



## U.S.-South Korea Relations

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## Summary

Since late 2008, relations between the United States and South Korea (known officially as the Republic of Korea, or ROK) have been arguably at their best state in decades. By the middle of 2010, in the view of many in the Obama Administration, South Korea had emerged as the United States' closest ally in East Asia.

Of all the issues on the bilateral agenda, Congress has the most direct role to play in the proposed Korea-U.S. Free Trade Agreement (KORUS FTA). Congressional approval is necessary for the agreement to go into effect. Presidents Obama and Lee Myung-bak have announced their desire to resolve U.S. concerns over market access for autos and beef by the time they meet again in Seoul during the November 2010 Group of 20 (G-20) meeting. Obama said that he intends "in the few months" after the November meeting to present Congress with the KORUS FTA's implementing legislation. If approved, the agreement would be the second largest FTA market in which the United States participates, after the North American Free Trade Agreement (NAFTA).

The two countries' coordination over policy towards North Korea has been particularly close. The Obama and Lee Administrations have adopted a medium-to-longer-term policy of "strategic patience" that involves three main elements: refusing to return to the Six-Party Talks without an assurance from North Korea that it would take "irreversible steps" to denuclearize; gradually attempting to alter China's strategic assessment of North Korea; and using Pyongyang's provocations as opportunities to tighten sanctions against North Korean entities.

Additionally, the Obama Administration has said that an improvement in inter-Korean relations is a prerequisite for the United States to enter into meaningful negotiations with North Korea. Lee, in turn, has linked progress in most areas of North-South relations to progress in denuclearizing North Korea. South Korea halted almost all remaining forms of inter-Korean projects after the March 2010 sinking of the South Korean naval vessel, the *Cheonan*, an event the United States and South Korea have blamed on North Korea. Even before the sinking, most inter-Korean cooperation projects already were shrinking due to rising tensions between the two Koreas. The sinking further eroded the loose consensus that had prevailed in South Korea against openly discussing and planning for reunification in the short- or medium-term. While few South Koreans advocate actively trying to topple the Kim Jong-il regime, the *Cheonan* sinking has led many in the Lee government to view North Korea as much more of an immediate danger than previously thought.

The United States maintains about 28,500 troops in the ROK. Since 2009, the two sides have accelerated steps to transform the 56-year U.S.-ROK alliance's primary purpose from one of defending against a North Korean attack to a regional and even global partnership, in which Washington and Seoul cooperate on a myriad of issues beyond the Korean Peninsula. The two sides have announced a "Strategic Alliance 2015" plan to relocate U.S. troops on the Peninsula and boost ROK defense capabilities. By 2015, the two allies plan to separate wartime operational control (OPCON) of the countries' forces on the Peninsula into two national commands.

Much of the current closeness between Seoul and Washington is due to President Lee. It is unclear how sustainable many of his policies will be, particularly into 2012, when South Koreans will elect a new president and a new legislature. Bilateral coordination will be particularly tested if South Korea's left-of-center groups, which bitterly oppose much of Lee's agenda, retake the presidency and/or the National Assembly. This report will be updated periodically.

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## Recent Developments

### Deepening Security Ties

During the spring and summer of 2010, Washington and Seoul took several steps that showed the growing closeness of the Obama and Lee Administrations. In a June 2010 meeting with President Lee, President Obama referred to the U.S.-South Korea alliance as “the lynchpin” for security in the Pacific region.<sup>1</sup> At the summit, the two presidents agreed to delay until 2015 the planned separation of wartime operational control of the two countries’ forces on the Peninsula into two national commands, and to push ahead with discussions to resolve outstanding disagreements in the proposed Korea-U.S. Free Trade Agreement (KORUS FTA) by the time of the November 2010 Group of 20 (G-20) summit in Seoul.

Several events in the summer and fall have indicated the close cooperation between the two sides. In late July 2010, Secretary of State Hillary Clinton and Secretary of Defense Robert Gates visited Seoul to meet with their counterparts (Foreign Minister Myung-hwan Yu and Defense Minister Tae-young Kim) for the first-ever U.S.-South Korean “2 Plus 2” meeting. During the meeting, the two sides endorsed a new vision for the military alliance, dubbed “Strategic Alliance 2015.” (For more, see the “Security Relations and the U.S.-ROK Alliance” section.)

The two countries are also debating whether to conduct a continuous campaign of military exercises to maintain pressure on North Korea. During the summer, the two countries conducted joint naval exercises in the Sea of Japan (called the “East Sea” by South Koreans) as a military response to North Korea’s alleged attack in March 2010 on the South Korean naval vessel, the *Cheonan*, in which 46 South Korean soldiers died. This was followed in September by naval exercises in the Yellow Sea (the “West Sea”), despite protests by China. On October 14-15, 2010, South Korea for the first time hosted a Proliferation Security Initiative (PSI) maritime interdiction exercise off the coast of Busan, called Exercise Eastern Endeavor. PSI is a U.S.-led initiative aimed at coordinating interdiction of weapons of mass destruction and related materials in transit. Seoul joined PSI following North Korea’s 2009 nuclear test.

In October, Defense Secretary Gates and Defense Minister Kim held a bilateral Security Consultative Meeting (SCM) that re-affirmed the commitment of both parties to the Strategic Alliance 2015 plans. They also pledged to coordinate closely on deterring aggression from the North and develop new operational plans to respond to contingencies on the peninsula. Left-of-center groups in South Korea, which tend to support the opposition Democratic Party, have been critical of the moves to expand the alliance’s role beyond the Peninsula, warning that doing so will be more likely to provoke conflict in Northeast Asia.<sup>2</sup>

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<sup>1</sup> The White House Office of the Press Secretary, “Remarks By President Obama and President Lee Myung-Bak of the Republic of Korea After Bilateral Meeting,” June 26, 2010.

<sup>2</sup> See, for instance, “An Alliance Feeding Regional Conflict,” *Hankyoreh Shinmun*, October 11, 2010.

Figure I. Korean Peninsula



Source: Prepared by CRS based on ESRI Data and Maps 9.3.1; IHS World Data.

## Developments in North-South Korean Relations

The early fall of 2010 saw a slight uptick in cooperation between South and North Korea, which had, after the *Cheonan's* sinking, been reduced to little more than the North-South industrial complex in the North Korean city of Kaesong. For instance, in late October 2010, the two sides held a round of family reunions, their first since 2009. In agreeing to the step, South Korea dropped its previous insistence that ad hoc reunions not be held unless North Korea agreed to regularize them.

Virtually all of the tentative and thus far largely symbolic cooperative steps the two Koreas have taken in the fall of 2010 have come at North Korea's initiative. It is unclear what is motivating Pyongyang's change in tone. One factor may be to relieve international pressure while Kim Jong-il's son and presumptive political heir, Kim Jong-un, attempts to consolidate a power base. Another possibility may be to obtain more assistance from South Korea to help North Korea, in particular to deal with a reportedly worsening food situation. During North-South meetings in October, North Korean officials reportedly requested increased humanitarian assistance. For most of the 2000s, South Korea provided hundreds of thousands of tons of food and fertilizer annually. Such large assistance packages came to an end under President Lee, who insisted that North Korea should formally request the aid and that better monitoring systems needed to be put in place.

North Korea's moves also coincided with an apparent softening of South Korea's posture toward the North. Perhaps most importantly, officials in the Lee government reportedly have begun to back away from their earlier insistence that the Six-Party Talks<sup>3</sup> (the multinational negotiations addressing North Korea's nuclear weapons program that include China, South Korea, North Korea, Japan, Russia, and the United States) not resume unless North Korea expressed some contrition for the *Cheonan's* sinking.<sup>4</sup> Lee has come under pressure within South Korea to soften his policy toward the North, so as to preserve South Korean influence over events on the Peninsula.

## KORUS FTA<sup>5</sup>

At a meeting in late June 2010, Presidents Obama and Lee announced that their administrations would seek to resolve outstanding issues on the proposed Korea-U.S. Free Trade Agreement by the time the two Presidents meet again in Seoul for the November 2010 G-20 meeting. Obama said that he intends "in the few months" after the November meeting to present Congress with the implementing legislation for the agreement. Obama Administration officials have said that the discussions would focus on South Korean measures related to market access for U.S. autos and beef, the two most controversial issues in the U.S. Congress. President Lee responded that he and President Obama would talk about "the specific ways to move this [FTA] forward." South Korean politics, however, likely will make it difficult for Lee to appear to accede to new U.S. demands without receiving concessions in return. This is particularly due to memories of events in 2008,

<sup>3</sup> For more, see CRS Report R41259, *North Korea: U.S. Relations, Nuclear Diplomacy, and Internal Situation*, by Emma Chanlett-Avery and Mi Ae Taylor.

<sup>4</sup> Chan-ho Kang, "ROKG Hints at Separation of Six-Party Talks and *Cheonan* Incident," *JoongAng Ilbo*, October 21, 2010.

<sup>5</sup> For more, see CRS Report RL34330, *The Proposed U.S.-South Korea Free Trade Agreement (KORUS FTA): Provisions and Implications*, coordinated by William H. Cooper.

when Lee reached an agreement with the United States to lift South Korea's partial ban on U.S. beef imports, triggering massive anti-government protests in South Korea that forced the two governments to renegotiate the beef agreement.

