

# 2018 FUTURE CONSENSUS FORUM

변화 속의 한반도와 나비 프로젝트

## 2018 Future Consensus Forum

### The Korean Peninsula in an Era of Change and the Butterfly Project

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#### Outline

**1. The overarching problems in Northeast Asia can only be solved when North Korea issue is addressed.**

- Prosperity in Northeast Asia requires strategic understanding from South Korea, China, Japan, Russia and the US, as well as peace on the Korean Peninsula to achieve this.

**2. The most important factor for achieving prosperity in Northeast Asia is a peaceful resolution to the North Korean nuclear issue**

1) A strategy of joint sanctions and joint incentives is necessary.

- A flexible containment policy is needed to catalyze denuclearization in North Korea
- The denuclearization issue goes hand in hand with sanctions, but an imaginative space in which North Korea can denuclearize also needs to be created
- The success of the Marshall Plan in resolving Germany's isolation and helping the country rebuild after World War II demonstrated that inclusiveness is correct.

2) The international community should help North Korea redesign itself.

- North Korea requires support from the international community to lay out a future for itself.
- During the Meiji Restoration, the Japanese government spent half of its national budget to send missions to gather wisdom from around the world, transforming the country into a modern nation-state.

3) The possibility of North Korea becoming a test bed for the 4th Industrial Revolution is worthy of attention.

- Proposals for boosting productivity through smart cities, telemedicine, autonomous driving and smart agriculture should be considered.

4) Who will guarantee the North Korea regime?

- Who will take responsibility for guaranteeing the North Korean regime? This needs to be discussed by the international community.

### **3. What forms of cooperation should continue in Northeast Asia?**

1) We need to promote an era of local cities.

- All countries in Northeast Asia are struggling with the problem of large cities booming while smaller cities lag behind.

2) Northeast Asia needs to pursue cooperation for the upcoming age of electricity.

- An Asian energy network based on renewables needs to be established.

3) Northeast Asia needs to engage in financial cooperation for development.

- There needs to be a framework for developing underdeveloped regions in the Russian Far East, Northeast China (Dongbei region) and North Korea.

4) Smart cities represent the path towards new forms of cooperation in Northeast Asia

- There is potential for cooperation in Northeast Asia within the context of the fundamental changes that smart cities will bring to our lives.

5) Northeast Asian cooperation also needs to consider the opening of the Northeast Passage.

- With the opening of the Northeast Passage, the first ever global value chain will be created that links Asia with Europe and America.
- The potential for different forms of cooperation through the new cities and industries that will emerge due to the Northeast Passage needs to be explored.

### **4. We need leadership that is capable of putting cooperation into practice.**

- There is lack of leaders' meetings between heads of state in Northeast Asia. A permanent consultative body for Northeast Asian heads of state needs to be established.

## **Opening Session**

The third iteration of the Future Consensus Forum began with an opening address from Lee Hun-Jai, Chairman of the Board of the Future Consensus Institute (Yeosijae). Lee noted that 2018 has been a year of transition. The major transitions include the atmosphere of denuclearization and peace on the Korean Peninsula that began with the Pyeongchang Winter Olympics, the US-China trade conflict, worsening global warming that caused the last remaining glacier to melt, and the digital transition brought about by the 4th Industrial Revolution. Lee stated that amidst these changes, we need to look beyond the divisions that exist on the Korean Peninsula and in Northeast Asia, and explore plans for cooperation.

Lee's address was followed by keynote speeches by Shigeru Ishiba, member of the Japanese House of Representatives, and Hong Seok-hyun, Chairman of the Korea Peace Foundation. Ishiba discussed the current reality in his country, including issues that are making Japanese society unsustainable

such as population decline, population aging, the low birth rate, and the growing divide between cities and rural areas. Against this background, he spoke of the need for a new growth model based on regional cities. Ishiba stressed that building sustainable nations through revitalizing rural areas should be an important part of the agenda for solving these problems that exist not only in Japan, but also in South Korea and across Northeast Asia.

