

## Pyongyang Joint Declaration

On Oct 23, President Moon ratified the Pyongyang Joint Declaration and the military cooperation agreement during a State Council meeting. The opposition party criticized the government for forging ahead with the ratification without the National Assembly approval. Experts claim that this act violates the Korean Constitution Article 60 Section 1, which stipulates that the National Assembly has “the right to consent to the conclusion and ratification of treaties pertaining to mutual assistance or mutual security.” The Blue House, however, argues that North Korea is not recognized as a state under Article 3 and that previous high court rulings explicitly state that inter-Korean agreements are not subject to the constraints of the South Korean Constitution.

## Inter-Korean Relations

The two Koreas completed the removal of all landmines from the joint security area (JSA) on Oct 20. Five landmines were found on the North Korean side while no landmines were found on the South Korean side.<sup>1</sup> The two sides removed all military personnel and equipment by Oct 25, followed by three days of a joint verification process.<sup>2</sup> Military-level talks were also held in Panmunjom on Oct 26, where the two sides discussed implementing the Sept 19 military agreement and setting up a joint military committee.

In the midst of thawing inter-Korean relations, North Korea announced that it will lift the freeze on South Korean assets in the Kaesong Industrial Complex.<sup>3</sup> The total assets and equipment amount to KRW 1.56 trillion.

There was also some progress on matters dealing with forestry. In a forestry cooperation meeting held on Oct 22, the two sides agreed to carry out annual pest control, modernize North Korea’s tree nurseries and cooperate on producing forest equipment.<sup>4</sup> The concern is that the machines used for automatic temperature control could also be used for the purpose of producing biochemical weapons. Nevertheless, the South Korean Forest Service allocated KRW 7.5 billion towards the budget for next year’s inter-Korean cooperation project.

## 50<sup>th</sup> SCM

On Oct 31, South Korea and the US held the 50<sup>th</sup> Security Consultative Meeting (SCM) in Washington DC. The cabinet-level meeting involved the South Korean Minister of National Defense Jeong Kyeong-doo and US Secretary of Defense James Mattis.<sup>5</sup> The joint statement replaced CVID with FFVD, but the two agreed on the need for maintaining sanctions until denuclearization of North Korea. Furthermore, the two sides announced postponing the Vigilant ACE military exercise which was scheduled for December.<sup>6</sup>

## US-ROK relations

The US Special Representative for North Korea Stephen Biegun visited Seoul on Oct 29-30 to discuss preparation for the upcoming US-DPRK summit. He met with the South Korean National Security Advisor Chung Eui-yong and the Chief of Staff Im Jong-suk, among others.<sup>7</sup> The two countries announced forming a working group to facilitate better communication.

Although it is not entirely clear, many observers speculate that the US is concerned over the speed up of the inter-Korean projects. Some media outlets also reported that the US Treasury has reached out to the major South Korean conglomerates to warn them about the potential sanctions violations related to the inter-Korean cooperation projects.<sup>8</sup> There is a growing concern in South Korea about a potential secondary boycott against South Korean banks for possible sanctions violations.<sup>9</sup> South Korea’s Financial Services Commission denied the rumor.

## The New Budget Plan

The South Korean government is contemplating a new budget for 2019. Under the current plan, total expenditure is set at KRW 470.5 trillion, a 9.7% increase from 2018. The national defense budget will increase by 8.2% to expand investment in self-reliant national defense capabilities. The budget for job creation is set at KRW 23.5 trillion, a 22% increase from last year.

## Joint KF-X/IF-X

Indonesia is seeking to renegotiate the terms of its

joint venture with South Korea for developing the next generation of jet fighters (KF-X/IF-X). The project was first launched in 2010 with the goal produce 120 advanced jet fighters by 2026. Under the original agreement, the Indonesian government is committing 20% of the total development cost (USD ~8 billion), the Korea Aerospace Industries (KAI) covering 20%, and the South Korean government supporting the remaining funds.<sup>10</sup> Indonesia is seeking better terms to offset the cost-sharing arrangement.

### Japan

Bilateral relations between South Korea and Japan has been on a downward spiral since President Moon informed Prime Minister Abe last month about the possible dissolution of “the Reconciliation and Healing Foundation.” During his meeting with Vice Minister Takeo Akiba on October 25, Vice Minister of Foreign Affairs Cho Hyun also reiterated South Korea’s resolve to follow through on President Moon’s past statement. Vice Minister Takeo Akiba urged VM Cho to reconsider and emphasized the importance of implementing the 2015 bilateral agreement.<sup>11</sup>

Meanwhile, members of the Education Committee within the South Korean National Assembly visited Dokdo on Oct 22. The committee members condemned Japan’s claim of sovereignty over Dokdo in school textbooks. Tokyo responded by lodging a formal complaint with Seoul that the visit was “utterly unacceptable in light of our country’s position on the sovereignty of Takeshima.”<sup>12</sup>