The United States and South Korea signed the KORUS FTA in 2007. If approved, it would be the second largest FTA by market size in which the United States participates (after the North American Free Trade Agreement, NAFTA). The KORUS FTA would be the second largest FTA that South Korea has signed to date, after the agreement with the European Union (EU) that is expected to be ratified in the fall of 2010.

## **South Korea Imposes Sanctions on Iran**

On September 8, 2010, after weeks of pressure from the United States, South Korea announced a package of wide-ranging sanctions against Iran and Iranian entities that appears to put nearly all financial transactions with Iran under government scrutiny and severs future South Korean involvement in projects in Iran's energy sector. (For more details, see "Other Issues" section below.) Secretary of State Clinton and Treasury Secretary Timothy Geithner issued a joint statement "welcoming" Seoul's actions, which go beyond the requirements of United Nations Security Council (UNSC) Resolution 1929 that was passed in June 2010.<sup>6</sup> Prior to adopting these measures, South Korea was one of Iran's top five trading partners.

Iran regularly has been among South Korea's top suppliers of oil. A number of South Korean conglomerates (called *chaebol*) have received significant contracts to build or service large infrastructure projects in Iran, including in Iran's energy sector. Additionally, Iran appears to be a significant regional hub for a number of smaller South Korean manufacturers, which ship intermediate goods to Iran that are then assembled into larger units and/or re-exported to other Middle Eastern countries.

## **The November 2010 G-20 Summit<sup>7</sup>**

South Korea is preparing to host a Group of 20 (G-20) summit in November 2010. This will be the fourth summit of the G-20, which since the onset of the global financial crisis in 2008 has emerged as the world's premier forum for international economic coordination. The November meeting's agenda is expected to focus on following up on the group's previous economic agreements—particularly coordinating the global macroeconomic framework, reforming international financial institutions, and coordinating new financial sector regulations—rather than breaking new ground. In addition to these items, South Korean officials have said they will pursue boosting global financial safety nets, refocusing the G-20 on development (e.g., poverty reduction), and emphasizing ways to spur private sector-based development.

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<sup>6</sup> State Department, "Secretary of State Joint Statement With Treasury Secretary Timothy Geithner," September 8, 2010. UNSCR 1929 found at <http://daccess-dds-ny.un.org/doc/UNDOC/GEN/N10/396/79/PDF/N1039679.pdf?OpenElement>.

<sup>7</sup> For more, see CRS Report R40977, *The G-20 and International Economic Cooperation: Background and Implications for Congress*, by Rebecca M. Nelson. The members of the G-20 include Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, the United States, and the European Union.



The Lee government has spent considerable time and energy on preparing for what it hopes to be a successful G-20; many Korean officials see the gathering as a symbol for the country's arrival on the global stage. South Korea's position in the middle of the G-20 pack in terms of per capita GDP may facilitate Seoul's traditional efforts to serve as a bridge between the developed and developing world. Some analysts worry that North Korea may stage some sort of attack or foment anti-globalization protests to disrupt the event or embarrass the Lee government.

South Korea has been eager to avoid disputes over currency valuations—particularly whether China should allow its currency, the *yuan*, to further appreciate—from dominating the meeting's agenda. One motivation may be to avoid a discussion of South Korea's currency policies; Japanese leaders have alleged that South Korean monetary authorities have intervened to keep the Korean *won* weak relative to the Japanese *yen*, a charge South Korean officials deny. At an October 2010 meeting of G-20 finance ministers, Seoul and Washington proposed setting a numerical target (4% of GDP) for countries' trade surpluses and deficits. In theory, this would help to encourage countries exceeding the cap to adopt policies that would affect the value of their currencies. The idea was modified after several countries objected.

## Overview

While the U.S.-South Korea relationship is highly complex and multifaceted, five factors arguably drive the scope and state of U.S.-South Korea relations:

- North Korea, particularly its weapons of mass destruction programs and perceptions in Washington and Seoul of whether the Kim regime poses a threat, through its belligerence and/or the risk of its collapse;
- the growing desire of South Korean leaders to use the country's middle power status to play a larger regional and, more recently, global role;
- increasingly, China's rising influence in Northeast Asia, which has become an integral consideration in many aspects of U.S.-South Korea strategic and (to a lesser extent) economic policymaking;
- South Korea's transformation into one of the world's leading economies—with a very strong export-oriented industrial base—which has led to an expansion of trade disputes and helped drive the two countries' decision to sign a free trade agreement; and
- South Korea's continued democratization, which has raised the importance of public opinion in Seoul's foreign policy.

Additionally, while people-to-people ties generally do not directly affect matters of “high” politics in bilateral relations, the presence of over 1.2 million Korean-Americans and the hundreds of thousands of trips taken annually between the two countries has helped cement the two countries together.<sup>8</sup>

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<sup>8</sup> For an estimate of the number of ethnic Koreans in the United States, see U.S. Census Bureau, “The Asian Population: 2000,” Census Brief C2KBR/01-16, February 2002, Table 4.

Since late 2008, relations between the United States and South Korea have been arguably at their best state in nearly a decade. Coordination over North Korea policy has been particularly close, with one high-level official describing the two countries as being “not just on the same page, but on the same paragraph.”<sup>9</sup> At a summit in June 2009, the two parties signed a “Joint Vision” statement that foresees the transformation of the alliance’s purpose from one of primarily defending against a North Korean attack to a regional and even global alliance, in which Washington and Seoul cooperate on a myriad of issues, including climate change, energy security, terrorism, economic development, and human rights promotion, as well as peacekeeping and the stabilization of post-conflict situations. Reflecting this evolution, in a June 2010 meeting with President Lee, President Obama referred to the alliance as “the lynchpin” for security in the Pacific region. This statement stirred some degree of anxiety in Tokyo; Japan has traditionally considered itself to be the most significant U.S. partner in the region.

Much of this closeness is due to the policies of President Lee, including his determination after assuming office to improve Seoul’s relations with Washington. However, although Lee’s public approval ratings have hovered in the relatively high (for South Korea) 40%-50% range for much of 2010, it is unclear how much domestic support exists for some of President Lee’s policies. On North Korea, for instance, the United States and South Korea often have different priorities, with many if not most South Koreans generally putting more emphasis on regional stability than on deterring nuclear proliferation, the top U.S. priority. Currently, these differences have been masked by North Korea’s general belligerence since early 2009 and to a large extent negated by President Lee’s consistent stance that progress on the nuclear issue is a prerequisite for improvements in many areas of North-South relations. Also, President Lee’s enthusiastic support for expanding the role of the U.S.-ROK alliance beyond the Korean Peninsula has come under domestic criticism.

Moreover, while large majorities of South Koreans say they value the U.S.-ROK alliance, many South Koreans are resentful of U.S. influence and chafe when they feel their leaders offer too many concessions to the United States. This is particularly the case among Korea’s left-of-center, or “progressive” groups, who bitterly oppose much of President Lee’s policy agenda and his governing style.

Thus, it is unclear how sustainable the current bilateral intimacy is likely to be, particularly beyond 2011. South Korea’s legislative and presidential elections in 2012 could erode some of the momentum established under Lee. (Under South Korean law, presidents can only serve one five-year term, so Lee will not be able to continue in office.) Bilateral coordination will be particularly tested if South Korea’s progressives retake the presidential office (called the Blue House) and/or the National Assembly.

## **Historical Background**

The United States and South Korea have been allies since the United States intervened on the Korean Peninsula in 1950 and fought to repel a North Korean takeover of South Korea. Over 33,000 U.S. troops were killed and over 100,000 were wounded during the three-year conflict. In 1954, a year after the parties to the conflict signed an armistice agreement, the United States and South Korea signed a Mutual Defense Treaty, which provides that if either party is attacked by a

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<sup>9</sup> December 2009 interview.

third country, the other party will act to meet the common danger. The United States maintains about 28,500 troops in the ROK to supplement the 650,000-strong South Korean armed forces. South Korea deployed troops to support the U.S.-led military campaign in Vietnam. South Korea subsequently has assisted U.S. deployments in other conflicts, most recently by deploying over 3,000 troops to play a non-combat role in Iraq and over 300 non-combat troops to Afghanistan.

Beginning in the 1960s, rapid economic growth propelled South Korea into the ranks of the world's largest industrialized countries. For over a decade, South Korea has been one of the United States' largest trading partners. Economic growth also has helped transform the ROK into a mid-level regional power that can influence U.S. policy in Northeast Asia, particularly the United States' approach toward North Korea.

## North Korea in U.S.-ROK relations

### Policy Coordination

Dealing with North Korea is the dominant strategic element of the U.S.-South Korean relationship. South Korea's growing economic, diplomatic, and military power has given Seoul a much more direct and prominent role in Washington's planning and thinking about how to deal with Pyongyang. One indicator of South Korea's centrality to diplomacy over North Korea is that no successful round of the Six-Party nuclear talks has taken place when inter-Korean relations have been poor.

