

THE HERITAGE LECTURES

85

The U.S.-Republic
of Korea Partnership
in the Year 2000

By Edwin J. Feulner, Jr.



The Heritage Foundation is one of the country's leading public policy research institutes. With offices just two blocks from the United States Capitol, The Heritage Foundation's research and studies programs are designed to make the voices of responsible conservatism heard in Washington, D.C., throughout the United States, and in the capitals of the world.

The key to Heritage's research effort is timeliness—providing the policy-making community, with up-to-date research on the important issues of the day. Heritage publishes its findings in a variety of formats for the benefit of decision makers, the media, the academic community, businessmen, and the public at large. Over the past five years The Heritage Foundation has published more than 900 books, monographs, and studies, ranging in size from the 1,093-page government blueprint, *Mandate for Leadership: Policy Management in a Conservative Administration*, to more frequent "Critical Issues" monographs and the topical "Backgrounders" and "Issue Bulletins" of a dozen pages. Heritage's other regular publications include *National Security Record*, *Education Update*, and *Policy Review*, a quarterly journal of analysis and opinion.

The Heritage Foundation's 100-member staff—which includes several internationally recognized scholars and former government officials—concentrates on four areas of general study: domestic and economic policy; foreign policy and defense; the United Nations; and Asian studies. With some 1,600 individual scholars and research organizations working with its Resource Bank, The Heritage Foundation provides U.S. policy makers with the intellectual resources needed to guide America into the 21st century.

In addition to the printed word, Heritage regularly brings together national and international opinion leaders and policy makers to discuss issues and ideas in a variety of formal and informal settings. Through a continuing series of seminars, lectures, debates, and briefings, The Heritage Foundation provides a forum for the exchange of ideas and a laboratory for developing these ideas into practical public policy proposals.

The Heritage Foundation was established in 1973 as a nonpartisan, tax-exempt policy research institute dedicated to the principles of free competitive enterprise, limited government, individual liberty, and a strong national defense. Heritage is classified as a Section 501(c)(3) organization under the Internal Revenue Code of 1954, and is recognized as a publicly supported organization described in Sections 509(a)(1) and 170(b)(1)(A)(vi) of the Code. Individuals, corporations, companies, associations, and foundations are eligible to support the work of The Heritage Foundation through tax-deductible gifts.

Note: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

The Heritage Foundation
214 Massachusetts Ave., N.E.
Washington, D.C. 20002
202/546-4400

THE U.S.-ROK PARTNERSHIP IN THE YEAR 2000

by Edwin J. Feulner, Jr.

INTRODUCTION

It is my great pleasure to have an opportunity to address the faculty and staff of this distinguished university. We at The Heritage Foundation place a high value on the friendship between our two peoples, and exchanges such as these between our respective institutions afford a concrete manifestation of this close relationship.

I was last in your great country just two months ago, when I accompanied a delegation of The Heritage Foundation's Board of Trustees on a visit to Seoul during the Asian Games. I can tell you in all sincerity that our Trustees were overwhelmed by the generosity and hospitality of the Korean people. In attending the Asian Games, we witnessed firsthand one of the countless accomplishments that over the course of the last four decades have focused worldwide attention on the "Korean miracle."

With the successful completion of the Asian Games, it is time to set our sights on the enormously important events that will converge in 1988. The people from around the world who will come to Seoul for the Olympic Games less than two years from now will learn, among other things, the story of a nation that has overcome tremendous adversity to become what the World Bank calls "one of the outstanding success stories in international development." Already, Korea's spectacular achievements in social and economic development serve as inspiration for all developing nations.

1988 also will mark a turning point in Korea's political development. That year, President Chun Doo Hwan will fulfill his pledge to carry out the ROK's first peaceful transfer of power and inaugurate a new political era in your country. It seems fitting that the glorious events of 1988 will coincide with the 40th anniversary of the ROK's founding. In addition, 1988 will mark 40 years of U.S.-ROK relations.

Edwin J. Feulner, Jr., is President of The Heritage Foundation.

He spoke at Hanyang University, Seoul, Korea, on December 12, 1986.

ISSN 0272-1155. Copyright 1987 by The Heritage Foundation.

