



International Seminar on Northeast Asian Economic Community and City-to-City Cooperation

DAY 1: Aug 31 (Thur)

1. Opening Ceremony

The international seminar began with an opening address by Future Consensus Institute (YEOSIJAE) Vice President Lee Jong In. Lee welcomed participants from around the world and mentioned the diverse topics that would be discussed during the seminar, including cities, finance and energy. He wished all the participants, including researchers, a meaningful and productive time at the event. He also expressed his hope that the seminar would serve as a foundation for further cooperation in Northeast Asia.

2. Session 1: Northeast Asian Economic Cooperation and Cities

- 1) 1st Presenter: Lee, Yeon Ho; Professor, Yonsei Univ.

[From the Age of States to the Age of Cities]

Professor Lee Yeon Ho from Yonsei University was the first speaker, discussing the importance, necessity and reliability of intercity cooperation. As the Director of the Yonsei-EU Jean Monnet Centre, Lee talked about the feasibility of intercity cooperation in Northeast Asia while also mentioning the limits of interstate cooperation. Lee pointed out that in modern times, sovereign states face significant difficulties in economic cooperation due to disputes over history and territory as well as the different systems that exist in each country. Factors such as a loss of faith in governments by citizens, rapid growth in developing countries, immigration and advancement in IT technology have made cooperation on a national level less useful than in the past. Against this background, Lee stated that we can obtain greater benefits and development through cooperation on a city-to-city level.

Intercity cooperation is by no means a new concept. Lee talked about how city states in Ancient Greece were able to develop through commercial and political cooperation and how the Hanseatic League in the Middle Ages achieved cooperation between cities, pointing out that this type of cooperation was highly effective.

The model of intercity cooperation put forward by Professor Lee is marked by a relaxing of regulations, decentralization and civic participation. This involves selecting countries with compatible systems that are developing at a similar pace and promoting cooperation across diverse sectors. This can help to lift countries which have been struggling with low growth, enhance mutual benefits and lead to development through interstate cooperation. Of course, achieving this would require active support from each country. Lee stressed that cooperation between port cities is particularly effective, explaining that he would talk further about creating an index for cooperation between port cities in session 6 of the forum.

- 2) 2nd Presenter: Lee, Sung Woo; Director General, Port & Logistics Research Division, Korea Maritime Institute

[Opening the North Pole Passage and City-to-City Cooperation: Potential for Growth in Gangwon Province and Northeast Asian Cities]

As the Director General of the Port & Logistics Research Division at the Korea Maritime Institute, Lee Sung Woo is an expert in North Pole Passage research with a lot of hands-on experience. He discussed the significance of the route, its problems and the possibility of linking the North Pole Passage with Gangwon Province. Lee began his presentation with a discussion of the problems with the Northern Sea Route (NSR). First, trade volume has decreased due to sanctions placed on Russia by the west. Second, the profitability of the NSR has fallen due to lower energy prices, and third, packed ice is posing a danger on the route.

In particular, the issue of profitability is closely connected to the development of the North Pole Passage because the passage is not necessarily a very profitable route for shipping companies. Use of the North Pole Passage (18 days) instead of the Southern Route (27-28 days) would result in reduced business opportunities for shipping companies. The contentiousness of the North Pole Passage is mainly due to a strong commitment from central governments rather than the profitability issue. Nevertheless, we need to find ways to make the North Pole Passage more profitable, and Lee suggested the use of bulk carriers instead of container ships as a practical solution. Instead of bringing resources from the Arctic to Korea, the ships would mainly travel between several ports in Siberia, achieving both marketability and efficiency at the same time. Lee mentioned wood pellets as one viable resource that bulk carriers are capable of transporting. Korea could use wood pellets as a source of renewable energy, while Russian wood pellets are more than 90% cheaper than Korean ones.

Lee also discussed linking new industries created by the 4th Industrial Revolution with the development of the North Pole Passage, citing examples such as flying drones, driverless trucks, underwater drones (to detect packed ice), unmanned ships, Prompt Port Facilities (PPF) and port cities that are able to operate without human intervention. Among these, PPFs, which are built by renovating idle ships into port facilities, are particularly suited to underdeveloped areas. PPFs are cheap to build and environmentally friendly and Lee believes they can provide a solution to the development of the North Pole Passage.

To end his presentation, Lee mentioned several key directives for Gangwon Province. First, Gangwon Province needs to develop a logistics network with the Seoul Metropolitan Area so that the region can serve as the final stop of the North Pole Passage. Second, instead of exploiting non-stop shipping of the North Pole Passage, the province should strengthen logistics networks that connect all the way to Far East Russia. Third, in order to increase shipping volume, business models need to be created that produce more cargo. Finally, greater people to people exchanges are needed in order to make all of this possible, and this means promoting intercity exchanges.

