

UPDATE

10/12/93 | Number 203

AMERICA'S VITAL STAKE IN KOREA'S DEMOCRATIC PROGRESS

(Updating Asian Studies Center *Backgrounder* No. 127, "While in Tokyo and Seoul, Clinton Must Assert American Leadership in Asia," June 30 1993, and *Executive Memorandum* No. 347, "Kim Young Sam's Election Signals Hope for Korean Democracy," December 22, 1992)

Since taking office on February 25, Republic of Korea (ROK) President Kim Young Sam has initiated a flurry of political and economic reforms that are greatly strengthening Korean democracy and opening Korea's economy to American investors. For the United States, it is essential that Kim's reforms result in a stronger South Korea that can better respond to the challenges of eventual reunification with a declining, though dangerous, communist North Korea.

First, Washington must work with Seoul and Tokyo to end Pyongyang's nuclear weapons program by next year—before it is too late to stop it. Second, the U.S. should encourage the free market goals of Kim's economic reforms so that they are not impeded by residual protectionist pressures that could create new barriers to trade and growth. Finally, President Clinton should back up his stated resolve to build stronger U.S.-ROK ties by inviting President Kim to visit Washington this fall.

INCREASING GOVERNMENT ACCOUNTABILITY

As the first president of the Republic of Korea to emerge from the civilian sector rather than the military in more than thirty years, Kim Young Sam has used his legitimacy to undertake a much-needed campaign to improve political accountability of public officials. Declaring there would be "no sanctuary" from the drive, Kim instituted tough reforms that even forced the resignation of members of his own party in the National Assembly. And in his personal behavior, Kim has reflected the popular mood of austerity by reducing lavish entertaining and government perks. This reform campaign has proved very popular; polls show it is consistently supported by 70 percent to 80 percent of Koreans.

OPENING THE ECONOMY

Koreans are concerned about their sluggish economy. Economic growth this year may be only 4.7 percent, compared with higher growth rates in the 1980s. To spur growth, Kim Young Sam correctly has concluded that he must boldly deregulate and open up South Korea's tightly controlled economy. Kim also realizes that he must reduce the economic power of the bureaucracy in order to deter corruption and insure the success of his political reforms over the long haul.

Under a five-year "New Economy" program, the Kim administration has announced its intention to reduce sharply government "guidance" to the private sector, make bureaucratic regulations much more clear and predictable, remove informal barriers to foreign imports, and improve protection of intellectual prop-

erty rights. In the immediate future, Kim has said he will reduce the burdensome size of government by privatizing government-owned corporations.

A key to the success of President Kim's economic program is reform in the financial sector. Today, lack of access to credit is stifling Korean economic growth. In August Kim began the process of financial sector reform by implementing a "real name" system, which will expose the roughly 20 percent of Korea's financial accounts that are hidden under false names. This underground financial sector evolved because of over-regulation and consequent corruption, but it also was a ready source of credit to spur economic growth. By exposing this sector, it can be taxed to fund government programs. But in order to succeed fully, the "real name" reform needs to be followed by removing regulations that prohibit banks from gaining access to foreign funds and that limit foreign participation in the Korean stock market.

CHALLENGES TO PROGRESS

Kim's reform agenda faces both domestic and foreign challenges. These include:

Bureaucratic resistance to reform. The promise of Kim's ambitious economic reform program may be threatened by some within his own entrenched government bureaucracy. A recent *Asian Wall Street Journal* article charged that "elite bureaucrats... are impeding the country's evolution toward a mature industrial economy" by maintaining "an array of tariff and nontariff barriers."¹

Using his strong popularity and unquestionable legitimacy, President Kim and his top officials can overcome these obstacles to the success of their historic reform movement. Eliminating trade impediments and slashing government red tape and regulation can set the stage for accelerated economic growth. Foreign investment in Korea, which has slowed considerably in recent years, will be bolstered by these moves, as well.

North Korea. With more than one million men under arms, the totalitarian regime of North Korea's 81-year-old Kim Il-sung persists in its effort to build nuclear weapons. Many attempts this year by Washington, Seoul, and the International Atomic Energy Agency to convince Pyongyang to stop its nuclear weapons program have proved futile. Upon completion of its second nuclear reactor, North Korea may be able to make up to seven nuclear weapons a year. In late September, President Kim Young Sam declared that "North Korea has enough nuclear material to make up to three bombs...."² A nuclear-armed North Korea will destabilize Asia, as countries like Japan seek their own nuclear weapons. Pyongyang also might sell nuclear weapons to such radical terrorist states as Iran. This could destroy the Middle East's tentative steps toward peace and threaten Europe or America with a terrorist act of enormous violence. Also looming as a threat to South Korea's reform agenda is the possibility of a violent internal collapse of Kim Il-sung's regime. There are increasing reports of unrest caused by extreme food shortages. South Korea would likely have to assume most of the estimated \$300 billion cost of Korean reunification.