For much of the 2000s, policy coordination between the United States and South Korea was difficult, sometimes extremely so, because the countries' policies toward Pyongyang were often out-of-synch, and at times and in many ways contradictory. Presidents Kim Dae-jung (1998-2003) and Roh Moo-hyun (2003-2008) pursued a "sunshine policy" of largely unconditional engagement with North Korea that clashed with the harder policy line pursued by the Bush Administration until late 2006. President Roh, who was elected in part because of his embrace of massive anti-American protests that ensued after a U.S. military vehicle killed two Korean schoolgirls in 2002, also alarmed U.S. policymakers by speaking of a desire that South Korea should play a "balancing" role among China, the United States, and Japan in Northeast Asia. Despite this, under Roh's tenure, South Korea deployed over 3,000 non-combat troops to Iraq—the third-largest contingent in the international coalition—and the two sides initiated and signed the KORUS FTA. Although relations between the two capitals improved dramatically after President Lee Myung-bak's 2008 inauguration, his tougher stance toward North Korea was not always aligned with the late Bush Administration's push for a nuclear deal with North Korea.

Since breakdown of the Six-Party Talks in late 2008 and North Korea's second nuclear test in May 2009, coordination over North Korea policy has been remarkably close. Consultation and trust have only deepened in the aftermath of the *Cheonan's* sinking. Both the Obama and Lee Administrations have adopted a medium-to-longer-term policy of "strategic patience" that involves three main elements: refusing to return to the Six-Party Talks without a North Korean assurance that it would take "irreversible steps" to denuclearize; gradually attempting to alter China's strategic assessment of North Korea; and using Pyongyang's provocations as opportunities to tighten sanctions against North Korean entities. Additionally, the Obama Administration explicitly has said that an improvement in inter-Korean relations is a prerequisite for the United States to enter into meaningful negotiations with North Korea. In response to North

Korean (and occasionally, Chinese) efforts to shift the focus of the talks to the United States and North Korea, Administration officials say they will not move forward on diplomacy with North Korea without the Lee government's consent.

### Coordination over the *Cheonan* Sinking

The two Administrations' closeness has been both confirmed and cemented by their coordinated reaction to the March 2010 sinking of a South Korean naval vessel, the *Cheonan*. Forty-six South Korean sailors died in the incident. A multinational investigation team led by South Korea determined that the ship was sunk by a North Korean submarine.<sup>10</sup> In the wake of the sinking, U.S.-South Korean cooperation was underscored by a series of military exercises in the waters surrounding the peninsula, as well as symbolic gestures such as the joint visit of Secretary of State Clinton and Secretary of Defense Gates to the Demilitarized Zone (DMZ). During the visit, a new set of unilateral U.S. sanctions targeting North Korea were announced.<sup>11</sup>

## Inter-Korean Relations

Relations between the two Koreas have deteriorated markedly since Lee's February 2008 inauguration. After ten years of Seoul's "sunshine" policy of largely unconditioned reconciliation with North Korea, the Lee government entered office insisting on more reciprocity from and conditionality toward Pyongyang. Most importantly, the Lee government announced that it would review the initiation of new large-scale inter-Korean projects agreed to before Lee took office, and that implementation would be linked to progress in denuclearizing North Korea. In another reversal of his predecessors' policies, Lee's government has been openly critical of human rights conditions in North Korea. His administration also offered to continue humanitarian assistance—provided North Korea first requests such aid—and indicated that existing inter-Korean projects would be continued.

North Korea reacted to Lee's overall approach by unleashing a wave of invective against Lee and adopting a more hostile stance toward official inter-Korean activities. Inter-Korean relations have steadily worsened since then, to the point that by September 2010, nearly all of the inter-Korean meetings, hotlines, tours, exchanges, and other programs that had been established during the "sunshine" period have been suspended or severely curtailed.<sup>12</sup> Whether it is a coincidence or a

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<sup>10</sup> The cause of the *Cheonan*'s sinking has become highly controversial in South Korea. While most conservatives believe that North Korea was responsible for explosion, many who lean to the left have criticized the investigation team as biased and/or argued that its methodology was flawed. Alternative theories for the sinking have been swirling on the Korean blogosphere. Additionally, polls indicate many if not most Koreans believe the Lee government attempted to exploit the incident during local elections held across the nation in early June. Though Lee's conservative Grand National Party suffered notable losses, polls indicate that local issues, rather than North Korea policy, were more significant factors determining voting behavior.

<sup>11</sup> For more information, see CRS Report R41438, *North Korea: Legislative Basis for U.S. Economic Sanctions*, by Dianne E. Rennack.

<sup>12</sup> Some figures quantify the downturn in relations from 2007 to 2008: official bilateral dialogues were down from 55 in 2007 to 6 in 2008; South Korea's governmental humanitarian assistance declined from 3.5 million *won* (\$215 million) to 0.4 million *won* (\$25 million); and government-run reunions of family members fell from over 3,600 to zero. After years of double-digit growth, inter-Korean trade registered a mere 1.2% increase from 2007 to 2008. Figures are from Ministry of Unification, "Inter-Korean Relations in 2008," February 2009. North-South Korean trade was just over \$1.8 billion in 2008.

cause, since Lee's inauguration North Korea has behaved more provocatively, with each provocation leading South Korea to take a harder line, which in turn has led North Korea to respond.<sup>13</sup>

The most dramatic playing out of this dynamic occurred in the spring of 2010. In response to the sinking of the *Cheonan*, South Korea curtailed nearly all forms of North-South interaction, including all business transactions except for those associated with the inter-Korean industrial park in the North Korean city of Kaesong. Despite periodic restrictions, the Kaesong Complex continues to operate and has expanded slightly under Lee.<sup>14</sup>

In August 2010 Lee publicly floated the idea of creating a "reunification tax" that would help prepare South Korea for a future reuniting of the two Koreas. Previously, a loose consensus had prevailed in South Korea against openly discussing and planning for reunification in the short or medium term, because of fears of provoking Pyongyang and of the fiscal costs of absorbing the impoverished North. While few South Koreans advocate for actively trying to topple the Kim regime, the reunification tax proposal indicates how the *Cheonan* sinking has led many in the Lee government to view North Korea as more much more of an immediate danger than previously thought.

Polls of South Korean attitudes show widespread and increasing anger toward and concern about North Korea, but also continued ambivalence toward Lee's approach and a desire among many, if not most, South Koreans for their government to show more flexibility toward Pyongyang.

In July 2009, South Korea began circulating to other governments and key private sector groups a "Grand Bargain" proposal for a \$40 billion multilateral aid fund and development strategy that would help North Korea if Pyongyang denuclearized. According to the details provided by various media outlets, the proposal appears to be a continuation of Lee's "3,000 Policy" pledge during the 2007 presidential campaign to help raise North Korea's per capita income to \$3,000 over the next ten years.<sup>15</sup> The proposal also appears to complement the "comprehensive" package the Obama Administration has indicated could be forthcoming if North Korea took positive steps on the nuclear front.

## South Korea's Regional Relations

Looking at their surrounding neighborhood, South Koreans sometimes refer to themselves as a "shrimp among whales." South Korea's relations with China and Japan, especially the latter, are fraught with ambivalence, combining interdependence and rivalry. Despite these difficulties, trilateral cooperation among the three capitals has increased over the past decade, particularly in the aftermath of the 2008 global financial crisis. Since 2008, leaders of the three countries have

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<sup>13</sup> Four actions by North Korea have had a particularly dramatic impact on South Korea's policy toward the North: the refusal to allow an independent South Korean investigation into the July 2008 fatal shooting of a South Korean tourist by a North Korean soldier at the Mt. Kungang resort in North Korea, a nuclear test in May 2009, periodically placing greater restrictions on the inter-Korean industrial complex at Kaesong, and the sinking of the *Cheonan*.

<sup>14</sup> For more, see CRS Report RL34093, *The Kaesong North-South Korean Industrial Complex*, by Dick K. Nanto and Mark E. Manyin.

<sup>15</sup> Christian Oliver, "Seoul Plans \$40bn Aid Fund for N Korea," *Financial Times*, July 20, 2009. North Korea's 2009 per capita income was \$1,900, according to the CIA *World Factbook*.

met annually in standalone summits and in 2010 agreed to undertake an official study of a trilateral FTA and to establish a secretariat in Seoul.<sup>16</sup>

## **South Korea-Japan Relations**

A cooperative relationship between South Korea and Japan, both U.S. treaty allies, is in U.S. interests because it arguably enhances regional stability, helps coordination over North Korea policy, and boosts the clout of each country in its dealings with the strategic challenges posed by China's rise. However, mutual mistrust on historical issues continues to linger despite increased cooperation, closeness, and interdependence between the two governments, peoples, and businesses over the past decade. South Korea and Japan have competing claims to the small Dokdo/Takeshima islets in the Sea of Japan (called the East Sea by Koreans), and South Korean complaints that Japan has not adequately acknowledged its history of aggression against Korea remain. For more than three generations beginning in the late 19<sup>th</sup> century, Japan intervened directly in Korean affairs, culminating in the annexation of the Korean peninsula in 1910. Over the next 35 years, Imperial Japan all but attempted to wipe out Korean culture.<sup>17</sup>

President Lee came into office seeking to improve official Korea-Japan relations, which had deteriorated markedly during President Roh's term. Under Lee, and throughout a succession of Japanese leaders, Cabinet and head-of-state meetings, including reciprocal visits, have become more routine. Cemented for the first time in years by a common strategic outlook on North Korea, trilateral South Korea-U.S.-Japan coordination over North Korea policy has been particularly close since the beginning of 2009 and has become even tighter since the sinking of the *Cheonan*. Ties between the South Korean and Japanese militaries also have grown closer, in part due to rising concerns in both capitals about China's increased assertiveness. Lee has given less public emphasis to flare-ups over history and the Dokdo/Takeshima territorial dispute. He also welcomed the most recent Japanese apology for its history of aggression, from Prime Minister Naoto Kan, that recognized the 100<sup>th</sup> anniversary of Japan's annexation. However, South Koreans' continued suspicions of Japan place political limitations on how far and how fast Korean leaders can improve relations. One indicator to watch over the coming months is whether the two countries can restart and complete free trade agreement negotiations that have been stalled since 2004.