3) Session 1 Discussion:

Discussants: Yoo, Yeon Sung; Incheon Free Economic Zone Authority, Strategic Business Support Office, Future Strategy Team, Assistant Director and Viatcheslav V. Gavrilov; Professor, Far Eastern Federal University

Professor Gavrilov spoke about Russia's perspective on the North Pole Passage. Russia views the North Pole Passage as a domestic route, but lacks the infrastructure and facilities to develop it. There is also no system in place to manage risk. Nevertheless, Russia is actively promoting the North Pole Passage and has already achieved an annual shipping volume of 20 million tons. Russia seeks to construct key ports along the North Pole Passage, with a new railway line to follow. However, Gavrilov was pessimistic about the prospect of transporting freight through Siberia. Compared to the North Pole Passage, the Siberian inland lacks infrastructure and other necessary facilities. This means that a lot of investment would be needed. Cargo could be transported via rivers, but there are limitations on the types and categories of goods that can be shipped in this way. Municipal governments in Russia have already suggested river shipping, but it is not very feasible. Other countries believe there is no need to transport cargo along rivers in Russia. Gavrilov ended his presentation by discussing links with the 4th Industrial Revolution, stressing that legal safeguards were necessary and investments must be secured with collateral.

Lee Sung Woo then gave his opinion on this issue based on his own hands-on experience. Lee stated that it made economic sense to integrate technology from the 4th Industrial Revolution. Since there were not many lucrative goods coming from Russia, he had thought about what could be a viable business model and come up with the idea of wood pellets. LNG and oil from the Yamal Peninsula and other regions were other options. However, in order to ensure the health of the route itself, shipping needs to be possible in every direction and be ready for the products of Siberia. To find a solution, Korea and Russia would have to put their heads together along with China and Japan. Regarding legal issues, Lee talked about how two cooperative ventures with Russia that he had been involved in had failed. During the Najin-Hasan Project, he had been told "Don't try to measure 1km with a 10cm ruler!" during a dispute with a Russian railroad company over costs. As this altercation suggests, distribution that would require only four hours in Korea takes up to ten days in Russia. When Russian and Korean companies attempted to do business without understanding these differences, it led to conflict which ultimately sank the project. For example, when talking about the free port of Vladivostok, the Russians claimed it was "under construction." However, Korea wanted to negotiate after having a special economic zone constructed. Lee believed that if the two countries were better able to understand each other, the legal issues could be resolved relatively easily. Fortunately, mutual understanding between Korea and Russia is gradually improving.

3. Dinner

During dinner, the discussants talked about the issues that had been covered in the first session, including the importance and necessity of intercity cooperation. They expressed a commitment to engaging in diverse and in-depth discussions throughout the remainder of the three-day forum.

DAY 2: Sep 1 (Fri)

1. Session 2: Financial Cooperation for Regional Development

- 1) 1st Presenter: Lee, Yong Wook; Professor, Korea Univ.

[Suggesting a Discourse for Regional Financial Cooperation]

Korea University Professor Lee Yong Wook explained the importance of international politics and economics as well as regional financial cooperation, laying out a future direction for Northeast Asia. Lee believes that financial cooperation in Northeast Asia is key to achieving peaceful coexistence between Korea, China and Japan as well as the ASEAN countries, and that it is an effective way to promote fiscal soundness and economic growth. Financial cooperation is also one of the easiest fields in which to manage the interests of all parties.

Financial cooperation in East Asia is already relatively advanced. East Asia has instituted various forms of financial cooperation including CMIM and AMRO as regional financial safety nets, ABMI to develop the region's capital market and ADB and AIIB to promote regional development finance. Unfortunately, the pace of financial cooperation has recently been undermined by historical disputes, gaps in economic growth rates and conflicting interests.

What forms could financial cooperation take? Lee put forward three solutions. First, "We-ownership." If each country, particularly Korea, China and Japan takes ownership of financial cooperation and takes proactive steps, it would boost the speed of financial cooperation. China needs to overcome its antipathy towards financial cooperation efforts led by Japan, while Japan needs to share leadership with China and overcome the moral hazard of ASEAN nations. As one of the parties to cooperation in East Asia, Korea must also be able to share leadership with China and Japan. The second solution is overcoming moral crises and restoring trust. Conflicts of interest and political disputes have caused a loss of trust, which needs to be restored. Lee suggested 'financial democratization' as a platform that could be used to resolve these conflicts. Financial democratization is a model to promote development in the real economy and financial sector through several measures, including strengthening the regional financial safety net through financial risk management and improving access to financial services. Achieving this would require making full use of the aforementioned economic cooperation institutions that already exist in East Asia.

