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Constitutional Amendment

During Mar 20~22, the Blue House released its proposal to revise the South Korean Constitution.¹ The President also announced that he will table an amendment proposal on Mar 26. The proposed revision contains several interesting provisions that outline the requirements for 1) presidential term; 2) appointment of the prime minister; and 3) referendum timing.²

The opposition parties criticized the Blue House for announcing the proposed revision without consulting the National Assembly. We outline the differences among key players above.

Positions on Constitutional Amendment

	Prime Minister and Presidential Term	Presidential Term	Time of referendum
Blue House	President appoints PM	Four year term with reelection	During local elections
TDP	President appoints PM	Four year term with reelection	During local elections
LKP	National Assembly elects PM	Four year term	Referendum in Sept-Oct
BMP	National Assembly elects PM		During local elections
JP	National Assembly recommends PM		During local elections
PDP	National Assembly recommends PM		During local elections

In order to amend the constitution, the National Assembly must vote on the proposed amendment within 60 days from submission. If two-thirds of the Assembly supports the proposed amendment, the voters must participate in a national referendum 18 days thereafter.³ With strong opposition from the LKP, the likelihood that the proposal will survive the Assembly floor vote is not likely. To make things more

difficult for the administration and the ruling party, the National Referendum Act need to be revised before the referendum can be scheduled for June 13. The president has requested National Assembly to amend the National Referendum Act by April 27.⁴

One thing going for the administration is strong public support. Recent polling shows that 59.6% of South Koreans are in favor of President Moon's proposed amendment while 28.7% oppose.⁵

Number of Seats in National Assembly (by Party)⁶

Political Parties ⁷	Number of Seats			%
	Local Districts	PR	Total	
TDP	108	13	121	41.3
LKP	99	17	116	39.6
BMP	17	13	30	10.2
PDP	14	0	14	4.8
JP	2	4	6	2.1
MP	1	0	1	0.3
KPP	1	0	1	0.3
Independents	4	0	4	1.4
Total	246	47	293	100

North Korea and Talks

A group of South Korean officials visited China, Russia, and Japan during Mar 12-15 to coordinate policy on North Korea.⁸ The three countries affirmed their support for the ongoing talks. On Mar 22, South Korea, North Korea and the US conducted a 1.5 track dialogue in Finland. The meeting sought to lay the groundwork for the upcoming summits in April and May.

The Blue House also suggested holding high-level talks with North Korea on Mar 29, ahead of the Inter-Korean Summit.⁹ President Moon mentioned the possibility of a trilateral summit between ROK, US and North Korea following US-North Korea summit in May.

South Koreans appear cautiously optimistic with 53% of surveyed public stating that they believe North Korea's attitude has changed but 64% think that North Korea will never give up its nuclear weapons.¹⁰

Meanwhile, ROK and the US have announced that the allies will resume the annual joint military drills as of Apr 1.¹¹ The drills, however, will not include strategic assets, such as aircraft carriers or long-range bombers.

Minimum Wage

On Mar 16, the National Assembly Committee on Environment and Labor began discussions on the amendment to the Minimum Wage Act.¹² Under the current law, the minimum wage only includes basic salary, service allowance, and position allowance. It excludes irregular items, such as overtime pay, food allowance, and lodging expenses. The major parties disagree about the inclusion of these irregular items in the wage category.

The ruling party maintains that minimum wage should only apply to regular payment, while the LKP claims that irregular wage should also be included. Businesses also favor applying minimum wage to irregular payment, while labor groups claim that it would undercut the 16.4% increase approved last year.¹³

Comprehensive and Progressive Trans-Pacific Partnership (CPTPP)

South Korea is reviewing the possibility of joining the CPTPP. Kim Dong-yeon, the Minister of Strategy and Finance, stated on Mar 12 that the government would begin the process of deliberating the CPTPP this year with the goal of becoming a member state by August. The agreement is expected to come into effect by the first half of 2019.¹⁴

GM v Korea

The Korea Development Bank (KDB) began investigating GM Korea on Mar 12, starting with the Bupyeong facility. Earlier that week, the company applied for entry into special investment zones with the provincial governments of Incheon and Gyeongsangnam-do, which would help the company become eligible for tax exemptions. Barry Engle, head of GM foreign operations, said that the company will do more to ensure transparent management. Meanwhile, GM is facing difficulties reaching a compromise with GM Korea employees over the matter of overdue wages.¹⁵ The KDB stated on the Mar 14 that it would consider offering a short-term bridge loan up to the value of its holdings in GM Korea if the company agreed to cooperate with the government investigation.¹⁶

