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2019 FUTURE CONSENSUS DIALOGUE

Sustainable Prosperity and Future of Korea-U.S.-Japan Cooperation

Final Report

- **Date:** 7.31(Wed) ~ 8.1(Thu)
- **Venue:** International House of Japan (Tokyo)
- **Co-hosts**
 - **Future Consensus Institute (Yeosijae)**
 - **Renewable Energy Institute (REI)**
 - **Society of Security and Diplomatic Policy Studies (SSDP)**



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Executive Summary

1. We need a free economic order, the bold courage to yield for the sake of greater values, and continued dialogue and communication.

- We must seek to promote mutual understanding, conflict resolution and concrete forms of cooperation through continued dialogue and separate negotiations on each issue.

2. Northeast Asia is becoming the missing link when it comes to cooperation, and it is imperative that we give shape to such cooperation through the Butterfly Project, a blueprint for Northeast Asian cooperation that has been put forward by the Future Consensus Institute.

- In addition to the challenges that will be brought to the region via the opening of the North Pole Passage, made possible by global warming, there are many other issues that require a joint response from South Korea and Japan, including technological cooperation brought about by the Fourth Industrial Revolution, explosive growth in demand for electricity, the growing gap between the capital and rural areas, and the rapid pace of population aging and shrinking.

3. The conflict in South Korea-Japan relations needs to be resolved through reference to global standards.

- We need to resolve conflict through global standards that can be used not only in South Korea-Japan relations, but by the whole international community.
- A system needs to be put in place where bilateral agreements remain sustainable irrespective of changes in government.

4. International power grid in Asia proposed by Renewable Energy Institute enables cooperation in Northeast Asia. This can be a concrete measure for responding to the climate change that threatens humanity.

- China, South Korea and Japan will have a great impact on the future of climate change since the three countries account for more than 70% of electricity use in Asia. The three countries need to come up with a model for cooperation by building an interconnected power grid that is economical and capable of responding to climate change.
- The economic and technical feasibility of the ASG, a proposal for an international power grid in Northeast Asia, has already been proven. Policy decisions are the last major hurdle to making the ASG a reality, and such policies will naturally involve restructuring the electricity industry and building new links.
- We could seek a deeper level of energy cooperation through Japanese participation in the Greater Tumen Initiative (GTI).
- Through multilateral cooperation that involves the US, we need to come up with proposals for the safe transport of electricity generated in Mongolia, the issue of using power cables that pass through Russia, a country subject to economic sanctions, and encouraging North Korea to participate in the ASG after achieving denuclearization.
- A joint research fund with participation from Northeast Asian countries and the private sector should be formed in order to make ASG come to fruition.

5. We need to seek a framework for multilateral cooperation that is capable of leading development cooperation in Northeast Asia.

- Taking into account the political and economic circumstances in Northeast Asia and countries in the northern region, the main targets for development, we should examine how to create shared value through multilateral cooperation, as well as the process of cooperation itself.

- A Northeast Asia development bank is necessary for engaging in meaningful development cooperation in the west coast of Japan, which will serve as a gateway that links North Korea, South Korea, Japan, China, the Russian Far East and the North Pole Passage.

6. Cooperative plans must be mindful of the new variables presented by the digital economy.

- Jointly creating rules on data distribution or establishing joint data centers between South Korea and Japan could serve as useful models.
- A Northeast Asia cryptocurrency exchange should be established in partnership between the US, Japan and South Korea, the top three countries worldwide in terms of cryptocurrencies (crypto assets).
- Cooperation between financial authorities in South Korea and Japan is also necessary to enable the free movement of virtual assets and investment in such assets between countries
- The two countries should engage in joint research to standardize blockchain technology.

Opening

The opening session mainly featured remarks that echoed the need for dialogue between the participants. Amidst rising tensions between South Korea and Japan, some speakers called on those present to focus on universal values in pursuit of peace and prosperity for humanity instead of being swayed by the positions of their respective countries. It was noted that as two of the central parties to cooperation in Northeast Asia, South Korea and Japan need to take the following three steps in order to overcome the present difficulties and form a close and longstanding relationship. The first is engaging in reforms for free economic activity, as demonstrated by Nobunaga Oda, the second is the kind of courage shown by Hideyoshi Toyotomi, who successfully induced Ieyasu Tokugawa to surrender by sending his own mother as a hostage, and the third is a continued commitment to dialogue and communication, as demonstrated by Roosevelt and Churchill, who exchanged 1,750 letters with each other during World War II.

The speakers in the opening session pointed out the great differences in perceptions that currently exist between South Korea and Japan. They expressed hope that this seminar would serve as an opportunity to promote mutual understanding and continued dialogue between the two countries.

