

**A NEW ERA OF U.S.-KOREAN RELATIONS:
THE IMPACT OF U.S. AND KOREAN PRESIDENTIAL ELECTIONS**

**JOINT CONFERENCE OF
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EXECUTIVE SUMMARY

The conference title referred to a "new era" in US-Korean relations, and a prominent theme in the discussions was the need to refurbish the alliance and how the new ROK administration is committed to this. The relief that this problem was being tackled was coupled with less certainty as to how the upcoming American elections would affect the alliance. Of concern in this regard was the uncertain prospects for ratification of the Free Trade Agreement by the Congress, with the conference participants learning that Congress would not take up the FTA until next year. On military adjustments of the alliance, there was openly expressed resignation to the fact that the OpCon shift cannot be reversed alongside criticism that it will not be good for the alliance warfighting capability. There were strong assertions that the ROK needs an upgraded BMD system, and that it should participate more directly in the Proliferation Security Initiative. The underfunding of Defense Reform 2020 was repeatedly noted and criticized.

But the participants agreed that change was coming that was intended to finally begin repairing the damage done during the Roh-Bush years. Also discussed and understood was that the alliance is shifting toward greater ROK participation in a more globally and regionally oriented alliance, but concern was voiced that the Koreans have yet to lay out their plans and expectations on this. There were repeated reaffirmations of the underlying health, value, and strength of the alliance, reinforced by indications of strong support for the alliance and for the US in Korean public opinion, particularly in comparison with distinctly less favorable public attitudes toward Japan and China.

The North Korean problem may have received even more attention than usual at a Council conference. This reflected concern that the momentum of the 6-party talks had been halted and that some of the progress made was dissipating. There were familiar assertions that the North is demonstrating that it will not, and cannot, give up nuclear weapons, truly undertake domestic reforms, and significantly open up to the outside world. Added this time was fear of a possible political crisis in the North related to Kim,

Jong Il's health and the desperate state of the economy. It was generally agreed that the other governments in the 6-party talks are insufficiently prepared for the plausible North Korean contingencies, particularly because they have not had serious conversations about who might intervene in the North, under what circumstances, how, and for what purposes. Several participants cited Chinese behavior as indicating that Beijing has a plan, or plans, for intervention, that it does not want unification, and that it is ready to occupy or at least seek a sphere of influence in North Korea.

There were assertions that ROK-Japan relations need improvement and that vigorous, trilateral cooperation should be instituted, for example in maritime security matters. Repeated calls were issued for more attention to China's views and plans, the implications of its rising power and presence, and its important role on the North Korean issue and the future of the peninsula.

Extensive analysis was offered on the new Korean government's economic plans and goals, as they were initially outlined after President Lee's election and then in the revised version forced by the intense demonstrations over the lifting of the ban on American beef shipments, demonstrations that temporarily shut down the political system. The planned economic reforms were carefully reviewed and evaluated, including assessments as to how they will now fall short in terms of their results. One of the major papers on this also emphasized how far the ROK had departed from the model for rampant economic growth introduced by Park, Chung-hee, insisting that emphasis on economic egalitarianism in recent decades, however politically appealing, had been economically costly.

On the FTA, careful analyses were presented on its planned and probable effects along with repeated references to how vital ratification is for the health of the alliance. The consensus was that it will be ratified, probably after alterations to meet American criticisms. Ratification was described as crucial as well for continued US leadership and influence in East Asia.

There were few expressions of support for the Sunshine Policy and President Roh, Tae-woo's later version of it. Presentations detailed its limitations and the scale of aid and other economic support that had been given to the North with little to show for it. Information was provided about President Lee's plan to deliver even greater assistance to the North but only in exchange for important concessions by Pyongyang. This insistence on reciprocity was repeatedly endorsed.

One of the highlights of the conference discussions was the important contributions provided by the presentations from South Korea's Ambassador to the US Lee, Tae-sik, Representative Ed Royce, Representative Lee, Jay-oh, and Wendy Cutler, chief US negotiator of the FTA. They provided important and highly up to date information as well as insights from their experience and expertise for the conference discussions

A REPORT ON THE JOINT CONFERENCE 2008

The Joint Conference, which was also the 23rd Annual Conference of the Council on US-Korean Security Studies, was held at the Heritage Foundation in Washington, DC. **Dr. Kim R. Holmes**, Vice-President of the Heritage Foundation, opened the conference at 9:15 a.m., pointing out that it was meeting at an important time in view of recent developments in Korea, particularly the election of President Lee, Myong-bok. The election was well received in Washington, where improved alliance relations and better economic ties between its members are anticipated. However, President Lee has had a difficult start in office. On the other hand he had a rough start as the mayor of Seoul too, and went on to great success. The Heritage Foundation is optimistic about the future - US-ROK ties will grow. President Lee is pro-market, as well as very much in favor of engagement with North Korea. He will maintain strong ties with the US no matter which party in the US wins the upcoming presidential election.

General (Ret.) John H. Tilelli, Jr., Co-Chairman of the Council on U.S. - Korean Security Studies (COKUS), then welcomed everyone to the opening session, calling it a gathering of people who love Korea. He thanked Dr. Holmes and Heritage for hosting and helping organize the conference, praising their "yeoman work." He then made several points in looking forward to the conference discussions. Future US-Korean relations will be as challenging as they have been in the past. The alliance is now under repair after a period of strain. Next, the alliance remains very strong. In this connection, the shift of Operational Control (OpCon) from American to Korean forces must be done right, maintaining security during the transition. Optimism about what North Korea will do never works, so having a strong alliance and enhancing the power of the US and the ROK are the keys to future security.

He thanked COKUS Co-Chairman General (Ret.) Kim, Jae-chang, Dr. Hong, Nack Kim, President of the International Council on Korean Studies, and General (Ret) Paik, Sun-yup, the founding Co-Chairman of COKUS for their work in putting the conference together. He expressed appreciation for the participation in the conference of the Honorable Lee, Jay-oh, National Assembly Representative and Supreme Council Member of the Grand National Party. He concluded by calling for no-holds barred discussions at the conference.

General (Ret.) Kim, Jae-chang, COKUS Co-Chairman, opened his remarks by introducing General (Ret.) Paik, Sun-yup, General (Ret.) Robert Sennewald, former Co-Chairman of COKUS, and ROK National Assembly Representative Lee, Jay-oh to the audience. He welcomed the arrival of the new era referred to in the theme of the conference. It should be an era of even better relations and better interchanges between the alliance members. Needed at this conference, he noted, was active and even heated debate in the sessions.

Dr. Hong Nack Kim, speaking for the International Council on Korean Studies to welcome the participants, called attention to the new era in US-Korean relations as well. It will pose new challenges and problems. North Korea is now reassembling part of the Yongbyon reactor, which is a serious challenge. Denuclearization of the peninsula remains vital and we need a good discussion on this during the conference. He concluded by expressing appreciation for the many experts from the ROK, the US, and Japan who had gathered for the event.

Mr. Walter Lohman, Director of the Heritage Asian Studies Center, then introduced Representative Lee. In introducing Representative Lee he noted that he was a champion of democracy for years and was arrested for it. First elected to the National Assembly in 1996, he has been floor leader of the Grand National Party (GNP) He is close to President Lee, having run his mayoral campaign in the past. **Representative Lee** thanked Heritage for arranging the conference and thanked the assembled experts for attending and providing their thoughts on the new era. The Representative began his comments by expressing appreciation to General (Ret.) Paik, Sun-yup, (the distinguished Korean war hero and former ambassador - among his many accomplishments), saying that it was an honor to have him at the conference. The history of the US-ROK relationship is now over 100 years old. While it has had periods of conflict, good relations have been the norm and Koreans remain grateful to the US for its help and sacrifices during the Korean War. Our two nations have shared values - especially freedom and justice. We have displayed these shared values during the Vietnam War and in the Iraq War. Now we have entered the era of President Lee, and the US will shortly be getting a new president as well. Their main challenge will be to minimize conflict and maximize cooperation between our two nations.

As for North Korea, it needs to do some soul searching about the effects of its nuclear weapons program on the welfare of the Korean peninsula. Instead of nuclearization, North Korea's leaders should deal with the hunger problem in their country. The government there is now in a crisis. It needs to undertake reforms and display openness. We must hope that President Lee and the new US president will be in accord on dealing with the North.

On another aspect of US-Korean relations, the Korean government and its National Assembly are looking forward to ratification of the Free Trade Agreement this year, if possible. Ratification will strengthen our ties and the alliance. I truly hope it happens this year as President Bush has promised. Of course, various elements in the agreement will need reexamination by both sides. Resolving the remaining difficulties and achieving ratification will clear the way for even better relations.

He concluded by anticipating that the conference discussions would be fruitful, and saying that they would be influential in the ROK. With that, the conference participants turned to the first panel of the day.

PANEL I: NEW GEOSTRATEGIC DYNAMICS ON THE KOREAN PENINSULA

Moderator: Mr. Walter Lohman, Director, Heritage Foundation Asian Studies Center

Papers or Presentations:

Professor Victor Cha, Georgetown University
Professor Ilpyong J. Kim, University of Connecticut
Professor Chun, In-young, Seoul National University
Mr. Dan Blumenthal, American Enterprise Institute

Discussant: Dr. Nam, Sung-huh, Korean National Defense University

The Moderator noted, in introducing the panel members, that Professor Cha had served in the Bush Administration on the National Security Council, that Mr. Blumenthal had served in the Department of Defense and worked on the Annual DOD Report on China, that Professor Kim was now emeritus after 35 years of teaching and had been a ROK army officer with a bronze star from the Korean War, that Professor Chun had

served in the ROK army as well and was a specialist on North Korea, and that Professor Nam had his Ph.D in military history.

Paper: "Three Challenges for the U.S. and South Korea Under the Next American Presidency" by Dr. Victor Cha

Professor Cha started by acknowledging the pleasure of addressing a roomful of people who built the US-ROK relationship. He also apologized that he would have to leave the panel a bit early to catch a plane to Seoul. He started his remarks by giving the record of the US-ROK relationship in the past few years a positive assessment. It has been better than many predicted it would be a few years ago and offers a good foundation for the incoming US administration to build on. Despite all the gloom about how the alliance was in trouble, it has seen more positive changes in the last 5 years than in any half-decade in its history. This was also contrary to the conventional wisdom that the leftist Roh administration and the hawkish Bush administration were incompatible because Roh's engagement policy toward the North clashed with the American view that it was a terrorist threat.

I know personally how difficult the tone was in the alliance at that time, but there is a difference between tone and substance. Commentators and pundits tend to judge alliances from the rhetoric of the moment - taking a kind of cross-sectional view. But alliances are best assessed longitudinally, by outcomes over a long period of time. Any alliance will have periods where the tone of relations looks bad up close, which is true in US-British or US-Japan relationships. What matters is whether the partners can still reach agreements and work together in difficult times. In this regard the past five years posed one of the toughest tests of the US-ROK alliance's strength and resiliency.

During that time the allies agreed on a major base alignment and force restructuring agreement, with the most far-reaching changes in US forces in Korea since the Korean War, including their removal from the DMZ, the shift of USFK headquarters out of Seoul, and the return of over 60 military installations to the ROK. The agreement on returning wartime operational control to the ROK by 2012 is a watershed. These changes maintain the US commitment while, as in Japan, reducing civil-military tensions.

An informal and highly effective channel between the two national security councils was opened, as was a Strategic Consultation for Allied Partnership dialogue (SCAP) at the foreign minister level, helping expand the scope of the alliance beyond the peninsula. Like Japan under the "global alliance" concept, the ROK provided a (third largest) contingent of ground troops in Iraq for humanitarian missions and providing protection for USAID and UN offices. It provides a field hospital and logistics support in Afghanistan, and sent 350 troops for operations in Lebanon.

Here are the most important challenges for the future. First is ratification of the Free Trade Agreement (FTA), the largest bilateral FTA the US has negotiated. It is impossible to overstate the importance of the FTA. It deepens the two nations ties well beyond the military relationship and is vital for the alliance, for broadening and increasing trust in it. It is also a deal of very high quality. Many people doubted that the FTA could be achieved. Now that it has been, many in Asia see it as a model for the future, so US relations with others in Asia are at stake in the ratification process. Nonratification would be seen as a setback to the alliance and erode US leadership in Asia. This is particularly the case because the US has always been a champion of free trade. Protectionist sentiments now are the highest since the Smoot-Hawley era, and dropping the FTA would be walking away from free trade and yielding our leadership position in Asia to China. Even though it would not end the alliance, given our common values and interests, it would allow ROK-European and ROK-China relationships and proposed FTAs to move ahead, putting US firms at a disadvantage. In the wake of the failure of the Doha Round, the US-Korea FTA is seen as a model for using a network of FTAs as a substitute. Obviously, the outcome is a larger strategic matter.

Next, the beef demonstrations earlier in the year revived memories of some perennial difficulties in the alliance when they were seen as signs of ROK nationalism and latent anti-Americanism. But the protests are not important for those reasons. They were not about beef, which is quite safe - when the restrictions on beef imports were dropped US beef promptly took 39% of the market. The media in the US have been taking note of the demonstrations against President Lee. Thus they were not about President Lee having made a bad deal on beef imports, or a sign of the vibrancy of democracy in the ROK, as American media coverage suggested. The demonstrations

have actually crippled the country, inflicting costly production losses of up to \$2.5 billion. The demonstrations were a sign of a fundamental problem - Korean leftists have to learn to express discontent and operate effectively within the framework of democratic institutions, now that the left is out of power for the first time in over a decade. The rapid rise of the left and the "3-8-6 generation," and then the scale of its recent electoral defeat (President Lee was elected by the widest margin since 1987), was unprecedented. But the left which had so strongly pressed for democracy promptly, instinctively, took its protests to the streets, with even opposition party legislators involved, and this is harmful to Korean democracy.