5G Rising

Korea joined the global development of 5G networks, looking to operationalize the digital infrastructure in three years. The three major Korean telecommunication companies (i.e. SK, KT and LG) are preparing to submit their tenders for building this

digital infrastructure with procurement expected to start in June.¹⁷

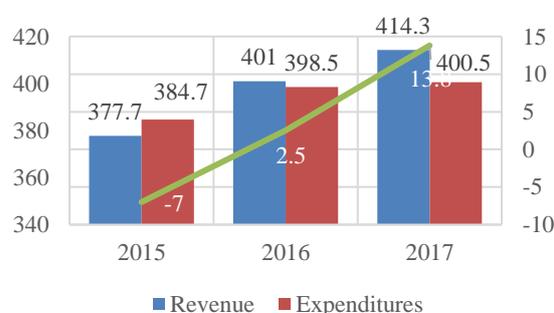
SK	KT	LG
Invest on data protection through the acquisition of ID Quantique for KRW 60bn (USD 65.4mn)	Develop VR services.	Joint projects with major foreign giants like Verizon and China Mobile

Fiscal Policy Update

The government announced that it will submit a supplemental budget request in mid-April. In evaluating the KRW 4trn (USD 3.68bn), the National Assembly will have to consider whether the increase will lead to measurable results. The existing budget on youth employment has not been depleted. One reason for the supplemental budget is to finance the increase in annual salaries for youths working in SMEs by KRW 10mn (USD 9,200).¹⁸

The government recorded a larger budget surplus in 2017 (KRW 13.8trn or USD 12.8bn) than 2016 (KRW 2.5trn or USD 2.3bn).¹⁹ The National Assembly approved a supplemental budget of KRW 11trn in 2017 for items related to drought response (+KRW 107.7bn), job creation (+KRW 97.7bn) and Winter Olympics (+KRW 97.7bn).²⁰

Balance of Payments. 2015-17 (in KRW trn)



Source: National Assembly Financial Statistics

Monetary Policy Update

According to the Ministry of Strategy and Finance, Korea's public debt for 2018 is expected to increase by KRW 2.7trn (USD 2.52bn), rising to KRW 106.4trn (USD 98.95bn). This constitutes a net increase of KRW 36.7trn (USD 34.28bn) in long-term securities signalling confidence in continued economic recovery for 2018.²¹

The Ministry introduced measures to strengthen government bond market stability. To spur continued recovery and address rising risks, the Korean base

interest rate rose by 0.25% from 1.25 to 1.5% at the end of 2017.²² While there have been speculations of another increase in the official rate before Q3, the Bank of Korea (BOK) has not made any announcements to do so.²³ This is important for two reasons.

The first is the timing of this decision in relation to the local elections scheduled for Jun 13. The move has been praised by the TDP²⁴ but criticized by the opposition like the Bareun Future Party.²⁵

The second reason is that an additional increase in the base rate plays on fears linked to a potential rate hike in the United States.²⁶ As of now, the BOK is holding the position that given the current rate of economic recovery and low rates of inflation, an additional increase is not necessary.²⁷

Quarterly Inflation Rate, 2017-18 (in %)



Source: Bank of Korea²⁸

Legislative Bills in South Korea

Name*	Motion	Status**	Purpose	Likelihood to Pass***
Basic Act on Sharing Economy ²⁹	2018 Mar 22	Proposed to the 358th National Assembly (Extraordinary Session)	This Act establishes a legal system for managing the sharing economy. The Ministry of Strategy and Finance mediates transactions on the use of idle assets while also managing suppliers by classifying them as either temporary or regular.	N/A
Act on Earthquake Disaster Recovery Fund ³⁰	2018 Mar 19	Proposed to the 357th National Assembly (Extraordinary Session)	This Act looks to strengthen the size of disaster recovery fund. The fund is used to support deaths, missing persons, injured persons due to earthquake disaster, loans for restoration of seismic design of housing, and support for restoration of seismic design of low-income housing.	N/A
Act on Prison Protective Custody System ³¹	2018 Mar 19	Proposed to the 358th National Assembly (Extraordinary Session)	This Act seeks to reduce recidivism by increasing the holding period for high risk offenders in protective custody, allowing them more time (1~10 years) to transition back into society. High risk individuals are identified by a public prosecutor. During that period, services are provided to relevant individuals to assist in the reintegration process (i.e. psychiatric care, vocational training, and other forms of social rehabilitation). The individual is then assessed six months before the end of the custody period.	Low to Medium ³²

*Unofficial translations **As of 2018 March 25

***Likelihood to pass based on news and analytical coverage by major outlets

N/A	LOW	MEDIUM	HIGH
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Insufficient coverage to make an assessment	Coverage generally tends to be negative	Coverage generally tends to be split between negative, affirmative, or neutral	Coverage generally tends to be in the affirmative
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1 President's proposed amendment is available at the Blue House website [<https://www1.president.go.kr/articles/2703>]

2 “개헌열차 어디로? 시기와 권력구조가 최대쟁점”, *연합뉴스 TV*, 2018년 3월 20일.