South Korea and Japan are the two main parties to both the Butterfly Project championed by the Future Consensus Institute, and the Asian Super Grid proposal put forward by the Japan Renewable Energy Foundation. The speakers pointed out that in addition to the challenges brought to the region by the opening of the North Pole Passage, made possible by global warming, there are many other issues that demand a joint response from South Korea and Japan, including technological cooperation brought about by the Fourth Industrial Revolution, explosive growth in demand for electricity, the growing gap between the capital and rural areas, and the rapid pace of population aging and shrinking.

They also stressed the importance of solidarity and cooperative relations between South Korea, Japan and the US, who have laid the foundation for peace, security and prosperity in Northeast Asia over the past 70 years. This close alliance between the three countries is rooted in shared values such as respect for human rights, religious freedom, the rule of law, and free and open markets. The participants all agreed that greater efforts must be made to promote mutual dialogue and understanding in order to achieve the title of this seminar, ‘A Sustainable Future and Prosperity for Cooperation Between South Korea, Japan and the US.’

Session 1

Northeast Asian Cooperation Through the Butterfly Project

This session featured discussions on concrete proposals for the Butterfly Project, a blueprint for Northeast Asian cooperation that has been championed by the Future Consensus Institute. With the opening of the North Pole Passage, a new path is being created that passes along the west coast of Japan and Hokkaido to reach Europe and the US. The North Pole Passage has the potential to connect Asia to Europe and the US in a new global value chain for the first time in human history. South Korea and Japan lie at the heart of the Butterfly Project. To date, the Butterfly Project has proposed city-to-city cooperation, energy cooperation, joint sanctions against North Korea and joint incentives and talks between leaders in Northeast Asia for the purpose of achieving sustainable development and regional stability.

The participants expressed agreement with the necessity of these plans. Some pointed out that while the US and Japan are implementing strategies targeting the Indo-Pacific region and seeking to conclude the Regional Comprehensive Economic Partnership (RCEP) with countries including the ASEAN nations, Northeast Asia has been the missing link thus far.

A proposal for cooperation was also put forward that incorporates the new variables present in the digital economy. It was explained that shared rules on data distribution, a central element of future economies, and enabling the free movement of data are both important issues for cooperation that must be resolved in order to push ahead with the Butterfly Project. The establishment of joint data centers between South Korea and Japan could serve as a good model.

Some discussants commented on issues related to specific forms of development cooperation, taking into account the current state of global infrastructure development. It was suggested that a Northeast Asia development bank needs to be established in order to promote development in the Russian Far East, which remains underdeveloped, as

well as South Korea, Japan and China, and North Korea in future. In particular, the issue of energy development in Russia needs to progress in a stable and transparent manner through multilateral development cooperation that involves South Korea and Japan. Some speakers suggested that such a plan for development cooperation should be formed between South Korea, Japan and China, instead of leaving China out of the picture.

However, the three largest countries in Northeast Asia have different views when it comes to cooperation. Although each country speaks about peace, stability and prosperity, they have been unable to agree on a joint strategic vision so far. This confirms the need for strategic talks to resolve such differences.

Some participants spoke of the need for Northeast Asian cooperation to respond to climate change, which is currently the largest threat to humanity. According to a report released by the Intergovernmental Panel on Climate Change (IPCC), 50% of energy consumed worldwide must come from renewable sources by 2030 in order to avoid the costs of climate change. At present, that figure stands at only 25%, with renewables accounting for 8%, 18% and 25% of the energy mix in South Korea, Japan and China respectively. Since China, South Korea and Japan account for more than 70% of electricity use in Asia, the three countries will have a great impact on the future of climate change. Some analysts argued that the three countries need to come up with a cooperative model by building an interconnected power grid that is economical and capable of responding to climate change.

Despite the numerous cooperative proposals put forward, the speakers lamented the current gridlocked state of South Korea-Japan relations. Alongside this, they agreed that even now, when Northeast Asian cooperation is at a standstill, it is necessary to continue to engage in dialogue as a preparatory step for future cooperation.

Session 2

Political Issues in Northeast Asia and Proposals

This session served as an opportunity to confirm each side's perceptions and understanding concerning various aspects of South Korea-Japan relations.

At the beginning of the session, the Japanese participants explained that the recent 'white list' decision simply represented an end to special benefits which had previously been afforded to Korea, rather than an attempt to undermine the supply chain. They pointed out that in the wake of the South Korean Supreme Court's ruling on compensation for victims of forced labor, which remains a contentious issue between the two countries, South Korea had not accepted Japan's suggestion for arbitration.

