

**Korea-US Alliance:  
Time to Take It to the Next Level**  
Presentation  
by  
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at  
The Brookings Institution

March 14, 2006  
Washington, D.C.

Vice President Carlos Pascual of Brookings Institution and distinguished guests!

One of my purposes in coming to Washington is to sign a sisterhood agreement between Seoul and Washington D.C. Equally important is my desire to meet all of you, who are without doubt the best minds on public policy issues in the US.

I would like to thank you all for having turned out so early in the morning, and want to express my sincere gratitude to President Talbott for giving me this opportunity to address such an important audience.

The subject I would like to discuss this morning is the future of Korea and the future of Korea-US relations. I will conclude by stressing the value of the current proposal for an FTA between Korea and the US.

### **Korean Development and the US Alliance**

Without doubt, Korea represents the best example of US foreign policy success. If the US had not intervened in the Korean War, it would be difficult to imagine the Korea of today. Korea today is no longer one of the poorest nations in the world. As a matter of fact, it is now a member of the rich countries' club, the OECD. Politically, Korea is the most advanced and vibrant democracy in Asia. This achievement is of course the result of the hard work of the Korean people themselves, but at the same time the US is justified in taking pride in this development.

### **Challenges Facing Korea at Home**

Despite this success, and perhaps because of its success, Korea today faces many problems. Let me mention some of them.

In recent years, Korea's economic growth has fallen. For the four years from 1999 to 2003, Korea's average growth rate was more than 7%. But for the last three years under the Roh Moo-hyun administration, the average growth rate has been about 4%.

With this slowdown in growth, many problems have emerged. For one thing, many Koreans now worry that their dream of achieving economic development comparable with today's highly developed economies may not be realized. Korea's current per capita income of about US\$15,000 is only half way to the level of developed nations. In addition, many Koreans are concerned that unless Korea keeps its growth rate at a high level, there may come a time when Korea is overtaken by China. With the slowdown in growth, there has been an increase in unemployment and deterioration in income distribution. It is significant to note that the younger generation has suffered the consequences of these developments more than the older generation.

Korean economists are now busy trying to identify the causes of this slowdown. In my opinion the principal cause is to be found in the failure of the current administration to provide a first class business environment by undertaking fundamental reforms in such areas as banking, taxation, education and labor-management relations. In this globalizing world, a nation must provide such an environment, or else it is bound to fail not only to attract foreign investment, but also retain its own capital and talents at home. I am afraid Korea's recent economic slowdown and investment stagnation reflect this failure.

Politically, Korea also has many challenges to meet. Although Korea is more democratic than other Asian countries, its democracy has by no means matured. The nation has yet to strengthen the rule of law for example.

### **Major Outstanding Issues in Korea-US Alliance**

Now let me turn to Korea-US relations.

It is true that the Korea-US alliance is basically sound. However, in several areas there are differences of views that need to be ironed out.

First, no one can deny that a basic difference of views persists between Korea and the US with regards to the North Korean nuclear issue. My judgment is that the US is prepared to pursue the widest range of options in resolving this issue. On the other hand, Korea feels it must resolve this issue through peaceful means only. Korea takes this position in part because Korea has a high concentration of population near the DMZ. My own city of Seoul with more than a 10 million population is located less than 30 miles from the border. As long as Seoul and Washington cannot fully agree on how to deal with the North Korean nuclear issue, the six-party talks or for that matter, any other forms of negotiation with North Korea are not likely to bear the fruit. Needless to say, resolving this difference is the most urgent priority between our two countries.

Second, Americans have insisted on strategic flexibility in the use of US troops in Korea. Koreans on the other hand have been uneasy because allowing strategic flexibility not only could weaken deterrence to North Korea, but could involve Korea in unwelcome international conflicts outside the Korean peninsula. Fortunately there have

been encouraging signs of resolution of these differences recently. I hope a way will be found to resolve any remaining differences of views soon.

Third, especially since 9/11 the threat to national security has come from many sources, including terrorist activities, the spread of WMD and narcotics. The United States has taken the initiative to increase international cooperation to deal with these types of new threats under the name of the Proliferation Security Initiative (PSI). Korea has yet to increase its participation in this area.

Fourth, there is also a difference of views on human rights in North Korea. Since the Bush Administration is very committed to spreading democracy and human rights throughout the world, it is not surprising that the US is very vocal about human rights in North Korea. In principle the position of Korea should be the same. However, the current Korean government wants to resolve many problems with North Korea including human rights through dialogue rather than an open confrontation. As a result, it has been silent on the issues of human rights in North Korea. In my opinion, however, Korea can ill afford to be silent on this issue. Human rights are the very heart of democracy. What's more, if we want to address the issue of human suffering in North Korea today, we have no choice but to address the condition of human rights there as well because these two things are tied together.

### **The Needs to Upgrade Korea-US Relations**

There are many reasons why Korea and the US today should make a serious effort to upgrade the existing bilateral relationship to a new level through an extensive dialogue on both the governmental and non-governmental levels. The question is: what are these reasons?

First, Korea has developed both economically and politically, and insists on a more equal relationship. This is particularly the case with young generations who are not only more articulate than previous generations, but also very powerful politically. We should also note that young Koreans do not share the same views and perceptions regarding security needs as their elders, who experienced the Korean War. If anything, the younger generation has a broader concept of security than their elders.