Economic, political, and strategic cooperation between the U.S. and Korea represents one of America's most valuable alliances. It is clear to those of us who watch our relationship that our partnership will continue to expand. While most observers focus their attention on the significant events that will occur over the next several years, I would like to direct our attention today beyond this decade toward a more distant milestone: U.S.-ROK relations in the year 2000.

ECONOMIC RELATIONS

Prospects for the end of this century are certainly much brighter than were those at its beginning. Korea entered the 20th century amid economic stagnation, internal political confusion, and impending national tragedy. Known for its isolationism, Korea was caught between the rapidly modernizing superpowers of the region. By 1905, Japan had begun the moves that eventually led to nearly half a century of Korean subjugation and colonialism.

The second half of the 20th century could hardly provide a more stark contrast. Although Korea regained its independence in 1945, its economic infrastructure was nearly obliterated by the Korean War. Bouncing back from those dark days of the 1950s, Korea has, with strong U.S. economic, political, and moral support, become today one of the world's twelve largest trading nations. It is a "rags to riches" story virtually unequalled in modern history. With an annual GNP of \$85 billion and a per capita income of over \$2,000, Korea has graduated to the ranks of the "newly industrialized nations." At the same time, the Republic of Korea has become my country's seventh largest trading partner.

A snapshot look at projections for Korea in the year 2000 show great promise for the future. GNP is expected to nearly triple and reach almost \$250 billion by the turn of the century, while per capita income will more than double and break the \$5,000 mark. In the international economic arena, Korea will rank among the world's top ten trading nations. In just 14 short years, the Republic of Korea will stand at the threshold of the coveted "developed nation" status.

The Korean economy will undergo significant changes between now and then. High-tech and high value-added industries such as automobile production, heavy machinery, and electronics will dominate the economic pinnacles once held by the textile, food processing, and steel industries. The service sector will expand greatly, as there will be an enormous increase in the domestic demand for such services as banking and insurance as well as the products of the so-called soft industries such as leisure, consulting, and information.

To meet the challenge of these transformations, the Korean private sector must continue to make effective structural adjustments

based on market forces and the principles of free competition. This realignment is vital since, by 2000, developing nations with large, cheap labor pools (such as the PRC) will likely be very competitive in the labor-intensive industries that in the past have been the engine for Korea's economic growth.

U.S.-ROK trade relations will change accordingly, with Americans buying fewer labor-intensive goods and more high-tech products such as electronics and cars. Given the Republic of Korea's scarce land resources, Korea will probably remain one of America's largest customers for agricultural products, although Korean demand for grain may shrink while purchases of U.S. meat and dairy goods will increase.

One U.S. commodity that is expected to become more in demand in Korea is energy and energy technology. Today the Republic of Korea spends over one-third of its earned foreign currency on energy, and its energy needs are expanding rapidly. By 2000, the U.S. will be supplying more of Korea's energy resources as well as transferring increased levels of both nuclear and non-nuclear power technology.

To compete effectively in the year 2000 despite its scarce natural resources, Korea must strive to maintain comparative advantage through technological innovation, and thus, technology transfers will play a vital role in the Republic of Korea's economic transition into the next century. Toward this end, I expect to see increased numbers of U.S.-ROK joint ventures. Korea has already laid the groundwork for this by easing restrictions on foreign investment here. Our joint ventures will benefit not only the Republic of Korea but also the U.S., since they will improve the competitiveness of U.S. goods produced here and allow U.S. firms to be better poised to penetrate Asian markets, particularly those in Japan.

This raises another aspect of future U.S.-ROK ties: development of the Pacific Basin. Because the economies of the Pacific rim have become the most dynamic in the world, I believe that in the 21st century, the U.S. will focus even more of its trade efforts toward this region. As you know, U.S. trade with the Pacific is greater than it is with the nations across the Atlantic. Last year, nearly 34 percent of America's two-way international trade involved Asian nations, while trade with Europe accounted for about 24 percent. And that gap is growing.

Already, Korea has become an active player in the quest to coordinate trade policies among Asian nations. By the year 2000, the U.S. and Korea will be working in tandem to promote Asian development through economic aid and technical assistance, thus providing export markets, access to raw materials, and investment opportunities in the region.

