear missile. Now that North Korea has a new alliance with Russia, I do not think that there will be a comeback of a sunshine policy. However, having said that, we do not know who the ruling



party will be after the next presidential election. The current opposition party has been more sympathetic to North Korea, so that even though it is not a comeback of the sunshine policy, there is probably a chance that they might be more lenient. Let us put it that way. They might put short-term peace over long-term stability. There is a possibility, but I do not think it's a repeat of the sunshine policy as it is.

John Andrews

Thank you very much.