

# ASAN KOREA PERSPECTIVE

Vol 4 No 16

2019.07.29~ 2019.08.11

## Korea-Japan

On Aug 2, Japan announced the removal of South Korea from its “whitelist.” The measure will effectively strip South Korea of preferential treatment on trade as of Aug 28. Japan’s Minister of Economy, Trade and Industry Hiroshige Seko said in a press conference that it is difficult to engage Seoul about this matter.<sup>1</sup>

Foreign Minister Kang Kyung-wha expressed grave concern over Tokyo’s whitelist exclusion stating that Japan’s decision was “unilateral” and “arbitrary.”<sup>2</sup> First Vice Foreign Minister Cho Se-young summoned Ambassador Yasumasa Nagamine to tell him that South Korea citizens will no longer consider Japan as a friendly nation.<sup>3</sup>

The Blue House issued an official statement that “South Korea will never again lose to Japan.” In a speech, President Moon also emphasized the importance of economic cooperation between the two Koreas,<sup>4</sup> leading the public to question President Moon’s thinking.

While the South Korean boycott of Japanese goods and services is expanding, some observers caution against anti-Japanese sentiments spiraling out of control. Others speculate that the administration might be riding on these sentiments to better position itself in next year’s general election.

On Aug 8, Japan authorized the export of photoresist to South Korean companies. South Korea also postponed its decision to exclude Japan from its whitelist, raising hopes of easing tensions between the two countries.

## Supplementary Budget

On Aug 2, the National Assembly passed a supplementary budget amounting to KRW 5.8269 trillion.<sup>5</sup> It took 99 days to pass the new budget due to a stalemate in the National Assembly. The budget includes KRW 273.2 billion for developing material, parts, and equipment to offset Japan’s export control.

## North Korea

During late July and early August, North Korea fired several unidentified short-range weapons into the East Sea.<sup>6</sup> While North Korea claimed that they fired new

multiple rocket launchers, US and South Korean intelligence authorities identified these projectiles as new type of short range missiles.<sup>7</sup>

	July 31	Aug 2	Aug 6	Aug 10
<b>Type</b>	Short-range	Short-range	Short-range	Short-range
<b># Shots</b>	2	2	2	2
<b>Distance</b>	250 km	220 km	450 km	400 km
<b>Altitude</b>	30 km	25 km	37 km	48 km
<b>Location</b>	Won-san	South Ham-gyong	South Hwang-hae	Ham-Heung

Analysts claim that this is a response to the ROK-US joint military exercises and South Korea’s purchase of new weapons, including F-35 stealth combat aircraft. President Moon expressed concerns and urged North Korea to exercise restraint. President Trump responded that the recent act by North Korea is not a violation of Kim’s pledge.

## Cabinet Reshuffle

On Aug 9, the Blue House announced the names of eight new minister-level officials.<sup>8</sup> National Assemblyman Lee Soo-hyuck (Together Democratic Party – TDP) was named the new Korean ambassador to the US; and Cho Kuk, former presidential secretary of civil affairs was nominated to be the next Minister of Justice. Lee’s appointment showcased President Moon’s determination to strengthen the US-ROK alliance. Cho’s nomination was highly controversial. The opposition was especially critical of the president’s choice.<sup>9</sup>

Other ministries with new heads include Ministry of Science and ICT, Ministry of Agriculture, Food and Rural Affairs, Ministry of Gender Equality and Family. Personnel changes are also underway in the Korea Communications Commission, Financial Services Commission, National Unification Advisory Council, and the Korea National Diplomatic Academy.

## Mark Esper in Seoul

On Aug 8, Mark Esper, the new US Defense Secretary visited Seoul for the first time. In his two-day trip, he met with Foreign Minister Kang Kyung-wha, Minister of Defense Chung Kyung-doo, and President Moon.<sup>10</sup>

This visit is especially important to South Korea given that the National Security Advisor John Bolton demanded a five-fold increase in defense contribution from South Korea during his last trip to Seoul.

## China

On Aug 1, Foreign Minister Kang Kyung-wha met with Wang Yi on the sidelines of the ASEAN Regional Forum (ARF) in Bangkok, Thailand. During the meeting, Wang expressed concern over the THAAD issue, while Kang called for the cessation of Chinese military aircraft incursion into the KADIZ without prior notice. Wang reiterated China's position that KADIZ is not territorial airspace.<sup>11</sup>

On July 31, the National Ministry of Defense Intelligence briefed the National Assembly Intelligence Committee about the recent aerial intrusion by China and Russia. The briefing report suggests that China and Russia's intention was two-fold: 1) to collect information about South Korea, the United States, and Japan; 2) and to keep the ROK-US-Japan trilateral security cooperation in check.<sup>12</sup>

## Stock Market

On Aug 5, South Korea's secondary stock index known as KOSDAQ plunged 7.46 percent to 569.79. The Korea Exchange (KRX) activated "sidecar," a measure to temporarily halt trading after the market fell more than 6 percent. This was the first time sidecar was triggered since June 2016. Meanwhile, the country's main stock index known as KOSPI also fell 2.56 percent to close at 1946.98. Financial Services Commission (FSC) Vice Chairman Sohn Byung-doo met with officials from the Ministry of Economy and Finance, Bank of Korea, Financial Supervisory Service, Korea Exchange, and Korea Center for International Finance. During the meeting, Sohn cited Japan's "whitelist" exclusion as well as the recent export restrictions and prolonged US-China trade war, as the main risk factors.<sup>13</sup>

## Foreign Exchange

On Aug 5, the South Korean won (KRW) plunged against the US dollar (USD). Factor contributing to this trend appear to be Tokyo's decision to remove South Korea from a "whitelist" and the intensifying US-China trade war. This is the first time that the KRW-USD exchange rate surpassed the KRW 1200 threshold in two years and seven months.<sup>14</sup>

## Credit Rating

On Aug 9, global credit appraiser Fitch Ratings announced that South Korea remains at "AA-" with a "stable" rating outlook. "South Korea's AA- rating balances robust external finances, steady macroeconomic performance, and sound fiscal

management against evolving geopolitical risks and structural challenges arising from aging demographics and low productivity.<sup>15</sup>

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Published by The Asan Institute for Policy Studies  
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