

# NEW PRESIDENTIAL ELECTION IN REPUBLIC OF KOREA AND ITS IMPLICATIONS FOR NEW ZEALAND

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With a new government in place in South Korea what does it mean for New Zealand? I examine the three areas that are likely impact trade and security of New Zealand.

## Key findings

- Nominations by president Moon Jae-in indicate significant changes are about to happen in South Korea in inter-Korean relationships, economic structure, and diplomacy.
- These changes may impact New Zealand's trade and status.
- A strategy is needed for New Zealand to deal with the spiral situation regarding THAAD deployment by the United States on South Korean soil.

## Executive summary

Since been elected, president Moon Jae in in South Korea is bringing swift reforms to revive South Korean politic, which has been consumed by domestic and external political turmoil resulting from ten years of Lee Myung-bak and Park Geun-hye's governments. At his first news conference, president Moon introduced his nominee for prime minister, the chief of National Intelligence Services (NIS), and his presidential chief of staff. These nomination by the president indicate likelihood of changes that are about to happen in South Korea. What does this mean for New Zealand? How are these changes likely affecting New Zealand's interest in the areas of trade and security?

First, I discuss the president's nomination and what those nominations indicate. In the second part, I discuss three areas of interest to New Zealand security and trade: (a) inter-Korean Relations; (b) reforms in South Korea economic structure (3) U.S. and China relations in relation to THAAD and the implications to New Zealand.

## Introduction

The Republic of Korea (hereafter, South Korea) has elected a progressive candidate Moon Jae-in as the country's new president after an historic election, which took place on the 9<sup>th</sup> of May 2017. The election was the historical since it followed country's first president impeachment.



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Since been elected, president Moon and his administration is bringing swift reforms to revive South Korean politic, which has been consumed by domestic and external political turmoil resulting from ten years of Lee Myung-bak and Park Geun-hye's governments. At his first news conference at the Blue House<sup>1</sup>, president Moon introduced his nominee for prime minister, the chief of National Intelligence Services (NIS), and his presidential chief of staff while Park Guen-hye sat in detention facility waiting for a trial on charges that could lead her being sentenced to life in prison. President Moon tapped into the country's appetite for change and is able to push through his agenda. With president Moon elected to the office actions from his part suggest lot of changes are about to happen in South Korea. What does this mean for New Zealand? How are these changes likely affecting New Zealand's interest in the areas of trade and security? This policy brief informs the reader things that New Zealand must look out for in South Korea.

The brief is organised as follows. In the first part, I discuss president Moon's nomination and what those nominations signify because true meaning those nomination and their implications are not covered by the media.

In the second part, I discuss three areas of interest to New Zealand: (a) inter-Korean Relations; (b) the Chaebols and struggling economy; (3) U.S. and China relations. I will discuss in terms of how the new government under president Moon likely approach the three areas and their implications for New Zealand. The third part will conclude the brief.

### **New government and president's nomination**

The nomination of Lee Nak-yoen as prime minister was seen as an attempt to get more support from the southwestern (Cholla-province), traditionally regarded as liberal stronghold where Lee had served as governor and lawmaker. Appointing Lee Nak-yoen as a prime minister can be interpreted as Moon administration's aim to signal equal opportunity of access to social ladder. Traditionally, higher government posts have been dominated by people from Kyung-sang region (the Southeast province). If the National Assembly agrees president Moon's nomination, Lee will be the first prime minister from the Cholla region in the history of South Korea.

President Moon's pick National Intelligence Services (NIS) chief is Suh Hoon, a long-time intelligence and international relations expert. Suh also has served in the NIS as deputy director in 2006. Suh is well known North Korean expert as well. President Moon announced that Suh would be the right man to push reforms in NIS, which has long been accused of meddling with domestic politics as well as aiding the president's effort to normalise relations with the North Korea. Talking to reporters, Suh Hoon endorsed president Moon's call for a summit meeting with North Korean ruler Kim Jong-eun, although saying it would be difficult for such a meeting to take place soon, considering the tension over the North's nuclear program.

Lastly, nomination of Professor Kuk Cho for the presidential secretary for Petition (PSP), which is considered the most powerful position of presidential secretary in South Korea<sup>2</sup>, shocked even the

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<sup>1</sup> Blue House is a presidential palace, situated at 1 Sejongno, Jongno-go, Seoul, Republic of Korea.