Lee explained that these three solutions would involve, in the short-term, utilizing existing institutions, holding summit meetings between Korea, China and Japan and establishing a new system of financial governance. In the long-term, this would contribute to expanded cooperation and mutual benefit by achieving financial democratization and promoting financial cooperation between the public and private sectors.

- 2) 2nd Presenter: Masahiro Kawai; Professor, Graduate School of Public Policy, University of Tokyo and Representative Director and Director-General, ERINA

[Regional Finance and Development Cooperation in Northeast Asia]

Professor Kawai's presentation focused on the viability of Northeast Asian financial cooperation between Korea, China and Japan and suggested ways to move forward. As Lee Yong Wook mentioned in his presentation, cooperation between Korea, China and Japan in the financial sector is easier to achieve than in other fields. However, political disputes over the deployment of THAAD, territory and historical issues have caused economic cooperation in Northeast Asia to lag behind compared to other regions. Kawai first spoke about the forms that financial

cooperation between the three countries has taken in the past. With financial talks between Korea and Japan, Korea and China and ASEAN+3 Central Bank Governors' Meetings, it is clear that many East Asian countries recognize the need for regional financial cooperation and sporadic efforts have been made in this regard.

The level of development in financial markets differs greatly between Korea, China and Japan. The Japanese financial market is characterized by low profitability and a high level of openness, while the Chinese market is facing reduced growth and high corporate leverage. Meanwhile, Korea needs to resolve issues pertaining to mortgage loans and corporate restructuring. However, there are other problems that the three countries must work together to resolve, such as Fintech and long-term loans.

This is why Kawai believes that the establishment of an integrated financial hub and the use of a common currency could help to promote cooperation between the three countries. In particular, he focused on the possibility that the currency of one country could serve as an international currency. If Northeast Asia faces another financial crisis, the existing CMIM and AMRO framework would be enough to overcome a small crisis, but if it were a large crisis then it would be difficult to resolve without IMF intervention. In this sense, affiliation with the IMF would still be necessary even within the context of regional cooperation in Northeast Asia.

3) Session 2 Discussion:

Discussants: Yuhua An; Professor, Sungkyunkwan Univ. and Inna Yu. Naumova; Professor, Far Eastern Federal University

Sungkyunkwan University Professor Yuhua An began her presentation by stating that people need to look outside the box for solutions to financial cooperation. Many are aware of the need for greater regional financial cooperation but are being held back by their political views, and the different stages of economic development in each country point to the need for more diverse discussions. An believes that progress on financial cooperation has been slow until now because of attempts to include multiple parties despite the limitations they face because of differing circumstances. Accordingly, she put forward the suggestion of first establishing bilateral cooperation and then expanding that into a multilateral platform.

She also stressed the importance of China. In future cooperative financial ventures, utilizing AIIB and ABMI would hedge against the risk of infrastructure investment in East Asia. This would allow more diverse forms of investment, leading to more effective development. An then gave some predictions for this model and laid out a plan to achieve it. She also mentioned the possibility of using the RMB as a common currency during this process.

In response, Professor Naumova of Far Eastern Federal University pointed out that the discussion thus far had focused mainly on Korea, China and Japan. It is true that these three countries lie at the heart of financial cooperation in East Asia. However, other countries including Russia are also closely related to Northeast Asia and need to be taken into consideration. Naumova showed particular interest in the idea of linking the real economy with the financial sector, as Professor Lee Yong Wook had mentioned when talking about financial democratization. Naumova agreed that investment in the financial sector was effective and important, but also pointed out that the real economy is closely connected to not only businesses, but also households, and that direct investment in the real economy had not developed sufficiently during the 20th century. Accordingly, she stated that consideration should also be giving to developing the real economy.

On this point, Professor Kawai stated that Professor An's suggestion had given him new perspective on the issue, and that he would reflect this in his future research. However, at the same time, he was skeptical about the use of the RMB as an international currency since most of the AIIB's activities are conducted in US dollars.

Regarding Professor Lee's presentation, Kawai pointed out that the concept of financial democratization was quite vague, and that the idea needed to be made more concrete and developed further.