Secondly, economic and political relationships in Asia have greatly changed. China, which was considered an adversary until about 1990, is now Korea's biggest trading partner, and more than a half of all Korean investment is going into China, making Korea a bigger investor than the US in that country. In addition, Asia, particularly Northeast Asia, is developing rapidly. This will bring a greater Asian voice in the management of global affairs. Furthermore, rapid Asian development will give rise to many new economic enormous opportunities for all nations. If our nations want to make use of these opportunities, there is a need for us to work much more closely than in the past.

Thirdly, in the globalizing world, both the network of production and markets are becoming increasingly integrated. This in turn has greatly increased interdependence among nations. There is, however, one serious downside to this. Interdependence makes nations, and the world, far more vulnerable to attacks by terrorists. Thus, there is now a need to expand security cooperation far beyond the traditional military realm.

Fortunately for Korea and the United States, interactions between the two countries over the past fifty years have been carried on in many areas and far more intensively than between any other two countries. As a result, today, Korea and the US share more values in common in political, economic as well as cultural areas than any other pairs of countries.

In short, not only is there a need to broaden and upgrade the current relationship between Korea and the US. The two nations are now well prepared to do so.

### **Suggestions for a Road Map Forward**

Broadening and upgrading the existing relationship is a vital and at the same time highly complex undertaking. How can it be achieved? I will make several suggestions for your consideration.

First, as noted, East Asia is developing very fast, and its current weight in global GDP is over 20%. This will rise to 30% in the next 10 years. There is little question that East Asia is now one of the three pillars of the world economy and this presents an immense opportunity for everyone. Korea for its part has been keen to make use of these opportunities, and this has been most clearly reflected in Korea's efforts to develop itself into the business center of Northeast Asia. I should add that Korea's aspiration to become a business center also reflects its desire to restructure its economy so as to make it more high value added. There is no difference between the political parties of Korea on this issue. Speaking for myself, before Korea can build itself as a general business hub, it must first make itself a financial hub, and I myself have made many efforts to this end, especially in making Seoul an international financial center. US participation in this Korean undertaking would be most welcome. It would be also in the US's own interests to do so.

Second, although East Asia enjoys rapid development, one should not take it for granted. There has been in recent years rising political tension among key countries, China, Japan and Korea. The tension is the result of a failure on the part of political leaders in the region to put past history behind them, as European leaders did after World War II. Unless this growing political tension is eased, it could do immense damage to the stability of East Asia, and to US interests as well.

In this regard, I would like to make one observation. On disputes over past history, the US has been perceived in many Asian minds as taking the side of Japan. This perception is hardly conducive to US interests. It should be borne in mind that before the end of World War II, Japan was the aggressor, while Korea and China were victims. It is

usually the case that the victims have longer memories of the painful experience, while the aggressors would rather forget the past. For this reason, it is not at all in US interests to be seen as siding with Japan. Only when the US can ease such perceptions, can it serve more effectively as a balancing force in Asia, a role it has played to everyone's benefits over the past several decades.

Third, for the US to work more effectively for world peace, it would make sense for the US to make greater use of soft power as long advocated by Joseph Nye of Harvard. The US is the only military super power in the world today. Military power at best is not attractive. But the US has enormous powerful and attractive soft power. American democracy, the American concept of freedom, American promotion of human rights, American science and technology, the American system approach to problem solving, and the openness of American people are cases in point. It is really sad to see that when Americans have all these spiritual and cultural assets, they have not made enough use of them, especially in areas like the Middle East.

### **The Korea-US FTA**

I want to now conclude with an elaboration of the implications of the recent agreement to start FTA negotiations between our two countries.

Under a Korea-US FTA, Korea's growth rate could increase by 2% and the US 0.2%. The latter figure should not be belittled if we remember that US GDP is over US\$10 trillion.

Such an FTA will also help upgrade Korea's policy and institutions closer to global standards. This will increase investment flows between the US and Korea, in particular stimulating rapid development of technology in Korea. All these positive effects combined will raise Korea's potential growth rate, and accelerate Korea's progress towards becoming a business and financial hub in Northeast Asia.

The positive effects of an FTA are not confined to economics, as there is already an active exchange of people in politics, education and culture between Korea and the US. The conclusion of an FTA plus a visa-waiver agreement would not only greatly strengthen the existing military alliance, but also further cement political, educational and cultural ties between the two countries. In short, an FTA would greatly expand and upgrade the current bilateral relationship as I have proposed.

A Korea-US FTA represents the largest FTA undertaking since US launched NAFTA 15 years ago. Korea is the 11<sup>th</sup> largest economy in the world and the 7<sup>th</sup> largest trading partner of the US. The FTA would not only expand US business in Korea but also in the rest of Asia. Once the Korea-US FTA becomes a fact, many other nations will want to enter into an FTA with Korea and the US as they do not wish to be disadvantaged.

This in turn will strengthen linkages between nations on the eastern and western rims of the Pacific, putting to rest the fear of James Baker III, who once observed that one of the worst things that could happen to the world today would be a split of the Pacific right down the middle.

In view of such wide-ranging benefits from a Korea-US FTA, we have to work very hard to bring the negotiations to success within the agreed timeline. In this case “failure is not an option.” There is, however, one caveat I want to call to your attention. We all understand that an ideal FTA should cover all products and services. However, we must also be realistic. Unless due consideration is given to some “sensitive products,” including agricultural products, we may run into unmanageable political difficulties.

Bearing this point in mind, I will do my best to help bring the negotiations to a successful conclusion. I also want to ask everyone here to do the same from your end.

Let me conclude on this note and throw the floor open to questions and comments.

Thank you.