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Expanding the U.S.-Korea Alliance

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House Committee on Foreign Affairs
Subcommittee on Asia and the Pacific

Chairman Donald Manzullo, Representative Faleomavaega, and honorable members of the subcommittee,

It is a great honor to sit on this distinguished panel of speakers to talk about the future of the U.S.-Korea alliance after the successful state visit of President Lee Myung-bak and the ratification of the U.S.-Korea free trade agreement by the U.S. Congress.

This is an important occasion for me on two respects. From a professional standpoint, as the vice president of Korea Economic Institute, we are a thirty year education and policy research institute that has been promoting dialogue and understanding between the U.S. and Korea. President Lee's tremendously successful state visit represents what my organization worked hard to achieve to deepen the bilateral ties of two global partners.

From a personal standpoint, as one of the 1.7 million Korean Americans that live in the United States, it was deeply satisfying to see the ties between Korea and the United States growing stronger and more vibrant. Building up this critical relationship is a win-win situation for both countries and peoples. As Americans, we want the U.S. to continue its global leadership and see this relationship as a vital contributor to America's role in the Asia-Pacific region. With cultural and familial ties to Korea, we see this alliance critical to the security, stability and prosperity of South Korea. The ratification of the KORUS FTA was an important step toward reinforcing this enduring relationship.

As requested by the committee, my presentation today will focus on three sets of issues:

The first area will focus on what still needs to be achieved before the U.S. and South Korea can enjoy the economic benefits of KORUS FTA, now that the U.S. Congress has passed it, and President Obama signed it on October 21. Specifically, what are the political dynamics that are shaping the efforts to ratify the KORUS FTA in Seoul? What is the current public opinion about the KORUS FTA? More broadly, once the

KORUS FTA is passed in both Korea and the US, how does the KORUS FTA position the U.S. vis-a-vis Europe and China?

The second issue is looking ahead at the South Korean elections in 2012 and how next year's elections in Korea will impact U.S.-Korea relations?

The third issue area is focused on North-South Korea relations, particularly: What is the South Korean public sentiment on North and South Korea relations?

Finally, I will conclude with some recommendations on what should be done to take advantage of this period of strong U.S.-Korea relations..

I. What is next, now that the U.S. Congress has ratified the KORUS FTA?

The most immediate step ahead is to complete the ratification process of KORUS FTA on both sides of the Pacific and finally implement this agreement. Despite the fact that the struggle to get the U.S. Congress to ratify KORUS FTA is over, the ability for the two countries to enjoy the benefits of the free trade agreement may still be some distance away. For one, the KORUS FTA ratification process in Korea has become just as polarized as it was in the United States. The ruling Grand National Party (GNP) is attempting to build on the momentum of the U.S. Congress' passage to get it through the National Assembly, but opposition is intense. The outlook for quick passage, however, is hopeful. Below, I highlight the political dynamics within South Korea's legislature to ratify the agreement and the broader public sentiment regarding KORUS FTA.

Political Dynamics in Korea

Since the U.S. Congress voted on the KORUS FTA, the South Korean National Assembly has geared up to pass it as well. However, the ruling majority party and the liberal opposition parties have been locked in a political struggle causing a delay in the ratification process. The Democratic Party, the main liberal opposition, is concerned about how South Korean farmers, workers in various sectors, and small-medium enterprises will be negatively affected. Moreover, they see as problematic the December 2010 renegotiations that added perceived unfair provisions favoring the American auto industry. They are demanding that the government have additional renegotiations with the U.S. to make the agreement fair to South Korea before they can vote on the KORUS FTA. Meanwhile, a smaller and more extreme left party, the Democratic Labor Party, is outright against the entire agreement.

Technically, the ruling Grand National Party could unilaterally pass the KORUS FTA with their majority of 171 out of 299 seats. The ruling party leadership, however, faces popular pressure to build a consensus rather than ramming through

legislation. Plus, the low popularity of the ruling party and threats by the liberal opposition to use physical force have delayed voting on the agreement.

Further complicating the political environment is a tight mayoral by-election on October 26 that many see as a barometer for next year's national elections. Although the national legislative and presidential election do not occur until April 2012 and December 2012, respectively, national election season has already begun in South Korea and politicians are increasingly sensitized to voters' perception and attitudes. The polarization of the KORUS FTA's ratification process has made many in the ruling party skittish about voting on the agreement in such a contentious environment when the electoral stakes are growing.