The third challenge is preparing for change in North Korea, a development which could have immense repercussions in the region, would have implications for Chinese and Japanese security and would raise the possibility of a "loose nukes" crisis. The regime may well come under major stress soon. Rumors have been circulating about Kim, Jong-il's health, with two heart procedures having been needed in the last two years, and his rule may now be close to ending; another stroke could be incapacitating or debilitating. If Pyongyang doesn't go through with the nuclear weapons agreement the others in the six-party talks will turn to tighter sanctions putting greater stress on the regime. But even if things go well after all, and lead to broader and more normal interactions with the outside world, this would also mean major stress for the regime and possibly threaten its political control. The typical American view is that North Korea is reversing course on the agreement because it insists that it should be dropped from the State Department's terrorism list. Given its actions, this is possibly the case. However, perhaps its action is not about the agreement and its implementation. Maybe it is due to the internal leadership situation - maybe the leadership is feeling weak and in disarray, feeling somewhat ignored. Something is wrong with the leadership.

If so, what should we be doing? We should be engaging in better joint planning, particularly on a possible leadership transition. The alliance has a well developed plan to meet another North Korean invasion, but only a "Concept Plan" for an implosion has been developed and work on that was suspended by President Roh. Now that work must be revived and updated. The ROK and US must also talk with China about this once the plan has been discussed with Japan. All this must also be done quietly. The number of

questions to take up is substantial: how to know when the situation warrants outside intervention? Who makes that decision? Which of the outside powers does what in an intervention? Etc. Presumably the ROK would try to handle civil order, the US would seek to secure the North's nuclear weapons, missiles, and facilities, and China would want to stabilize the northern border lest they be misinterpreted. Getting some transparency about the motives for North Korean actions is very important. While it is understandable that discussing a possible collapse is very sensitive and might be misinterpreted as an effort to bring down the regime, the effects of a collapse would be so great that it is important to plan in advance.

The panel moderator, before turning to the next panelist, agreed that the FTA is central and its ratification is vital. However, the timing will be different than planned as it is unlikely to be ratified this year under this administration.

Paper: "Chinese Policy Toward the Two Koreas" by Professor Ilpyong J. Kim

Dr. Kim opened by noting that 15 years ago he had served on Victor Cha's dissertation committee, and mentioned that Professor Cha has a new book coming out. He also noted that when he was in the army he served in the G-2 and was involved with Chinese prisoners, to indicate that he has had a long interest in China. While this interest has not been in the forefront recently, Hugo Kim asked that it be revived for this conference presentation.

China has always backed North Korea, citing the "lips to teeth" nature of their relationship to characterize its support. It saved the North with its intervention in the Korean War and has provided a security umbrella for the North since then. For years China had a one-Korea policy, and a virtual security pact - The North Korea-China Friendship Treaty - that came into effect in 1961. It has provided diplomatic support, loans, grants, and trade relations. In particular, China has been the North's major supplier of oil, usually at low prices. Kim, Jong-il has often visited China.

But this relationship has shifted considerably since Beijing established diplomatic relations with the ROK in 1992. This was after the Roh, Tae-woo government moved to open links with the North in its engagement policy, a campaign that culminated in the 1991 signing of the Agreement on Reconciliation, Nonaggression, Exchanges, and

Cooperation, and the Joint Declaration on the Denuclearization of the Korean Peninsula on keeping the peninsula free of nuclear weapons. Since those developments China has steadily improved relations with the ROK and now has essentially a two-Korea policy.

The North Korean nuclear program goes back more than five decades. Initially it involved North Korean nuclear scientists studying in the Soviet Union and various other countries, then Russian help in the construction of the research reactor at Yongbyon and the creation of a related research center. In the 1980s a nuclear weapons program was initiated with DPRK development of facilities for uranium fabrication and conversion. The work continued even though the North signed the NPT in 1985, and it refused to sign a safeguards agreement with the IAEA. Only after signing the Declaration on Denuclearization did the North finally get around to a safeguard agreement with the IAEA in 1992. But the North was soon operating nuclear fuel reprocessing facilities and then in 1993 it withdrew from the NPT.

That set off a crisis with the US which finally led to the Agreed Framework in 1994. The North agreed to dismantle or freeze construction on three nuclear reactors and freeze operations at its nuclear reprocessing facility plus open a dialogue with South Korea, in return for heavy oil shipments, construction of two light-water reactors by the West, and improved relations between the US and the DPRK.

Over time, relations and contacts between the North and both the ROK and the US improved and, with the creation of the Korean Energy Development Organization (KEDO) construction on the light-water reactors was initiated. But the arrival of the Bush Administration saw the president eventually describing North Korea as part of the Axis of Evil, the US charge that the North had a clandestine uranium enrichment program, and the scrapping of the Agreed Framework. The North promptly reinvigorated its nuclear weapons program with various steps that were to culminate in the North's nuclear test in 2006 after a 2005 test of a long range missile.

The response was the initiation of the 6-party talks in 2003 at the insistence of the US, which wanted to abandon bilateral talks with the North. Progress was slow until the US agreed with the others that reaching an agreement on compensation to the North should come before specifying the details on the North's abandonment of its nuclear weapons program. This opened the door to the Joint Statement of September 19, 2005.

In addition to establishing the framework for resolving the nuclear weapons conflict, the parties agreed on opening extensive relations with the North, the US agreed to respect the North's sovereignty and independence, and all parties agreed to cooperate on long term peace and stability in Northeast Asia.

In helping create, then hosting, the six-party talks China became an active participant in resolving the North Korean nuclear weapons proliferation problem. It was instrumental in keeping the negotiations going when impasses arose and after the North Korean nuclear test. However, it also displayed a harsh reaction to the North Korean test that included imposing some limited sanctions on the North, even as it also continued to ship food and oil to the North out of concern for its possible collapse. Finally, in February 2007 the talks produced an agreement that initiated North Korean denuclearization efforts, with provisions for outside monitoring and verification, in exchange for a million tons of fuel oil shipments or equivalent aid

In general, on denuclearization China has sided more with the ROK than the North. Economic issues and ties dominate China-ROK relations, which have included summit meetings in 2005 and (two) in 2008. The latest meeting declared that their relationship is a "strategic cooperative partnership." China wants the ROK to be within its sphere of influence as opposed to Japan's.

Broadly speaking, China's close relations with the North have been for purposes of security. It also wants to retain a solid partnership with Seoul and supports the goal a peaceful Korean unification. The ROK, North Korea and China will eventually have to talk about reunification together.

Paper: "Inter-Korean vs International Relations: A Korean Perspective" by Professor Chun, In-young

Professor Chun began by suggesting that the title of the paper he had been asked to deliver might be too broad. In inter-Korean relations there has been considerable strain at times. And US-DPRK relations have been very strained by the Iraq War and the nuclear weapons issue. The collapse of the Cold War and then of the Soviet Bloc eventually led to agreements with North Korea. The greatest concern of the North was achieving a nonaggression agreement. In this regard North Korea is very sensitive to the

emergence of bad situations in either the global or the Northeast Asian regional system. The North also tries to exploit any openings it perceives. This is what it is doing now, exploiting the opportunity offered by the Americans' preoccupations with their domestic affairs. It is waiting on the arrival of a new administration.

Japan, Russia, China, the ROK, and even the US have been doing very well in recent years. North Korea is the exception in the Northeast Asian region. As for the regional situation, during the Cold War the US reached a variety of agreements with the Soviet Union and this is what it needs to do now with China on regional affairs. The China-Japan relationship seems stable and a China-Japan arms race seems unlikely. The ROK can continue to lean a bit toward China, or even balance a bit between China and Japan or China and the US, but the US is, and will remain, its prime ally. While this current stability in the region is very pleasing, we can't assume that it will continue indefinitely and must be prepared for big changes that could come.

North Korea is very tough to deal with, but if taken seriously the regime will negotiate. The current reassembling of the nuclear reactor is a typical negotiating tactic of the North. In addition to these difficulties, the relations between the two Koreas are affected by both international and domestic factors. There is a certain recognizable pattern to all this. As a result, North Korean reactions can be somewhat anticipated.

North Korea will certainly keep its nuclear weapons for as long as possible for the leverage they offer. The US and other governments must behave accordingly.

Paper: "The Future of US Policy Toward North Korea" by Mr. Dan Blumenthal

After thanking the organizers for his invitation to make a presentation, Blumenthal noted that he works on China matters at the American Enterprise Institute.

Since Assistant Secretary of State Kelly met in 2002 with the North Koreans and accused them of having a uranium enrichment program, efforts in the ensuing six years have still not resolved the North Korean nuclear weapons problem. Just the efforts to do so have strained the US alliances in the region somewhat. The key is to keep our eye on the long term, not just the immediate issues. Our vital objective is denuclearization on the peninsula, something we have been talking with North Korea about for some 20 years. At some points the discussions were not seriously pursued due to expectations of many

analysts that the North Korean regime would collapse. Instead, it has survived on outside assistance and international criminal activities. Given the nature of the regime we must "distrust and verify."

What is clearly needed is a set of North Korean economic and other reforms combined with better international behavior on its part. Libya eventually moved to do this, but this was because clearly decided that it wanted to do so. North Korea seems undecided about whether it wants to do the same. However, nuclear weapons are not the only problem we have with the North. We need an end to the conventional forces threat the North poses. We need an end to the North's missile threat to Japan. We need to preserve the US-ROK and US-Japan alliances, and attend to Japan's interests as we pursue security for the region.

China is a major concern. Where is it headed? It *does not want Korean unification*. It is building a sphere of influence along the border with North Korea through its investments and keeps significant military forces close to the border.

The US must also continue to press for improvements on the humanitarian situation in North Korea. China is not helping here either; it is still sending some refugees back to North Korea.

Our core alliances remain vital if we are to have a strong hand in the talks with North Korea and for pressuring China on the talks. The allies do not want rising Chinese influence in North Korea. And we must not let China pry the allies apart, especially if North Korea will continue to retain its nuclear weapons.

Discussant: Dr. Nam, Sung-huh

Dr. Nam said it was a privilege to be asked to participate and pointed out that he was a last minute substitute for the original discussant, giving him only a limited time to get familiar with the papers.

For a good part of its history Korea had its affairs dictated mainly by outsiders. In our time this has included the division of the nation - the great powers like having two Koreas, not one. But this policy of theirs can't last; its collapse is coming. This invites a number of questions (for Dr. Cha):

- 1) in a collapse of the policy will the four great powers seek nonetheless to maintain North Korea's stability and recovery rather than endorse and facilitate unification?
- 2) what will the United States do to prevent a unilateral intervention by China in North Korea?
- 3) what about possible involvement of various governments in dual or broader interventions?

As for China possibly occupying part of the North in some contingency there, I recently visited the southern border of Manchuria and saw a great many Chinese soldiers, some components for pontoon bridges, and new barracks for Chinese forces. Clearly China is prepared to conduct an intervention. What comments do Professor Kim, Professor Cha, and Mr. Blumenthal have about this? After all, a durable peace in the region is possible only if unification is achieved.

Responses by the Panelists

Professor Kim opened this portion of the panel by noting that the new Lee government is seeking closer relations with China. It hopes this will enable it to resolve the North Korean problem. One wonders whether President Lee is hoping that the South can absorb the North or not. Also unclear is whether China will cooperate with the US and the ROK to eventually eliminate the North Korean system. In the meantime, the US cannot be of much help to the Lee government until there is a new administration in place.

Blumenthal reiterated that China does not want to cooperate on dismantling the North Korean system, it wants to stabilize it. It also will not coordinate an intervention with the ROK and the US. The Chinese have their own plans and that is dangerous. **Dr. Chun** agreed that Chinese intervention is quite feasible - saying that he also traveled along the Yalu last summer and saw many boats crossing. China might well send "volunteers" again in a crisis, as they did in the Korean War.

Open Discussion

Dr Hong Nack Kim (West Virginia University), speaking from the floor, said that the Bush administration's policy toward North Korea had been confusing, as it shifted from taking a hard line to being much more diplomatic. Why did this shift occur?

Who is the main architect of American policy on North Korea? **Blumenthal** said that the president had become largely irrelevant on the policy. Christopher Hill is the main policy architect now, with the support of Secretary of State Rice and the president. The US is now acting in a more unilateral fashion than before by pursuing separate talks with North Korea. Within these developments China has shifted to become more like North Korea's patron than before. The North continues to resort to extortion to survive, extortion based on its nuclear weapons program. Until it decides to completely discard its nuclear weapons and alter its behavior the other main problems in the region cannot be resolved. And everything is standing still until a new US administration is in place - all the parties are just temporarily reacting to developments. **Dr. Kim** followed up by asking what will happen. **Blumenthal** said that the current administration is preoccupied with other matters now, like the situation with Georgia in the Caucasus region. So nothing will happen until a new administration takes over.

As Victor Cha left the conference at that point, **Professor Hwang, Eui-gak**, (emeritus) Korean University, asked what the other parties will do if North Korea collapses. He also asked Professor Kim about the new "Strategic Cooperation Partnership" with China - is it an anti-American step? He also asked the panelists whether the US, China, and Japan really want Korean unification. **Blumenthal** replied that, as Cha said, the US and ROK stopped talking about what to do after a North Korean collapse some time ago. This conversation has to resume, and then must be extended to Japan. Not discussing this in advance would be very dangerous. After that, it would be necessary to really press China as to its plans. China certainly has a plan but it isn't sharing it. It has many options.

Kim answered the question about the Strategic Cooperation Partnership. President Lee likes the arrangement but wants stronger ties with the US at the same time. He also wants US forces to remain in Korea. He is not as nationalist about the alliance as President Roh and Kim, Dai Jung were. This poses a bit of a dilemma however, as it will be difficult to pursue both the partnership and the alliance together. **Professor Hwang** suggested that China remains much closer to North Korea than the ROK in terms of its goals on the peninsula. It regards the ROK as still too close to the US, and there are some anti-ROK feelings among the Chinese people and leaders. **Kim** reiterated that

President Lee wants better ties with the US, but to prevent North Korea from reacting negatively to this he also wants to retain good ties with China. **Dr. Hong Nack Kim** found President Lee ambivalent in his policies toward China and the US. But **Professor Chun** insisted that many people in China do not care for North Korea and the lack of reform there, and while they would accept unification they find the status quo all right as well. Russia feels the same way - the status quo is satisfactory and does not harm Russian interests. But, **Hwang** replied, unification is actually vital for sustaining peace in the region. The Moderator then said that he felt **China** was simply not interested in unification, that it liked having the North Korean issue percolating to sustain its leverage.

