



EAST-WEST CENTER

South Korea's New President Faces Hard Times at Home and New International Demands

WONMO DONG and
CHARLES E. MORRISON

Asia Pacific

I S S U E S

**Analysis from the East-West Center
No.4**

February 25, 1993

The U.S. Congress established the East-West Center in 1960 to foster mutual understanding and cooperation among the governments and peoples of the Asia-Pacific region, including the United States. Principal funding for the Center comes from the U.S. government, with additional support provided by private agencies, individuals and corporations and more than 20 Asian and Pacific governments.

The Center promotes responsible development, long-term stability and human dignity for all people in the region and helps prepare the United States for constructive involvement in Asia and the Pacific.

SUMMARY Once impoverished, South Korea is now an economically powerful and influential country. It is also increasingly democratic, and this month inaugurates its first popularly elected, civilian president in three decades, Kim Young Sam. But democracy has brought with it social disruption, demands for higher wages and overspending. President Kim inherits a stalled economy (the real growth rate, though more than 6 percent, is half what it was in 1987), increasing pressures to control Korea's giant corporations, bitter regional tensions and suspended talks with North Korea. While South Korea's diplomatic and trade ties in the region now include Russia and China, Kim will need to improve relations with Japan, toward which many Koreans are still bitter. Finally, he must work with the new Clinton administration to redefine Korea's relationship with the United States. Korea has accepted new responsibility for its shared defense. But Kim, who campaigned on a pledge to protect Korean markets, is likely to find himself caught between Washington's demands for trade concessions and an increasingly nationalistic Korean electorate.

South Korea is the world's 13th largest economy and the 7th largest trading partner of the United States.

For the first time in thirty years a civilian, Kim Young Sam of the Democratic Liberal Party (DLP), has assumed the presidency of the Republic of Korea, ending an era of military-controlled politics begun in 1961. The event is a watershed in the country's long and arduous democratization process.

In the December 1992 election, 65-year-old Kim Young Sam won a decisive victory over Kim Dae Jung, his principal civilian rival for a quarter century and the candidate of the opposition Democratic Party (DP), and Chung Ju Yung, the billionaire founder of the giant Hyundai Group and founder and candidate of the United People's Party (UPP).

The return to civilian democracy has ended the crisis of political legitimacy that beset Kim Young Sam's predecessors, in spite of their success in economic development. At the same time, it confronts the new Kim government, during a one-term presidency (1993–1998), with the need to balance continued economic growth with heightened political demands from sectoral, regional and class interests.



Kim will have to deal with much better organized and more articulate pressure groups—workers, professionals, farmers, women, youth. He also faces growing foreign insistence that Korea open its markets at a time when his country is feeling economically vulnerable.

The Domestic Agenda

Just three years ago, few would have expected Kim Young Sam, despite his ambitions, to achieve the presidency. Kim is not noted for intellectual brilliance or oratorical skills, but he has been a durable political operator and a shrewd tactician. Until 1990 he was in the political opposition. Now he must apply his considerable political experience to making a variety of difficult decisions.

Economic reform. Kim's greatest challenge is the Korean economy, whose spectacular success in the 1980s established high expectations among Korea's people. With its 44 million inhabitants and a GNP of \$290 billion (1992), South Korea is the world's 13th largest economy and the 7th largest trading partner of the United States. Since 1987 South Korea's per capita income has more than doubled to \$6,685 in 1992.

Yet the country is now in its worst economic downturn in more than a decade. The real growth rate is down from its 1987 high of 13 percent to 6.3 in 1992 (and less than 3 percent in the final quarter). The recent slump, weak financial institutions and uncertain relations between the government and Korea's giant corporations (*chaebol*) raise serious questions as to whether South Korea can indeed emerge as "Asia's Next Japan."

Candidate Kim pledged to reinvigorate the economy (and raise per capita income to \$15,000 by 1998) by reducing interference in the private sector by the government bureaucracy that is stifling the efficiency of many manufacturing and export companies. As president, he must develop specific plans for delivering on the broad outline of economic reforms he promised as a candidate: greater autonomy for banks and other financial institutions; elimination of the current practice of concealing wealth through bank deposits under false names; support

for small- and medium-size enterprises; and a gradual paring of the power of the *chaebol*.

South Korea's *chaebol*, the mainly family-run conglomerates that served well as the engine of growth in the 1970s and 1980s, are losing their competitive edge in overseas export markets. Major causes of this slippage are the rising cost of wages at home and the worsening domestic credit crunch, the latter brought on by the government-controlled system of fixed interest rates that is meant to control inflation and stimulate the economy. The credit shortage is particularly acute among the small-and medium-size industries that contribute some 40 percent of South Korea's export earnings. With the exception of a few giants, such as the Samsung and Hyundai groups, many companies lack the capital for research and development that would help improve the quality of their products.