AMERICA'S CRITICAL ROLE

Since the Korean War, peace on the Korean Peninsula has provided a foundation for peace in Northeast Asia. America's steadfast support for South Korea has helped deter Kim Il-sung from making good his promise to reunify Korea under his terms. Now in its terminal phase, Kim Il-sung's regime is becoming more dangerous and unpredictable. America's continued support for South Korea remains critical to ensure that a reunified Korea will be a cornerstone for peace in Northeast Asia through the next century. With

1 *Asian Wall Street Journal*, August 11, 1993, p. A9.

2 *Korea Herald*, September 26, 1993, p. 2.

peace in Northeast Asia secure, Washington can more easily achieve such important goals as reducing barriers to America's trade with Asia.

During his visit to South Korea last July, President Bill Clinton provided strong assurances of Washington's continued support. Clinton warned that if North Korea develops and uses nuclear weapons, "we would retaliate quickly and overwhelmingly." However commendable, Clinton's rhetoric is not supported by his new defense posture. For example, Clinton plans to reduce active U.S. Army divisions from fourteen to ten. Koreans are concerned that required American reinforcements may not arrive should North Korea decide to strike while U.S. forces are engaged elsewhere. To continue to promote peace and prosperity on the Korean Peninsula, Washington must:

✓ **Fulfill defense commitments to South Korea.**

Planned U.S. force reductions must not be allowed to detract from the U.S. military's current ability to reinforce South Korea rapidly in the event of a North Korean attack. Today, South Korea's 700,000 troops carry most of the burden for deterring North Korean attack—but they still require the presence of the 36,000 U.S. troops in the ROK. The U.S. should continue to conduct annual U.S.-ROK combined forces exercises like "Team Spirit," which tests U.S. capabilities to reinforce South Korea.

✓ **Pressure North Korea to end its nuclear weapons program.**

Seoul and Washington have made it clear that North Korean moderation will be answered with economic cooperation and political recognition from Western nations and Japan. But, repeated attempts by Washington and Seoul to convince Pyongyang to end its nuclear weapons program have all been rebuffed. The price of failing to stop Pyongyang may be nuclear terrorism against Asian, American, or Israeli cities in 1995. Through mutual consultations, Washington and Seoul should prepare to ask the United Nations Security Council to consider a wide range of sanctions against North Korea if it refuses to bring its nuclear weapons program to an end. These should include political censure in the near term and economic sanctions in the medium term.

✓ **Support Kim Young Sam's free market economic reforms.**

Washington should strongly encourage the implementation of Kim Young Sam's ambitious economic reform agenda, especially measures designed to increase foreign access to Korea's markets. Washington can support Kim in three ways. First, the U.S. must inform Kim when Korea's bureaucracy contradicts his reform agenda. Second, Washington should work more closely with Seoul to identify opportunities for American businesses as President Kim proceeds with his market-opening plans. Third, Washington must provide leadership to reduce trade barriers throughout Asia. For example, during the November 17-19 meeting of the Asia Pacific Economic Cooperation (APEC) forum in Seattle, President Clinton should propose the eventual goal of an Asian-American free trade alliance. Lower trade barriers in Asia will mean greater opportunities for trade for Koreans and Americans, which will increase economic growth in both countries.

✓ **Arrange a November summit with President Kim and President Clinton in Washington.**

When Clinton visited Seoul in July, he invited Kim to Washington. Since Kim will travel to Seattle in mid-November, he should be asked to come to Washington around that time for formal talks with his American counterpart. This would be a good opportunity for the two relatively new leaders to solidify their personal ties and strengthen the U.S.-ROK alliance. Congressional leaders should also take note of Kim's visit to Washington and commend him for his lifelong support for democracy and freedom in Korea.

The obstacles to President Kim Young Sam's political and economic reform remain. But the value of Kim's success cannot be overstated. A strong and democratic South Korea will eventually lead to a reunified Korea that stands as a solid cornerstone for stability amidst the potential turbulence of Northeast Asia. To assure peace, resolving North Korea's nuclear threat must become Clinton's first priority in Asia. For the long term, to build upon peace, Washington must also declare its intention to seek free trade in Asia, and continued support for democratic reformers like South Korea's President Kim Young Sam.

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