A series of questions from the floor were collected. One person noted that if we assume a North Korean collapse will occur, planning for it will rest not only on collaboration but also on the soundness of our data on what is going on inside the regime. How good is the data we have now? **Dr. Larry Nicksch** (Congressional Research Service) asked about the possibility of achieving a stable transition with a North Korean military government in power. What if the armed forces were behind the refurbishing of a nuclear reactor there. This would pose the question of whether or not to deal directly with the North Korean armed forces and their agenda that sought to end any threat to the North and particularly any nuclear threat to the North. This is possibly the scenario the incoming US administration will have to face. Is such a negotiation viable - is it something the US could agree to undertake? And if it isn't, then where would the US turn? **Hugo Wheegook Kim** directed his remarks at any panelist who wished to reply. US-Korean relations have been shifting toward being more about the economic than the military relationship. On ROK relations with China the reverse seems to be true. Samuel Huntington has predicted that China will eventually dominate the East Asian region, and ROK trade is already higher with China than the US. What are the implications of all this for US-ROK relations? **Professor Chun, In-young** (Seoul National University) pointed to China's important investments in North Korea and asked: "Does it own North Korea?" Does it own anything there that is valuable? China has also been able to secure a good deal of technology from the ROK. Isn't China seeking domination of the peninsula? Won't it cite its holdings in the North as justification for intervening there if necessary? We have to be realistic about China.

Panel members responded in various ways. **Dr Kim** said Nicksch had raised a good point. Hasn't the US threatened a clear military strike if the North nuclearized in the past? On China, its armed forces could take over in North Korea and we need to prepare for that possibility. **Blumenthal** insisted that China is *already* carving out a sphere of influence in North Korea. And if necessary, China will try to stabilize North Korea unilaterally. As for the Nicksch scenario, could the Chinese armed forces be any more hardline than the North Korean armed forces? With regard to China, its rise is the key issue in Asia. Talks are a means to an end - once we set out our objectives then we can decide what kind of talks with China to pursue. Finally, as to our intelligence on what is going on in North Korea, it is very limited.

Dr. Huh had the last word. The six-party talks have been a waste of time. They can't solve the North Korean nuclear weapons problem - the armed forces will never give them up. Sooner or later the US must face the question of whether to allow this. In fact, it probably can tolerate North Korean nuclear weapons if there is no horizontal proliferation from them. And the US may do this, to the ROK's dismay.

On that note the panel ended, and the conference adjourned for a luncheon.

LUNCHEON AND KEYNOTE ADDRESS: THE HONORABLE LEE, TAE-SIK, ROK AMBASSADOR TO THE UNITED STATES

The Ambassador was introduced by **Dr. Kim R. Holmes**, Vice President for Foreign and Defense Studies and Director of the Kathryn and Shelby Cullom Davis Institute for International Studies at the Heritage Foundation. Dr. Holmes noted how honored the conference was to have the Ambassador attend. The Ambassador was formerly a Deputy Foreign Minister, and has had to meet the challenge of being the ambassador for two Korean governments and during two US-ROK summit meetings. Facing the two governments now is the disposition of the FTA, which would boost trade by some \$20 billion and help to strengthen South Korean economic reforms. The ambassador has been a tireless champion of the FTA all across the US. Heritage supports the FTA and thanks the Ambassador for his work on its behalf.

Ambassador Lee said he was pleased to be able to appear before the participants and to provide them with some relief from their discussions. He indicated that the Heritage Foundation and the Council on US-Korean Security Studies are impressive organizations and thanked them for organizing the conference. Dr. Feulner [the Heritage Foundation President] is very insightful, very knowledgeable about US-Korean relations and has a wide circle of contacts in Korea.

Today Korea celebrates the 60th anniversary of modern democratic government there, against a backdrop of 5000 years of history. The ROK has emerged from the devastation of the Korean War to become one of the world's most prosperous, vibrant democracies, the 11th largest economy, and a contributor to the international community. As President Lee said recently, the nation "was a history of miracles" and Koreans have fought for political freedom because "freedom is the air we breathe." This is, in part, a result of the heroic sacrifices of American men and women in the Korean War, sacrifices that were not in vain. At first, the resulting US-Korean relationship was lopsided, but now it is more interdependent and complex and extending beyond economic, political and military relations to social and cultural matters. And the relationship is growing stronger and increasingly beneficial. It is not one of expediency, convenience, or short-term gains.

In this context, elections in either country will not fundamentally alter the relationship, whatever their particular impact. On the recent elections in Korea, President Lee has promised continued economic growth, a global vision of shared responsibility, and a strengthened US-ROK relationship that addresses issues beyond the peninsula in the region and the world. To that end the two presidents have met three times in less than six months. This shows how far the ROK has come as a leading democracy in the region and the world in just 60 years. President Lee initially met President Bush at Camp David, the first Korean president to be invited there, to initiate their personal relationship. The second summit was at the G8 meeting in Japan in July and stressed the importance of the two nations' economic relationship. In August they met in Seoul, agreeing to press hard for FTA approval. One stumbling block that had to be removed was the beef issue, at considerable political cost to the Korean government. Since then Korea has already imported more than 16,000 tons of American beef which is selling very well. Another

sign of the good relationship between the two presidents is President Bush's support for retaining the US Board of Geographic Names designation of Dokdo as South Korean

I am confident that no matter who is elected in the US in November, US-Korean relations will remain strong. They have always grown stronger no matter which party won the election. As an example, the first head of state to visit President Reagan was President Chun, Doo-hwan. The door to the White House will surely remain open to Korea.

Peace on the peninsula continues to be ensured by the alliance, which has moved from unilateral to mutual dependency over the years. Thus Korea has been one of only three nations to support the US militarily in the wars in Vietnam, Afghanistan, and Iraq. The great interest these days in the health of Kim, Jong-il reminds us how vital close US-ROK cooperation is. We must continue to work closely together on the nuclear issue in the six-party talks. If that issue can be resolved the future of the region will be very bright particularly for the people of North Korea.

The other front burner issue is the FTA, which constitutes a significant decision to upgrade the US-ROK economic relationship substantially. The negotiations were intense but resulted in a mutually beneficial agreement, some highlights of which include:

Further opening a major market for US exports;

Leveling the playing field in Korea for US businesses, farmers, and workers;

Ensuring the US competitive position in East Asia; and

Strengthening US-ROK ties.

The FTA should boost US GNP by \$10-20 billion and increase US exports by \$10 billion. Ratification in the ROK should come relatively easily, but in the US it is mired in politics and it has yet to be considered by Congress and the window for this year is closing.

On another issue, just this week the remaining technical requirements for Korea to participate in the Visa Waiver Program were resolved, after many years of hard work, and Korean visitors will take advantage of this starting in January. An innovative new exchange program, the WEST Program, will promote work, study and travel among young people from both countries.

In summary, the US-ROK relationship has changed and will continue to change, but will remain strong and vibrant given our mutual respect and commitment to democracy and freedom

Dr. Holmes thanked the ambassador for his remarks including his kind comments on the Heritage Foundation and Dr. Fuellner. The conference then returned to its discussions.

PANEL II: THE FUTURE OF THE U.S.-KOREAN ALLIANCE

Moderator: General John H. Tilelli, Jr USA (ret), Co-Chairman of the Council on US-Korean Security Studies

Papers or Presentations:

Mr. Bruce Klingner, Senior Research Fellow for Northeast Asia at the Heritage Foundation

Professor Hyun, In-Taek, Korea University

Dr. Hideshi Takesada, National Institute For Defense Studies, Japan

Dr. Kim, Taewoo, Korea Institute for Defense Analyses -

Discussant: Lt. General Raymond P. Ayres, Jr., USMC (ret.)

Paper: "Evolving Military Responsibilities in the US-ROK Alliance" Mr. Bruce Klingner, Senior Research Fellow for Northeast Asia, Heritage Foundation

After the moderator's introduction of the panel, **Bruce Klingner** began presenting his extensive paper by noting that the two presidents say there has been a shift to a "strategic" alliance. Where does that leave us now? We have a very successful and stable alliance. President Lee's election has added vigor and optimism to the alliance. So why is a change needed? The alliance has been indispensable for Washington's strategic objectives and peace and security in Northeast Asia. However, the threat environment is changing, American military strategy is shifting, and there is a greater desire for autonomy in the ROK. Important improvements in the alliance in the past five years have been overshadowed by strains in the political relationship, arising out of President Roh's desire to play a balancing role in the region and his policy differences with the Bush administration.

However, while agreement on transforming the alliance is established there has been frustration among US officials over the pace of the ROK shift to a "strategic" alliance and development of a new strategic vision for the alliance. There is concern about plans to cut ROK forces and how the Plan 2020 is underfunded and behind schedule. There is uneasiness about the ROK lag in installing a modern missile defense - General Bell has suggested the ROK acquire a theater BMD with PAC-3 and SM-3 missiles that will fit well with US capabilities. South Korea's older F4s and F5s will be difficult to keep operational.

The alliance is already changing and needs to become more robust and values-based. It also needs more attention by the senior political and military leaderships in defining the nature of the alliance and providing with a joint strategic vision for the future. But US officials, and some in Seoul, have noted the ROK's delays on this. More must also be done to offset China's military modernization. More broadly, a joint strategic vision is needed, a reexamination of the roles and missions of the partners, and an analysis of the allies acting *as partners* on global and regional security issues. In all this ROK military and other capabilities need to be better incorporated. This will all take time to bring about, with all the diplomatic, political, military and economic shifts taking place. The US needs to stop behaving as if the US-Japan alliance is the critical one, thereby doing a disservice to the US-ROK alliance.

Also needed are expanded public diplomacy efforts to sustain public support for the alliance. Without this and the establishment of a clear joint objective, Congress will not continue to support the alliance. And the US must adjust better to Korean sensitivities (such as those on beef).

The US is significantly restructuring and redeploying its forces around the world, emphasizing regional hubs over placements tied to specific threats. Modernization of US military capabilities, the strain of deployments to Iraq and Afghanistan, and some opposition in the ROK to the US military presence have led to a decline in the USFK and shifting more responsibility to the ROK. US forces are being moved from the DMZ and wartime OpCon will be turned over to ROK forces. 59 bases and 36,000 acres are being returned to Korean control. Washington is spending \$11 billion to augment USFK future capabilities to allay ROK concerns.

The OpCon shift has become very politicized, with President Roh depicting it as a national sovereignty issue, and Korean conservatives fearing it reflected a declining US commitment. So the US has pledged that its air combat, strategic intelligence, and certain other capabilities will stay on. However, creation of two separate commands in place of OpCon risks loss of a tight integration in wartime and a decline in US public and congressional support for maintaining USFK.

South's Korea's ambitious Defense Reform 2020 - cutting forces, improving technology and command and control systems, modernizing weapons, etc. will bring major changes including Aegis destroyers, new submarines, and long range cruise missiles. President Lee needs to translate terms like "Global Korea" into a strategic vision and a national military strategy. The US must be careful not to press too hard for this new comprehensive form of the alliance.

Some things that must be done as a result:

The alliance's importance must be affirmed;

The commitment to defense of the ROK must also be affirmed, such as by keeping relevant US forces there;

Joint efforts to improve C4ISR must be pursued;

A layered BMD system must be emplaced, including additional PAC-3s;

A study group on the future of the alliance must be established;

Plan 5029 - the North Korean contingency plan - must be updated to cover possible instability in the North;

Defense Reform 2020 must be fully funded;

Korean forces for overseas military activities need to be increased and suitably equipped, and Korean diplomatic and peace-keeping operations should be expanded;

The ROK should join the Proliferation Security Initiative

The US will also have to settle for a slower ROK military transformation. President Lee will have constraints on this effort and the US must be sensitive to this. An expanded security role for the ROK is controversial there. The alliance has been underappreciated in recent years and this has to be corrected - we must not give the impression the US-Japan alliance is more important. In fact, the US-ROK alliance has

benefits the other does not (there is no pacifist constitution, for instance). Everyone benefits from strong relations among the US, the ROK, and Japan.

Paper: "South Korea's Strategic Options and the U.S.-ROK Alliance" by Professor Huyn, In-Taek:

After some technical difficulties hampered the opening of this portion of the panel, **Dr. Hyun** introduced his remarks by emphasizing that the ROK is now wide open to interaction with the world, and highly developed. US-ROK relations are very strong. The two presidents have held 3 summit meetings in the past 6 months. At the April summit the plan for a "Strategic Alliance" was announced, not long after President Lee's election.

On the other hand, the recent demonstrations set back President Lee's plans for the alliance significantly. The massive demonstrations over the beef issue led to the President's popularity plummeting. In one poll the president's approval rating, which stood at 57.3% in March, had dropped to 16% in May-June during the demonstrations. Then it partly rebounded to 35% in the summer before declining to 27.%% in September. The political situation forced President Lee to reorganize his cabinet through a number of changes in personnel. Major issues in the alliance requiring work with the United States had to be set aside for the time being. About the only good thing in all this was that at least President Lee learned a lot! The Dokdo dispute promised to be a serious issue as well with the public. But President Bush bailed out Lee with his decision to support Dokdo's status as Korean.

The major foreign policy goals of the ROK under the administration are beginning to emerge. Referred to as the "MB Doctrine" the goals are summarized as 1) constructing a peaceful new peninsula via denuclearization, building a peace regime, and integrating a North-South economic community; 2) enhancing East Asian cooperation and integration by building a regional community and a widening strategic partnership while expanding regional cooperation; and 3) contributing to global safety, order and development, such as by greatly increasing Korean foreign aid and peace keeping work. One route to this is to make South Korea a "strong soft power," going beyond the military power it continues to accumulate to draw more on its economic and knowledge power.

This means utilizing its image and prestige as a mature democracy and advanced market economy, and its success in the development of nonnuclear power.

Another major objective is to refurbish US-Korean relations after the difficulties that emerged in recent years, including a "creative reconstruction" of the alliance. Polls in recent months again show that the United States is the country viewed most favorably by the Korean people. One poll, for instance, had the approval rating for the US at 45% compared to 11% for Japan and 15% for China.

One concern in the improvement in the alliance is to make it more balanced in character. Some 54% of the population in one recent poll supported having the allies be more equal. There is still considerable support for retaining American forces in South Korea as well.

An important additional objective is to adjust the perspectives of the alliance. As the idea of creating a "strategic" alliance suggests, the government would like to have the allies working together to make greater contributions globally in such matters as peace operations. The government is now also emphasizing that the alliance and the relations among its members must be based to a growing extent on shared values and the consolidation of mutual trust. All this would be in keeping with South Korea's emergence as one of the world's leading nations.