The great threat to this vision of our trade future is the spread of protectionist economic sentiment in both countries. Today, U.S.-ROK trade ties are experiencing growing pains as our relationship rapidly shifts from one of patronage to one of partnership and as Korea has become increasingly a target of American protectionist pressures associated with concern over high U.S. trade deficits.

Americans are beginning to charge that the Republic of Korea is a "new Japan," in that it is taking advantage of the open nature of the U.S. economy while restricting access to its own markets. We are now seeing what I call the splatter effect: U.S. bitterness over our trade friction with Japan is spilling over into our economic ties with Korea. These U.S. frustrations have been translated into American actions, ranging from the curtailment of Korean textile imports to an ongoing attempt to exclude the ROK from the tariff advantages offered by the U.S. Generalized System of Preferences (GSP) program.

What I believe should not be overlooked is that Seoul is making good faith efforts to respond to specific American requests. Through an aggressive liberalization program, the Republic of Korea government, over the last few years, has broadened access to a wide range of U.S. goods and services, eased restrictions on U.S. investment in Korea, expanded Republic of Korea investment in the U.S., and undertaken serious study of long-range policies designed to promote smooth trade relations for the future.

I hope that the Korean people truly understand the compelling reasons for lowering trade barriers here. Economic liberalization not only is beneficial to the strength and competitiveness of your industries but it is also a political imperative. The alternative would provoke increased U.S. pressure for protectionist measures that would have an immediate negative impact on your economy.

I hope that Korea will continue these efforts, and I hope, too, that the U.S. will not be fooled by protectionist arguments. I wager that most of us here today would agree that restrictive quotas and high tariffs will not solve trade problems--but that the ending of restraints will. There are bold, sweeping policy options that may insulate U.S.-ROK trade ties from the dangers of creeping protectionist pressures in Washington.

The U.S. is one of the Republic of Korea's top two trading partners. As you know, the U.S. and Japan share top billing since each purchases about one-third of all ROK exports. As Korea continues its efforts to broaden access to its markets, a disturbing trend has become apparent: Japan has become the largest single beneficiary of Republic of Korea import and investment liberalizations made over the last few years. For instance, of the 31 goods liberalized in January 1984, the U.S. captured only 16 percent of the Republic of Korea's total import of those goods, while Japan took nearly 45 percent.

Now, of course, Korea already runs a large bilateral trade deficit with Japan. In fact, for the last few years, that deficit has been roughly equal to the Korean surplus with the U.S. I fear that substantial across-the-board reductions of existing Republic of Korea trade barriers will seriously worsen its deficit with Japan. At the same time, the Korean surplus with the U.S. is likely to grow substantially and increase the already strong American protectionist sentiment toward Korea. Korean businessmen and policy makers are just beginning to examine ways to avoid this dilemma.

Allow me to raise an option for the future and leave it with you as food for thought: the creation of a U.S.-ROK Free Trade Area (FTA). This idea became a reality last year when the U.S. and Israel concluded an FTA agreement, and there already is growing interest among Washington policy makers in forging similar pacts with Taiwan, Singapore, and Thailand.

Under an FTA arrangement, two countries remove essentially all barriers to trade over a scheduled period of time. Technical certification requirements are standardized, and capital and investment policies are liberalized. FTAs are carefully customized to the actual needs and situations of each participating nation, and thus, conform to economic realities rather than the political pressures of narrow special interests or some "least common denominator" formula. Furthermore, an FTA could act as an economic safety net as the ROK is graduated from the tariff breaks currently bestowed by our Generalized System of Preferences program.

Perhaps some in Korea may not believe that the ROK is ready for such a system this year or the next. But, as your infant industries grow and your economic base broadens through the proliferation of small and middle-sized businesses, the day will come. A U.S.-ROK FTA would be designed to institutionalize free trade and fair access rather than provoke trade friction and retaliation and, thus, would provide a solid basis for stable and mutually beneficial U.S.-ROK economic ties in the year 2000 and beyond.

SECURITY COOPERATION

As in the past, U.S.-ROK security relations will undergo necessary adjustments by the end of the century. When the U.S. and Korea signed the Mutual Defense Treaty in 1954, soon after our partnership against North Korean aggression in the Korean War, the emphasis understandably was on maintaining peace on the peninsula. The treaty today is a linchpin for stability in the entire Northeast Asian region and thus is vital to U.S. national security as well. Furthermore, the U.S.-ROK national security relationship will almost certainly expand in dimension and significance.