As for the cause behind the differences in strategic perceptions between the two countries, they argued that Japan has become less important to South Korea due to a number of simultaneous factors including South Korea's rising status, the atmosphere of cooperation between the two Koreas, and the rise of China. The Japanese participants went on to discuss the growing concern in Japanese society that the two countries no longer share the same strategic goals.

In response, the South Korean participants explained the special nature of the domestic reaction to the judgment on compensation for victims of forced labor. In particular, they noted that the South Korean government had no choice but to adopt a neutral stance towards the Supreme Court ruling, since the South Korean people have a strong will to replace those in power if they make a mistake, and the fact that past administrations have a history of interfering in legal decisions made by the judiciary.

They refuted the suspicion in some parts of Japanese society that South Korea was attempting to overturn the current state of bilateral affairs created by the Treaty on Basic Relations between Japan and the Republic of Korea.

The Korean speakers also expressed serious concern that the August 2 decision to remove South Korea from the white list could lead to an outbreak of anti-Japanese sentiment across South Korean society. They explained that Korean society is taking this issue very seriously since the direct targets of the measures are leading Korean semiconductor companies such as Samsung and SK.

This session also featured discussions on proposals for cooperation on a resolution to the North Korean nuclear problem, one of the major political issues in Northeast Asia. Some speakers mentioned the need for cooperation to stabilize relations between countries in the region, including the normalization of relations between North Korea and the US, and North Korea and Japan, on the precondition that the North achieves complete and verifiable denuclearization. When it comes to resolving the issue of North Korean abductions of Japanese citizens, South Korea could serve as an asset for building trust between the two countries during this process. At the same time, a suggestion was made to look beyond managing the North Korean threat and adopt a broader perspective of maintaining peace, stability and order in the Indo-Pacific, including discussions on trilateral cooperation between South Korea, Japan and the US and a partnership between South Korea and Japan.

The participants put forward a number of ideas for resolving the current situation, which is marked by demonstrations of strength between South Korea and Japan. First, the majority of speakers agreed that both governments should refrain from kneejerk reactions and adopt a more cool-headed approach that seeks to find points of agreement. Political compromise from both heads of state is necessary to resolve bilateral conflicts, and the participants called on leaders to avoid being swayed by popular opinion during this process.

It was pointed out that seeking mutual benefit is the duty of political leaders. A proposal was also put forward for operating a joint managing body or consultative body for transparent management to resolve the issue of export

regulations (referred to as “changes in export management” by the Japanese side).

Some speakers pointed out the necessity of resolving conflict through global standards that can be used not only in South Korea-Japan relations, but by the whole international community. In addition to this, it was argued that systems are needed to ensure the sustainability of bilateral agreements irrespective of changes in government. To achieve this, parliamentary ratification of agreements reached between the two countries must be included as part of the process.

The participants engaged in frank exchanges on the perceptions and beliefs related to the current situation between the two countries, and agreed that dialogue must continue regardless of whether any progress is made.

Session 3

The Future of Northeast Asian Cooperation as Seen Through Energy

In this session, participants discussed energy cooperation, one of the specific fields for cooperation in Northeast Asia.

One of the core projects related to regional energy cooperation is the construction of an international power grid. In Japan, plans for power generation through renewable energy and an international power grid have come to the fore with the review of energy policy since the Tokyo Electric Power Company Holdings, Inc. Fukushima nuclear disaster. The Asian Super Grid championed by the Japan Renewable Energy Foundation seeks to transport electricity generated through Mongolia's abundant natural energy resources to China, South Korea and Japan. The cost of solar power and wind generation is already becoming cheaper than power generation through fossil fuels. In addition to the economic advantage, advancement in energy storage mechanisms and transmission technology has led to technical progress that enables flexibility in power distribution. The cost of building the power grid and the feasibility of the project have already been confirmed. The only issue left to resolve is policy decisions from each government.

The reason why energy cooperation in Northeast Asia failed to make progress in the past and remained locked in a zero sum game is that China, South Korea and Japan competed with each other as consumers for the energy they needed. Compared to this, the ASG is more feasible since it has the potential to serve as a win-win solution that allows each country, including Russia and Mongolia, to import and export energy to and from each other.

Some speakers noted the need for energy cooperation brought about by future industries in a rapidly changing world. Fourth Industrial Revolution technologies such as big data management and AI are combining with energy production management to alter the landscape of related industries.

A stable supply of energy is also required to sustain new lifestyles in the digital era, including electric vehicles and zero-energy buildings. Some case studies of test beds using such technology were also put forward as a concrete model for South Korea-Japan cooperation.