A number of other steps must also be taken. The six-party talks will be needed for monitoring the North Korean steps to comply with the agreements on denuclearization so they must be retained. It will be vital to continue making denuclearization the highest priority for ROK and regional security. Also necessary is being on the alert for the emergence of contingencies involving North Korea, the possibility of which is suggested by recent developments there. This will require adjusting OPLAN 5029 to better fit present circumstances. Finally, the government is prepared to continue providing the North with humanitarian assistance in connection with the economic and other difficulties there. But it wants to insist that in overall North-South relations the North must display greater reciprocity for the support it is receiving.

Under the Vision 3000 plan North Korea denuclearization would be accompanied by an improvement in the regional environment, construction of a peace system, improved relations between the North and the US and Japan, and an economic

transformation of the North through investments that promote exports, the training of 300,000 specialists, the building of a major expressway, creation of an International Cooperation Fund, and raising the North's per capita income in a decade to \$3,000.

In these and other matters South Korea must continue to be sensitive to the important developments in the region. For instance, it will have to give more consideration in the future to the concerns and reactions of China as its power and influence continue to rise.

Paper: "Development of Japan-Korea Relations and Their Bilateral Alliances with the United States: A Japanese Perspective" by Dr. Hideshi Takesada

"What is going on in Northeast Asia?" was Dr. Takesada's question in opening his presentation. His answer was that the region is in a transition period. Elements of this include a prospective change in North Korea, with clues to this appearing in the September 8-9 celebration of the 60th anniversary of the DPRK. Another aspect is the recent revival of the nuclear program. Other features include nuclear proliferation in Asia, the fact that Chinese-North Korean relations have been getting closer, and the rise of China in terms of its military buildup and its increasing assertiveness in international affairs, the shift in US-ROK relations in a positive direction, and changes in Japanese politics.

A new structure is emerging in Northeast Asia. The improvement in China-North Korea relations has been accompanied by significant Chinese investments in the North and closer ties between the two armed forces, which are still operating under the 1961 friendship treaty. One possibility as well is that expanded six party talks are in the offing. The two governments are mutually dependent. China continues to want to avoid a collapse of the North, to prevent any war on the peninsula, and to sustain a nuclear weapons-free peninsula.

An optimistic scenario for the region would include a soft landing for North Korea economically - with reforms, successful six party talks, a nuclear-free peninsula, greater stability in Japanese politics, a moderation in the Chinese military buildup, and the emergence of something like the European Union for the countries in the region.

In a pessimistic scenario we would see turmoil in the North Korean government, continued tension between the ROK and the US on security matters, the withdrawal - as a result - of US forces from South Korea, the onset of a major decline in the global economy, development by the ROK of an independent foreign policy (no close policy association with the US and Japan), and a successful North Korean ICBM program.

The most feasible, most likely course, is improvement in ROK-US relations, further development of close cooperation in the Japan-US alliance, retention of American forces in the ROK, and other steps that continue the recent developments that are slowly improving the overall situation.

However, the North Korean nuclear issue is not disappearing. This is ultimately linked to the DPRK's strategy for eventual unification. Its goal would be that a reconciliation with the ROK and a shift in ROK defense policy would lead to the departure of US forces and unification, paralleled by North Korea's continued progress on nuclear weapons and the development of the Taepodong II ICBM so as to deter future US military intervention.

What we need is ROK-US, US-Japan, and Japan-ROK harmony plus a good level of trilateral cooperation. In fact we need a virtual ROK-Japan alliance, along with an expanded Japanese military capability. There should be close policy coordination and defense cooperation among the three governments. Along these lines naval cooperation between Japan and the US, along with India, is up. Japan is maintaining four escort ships in the Indian Ocean

Japan-ROK relations can be improved if the ROK is more realistic in the future, and will not improve if it is more ideological instead. One barrier is that Japan is still the most disliked country in ROK polls. One in September found Japan as most disliked by 57% of respondents, with China at 13% and North Korea at 10%. This is very surprising and disturbing. After all, think tank trilateral dialogues among these countries have been conducted since the early 1990s. Defense exchanges between Japan and the ROK date from 1994.

The principles for a proper defense exchange include avoiding ideological matters, staying nonpolitical and evading shifts in political moods, plus building considerable continuity and the consistent practice of reciprocity. US-Japan security relations have

mutual reliance, defense guidelines and a broader concept, but no joint war plan. US-ROK relations have US fears about involvement in another war and ROK fears of abandonment. Clearly needed are trilateral cooperation on security, a long term strategy on North Korea, and more realism in Japan and the ROK. Then we need to broaden cooperation beyond war operations, moving this into disaster relief, medical responses to disaster, etc.

Paper: "ROK Military Transformation and ROK-US Security and Maritime Cooperation: MD, PSI and Dokdo Island" by Dr. Kim, Taewoo

There are certainly plenty of alarm bells sounding today. Here are four items of special interest:

1) Military transformation in the ROK - Motives

The US started its "Military Transformation" [derived from the Revolution in Military Affairs] soon after 9/11 demonstrated that traditional assumption that terrorists were not interested in mass killings and not really capable of organizing them were out of date. In particular, military transformation is designed to construct capability-based military forces to consolidate US military superiority for dealing with rogue states and terrorists. In Korea there were different motives. Instead it was a byproduct of President Roh's drive for national security autonomy and self reliance, embodied in Defense 2020. This included the shift of the wartime OpCon, but this ran into conservatives' objections and those of leading former generals. Actually, self-reliance is not a suitable term because it is not really possible. So the Roh administration shifted to terms like "cooperative defense" and "self-reliant defense." This did not mollify the critics and this led President Roh to announce Defense 2020, with its \$600 billion price tag, to neutralize or block their objections. President Lee will probably live with the OpCon decision and use Defense Reform 2020 to improve US-ROK relations and promote military transformation. It includes downsizing the armed forces from 670,000 to 500,000 with the reserves of 3 million cut by 50%, plans for many new weapons systems (Aegis ships, F-15s, submarines, helicopters, new howitzers and tanks, and precision guided munitions), satellites and satellite communications, AWACS planes, and improvements in information and communication systems. The US will remain an important partner in

providing weapons and for help in a "Korean contingency." Without US cooperation, in fact, the plan won't work.

2) ballistic missile defense.

Why is the ROK hesitating to participate in this given the huge missile threat from the North? ROK missile defense is very limited and it is contemplating the purchase of PAC-2s from Germany which will be almost useless. The US Theater Missile Defense system will be multilayered, with airborne, high altitude, and terminal phase defenses, but South Korea is not participating in it. One reason is proximity; Seoul seems too close - missiles from the North can arrive in about a minute while the rest of South Korea is only 5-7 minutes away, and an airborne BMD laser system over the North would never be acceptable to Pyongyang. Another reason is fear of the political reaction of China and Russia to BMD. Since both governments are important to the ROK, their possible reactions provoke caution. But participation in BMD would strengthen the alliance and contribute to military transformation. And South Korean cannot remain indefinitely vulnerable to a DPRK missile attack.

3) the Proliferation Security Initiative (PSI)

This now has 17 participating states, with 60 accepting PSI in principle. It has completed 32 interdiction exercises, yet the ROK avoids active participation. The ROK should consider joining, particularly given its plans for a "Strategic Alliance." North Korea is not PSI's only target and there is Russian and Chinese support for it in principle. But the ROK may need to be excused from seizing North Korean ships, to avoid fighting with the North.

Also at sea, the US wants to maintain global sea control and cooperation with allies should be a major part of it, especially trilateral naval cooperation with the ROK and Japan. The ROK and US have long had regular joint exercises, but ROK-Japan exercises have been limited to search and rescue operations. More ROK-Japan efforts and trilateral exercises are needed.

4) Dokto Island

This is a very sensitive matter. On July 23 the US Board of Geographic Names shifted to listing it as "undesignated sovereignty territory." This was a mistake. (It was the US in 1946 that set Dokto outside Japanese territory.) The ROK really appreciated

President Bush's intervention on July 30 to reverse the decision. Otherwise trilateral naval cooperation would have been damaged. The US should have been more sensitive to ROK memories of Japan's past behavior and its failure to fully repent. Japan's claim is shameless impudence, and Dokto is a symbol of Korean national pride. Failure to support the ROK would do enormous damage to the alliance. The US should attempt to bring the parties together and mediate.

These days we should have more of a sense of crisis in Seoul and Washington. There should be more concern in South Korea about the reliability of the US agreement to send troops. The attention being paid to Korea by the US seems to have declined. There are many issues in US-ROK relations. We need to strengthen trilateral cooperation. The ideological slant of the Kim, Dae Jung and Roh, Moo-hyun administrations was fundamentally at odds with the ROK-US alliance. Roh administration calls for "equality" domestically and "Korean reconciliation" and "autonomy" in foreign affairs promoted xenophobia and anti-Americanism, damaged the alliance and ROK relations with Japan, and even soured ties with China and Russia. The decision to shift the OpCon and dismantle the CFC, another blunder by the Roh administration, also stemmed from this mindset.

Most Koreans believe strongly in democracy, a market economy, and human rights. Thus the alliance will survive, but it will probably take a different shape than in the past. The broad concept of a global partnership needs to be fleshed out and there are numerous administrative matters to be settled. Defense Reform 2020 will magnify alliance cooperation and resolving the PSI, missile defense, and Dokdo matters will improve relations considerably.

Discussant: **General Raymond P. Ayers, Jr. USMC (Ret.)**

In his very succinct remarks **General Ayers** stressed that there has never been enough money available or programmed for the current ROK military reform. And cutting the size of the armed forces is not a good idea. In the very tough terrain of Korea air power cannot readily replace men on the ground. On the alliance more broadly, it must have a global perspective. And as noted by Kim, Taewoo, there are many cultural and other aspects of the partners that must be taken into account.

Klingner suggested said that the US deploy more PAC-3s in Korea but this would be a mistake. US PAC-3s are for protecting American forces there. The ROK should purchase its own PAC-3s. As for Plan 5029, it was written in 1998-9 and the Roh government did not actually cancel it - just would not update it. With the new administration this updating is being considered. It should be kept in mind that planning is good not just to develop a plan but because of what you learn in doing it.

There were references in the presentations to the US having to be sensitive to Korean concerns, but the ROK also needs to better recognize US frustrations. On dealing with North Korea, engagement is fine but we must be realistic in our expectations about it. North Korea will not fully live up to any deal and will use brinkmanship. Having a dialogue with China about a North Korean contingency is definitely a good idea. It's amazing we haven't done more of this, especially since the US briefed China about Plan 5029 in 1999. China has apparently adopted its own plan and placed troops on the North Korean border with that in mind.

Takesada stressed China's investments in North Korea, but the PRC investments there seem pretty normal, especially since China is North Korea's mainstay. The investments aren't likely to be a problem in any unification. After all, China owns a piece of the US too! As for expanding the 6-party talks that would be a bad idea - the existing members would be highly unlikely to all agree. One problem in the talks is that the North wants nuclear weapons in part due to its sense of importance. Another is that the North does not lump chemical and biological weapons in with nuclear weapons.

As Kim said, trilateral military talks and exercises are a good idea, as is cooperation in operations other than wars. The US has to lead on expanding such efforts, in fact, since it really doesn't have a chance of success otherwise.

ROK steps toward greater military autonomy and self-defense are all right, but the implementation has not been well thought out in military terms. Unity of command is very important - even the best sort of parallel commands arrangement will not work as well. But we can't return now to preserving the singly command because of face-saving concerns. Kim mentioned the need for BMD, and buying it is all right because it is better than doing nothing. Russian and Chinese concerns are important, but they should be

asked to pressure North Korea on its missiles or be warned that the US and ROK will go ahead on missile defense anyway.

The Dokdo decision made in the US was indeed dumb and good to renounce. Should the US mediate? Perhaps it should.

Panelist Responses

Klingner asked if Plan 5029 is still in force why is it a complain? **Ayers** explained that it was written that way and remains so because it was not updated. **Hyun** stressed that linkage was necessary in dealing with North Korea, that reciprocity should be insisted on. **Takesada** said the Ayres remarks about the concept of WMD in North Korea are correct. **Kim** said again that the Dokdo issue threatens trilateral naval cooperation, and therefore US mediation might be very good.

Floor Discussion

Hong Nack Kim agreed with Klingner on the lag in implementing Defense Reform 2020. There has been a political failure here - North Korean has not been seen as much of a threat. The problem can't be fixed without also fixing the political failure. **Klinger** agreed with this. The Roh administration was concerned about any negative North Korean reaction but was also unclear about the future ROK role in the region. The ROK needs to clarify what role it wants to have so the US can indicate what steps will be required. This is a clear political necessity.

Dr. Bruce E. Bechtol, Jr. (Marine Corps Command and Staff College) noted that polls in Korea from 2008 paint a different picture from those in 2007. He also asked: what happens when we meet the threat correctly in terms of the costs of a future war with North Korea? Another participant offered a comment directed at Hyun and Kim. He said that a friend went to China and talked with an IR specialist there about the Roh approach of boosting ties with China at the expense of ties with the US. The Chinese expert's response was that Koreans should remember China's dominance in the past and how it dictated to Korea. The US is far easier to live with, the most generous government in history in fact. It has no territorial ambitions, but China will as it grows more powerful. The best safeguard for Korean security is the US. Then **Dr. Kim, Choong-nam** (East-

West Center) also asked how far the ROK can go in its "strategic partnership" with China. Isn't China actually penetrating the ROK far more than North Korea by using its market power? Isn't it therefore vital for the US to ratify the FTA. Shouldn't Japan also expand its economic ties with the ROK? The ROK has an emerging strategic dilemma because of the rise of China, and the invasion of Georgia and the expansion of NATO offer good examples of why the ROK has been wrong to hesitate in BMD. The ROK cannot be a buffer state because it is in the alliance; it would become a buffer state *without* the alliance.

Dr. Hyun responded by first noting that the alliance is very important to the Lee government. On China, it is after all the ROK's leading economic partner. There is no reason relations with China can't improve alongside ROK-US relations. Korea maintaining good relations with both China and Japan will be constructive as well. It is important for Korea to make China understand how the US alliance stabilizes the status quo, and it must also make the US appreciate the importance of economic relations with China to the ROK.

