

Korea and the United States – Forging a Partnership for the Future:

A View from Washington*

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Good morning, and thank you for inviting me to speak to you. It is great to be back in Korea. I would especially like to thank Dr. SaKong for his generous introduction, and the Korea International Trade Association for hosting this gathering.

As Dr. SaKong told you, I am from Washington, where I am the president of The Heritage Foundation, a major policy research organization: a think tank. I have been working in public policy since I first arrived in Washington 40 years ago. As a policy person, I have concentrated on the very special U.S.–ROK relationship. I have made more than 100 trips to Korea, so I have seen the Korean–American relationship evolve over these four decades.

I can remember a time when our relationship was like the relationship of an adult to a child; today our leaders speak, meet, and decide as equal adults. I remember when we sent troops to defend your homeland against totalitarian aggression; today your troops fight side by side with us in the War on Terrorism. I remember when Korea was a tiny trading partner with the U.S.; today you are our fourth largest. I remember when American companies like General Electric and General Motors were the best in the world; today they compete with Korean companies like Samsung and Hyundai.

Washington’s policymakers and all Americans realize that Korea has come a long way, and we desire a stronger, closer relationship with the Republic of Korea.

Today we have a unique opportunity: an opportunity to advance our economies, an opportunity to show other countries the path of freedom by example, and an opportunity to promote peace and stability in the world through a strong economic alliance.

But these opportunities will only exist for a short time, perhaps only the next 12 months. Therefore, this is a crucial moment for Korea and the United States. I believe that the decisions we make in the coming months will set the path of our relationship for decades to come. There are many obstacles to overcome, however, and it will not be easy.

As president of The Heritage Foundation, I work daily with the leaders of the U.S. Congress and the Bush Administration.

For those of you who are not familiar with Heritage, we are a non-profit, public policy research organization that formulates and promotes conservative public policy.

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Before I continue, let me define American conservatism. It is different from your preconception of conservatism as an ideology. Conservatism is not an ideology, nor is it a defense of the status quo. It does not support corruption or insider dealings. Instead it is a vision of a society that provides freedom, opportunity, prosperity, and civil society for its citizens. It promotes free enterprise and open trade, limited government, a strong national defense, individual freedom, and the rule of law. And these are descriptive of the Heritage Foundation mission.

We are non-partisan. We do not support candidates in either political party. Rather, we support ideas. We have a \$38 million annual budget—all of which is raised privately from a broad base of nearly 300,000 members including corporations, individuals, and foundations both in the United States and abroad.

At Heritage we established an Asian Studies Center about 25 years ago. Our Center advocates improved strategic and economic relations between the United States and the important nations of Asia. We publish studies, host visitors, and conduct seminars and conferences on major Asian policy issues.

I am pleased that the director of our Asian Studies Center, Mike Needham, is here with me today, as is an old friend of many of you here in Korea, Ken Sheffer, who lived here for more than 11 years, and who is now Heritage's resident representative in Hong Kong.

I believe we share many common interests with you, and I would like to address some of those today.

Making Korea an Economic Leader

President Roh Moo-Hyun has expressed his desire that Korea become the “financial hub of North East Asia.” I think this is a great and a noble ambition and there is certainly the potential to make it happen.

In the four decades I have been working on the United States–Korean relationship, I have seen your GDP grow from that of a Third World country to an economic powerhouse. Your current economic growth rate is healthy, unemployment is low, exports are high, and your credit rating was recently raised to A.

Therefore, economic prospects are looking good. But I believe Korea can do even better.

Let me talk about economic freedom—a broad term that encompasses factors like trade policy, fiscal burden of government, wage and price flexibility, and monetary policy.

Annually, Heritage and our partner, the *Wall Street Journal*, publish our *Index of Economic Freedom*. In it we assess economic freedom in 157 countries around the world.

Heritage has discovered that the world's strongest and most prosperous economies are overwhelmingly those that are the most free economically. The freer a country, the higher the standard of living its citizens will enjoy. Contrary to a common misconception, economic freedom does not make the rich richer and the poor poorer. All citizens benefit. Economic disparities are reduced and income inequality is lowered. As our late President John F. Kennedy said of a growing economy: "A rising tide lifts all boats."

So, how does Korea rank today in our *Index*?

I'll approach this from two measurements: quantitative and qualitative. The quantitative rating of Korea, GDP, is good. The qualitative rating, economic freedom, needs improvement.

Korea is ranked 10th in the size of overall GDP in the world, and yet is only ranked 45th in terms of economic freedom in our *Index*. Yes, 44 countries are ahead of Korea. They are doing a better job in creating high-quality, open economies, limiting the burden of government, and following the "best practices" of the international economic system. And four economies outpacing Korea in terms of economic freedom are here in Asia: Hong Kong (#1), Singapore (#2), Japan (#27), and Taiwan (#37).