2. Session 3: Specifying Plans for Financial Cooperation

1) Presenters: Park, Sun Young; Professor, KAIST

[Specifying Regional Financial Cooperation in Northeast Asia]

KAIST Professor Park Sun Young's presentation began by acknowledging that financial cooperation in Northeast Asia is progressing slower than expected due to a number of issues including political disputes, the dollar-centric economy, lower economic growth rates and growing differences between countries. She believes it is necessary to promote cooperation in trade, investment and finance by creating a regional financial hub. The first part of her presentation focused on a number of issues pertaining to regional financial cooperation, including cooperation in East Asia to help develop the North Korean economy, seeking continued growth through social, economic and environmental measures and cooperation through participation from both the public and private sectors. Park began by analyzing the current political situation and the state of FTAs in the region to determine whether a cooperative framework was possible in Northeast Asia. She concluded that greater growth was possible through financial cooperation than focusing on the real economy. Each country in Northeast Asia is home to diverse economic and political circumstances and is heavily influenced by external forces such as the US and Russia. Currently, the region needs to overcome political obstacles such as nationalism and disputes over territory.

However, the region has a lot of future potential. The McKenzie Group predicts that by 2020, 40% of the world's assets will be concentrated in Asia, while other analysts believe that large quantities of foreign direct investment will flow from Europe and North America to Asia and South America.

Of course, there are also negative factors in Northeast Asia such as heavy reliance on the dollar and instability in financial markets. However, despite these difficulties, Park believes that the region has much to gain from cooperation. Park is positive about the outlook for Northeast Asia, stating that it may be possible to convince North Korea to participate in regional economic cooperation within the cooperative framework. Furthermore, she believes that a Northeast Asian economic community can be formed if each country shares the same vision. Park wrapped up her presentation by pointing out that a system of financial cooperation would contribute not only to the financial sector, but also to development in the real economy.

2) Session 3 Discussion:

Discussants: Masahiro Kawai; Professor, University of Tokyo and Representative Director and Director-General, ERINA and Yona Kikuchi; Vice President / Executive Secretary, The

Council on East Asian Community, Senior Research Fellow, The Japan Forum on International Relations, Inc.

Professor Kawai began the discussion by pointing out that he had hoped to see more specific plans for financial cooperation in Professor Park's presentation. Kawai was pleased that the direction of Park's plan for financial cooperation was similar to the ideas he had presented in session 2. He had several questions about the content of the presentation. The first was what Park thought about the possibility of including other countries in financial policy discussions between Korea, China and Japan. The second was about creating an ecosystem for financial cooperation, in particular which regulations would need to be relaxed to facilitate such cooperation. On the issue of internationalizing currencies, Kawai was curious what Park had to say about the current dollar-centric system.

Yona Kikuchi from the Council on East Asian Community said that he was in full agreement with the idea of establishing a cooperative framework for trade and finance within the region. Kikuchi mentioned that in the wake of the IMF crisis and the East Asian financial crisis, these plans were becoming a reality through summit meetings and CMIM. He went on to say that discussions were taking place about utilizing RCEP and the East Asian Monetary Fund (EAMF) to make the current system of cooperation more concrete. He also spoke about the current state of efforts to establish such cooperative systems in East Asia. Kikuchi pointed out that sporadic plans are being implemented in this regard, but they need to be unified and streamlined. He believes that a two track system of cooperation would be the most effective. Following this, Professor Park responded to Professor Kawai's questions. On the issue of reliance on the dollar, she stated that it would be difficult to overcome this problem. Park added that Korea's options are limited because of the country's relative size, but that cooperation between Korea, China and Japan could open the door for a broader range of solutions such as foreign exchange swaps between Korea and Japan. She explained that she had a positive outlook on this issue, since the fact that the three countries share the same cultural roots makes cooperation easier. Park stated that by adopting a long-term approach to CMIM, Northeast Asian countries are building their capacity and becoming more financially sound. She also believes that the concept of a 'regional financial safety net' is being used as a kind of diplomatic rhetoric. Regarding the scope of policy talks, Park was certain that if China can be encouraged to participate more actively and engage in broader discussions, it would go a long way towards achieving financial cooperation in Northeast Asia.

After Park finished her response, Professor An stepped in to talk about the importance of AMRO. She believes that if Korea, China and Japan were able to establish a financial body with similar framework, financial cooperation would be a lot easier and far more effective. An also mentioned that restrictions on the free movement of people and real assets are limiting the scope of cooperation, and the structure of current systems of cooperation needs to be changed.

DAY 3: Sep 2 (Sat)

1. Session 4: Energy Cooperation and the Cities of Northeast Asia

Presenters: Kim, Youn Kyoo; Professor, Hanyang Univ. and Dmitry Sokolov; Gas Exporting

Countries Forum

- 1) 1st Presenter: Kim, Youn Kyoo; Professor, Hanyang Univ.