Ayers emphasized that in another Korean War hundreds of thousands of casualties would be incurred and it would bring the end of North Korea and its armed forces. **General Tilleli** added that the core of the alliance is the US promise to send forces to Korea to fight if necessary. **Dr. Young Whan Kihl** (emeritus, Iowa State University) asked General Ayers to clarify Plan 5029. **Colonel (ret.) William Drennan** asked Kim how much residual power the 386 generation in South Korea has at the subcabinet level. And what about the next, younger, generation - what is their attitude? Another question concerned the coming American elections: what if a democrat wins in November? What impact will that have on the US commitment?

In panelist responses, **Klinger** said a democratic win in the election would not change the alliance. On trade and the FTA, Obama has said he opposes the FTA but this could change. Both candidates favor denuclearization of the peninsula and both emphasize that verification is vital. A deadlock in the negotiations would test their engagement effort. McCain would be more likely to turn to pressure on the North at that point. **Ayers** said, responding to Young Whan Kihl, that 5029 is a concept plan for the collapse of North Korea or any other contingency involving the North. **Hyun** noted that

there are no cabinet members in the 386 generation, but many National Assembly members are from that generation. Not all 386 generation members are radical; some are even conservatives. What is important is that they constitute the core generation in the ROK - people in their late 30s and early 40s. As for the rising generation in their 20s and early 30s, it is hard to judge their views. They are more liberal than those over 50, and more critical of the link with the US. They are also more critical of North Korea than the 386 generation. **Kim, Taheo** reported that there are 386 generation holdovers in the Blue House and some departments. The Lee government is trying not to alienate them by just dumping them out of office. He also indicated that it was a mistake to have injected intelligence agency personnel into the conduct of the unification policy. We don't know how much damage was done to human intelligence assets as a result.

With that comment the panel ended, including thanks from the moderator and the audience. The conference adjourned, with participants invited to dinner at the Heritage Foundation.

DINNER ADDRESS

The speaker was introduced by **Bruce Klingner, Senior Research Fellow for Northeast Asia, Heritage Foundation**. Congressman Ed Royce, 40th district, California, has served for many years on the House International Relations Committee, particularly on the Asian Subcommittee. He was associated with the resolution to protect Korean refugees. One of his recent resolutions, which has passed the House, calls for treating ROK military exports like European military exports in US law and policy. He is a strong supporter of the FTA, and has long been a true friend of Korea.

Representative Royce began by introducing several of his staff members in attendance who work on US-Korean relations. Then he pointed out why and how it has been a very eventful year. There is a new president of Korea, and a new Combined Forces Command Commander in Seoul, there has been a collapse of the six-party talks, the FTA has been languishing and has lost momentum, and there are elections coming that will bring a new president in the US. Some things, of course, remain the same: the importance of the alliance, the major challenge posed by North Korea.

I was in North Korea in the past year. The North was building a nuclear reactor in Syria while negotiating on eliminating its nuclear weapons in the six-party talks. Last

week, UN monitors were barred from the Yongbyon complex. Another North Korean missile test may be near. And the North says it is starting up the Yongbyon reactor again. This constitutes an *indictment of the six-party-talks process*.

All this is standard operating procedure for North Korea. It creates a crisis to strengthen its hand. I have been in Washington since 1992 and it is easy to recognize this pattern of behavior. These days the North is balking on verification, but the administration is holding its ground. Kim, Jong Il is not well and this is important. The armed forces may be running the country now, and perhaps this explains some recent developments. Maybe Kim, Jong Il does not fully control the armed forces. So the new president could face a Korean crisis right away. He may come to realize that North Korea won't give up its nuclear weapons, that it just wants leverage in its negotiations to gain resources. Using pressure would be better. For example, in October 2006 North Korea conducted a nuclear test. Japan then pressured the North, the ROK froze economic aid, the UN adopted sanctions, China put pressure on Pyongyang, and the US slapped sanctions on the Macao bank handling North Korean deposits. The North was soon reeling. And the result? The February 2007 Agreement.

The new administration should turn to pressure as well: squeeze North Korea's foreign exchange earnings, link human rights in the North to security, mount a major propaganda effort, encourage emigrants from the North, close the aid spigot. A good deal of the aid to the North is just siphoned off anyway. This course of action would be slow but it could solve the entire problem in the end. In the same way we need to be tough in operating the PSI.

Will Osama and McCain debate tomorrow? It isn't yet clear. Osama might go easier on the North; Robert Gallucci [negotiator of the Agreed Framework] is one of his advisors. McCain would probably be tougher, more "provocative" says Gallucci, who himself has no good sense of what is "provocative." Some of those people see even raising the human rights issue as provocative - which is strange! There are huge concentration camps in North Korea. As Solzhenitsyn said, "A government that won't respect the rights of its people won't do so with its neighbors." This is very wise.

I doubt that North Korea will give up its nuclear weapons.

As for US-ROK economic relations, the FTA would push US-ROK economic transactions from the current \$80 billion to \$100 billion. Pressure from the left on free trade in the US has been effective - free trade views don't resonate very well now. A shift in arguments is needed to provide a more aggressive attitude on behalf of free trade and a new urgency. After all, the ROK is talking with the EU on an FTA, as well. It would be better in selling the FTA to stress the damages that will result from sitting on the sidelines. We need to pay hardball on the FTA. US workers will suffer from a failure of the FTA to pass. Two-thirds of recent US GDP growth is due to trade.

My legislation gives the ROK the same status in selling military items as NATO+3 countries. It could be passed this year. Korea is important to the US and deserves this treatment.

At that point Representative Royce agreed to take a few questions. **Professor Hong Nack Kim**, thanked Representative Royce for his long support of Korea. He had two questions: first, I agree with you on the importance of stressing human rights issues and being tough on the nuclear weapons issue in dealing with the North, but how can Obama be persuaded to do so if President Bush did not stick with this course of action? Second, many important democrats have opposed the FTA. What will happen to it? **Royce** said that first hand experience may persuade Obama and others to come around. A crisis is looming, will arrive in the spring. On the FTA, Congressman Rangel and Speaker Pelosi are hard to convince. But Rangel will listen - he is a decorated veteran of the Korean War - and he sees relations with the two Koreas as a very important matter. He is also sensitive on the human rights question. I will work to influence him on the FTA.

A Korean participant agreed with the Congressman that sticks will work better with the North. However, sanctions didn't have much effect recently - how can we correct this? In responding, **Royce** emphasized that China does not want to see Japan, Taiwan, and South Korea turning to nuclear weapons. It wants more trade in the region. It see now how problematic North Korea is. And it is the key to North Korea's survival. Maybe China will help us.

Nicole Finnemen (American Enterprise Institute) said that since Congressional support is very important in US-Korean relations, how should the next administration go

about reaching the Congress? **Royce** said it should talk to Howard Berman, keep information about the relations flowing, and be open with the Congress. **Dr. Patrick Morgan** (UC Irvine) asked what had happened to the Bush Administration with regard to pressuring North Korea. **Royce** said that there was no consensus with the ROK on using pressure earlier. But North Korea's actions have made it easier now - its actions in the six-party talks, in Syria, and in walking away from the agreement recently. **Kim, Taeho** asked what the US would do now on nuclear weapons - will it treat North Korea as a nuclear weapons state? **Congressman Royce** concluded the session by indicating that the US government focus is now on the restarting of the nuclear program. Everyone will lean on North Korea as a result. That could suffocate the regime, especially through the loss of hard currency to keep up missile production and related activities. The effort therefore might be successful.

Panel III: North-South Korean Relations

Moderator: **Admiral (ret.) An, Byoung-tae, President, Korea Institute for Maritime Strategy**

Papers: **Professor Dennis Patterson, Texas Tech University**
Dr. Hong Nack Kim, West Virginia University
Professor (emeritus) Young Whan Kihl, Iowa State University
Dr. Hwang, Eui-gak, Korea University and the International Centre For the Study of East Asian Development, Kitakyushu, Japan

Discussant: **Dr. Kim, Choong-nam, East-West Center, Hawaii**

In opening the conference on its second day, **Admiral An** offered a "prize winning lie": "When I speak my wife listens to me." He then began the proceedings.

Paper: Presidential Elections, Human Rights, and Inter-Korean Relations: What Difference Does Democracy Make? by Professor Dennis Patterson

Professor Patterson thanked the Council for his invitation but noted that he is not an expert, despite the paper title, on human rights. Inter-Korean issues have been the key problem area for ROK governments, a problem at the heart of peace and stability on the peninsula. In the past the primary focus for the ROK would have been on North

Korea, China, and Russia, and secondarily on the US. The issue and the actions and policies involved in it remained relatively stable for decades. With the arrival of democracy in Korea the electorate became an important new actor that had to be taken into account.

Two findings in the scholarly literature on international politics suggest what should have happened as a result. Democratic peace theory indicates that there would be no war among the democracies involved in Korean affairs. However, it finds that democracies are quite capable of going to war with non-democracies. But research and theory about the transition to, and early stages of, democracy find that democracies are apt to be unstable internally and in their external affairs, and that they become more militaristic and thus more likely to get into wars. This is largely due to the new nationalist feelings aroused by the transition to democracy, and to new kinds of leaders emerging who often resort to ideological and nationalist appeals.

In the case of South Korea there were definitely appeals to the electorate by leaders that included ideological and nationalist elements. But no greater potential for war emerged in the South when political discourse shifted after the late 1980s. The democratic transition has been remarkable, not least because it was unexpected. The usual view had been that Confucian Asia would be less inclined toward democracy, but in Korea democracy has been consolidated, with a vigorous rotation of parties from government to opposition and other standard democratic features. Hence ROK leaders clearly face democratic constraints.

And the effects? Has Korea become more war-prone? Surely not. Instead, the expanded political discourse was oriented toward *engagement* with the North and with protecting the South's economic and social gains. Recent presidents have approached North Korea in a more conciliatory way. The focus mainly on domestic issues dampened down any militaristic elements. With the coming of democracy, the major change was rhetorical. Roh, Tae-woo and Kim, Young-sam promoted cautious engagement efforts while keeping strong anti-communist postures at home. Kim, Dae-jung and Roh, Tae-woo pressed engagement more strongly and toned down their anti-communist rhetoric.

What difference has democratization in the South made in inter-Korean relations? Not much. After the Korean War the objective of unification had to be downplayed and

anti-communism emphasized. With acceptance of the partition for the time being, inter-Korean relations settled down and became stable, with occasional agreements reached. Domestically, the South became more stable, less conflict prone, less dangerous. Nonetheless, North Korea still sought, and now has, nuclear weapons, and it hasn't given them up yet. The Sunshine policy has turned out to be fairly naïve. The consistent ROK position has not resulted in a breakthrough.

Instead, the arrival of democracy has had a larger effect *on relations with allies*. The democratic peace has applied in ROK-Japan relations. Democracy has led to different timetables for decisions, such as in decision-making delays because of elections. Democracy has required putting much more effort into coordination. It has required more sensitivity to electoral politics. We can presume that President Lee, like his elected predecessors, will carefully weigh options in relations with the North, pick the one best fitting ROK interests, and promote unification while trying to minimize negative fallout from the North.

After this succinct summary of the paper, the Moderator took a few minutes to comment on the human rights problem in North Korea. Human rights was a major issue in the pre-democratic era in South Korea. In recent years the US has steadily increased its pressure on the human rights issue. It is important that it coordinate with Seoul on this.

Paper: "The Lee, Myung-bok Government's North Korean Policy and the Prospects for Inter-Korean Relations" by Professor Hong Nack Kim,

Presentation of the paper about President Lee's North Korean policy began with Professor Kim reminding everyone that the Lee government has aroused expectations of better management of the relations with the North. However, there have been unexpected challenges and frictions. Suspension of the North-South dialogue is one. The North has insisted that the South implement the earlier summit deals, and thus North-South relations have been frozen.

The Sunshine Policy was a good idea in principle. The goal was to produce a more normal North Korea, in part through lots of aid - \$350 million to \$1 billion a year. But this did not resolve the nuclear weapons problem and did not induce major domestic reforms in the North. The Lee administration, in contrast, sees the Sunshine Policy as a

failure. The idea behind its new policy is to be more realistic about aid. And the main goal is to get rid of the North's nuclear weapons. The new policy is, first, to strengthen relations with the US, second to promote unification on the basis of democracy and a market economy, and then to provide humanitarian aid if North Korea asks for it but only with adequate monitoring and reciprocity. This includes the North releasing captured ROK fishermen, and prisoners, as well as permitting better links across the DMZ for divided families. Finally, the policy calls for linking aid for development of the North to progress on the nuclear weapons issue.

If nuclear weapons are abandoned the ROK, under the Vision 3000 policy, will provide large amounts of economic assistance with the goal of raising the North's per capita income from \$650 to \$3000 in one decade and thus improve the quality of life while ending starvation and poverty in the DPRK. The ROK is also pledged to help North Korea become an export-oriented economy, such as by investing in export-oriented firms there. The aid includes training some 300,000 professionals in the North. The South is to assist as well in construction of railroads, expressways, ports, and other structural assets. To finance all this there is to be a \$40 billion fund. The prerequisites for this to happen are an end to the DPRK's nuclear weapons program and North Korean moves toward openness and reform.

The arrival of the Lee administration meant the start of a period of adjustment in inter-Korean relations. At first, the North adopted a wait-and-see attitude. By October its hostility to the Lee government had begun to rise. And by summer 2008 this negative attitude had been made very clear. There were a number of issues. Prior summit meetings had produced various agreements but the Lee government would not commit to continue carrying them out. The North also disliked elements of the Vision 3000 policy. The North particularly objected to the South's new insistence on reciprocity. These matters made the Lee government unacceptable in its eyes.

In response the Lee government made several concessions. By the summer of 2008 it was making some aid available without reciprocity, there was more investment from the South at Gaesong, and a possible commitment to implement the Summit agreements. But the killing of a South Korean tourist at Mt. Kumgang in July sidetracked these concessions. The currently uneasy North-South situation is likely to

linger. The Lee government thinks time is on its side, and it won't accept the July 15 Declaration in its entirety because of an unacceptable provision on unification. The October 4, 2000 declaration is also unacceptable, with the estimated costs being \$13 billion. Kim, Jong Il's illness has also reduced the odds on a deal. He may be partially paralyzed, and with no successor clearly in place his death could bring a crisis. Thus the frozen North-South relations might last throughout the Lee administration's term in office.