Regional inequalities. The persistent and growing inequality between the Yongnam (Kyongsang) and Honam (Cholla) regions is the cancer of South Korean politics. The Honam region is the least industrialized, the poorest and the most discriminated against in bureaucratic recruitment and military promotions. (It is also the home region of Kim Dae Jung, who received 92 percent of the vote there.) The success of Kim Young Sam's presidency may depend on his ability to deal with this single most divisive problem, which has become progressively worse during three decades of authoritarian rule.

Many believe Kim should take immediate and dramatic measures to ensure more balanced regional economic development and a more equitable government personnel policy. The start of infrastructure build-ups already targeted for the Honam region, such as four-lane highways, rapid multitrack railroad systems and modern port facilities, should help to relieve the Honam people's sense of discrimination. Kim's governing DLP will need to open the party—both leadership positions and rank-and-file membership—to Honam's disaffected citizens. It will also be important for Kim's administration to expedite the elections of provincial governors and city mayors that the Roh government postponed in the spring of 1992. The election of these local officials would loosen the control enjoyed by the Yongnam people

over South Korea's government. Thus the diffusion of government power in the local regions would significantly contribute to the democratization of Korean society and politics.

Income and generational differences. South Korea suffers from an acute income gap between the rich and poor. Roughly 2 percent of the population is counted among the very rich and 8 percent is living in abject poverty. These figures are not much different from those found in most developing nations, but in the boom years of the 1980s, a small but highly visible number of Koreans made huge profits speculating on land and real estate. Today, most Korean workers cannot afford to buy their own homes. A small stratum of South Korean society has developed and is voicing a growing sense of relative deprivation.

There is also a sharp division between generations. The post-Korean War generation, which is under age 40 and never knew the devastation of the war or the poverty that followed, now comprises 60 percent of the voting population. Its members are much more impatient with the tempo of democratization and have been more supportive of radical change.

This generation, along with Korea's poor and its disaffected intellectuals, has, with the retirement of Kim Dae Jung, lost its political leader. This presents an opportunity for Kim Young Sam to open up the political process and offer the possibility of meaningful participation and leadership roles. It will be his challenge to help develop the next generation of political leaders.

External Relations

Kim Young Sam inherits from his predecessor Roh Tae Woo a successful foreign policy, known as "Northern Diplomacy," whose most important accomplishments were the normalization of relations with Russia (1990) and with China (1992) and the achievement of UN membership (simultaneously with North Korea in 1991). The Republic of Korea is now fully accepted internationally, but many difficult external issues remain, most notably the relationship with the North.

Inequality between the Yongnam and Honam regions is the cancer of South Korean politics.

North-South relations. Although South Korea continues to be deeply concerned about the North's million-man, forward-deployed army and nuclear weapons potential, it is increasingly self-confident in its approaches to the North. Reunification now seems to be a realistic goal. But South Koreans, mindful of the German experience, are increasingly conscious of the potentially massive costs, both economically and socially, of an amalgamation with the North. President Kim Young Sam will continue to push reunification as a gradual process, emphasizing economic cooperation, family reunifications, freedom to travel, and arms limitations. But it will be difficult to overcome the North's anxiety that large-scale contacts will undermine control of its highly regimented, isolated society.

The long-term costs of reunification may be reduced by the South's encouragement of U.S. and Japanese economic interaction with the North. But the South is ambivalent about any economic cooperation with the North. It might only reinforce the Pyongyang government, delaying reunification and increasing its war-making capabilities.

Currently, North-South talks are blocked by the failure of the two sides to agree on a bilateral nuclear inspection accord to supplement the International Atomic Energy Agency (IAEA) nuclear safeguards regime. The South, backed by Japan and the United States, insists that a bilateral agreement must include "challenge inspections" giving each side the right to see suspected sites of the other. North Korea fears this would open its country to spies. Without an agreement, the United States and South Korea announced that their annual, large-scale military exercise, "Team Spirit," will resume in March (following a one-year suspension), and North Korea has retaliated by withdrawing from formal North-South talks.

Relations with Russia, China and Japan. Under Kim Young Sam there is likely to be less emphasis on relations with Russia than under Roh. The economic costs of normalization with Russia were high and that country has begun to default on credit payments owed to Seoul. Korean investors and businesses are looking more toward China, which they hope will make up for the slow growth in Korea's chief markets, the United States and Japan. Some of Ko-

rea's labor intensive industries are already relocating their manufacturing operations to China. Vietnam also looks like a future market and investment opportunity.