## **South Korea-China Relations**

China's rise influences virtually all aspects of South Korean foreign and economic policy. North Korea's growing economic and diplomatic dependence on China since the early 2000s has meant that South Korea must increasingly factor Beijing's actions and intentions into its North Korea policy. China's influence over North Korea has tended to manifest itself in two ways in Seoul. On the one hand, most South Korean officials worry that North Korea, particularly its northern provinces, are drifting into China's orbit. For those on the political left in South Korea, this has

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<sup>16</sup> From 1999-2007, trilateral summits were only held on the sidelines of the Association of Southeast Asian Nations' "Plus Three" summit (which included the ten ASEAN countries plus China, Japan, and South Korea).

<sup>17</sup> Many Koreans believe that the United States was complicit in this history, by reportedly informally agreeing in a 1905 meeting between U.S. Secretary of War William Taft and Japanese Prime Minister Taro Katsura that the United States would recognize Japan's sphere of influence over Korea in return for Japan doing the same for the United States in the Philippines.

been an argument against Lee's harder line stance toward inter-Korean relations, which they say has eroded much of South Korea's influence over North Korea. On the other hand, China's continued support for North Korea, particularly its month-long delay in expressing public regret over the *Cheonan's* sinking, has angered many South Koreans, particularly conservatives. Many South Korean conservatives also express concern that their Chinese counterparts have been unwilling to discuss plans for dealing with various contingencies involving instability in North Korea. Furthermore, South Koreans' concerns about China's rise have been heightened by China's increased assertiveness around East Asia in recent years, particularly its vocal opposition in 2010 to U.S.-South Korean naval exercises in the Yellow Sea.

Since China's 2001 entry into the World Trade Organization, it has emerged as South Korea's most important economic partner. Over 20% of South Korea's total trade is with China, and for years China has been the number one location for South Korean firms' foreign direct investment.<sup>18</sup> Yet, even as China is an important source of South Korean economic growth, it also looms large as an economic competitor. Indeed, fears of increased competition with Chinese enterprises has been an important motivator for South Korea's push to negotiate a series of free trade agreements around the globe.

## Security Relations and the U.S.-ROK Alliance

The United States and South Korea are allies under the 1953 Mutual Defense Treaty. Under the agreement, U.S. military personnel have maintained a continuous presence on the peninsula since the conclusion of the Korean War and are committed to help South Korea defend itself, particularly against any aggression from the North. South Korea is included under the U.S. "nuclear umbrella," also known as "extended deterrence" that applies to other non-nuclear U.S. allies as well.

The U.S.-ROK alliance has enjoyed a significant boost in recent years after a period of strain under the George W. Bush and Roh Moo-hyun Administrations. Even before the *Cheonan* sinking, South Korea's willingness to send troops to Afghanistan and increasing defense expenditures reinforced the sense that the alliance is flourishing. Emblematic of the close ties, the South Korean and U.S. foreign and defense ministers held their first ever "2+2" meeting in July 2010, which featured a visit to the Demilitarized Zone (DMZ) by Secretary of State Clinton and Secretary of Defense Gates. The historic meeting both commemorated the 60<sup>th</sup> anniversary of the Korean War and demonstrated the enduring strength of the alliance. The massive joint military exercises held immediately after the meeting, featuring a U.S. aircraft carrier and F-22 aircraft, signaled to North Korea and others that the American commitment to Korea remains strong. The alliance remains popular among South Koreans. According to one opinion poll conducted in the summer of 2009, over three-quarters of South Koreans view the U.S.-ROK alliance as "important" to South Korea's security, and over two-thirds have a favorable opinion of the United States.<sup>19</sup>

Despite these promising developments, the alliance faces a host of significant challenges in the months and years ahead. Delays and increasing price tags have slowed the implementation of

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<sup>18</sup> Much of South Korea's exports to China are intermediate goods that ultimately are used in products exported to the United States and Europe.

<sup>19</sup> State Department Office of Opinion Research, "South Koreans Reassured on Alliance," August 17, 2009.

agreements to reduce and relocate the U.S. troop presence in South Korea. Differences over burden sharing remain, although these issues tend to be prevalent in all alliance relationships. The June 2010 decision to delay the transfer of operational wartime control (“Opcon”) from an American commander to South Korean command defused one area of tension temporarily, but concerns remain over South Korea’s readiness and willingness to take the lead in a military conflict. Although the political atmospherics of the alliance have been outstanding, defense analysts note that the Lee Administration has slowed significantly the defense budget increases planned under the earlier Roh Administration.

## U.S. Alliance and ROK Defense Reform Plans

Current security developments are taking place in the context of several concurrent defense schemes. The June 2009 Obama-Lee summit produced the broadly conceived “**Joint Vision for the Alliance**,” which promised to enhance and globalize future defense cooperation. After the decision to delay the Opcon transfer, the operational “**Strategic Alliance 2015**” roadmap (announced in September 2010) outlines the new transition, including ROK capabilities and U.S. troop relocation and tour normalization. Meanwhile, South Korea’s **Defense Reform 2020** bill passed by the National Assembly in 2006 remains officially in effect. The plan lays out a 15-year, 621 trillion *won* (about \$550 billion) investment that aims to reduce the number of ROK troops while developing a high-tech force and strengthening the Joint Chief of Staff system. Defense Reform 2020 calls for defense budget increases of 9.9% each year, but the Lee Administration reduced the increase to 3.6% for FY2010, citing economic pressures.<sup>20</sup> The U.S. military is also undergoing a broad transformation of its forces in the region; the 8<sup>th</sup> Army is moving toward becoming a warfighting headquarters that can deploy to other areas of the world while still serving as a deterrent to any possible aggression from North Korea.<sup>21</sup>

### The Relocation of U.S. Forces Korea (USFK)

In 2004, Secretary of Defense Donald Rumsfeld authorized a realignment program to reduce and relocate U.S. forces in South Korea. Under the Rumsfeld program, the Pentagon withdrew a 3,600-person combat brigade from the Second Division and sent it to Iraq. The Rumsfeld plan called for the U.S. troop level in South Korea to fall from 37,000 to 25,000 by September 2008. However, in 2008, Secretary of Defense Gates halted the withdrawals at the level of 28,500.

The U.S. Forces Korea (USFK) relocation plan has two elements. The first envisages the transfer of a large percentage of the 9,000 U.S. military personnel at the U.S. Yongsan base in Seoul to U.S. Army Garrison (USAG) Humphreys, which is located near the city of Pyeongtaek some 40 miles south of Seoul. The second element involves the withdrawal of about 10,000 troops of the Second Infantry Division from the demilitarized zone and their relocation to areas south of the Han River (which runs through Seoul). The end result will be that USFK’s sites will decline from the 104 it maintained in 2002, to 48. The bulk of U.S. forces will be clustered in the two primary “hubs” of Osan Air Base/USAG Humphreys and USAG Daegu that contain five “enduring sites”

<sup>20</sup> “South Korea Approves FY10 Defence Budget,” *Jane’s Defence Industry*. January 4, 2010.

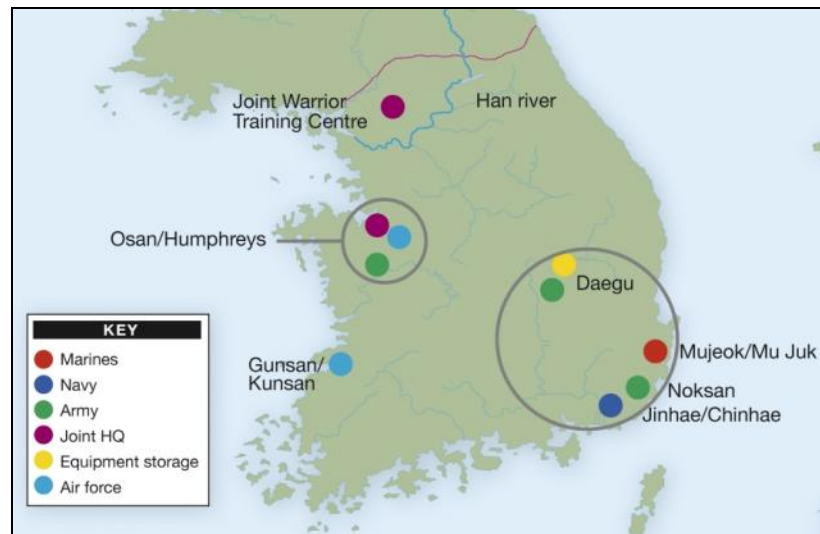
<sup>21</sup> “U.S. Army in South Korea Begins Transformation of Forces,” *Stars and Stripes*. August 25, 2010.



