

## The Korea-U.S. Relationship : Stability in Transition

Remarks by

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It is a privilege to be here today to talk about the Korea-U.S. relationship. I would like to make a few remarks more to stimulate discussion than to present a complete argument of my theme. My subject is the Korea-U.S. relationship, and I would like to address that relationship in three contexts, political, economic and military security affairs.

I begin with a premise: the Korea-U.S. relationship is one of the most important bilateral relationships and military alliances in the world. The relationship exists now in a context of change perhaps unprecedented in its history, change within Korea, change in the international arena. Change can create stress as the familiar gives way to the untried. But change also creates opportunities. I believe that the changes of today will lead to a stronger Korea tomorrow and, therefore, to a stronger Korea-U.S. relationship. At a minimum, the attributes of our alliance, but not its essence, will be different.

**Politics and diplomacy:** President Kim Dae Jung's election last December was an historic event, one which confirmed Korea's place among the community of democratic countries. In the midst of a severe economic crisis, Korea chose as its new President, in an open, fair and hotly contested election, a human rights leader and, for the first time, a

leader of the opposition party. The results were very close; yet the Honorable Lee Hoe Chang conceded defeat in a gracious public statement as soon as the results became clear. There was no question that the will of the electorate might be put aside. Along with President Kim Dae Jung, democracy won this election.

Why is that important to the United States? Because democracy is a root principle for the United States. Respect for the individual, majority rule, minority rights, these are core values of democracy and core values of the U.S. political system. The American people consider the principles of democracy to be universal rather than specific to one country or group of countries. We seek to support democracy around the world. Perhaps we have not always been consistent: at times democracy may have taken second place to other interests. But democracy lies at the center of American identity and also at the heart, if not always the mind, of U.S. foreign policy. Beyond principle, the U.S. welcomes democracy in Korea also because we see a strong link between democracy and the kind of open, responsible market economy necessary for a country to compete in today's international liberal economic system. And the United States wants to see Korea prosper -- because we are friends and also because a strong Korea is in our own national interests.

As we all know, Korea is now in a very difficult economic situation. Having weathered a true crisis in foreign reserves in December and January, Korea must now restructure its financial system and its industries in fundamental ways to make them more competitive internationally. Korea's success in dealing with the initial crisis rested as much on political factors as on purely economic factors. Shortly after the elections, President-elect Kim Dae Jung exerted remarkable political leadership to build public acceptance of the IMF process, a necessary step in order for Korea to gain international confidence. Before the election, some pundits had speculated that the elections themselves, by creating political uncertainty, might worry the international financial world and make Korea's path to stability and recovery more difficult. In fact, the opposite was true. The election demonstrated Korea's commitment to democracy and also provided the president-elect with a mandate to go forward to address the economic crisis. I think of the very different situation in Indonesia, where the government lacks the confidence of the people, where democracy has not taken hold. The turmoil in Indonesia is in stark contrast to the way Korea has faced its problems. Democracy gives Korea great flexibility in dealing with

unemployment and other social trauma. Debate over how to share most equitably the social costs of economic change can take place within transparent mechanisms, such as the tripartite labor, business, government structure created by President Kim Dae Jung.

Democracy gives Korea an advantage in facing current economic challenges. Before turning to the economic aspects of the U.S.-Korean relationship, let me make a further point about democracy. Because democracy is characterized by openness and participation of many citizens in the processes of public life, relations between democratic Korea and democratic United States can be more varied, richer and more complex than in past times when our relationship was dominated by government-to-government affairs. Our two countries, in spite of fifty years of alliance, are different in many ways - in history, tradition and culture. But the freedom and openness created by democracy allows us to interact at many levels - from academic exchanges to Internet - so that we can understand one another better, find common interests, enjoy differences. My office in the Embassy has responsibility for official exchanges between Korea and the U.S. In the past, we sponsored cultural events as well as educational exchange. We even sponsored movies and newsreels. But today, private sector exchanges among universities, cultural organizations and individuals have reached such a vast level that the role of government is greatly diminished. On the commercial level, of course, Koreans have access to popular U.S. culture to a degree which can seem overwhelming. I see this broadening of the relationship as a good thing because planned activities directed by governments can never match the creative energies and possibilities generated by all the talents of a free society.