Paper: "Inter-Korean Strategic Relations and a Regional Security Forum in Northeast Asia" by Professor (Emeritus) Young Whan Kihl

Professor Kihl started by saying that North-South relations are hopelessly stalemated now, as in the Cold War years. The victory by the GNP and President Lee was not welcome in the North. Since 2005 South Koreans have felt that aid and outreach were not paying off, and the new administration promises it will require reciprocity. Critics have characterized the prior policy correctly as appeasement. But neither carrots nor sticks have kept the North from going nuclear. There is a similar stalemate in the six-party talks. The North needs to realize that it must accept the verification protocol.

South Korea has long depended on the US for its security, but is now moving toward being more self-reliant. It is also more focused on other threats, like Japan and the Dokdo island problem. US policy has shifted from the first Bush term to the second, becoming more accommodating toward the North and more multilateral in character. This has been true of the administration's policies in many parts of the world. Such a change came gradually in Northeast Asia, with a subtle shift after the launching of the six - party talks. But the US also continued to maintain and seek to reinvigorate its alliances there and in the rest of East Asia.

Inter-Korean relations are in stalemate because of the growing imbalance in power relations between the two Koreas, and Pyongyang's displeasure at the conservative turn in ROK politics. The imbalance is primarily due to the better operating ROK economy, with a GNP now 36 times that of the North. Recently North Korea has at times been desperate, particularly for food.

In July 2007 the North shut the Yongbyon reactor and other facilities. It also pledged to not transfer nuclear material or technology to other parties. In turn, the US

began sending food and lifting some sanctions. Elements of a prisoners' dilemma and a public goods problem help explain the difficulties the six-party talks have experienced. The North has insisted on not revealing all the information the US has requested, has wanted to limit or delay verification steps on which the US insists, and has left unfulfilled the most important steps in destroying the Yongbyon reactor. The US demands were criticized by some as excessive and by others as not going far enough. Many people are clearly not committed to the principle of reciprocity in negotiating with the North, and many do not understand that the North will not give up its nuclear weapons completely without major American steps toward reconciliation. In turn, the North has wanted to periodically denuclearize, then cheat on the arrangements and thus win both ways. It is also possible that the North is waiting for a new US administration to take the next steps. Clearly the six-party talks have become a greater challenge than anticipated.

With this in mind, moving toward a peace regime and a regional security forum seems premature. The ASEAN ARF is a preliminary sort of regional security forum, and various ideas for additional architecture, like an Organization of Security and Cooperation in Asia, have been floating around. A peace regime was mentioned in the joint statement of the six party talks in September 2005, and elsewhere since then. However, no agreement exists as to what a peace regime would look like and how it is to be built. It would require North-South reconciliation and normalization of US-DPRK relations. There are various plans as to how to proceed should it become possible.

The continuing North Korean proliferation problem challenges the nonproliferation regime and failure to resolve it will only erode confidence in that regime. The Bush Administration shift toward conciliation may turn out to be too little, too late. The next US administration will inherit the entire problem.

In turning to the next presenter, the Moderator called attention to the important materials in Dr. Kihl's paper on the question of a regional security system.

**Paper: "Inter-Korean Economic Cooperation: The Need for Reciprocity - Does Lopsided Cooperation Continue to Soothe the North's Bluffing Mentality?"
by Dr. Hwang, Eui-gak**

This presentation opened with an overview of how unbalanced the North-South economic relationship is because it has been conducted on a political rather than economic basis. It includes trade, many other transactions, plus flows of goods and services, with total money flows to the North far exceeding the reverse.

This economic cooperation was first proposed in a June 1985 agreement, and a modest implementation began in 1988. Inter-Korean trade was some \$20 million in 1989 - and \$1.8 billion by 2007. All economic cooperation including trade was greatly expanded in the Kim, Dae Jung administration, especially after the 2000 summit, to ease political relations between the two countries. The Mount Gungang sightseeing project, the Gaesong industrial complex, and other efforts followed, and the Roh, Tae-woo administration went further on this. By the end of 2007 total flows consisted of commercial trade - broken down into general trade (26%), commission-based processing trade (18%), Mt. Gungang (6%), the Gaesong project (24.5%), and other (5%) - and the remainder being non-commercial trade which was really aid. The South's aid has helped bolster the North's negotiating position with the US and may have lengthened the arrival of better relations between them

The Kim and Roh administrations are believed to have poured over \$11 billion into the North - \$7.3 billion under Kim. South Korea and China have been the North's major trade partners, China on more like a reciprocal basis than the South. China's trade also involves a wider range of goods, and it accounts for (70%) of all commodities being daily transacted on North Korean markets. Meanwhile, Chinese investments focus on developing natural resources while ROK investments seek to utilize low-wage labor.

ROK programs have been based on both functionalism and liberalism in theories of international relations. Under the former the idea was to advance over time from humanitarian to economic projects, then to military and political relaxation efforts. But the North has remained hostile on military confrontation matters, and eventually launched missiles and tested a nuclear weapon, leaving the South with little as a payoff. But the ROK political left benefitted greatly; even a conservative administration feels heavy pressure from leftist elements on relations with the North.

Effects on the South of inter-Korean economic cooperation start with the decline in its fear of North Korea, in treating the North as an enemy. But lack of reciprocity and

suspicion that much aid is diverted has curbed support for the earlier policy. Aid between the two Germanys during the Cold War was based on reciprocity, but South Korean aid has mainly bolstered the North's confidence in its survival. Many ROK firms participating in aid to and trade with the North have lost money. When calculated, the total opportunity costs of the ROK money poured into the North would come to about \$11.6 trillion. (The Gaesong Project neared the breakeven point in 2007). Yet the North seems to feel that its risks, its economic recovery, and creating the environment favorable for foreign investment and inter-Korean economic cooperation are all dependent, in the end, on relations with the US.

As for the effects on North Korea, the North's economic dependence on the South has grown. In 2005 the net increase in its income from the economic cooperation was about \$194 million in terms of GNP, but amounted to about \$560 million in terms of gross national disposable income. Adding in fertilizers, medicines, electricity, fees, etc. the ROK's share of DPRK total trade was probably over 60% in 2007.

President Lee has promised to demand reciprocity and other more rigorous measures in dealing with the North, but early clashes with the left and the beef demonstrations have weakened implementation of these plans. Yet the Sunshine Policy was a serious mistake, allowing the North to continue strengthening itself militarily while moving its population away from shortages. The North can therefore avoid implementing even a rudimentary glasnost and perestroika by warping and bluffing the South. Thus reciprocity will not be easy to get even though it is necessary.

But President Lee had to soften his initial policy considerably, shifting toward giving more attention to humanitarian considerations. The ideological split among South Koreans is inhibiting his policy of seeking true reciprocity. Even humanitarian aid is not a good idea - much of it is stolen by the North Korean elite. Heavy sanctions on the North would be the best policy.

Discussant: Dr. Kim, Choong-nam.

In commenting on the Patterson paper, Dr. Kim described it as a useful study. It shows that the Mansfield-Snyder analysis of fledgling democracies does not fit the South Korean experience. This is because North-South relations are intranational rather than

international. Some elements of democracy were apparent in the South even before the 1980s - student demonstrations, opposition groups, etc. So its transition went from a partial democracy to a full democracy, not from autocracy to democracy. One result has been that rising ROK nationalism depicted North Korea more as a victim of outsiders. US-ROK ties have constrained the South's relations with the North, as have regional matters and links, but the policy has become peace oriented in recent decades nonetheless. One question: if Kim, Jong Il dies will a political transition toward democracy make North Korea more conflict prone?

As for Professor Kim's paper, the six-party talks agreed to meet most of the North's demands eventually but got no basic resolution of the problems in return. Denuclearization and major reforms in the North still seem unrealistic. It is a very abnormal country and seems determined to go nuclear. The US, China, and Russia may well settle for just *limiting* its nuclear weapons. Can the ROK accept this? As for the building of a regional security regime, the paper seems too pessimistic. The six-party talks could succeed in building a degree of trust in the region. It also seems that there could well be a huge shift in the security environment. Much depends on what China does if there is a US-China deal.

In North-South relations the Sunshine Policy was a failure, so President Lee has shifted direction. But people don't like Lee's policy, and are now pessimistic about it. In thinking about unification the ROK has always rejected the idea of a confederation but it is now so much stronger in relation to the North that it might go for one. Is this true? What do you think?

Professor Kihl talks about the Sunshine Policy. One problem with the policy is that it has been politically motivated, and shaped by concern about the threat it can pose to the North. Lee's Vision 3000 is also too dangerous for the North to embrace, and it cannot embrace reciprocity for the same reason - it would be too dangerous. Offering economic benefits has limited impact, therefore, because it would be too dangerous. So can the ROK ever really use economic relations effectively to make North Korea dependent on the South?

Panelist Responses

Professor Kihl reiterated that a regular security forum already exists for East Asia in the ARF and the ASEAN+3 arrangements. Secretary of State Rice met the North Korean Foreign Minister recently at one of these meetings. Thus we don't need new fora for security discussions. The real stumbling block is that there will be no real progress on major issues without prior North Korean nuclear disarmament. The discussant also wondered whether a sea change in the security environment might be in the offing. Maybe; politics is full of compromises. **Dr. Hwang** briefly responded to the question from **Dr. Kim** about seeking economic leverage with the North, agreeing with Dr. Kim and saying that seeking leverage by economic interaction seems very unlikely to work

Hong Nack Kim took up the matter of a unification formula. The one mentioned by Dr. Kim might be termed the Hong Kong approach, and it won't work. North Korea still insists the ROK is illegitimate. The prerequisite for real progress here is the death of Kim, Jong Il. After that happens we can hope that the successor will not be from the Kim dynasty and will be willing to liberalize - like Deng, or Khrushchev, or Gorbachev. Without that, the Hong Kong approach, like others, won't work.

Patterson returned to the discussant's reference to the work of Edward Mansfield and Jack Snyder. Recent Asian experience helps correct the Western bias in theories of the impact of democratization. He also agreed that earlier ROK regimes had to maneuver around and manipulate public opinion, that there were elements of democracy in those days. Today, North and South Korea must be seen as two states, not one society in a civil conflict. In this situation, no North Korean government can survive without the leverage provided by nuclear weapons. However, a full deployment of nuclear weapons may not be needed for the North to have sufficient leverage and it may survive. It may linger as a chronic international illness, one to contain and keep from metastasizing.

Discussion from the Floor

Robert Mounts (Special Asst. for IR, US SOFA Secretary, USFK) noted the point made earlier that the ROK as a democracy has had a difficult time dealing with threats to, or interruptions in, representative democracy such as by violent demonstrations or powerful interest group manipulation. This has affected the alliance. He asked Patterson what President Lee might do to educate the public about the alliance today, its

importance, and having American forces in Korea. **Patterson** replied that elites can indeed manipulate groups and interests in ROK politics. It is probably best, for combating that, to reach out to opponents of those elements and get them to resist such manipulation. **Hong Nack Kim** suggested it was too simple to say that the regime in the North can't survive without nuclear weapons. Libya is an example to the contrary. **Patterson** agreed that nuclear weapons were not the only way North Korea could survive, but they are probably the key to survival of this particular regime. **Walter Lohman** argued that a Hong Kong model would not fit the Korean situation because Korean unification would involve a rich country absorbing a poor smaller, one. On overall regional security he suggested that the US and ROK use the Western alliances to talk with China about security management. **Kihl** responded that a process-oriented approach would be best. Trying to build a security architecture to promote peace is less important. The Asia-Pacific region is not ready for the kind of elaborate multilateral approach used in Europe.

Professor Jon Oh Ra (Virginia Tech/Hollins University) reviewed the changing China-Taiwan situation. Hu Jintao is an effective leader. He seems to want to settle the Taiwan matter peacefully while also pressing ahead on a fleet of quiet submarines. China is, of course, a central player in the six-party talks. If it moves effectively to settle the Taiwan conflict, what would be the impact of this on inter-Korean relations? **Hong Nack Kim** agreed that the China-Taiwan conflict is clearly relaxing, that it is not a crisis situation now. Hu also seems in good shape politically. He is more oriented toward cooperation, and wants a peaceful environment in East Asia. This kind of policy, along with domestic liberalization in China, will eventually affect North-South relations.

Tony Stangarone (Korean Economic Institute) posed a question for Hwang: if isolation has not worked with Cuba, and China will always bail out North Korea, isn't embracing North Korea the only feasible policy? **Hwang** agreed that China will continue aiding North Korea as things stand. The ROK can't do anything about this. The US must talk with China about it - US-China cooperation is needed for sanctions to be effective.

A Korean attendee asked Hong Kim what the odds were of a good outcome from President Lee's policies. He still has over four years to go on his term. **Hong Nack Kim** said the problem is that the North-South gulf is wider now. North Korean wants the

Sunshine Policy continued This is too expensive for the South - it could cost \$13 billion or more and the Lee government won't agree to it. A follow up from the floor asked what would happen if the North became desperate and began to make changes. **Kim** said that would certainly better the chances of more South Korean aid. However, as in other matters, much depends on Kim, Jong Il's health.

Dr. Ilpyong Kim noted that Dr Hwang had looked at the identifiable economic and political effects of South Korean aid and investments on the North. But intangible effects can be important too - what intangible effects has this flow of funds had? **Hwang** agreed that there have been intangible effects, such as on public attitudes in North Korea in the long run. But such effects do not appear quickly while the costs are immediate, and South Koreans have plenty of burdens. Expensive benefits are bound to be controversial.

A questioner from the floor suggested that transfer payments to the DPRK don't belong in its GDP figures. **Hwang** agreed and said he had put those funds under disposable income, not the GDP. The questioner followed up, asking how much effect the period of suspended ROK payments had on the North since the elite garners much of that money anyway. **Hwang** said he had tried to calculate the diversion - it appears that roughly two-thirds of it has been diverted. **Hugo Kim** asked the discussant Kim, and Hwang, another question. North Korean leaders want more economic benefits from the South with very little political risk attached. This is not really possible. But ROK largesse has spoiled the North Korean leaders. Thus how can we manage the North? **Kim, Choong-nam** agreed that there is a political risk for the North from aid and that they would continue to try to remain disengaged so as to control that risk. **Hwang** wondered if a serious line could be drawn between aid and political relations - the North cannot really be disengaged if the aid is taking place. A final question from the audience: is there any instance of North Korea building a significant factory or other institution with the aid? **Hwang** said that the answer is no. In view of what goes on there, it is hard to see why North Korea should be given aid.