That said, the GNP leadership has announced that it intends to bring the free trade agreement to a vote by October 31. The general sentiment is that the KORUS FTA will pass despite liberal opposition. For one, public sentiment still favors passing the KORUS FTA despite its problems (see discussion below about public support for KORUS FTA). Second, it is generally believed that despite the open challenge to the agreement, the main opposition will likely allow the passage for the following reasons:

- 1) The Korea-EU FTA, a free trade agreement similar to KORUS FTA, was passed in the National Assembly and implemented with some but not overwhelming opposition by the liberal parties. Thus, it demonstrates that most liberal members are against the KORUS FTA not because of the agreement's substance, but more to score political points against the ruling Grand National Party as all the parties look ahead to the April 2012 National Assembly elections. The opposition may be putting on "theatrics" to solidify their base and draw support should there be fallout from the KORUS FTA.
- 2) Furthermore, the previous liberal Roh Moo Hyun administration actually negotiated the KORUS FTA and most liberals supported the agreement when it was negotiated back in 2007.

Current public opinion in South Korea about the U.S.-Korea Free Trade Agreement

The other optimistic trend supporting a sooner rather than later ratification for KORUS FTA is the consistent majority support for the agreement. The chart below highlights a variety of polls taken by different national news and polling agencies.

Table One: Examples of South Korean polls demonstrating consistent majority public support for KORUS FTA

News/Polling Agencies	Date of Poll	Support KORUS FTA	Against KORUS FTA	Margin of Error	Citation
Dong-a Ilbo News Paper	January 13, 2011	55.20%	28.50%		www.koreauspartnership/files/wallach.pdf
ViewsnNews	May 30, 2008	58.60%	29.80%	3.70%	http://www.viewsnnews.com/article/view.jsp?seq=35414
Gallup	April 4, 2007	58.50%	30.60%	3.70%	http://english.chosun.com/site/data/html_dir/2007/04/04/2007040461025.html

Important Overlooked Step – Implementation

An important note that is not discussed about the KORUS FTA is the supplementary laws that make the regulatory and market structure changes for smooth implementation of the agreement. For example, in addition to the FTA approval, South Korea needs to pass 14 additional pieces of legislation to implement the trade agreement. All this suggests the possibility of additional delays and challenges for the two sides to meet the ambitious deadline for the agreement to be enforced by January 1st. The concern is that if Korea’s passage of the KORUS FTA is contentious, then the opposition can target the implementation phase to cause more delays. Fortunately, for Korea, the July 1st implementation of the Korea-EU FTA, an agreement similar to the KORUS FTA, actually started the adjustments in the Korean economy.

How does the KORUS FTA position the U.S. vis-a-vis Europe and China in the region?

In this time of global economic uncertainty, the KORUS FTA represents an important source of job creation and will send a strong signal of continued U.S. leadership in the Asia-Pacific region.

As the U.S. economy continues to bear the aftereffects of the global financial and economic crisis of 2008, the KORUS FTA represents an opportunity to help promote U.S. economic growth and job creation. South Korea is a longtime ally and a significant developed market with a per capita income of more than \$20,000. It is also the United States’ 7th largest export market and the 14th largest economy in the world. The KORUS FTA is expected to boost U.S. exports by \$11 billion, increase U.S. GDP by \$10-12 billion, and create as many as 70,000 new American jobs. It will provide an economic stimulus when we need it most.

Furthermore, American companies will become more competitive in the South Korean market and level the playing field with other major trading partners like the

European Union. While the approval of the KORUS FTA was stalled, the European Union pushed ahead to establish a free trade agreement with South Korea. As Table 2 illustrates below, once the Korea-EU FTA became implemented, the pace of European imports into Korea grew rapidly. In the first month of the Korea-EU FTA, EU exports to Korea increased by 36.7 percent. This likely came at a cost to U.S. companies that did not have the favorable trade environment. At the same time, Korea continued to expand its free trade agreements by negotiating or exploring agreements with U.S. competitors such as China and Australia. In just over five years, the United States has fallen behind China, the European Union, and Japan in the Korean market (See Table Three).