**The economy:** The Korean-American relationship was built first of all on war, and military security concerns dominated the first decades of our relationship. As the Miracle on the Han unfolded, however, Korea emerged as an economic force, not only in East Asia but globally. Before shifting exchange rates blurred the picture, Korea had become the world's eleventh largest economy and joined the OECD. Korea had become the fifth largest export market for U.S. goods, fourth largest for U.S. agricultural products. Korea's economic position was threatened by the liquidity crisis of last November, December and January. Now the initial liquidity crisis seems to be over. Exchange rates have stabilized, though there is still considerable movement there; the stock market is low, but relatively stable. Korea is implementing the IMF agreement and, although foreign investment is slow, Korea seems to have regained the confidence of the international financial

community. In spite of these positive developments, however, Korea must complete the process of real economic change and restructure its financial sector and core industries if it is to regain its economic health and achieve sustainable growth.

Rather than go through a detailed analysis of the economic situation, let me make a few general points which I think important to the Korea-U.S. relationship. We can talk about more details later if you like.

First: the common practice is to call the economic situation the "IMF Crisis." We see signs for "IMF Sale," "IMF Breakfast," "IMF Just About Anything." The tag may be natural, but it is misleading. It is important to recognize that the IMF did not create this crisis: unsound government policies and business practices did. Economists and historians will debate the immediate causes of the Asian financial crisis for years to come. What is clear is that the approach the IMF has taken on behalf of the international community - conditioning financial support on strong domestic policy measures to restore confidence - is the right one. If we can talk today more positively about most of the region than we would have thought possible even a few months ago, it is due in no small part to the success of this approach.

A second point: the changes Korea is now undertaking may have been precipitated by the economic crisis and the IMF prescriptions. But the basic changes would have been necessary in the near future even without the crisis. President Kim Dae Jung had been calling for similar reforms and restructuring long before he was elected President of Korea. Korea is no longer a developing economy which could grow by following a policy-directed economic strategy. Korea's economy had become too big and too complex to be managed in that way. Continued growth, renewed growth depends on following the principles of the international liberal economic system, specifically, the principles of the market economy. Paramount among these principles are transparency, flexibility, openness and accountability. Recognizing the validity and importance of these principles is key to recovery. Putting these principles into practice will be a very difficult challenge now facing Korea.

The United States has acted in this crisis as a friend of Korea and also, I would stress, as a leader of the global economy. Our preeminent interest is to do all we possibly

can. directly and through our multilateral leadership, to assist Korea in regaining financial stability and economic health. Our pledge of emergency financial assistance last December was critical to halting the slide of the *won* and averting the risk of massive default. Through special export finance programs, we have tried to assure that Korean consumers can continue to buy American agricultural products and that Korean companies have access to the raw materials needed for Korea exports. We consciously chose not to profit from Korea's financial predicament in our bilateral arrangements covering the cost of the American military presence here. We initiated a revision of the original agreement and accepted the bulk of the payment in *won* and thereby saved Korea over 110 million dollars in foreign exchange. And, perhaps most importantly, we are working hard to keep our markets open to Korea exports even as our trade deficit with Korea increases.

What are the prospects for Korean recovery now? I would say "encouraging." A successful rescheduling of \$21.8 billion in short-term bank debt and a well-received international bond offering, together with a significant current account surplus, have helped to improve the stability of Korea external financial situation. Korea has clearly begun to regain the confidence of international financial markets. On the other hand, the hard work of recovery in the real economy has only just begun. We do not minimize the real world pain of unemployment, bankruptcies and inflation. We know that the pain felt by people in their daily lives is more serious than numbers in an account book. But without overlooking the difficulty of the challenge, the United States is confident that Korea will come out of this difficult period successfully and stronger than before.