Young Whan Kihl closed the panel by responding to an earlier question by **Dr. Ra**. John Mearsheimer, the well known realist scholar, sees the rise of China as inevitably posing a very tough problem for peace and security in Asia. While he may not

be correct, this illustrates the need for taking a very broad view of the international politics of the region that will be the context for future inter-Korean relations.

LUNCHEON ADDRESS

Kim Holmes welcomed the participants to the luncheon and introduced the speaker. **Ms. Wendy Cutler** worked in the Commerce Department and then moved to the Office of the US Trade Representative in 1988. Since then she has held various posts in USTR and has conducted numerous bilateral and multilateral negotiations. She served as the Assistant US Trade Representative for Japan, Korea and APEC Affairs in 2004, and was the Chief US Negotiator for the US-Korean Free Trade Agreement signed on June 30, 2007, the largest US free trade agreement in over 15 years.

Ms. Cutler started her remarks by pointing out that US-ROK economic relations will grow significantly in importance over the next fifty years. The FTA is a watershed agreement; *it is very important*. Negotiating it was a long process. To summarize the historical context, the rise of South Korea to a high level of development began with an export-led growth strategy that included strong protectionism. The protectionism eventually strained US-ROK economic relations, especially after the Asian financial crisis in the late 1990s. As a result of the crisis Korea instituted economic reforms, including more transparency on economic policies and regulations. There were cuts in government control, more openness. That helped lead, in just the first year (1999), to a huge economic recovery. Now the ROK is stronger than ever, one of the world's leading high technology economies.

After the financial crisis and for other reasons there has been a rise in bilateral trade agreements. Both the US and ROK have turned to signing FTAs, the ROK with Chile, Singapore, and India for example, the US in Latin America and the Middle East, as well as with Singapore and Australia. Rising US-ROK economic activity and economic cooperation naturally led to the idea of an FTA. Both governments saw the stakes in taking such a step as very high. There was a painstaking process of assessing possible pitfalls, all the details to be dealt with, etc. To get the talks started, the ROK had to take a politically important and sensitive decision to open up its market. Ten months of negotiations ensued, resulting in an agreement of some 1400 pages.

It represents great progress in reducing tariffs and nontariff barriers and is a "win-win" deal. It should boost the Korean GDP by 6% in the next decade, creating 40,000 more jobs. In the US it will produce \$10-12 billion in growth annually. Now we face the huge challenge of ratification! And in the midst of major political changes in each country! The administration consulted carefully on passing the FTA this year and found the odds are against it. It is a question of *when* it will pass, not *if* - it will pass eventually. Congress has never rejected an FTA.

It will be an important turning point. It redefines our bilateral economic ties and lays the foundation for a *special* economic relationship. Very close as well is a deal admitting the ROK to the visa waiver program that will also facilitate economic interactions. Already there is a large and rising flow of foreign direct investments - with Corning glass appearing in HDTV screens from the ROK, for example. Thus the potential for greater economic cooperation, in what is already a very robust relationship, is very high.

Mr. Holmes added his view that the FTA would be approved. Only a majority is needed, and it might still pass this year. Then he opened the floor to a few questions. **Dr. Jong Oh Ra** asked what effect the American financial crisis would have on US-Korean relations and on passage of the FTA. **Cutler** replied that we must remember how important exports are now for the American economy. That makes the FTA very compelling in light of our current economic problems.

Another participant thanked Cutler for her hard work in crafting the agreement. He suggested that the 1.5 million Korean-Americans could be of assistance. **Cutler** said the government has great respect for and is counting on Korean-Americans to help, indicating that she had spoken to such groups for over 14 months across the US on the agreement and that the Korean embassy has been doing the same. She admitted that maybe even more should be done. Another participant also thanked Ms. Cutler and asked what the biggest challenge was in dealing with the Korean side. **Cutler** said that the biggest challenge was dealing with such high stakes. Failure was not an option. That made it hard to get a deal that could be sold in each country, especially when working within the ten month deadline imposed in the American fast track legislation that authorized the negotiations.

An American based in Seoul asked if there was any attempt to gain some leverage on automobiles after the deal was signed on reopening the ROK to US beef? She said there was no attempt of that sort. The focus was on using the deal on US beef imports to get that issue off the table and out of the media. There was no effort to trade it for something else. The beef issue is essentially settled now - American beef is flowing into the ROK. A Korean participant asked what would happen in Congress added conditions to the agreement. **Cutler** suggested that the automobile sector is an area where that could well happen. However, the automobile portion of the agreement is a really good deal already - all the existing barriers are dealt with. A serious debate should show that this is the case.

Hugo Kim wondered how the agreement will be affected by the US elections? **Cutler** replied that she is a career civil servant and works for any administration. The views of McCain and Obama are well known. "As a career civil servant, I will stop there." And that is where the luncheon ended, with vigorous applause for the speaker.

PANEL IV: U.S.-KOREA ECONOMIC RELATIONS

Moderator: Dr. Soon Paik, Senior Economist - US Department of Labor

**Papers: Robert Reis, Executive Vice President, US-Korea Business Council
Dr. Uk Heo, University of Wisconsin at Milwaukee
Dr. Jwa, Sunghye, President-Kyonggi Research Institute**

Discussant: Dr. Hong, Sung Gul, Dean - Graduate School of Public Administration, Kookmin University

Some technical problems had to be ironed out to allow the speakers to be heard properly and then the panel proceeded.

Paper: "Appraising MBnomics - A Washington Perspective" by Mr. Robert Reis

After thanking the organizers, **Robert Reis** opening by explaining that MBnomics is the term for President Lee's economic proposals, before and since his election, on various economic activities and reforms. The ultimate goals are summarized by the President's "747 pledge:" to achieve 7% annual growth for the ROK during his term, a \$40,000 average annual income, and the rank of 7th largest economy in the world.

Looking over the economy, Korea leads the world in shipbuilding and information technology products. But many other sectors and firms are rather inefficient and find it hard to compete with Japanese and Chinese firms. The labor sector is inflexible on removing full-time employees so companies rely too heavily on part-time and short-term workers. The nation's low birthrate is a threat to the economy for the future; in roughly 15 years the workforce will start to shrink.

The president's proposals call for adherence to the following principles:

Autonomy and market competition

Economic rationality for policies (not politics)

Supply expansion (rather than controlling demand)

Improved income distribution through growth and job creation

Protection for the poor

Rule of law

Economic openness in line with global standards

These are to guide implementation of a broad range of promised economic steps designed to stimulate economic activity by creating a more business-friendly environment. They include considerable regulatory reform, tax cuts for businesses, structural reforms, government streamlining, halting the rising cost of real estate, cutting capital gains and property taxes, and generating major infrastructure spending - particularly for a canal linking Seoul and Busan. Lee has called for getting unions to be more law abiding and getting employers to attend to worker concerns. These steps are meant to attract more investment locally and from abroad, stimulate growth, and create jobs. R & D investment is to rise to 5% of the GNP, the service sector is to be boosted, education reforms are to be introduced, and more foreign professionals to be admitted. The FTA is supposed to help, and more FTAs are pledged - with Europe in particular. President Lee also wants better conditions for investment and living for foreign investors in Korea. Foreign companies have reacted positively to these proposals and to the Lee administration's efforts to consult with the foreign business community about reforms and other proposals.

There was a delay in implementing most of these steps until after the April National Assembly election in which the GNP made large gains. Further progress was

then stymied. FTA ratification in Congress was linked to a reopening of the Korean market for American beef first, and Lee quickly announced an agreement to do this. But it met with massive demonstrations targeting not only beef imports but some planned privatizations of state firms and other measures, plus a boycott of the National Assembly by the opposition Democratic Party. This forced the president to cancel his national canal project, cut privatizations, lower the planned growth rate, and reduce the anticipated new jobs. In effect, the 747 plan was dead, having become unrealistic. Eventually beef imports were limited to cows under 30 months old to resolve that conflict. And in the fall the president's standing in the polls began to rise and many of his economic proposals were reintroduced.

The government is going ahead on 41 privatizations, including the Korea Development Bank, the Industrial Bank of Korea, and the Incheon International Airport Corporation among others, with the government typically selling the shares it gained from rescuing firms during the Asian financial crisis. About 250,000 workers will be affected. But the demonstrations led to cancelling plans to privatize even more including energy firms and public utilities. Labor unions have strongly objected to the job cuts these steps are intended to bring about. The administration has introduced a plan to reduce taxes by \$24 billion, with special provisions for "green" initiatives and small businesses. One objective is to increase the percentage of national energy consumption from renewable and clean sources to 11% by 2030.

However, the economy has been slowing due to hikes in energy, food, and other prices, while private consumption and demand for manufactured goods is down. Growth is running around 4%, not the 5% sought initially and the 7% in the president's overall plan. There is some opposition to government plans among the GNP members of the National Assembly, and no guarantee of FTA ratification. The administration must not lose sight of the central objectives: deregulation, transparency, tax reform, alignment with global standards, and labor market flexibility. They will determine what affects foreign investors' plans

Paper: "Prospects for US-Korean Economic Relations in the Next Five Years" by

Professor Uk Heo

In briefly recounting the history of US-Korean economic relations since the Korean War, **Professor Heo** noted that the significant American foreign aid was not accompanied for years by major bilateral trade. It was not until the 1970s that the US became the largest market for Korean goods. In 2002 China replaced the US as the leading export market for Korea (the US remains the second largest) and in 2004 as the leading overall Korean trade partner (Japan is second, the US third). US-ROK trade in 2006 was some \$80 billion, and the ROK is the 7th largest trade partner of the US - especially in machinery, aircraft, semiconductors, and agricultural products, and it is one of the largest importers of US beef. Major ROK exports include phones, equipment, computers, automobiles, machinery, ships, steel, and petrochemicals.

All studies of the FTA predict positive effects for both countries. Some examples of the findings:

A rise in total US-ROK trade to over \$100 billion

Increases in the ROK GNP by .6% annually

Increases in ROK exports to US by \$1.3 billion annually - in exports from the US by \$900 million.

A large increase in ROK farm imports

Korean manufacturing output to rise by \$5.5 billion per year

An increase in FDI for Korea of \$2-3 billion

A rise in US exports by \$10-11 billion in first decade

A boost in total trade by \$100 billion in the first few years

Korea opening up its financial and communications sectors

These results will be due to making 95% of products duty free in ROK-US trade, and ending almost all tariffs within a decade. Many restrictions on automotive imports to the ROK will be abolished. The 52% average tariff rate on much ROK food imports will be removed, which will allow a major expansion in US farm exports.

The US election results could have a major impact. Obama has opposed many current trade agreements because they benefit business interests at the expense of US workers. He has proposed amending NAFTA to strengthen provisions on environmental and labor protection. He believes the FTA is not balanced - that provisions on automobile exports to Korea do not go far enough. McCain has strongly supported free

trade and the FTA. He has proposed eliminating US farm subsidies to foster greater free trade in agriculture. However, if elected he will face an unsympathetic Democratic Congress.

The FTA is quite likely to be ratified. If McCain is elected Congress will want some changes in the agreement to politically justify ratification. If Obama wins he will want even more changes and then agree to support ratification - the agreement holds many benefits for the US, his advisors are mostly free trade advocates or strong supporters of the US-ROK relationship (including Donald Gregg, Stephen Bosworth, Gordon Flake, Thomas Hubbard, and Joel Witt). In addition, failure to ratify could allow a proposed ROK-EU FTA to steal some of the benefits that would come from ratification.

In Korea the Democratic Party opposes the FTA, and wants more studies of its potential impact on various sectors. The GNP holds a big majority in the National Assembly but Korean culture forbids ramming a major bill through when there is strong opposition. Public opinion polls show strong support for the FTA (up to two-thirds) in the ROK. However, the protests on the beef issue showed how strong leftist and anti-American sentiment still remains, and the left will use a ratification debate to stimulate nationalist and anti-American feelings. The rise in anti-Americanism has been linked to the US opposition to the ROK's engagement strategy with the North, the reports of US forces killing civilians in the Korean War, environmental damage associated with US bases, the accidental killing of two schoolgirls in 2002 in a US training exercise and bad handling of the incident by USFK officers, the failure of President Bush to include the ROK in a speech listing those who had supported the US by sending troops to Iraq, and the decline in perceptions of North Korea as a serious threat.

The North Korean issue is an important part of the context. There has been serious progress in the six-party talks, but some recent setbacks. If Kim, Jong Il dies there will likely be some disarray in the North, perhaps a power struggle. This could provoke friction between the US and the ROK and, in any case, will affect the environment for their economic relations. Congressman Royce was correct in charging that there has been repeated ROK capitulation to the North, and Dr. Patterson is correct when he says that the North Korean regime needs nuclear weapons for its survival - interest in nuclear weapons there goes back to the 1950s. Survival is the ultimate concern

of that regime - it won't give up nuclear weapons unless its survival is ensured. Thus the US, China, and the ROK need to seriously consider whether they want to continue living with it. Without planning for a North Korea without that regime there is no basis on which to resolve the nuclear weapons issue.

Returning to the matter at hand, the FTA is so beneficial that it remains likely to be ratified. With that the US-ROK economic relationship will continue to prosper.

Paper: "MBnomics: A Review and the Road Ahead" by Dr. Jwa, Sung-hee

Dr. Jwa began by saying that in Korean his name means "left" but he is not a leftist! Turning to his subject he initially offered a summary of the nature of national development. National economic development, largely a 19th century phenomenon in the West, is now as a very complex, highly integrated process. It is a very dynamic process, with front runners often serving as role models in driving subsequent development. Organizations are crucial in economies now, something not well appreciated in classic economic theory, and modern development has been driven by the corporation and the business firm. So are political ideologies and institutions - they mold development efforts too. Government involvement in guiding or misguiding development is essential, unavoidable. Still unexplained is why some sorts of government dominated development efforts have been quite successful. Public attitudes, especially a "development mentality" and a can-do spirit can help. Leadership is very important in the relevant government institutions and economic organizations, but we don't fully understand how. Using a market approach has a number of results. Markets discriminate so the economic outcomes for participants are uneven - development is a "highly lopsided process." There is a tendency toward market concentration. Rewards go to the best economic performers.