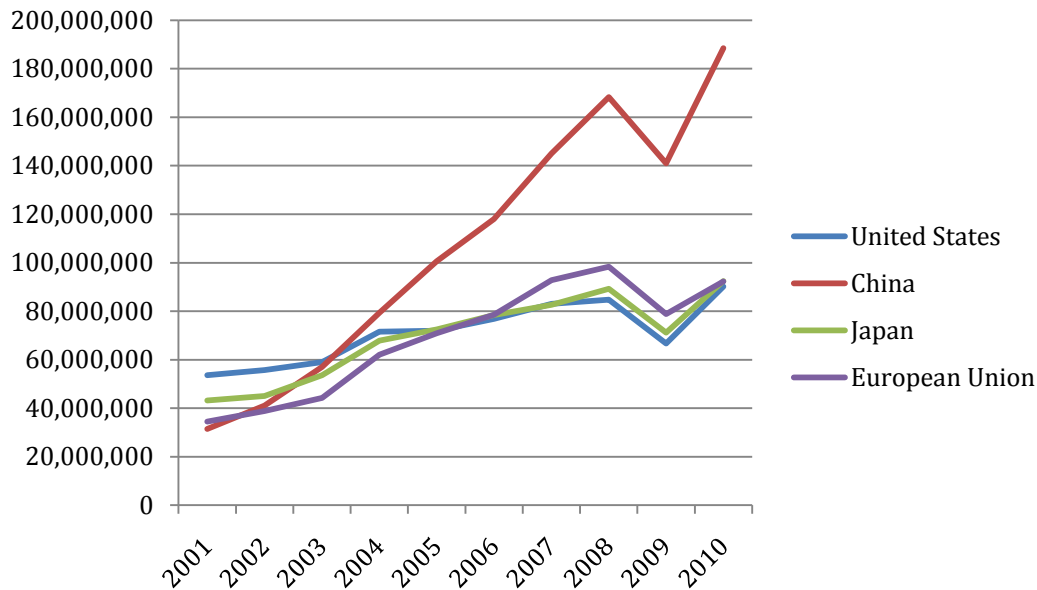
Table Two: Trade Growth Statistics of U.S. and EU Trade with South Korea (3Q/2011; July – September 2011)

Republic of Korea		World		US		EU	
		x\$million	Growth %	x\$million	Growth %	x\$million	Growth %
Exports	July	50772	17.7%	4815	2.8%	5308	-16.7%
	August	45938	25.9%	4330	6.9%	4199	12.0%
	September	46827	18.8%	4798	15.6%	4591	10.0%
	Avg.	47846	21%	4648	8.4%	4699	1.8%
Imports	July	44279	25.0%	3,608	2.9%	4,413	36.7%
	August	45460	28.9%	4,383	33.8%	4,105	17.1%
	September	45270	29.3%	3,587	8.2%	3,826	26.3%
	Avg.	45003	27.7%	3,859	15.0%	4,115	26.7%

Source: Korea Custom Services

The KORUS FTA will also likely make U.S. firms increasingly competitive against Chinese companies, but to have the U.S. regain its top position as the number one trader with South Korea is unlikely. The KORUS FTA may narrow the gap, but trade with China is so far ahead that Korea's giant neighbor will likely remain number one. Please see Table Three below for comparative trade data.

Table Three: Top Four South Korea Trade Partners (2001-2010; \$'000)



Source: Korea International Trade Association

Although the KORUS FTA may not propel the U.S. as the number one economic partner in South Korea, the establishment of the KORUS FTA will have enduring political ramifications.

For one, the KORUS FTA has enormous long-term strategic value and will reinforce the two countries' long-standing relationship to be based on an enduring security alliance and a dynamic economic engagement.

Second, the KORUS FTA reestablished U.S. credibility in the region. In this era of economic difficulties and defense budget cutbacks, many were concerned that further delays with the KORUS FTA would cause U.S. regional allies to interpret this as waning commitment and leadership of the U.S. in the Asia-Pacific region. Continued delays would have fueled doubts about American resolve and served to empower regional competitors such as North Korea and China.

II. How will the presidential elections impact the US-Korea relations?

In 2012, South Korea will likely undergo a major political shift as a new president is selected and possibly the current ruling Grand National Party loses its majority hold in the National Assembly. Despite these changes, South Korea's commitment to a strong U.S.-Korea alliance is not likely to change, especially in light of developments

in North Korea, regional power dynamics, and common shared values and vision for the global community.

Outlook for 2012 Election Year

In 2012, the Republic of Korea will hold two major elections – National Assembly elections (April 2012) and the Presidential Elections (December 2012). The expectation is that in 2012, Korea will go through a major leadership change. For the National Assembly, the ruling Grand National Party currently holds the majority with 171 seats out of 299 seats. But, political pundits are suggesting that with the ruling party's public support at a low and general public dissatisfaction with politics, the ruling party will likely lose their majority to the current main opposition party, the Democratic Party. Korean politics watchers point to the crushing loss by the Grand National Party during the April 27, 2011 national by-elections, in which the Democratic Party captured GNP stronghold districts -- a bad omen for the ruling party's effort to hold on to its majority during the upcoming April 2012 elections.