Most immediately, Korea must restructure and recapitalize the domestic banking system under a strengthened regulatory regime. Capital markets must have transparency in order to function efficiently. The success of the on-going effort to reform corporate accounting practices, eliminate cross guarantees and give greater rights to minority shareholders will also be critical to the future shape of the Korean economy.

Although a difficult struggle lies ahead, the U.S. is confident that Korea will succeed in achieving economic recovery and renewed growth. As it does, Korea should play an ever more significant role in regional and global affairs, not only in the economic field but also in security affairs and on global issues like the environment. And as it works to restructure and recover, the United States will continue to help as a friend, a trading

partner and ally.

**In the security arena:** The United States maintains 37,000 troops on the Korean peninsula to deter aggression from the DPRK and, if necessary, to fight and, with our Korean allies, win a war. No one believes that a war on the peninsula would be anything but devastating to all involved, most of all the Korean people. The United States is determined to prevent such a war. That goal remains the *sine qua non* of our security policy on the peninsula and in East Asia. Security is not only a matter of military forces, however, but also involves diplomatic, humanitarian, economic and people-to-people dimensions. The future of the DPRK is no less a puzzle today than it has been for several years in the past. We do not fully understand the situation in the North, either the political situation and the position of Kim Jong Il or, indeed, the true economic situation and the depth of the food and energy crisis which afflicts the North. One thing is clear: the North-South competition is over. The South has won, whether we consider the question from the standpoint of the economy, politics or world status. South Korea has succeed where North Korea, once economically stronger than the ROK, has failed. The question of what happens next with the DPRK is one of the great concerns of the coming decade.

As for U.S. policy towards North Korea, we welcome the initiatives of President Kim Dae Jung to expand contacts and exchange with the North. We think the President is wise in taking the measured pace he has taken in dealings with the North. We will follow his lead.

The United States and the ROK are engaged with the DPRK on several fronts, bilateral and multilateral. We are engaged through KEDO, the multilateral institution set up to defuse and reshape the North Korean nuclear program. We are engaged, along with China, through the Four Party Talks which, ultimately, seek a peace treaty to bring a formal end to the 1950-1953 war. The United States is engaged with DPRK to discuss the return of remains of Missing in Action from that war, and on issues of missile technology and other questions.

The future of North Korea is of paramount concern to the ROK and, therefore, to the U.S. Because of economic collapse, the military threat from the North may well have

diminished, though it certainly has not disappeared. Leaving aside the threat of military attack, however, the way the DPRK ends, as well as when it ends, is a question of great interest. Whatever happens - internal collapse, revolt, exodus by a flood of refugees - perhaps the main thing we can expect is that the DPRK is likely to end in a way we do not now expect. I recall very vividly that just short months before the Berlin Wall came down in 1989, experts, very well informed and senior experts, predicted that Germany would remain divided for at least five year, probably much more. Yet the Wall opened then collapsed in November of that same year.

When Korea is reunited - and support for reunification is firm U.S. policy - the economic burden on the reunited Korea, mainly on the ROK, the richer part, will be great. But I believe that reunification will eventually lead to a stronger Korea than we have ever seen before. With a population of 70 million or so, with South Korea's experience as an advanced market economy - for that should be the result of the current process of reform in South Korea - reunited Korea will be a force for stability and prosperity not only in East Asia but globally.

Commentators often refer to the Korean peninsula as the last vestige of the Cold War, the last country divided by the rules of the old bi-polar world. The description is apt because the division of Korea did arise from the Cold War. But for that very reason and because the Cold War is over, the division cannot last. Without support from the Soviet Union and China, the DPRK cannot be sustained. The trick is to ensure that the transition to unification is peaceful and leads to the unified, democratic government and market economy we all seek.

We face a lot of questions as we look at our alliance and our relationship as a whole. With the end of the Cold War, a driving force of ideological competition has dropped out of the international equation. To a degree, though large questions remain, for example, the question of China, the issue today is one of means and process rather than of principles and goals. Democracy and the market economy have become the norm, the accepted fundamental good. For Korea, the immediate task is to institutionalize the mechanism of the market. In that connection, the task for the United States is to help Korea. For both of our countries, the task is to support both democracy and market economics in the world community.