In the second keynote address, Hong Seok-hyun, who is also a board member of Yeosijae, examined the changes that have taken place around the Korean Peninsula over the last year. On the condition that denuclearization is achieved on the Korean Peninsula, Hong emphasized the need for a space where the future of North Korea can be envisioned. He added that the international community needs to begin discussing ways to help North Korea grow into a cooperative partner that contributes to the international order in Northeast Asia. Hong ended his remarks by forecasting that if a new era of peace begins on the Korean Peninsula, we will be able to come up with a plan for a unified Northeast Asia and unified world.

### **Session 1 The Present and Future of Northeast Asia, and the Butterfly Project**

Session 1 featured discussions about Northeast Asian cooperation with a focus on North Korea, where the most notable change in the region has taken place. The speakers shared their thoughts on how these changes impact the potential of achieving the Butterfly Project, a proposal put forward by Yeosijae.

The Butterfly Project is Yeosijae's blueprint for a new economic order. Yeosijae predicts that the opening of the Northeast Passage will open a new path for civilization by linking Asia with Europe and America. The Butterfly Project aims to secure new engines for global economic growth by promoting energy cooperation and the free movement of goods and people between the key cities established on this path. The moderator for Session 1, Akiyama Associates President Masahiro Akiyama, noted that guaranteeing the security of North Korea was an important factor in facilitating the country's denuclearization. He explained that pursuing a community for economic cooperation in Northeast Asia can be understood as part of the solution to guaranteeing North Korea's security.

The first designated speaker was Atsushi Ijuin, senior researcher at the Japan Center for Economic Research. He spoke about North Korea's return to the international community and cooperation in Northeast Asia. Ijuin stated that the issues of denuclearization and North Korea's reinstatement to the international community depended heavily on the international community's response. Efforts need to be made to encourage Chairman Kim Jong-un to agree to denuclearization, reforms and development. Ijuin suggested 'flexible containment' as an approach to achieving this. Flexible containment involves (1) Keeping economic sanctions in place until North Korea has committed to complete denuclearization (2) Relaxing the sanctions correspondingly once denuclearization begins, and (3) Refraining from placing too many restrictions on cooperation between North and South Korea.

The next speaker was Bruce Bennett, senior researcher at RAND Corporation, who spoke about his predictions for North Korea's return to the international community. Bennet put forward several criteria for determining whether North Korea is ready to be reintegrated into the international community and whether South Korea is ready to lead the transition on the Korean Peninsula. Issues to be considered include the possibility of introducing a market economy, open internet access and border controls in North Korea. In addition to this, South Korea needs to think seriously about a

unified future for the two Koreas, alongside issues such as protection of private property and how corrupt North Korean criminals will be handled.

The next speaker was Kazuhiko Amakawa, Managing Director of the Japan Bank for International Cooperation (JBIC), who discussed the potential for development cooperation in North Korea and development finance in Northeast Asia. JBIC, a policy finance institute, is pursuing development cooperation centered around the Russian Far East and the three major Northeast Asian economies. A number of projects are currently underway, including the development of a new free port in the Russian Far East and the transportation of Mongolian ore to Japan through Siberia. The bank also signed an agreement with China Development Bank to promote financial cooperation in third party countries, based on international standards. These movements can also be viewed as part of an effort to establish the necessary conditions for growing development finance in Northeast Asia.

Charhar Institute Chairman Han Fangming was the next to speak, and talked about the situation on the Korean Peninsula and China's overseas strategy. Han explained that China firmly believes denuclearization of the Korean Peninsula would benefit all countries in the region, and is important for regional peace as well as nonproliferation in Northeast Asia. He noted that Yeosijae's Butterfly Project aligns with several parts of China's vision for building a Community of Shared Future for Mankind, and that the idea could contribute to regional development and prosperity.

Anton Moskalenkov, head of the International Relations Office at the Russian Agency for Strategic Initiatives, stated that neighboring countries, including Russia, need to be involved in joint efforts to build a corridor that connects the two Koreas. He also pointed out that since North Korea currently lacks infrastructure, the country is well-placed to serve as a test bed for smart cities and the digital economy, which are powered by cutting edge technologies from the 4th Industrial Revolution. Moskalenkov then put forward proposals for cooperation in Northeast Asia with the goal of promoting development in North Korea, including cooperation in smart agriculture that would make use of South Korean technology to boost agricultural productivity in the North.