(Osan Air Base, USAG Humphreys, US AG Daegu, Chinhae Naval Base, and Kunsan Air Base). A new joint warrior training center, north of Seoul, will be opened.<sup>22</sup>

The relocations to Pyeongtaek originally were scheduled for completion in 2008, but have been postponed several times because of the slow construction of new facilities at Pyeongtaek and South Korean protests of financial difficulties in paying the ROK share of the relocation costs. The original cost estimate was over \$10 billion; South Korea was to contribute \$4 billion of this. Estimates in 2010 placed the costs over \$13 billion. In congressional testimony in September 2010, U.S. officials demurred from providing a final figure on the cost of the move, but confirmed that the South Koreans were paying more than the original \$4 billion.<sup>23</sup> U.S.-ROK discussions in 2009 reportedly indicated that the relocations to Pyeongtaek will not take place until 2015 or 2016. Some individuals involved and familiar with the move speculate that it will not be completed until 2020.

**Figure 2. USFK Bases After Realignment Plan is Implemented**



Source: *Jane's Sentinel Security Assessment - China And Northeast Asia*, date posted April 15, 2010,

## Tour Normalization

Another complicating factor in the development of the Yongsan Relocation Plan is the announcement by the Pentagon in 2008 that U.S. military families, for the first time, would be allowed to join U.S. military personnel in South Korea. Prior to this change, most U.S. troops in South Korea served one-year unaccompanied assignments. The goal is to phase out one-year unaccompanied tours in South Korea, replacing them with 36-month accompanied or 24-month unaccompanied tours. Eventually, the “normalization” of tours is estimated to increase the size of the U.S. military community at Osan/Humphreys near Pyeongtaek to over 50,000.

<sup>22</sup> “US-South Korea: a New Security Relationship,” *Jane's Intelligence Weekly*, January 18, 2010.

<sup>23</sup> “Senate Armed Services Committee Holds Hearing on Security Situation on the Korean Peninsula,” *CQ Congressional Transcripts*. Sept. 16, 2010.

## Cost Sharing

Under a Special Measures Agreement reached in 2009, South Korea's direct financial contribution for U.S. troops in South Korea in 2010 will be 760 billion *won* (about \$571 million). This is about 42% of the total cost of maintaining U.S. forces in South Korea. In recent U.S.-R.O.K. military negotiations, Pentagon officials called for South Korea to increase its share to at least 50%. Under the 2009 agreement, South Korea's share of the cost is to increase until 2013 in accord with the rate of inflation but no more than 4% annually.

## Opcon Transfer

The United States has agreed with Seoul to turn over the wartime command of Korean troops later this decade. Under the current arrangement, which is a legacy of U.S. involvement in the 1950-1953 Korean War, South Korea's soldiers would be under the command of U.S. forces if there were a war on the peninsula. In 2007, Secretary Rumsfeld accepted a proposal by then-South Korean President Roh Moo-hyun to set up separate South Korean and U.S. military commands by April 2012. A U.S.-R.O.K. operational control (Opcon) agreement will dismantle the U.S.-R.O.K. Combined Forces Command (CFC), which has been headed by the U.S. commander in Korea. Separate U.S. and R.O.K. military commands will be established. In accord with the plan a new U.S. Korea Command (KORCOM) will be established. Under the Opcon agreement, a Military Cooperation Center will be responsible for planning military operations, joint military exercises, logistics support, and intelligence exchanges, and assisting in the operation of the communication, command, control, and computer systems.

At their June 2010 summit, Presidents Obama and Lee announced their decision to delay the transfer of Opcon by three years, until 2015. Although the decision was couched as sending a strong signal to North Korea following the sinking of the *Cheonan*, the agreement followed months of debate in Seoul and Washington about the timing of the transfer. Many South Korean and U.S. experts questioned whether the South Korean military possesses the capabilities—such as a joint command and control system, sufficient transport planes, and amphibious sea lift vessels—to operate effectively as its own command by the original transfer date of 2012. U.S. officials stress, however, that the transfer was militarily on track before the political decision to postpone. Opposition to the transfer in some quarters in Seoul may reflect a traditional fear of abandonment by the U.S. military.

With the decision made, U.S. commanders are arguing that the three-year delay will allow the alliance to synchronize more thoroughly all the moving parts of the arrangement, including the relocation of U.S. troops.<sup>24</sup> The Strategic Alliance 2015 plan envisages measures such as upgrading South Korean defense capabilities (such as ground operations command), improving and recalibrating USFK and South Korean command and control systems, and better aligning military exercises to meet the new asymmetrical challenges posed by North Korea.

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<sup>24</sup> "Sharp: Korea Plan Synchronizes Capabilities," PACOM Headlines, *American Forces Press Service*. September 21, 2010.

## The “Strategic Flexibility” of USFK

In 2007 and 2008, U.S. commanders in South Korea stated that the future U.S. role in the defense of South Korea would be mainly an air force and naval role. The ROK armed forces today total 681,000 troops, with nearly 550,000 of them in the Army and around 65,000 each in the Air Force and Navy. Since 2004, the U.S. Air Force has increased its strength in South Korea through the regular rotation into South Korea of advanced strike aircraft. These rotations are not a permanent presence, but the aircraft often remain in South Korea for weeks and sometimes months for training.

Since the early 2000s, U.S. military officials have expressed a desire to deploy some U.S. forces in South Korea to areas of international conflicts under a doctrine of “strategic flexibility.” The South Korean government of Roh Moo-hyun resisted this idea, largely for fear it might entangle South Korea in a possible conflict between the United States and China. In the mid-2000s, the two governments reached an agreement in which South Korea recognized the United States’ intention to be able to deploy its forces off the Peninsula, while the United States in turn recognized that the troops’ return to South Korea would be subject to discussion. Among other elements, the compromise seems to imply that in an off-Peninsula contingency, U.S. forces might deploy but not operate from South Korea.

## South Korean Defense Industry and Purchases of U.S. Weapons

South Korea is a major purchaser of U.S. weapons, buying \$939 million worth of U.S. arms in FY2010. The country is regularly among the top five customers for Foreign Military Sales (FMS).<sup>25</sup> Although South Korea generally buys the majority of its weapons from the United States, European defense companies also compete for contracts; Korea is an attractive market because of its rising defense expenditures. Recently, Boeing won the first two phases of South Korea’s fighter modernization program and Seoul has also indicated interest in Lockheed Martin’s F-35 Joint Strike Fighter.<sup>26</sup> South Korea’s defense ministry has said that it will prioritize its defense systems against North Korea’s missile and nuclear threats, including Aegis combat destroyers, missile interceptors, and early warning radars.<sup>27</sup>

Korea’s Defense Reform 2020 legislation emphasizes the development of indigenous capabilities by increasing the percentage of funds allocated to defense research and development (R&D).<sup>28</sup> South Korea competes internationally in the armored vehicle, shipbuilding, and aerospace industries. Of particular note is the T-50 Golden Eagle, a trainer and light fighter aircraft developed in conjunction with Lockheed Martin.<sup>29</sup>

The 110<sup>th</sup> Congress passed legislation that upgraded South Korea’s status as an arms purchaser from a Major Non-NATO Ally to the NATO Plus Three category (P.L. 110-429), which changed the classification to NATO Plus Four. This upgrade establishes a higher dollar threshold for the requirement that the U.S. executive branch notify Congress of pending arms sales to South Korea,

<sup>25</sup> Joint United States Military Affairs Group – Korea Mission Brief. August 18, 2010.

<sup>26</sup> “South Korea to Buy More U.S. Weapons to Counter North,” *Reuters*. September 21, 2010.

<sup>27</sup> “South Korea Pulls Back from Original Defense Spending Plan Amid Economic Woes,” *Yonhap News*. September 27, 2009.

<sup>28</sup> “South Korea Defense Budget,” *Jane’s Defence Budgets*. December 14, 2009.

<sup>29</sup> “Korea’s T-50 Spreads Its Wings,” *Defense Industry Insider*. September 13, 2010.

from \$14 million to \$25 million. Congress has 15 days to consider the sale, and may take legislative steps to block the sale compared to 50 days for Major Non-NATO Allies.

### **South Korea's Deployment to Afghanistan**

After withdrawing its initial deployment of military personnel to Afghanistan in 2007, South Korea sent a second deployment, consisting of troops and civilian workers who are staffing a Provincial Reconstruction Team (PRT) in Parwan Province, located north of Kabul.<sup>30</sup> In February 2010, the National Assembly approved and funded the deployment of over 320 Army personnel and 40 police officers to protect 100 Korean civilian reconstruction workers for a two-year mission. The first soldiers arrived in June 2010.

## **Economic Relations**

South Korea and the United States are major economic partners. In 2009, two-way trade between the two countries totaled over \$65 billion (see **Table 1**), making South Korea the United States' seventh largest trading partner. For some western states and U.S. sectors, the South Korean market is even more important. South Korea is far more dependent economically on the United States than the United States is on South Korea. In 2009, the United States was South Korea's third-largest trading partner, second-largest export market, and the third-largest source of imports. It was among South Korea's largest suppliers of foreign direct investment (FDI).