Development is far from universal. Only about 25 of the world's almost 200 nations have gone through the national economic development process. It is also a recent event historically, dating from roughly 1850. Mainstream economics largely ignores how lopsided (concentrated in terms of outcomes, benefits) the process is, and mainstream microeconomics also ignores the important role of government and the political process, although efforts are now under way to correct for these deficiencies.

The view in this paper employs elements of "complexity economics" and "evolutionary economics." This provides a better understanding of markets, and the role of the firm. Avoided is the tendency in some quarters to see "economic power" in a negative sense, as hurting economic development. This tendency has been reinforced by the periodic domination in various countries of an egalitarian ethos that links bigness to inhibitions on development, which is incorrect. That is an unfortunate phenomenon since economic power - concentration, markets that reward success, etc. - is vital to economic progress

In the Korean case, the takeoff comes primarily with President Park, Chung-hee's economic policies that included a heavy government management of the economy and an emphasis on favored sectors and firms. From the 1960s to the late 1980s, the ROK employed:

Vigorous export promotion;

Stress on government assistance to those prepared to help themselves;

Hence a highly discriminatory policy - money went to successful outfits only, to highly effective performers.

Competitiveness in the international marketplace as the guide in government policy making.

Widely criticized then and since, this approach gave priority to successful firms and villages and to developing successful new ones, especially in the allocation of scarce resources. This approach heightened competitive pressures, limited free-riding, and produced an average growth rate of 8-9% from 1960 to 1990. A more egalitarian era began to emerge after Park's assassination in 1979. There was a rising emphasis on small and medium sized enterprises and rural development, with resistance to over-concentration and bigness in the economy. While this culminated in a welcome democratization politically, it had bad effects economically as it led to a steady drop in growth. It produced the 1987 constitutional amendment which permits state regulation and coordination of the economy so as, in part, "to ensure proper distribution of income,...and to democratize the economy..." The can-do spirit was eroded, state managed enterprises received more attention, etc. Despite the laudable objectives - more help for the young, the poor, etc. - the pendulum swung too far in that direction, producing the "egalitarian trap" which dampened economic vigor. Thus "success was

greeted with envy, distrust, disrespect and even punishment!" As a result there has been steady decline in the growth rate since the late 1980s, and it is now running at 3.5-4%.

The relevant policies in this era that crippled development included:

Regulation of the Chaebols to achieve balanced development rather than promoting competition;

Promoting small and medium enterprises without regard to their economic performance;

Limiting the flow of industries and universities into large urban areas and pushing some industries out of cities;

Support for local and rural regions without regard to economic performance;

Greater tax exemptions for the poor, rising taxes on the wealthy;

A too lenient social safety net;

Support for labor and labor unions;

As a result, equalization of opportunity became an important objective, with some deconcentration of the economy and reverse discrimination in economic policies to an extent via anti-trust policies and promoting small firms. Growth was deemphasized in favor of egalitarianism, allowing the flourishing of moral hazard behavior, corruption, free riding, etc. as many benefits or kinds of support were extended regardless of economic efficiency and productivity.

With unusually favorable conditions the Roh era saw a bit better record of national development but no fundamental improvement. Mbconomics is meant to turn around this growth rate slowdown. It seeks to promote rapid development through an emphasis on markets, individual talents, harmony with global standards, etc. President Lee has arrived with his 747 Plan, with its emphasis on creative pragmatism and a long list of policies to be pursued. Progress with the plan was immediately limited by political and other controversies - on the grand canal project, foreign policy, the FTA, the beef controversy, etc. There has also been a general economic decline since the government came into office, adding to public resentment. But recent announcements suggest the government is committed to reviving the original goals. The important thing is to get out of the egalitarian trap. The government must stop discriminating against successful firms and regions. It must also ensure the rule of law when it comes to labor disturbances. The

current American economic difficulties are due to the same excessive preoccupation with equalization.

Instead, there has been a retreat on privatizing various state enterprises, on deregulating with regard to concentration of enterprises in cities, and on deregulation of large corporations. Hopefully the government can surmount these difficulties. Here are suggestions on how to improve MBnomics:

Stress big markets and limited government;

Give creative pragmatism clear guiding principles;

Reinforce privatization and deregulation policies;

Stress safety and rule of law;

Improve welfare system and programs in terms of minimizing moral hazard problems and free riding and promoting self-help, diligence, and cooperation;

Retreat from government egalitarian policies;

This will require avoiding support systems not based on performance, moving to a more competitive education system, reducing income redistribution elements in tax policies, disciplining labor unions, promoting FDI, and securing the FTA. This will require a good deal of reeducation of the public about how "being rich and achieving excellence in one's area of expertise should never be a reason for mistreatment, disfavor or indeed punishment."

Discussant: Dr. Hong, Sung Gul

Dr. Hong indicated that these were three good papers, offering both American and Korean perspectives, and both political science and economics views. They also provide a mix of short and long term analyses. With regard to MBnomics, we must keep in mind that it is based on neoliberal economic policies stressing tax cuts, deregulation, marketization, etc. But GNP seats in the National Assembly offer no guarantee of legislative success - the beef dispute is a good example. The question is: is the MBnomics program *politically* feasible? The FTA is a good example. Despite its attractions politics posed problems and people do not readily buy into all of it (especially farmers and other rural people). The egalitarian trap is indeed a *severe* problem. It is necessary to move away from a severe socialist sentiment to gain better economic ties

with the US. But Koreans are not Americans on matters like beef, neoliberalist policies, etc. The US needs to adjust to this. Politics matter!!

Panelist Responses

Robert Reis found the comments very useful. With regard to the future of the FTA, a lot has been done to sell the FTA in Congress and members often agree on its value. But then they cite the fact that it is an election year and the uneasiness of various constituencies as reasons for the delay on ratification. The FTA should pass eventually. The automobile provisions are important, indeed unprecedented - they address all the car manufacturers' concerns on standards, taxes, tariffs, and dispute resolution. There are real teeth in the provisions on arbitration panels. Both sides will benefit from the FTA - it will help modernize the Korean economy.

Dr. Heo stressed paying more attention to the political dimension. Remember the *Fog of War* on how failures dogged Robert McNamara. Politicians and others need the ability to empathize to be successful. The logic of election pressures cannot be ignored and affects both nations. It is after elections are over that compromises become more likely and feasible. That is when the inherent value of the FTA can emerge. In seeking ratification, the two governments will need to preserve features that permit the opponents to compromise their positions and vote in favor. **Dr. Jwa** emphasized again that ideological views are hard to change. Leaders have to bring this about at all levels. President Lee must do this now.

Participation from the Floor

The first view was offered by **Dr. Kim, Choong-nam**. Heo argues, said Kim, that a security guarantee is the key to getting North Korea to yield on its nuclear weapons program and on adopting reforms. This seems incorrect - the North will not yield on the weapons and the reforms. Jwa misses the fact that President Lee is too preoccupied with economic concerns and thinking. Politics and economics are too different games. The majority dominate politics, while marketers are in charge of economics. While early South Korean governments stressed markets, later governments have necessarily given much attention to democracy. We need a proper balance between the two.

Heo responded that we cannot expect North Korea to change domestically. To resolve the nuclear weapons issue we need to see the world through North Korean eyes, and understand that they need a reason, achievement of regime survival, to abandon their nuclear weapons program. Then if they fail to follow through, China, the ROK, and Japan can all join in pressuring the North.

Jwa agreed with Dr. Kim on Lee's having had to face a leadership crisis and be alert to public opinion. He is also right about early Korean governments having been too antidemocratic. However, economic development and democracy as central emphases in policy cannot go together - equality cannot be carried that far. It is necessary to find a balance. The lesson from global experience is that excessive social democracy is damaging well beyond a single generation. President Lee must use the best people in his camp to help him in building a new development-oriented ideology.

A Korean analyst suggested to Heo that the last part of the Bush administration reflects a rejection of what he proposed for dealing with North Korea. How is the outcome to be better this time? We are now reaching the point where we accept the North's nuclear weapons and worry only about their proliferation. Is this what we have come to? **Jwa** added that we may be caught in an ideology trap on this score. **Heo** responded that the Bush administration rejected engagement because it wanted to step away from Clinton policies and policy failures. It went for a multilateral negotiation to build pressure on the North. But *regime survival* is the key motivation for the North Koreans, the only way to move that government away from nuclear weapons. The US has to provide that. Only then will all five parties in the talks be on the same page in dealing with North Korea. If the US and China don't want a North Korean collapse, then they should stress regime survival. **Jwa** added that he believes President Lee has adopted the right principles on this. If not, "I withdraw my advice!"

Professor Jong Oh Ra strongly asserted that the current economic crisis is hardly due to a failure to sufficiently practice Reaganomics of the sort JWA is promoting. With even less regulation would our current economic crisis really have been avoided? **Jwa** replied that not all regulation has the proper impact, and it depends on what is enforced and applied.

General Tilelli cited two assumptions that Dr. Heo is using: that we can get an agreement among the five parties as to what we want to occur inside the North, and that we can get the ROK to take the lead. But the ROK has not arrived at an agreement as to what it wants to see happen in North Korea. Hence Heo's analysis is good but will not fit the reality that the five parties disagree as to what changes to seek in North Korea. In response, **Heo** argued that we had an agreement on sanctions when China felt that North Korea had been properly approached. China joined the sanctions because they now had a reason to do so. **Tilelli** responded that China actually violated the sanctions after it officially supported them.

A Korean participant asked why, if the FTA, is good for everyone, there is opposition to it in Korea? It seems that this has to do with sharing. Needed is a good mechanism for more evenly sharing the impact of the FTA and the Korean people don't trust the government to provide one. They also don't trust the idea that they will get "their share" later on. **Heo** replied that trade always produces winners and losers. Generally speaking, the losers are a minority and overall the benefits even reach them, so that over time opposition to an agreement dwindles. This should happen with the FTA. **Reis** added the point, made in his paper and presentation, that polls show public support for the FTA running at 60% or more, and also noted that the government has a number of big subsidy programs for the "losers" ready to go. The questioner replied that in politics losers often are comforted by the hope that they will someday be winners, but on this issue losers can't count on that. One other audience participant objected to reducing democracy to a simple majority. There are many other voting rules that can be used.

Dr. Jwa wanted to point out that he has tried to identify larger exogenous factors that drive economic growth and that his stress on exports and the FTA is a part of that. A last comment from a Korean member of the audience concerned Tilelli saying that the US should not bother to deal with North Korea since it is not going to reach an agreement. He suggested that not responding forcefully and successfully in this case is already eroding American credibility, which is harmful to American foreign policy.

CLOSING REMARKS

Vice president Holmes thanked the participants for their contributions. He cited several key themes that Heritage observers and participants believed had emerged from the discussions:

- 1) denuclearization on the peninsula depends on the elections here, and the dynamics of the multilateralism at work in the six-party talks.
- 2) FTA ratification in the near future is less important than that it be successful. A Congressional lame duck session is a difficult situation for getting Congressional action on such a sensitive matter. One thing that may be needed is some sweeteners on automobiles. This is a high cost item, especially in the ongoing debate about financial bailouts.
- 3) policy coordination with allies is important. The alliance is ever more a partnership and the US must adjust accordingly.
- 4) there is a need to use the alliance (and other alliances) well - this is better than trying to develop a new security arrangement for the region.

Of course, not everyone agreed with these points. We aimed to try to spot some areas of consensus. Agreement or not, there were very effective discussions. With that, he closed by thanking everyone once again for their participation.

General Tilelli then thanked the Heritage Foundation, an American "thought leader," for its hospitality and cosponsorship of the conference, with particular reference to the support of President Ed Feulner. He expressed his appreciation for the elaborate and effective work of the conference organizers. Finally, he praised the work of the participants. People like us, who love Korea and can sometimes influence governments, help to make a difference. He concluded by announcing that the tentative date for the next conference, in Seoul, is October 22-23.

General Kim joined his Co-Chairman of the Council on US-Korean Security Studies in offering his profound appreciation to the participants, to the Heritage Foundation for its tremendous contributions, to the ICKS and its members as co-hosts and participants, to KIMS and Admiral An, to several other Korean institutes for their support, to the Korean Ambassador and Military Attache for extensive assistance and the Ambassador's presentation, and to the organizers, particularly **Hugo Wheegook Kim** and

Dr. Ryoo, Jae-kap. General Kim also offered his appreciation for the work of the conference rapporteur, **Professor Patrick Morgan.**

He closed by noting that we do not always realize how much the US has helped compensate for Korean security weaknesses for many decades. He also reaffirmed that we gather periodically to enhance the security of Korea and US security interests in Northeast Asia. *That is our central purpose and we must always remember that.*

As often in the past, he closed by saying "see you in Seoul next year."

Dr. Hong Nack Kim, speaking on behalf of the International Council on Korean Studies, added his congratulation to the participants for a fine conference and to the organizers and the Heritage Foundation.

INTRODUCTION OF RAPPORTEUR

Morgan, Patrick M.: (Rapporteur) Professor Morgan earned his B.A. from Harpur College (now SUNY Binghamton) and his M.A. and Ph.D. from Yale University. He is currently a professor in the Political Science Department at the University of California, Irvine. His past positions include Tierney Chair, Peace & Conflict of the Department of Political Science and also Acting Director of the Global Peace and Conflict Studies Center from 2000 to 2001. Professor Morgan has also been acknowledged with the following distinctions: 1973-1974 Fellow- Wilson Center, Washington, DC; 1985 Fulbright- Catholic University, Leuven, Belgium; 1988-1989 Vice President- International Studies Association; 1997 Fellowship- Rockefeller Center, Bellagio, Italy. Professor Morgan has concentrated his research primarily on national and international security matters - deterrence theory, strategic surprise attack, arms control, and related subjects. He has also had a long standing interest in theoretical approaches to the study of international politics. Currently he is involved in projects on the theory and practice of deterrence in the post-Cold War era, security strategies for global security management, and security in Northeast Asia.