The final speaker was Korean lawmaker Hwang Hee from the Democratic Party. He spoke about the symbolic significance of economic reforms in North Korea, which would put an end to the Cold War ideological frame that has carried over from the 20th century. Hwang stated that North Korean issues are problems for the entire region, not just the two Koreas, and that the North Korean nuclear issue does not lie at the heart of the matter. He believes that the issue is fundamentally economic in nature, caused by the shifting economic order in Northeast Asia, Pacific Rim countries and the US. Accordingly, when it comes to the future of North Korea, he suggested the adoption of an approach that looks beyond Inter-Korean relations and the nuclear issue and focuses on the economic order in Northeast Asia, a new economic community, and economic hegemony.

In the panel discussion that followed, the experts from each country expressed their concerns about North Korea's sincerity on the denuclearization issue, but reached a shared understanding that international cooperation is essential for resolving the problems on the Korean Peninsula and achieving peace. Most of the panel agreed that the international community should take an active role in achieving reconciliation by adopting a policy of joint sanctions and incentives.

## **Session 2 The Butterfly Project and Energy Cooperation in Northeast Asia**

Session 2 featured discussions about proposals for energy cooperation. Yeosijae has conducted a substantial amount of research on energy cooperation, in particular to test the hypothesis that demand

for energy will skyrocket due to the digital revolution. The moderator for this session was Lee Daesik, Director of the Yeosijae Research Team. Lee began by introducing a study conducted by Yeosijae which found that energy demand is likely to be higher than EIA estimates which did not take the 4th Industrial Revolution into account. This study calculated that energy demand will be 14.1% higher than the EIA estimate for 2030, 21.4% higher for 2035 and 30.3% higher for 2040.

Tatsuo Hatta, Group Leader of the Asian Growth Research Institute, began his presentation by talking about cooperation towards a regional gas hub, a longstanding theme in discussions about cooperation in Northeast Asia. Although South Korea, China and Japan, three of the largest energy consumers in the world, are all located in Northeast Asia, there is currently no gas spot market in the region. With the majority of energy imported through LNG tankers, countries in Northeast Asia have been restricted from reselling gas under previous purchase contracts. However, these purchase restrictions are now disappearing thanks to the recent advent of shale gas. There have been moves to create an indirect spot market through the purchase of gas from LNG terminals, but this market is still in its early stages. In Europe, cooperation in gas purchasing has already been achieved between a number of countries through the EU. Hatta explained that South Korea, China and Japan should also seek to establish a regional market that is accessible to everyone.

Professor Kim Yeon-gyu from Hanyang University then spoke about the process of linking the policy shift away from nuclear energy and fossil fuels in South Korea, China and Japan with cooperation in gas consumption and electricity. In particular, he noted the increasing attention being paid to the possibility of electricity cooperation in Northeast Asia that also includes North Korea. Kim stated that many of the technological and economic conditions are already in place for electricity cooperation that involves connecting renewable energy produced in Mongolia and Russia to South Korea and Japan.

The next speaker was Tomas Kåberger, Chairman of the Natural Energy Foundation, who spoke about the way in which advancement in industrial technology is helping to expedite the formation of an Asian power grid. Thanks to the technological and economic circumstances in China, solar power is being adopted around the country at a rapid pace, and can now be generated without subsidies. Kåberger stated that the unit cost of production for renewables is already competitive, and the incentives for developing power transmission systems have expanded thanks to advancement in transmission technology. He pointed out that countries in Northeast Asia share complementary technological capacity in this respect, and forecast that achieving electricity cooperation would serve as an opportunity to boost the competitiveness of each country.

Following this, Yeosijae's Digital Society PM Lee Myeong-ho laid out his forecast for energy linked with future industries in the digital societies of tomorrow. Lee noted that 55% of the global population, or four billion people, are living in cities that cover only 2% of the Earth's surface but account for 75% of global resource and energy consumption. He mentioned a number of ways in which advancement in digital technology can solve urban energy problems, which have become the biggest threat to sustainability. One of the best examples is using digital technology to enable unified energy management, which would facilitate the establishment of self-sustaining energy systems using distributed renewable energy. Lee then discussed research conducted by Yeosijae on designing sustainable cities, including changing energy consumption patterns through renewables.