As both economies have become more integrated with the world economy, economic interdependence has become more complex and attenuated, particularly as the United States' economic importance to South Korea has declined relative to other major powers. In 2003, China for the first time displaced the United States from its perennial place as South Korea's number one trading partner. In the mid-2000s, Japan and then the 27-member European Union also overtook the United States.

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<sup>30</sup> In 2007, South Korean President Roh Moo-hyun withdrew South Korea's initial deployment of 200 non-combat military personnel from Afghanistan after the Taliban kidnapped South Korean missionaries. The South Korean government reportedly paid a sizeable ransom to the Taliban to secure the release of kidnapped South Korean Christian missionaries, reported by one Taliban official to be \$20 million.

**Table 1. Annual U.S.-South Korea Merchandise Trade,  
Selected Years**  
(Billions of U.S. Dollars)

Year	U.S. Exports	U.S. Imports	Trade balance	Total trade
1990	14.4	18.5	-4.1	32.9
1995	25.4	24.2	1.2	49.6
2000	26.3	39.8	-13.5	66.1
2005	26.2	43.2	-17.0	69.4
2008	33.1	46.7	-13.6	79.8
2009	27.0	38.7	-11.7	65.7
Major U.S. Export Items	Industrial machinery; specialized instruments; chemicals; civilian aircraft; transistors; semiconductor circuits; corn & wheat; semiconductor circuits; iron & steel scrap.			
Major U.S. Import Items	Motor vehicles & parts; Cell phones; semiconductor circuits & printed circuit boards; machinery; iron & steel.			

**Sources:** 1990 and 1995 data from Global Trade Information Services. 2000-2009 data from U.S. International Trade Commission. The 2000-2009 U.S. export data are for U.S. domestic exports and the data for U.S. imports are for imports on a consumption basis.

## The KORUS FTA<sup>31</sup>

The Bush and Roh Administrations initiated the proposed KORUS FTA negotiations in 2006 and signed an agreement in June 2007. The text of the proposed free trade agreement covers a wide range of trade and investment issues and, therefore, could have wide economic implications for both the United States and South Korea. A congressionally mandated study by the United States International Trade Commission (USITC) concluded that investment and trade between the United States and South Korea would increase modestly as a result of the KORUS FTA. This result is in line with other similar studies. In general and in the short-to-medium term, the KORUS FTA's largest commercial effects are expected to be microeconomic in nature. The U.S. services and agriculture industries, for instance, are expected to reap significant benefits if the agreement is implemented. In contrast, U.S. textile, wearing apparel, and electronic equipment manufacturers would be expected to experience declines in employment from increased South Korean imports, though some U.S. electronics companies may see competitive benefits, as it could be less expensive for them to source components from South Korea.

While a broad swath of the U.S. business community supports the agreement, the KORUS FTA faces opposition from some groups, including some auto and steel manufacturers and labor unions. In South Korea, while public opinion polls generally show broad support for the KORUS FTA, many farmers and trade unionists have vocally and actively opposed the agreement.

Many observers have argued that, in addition to its economic implications, the KORUS FTA would have diplomatic and security implications. Indeed, in many respects, the KORUS FTA's

<sup>31</sup> For more information, please see CRS Report RL34330, *The Proposed U.S.-South Korea Free Trade Agreement (KORUS FTA): Provisions and Implications*, coordinated by William H. Cooper.

fate may go beyond strengthening U.S.-Korea ties and have profound implications for U.S. trade policy and East Asia policy. For instance, some have suggested that a KORUS FTA would help to solidify the U.S. presence in East Asia to counterbalance the increasing influence of China. Some counter this by positing that the KORUS FTA need not be seen as a necessary, let alone sufficient, condition for enhancing the U.S.-ROK alliance. However, many South Koreans would likely see a failure to complete or a defeat of the agreement in part as a U.S. psychological rejection of *South Korea*. Additionally, many East Asian leaders would see such a move as a sign that the United States is disengaging from East Asia, where most countries are pursuing a variety of free trade agreements. South Korea has perhaps been the most aggressive in this FTA push. Since 2002, it has completed seven other agreements (including one with the European Union, awaiting ratification) and has begun negotiating seven others.

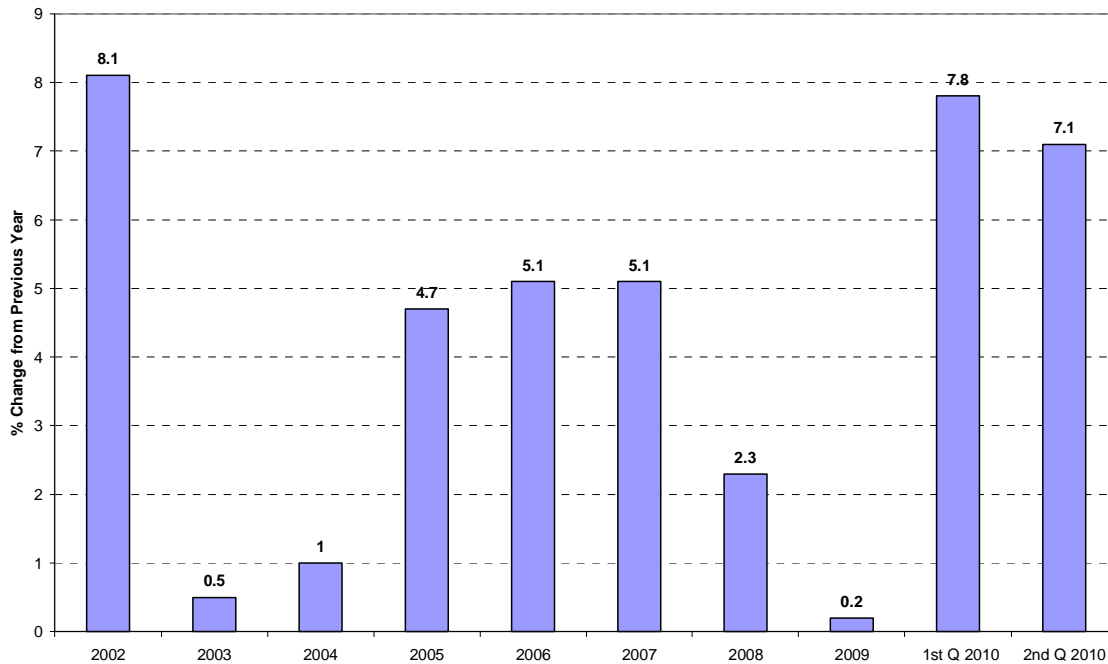
## **South Korea's Economic Performance**

South Korea has recorded strong economic growth since the global financial crisis began in late 2008. After GDP real growth declined to 0.2% in 2009, the South Korean economy has roared back and is projected to grow by nearly 6% in 2010. Initially, the crisis hit the South Korean economy hard because of its heavy reliance on international trade and its banks' heavy borrowing from abroad. The Lee government took strong countermeasures to blunt the crisis' impact, engaging in a series of fiscal stimulus actions worth about 6% of the country's 2008 GDP, by some measures the largest such package in the Organization for Economic Cooperation and Development (OECD) group of industrialized countries.

The Bank of Korea (BOK) also acted aggressively, lowering interest rates from over 5% to a record low 2% and engaging in a range of other operations, estimated by the OECD to be worth over 2.5% of GDP, designed to infuse liquidity in the Korean economy. The BOK negotiated currency swap agreements with the United States, Japan, and China.<sup>32</sup> The South Korean *won*, after depreciating to around 1,500 *won*/dollar—a fall of nearly one-third from early 2008 to early 2009—has gradually strengthened against the dollar, to the 1,000-1,100 *won*/dollar range. The *won*'s depreciation helped to stimulate South Korea's economic recovery by making its exports cheaper relative to many other currencies, particularly the Japanese *yen*.

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<sup>32</sup> The October 2008 swap agreement with the U.S. Federal Reserve gave Bank of Korea access to up to USD 30 billion in US dollar funds in exchange for *won*.

**Figure 3. South Korea's Real GDP Growth**

## Other Issues

### South Korea-Iran Relations

Historically, South Korea's relations with Iran have been dominated by economic interests, particularly South Korean oil imports from Iran and South Korean construction conglomerates' large-scale contracts in Iran. South Korean policymakers have only recently seen Iran through a foreign policy lens.<sup>33</sup> Indeed, the United Nations' call for member states to sanction Iran for its nuclear pursuits appears to have triggered a debate between South Korea's economy-oriented ministries, which wanted to limit South Korea's response to Iranian actions, and its foreign policy oriented organs, which wanted to go further. The Lee government was forced to try to strike a balance between protecting its economic interests while doing enough to satisfy the demands of the United States and fulfill its self-proclaimed goal of creating a "global Korea" that assumes international responsibilities.

#### *Details of South Korea's Sanctions against Iran*

Among other items, the South Korean measures, which exceed the requirements of United Nations Security Council (UNSC) Resolution 1929,<sup>34</sup> take the following steps:

<sup>33</sup> Alon Levkowitz, "The Republic of Korea and the Middle East: Economics, Diplomacy, and Security," *Korea Economic Institute Academic Paper Series*, August 6, 2010, Volume 5, Number 6.