President Roh realizes this and has admitted that Korea "is now faced with severe competition in terms of the quantity and quality of goods and services."

If Korea is to become the economic leader you hope to be, let me suggest several areas you could improve.

Lower Trade Barriers

Korea has come a long way in liberalizing its economy. However, your trade barriers remain formidable. Korea's average tariff is still substantial, and other trade barriers stop the importation of nearly 1,000 items.

As most of you know, a Korea-U.S. Free Trade Agreement is one way to increase economic freedom. With Round Three of the negotiations taking place in Seattle in just a few days, we have much to do.

If the business community and the general public do not support an agreement, it will not happen. And make no mistake: the stakes are high. If we fail to bring these negotiations to a successful conclusion, it will be years, or perhaps decades, before we'll be able to try again.

That is why I was disappointed when I read recently in the *Korea Times* that the approval or support rating of a Korea-U.S. FTA has dropped significantly in the past two months.

I understand that some Koreans are opposed to the agreement because they fear America is growing too powerful in Korea. They fear the deal would make Korea into America's subordinate. That is wrong.

We are equals. We are partners. In fact, a trade agreement would strengthen Korea's economy and allow it to compete more effectively with every other economy in the world.

I believe you in this room have the power to communicate the truth and reverse the opinion polls.

Let your countrymen, your colleagues, and your employees know why a Korea-U.S. FTA is in the best interest of all Koreans. Remind them that this agreement will allow Korea to compete with Japan as the premier regional economic power; that consumer goods will become more affordable; that Korean exports—the very goods their hands and minds are creating—will be bought by more Americans and more consumers everywhere in the whole world.

Both Korea and America have much to gain from a Korea-U.S. FTA. That is what I believe and that is the message we are communicating in Washington. Despite the challenges, I am optimistic that we can succeed together.

That leads me to my second point on how to make Korea more competitive internationally. You and your government should lower the cost of doing business in your country.

Cut and Simplify Taxes

I am sure almost everyone in this room favors tax cuts. After all, it means more money in your family's pockets and less in the government's.

But have you ever thought that Korea competes with other nations in this region and in the world? In a global market and a global economy, your tax policy competes with the tax policy of other countries. If other things are equal—or, as the economists would say—*ceteris paribus*—where would a corporation prefer to do business? In a economy that costs 25 percent of its bottom line in corporate taxes (like Korea) or one that costs, say, 17.5 percent (like Hong Kong)?

There are other improvements you can make: Reduce regulations on companies, abide by the rule of law and equal treatment under the law for both your own companies and the international companies that do business in Korea, and increase the transparency of your whole governmental structure.

Other Thoughts from Washington

In the few minutes I have left, I would like to fill you in on some thoughts from Capitol Hill over several issues I think you may be wondering about.

North Korea

Many in Washington are deeply concerned about the North Korean nuclear program, their weapons program, and their overall behavior in the international community.

Heritage has done considerable research, which we share with high-ranking government officials in Washington, on how to ensure safety and stability in a world with proliferating nuclear weapons. We find that there are two key elements to safety and stability which are absolutely crucial. First, is a comprehensive missile defense system. Missile defense makes nations safer from attacks and, therefore, reduces the attraction to launch weapons.

Second, and equally important, is the absolute strength of the relationship between a strong America and her vital allies. Any disruption—either real or perceived—of the ties between America and allies like Korea can be catastrophic for the stability of the Korean Peninsula and the entire region.

We must be united in our approach to Pyongyang. That is why, frankly, I worry about the differences of opinion between Korean and American government officials. And I also worry about the relationship between Korea and America's other strong ally in the region, Japan. It is vital that these three nations remain committed to each other, and to preserving the existing international framework, which allows our mutual security and prosperity to advance.

The Visa Waiver Program

As Congressman Henry Hyde said on his visit to Seoul just last month, a visa waiver program is "one of the most difficult problems" between our two countries. This is indeed a challenge. In 2004, the number of South Koreans traveling abroad rose substantially, yet those who visited the U.S. actually fell. Additionally, as your Ambassador told me just last week, South Korea is now the largest source of foreign students for the U.S.: some 80,000 students.

It is certainly in America's best interest to fix this problem. For the Korea-U.S. relationship exists not just between governments, but between our peoples.

We must understand each other. We must trust each other.

Today I am more optimistic about the chances of Korea becoming part of the U.S. Visa Waiver Program than I was several months ago. There are several strong supporters of the program within the State Department.

We at The Heritage Foundation understand the importance of this to our Korean friends, and we will do our best to help the Administration and Congress balance America's heightened national security concerns with our desire for cultural and social exchange among our key allies like Korea.