The outcome of the presidential election, on the other hand, is still unclear. Although some political elites have hinted at the likelihood to run, the full scope of all the candidates are still unknown. What is clear is that President Lee Myung-bak will be stepping down because the constitution only allows one five year term president.

Despite Election Changes, Commitment will be Strong

Despite these changes, the general understanding among most South Koreans across the political spectrum is that maintaining a strong relationship with the United States is important. This does not suggest that Koreans will necessarily support U.S. policies, but given the geopolitical situation as well as the common cultural and value ties with the U.S., future Korean leaders will work toward sustaining the bond between the two countries.

1) South Korea needs the U.S. as a balance against a strengthening China:

During the early 2000s, there was a growing fascination among Koreans about China, especially as economic engagement with this neighboring giant grew rapidly. For example, many more students were going to China to learn Chinese while less were traveling to the United States to learn English. But, this fascination of China gradually turned to growing concern as a series of Beijing's actions have become increasingly threatening to South Korea's own interests. For example: 1) Chinese nationalist scholars engaging in historical revisionism to claim cultures and lands that were believed to be Korean to be Chinese; 2) the Chinese-Japanese clashes over the Senkaku/Daiyutai Islands in September 2010 which led to heightened diplomatic tensions and even temporary suspension of rare earth exports to Japan; 3) China's decision to

support North Korea following the sinking of the South Korean corvette, Cheonan, and after the North Korean shelling of Yeongpyong Island. All these events suggest a more diplomatically aggressive Beijing that may not always be supportive of South Korea's own political interests.

That said, with China being South Korea's largest economic partner, South Korea needs a strong U.S. relationship and presence to serve as a counterbalance to China's growing influence in the region. With Japan's own domestic problems, the active presence of the U.S. in the region becomes even more crucial.

2) *North Korea's continuing threat and uncertain leadership future:*

South Korea needs the U.S. to deter an increasingly belligerent North Korea and help manage an uncertain future as North Korea transitions to a new leader. The sinking of the South Korean naval ship, Cheonan, and the Yeongpyong Island shelling made clear to many South Koreans that the North Korea military threat is real. Moreover, with reports that these actions were tied to Kim Jong-eun and succession politics, South Korea is concerned that more provocative acts may follow as Kim Jong-il continues to try to consolidate power around his son.

Furthermore, South Korea sees the U.S. leadership as critical in managing the process to denuclearize North Korea with the other members of the Six Party Talks.

3) *South Korea finds its cultural values, people-to-people connections and global interests congruent:*

South Koreans see its own global interests in line with U.S. values and leadership rather than a country like China. For example, South Korea is the 7th largest exporter and the 10th largest importer (2010) in the world. With so much of the economy tied to trade, South Korea supports the U.S. efforts for greater open trade, transparency, and rule of law.

III. What is the South Korean public sentiment regarding North - South Korea Relations?

The South Korean general public is generally supportive of President Lee Myung-bak's North Korea policy based on providing no unilateral economic assistance unless Pyongyang takes substantive moves toward inter-Korean talks and denuclearization. Last year's North Korean attack on the Cheonan and the Yeongpyeong Island shelling were a defining moment for many South Koreans. Some have called it South Korea's 911. Up to that point, South Koreans were aware of North Korean military threat, but never believed that direct attacks would occur

against South Korean citizens. Many South Koreans were angered that despite Seoul providing their Northern brethren with food, medicine, energy supplies, and economic assistance during the “Sunshine Policy” era under Presidents Kim Dae Jung and Roh Moo Hyun, the North Korean regime would actually target civilian targets as it did during the Yeonpyeong Island shelling.

Polls illustrate the extent of South Korean anger and willingness to support military action against North Korea. According to a November 2010 poll conducted by the Hankook Research for the East Asia Institute, 68.6 percent of respondents supported a limited military response toward the North. Another respected Korean research institute, the Asan Institute for Policy Studies, found similar results following the shelling of Yeonpyeong Island -- 80.3 percent of respondents said the South Korean government and the military should have taken stronger military actions in response to the North’s attack on the island. In the event of any future provocations, 40.5 percent favored a limited military response and 25 percent favored strong retaliation with an all-out war mobilization.