<sup>34</sup> UNSCR 1929 at <http://daccess-dds-ny.un.org/doc/UNDOC/GEN/N10/396/79/PDF/N1039679.pdf?OpenElement>.

- prohibit South Korean firms from starting new ventures (including investments, technical services, and construction contracts) in Iran’s energy sector, and call on companies with existing contracts to “exercise restraint;”
- designate over 20 Iranian individuals and over 100 Iranian entities, including Bank Mellat, Iran’s second-largest bank and a designee under UNSC 1929, for allegedly providing banking services to Iran’s nuclear sector. South Koreans will need prior authorization from the Bank of Korea before conducting foreign exchange transactions with the designees;
- require South Korean companies to report all transactions with Iran over 10,000 *euros* (approximately \$13,000) and to obtain prior authorization for all transactions over 40,000 *euros* (approximately \$52,000). Authorization will be denied for any transactions that are subject to sanctions under the U.S. Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (P.L. 111-195);
- prohibit South Korean banks from opening accounts and offices in Iran, and vice versa;
- ban the creation of new, and gradually terminate existing, correspondent banking relationships between South Korean and Iranian financial institutions;
- suspend nearly all the operations of the Seoul office of Bank Mellat for two months, which South Korean officials say is the maximum penalty allowed under existing law. Beyond the two month period, South Korean officials reportedly say they intend to make it “effectively impossible” for the bank engage in “normal operations;”<sup>35</sup> and
- open a *won*-denominated account for the Central Bank of Iran, which it is hoped will be used to provide the legitimate financing services formerly provided by Bank Mellat.

## Bilateral Nuclear Cooperation<sup>36</sup>

The United States and South Korea have cooperated in the peaceful use of nuclear energy for over fifty years.<sup>37</sup> The current U.S.-ROK bilateral nuclear cooperation agreement (or “123” agreement) was concluded in 1972, and expires in 2014. In late October 2010, the United States and South Korea began official talks in Washington on renewing elements of the agreement.<sup>38</sup>

<sup>35</sup> Bank Mellat operates one of its four overseas branches in Seoul, with assets reportedly worth over 3 trillion won (approximately \$2.5 billion at an exchange rate of 1,165.10 won/dollar). Hyung-eun Kim, “Pressure Builds on Mellat,” *JoongAng Daily Online*, August 9, 2010.

<sup>36</sup> Written by Mary Beth Nikitin, Analyst in Nonproliferation.

<sup>37</sup> See also CRS Report R41032, *U.S. and South Korean Cooperation in the World Nuclear Energy Market: Major Policy Considerations*, by Mark Holt.

<sup>38</sup> “Discussions on the New U.S.-R.O.K. Civil Nuclear Cooperation Agreement State Department Press Release, October 26, 2010, <http://www.state.gov/r/pa/prs/ps/2010/10/150026.htm>



The current U.S.-Korea nuclear cooperation agreement, as with other standard agreements,<sup>39</sup> requires U.S. permission before South Korea can reprocess U.S.-origin spent fuel, including spent fuel from South Korea's U.S.-designed reactors.<sup>40</sup> Some South Korean officials have called for lifting such restrictions, in the course of the renewal negotiations, to allow for South Korean reprocessing of spent fuel.<sup>41</sup> The issue has become a sensitive one for many South Korean officials and politicians, who see it as a matter of national sovereignty. The Korean Atomic Energy Research Institute (KAERI) is conducting a laboratory-scale research program on reprocessing spent fuel with an advanced pyro-processing technique.<sup>42</sup> U.S.-South Korean bilateral research on pyro-processing was halted by the United States in 2008. In an attempt to find common ground in March 2010, the United States and South Korea began a joint study on the economics, technical feasibility and nonproliferation implications of pyro-processing.<sup>43</sup> This study is expected to last six to twelve months, and its results are to feed into, but are separate from, the 123 renewal negotiations. The United States and South Korea continue to conduct joint research projects on international nuclear safeguards and on innovative nuclear technology development.

## South Korean Nonproliferation Policy

South Korea has been a consistent and vocal supporter of strengthening the global nonproliferation regime. It is a member of the Nuclear Suppliers' Group and adheres to all nonproliferation treaties and export control regimes. An International Atomic Energy Agency Additional Protocol for South Korea entered into force as of February 2004. South Korea also participates in the G-8 Global Partnership, and U.S.-led initiatives—the Proliferation Security Initiative, the International Framework for Nuclear Energy Cooperation (formerly GNEP), and the Global Initiative to Combat Nuclear Terrorism.

South Korea will host the next Nuclear Security Summit in 2012.<sup>44</sup> At the 2010 Summit, South Korea announced it would host the next Plenary session for the Global Initiative to Combat Nuclear Terrorism in 2011 as part of its contribution to improving international nuclear security coordination.

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<sup>39</sup> CRS Report RS22937, *Nuclear Cooperation with Other Countries: A Primer*, by Paul K. Kerr and Mary Beth Nikitin.

<sup>40</sup> Under the 1978 Nuclear Nonproliferation Act, consent rights apply to material originating in the U.S. or material that has been fabricated into fuel or irradiated in a reactor with U.S. technology. The majority of South Korea's spent fuel would need U.S. consent before it could be reprocessed.

<sup>41</sup> Fred McGoldrick, "New U.S.-ROK Peaceful Nuclear Cooperation Agreement: A Precedent for a New Global Nuclear Architecture," *Asia Foundation*, November 2009, <http://asiafoundation.org/resources/pdfs/McGoldrickUSROKCUSKP091130.pdf>

<sup>42</sup> Pyro-processing technology would partially separate plutonium and uranium from spent fuel.

<sup>43</sup> [http://www.koreaherald.co.kr/NEWKHSITE/data/html\\_dir/2010/03/17/201003170029.asp](http://www.koreaherald.co.kr/NEWKHSITE/data/html_dir/2010/03/17/201003170029.asp)

<sup>44</sup> See also, CRS Report R41169, *Securing Nuclear Materials: The 2010 Summit and Issues for Congress*, by Mary Beth Nikitin.

## South Korea's "Green Growth" Policies<sup>45</sup>

President Lee has championed a policy of economic growth that limits environmental impacts, known as "green growth." This forms a significant part of the administration's effort to promote South Korea as "Global Korea" and to advance its economic development.<sup>46</sup> South Korea's program represents an instructive example, particularly in the area of private/public cooperation for green growth and the development of a cap-and-trade carbon system. The program envisions reducing fuel consumption and fostering the development and use of new and renewable forms of energy from 2% to 11% of South Korea's total energy consumption by 2030, and to 30% by 2050.<sup>47</sup> Two percent of annual GDP would go to supporting research and development of "green technologies and enterprises," while raising the efficiency of existing firms.<sup>48</sup> The South Korean government plans to make direct investments in green technology to boost energy efficiency and provide tax incentives for private capital and firms to fund such investments—with a goal of funneling 2% of annual GDP into the sector.<sup>49</sup> In July 2010, the South Korean government announced that 30 South Korean industrial firms would invest \$18 billion for green R&D.<sup>50</sup> The government also plans to encourage a transition from manufacturing to service industries to reduce greenhouse gases (GHGs) further, as well as moving to adopt a carbon cap-and-trade system.

In April 2010, South Korea's National Assembly passed the Framework Act on Low Carbon and Green Growth and the Enforcement Decree. It offers tax incentives to firms to adopt goods and services fostering lower GHG emissions. It includes a basis for cap and trade and requires the government to implement a five-year plan for green growth and GHG reductions to 30% from the "business-as-usual" projection for 2020.<sup>51</sup> The legislation provides for a green certification program.<sup>52</sup> The Ministry of Environment has the lead in the management of an integrated GHG information system and in setting automobile energy consumption standards and allowable GHG emissions. In July 2010, the government announced that South Korea's total public and private investment in carbon capture and sequestration would reach an estimated 2.3 trillion *won* (\$1.92 billion) in 2019; total public sector investment would account for 1.2 trillion *won*.<sup>53</sup>

Several local, province-wide and international green initiatives are underway. Some cities are pursuing low carbon programs, from adopting low carbon vehicles for mass transportation to

<sup>45</sup> Written by MiAe Taylor, Research Associate in Asian Affairs.

<sup>46</sup> Text of President Lee's Address on Liberation, Founding Anniversaries. *Yonhap News*. August 16, 2008.

<sup>47</sup> Republic of Korea Presidential Commission on Green Growth. *Road to Our Future: Green Growth*, October 9, 2009. <http://www.mofat.go.kr/english/econtrade/environmentenergy/issues/index.jsp>.

<sup>48</sup> Presentation by Hyunghwan Joo, Director General, International Economic Affairs Bureau, Ministry of Strategy and Finance, the Korea Economic Institute of America's Policy Seminar on Korea's Low Carbon, Green Growth Vision, June 24, 2010.

<sup>49</sup> Presentation by Hyunghwan Joo, Director General, International Economic Affairs Bureau, Ministry of Strategy and Finance, the Korea Economic Institute of America's Policy Seminar on Korea's Low Carbon, Green Growth Vision, June 24, 2010.