The Korean peninsula today is one of the world's perennial flash points. More than one million troops wait in high-combat readiness on the two sides of the demilitarized zone that separates North from South. Deployed in bordering Chinese and Soviet territories are thousands more troops, which might be drawn into any future war on the peninsula.

For the past three decades this military standoff has created a kind of stability. No major battle has been fought since the signing of the cease-fire agreement in July 1953. In recent years, however, a number of developments have begun to threaten the precarious peace. Chief among these are the increased Soviet military involvement with Pyongyang and what might be called the "desperation" factor--North Korea's growing discomfort as Seoul races ahead in economic performance and international recognition. The choice of Seoul as the site of the 1988 Olympic Games is the most visible indication that South Korea is winning the battle for international legitimacy. Pyongyang may be tempted to take action before 1988 to blunt Seoul's successes.

Compounding these concerns, the recent rumors about Kim Il Sung's death focused attention on the possibilities of a North Korean power struggle, reminding the world that the end of an era is approaching in Pyongyang and that there is no guarantee of a smooth and stable transition to the post-Kim Il Sung period. The outbreak of serious political upheaval in North Korea could act as a spark to ignite hostilities between the North and South. This non-event last month warns that Korea may, in fact, be entering the most dangerous period of the past three decades.

Most ominous, however, is the growing Sino-Soviet competition for influence over Pyongyang. China is attempting to use the success of its open-door modernization policies to persuade North Korea to pursue more moderate policies at home and abroad. Moscow wants North Korea to play a more cooperative role in Soviet strategic policy in East Asia and is wooing the North in this direction through the sale of advanced military weapons.

Pyongyang, in what by now has become a finely tuned instrument of North Korean foreign policy, is skillfully using Sino-Soviet competition to further its own ends, i.e., the subjugation, by force if necessary, of the entire peninsula, including of course the Republic of Korea.

Improved North Korean-Soviet military cooperation represents the most dramatic change in Pyongyang's foreign policy since the early 1970s. Most alarming is the Kremlin's willingness to provide North Korea with advanced weapons. Last year, Moscow began to supply the North with sophisticated MiG-23 fighters and surface-to-air missiles.

In return for the military equipment, the Soviet Union has gained valuable strategic access to North Korean ports and airspace. Soviet warships are calling in increasing numbers on North Korean ports. Pyongyang recently granted permission for Soviet aircraft to cross North Korean airspace for reconnaissance and to fly between bases in the Soviet Union and Vietnam. These recent developments in the relationships among North Korea, South Korea, China, and the Soviet Union have altered the balance of power on the Korean peninsula. In particular, upgraded military ties between Pyongyang and Moscow pose a direct threat to stability in the region.

Because of the coming Olympic Games in Seoul, the next two or three years are crucial. To meet the North's growing military threat, Seoul is continuing to modernize its own forces. Despite the current military imbalance on the peninsula, South Korea's improvement program could close the gap by the early 1990s. If this goal is to be achieved, however, the U.S. must continue to work closely with Korea on mutual security issues.

The increased Soviet military presence in North Korea is linked to the overall Soviet buildup in Asia. The strategic implications of this extend beyond the peninsula and affect the stability of the entire region. The U.S. must work closely with South Korea, Japan, and other Asian allies to counter these developments, which are bound to present new challenges for the U.S. and Korea. Obviously, the Republic of Korea has an increasing number of economic and security interests that transcend its borders. Thus, by the year 2000, Korea may have begun to expand its contribution to the defense of the Northeast Pacific.

Already, the extension of Japanese defense capabilities has begun to alter the current security pattern in the region. Tokyo has gradually increased its defense expenditures, pledged to take a more active role in protecting sea lanes in its vicinity, and stepped up its cooperation with U.S. military forces in Japan. Similarly, Korea may one day be in a position to expand its naval and air capabilities to the strait between Japan and Korea as well as the waters south of Cheju Island.

