



# ASG ASSESSMENT: MOON JAE-IN VICTORY COMPLICATES U.S.-ROK RELATIONS

MAY 11, 2017

## KEY TAKEAWAYS

- Minjoo (Democratic Party) leader Moon Jae-in's victory this week in the Republic of Korea's (ROK) presidential election to replace impeached president Park Geun-hye returns progressives to power after nearly a decade of conservative rule.
- Polls indicate that Korean voters were attracted to Moon primarily because of concerns about domestic issues, particularly government corruption and the excessive economic and political power of powerful industrial conglomerates (*chaebol*), as well as rising income inequality and the high unemployment rate among younger Koreans.
- Moon's election may help to restore popular confidence in the Blue House and to bring stability to Korean politics, but public expectations are extremely high and Koreans are notoriously unforgiving and impatient with their presidents.
- Moon's election could create new challenges for relations with both the United States and Japan. He has pledged to pursue increased economic and diplomatic engagement with Pyongyang, demanded a reassessment of the deployment of the U.S. Terminal High Altitude Area Defense (THAAD) antimissile system, and said he will chart a more independent course so that Korea can become a country that can say "no" to the United States. He also has called for reassessing two bilateral agreements with Japan to resolve the "comfort women" issue that has plagued Japan-ROK relations since the end of World War II and to increase military intelligence sharing.
- It is too early to predict U.S.-ROK bilateral trade and economic relations under the Moon administration. Moon and his party have laid out an ambitious, largely domestically-focused economic agenda, headlined by plans to increase government spending to create over 800,000 new public sector jobs and to boost the economy. He will face numerous challenges, including the fact that his party occupies fewer than one-third of the seats in the National Assembly. Moon will have to contend with a downturn in political and economic relations with China, as well as president Trump's public demands for a review – and potential renegotiation or even termination -- of the Korea-United States Free Trade Agreement (KORUS FTA).

## ABOUT ASG

Albright Stonebridge Group (ASG) is a global strategy and commercial diplomacy firm. We help clients understand and successfully navigate the economic, political, and social landscape in international markets. ASG's worldwide team has served clients in more than 110 countries.

[ALBRIGHTSTONEBRIDGE.COM](http://ALBRIGHTSTONEBRIDGE.COM)

## PUBLIC BACKLASH AGAINST CORRUPTION AND SLOW GROWTH RETURNS PROGRESSIVES TO POWER

Moon's expected May 9 victory came about because of popular anger at the previous president, concerns about corruption, slower economic growth and persistent high unemployment rates, especially for younger workers, and resentment of the role of the *chaebol* in Korean politics and society. Moon previously lost to Park Geun-hye in the very close 2012 presidential election. The Korean public expects Moon, the leader of South Korea's main liberal opposition party, to tackle these challenges as a top priority.

In doing so, Moon's task will be a daunting one. Because of the unique circumstances of replacing an impeached president, there was no transition period, and Moon has already taken office. ROK presidents

serve just one five-year term, so Moon needs to hit the ground running in order to make progress on his ambitious policy agenda. Reforming the *chaebol*, a major priority, will not be easy. Korea's *chaebol* produce 55 percent of the country's GDP and play powerful roles in politics and society that are the product of decades of accepted practice. Moon has pledged to "democratize" the economy, including the management of the *chaebol*, to increase transparency, and to raise corporate taxes. The *chaebol* likely will resist such efforts, including any plans to restructure their elaborate cross-holding arrangements. Nevertheless, Moon's targeting of the *chaebol* is likely to continue, especially since they represent a small (five percent) and shrinking portion of total jobs and their offshoring activities provide increasing fodder for their critics.