In the panel discussion that followed, the participants mainly focused on energy cooperation. As alluded to in the prior presentations, Northeast Asia has already established the technological and economic conditions necessary for electricity cooperation, and the issues that remain to be solved depend on political factors. The panelists agreed that in light of the fact that smart cities projects in each country are being led by the government rather than corporations, the key to energy cooperation may lie in changing political relations between each nation. Session 2 confirmed that both building

a trans-border electricity supply chain and political involvement to make this possible are important in preparing for the upcoming era of electricity.

### **Closing Session : Dialogue Among Northeast Asian Leaders**

Based on the issues raised in the prior sessions, the closing session featured a discussion on the concrete plans that each country needs to pursue for cooperation in Northeast Asia.

This session was moderated by Lee Hee-ok, Director of the Sungkyun China Research Center at Sungkyunkwan University, who briefly summarized China's view on the current situation in Northeast Asia. According to Lee, having advocated a new international order for some time, China is ultimately in favor of a multipolar order but recognizes that this places limitations on pursuing aggressive diplomacy. In the ongoing trade dispute between the US and China, the Trump administration is pursuing isolationism while China leans more towards free trade, openness and multilateralism. Although interest in multilateral trade is waning, China remains interested in a regional system of cooperation, which is why the country is working to strengthen plans for the RCEP (Regional Comprehensive Economic Partnership), a FTA between South Korea, China and Japan, and the AIIB.

The first designated speaker was Kim Young-choon, Korean Minister of Oceans and Fisheries. Kim pointed out that South Korea had essentially been an isolated island for a long time due to the existence of North Korea, and North Korea's return to the international community would allow South Korea to become a continental nation once again. If railroads were constructed as the first step towards linking the two Koreas, potentially followed by the development of ports in North Korea, it would lead to a logistics chain that connects the Russian Far East and China to the Korean Peninsula and Japan, helping to boost logistics in the region. Kim stressed that cooperation and investment from neighboring countries and international organizations will be essential in making these cooperative projects a success.

The next speaker was Shigeru Ishiba, member of the Japanese House of Representatives, who pointed out that the questions of who will guarantee the North Korean regime's survival and what lasting form the regime will take still need to be dealt with. He listed a number of other issues pertaining to regional cooperation including the impact of the Northeast Passage's opening on security for each country, and boosting the regional economy in an era of population decline. Ishiba concluded his remarks by stating that he hopes to see these issues discussed further at the Future Consensus Forum in the future.

Masahiro Kawai, Director of the East-Sea Rim Research Institute of Economy and Culture, was the next to speak. He stressed the importance of making North Korea understand the benefits of economic reforms and a market economy. In addition to this, the Japanese government has estimated the fiscal cost of normalizing diplomatic relations between South Korea and Japan at 5.5 billion USD, a calculation based on inflation and the current North Korean population. Kawai also noted that upon North Korea's return to the international community, the country's government finances would need to become more transparent in order to facilitate loans.

Bruce Bennett, senior researcher at RAND Corporation, then spoke on behalf of the US about denuclearization in North Korea. He mentioned concerns within the US that North Korea would attempt to gain as much as possible from other countries without abandoning its old ways. To distill these concerns, it is important that North Korea takes clear action to demonstrate what it is giving up during the denuclearization process.

Jin Sun-mee, the South Korean Minister of Gender Equality and Family, then took to the stage and spoke about inter-Korean issues from the perspective of political recipients rather than political leaders. Through the story of a father who ended up displaced in South Korea during the Korean War, Jin urged participants from all countries to consider the earnest wish of separated families to see peace and unification on the Korean Peninsula.

To wrap up, Yeosijae President Lee Kwang-jae reminded the audience that peace on the Korean Peninsula was closely intertwined with cooperation in Northeast Asia and strategic understanding from each nation. He summarized the proposals for cooperation that had been put forward at the event, including issues on the Korean Peninsula, regional economic development, energy cooperation through renewables, development cooperation in Northeast Asia, smart cities and the Northeast Passage. Lee concluded by noting that strong commitment from leaders is necessary for these cooperative projects, and suggested the establishment of a regional meeting group where Northeast Asian leaders can come together.