<sup>50</sup> "Boost for South Korea's Green Sector." *UPI*. July 13, 2010.

<sup>51</sup> Framework Act on Low Carbon, Green Growth. <http://www.moleg.go.kr/FileDownload.mo?flSeq=30582>

<sup>52</sup> ROK Ministry of Environment Press release. "Framework Act on Low Carbon Green Growth Went into Effect," <http://www.korea.net/detail.do?guid=46155>.

<sup>53</sup> "S. Korea to invest \$2 bln in carbon capture to 2019." *Reuters*. July 12, 2010. <http://in.reuters.com/article/idINTOE66B06520100712>.

developing new green cities.<sup>54</sup> In addition, South Korea is sponsoring green policies abroad, employing green overseas development assistance (ODA).<sup>55</sup> Responding to the recession in 2009, the Lee administration also proposed a “new green deal” under which South Korea would expand nuclear energy use to 32% of total energy use by 2020 and sponsor solar and wind power projects. The government would extend seed money for green ventures and create financial products to sponsor them. Officials anticipate average annual increases of 36.3-41.2 trillion *won* (\$37 million to \$57 million dollars) with over one million new jobs anticipated for 2009-2013.<sup>56</sup> The “green new deal” also includes an estimated \$20 billion project to stave off flooding and water shortages by redirecting the circulation of four rivers, including the Han. Called the Four Major Rivers Restoration project, it will construct 16 dams, dredge hundreds of millions of cubic meters of earth to lower riverbeds, renovate two estuarine barrages, and construct trails, athletic fields, and parks along the waterways.<sup>57</sup> The project, part of a \$38.1 billion stimulus package, of which 80% of the funds must go to green projects, broke ground in 2009. Academics, activists, farmers and residents, religious leaders, and opposition party members object to the project as undermining regional wetlands, likely to promote flooding; some economists and engineers contend that the project will cost twice the estimated figure.<sup>58</sup> As of October 2010, the major parties had not reached a compromise on the project’s budget.<sup>59</sup>

## South Korean Politics<sup>60</sup>

For most of the first four decades after the country was founded in 1948, South Korea was ruled by authoritarian governments. Ever since the mid-1980s, when widespread anti-government protests forced the country’s military rulers to enact sweeping democratic reforms, democratic institutions and traditions have deepened in South Korea. In 1997, long-time dissident and opposition politician Kim Dae-jung (commonly referred to as “DJ”) was elected to the presidency, the first time an opposition party had prevailed in a South Korean presidential election. In December 2002, Kim was succeeded by a member of his left-of-center party: Roh Moo-hyun, a self-educated former human rights lawyer who emerged from relative obscurity to defeat establishment candidates in both the primary and general elections. Roh campaigned on a platform of reform—reform of Korean politics, economic policymaking, and U.S.-ROK relations.

Lee’s victory in the December 2007 election restored conservatives to the presidency. A striking feature of the election was how poorly the left-of-center candidates performed, after a decade in

<sup>54</sup> Choe Sang-hun. “In Seoul, Green Transit Is Mayor’s Pet Project. *The New York Times*, March 26, 2010. <http://www.nytimes.com/2010/03/27/business/energy-environment/27greencar.html>. Joohee Cho. “Building a Green, Hi-Tech City of the Future.” *ABC News*, September 15, 2009.

<sup>55</sup> Presentation by Chan-Woo Kim, Director General, International Cooperation Office, Ministry of Environment delivered at the Korea Economic Institute of America’s Policy Seminar on Korea’s Low Carbon, Green Growth Vision, June 24, 2010.

<sup>56</sup> Presentation by Hyunghwan Joo, Korea Economic Institute of America’s Policy Seminar on Korea’s Low Carbon, Green Growth Vision, June 24, 2010.

<sup>57</sup> Dennis Normile. “Environmental Restoration: Restoration or Devastation?” *Science*. March 26, 2010. p. 1570.

<sup>58</sup> Cho Ji-hyun. “4-rivers project will cause water shortages.” *The Korea Herald*, October 7, 2009.

<sup>59</sup> “Analysis: S. Korean Political Parties brace for heated elections.” *Asia Pulse*, May 3, 2010.

<sup>60</sup> For more, see CRS Report R40851, *South Korea: Its Domestic Politics and Foreign Policy Outlook*, by Mark E. Manyin and Weston Konishi.

power, receiving only around 30% of the vote. Shortly after Lee's inauguration, his Grand National Party retained control of the National Assembly in national parliamentary elections.

Lee had a rocky first two years of his presidency. Until late 2009, his public approval ratings generally were in the 20%-30% range. It took over a year for him to recover from the massive anti-government protests that followed an April 2008 deal with the United States to lift South Korea's partial ban on imports of U.S. beef. The ban had been in place since 2003, when a cow in the United States was found to be infected with mad cow disease, or BSE (bovine spongiform encephalopathy). By the early to mid-spring of 2010, his ratings had risen to the 40%-50% range, a development many attribute to South Korea's strong recovery from the 2008-2009 global financial crisis.

South Korea's next National Assembly and presidential elections are scheduled for April and December 2012, respectively. By law, Lee cannot run again; South Korean presidents serve one five-year term.

## **A Powerful Executive Branch**

Nominally, power in South Korea is shared by the president and the 299-member unicameral National Assembly. Of these, 245 members represent single-member constituencies. The remaining 54 are selected on the basis of proportional voting. National Assembly members are elected to four-year terms. The president and the state bureaucracy continue to be the dominant forces in South Korean policymaking, as formal and informal limitations prevent the National Assembly from initiating major pieces of legislation.

## **Political Parties**

Presently, there are three major political parties in South Korea: President Lee's conservative Grand National Party (GNP); the opposition center-left Democratic Party (DP); and the hard right Liberty Forward Party (LFP), which is primarily a platform for former GNP heavyweight Lee Hoi-chang.<sup>61</sup> U.S. ties have historically been much stronger with the conservative parties. Because Korean politics tend to be hyper-partisan, this phenomenon could make U.S.-South Korea relations more difficult to manage if the progressives regain power.

The GNP's numerical strength masks significant intra-party divisions. Lee's most significant rival is GNP stalwart Park Geun-hye, the popular daughter of Korea's former military ruler Park Chung-hee, whom Lee only narrowly defeated in the GNP's presidential primary in 2007. Initially, Lee had tried to marginalize Park's influence, an effort he later abandoned when the GNP absorbed some of Park's supporters who had formed a new party. This move, however, has failed to resolve the tensions between the two camps. There is little cooperation between the GNP and the Democratic Party, so keeping the GNP unified on controversial issues is critical to Lee's ability to govern.

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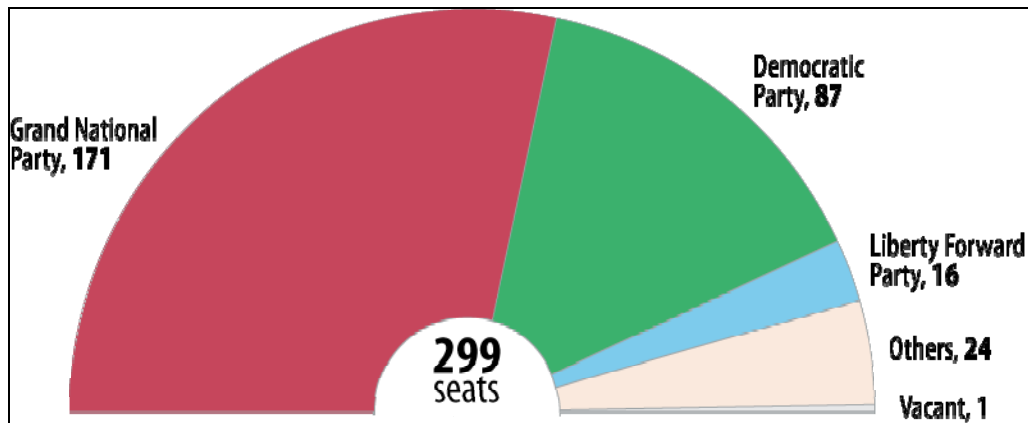
<sup>61</sup> Lee was the runner-up in both the 1997 and 2002 elections, losing both by less than three percentage points of the vote.

Lee's relationship with the Liberty Forward Party also has been contentious, as its leader ran a bitter campaign against Lee in the presidential election. The Park camp and the LFP generally are more conservative than Lee, so he has been under pressure from his conservative flank.

Since the 2007 election, South Korea's largest opposition party, the Democratic Party, has generally been even more divided than the GNP. The Democrats' lack of unity, their minority status in the National Assembly, and the absence of national elections until 2012 have deprived them of most tools of power and influence within the South Korean polity. In a sign that the progressive camp may be regrouping, however, the DP scored significant victories in important local elections in June 2010. DP members and their supporters often are more critical of U.S. policies and are much more likely to support engagement policies toward North Korea than their conservative counterparts.

**Figure 4. Party Strength in the National Assembly**

As of October 23, 2010



**Source:** The National Assembly of the Republic of Korea, "Members by Negotiating Group."

**Notes:** Last election held in April 2008; next election to be held in April 2012.

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