Most South Korean citizens seem to remain distrustful of Pyongyang and supportive of President Lee Myung-bak’s North Korea policy of reciprocity and toughness. Many anticipate North Korea will cause more provocation as we move into 2012 with the Kim Jong-eun succession, as Pyongyang realizes that its 2012 Great and Prosperous Nation campaign will likely fall short, and a further stalling of reopening North Korea’s talks with the U.S. and South Korea.

IV. Conclusion

As a conclusion, I would like to offer up a few areas where our two countries can work together to continue to move U.S.-Korea relations forward. It is important to build upon the accomplishment of the U.S.-Korea state visit and institutionalize the current good personal relations of the two presidents (or create bridges) to ensure more lasting and solid ties that will outlast personalities. Recalling the close friendship between President George W. Bush with Prime Minister Junichiro Koizumi, President Bush's testy relations with President Roh Moo-hyun and how Korea's and Japan's relations with the U.S. have changed since then highlight how quickly goodwill and sentiments can change with new leaders.

The challenge is to take advantage of this moment to actively create new areas of cooperation and deepen existing collaboration to strengthen engagement. The 2009 U.S.-Korea Joint Vision Statement by the two presidents outlined a host of areas for cooperation, ranging from terrorism and piracy, to eradication of poverty, climate change, and dealing with energy security. Some efforts have been made, such as when the U.S. and Korea signed a June 2012 MOU to expand bilateral development cooperation and collaboration in the upcoming International Nuclear Security Summit in Seoul. However, more creative thinking needs to be done in many more areas that have not been

explored in the joint vision statement and even in the sensitive areas of the alliance, such as the future of OPCON transfer and the 123 nuclear agreement expiring in 2014.

Below are recommendations of national and people-to-people areas to explore to sustain momentum in this critical bilateral relationship:

- Use every opportunity to tout successes regarding the FTA,
- Recognize the accomplishments of 2nd generation Korean Americans and nurture their growth and maturity as a national organization that will help both people bridge cultural and political differences in a healthy way.
- Reaffirm periodically OPCON transfer and show confidence that the final arrangement between the two countries and hand-off are mutually beneficial
- Create more people to people exchanges, particularly going from the US to Korea,
- Look for opportunities to enhance trilateral US-Korea-Japan relations,
- Recognize China's rising status and make clear strategic US-Korea interactions with Beijing,
- Negotiate early and mutually agreeable nuclear cooperation (123) agreement and find acceptable solution to the pyro-processing issue,
- Recognize how important leader-to-leader relations are and how much the current improvement in nation-to-nation relations is directly related to the dedication LMB - Bush /Obama made to each other and to dedicate a deliberate transition that emphasizes the importance of the relationship to the next leaders (post 2012).

Thank you.

Biography

**Abraham Kim, Ph.D.
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Dr. Kim oversees KEI's research, programs and publications. He covers a wide range of issues related to U.S.-Korea relations, trade/investment issues, North Korea, regional security issues and the Korean American community. He travels widely and speaks regularly at conferences and universities on these issues. He is also the director of KEI's Academy of Korea Policy Outreach (AKPO), a KEI-sponsored 501 c3 educational outreach initiative to promote Korea policy studies and research across the US.

Prior to joining the Korea Economic Institute as Vice President, Abraham Kim was the research manager of government services and the principal Korea analyst at the global political risk consulting firm, Eurasia Group. He managed a group of analysts and editors that supported a variety of US government research projects covering issues such as international trade, political stability in emerging markets, the political implications of the financial crisis, and the global pandemic crisis. Dr. Kim also spearheaded the integration of the latest social media technologies, data visualization tools, and alternative analytical methodologies with social science analyses for the firm's government clients.

In addition, as a senior member in the firm's Asia practice, Dr. Kim advised financial investors, corporate executives, and government decision-makers on political, economic, security, and foreign relations issues in North and South Korea. He has written extensively on Northeast Asia including publishing articles in media sources such as the Asian Wall Street Journal, the Washington Times, Foreign Policy, JoongAng Ilbo, and the Korea Times. He has also been interviewed by CNBC, Fox Business, Bloomberg, Reuters, Newsweek, Canadian BNN-TV, Arirang TV, Yonhap, and Asahi Shimbun.

Previously, he was a project manager for Science Application International Corporation (SAIC), where he developed and managed wargames, crisis management exercises, and other collaborative methodologies for a variety of US government agencies and corporations. Before that, he worked as a policy analyst for the Center for Strategic and International Studies in Washington, DC, and at the Weatherhead East Asian Institute's Center for Korean Research at Columbia University in New York.

Dr. Kim received his BA from Boston University, his MA from Harvard University, and his PhD in political science from Columbia University.