## MOON'S FOCUS ON JOB CREATION AND POTENTIAL BACKLASH AGAINST U.S. PRESSURE COULD COMPLICATE BILATERAL TRADE RELATIONS

Moon also faces challenges at home and abroad on the economic front. His promised efforts to boost the economy through stimulus and increased taxes are likely to run into trouble in the National Assembly, where the ruling party's minority position is unlikely to change until the next legislative elections, scheduled for 2020. He also must contend with a potentially more protectionist United States – Korea's second largest trading partner, and a new U.S. administration that has expressed deep misgivings about the KORUS FTA. In an April 27 interview with *Reuters*, president Donald Trump said he would either renegotiate or terminate the "horrible" trade deal with South Korea. Ten days earlier, during a visit to Seoul, vice president Mike Pence conveyed a similar, if more diplomatic, message about U.S. concerns about continuing market access barriers in South Korea. During a speech to American and Korean business representatives, Pence called on South Korea to level the playing field and pledged that the Trump administration would "work with you [to] reform KORUS in the days ahead."

The new government has not yet responded publicly to these criticisms. KORUS, which entered into force in 2011, includes a provision to hold a review after five years, so the two sides have an established mechanism to begin discussions about the agreement. As we have seen with the Trump administration's handling of NAFTA, there is significant potential risk that the combination of highly-public U.S. demands and overheated rhetoric could generate a nationalist backlash in Korea that could make it very difficult for the Moon administration to make many concessions in any possible KORUS renegotiation. The Trump administration does not yet seem to have internalized the lesson that foreign leaders also have domestic politics to contend with, and that negotiating in the press often makes it more difficult to reach agreement on sensitive issues.

Meanwhile, China, South Korea's largest trading partner, has been retaliating in the trade arena against Seoul's decision to allow the United States to deploy the THAAD anti-missile system, a system that Beijing erroneously claims can target the PRC's strategic rocket forces. Bilateral trade and tourism between China and South Korea have dropped, and a number of South Korean firms have faced discriminatory regulatory actions and consumer boycotts in China. The price Moon may have to pay to normalize relations with China and to restore trade to normal levels would be a reversal of the THAAD deployment decision – a step that would greatly complicate relations with Washington. Moon will also have to reckon with the Trump administration's willingness to explore trade-offs between economic and security issues. As he has done with China, Trump may offer to hold off on renegotiating KORUS in return for Moon's cooperation on North Korea policy, THAAD, or other security issues. President Moon Jae-in told his Chinese counterpart Xi Jinping that he is aware of Beijing's concerns over a U.S. missile shield installed on South Korean territory and will work to resolve the problem.



In his first call with Chinese president Xi Jinping on May 11, Moon told Xi that it may become easier to settle differences over THAAD if North Korea stops its provocations, according to senior press secretary, Yoon Young-chan. Moon also asked Xi to address the “restraints and restrictions” on South Korean companies in China. Xi invited Moon to visit Beijing, and Moon offered to send a special envoy to China to discuss THAAD and North Korea.

## POTENTIAL DIPLOMATIC AND SECURITY CHALLENGES FOR ROK RELATIONS WITH U.S., JAPAN, CHINA

While Moon won only by a plurality of votes (his final share was 41 percent), he may see this as a sufficient mandate to move on a range of issues, including relations with North Korea, China, Japan, and the United States, each in ways that could complicate Seoul's ties with both the United States and Japan.

In the face of strong U.S. opposition, it is not clear whether Moon will risk a major rift with the United States if that would be the consequence of the “softer” engagement and aid-based policy towards North Korea that he has advocated. During the campaign, Moon moved towards a more centrist position on the North in an attempt to broaden his base and assuage concerns expressed by Korean conservatives. Many experts saw this as a tactical shift, however, and believe Moon intends to follow a concessionary policy towards the North, reversing a decade of practice by his two conservative predecessors. If he does, it will put him at odds with the Trump administration that is relying on banking and trade pressure, military threats, political and diplomatic isolation, and other measures to compel North Korea to change course.