[Russia LNG vs. US LNG: What it Means for the Asian Natural Gas/LNG Market]

Professor Kim of Hanyang University spoke about the rapid changes that are taking place in global energy markets and stressed that Korea was at the center of these changes. After discussing the need to examine the reasons behind this and why Russian LNG has become more important, Kim explained the competitive structure that exists between Russian LNG and US LNG and what this means for the natural gas and LNG markets in Asia as a whole, as well as Korea specifically.

The US began exporting energy in February 2016, while Russia plans to begin exporting energy extracted from the North Pole in October 2017. In the context of supply and demand for LNG in Korea, China and Japan, this competitive structure will lead to fiercer competition in Asian LNG markets, particularly in East Asia. Against this background, Korea is currently welcoming US LNG because of its high quality and greater flexibility compared to contracts with Qatar. However, at the same time the Korean government is wary about becoming too reliant on the US, and is also interested in Russian LNG. At present, the government is working hard to determine where Russia is planning to export LNG and through what channels.

- 2) 2nd Presenter: Dmitry Sokolov; Head of Department, Energy Economics and Forecasting, Gas Exporting Countries Forum

[Energy and Natural Gas Outlook for Northeast Asia]

After a brief introduction to the Gas Exporting Countries Forum (GECF), GECF Head of Department Dmitry Sokolov discussed the outlook for Northeast Asia, with a particular focus on Korea. There are up to 20 international organizations that attempt to make long-term predictions for the natural gas market, but in order to make more accurate predictions, GECF analyzes competition between 34 types of fuel, including natural gas and hydrogen fuel. The forum also analyzes key markets such as Korea, China and Japan. In the past, energy development was closely linked with economic development, but nowadays this equation is not as simple and every facet of energy markets is undergoing many changes. Accordingly, long-term analysis is of greater importance, and as part of this, each country needs to pay close attention to LNG policy. GECF will begin releasing annual reports from next year.

The largest share of energy demand in Northeast Asia comes from China, and GECF predicts that by 2040, China's demand for LNG will surpass 600 billion m³ (600bcm). This is similar to a forecast released this year by the China National Petroleum Corporation (CNPC) which put the figure at 620bcm. Meanwhile, LNG demand is set to increase in Korea under the Moon Jae-in administration. In the short-term, the threat posed by North Korea will make it difficult to make progress on the construction of pipelines or trading hubs. Russian LNG, which is optimized for stable supply in the face of low prices, can be supplied at a competitive rate when market prices are low, making exports to Korea a favorable option. Finally, China is currently putting forward a number of ideas for projects to build infrastructure, and close

cooperation between China and Russia is expected.

3) Session 4 Discussion:

Discussants: Tatsuo Hatta; President, Asia Growth Research Institute and Kim, Youn Kyoo; Professor, Hanyang Univ.

Asia Growth Research Institute President Tatsuo Hatta is also a member of the Japanese Electricity and Gas Market Surveillance Commission, but he expressed his views on the two presentations as an economist and Japanese citizen. Hatta believes that there is one important point that needs to be considered when forecasting demand for natural gas in Japan. In the wake of the Fukushima accident, meeting safety standards has become more difficult, and local governments can still request safety inspections of a power plant even when it has already passed central government inspections. Furthermore, if local residents take legal action, there is a chance that the courts may reverse the decision. The Japanese government is providing subsidies for several forms of renewable energy and running campaigns across the country to encourage energy conservation. Despite this, forecasts of Japan's energy demand are not all negative, because the country has reached the stage where it needs to replace outdated power plants. It is likely that these plants will be replaced by gas turbines. From a regional perspective, it is clear that several markets related to LNG are necessary – a market for lending natural gas-related equipment (such as LNG tanks) and a spot market. Finally, Hatta pointed out that there is currently no LNG spot market in Asia, and stressed that Korea was in a good position to establish one.

Professor Kwon Won Soon then spoke about projections and trends for LNG in terms of industry. LNG was created to supply energy to areas in which pipelines cannot be constructed. The current process of production and distribution has seven steps: the gas is first produced, then sent to a factory through a pipeline before being refined, liquefied and loaded onto a ship for transportation. It is then stored on a tanker and finally sent to the customer via a local network. As this process suggests, there are many industries connected to LNG. LNG is flexible and able to be transported long distances, making it perfect for the development of industries related to LNG.

LNG is transported via ships, and of the 81 LNG vessels worldwide, only 37 are owned by independent LNG distributors. The rest were built to be linked with specific LNG projects. Outside of this, there are many more factors that need to be considered, including problems with shipping routes. For example, LNG from the US needs to pass through the Panama Canal, which is only 49m wide. However, the LNG ships that Russia has ordered for exporting are 50m wide so they cannot pass through the Panama Canal. For reference, the Suez Canal is very deep and 100m wide so it does not present any obstacles to LNG carriers. These industrial factors need to be considered when it comes to developing any aspect of the LNG industry.