<sup>2</sup> Presidential secretary for Petition (PSP) controls all the information from the branches of intelligence agencies coming to the president. Typically, as a PSP, one has the power to control information coming from the National Intelligence Service (NIS), Defense Intelligence Agency (DIA), Defense Security Command (DSC), the Korean National Police Agency (KNPA), Korean National Supreme Prosecution Office (KNSPO), and Korean National Coast Guard (KNCG). Not only that, the PSP has always had a strong connection to the Korean



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most progressive media outlets in South Korea. Professor Cho is South Korea's top professor of Law, specialising in criminal law and well-known critic of the National Prosecution Office. Professor Cho has been the most active advocate for thorough reform of the corrupt and ill practices of the Office. Nominating someone outside of the National Prosecution office as a PSP is the first time in the history of South Korea and is considered a firm determination by president Moon to reform the National Prosecution Office.

### Inter-Korean Relations

President Moon Jae in, as the 19<sup>th</sup> president of South Korea, favours engagement and cooperation with North Korea. On the campaign trail, Moon repeatedly stated his desires to open negotiations with the North and willing to meet Kim Jung-eun.

I argue that president Moon, unlike the two of his predecessors, is more likely engaging in a dialogue and seek peaceful resolution to North Korea's nuclear proliferation. It is clear that working-level talks with North Korea is a possibility, according to Moon's foreign policy advisor Chung in Moon. However, to my understanding, president Moon will hold out a summit with Kim Jung-eun until North Korea commits to abandoning its nuclear arsenal.

The policy paper released by Moon's campaign team suggest this. The first priority is developing the ability to defend South Korea against North Korea's nuclear and missile programs. This includes an embrace of conservative idea such as the Kill-chain to take out North Korea's nuclear and missile program. The policy also calls for the resumption of family reunion and North Korean participation at the Pyonchnang 2018 Olympic Winter Games.

### Implications for New Zealand

In any event, both the threat of or an actual war in the Korean Peninsula would severely disrupt New Zealand's economy. The price of constant tensions in the inter-Korean relationship will be costly to New Zealand. Therefore, any direct military confrontations in the region will affect New Zealand's trade. In addition, it would also place New Zealand in an awkward position over which role to play in the conflict it ever arises.

As discussed, however, South Korea's new president is willing to normalise the inter-Korean relationship while being firm on North Korea's nuclear proliferation issue. There is no doubt that president Moon will utilise his arsenal to re-establish channels of engagement to improve relations with North Korea. Furthermore, given the commitments from the nations of Northeast Asia and the United States remain focused on achieving peaceful resolution, inter-Korean relationship will get better. This is positive sign for New Zealand's trade.

However, inconsistent voice from the Washington and president Trump's regarding North Korean nuclear proliferation is concern. Although president Trump has left his options open with North Korea, the administration's ramping up pressures by sending an aircraft carrier and deploying the Terminal High Altitude Area Defence (THAAD) anti-missile system is worrisome. There are good chance things might not go to direct military confrontation, however. This is because history suggest that South

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National Prosecutions Office and be able to influence the prosecutors' decisions sins PSP always have been nominated among the National Prosecutions Office.

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Korea and the U.S. have always coordinated their responses toward North Korea and neither country wants war.

### The Chaebols Reform

South Korea's economy depends largely on huge family-owned business conglomerates, or 'Chaebols' such as Samsung, L.G., and Hyundai. President Moon has promised to revive the flagging economy while curbing Chaebol's power.

South Korea's economy is dependent primarily on the performances of Chaebols. According to the Wall Street Journal, the share of sales from the 30 largest Chaebols that made up to 53% of South Korea's GDP in 2002 has risen to 82% in 2012. In the same time, the economy's growth rate has significantly dropped from 7.43% to 2.29%. These Chaebol companies are aggressively suing their financial dominance over the small and medium enterprises (SMEs) by blocking the possibility of SMEs to develop and innovate products. But the more importantly, Cheabols are detested for their corruption based on cosy business-politics relationship and president Moon plans to fight corruption centred on reining South Korean Cheabols (i.e., companies like Samsung, L.G., Hyundai, Hanjin, Kumho, and Lotte).

The president has vowed to end the practice of pardoning convicted corporate criminals and to break the nexus of business and politics. Kim Sang-jo<sup>3</sup>, whom the president has nominated as next chairman of the Korea Fair Trade Commission (KFT)<sup>4</sup>, told reporters he was in no hurry to unravel the cross-shareholding structure, meaning the KFT is building up cases against Cheabols practicing cross-shareholdings. In addition, Moon nominated Ki Dong-yoen, current president of Ajou University, as a new Deputy Prime Minister for Economic Affairs and Minister of Strategy and Finance. For the post of Presidential Senior Advisor for Policy Affairs and Vice Chairman of the National Economic Advisory Council, Moon has announced Chang Ha-sung, currently Korea University professor, and Kim Gwang-du, endowed professor of economics at Songang University.