Balanced cooperation among the Republic of Korea, the U.S., and Japan will certainly promote regional stability and protect the shared interests of the three nations. The specifics of this changing relationship remain to be seen and will depend upon a number of variables. I believe, however, that any expansion of the Republic of Korea's military role beyond its borders must not come at the expense of its ongoing efforts to redress North Korea's military edge. Once Korea closes this gap, it will be time to discuss alterations in the long-range course of U.S.-ROK defense cooperation.

Finally, no serious discussion of security issues as they relate to Korea would be complete without touching upon the ultimate fear:

the threat of nuclear warfare. In recent years, the Soviet Union has steadily increased its nuclear forces in Asia, where it now deploys 135 SS-20 intermediate range missiles, 85 Backfire bombers, and 31 ballistic missile submarines.

For years, the superpowers have accepted the theory that, since there was no way to defend against a nuclear attack, only a "balance of terror" that provided for "mutual assured destruction" would sustain a credible deterrence against the offensive use of nuclear weapons. The unfortunate result is that today we are faced with an escalating arms race.

Technological advances in recent years, however, have dispelled the notion that an effective strategic defense against nuclear attack is impossible. Breakthroughs in advanced technology related to high-speed computers, lasers, particle beams, and other areas now offer the promise of an adequate, cost-effective strategic defense system.

The goal of President Reagan's Strategic Defense Initiative (SDI) program is to make nuclear weapons "impotent and obsolete" and create a new environment that stresses defensive rather than offensive capabilities. As the Korean peninsula is one of the world's potential hotspots, the importance of SDI to the ROK's national security and, quite possibly, its survival are obvious.

Incidentally, there are enormous spinoff advantages to the development of the SDI program. Ongoing and future research programs will produce dual-use technological breakthroughs in areas such as telecommunications, fiber optics, and computers. The ROK stands to gain much from these joint ventures, which will result in profitable high-tech transfers.

In March 1985, the U.S. Secretary of Defense sent letters to Korea and other major allies around the world inviting them to join in SDI research and development projects. I am hopeful that Seoul will soon signal its willingness to join the U.S. and other free world allies in this monumental endeavor. With your help, we may be able by the year 2000 to reduce dramatically the risk of nuclear destruction, even as we all share the technological spinoffs.

KOREAN UNIFICATION

Central to most questions relating to ROK security is the issue of North-South relations and the aspiration of all Koreans for eventual reunification of the peninsula. Over the next few years, Seoul will continue to maintain a high state of defense preparedness, pursue policies designed to ease tensions on the peninsula, and attempt to engage North Korea in good faith negotiations. For its

part, the U.S. should continue to support Seoul's reunification policies and avoid direct contact with North Korea at least until substantial progress is made between the North and South in bilateral talks.

More and more, conditions favor the ROK in this diplomatic standoff. South Korea, of course has for some time been consistently outperforming the North in economic development. North Korea's backward centrally planned economy makes it increasingly difficult to maintain past levels of military expenditures while, at the same time, the ROK's current defense program is closing the military gap between North and South. By the year 2000, South Korea's economic strength will be six or seven times that of the North.

Also, by 2000 regional political factors in Northeast Asia are likely to be more conducive to tension reduction on the Korean peninsula. The Republic of Korea's bold open-door policy has resulted in the development of informal economic, cultural, and sports exchanges with the PRC. As long as the current economic modernization policies in China continue, this trend should be sustained, and eventually it should exert a moderating influence on Pyongyang.

I hope that, by the year 2000, we can fulfill the goal of cross-recognition, with the PRC and the Soviets recognizing South Korea, and the U.S. and Japan establishing ties with the North. This arrangement would channel some of the potentially dangerous tensions in the region toward economic and political rather than military competition.

Through the adoption of the Taiwan Relations Act and other unique policy measures, the U.S. has taken care to promote the security of the people of the Republic of China on Taiwan and maintain a high level of U.S.-ROC economic, political, and defense cooperation. It is also critically important for Korea to sustain its traditionally close ties with the Republic of China.

By the turn of the next century, I hope to see an ambience that will be most conducive to reunification: regional stability and superpower support for serious North-South negotiations and a strong Republic of Korea national defense that will allow Seoul to bargain confidently from a position of strength.