To make LNG more competitive, specialized LNG facilities and local networks need to be in place. Japan has no need to choose LNG as an energy source, while Korea has a single local network. China does not have even a single local network. This means that energy cooperation in Northeast Asia needs to take into account the circumstances in each country. The discussants also pointed out that factors such as demand projections, industry-related effects, each country's industrial direction and the possibility of cooperation as energy consumers

need to be considered.

2. Session 5: Specifying Plans for Energy Cooperation

- 1) 1st Presenter: Tilak K. Doshi; Managing Consultant - Asia, Muse, Stancil & Co.

[Current Status of Singapore's Energy Spot Market]

Doctor Tilak K. Doshi spoke about the global natural gas market, with a focus on Asia, as well as the current state of Singapore's energy spot market. The global gas market is largely concentrated in three regions, and the rankings between LNG producers are rapidly changing. In Asia, there are unlikely to be large changes in demand from Japan and Korea in the short-term as the two countries have mature markets, but demand could change substantially in China and India. Since LNG transactions require flexibility, Asian countries will not continue to import from Qatar, which demands long-term contracts, and instead do business with Russia and the US.

Doshi believes that Singapore is well placed to become an LNG trading hub, as it has suitable conditions and is already a finance and oil hub. Singapore offers generous tax breaks and is an English-speaking country. It is also very easy to incorporate a business in Singapore. Although the country's size is commonly cited as a downside, this also means that there is no need to build expensive LNG tankers inland, and floating liquefaction plants are already becoming more common. The fact that there are no PNG facilities in Southeast Asia is also not a problem, since the most important factor in choosing a trading market and spot market is flexibility. Singapore has long been home to the conditions necessary to become a hub, and the Singaporean government views trading as an important industry, taking proactive steps to develop an LNG hub and the market.

- 2) 2nd Presenter: Ahn, Sang Wuk; Professor, Pukyong National Univ.

[Failure of Korean LNG Trading Hub Initiative : Lack of regional cooperation]

In his presentation, Pukyong National University Professor Ahn Sang Wuk examined the reasons behind the failure of the Korean LNG trading hub initiative, outlining the obstacles to establishing such a hub as well as possible solutions. In analysis conducted by the IEA in 2013, Korea was rated the least viable candidate as a trading hub in Asia. Since then, Korea has been working hard to improve its rating. Ahn believes that Korea faces several problems in this regard. First, a structure in which KOGAS monopolizes the import, storage and distribution of LNG. Second, although Hyosung attempted to set up a gas business in 2014 by creating a subsidiary, the project was eventually scrapped. At the time, the Korean government and businesses did not take the strategies of neighboring countries (Japan and China) into account, which was one of the main reasons why the trading hub initiative failed.

If Korea wishes to establish a trading hub within Asia, it is true in principle that the country will have to compete with Japan and China, but a trading hub also requires cooperation from neighboring countries. One of the headaches facing the Northeast Asian region is the so-called

‘Asian premium,’ where the cost of importing natural gas is higher in Asia than other regions. China is able to import more cheaply than Korea or Japan due to its PNG infrastructure, and it also has greater bargaining power. In Japan, increasing demand for gas following the Fukushima accident led to large-scale investment in LNG projects in Singapore in 2012 and 2013, which was followed by other projects in Australia and Brunei. Japan was also the first country to import LNG from the US without signing a FTA. In this way, the dynamics of supply and demand for natural gas and the market conditions in China and Japan are very different, and levels of trust between the three countries are low at present. Ahn stressed that since demand for natural gas in Northeast Asia will continue to grow in the future, if the three countries are unable to reach agreement on these issues and establish a trading hub, it is likely that the US will take advantage of the situation.

3) Session 5 Discussion:

Discussants: Tatsuo Hatta; President, Asia Growth Research Institute and Kim, Youn Kyoo; Professor, Hanyang Univ.

During the discussion, Asia Growth Research Institute President Tatsuo Hatta spoke mostly from an economic perspective. According to Hatta, natural gas transactions often take place through curb markets. Since there are currently no mechanisms to hedge against price fluctuations in natural gas, it is currently coupled with oil prices. He pointed out that moving away from this system would require credible price indexes in gas spot markets. Hatta raised the possibility of establishing a spot market for LNG in Japan. He believed this would be possible if the monopoly on gas within Japan ended and a framework for cooperation between the three parties was established. In response, Professor Ahn pointed out that Japan has no national pipelines.