### Measures by president Moon and their implications for New Zealand

President Moon's appointments for academics might seem odd to outsiders. However, when looked closely, each of the nominee's expertise align with Moon administration's economic reform agenda. For example, professor Kim Sang-jo is an expert in corporate governance system and most vocal critic of the Caebols. In addition, Chang Ha-sung is a professor of economics specialised in economics of inequality and financial economics. This only indicates president Moon and his administrations long time consideration of the economic reform issue. But what does this mean for New Zealand?

New Zealand has interest in South Korea market for access to the export of Kiwifruit, wine, beef, and diary (except for milk powder, which keeps 176 per cent tariff). I consider president Moon's approach to economic reforms, if successful, bring positive impact to New Zealand's trade. If the reforms are successful and Chaebol's powers are curbed overall economic performance of South Korea will rise

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<sup>3</sup> Professor Kim Sang-jo has played a key role in building consensus for economic reform following South Korea's financial crisis in 1997. He is a professor of economics at Hansung University and chairs 'Solidarity for Economic Reform' (SER), a civil organisation dedicated to enhancing the corporate governance system through minority shareholder campaign. Under his leadership, the group won several landmark lawsuits including the one against the director of Samsung Electronics and Hyundai Motors.

<sup>4</sup> The commission sets policies and decides cases related to fair competition.



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and such rise always is followed by increase in spending. In turn, the increase in spending by the Koreans meant increase in export for the New Zealand.

### Two-important allies and the THAAD

Caught between the U.S. and China, president Moon has to pursue an independent foreign policy, aiming to please the both parties. First, the president needs to manage the Trump administrations' conflicted approach to the North Korea's nuclear proliferation. President Trump has voiced the possibility of unilateral action against North Korea, but also suggested that he would be honoured to meet Kim Jung-eun. Trump stressed the importance of the alliance with South Korea, but also said that South Korea should pay for the anti-missile THAAD system the U.S. has deployed on South Korean soil.

On the other hand, Moon and his administration face China, South Korea's biggest trading partner. China has criticised the deployment of THAAD as an act of aggression aimed at China and retaliated economically by slowing Chinese tourism to South Korea and access of South Korea's entertainment and cultural industries. China accounts for U.S. \$131 billion in South Korean export trade. Trying to please both sides will be a diplomatic high-wire act for president Moon and his administration.

### Implications for New Zealand

Both China and the U.S. are important allies to New Zealand in terms of economic and strategic value. China overtook Australia in 2013 to become New Zealand's largest trading partner, with volumes of trade reaching NZ \$19.3 billion.<sup>5</sup> U.S. is New Zealand's third largest trading partner with bilateral trade volume amounting to NZ \$9.7 billion in the year ended September 2014.

In terms of defence, New Zealand shares key areas of closer military cooperation with China in humanitarian Assistance and Disaster Relief.<sup>6</sup> The United States and New Zealand have traditionally been a close ally. With signing of Washington Declaration on 19 June 2012 established a framework for further strengthening and building the basis for defence cooperation. Thus, New Zealand has to balance its role very carefully and strategically over the THAAD missile issue. The best course of action is to do nothing and take the role of observer.

### Conclusion

This policy brief has outlined the changes that are going to happen in South Korea and their implications of such changes to New Zealand. First, I argued president Moon's nomination and what it signifies. The nomination of prime minister, chief of NIS, and presidential secretary for petition suggest greater change is about to happen in South Korea. Secondly, I discussed how president Moon and his administration will handle inter-Korean relationship, chaebol reform, and U.S. and China relations and their implications to New Zealand.

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<sup>5</sup> New Zealand Economic and Financial Overview, 2015, The treasury, <http://www.treasury.govt.nz/economy/overview/2016/nzefo-16.pdf>, accessed 29th May 2017

<sup>6</sup> Gerry Brownlee, 2015, speaking to People's Republic of China Army college, <https://www.beehive.govt.nz/speech/new-zealand-and-security-asia-pacific-century>, accessed 29th May 2017.



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I argued that the Moon administration will focus on normalise inter-Korean relations and while stand firm to the North Korea's nuclear proliferation. New Zealand will benefit as the normalisation of inter-Korean relations bring peace and stability to the region.

I argued that Chaebol reforms by the Moon administration will also likely increase the export from New Zealand as the reforms will increase the spending by the Korean people. Lastly, the U.S. and China relations seem most challenging issue for president Moon and his administration in South Korea. I actually see no benefit in New Zealand to take interest in this matter. Both the China and U.S. are important allies to New Zealand and losing one will be costly. Therefore, it would be best to take a step back from the U.S.-China relations over THAAD issue and take a neutral stance.



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