A “softer” approach to North Korea was attempted under former liberal presidents Kim Dae-jung and Roh Moo-hyun. This “sunshine policy” failed to achieve progress on denuclearization (as did tougher approaches), but Moon appears to believe that this approach is worth another try. Some critics believe Moon fails to appreciate the dramatic degree to which the North Korea nuclear and missile threats have grown since he served as Roh Moo-hyun’s chief of staff a decade ago. What is clear, however, is that Seoul’s pursuit of an anachronistic approach in the face of a vastly different North Korean challenge and a United States that is determined to pursue a more muscular approach has the potential to create a rift with Washington.

In addition to concern about the deployment of the THAAD missile defense system (agreed on between the previous South Korean and U.S. governments), Moon and his party have also raised concerns about the ROK-Japan agreement on comfort women and the ROK-Japan military intelligence sharing agreement. Steps by Moon to reverse or undermine any of these agreements could lead to significant difficulties in South Korea's relations with both the United States and Japan. During a congratulatory call with Prime Minister Abe on May 11, Moon reportedly conveyed that the comfort women agreement was emotionally difficult for South Korean’s to accept, but it was not clear whether he called for its renegotiation. Moon also said that the ROK and Japan should not let differences over history hamper cooperation on North Korea’s nuclear program.

On May 10, in his first speech as president, Moon chose his words carefully, saying he would be ready to work to reduce tensions on the Korean peninsula. “If needed I will fly to Washington immediately,” he said. “I will also go to Beijing and Tokyo and even Pyongyang in the right circumstances.” Moon indicated he would seek “serious negotiations” with both China and the United States to address concerns over the THAAD deployment. On the same day, president Trump called Moon to congratulate him on his election and invited him to visit Washington. The two leaders also agreed to cooperate on the North Korean nuclear issue.



It is likely instructive that, in his first key appointments, Moon named two men who played key roles in the “sunshine policy” to the posts of prime minister and head of the ROK intelligence service. Suh Hoon, a career intelligence agency official who was instrumental in setting up two previous inter-Korean summits, was named to head the National Intelligence Service. South Jeolla Province Governor Lee Nak-yeon, a former political ally of both Kim Dae Jung and Roh Moo Hyun, was nominated as prime minister. His appointment requires parliamentary approval.

The prospect that Moon could roil U.S.-South Korea and South Korea-Japan ties is reminiscent of the 2003-2008 period when president Roh Moo-hyun and chief of staff Moon frequently found themselves at odds with Washington and Tokyo. Roh's relationship with U.S. president George W. Bush was difficult at best. It did not help that Roh had ridden a wave of anti-American sentiment into office, and that he often exploited this sentiment against Washington. In this context, Moon's recent exhortation to Koreans that they must learn how to say “no” to the United States seems certain to rankle Washington.

A decade ago, Roh and Moon worked with a U.S. president who was personally and strongly committed to the U.S.-ROK alliance. When Bush pressed Roh on issues like a bilateral FTA or the U.S. effort in Iraq, Roh demonstrated a pragmatic streak. Today, with "America First" – not "alliances first" – as the Trump administration's mantra, and with North Korea rapidly developing the ability to threaten the United States homeland for the first time, it remains to be seen how much patience the U.S. administration will show to Moon if he is seen as weakening bilateral coordination on North Korea.

An even bigger problem may be lurking if the Trump administration is forced to oppose ROK policy because it detracts from Washington's ability to defend the American homeland against North Korean nuclear weapons. During previous U.S. administrations, when North Korea did not directly threaten the United States homeland, the United States had the luxury of agreeing to South Korean ideas that it did not necessarily like. That luxury is now gone as the time approaches when the wrong ROK policy could enhance North Korea's ability to threaten the United States directly because of progress Pyongyang is making in its nuclear and missile programs. It is still early, but it is possible to imagine a future scenario in which a South Korean president determined to teach South Koreans how to say “no” to the United States may ultimately have to deal with a U.S. president equally determined to say “no” to his Korean ally.

---

ASG's [China](#) and [East Asia and Pacific](#) Practices have extensive experience helping clients navigate markets across the region. For questions or to arrange a follow-up conversation please contact [Eric Altbach](#).

---