Professor Kim also expressed concerns that energy issues often devolve into security or military problems. He went on to say that disputes between Korea, China and Japan over energy cooperation and the establishment of a trading hub are having an impact on Southeast Asia. Kim believes that even if Singapore is a prime location for the hub, Korea would be better placed to serve as a hub in the wake of the shale gas revolution as it is the best channel for US LNG. This means that a compromise could be reached where Asia would have two hubs - a virtual hub and an actual hub. He also felt that Singapore might be trying to take advantage of the fact that cooperation in Northeast Asia was making slow progress.

3. Session 6: Economic Liberalization and City-to-City Cooperation

Presenters: Woo, Byungwon; Professor, Hankuk Univ. of Foreign Studies, Park, Ji Young; Institute of East and West Studies, Yonsei Univ. and Hong, Geeyoung; Institute of East and West Studies, Yonsei Univ.

1) 1st Presenter: Woo, Byungwon; Professor, Hankuk Univ. of Foreign Studies

Hankuk University of Foreign Studies Professor Woo Byungwon introduced a unique model of governance for intercity cooperation and laid out a framework for the creation of an index for cities. Intercity cooperation is akin to a zero-sum-game like battle of the sexes or the prisoners’ dilemma. These models state that when each party only considers absolute gains, whichever choice is made leads to benefits, making cooperation easier.

However, when a party focuses on relative gains, cooperation is impossible because it leads to the other party losing out. Woo applied this theory to cities, stating that since states focus on relative gains while cities focus on absolute gains, intercity cooperation is more likely to succeed than interstate cooperation. Based on this conclusion, he put forward a model of governance for international intercity cooperation. Several models could apply depending on the depth and scope of cooperation, including M1 - Real Politics of Cities (the UN Security Council model), M2 – Decisions by Mayors and Citizens the (EU Council model), M3 – Parliament of Mayors (the UN General Assembly model), M4 - Club of Mayors (the OECD model) and M5 – Loose Network of Mayors (the G20 and C40 model). Woo concluded by stating his view that cooperation within the M2 or M3 models could be possible within the next 20-30 years.

- 2) 2nd Presenter: Park, Ji Young; Institute of East and West Studies, Yonsei Univ.

Park Ji Young from Yonsei University was next to speak. She gave an explanation of factors to consider when developing an index for port cities. Such an index should not be a simple comparison between port cities, but should involve collating data from each local government to provide an equivalent comparison between metropolises and self-governing port cities. Based on this composite index, Park planned to categorize the cities into three groups and release only the list of cities that were in the top group. Park also planned to collate the results from comparative analysis of local governments into a single map and complete comparisons with Japan by the end of the year. Following that, she wished to obtain data from different countries and expand the usefulness of the index.

- 3) 3rd Presenter: Hong, Geeyoung; Institute of East and West Studies, Yonsei Univ.

Following this, Hong Geeyoung spoke about several concrete examples of intercity cooperation. In particular, she laid out a development plan that takes advantage of potential in the cruise industry. Hong explained that a cooperative system between passenger ports could be established by linking cruises and ferries. At present, cooperation between port cities is limited to freight ports, but Hong believes that in the future it will be necessary to promote people to people exchanges as well as the exchange of goods, placing the same level of effort into boosting cooperation between passenger and cruise ports. Cooperation in the cruise industry would require assistance from China and Japan, and customs and immigration systems would have to be linked to make this possible. In this respect, Hong believes that finding ways to incentivize participation is key. She added that cooperation in the cruise industry does not necessarily have to be limited to cooperation between port cities, and could be expanded to cooperative systems in inland regions as well.

- 4) 4th Presenter: Dai Erbiao; Research Director, Asia Growth Research Institute

[Trans-Border Urban Cooperation in the Pan Yellow Sea Region]

The final speaker was Asia Growth Research Institute Research Director Dai Erbiao, who talked about a system of urban cooperation for the Yellow Sea region. He introduced the OEAED system, which is currently centered around the Kitakyushu region of Japan, and laid out a plan for future developments. After giving a brief outline of the history of OEAED, which involves cooperation between 10 cities such as Kitakyushu, Incheon, Busan, Dalian and Qingdao, Dai explained that the criteria for choosing the cities were 1) a traditional relationship, 2) geographical location and 3) the location of each country. He believes that

OEAED has achieved large-scale intercity cooperation in terms of economic, technology and resource exchanges. However, OEAED is also suffering from problems such as a lack of support from central governments and a lack of capacity on the part of local governments. Dai stated that in order to establish even stronger intercity cooperation through OEAED, three obstacles must be overcome. First, there needs to be an appropriate distribution of responsibility among city governments. Second, local governments need greater autonomy and third, more support must be obtained from central governments. He ended his presentation by stressing that if these problems can be solved, we can look forward to a bright future for intercity cooperation.