Another suggestion was linking energy cooperation to the Greater Tumen Initiative (GTI), a cooperative development project in Northeast Asia. The GTI, launched by the UN in 1991, is a cooperative body to which the North Korean, Chinese, Russian and South Korean governments are parties. The energy committee established as one of the cooperative committees under the GTI in 2009 is currently the only intergovernmental energy body in Northeast Asia. One of the suggestions made was to have Japan participate in this initiative to promote the ASG.

Feasibility studies on the ASG have been conducted through cooperation between South Korean, Chinese and Japanese companies, and the economic and technical viability has already been verified. Policy decisions are the last major hurdle to achieving the ASG, and such policies will naturally involve restructuring the electricity industry and building new links. Some pointed out that political policies had interfered in this process, suppressing free market entry in the electricity sector. Opening up the electricity market would encourage free competition between corporations, and some participants believed that to achieve this, a review should be conducted on the competitiveness of domestic companies and the differences between the systems in each country, and all countries involved should seek to draw up a set of fair rules together.

It was also noted by some participants that achieving the ASG was necessary to respond to the explosive growth in electricity demand that will flow from the unprecedented scale of urbanization in the future. For example, the number of air conditioning units is expected to climb from 1.8 billion in 2016 to 5.6 billion by 2040. Cooperation to achieve a sustainable power supply is becoming just as urgent as responding to climate change. The necessity of US involvement to achieve the ASG was also brought up. A number of issues were mentioned that can only be solved in a multilateral

framework involving the US, including the safe transportation of electricity generated in Mongolia, the problem of power cables passing through Russia, a country that is subject to economic sanctions, and proposals for encouraging North Korea to join the ASG after denuclearization.

The participants agreed to continue to engage in focused discussions to resolve these issues. Another suggestion put forward was a research fund with participation from Northeast Asian countries and the private sector to help make ASG a reality.

Session 4

The Future of Financial Cooperation in Northeast Asia

Northeast Asia, located at the point where the Belt and Road and Indo-Pacific Strategy intersect, remains relatively underdeveloped. In addition to the demand for infrastructure investment in the Russian Far East, the issue of how infrastructure demand will be financed is an important issue for Northeast Asian cooperation if North Korea rejoins the international community. The panelists put forward a number of suggestions for financial cooperation to respond to the changes taking place in Northeast Asia.

Some believed that in consideration of the political and economic nature of the countries in Northeast Asia and the northern region that require development, such projects should not simply stop at providing funding. Instead, discussions need to be held on creating shared value through multilateral cooperation and the process of cooperation itself.

It was also noted that a Northeast Asia development bank is necessary for engaging in meaningful development cooperation in the west coast of Japan, which will serve as a gateway that links North Korea, South Korea, Japan, China, the Russian Far East and the North Pole Passage. A proposal for city-to-city cooperation centered around Busan, a designated Special Blockchain Zone, Fukuoka, a National Strategic Special Zone, and Kitakyushu was also put forward, and the participants engaged in active discussions on plans for financial cooperation in the digital economy era. At present, the top three nations in cryptocurrencies (crypto assets) are the US, Japan and South Korea, with 24.5%, 10% and 6.5% respectively. One suggestion was to establish a Northeast Asia cryptocurrency exchange in partnership between these three countries. Economic exchanges between South Korea and Japan are already taking place through Fintech solutions such as Naver Pay. The speakers confirmed that cooperation between financial authorities in South Korea and Japan is necessary to enable the free movement of virtual assets and investment in such assets between

countries. Intergovernmental cooperation on the employment of blockchain technology has the potential to drive cooperation between private corporations, and the participants touched on joint research between the two countries to standardize blockchain technology.

The speakers also raised the possibility of deepening cooperation within existing frameworks. At the GTI Export-Import Bank Council, one of the cooperative bodies of the GTI, export-import banks in member countries are already exchanging information about development in the Tumen River region. Some participants suggested that Japan join the GTI in order to make more concrete progress in discussions on Northeast Asian development cooperation through the Export-Import Bank Council.

Closing

The final session provided a summary of the discussions held over the two-day meeting. A proposal to hold a seminar in Tokyo for South Korea-Japan cooperation was originally put forward at the 2018 Future Consensus Forum in Seoul, and came to fruition through this event.

South Korea and Japan lie at the heart of the Butterfly Project, like the two lenses in a pair of glasses. In times such as the present, when bilateral relations are marked by rising tension, we were able to confirm that dialogue between experts and politicians from both countries must continue. This event also made it clear that in addition to discussions on current issues, channels for discussion on future cooperative matters such as energy and finance must remain open.

We hope that South Korea-Japan relations will be able to overcome these turbulent times and once again change the direction of world history from a tunnel of darkness towards a tunnel of hope.

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