ROK DOMESTIC POLITICAL DEVELOPMENT

In regard to the internal Republic of Korea political arena, the current debate over proposed revision of your constitution has focused considerable U.S. attention on your country. While some in the U.S. call loudly for the "restoration" of democracy in Korea, a survey of modern history reveals that Korea has in fact experienced precious

little democracy. Since the founding of the Republic of Korea, its political culture has been dominated by prolonged one-man rule and the politics of confrontation.

The challenge for the Korean people and their political leaders is to carry out lasting democratization measures using a systematic and reasoned blueprint. Under the leadership of President Chun Doo Hwan, there has been significant progress in Korea's political development. For instance, the tragic reality is that the Republic of Korea has never experienced a peaceful transfer of executive power. President Chun has consistently stressed his intention to step down in 1988 and fulfill the single-term clause in your constitution. Thus, one hallmark of the Chun Administration will be the end of perpetuation of power by a single individual. Since the institutionalization of stable political succession is absolutely essential to true democracy, the significance of this cannot be overemphasized.

Similarly, the government's decision earlier this year to consider constitutional revision was another sign of Korea's political maturity. The National Assembly is now grappling with the historic question of which system of government best suits the Korean people. Not surprisingly, there are sharp disagreements. While the debate has been lively and at times heated, I expect that an agreement will be reached in the spirit of dialogue and compromise that is fundamental to all democracies.

The resolution of this constitutional issue will represent the next major step in Korea's political development rather than the completion of that process. Real democracy cannot be established overnight. The evolution of Western democracies is a case in point. Heavily influenced by the Judeo-Christian heritage, democratic theory and institutions in the West evolved gradually over hundreds of years. My ancestors fought major philosophical battles over the role of the church in statecraft, the "divine right" of rulers, and the scope of individual freedoms. As a result of this evolution, modern Western democracies have for the most part institutionalized the concept of fiduciary trust, whereby political authority flows from the people.

Of course, the last 500 years or so of Korean history could hardly provide a more stark contrast. You are faced therefore with your own unique cultural obstacles, which are fundamentally different from those faced by the West. I am not suggesting that Korea is incapable of achieving democracy. But I do not believe that democracy will spring up full-blown as a result of decree or legislation. For democracy is not simply a political system spelled out on a piece of paper called a constitution. It is, rather, a state of mind, which allows differing views to reach consensus on important national issues. It is the institutionalization of effective political parties

and interest groups, a responsive government bureaucracy, fair elections, and stable political succession.

Korea is making real progress in the construction of this necessary framework, and it must continue to do so in a reasoned and step-by-step manner. Therein lies democracy's real challenge for the Republic of Korea.

I am confident that you will meet this challenge successfully. By the year 2000, I believe the world will be witness to a new and stable political era in the Republic of Korea, based on a responsive political system befitting a nation of Korea's stature.

CONCLUSION

On the whole, the Republic of Korea's outlook for the foreseeable future is quite bright, despite the numerous potential pitfalls that will challenge that outlook between now and 2000. Judging by the amazing progress your nation has made since the turn of this century, I am convinced that Korea has the national will and human resources to become a developed nation in every sense of that title by the early part of the 21st century.

As we move toward what should aptly be regarded as the "Pacific Century," U.S.-ROK political, economic, and security ties are rapidly coming to represent one of America's most important and productive alliances. Quite frankly, though, we still face a formidable obstacle: U.S. perceptions of the Republic of Korea are often characterized by widespread misconceptions. For instance, despite Korea's remarkable economic growth, Americans tend to think of the Republic of Korea as a nation still struggling to recover from the ravages of the Korean War--the so-called "M*A*S*H mentality." Recent polls have found that 80 percent of Americans believe Korea still receives massive economic assistance when, in fact, you receive no aid from us. Physical distance and ethnic contrasts further complicate American attempts to understand its faraway ally. So, regarding Korea, there are often significant gaps between U.S. perception and reality.

The Heritage Foundation is working hard to close this gap. Through our aggressive advocacy in Washington for sound U.S. foreign policy toward Korea as well as our efforts to educate the American people through our publications and press exposure to our ideas, I believe we have achieved considerable success so far. And let me assure you that The Heritage Foundation intends to continue these efforts to promote and to expand the close friendship between our two peoples.

#