Japan poses a special foreign policy challenge for Kim Young Sam. South Korea has emulated Japan not just economically but politically, as was strikingly demonstrated by the creation of Kim's Democratic Liberal Party, an obvious effort to replicate Japan's conservative Liberal Democratic Party. Though Japan is a source of much of Korea's imported capital equipment and technology, the bitter legacy of Japan's colonization and of World War II still overshadows Japanese-Korean relations. In particular, many Koreans believe that Japan opposes reunification of the peninsula and that Japan's diplomatic initiatives toward Pyongyang may have the ultimate purpose of perpetuating separate Koreas. Only close consultations will allay these fears. Former President Roh set an example in late 1992 when he met on short notice in Kyoto with Japanese Prime Minister Miyazawa to report on the just-concluded visit to South Korea of Russian President Yeltsin. Tokyo needs to show a similar sensitivity to Seoul.

Implications for the United States. The United States has many reasons to welcome Kim's presidency. South Korea's military governments were an embarrassment to Washington. The smooth transition from a military to a civilian leader is gratifying to a new administration that intends to emphasize democracy and human rights in its foreign policy.

The nature of U.S.-Korean relations is changing. Seoul is no longer a poor dependency of Washington. It expects to be treated as an equal—and is expected to make sacrifices for its own defense and the defense of the international economic system. Negotiating the extent and pace of adjustments will be a significant challenge for the new Kim and Clinton administrations.

In defense, the two countries are going through a delicate process of shifting the U.S. role from one of defense leadership to one of support. An overwhelming majority of South Koreans favor a U.S. military presence as long as the security threat from the North remains. Fair defense burden-sharing, especially South Korea's contribution to the costs of

South Koreans are increasingly conscious of the potentially massive costs of an abrupt amalgamation with the North.

stationing 37,000 U.S. troops in the country, and South Korean procurement of high-tech weapons from the United States, will continue as the main points of negotiation between the two countries.

Economic issues have been contentious and are likely to become more so. Korea's once large trade surplus with the U.S. has virtually disappeared, though the future direction of the trade balance is uncertain. Washington is concerned about protectionist South Korean trade practices, and U.S. industries are increasingly assertive in using U.S. trade laws to seek access to Korean markets or protection from Korean goods. The Clinton administration appears ready to take a tougher line on trade, including a revival of Super 301, under which the United States can retaliate against any country engaging in what Washington perceives as unfair trade practices.

Kim Young Sam's government will undoubtedly find itself frequently caught between strong U.S. pressures to open markets and the demands of Korean industries, backed by nationalistic public

opinion, to resist. One early test will come over U.S. expectations that Korea show its support for the General Agreement on Tariffs and Trade (GATT) system by promising to end its outright ban on rice imports. Although the ban would be replaced by a restrictive tariff, the issue is very sensitive politically in Korea, where the depressed agricultural sector employs 20 percent of the country's workers. During his campaign, Kim Young Sam promised to protect rice producers at all costs and he is unlikely to acquiesce to U.S. demands.

As South Korea formulates this and other positions in a manner increasingly independent of the United States, the two countries' policies toward China, Russia, Japan, Asia-Pacific regionalism and even North Korea are likely to diverge to some extent. Maintaining habits of close consultation and sensitivity to each other's interests will be a growing challenge in an era in which the common security interests, despite continued concern about North Korea, may be less obvious.

Kim promised to protect rice producers at all costs and he is unlikely to acquiesce to U.S. demands.

About this Publication

The *AsiaPacific Issues* series reports on topics of regional concern. For additional copies or other information, please contact the Office of Public Programs, East-West Center, 1777 East-West Road, Honolulu, HI 96848.

Telephone: (808) 944-7111

Facsimile: (808) 944-7376

Available AsiaPacific Issues:

No. 1. "Japanese Emperor's Visit to China Sends Important Signals to the United States," by Charles E. Morrison and Michel Oksenberg, October 1992.

No. 2. "Japan and the United States: Helping Each Other Cope with Change," by Ambassador Michael H. Armacost, November 1992.

No. 3. "Legislative Election in Taiwan May Pose Problems for United States and China," by Ralph N. Clough, December 1992.

The views expressed in this series are those of the authors and not necessarily those of the East-West Center.

About the Authors

Wonmo Dong teaches political science and directs the Asian Studies Program at Southern Methodist University, Dallas, Texas. He is the author of "The Democratization of South Korea; What Role Does the Middle Class Play?" *Korean Observer* (Summer 1991) and "Generational Difference and Political Development in South Korea," *Korean Studies* (Spring 1993). His office is at Southern Methodist University, Dallas, Texas 75275.

Telephone: (214) 768-2521

Facsimile: (214) 768-3469

Charles E. Morrison served as a U.S. senate aide from 1972 to 1980 and as research advisor to the U.S.-Japan Advisory Commission and the Japan-U.S. Economic Relations Group in 1980-85. Now the director of the East-West Center Program on International Economics and Politics, he was a member of the East-West Center's and Seoul International Forum's Committee on U.S.-ROK Relations.

Telephone: (808) 944-7729

Facsimile: (808) 944-7380