Finally, the South Korean Supreme Court upheld a lower court ruling regarding Nippon Steel & Sumitomo Metal Corporation (NSSMC). The ruling announced on Oct 30 orders NSSMC to compensate four plaintiffs who were forced to work under Japan’s colonial rule. Tokyo maintains that “all matters [related to this case] were fully and finally resolved” when a bilateral agreement was concluded in 1965 to normalize bilateral relations. The Supreme Court, however, stated that the 1965 treaty did not terminate the right of individuals to request compensation and ruled that NSSMC should pay 100 million won (\$88,000) to each of the four plaintiffs.<sup>13</sup>

Prime Minister Abe stated that “this verdict is... impossible [to accept] in light of international law” and that Tokyo will react “resolutely.” Minister of Foreign Affairs Taro Kono stated that the decision “completely overthrows the legal foundation” of the bilateral relationship. Minister Kono stated that Tokyo is mulling over a variety of options, including filing a suit at the International Court of Justice (ICJ).<sup>14</sup> In Seoul, the Foreign Ministry Spokesman Noh Kyu-duk stated that Seoul and Tokyo “should gather wisdom” to prevent the Court’s ruling from negatively affecting their relations.<sup>15</sup>

### China and KADIZ

According to the South Korean Joint Chiefs of Staff, the Chinese Y-9 reconnaissance aircraft entered the South Korean Air Defense Identification Zone (KADIZ) on Oct 29. This is the sixth incursion into the KADIZ by the Chinese planes this year. The South Korean Air Force responded by scrambling F-15K and KF-16. Both the South Korean Ministry of National Defense and Ministry of Foreign Affairs called in the Chinese military attache and the deputy ambassador to lodge a formal complaint and urge Beijing to cease and desist.<sup>16</sup>

Date	Aircraft (estimated)
Jan 29	Y-8 transport or reconnaissance aircraft
Feb 27	Y-9 reconnaissance aircraft
April 28	Y-9 reconnaissance aircraft
July 27	Y-9 reconnaissance aircraft
Aug 29	Y-9 reconnaissance aircraft
Oct 29	Y-9 reconnaissance aircraft

### Housing Supply

On Oct 22, the Seoul Metropolitan Government announced plans to provide 240,000 additional public housing units over the next five years in order to stabilize the real estate market and pursue a balanced regional development policy.<sup>17</sup>

### New Measures for Innovation-Led Growth and Job Creation

On Oct 24, the Finance Minister Kim Dong-yeon unveiled a new set of measures to support innovation-led growth and job creation. This includes adding 59,000 short-term public jobs geared towards the youth and those in their 50s and 60s; imposing temporary tax cut (-15%) on fuel for six months starting Nov 6, and; investing KRW 17 trillion in small and medium-sized enterprises.<sup>18</sup> This announcement did not include certain regulatory reforms needed for innovation-led growth due to opposition from the ruling party.<sup>19</sup> Critics, however, argue that these measures are inadequate in addressing long-term unemployment.<sup>20</sup>

In his Nov 1 speech regarding the 2019 budget, President Moon called for the continued pursuit of the government’s growth strategy. Moon also stressed that the government will actively prepare for a possible economic downturn through aggressive fiscal management and response to structural problems including jobs, polarization, low fertility, and aging.<sup>21</sup>

### Third Quarter Growth

According to the Bank of Korea's (BoK) report on Oct 25, the economy grew by 0.6 percent in the third quarter of 2018. It is the lowest in nine years since the third quarter of 2009 (0.9 percent). This is mainly due to sluggish investments in construction (down 6.4 percent) and facilities (down 4.7 percent) which were also affected by the government's real estate measures implemented earlier this year.<sup>22</sup>

Both private (0.6 percent growth) and government consumption (1.6 percent growth) grew by modest amount. Exports grew at a rate of 3.9 percent from 0.4 percent in the previous quarter, due in large part to the semiconductor industry.<sup>23</sup>

### The Market

On Oct 26, the KOSPI closed at 1,996.05 (down 1.53 percent) and the KOSDAQ index fell to 630 (down by more than 5 percent) over the same period.<sup>24</sup> The plunge in Korea's major indices can be attributed to several factors: the US-China trade war, fluctuations in the US and Chinese markets, dismal internal conditions, and major sell-offs by foreign investors (4.5 trillion won). In order to address some of these concerns, experts argue that it is necessary to consider implementing a corporate-centered growth strategy.<sup>25</sup> The Financial Supervisory Commission (FSC) announced that it would raise funds of more than 500 billion won in order to stabilize the capital market.<sup>26</sup>

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