4. Session 7: Specifying the City-to-City Cooperation Plan (Round Table)

Session 7 was conducted in a round table format with all participants freely discussing a range of topics. Professor Kim Young-sik from Wonju National University kicked off the discussion by talking about cooperation between bordering cities, the potential for development in the cruise industry and the merits, drawbacks and risks associated with the North Pole Passage. He referred to interregional cooperation between Gangwon Province and cities, citing the establishment of the East Coast Free Economic Zone near Gangneung and the East Sea in 2012 as an example. Kim stated that if each country was able to link the areas that they are turning into free economic zones and integrate homogenous regions, it would greatly increase the level of cooperation.

Doctor Minghao Huang from the Shandong Provincial Institute of Standardization added that although central governments have an important role to play, we need to make sure that the private sector and academia are also doing their part. He also mentioned that the autonomy of cities is a factor that needs to be considered.

Vadim S. Akulenko from Far Eastern Federal University was next to speak. He asked about the possibility of expanding OEAED and raised the possibility of participating in the creation of models for intercity cooperation. In terms of international cooperation, Akulenko pointed out that participants needed to have a plan for dealing with time zone and economic restrictions.

Asia Growth Research Institute President Tatsuo Hatta then stated he was disappointed that the discussion of intercity cooperation had been mostly theoretical, and suggested adding more case studies such as the double number system that is being operated between Kitakyushu and Busan. Hatta also explained that city administrations in OEAED had tried to take advantage of private sector participation in their affairs.

Far Eastern Federal University Professor Alessio Russo followed this up by linking the research topics at the forum with his own area of expertise, sustainable cities. He stated that the principle of sustainability should be added to the index, since port cities often face conflicts between ecosystems and the economy. Russo also pointed out that since ports are hubs by nature and are closely connected to city centers, ports should be developed into cities in a way that aligns with this reality.

2) Comprehensive Discussion

Yonsei University Professor Lee Yeon Ho pointed out that because interstate cooperation

is not limited to cooperation between governments, his research focuses on cooperation at a local government level. He is targeting port cities that are open and boast high levels of exchange. Lee stressed the importance of local government autonomy and affiliations with sister cities, adding that he planned to expand the scope of his research to cities in other countries.

Far Eastern Federal University Professor Inna Yu. Naumova and Akiyama Associates President Masahiro Akiyama then asked about the direction of intercity cooperation, to which Lee responded by suggesting voluntary participation and getting small and medium size enterprises involved. Hong Geeyoung of Yonsei University then gave an example of intercity cooperation, stating that Donghae and Sokcho had once tried to establish relations with Japanese ports but ultimately failed. She suggested adding the cruise industry to the cooperative framework to remedy the situation.

At this point, Korea University Professor Lee Yong Wook asked about the ultimate goal of intercity cooperation. Lee Yeon Ho responded by stating that intercity cooperation could eventually be expanded to cooperation between nations.

Minghao Huang then introduced a model of intercity cooperation between Incheon and Weihai and explained that in this case, intercity cooperation did not mean excluding other countries, but rather creating a consensus with the goal of joining in China's Silk Road initiative.

Tatsuo Hatta also brought up Hokkaido as an example and spoke about the importance of funding in intercity cooperation.

5. Closing Session

The closing address was given by YEOSIJAE President Lee Kwang Jae, who applauded the participants for their passion and dedication over the three-day seminar. He encouraged the researchers to continue engaging in creative work to help create a brighter future for Northeast Asia. President Lee also discussed the blueprint for YEOSIJAE's Butterfly Project, which aims to promote cooperation in Northeast Asia. He expressed his hope for greater cooperation in the region.

6. Dinner

Dinner was held in the 4F Banquet Room in Naksan Beach Hotel, Yangyang. The participants congratulated each other on a successful event and pledged to continue working on their respective research projects.

7. Evaluation

The international seminar served as an occasion for participants to discuss various forms of cooperation in Northeast Asia across a variety of fields, and should benefit further research in these areas. The event demonstrated that progress was being made in each area of research, and confirmed that such research is developing into concrete results. Of course, as many of the participants mentioned, the researchers still have many points that need fleshing out and obstacles to overcome, but if the research findings discussed at this seminar



can become reality, cooperation in Northeast Asia stands to benefit substantially. YEOSIJAE plans to compile the research presented at this seminar and present a plan for cooperation in Northeast Asia at the 2017 Future Consensus Forum in November.