3 “대통령 개헌안 26일 발의...국회 '시간과의 싸움' 돌입”, *연합뉴스*, 2018년 3월 19일.

4 “靑 “위헌 결정 국민투표법이라도 개정을”, *동아일보*, 2018년 3월 23일.

5 Realmeter, Date: Mar 19-21; sample size: 1,501; margin of error: ± 2.5 at the 95% confidence level.

6 National Assembly website [available at: <http://www.assembly.go.kr/memCond/hnumseat.do>]

7 [List of Abbreviations] TDP: Together Democratic Party; LKP: Liberty Korea Party; BMP: Bareun Mirae Party; PDP: Party for Democracy and Peace; JP: Justice Party; MP: Minjung Party; KPP: Korean Patriots Party.

8 “정의용은 중·러시아로, 서훈은 일본으로... '맞춤형 파견'”, *중앙일보*, 2018년 3월 11일.

9 “청와대, 남북고위급회담 29일 판문점 통일각 개최 제안”, *한겨레*, 2018년 3월 21일.

10 34% of those surveyed stated that they do not believe that North Korea has changed while 22% thought that North Korea may give up its nuclear weapons. Gallup Korea, Date: Mar 13-15 ;sample size: 1,003; margin of error: ± 3.1 at the 95% confidence level.

11 “한미훈련, 4월 1일부터 재개...방어만 있고 공격은 없다”, *조선일보*, 2018년 3월 20일.

12 “환노위 소위, 최저임금 산입범위 논의 개시...첫날부터 이견 팽팽(종합)”, *연합뉴스*, 2018년 3월 16일.

13 “최저임금에 상여금 포함보다 수당 산입때 저임노동자 불리”, *한겨레*, 2018년 2월 13일.

14 “김동연 ‘CPTP 가입, 올해 상반기 결정’”, *조선일보*, 2018년 3월 13일.

15 “산업銀, GM부평공장부터 실사...GM은 외국인투자지역 곧 신청”, *매일경제*, 2018년 3월 12일.

16 “산은, 담보잡고 한국GM에 자금지원”, *매일경제*, 2018년 3월 14일.

17 “20배 빠른 세상이 곧 열린다, 아찔한 '5G 대전’”, *조선비즈*, 2018년 3월 19일.

18 “中 中企 취업 청년에 정부가 年 1000만원 준다”, *동아일보*, 2018년 3월 16일.

19 국회예산정책처. 연도별 충수입 및 충지출, 재정통계. Available at: [<http://stat.nabo.go.kr/fn02-03.jsp>].

20 기획재정부. “2017년 일자리 추가경정예산안 국회 확정”, 보도자료. Available at: [http://www.mosf.go.kr/nw/nes/detailNesDtaView.do?searchBbsId=MOSFBBS_00000000028&menuNo=4010100&searchNttId=MOSF_00000000010013].

21 “2018년 국고채 발행 계획 및 제도개선 방안 - '18년 연간 국고채 발행한도 106.4조원 -”, 보도자료, 기획재정부, 2017년 12월 20일.

22 “국채 백서, 『국채 2017』 발간”, 보도자료, 기획재정부, 2018년 2월 14일.

23 “이주열 한은 총재 ‘상반기 금리인상 가능성, 말할 수 없어’”, *경향신문*, 2018년 3월 21일.

24 “이주열 ‘저금리로 가계부채 폭증?...경기회복 모멘텀 살렸어야 했다’”, *중앙일보*, 2018년 3월 18일.

25 “이주열 ‘금리인하, 성장률 0.1~0.2%p↑...’개성페이’ 검토중”, *매일경제*, 2018년 3월 18일.

26 “외국인 ‘팔자’에 코스피 하락, 미국 기준금리 결정 앞두고 긴장감”, *중앙일보*, 2018년 3월 19일.

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28 한국은행. *2018 통화신용정책보고서* 2018, 2. Available at: [https://kdi.re.kr/policy/ep_view.jsp?idx=173886&&pp=10&pg=1].

29 “공유경제기본법안”, 정부이법지원센터. Available at: [<http://www.lawmaking.go.kr/lmSts/nsmLmSts/out/2012610/detailRP>].

30 “지진재해복구기금법안” 정부이법지원센터. Available at: [<http://www.lawmaking.go.kr/lmSts/nsmLmSts/out/2012543/detailRP>].

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