Because, again, a strong Korea-U.S. relationship is essential to a stronger, freer Asia and a stronger, freer world.

Conclusion

Friends, we have so much to learn from each other; so many similar interests; so many opportunities to create more prosperous and free societies for both of our peoples.. As the world continues to grow and to evolve, I expect to see Korea's prominence rise as a world leader.

If we stand together—as equals—and act now to promote our mutual interests, we can overcome our common threats. We can change North Korea, win the War on Terrorism, and defeat the ideologies that fight against freedom around the world.

I believe we can. I believe we will do it, standing together.

Thank you very much.

Question and Answers

Q Regarding US public opinion, what is the US business community's opinion regarding this Korea-US FTA? The other one is Capital Hill: What kind of mood is prevailing there regarding the Korea-US FTA? The other question is on your personal view, how soon can the negotiations be successfully concluded? Do you bet on the success side or the failure side?

A I think, since the United States has now entered into 7 or 8 bilateral FTAs, that this particular FTA, the one that we are negotiation with Korea is the most significant in terms of dollar-amount of trade of any since NAFTA passed more than 10 years ago. As one who believes in trade, and expanding trade either bilaterally or multilaterally, I am pleased when we enter into a free trade agreement with Oman, or someplace like that. But our overall two-way trade with Oman is a drop in the bucket compared to our trade with Korea. So if it very significant indeed. And I think that most of the US business community understands this, and they are supportive of it. And I think that's evident by the fact that apparently the items under dispute, like pharmaceuticals are now very close to being resolved. At the same time, when you ask about Capital Hill, there will obviously be pressures in opposition to a free trade agreement in Korea. Within just the last several days, the two senators from Michigan introduced legislation to stop the US-Korea FTA from going forward because of what they perceive as the disparity between entry permits or restrictions of Korean cars into the United states on one side verses US cars into Korea on the other side.

So there will be tough issues like that that will have to be addressed. Our negotiators on both sides are used to tough negotiations. I hope very much that both the third round in Seattle, and the next two rounds, to be completed I hope, before Christmas, will lead to a successful agreement. And when that successful agreement comes, I would urge all of you who have contacts with republicans or democrats in the congress to urge them to look at the agreement and hopefully to come out and support it, because it is very much in both of our national interests, and our business community interests. The reason I said the next 12 months are critical, because next June 30th, the President's Trade Promotion Authority to send agreements like this to capital hill without amendments (up or down) will expire. By that time, everyone will be talking about the

2008 election. It will be very difficult to renew trade promotion authority then, so we have to get these negotiations out of the way, I hope, before the end of this year, so that next year the agreement can come up in the congress and hopefully be passed.

Q Regarding the Wartime Military Operational Control. The first question is the timing. In your personal view, is it really the right time to raise this key issue? Secondly, what are the implications for the economy and Korea's security? How do you assess the issue, and how do you think we should resolve this?

A Dr. SaKong mentioned my most recent book called *Getting America Right*, which has a chapter entitled, "Does it make us safer?" ("it" being any governmental proposal or law that is put forward.) And a sub-question of that is, "does it strengthen the alliance?" Now, put in that framework, we have to look at what is happening in terms of the US strategic doctrine worldwide. Secretary Rumsfeld has rightly announced that he is going through a major US force realignment around the world. Our forces had been located and deployed to face challenges of an earlier era: to face challenges in Central Europe, for example, against the Soviet Union. Well, we woke up in Washington recently and found out that there is no longer a Soviet Union, so maybe we should change the Army and the US military around, which is what Rumsfeld is trying to do. That is one of the reasons, and that is the overriding reason, why there's been the announcement of the small troop pull-down, to give more flexibility to US forces around the world. So I think you have to look at the whole question of the wartime control in the framework of what is happening around the world. Is this a good time? The situation, as I said in my prepared remarks with regard to North Korea, is rather unsettled right now. But is there ever a good time to look at questions like this? I again go back to those two basic questions I ask in my book: "Does a change in policy make us safer?" And, "Does it strengthen the alliance?"

If there is good will on both sides, with a summit meeting between our two presidents coming up in Washington in 13 days, on September 14, and then the ongoing military discussions coming up in mid October, this and other questions I think can be resolved mutually satisfactorily, and I think they will be. I am not going to second guess what sovereign governments on either side would propose. As details come up, my colleagues and I will be talking about it, and I urge you to look at our website. But in the meantime let's ask about any question on those two issues. And it's as relevant here in Korea as it is back home in Washington: Does a perspective government action make you, the people of Korea, safer? And the subsidiary question: Does it strengthen our key relationships, our alliance?

Q What is preventing the US from implementing the visa waiver program?

A Those of you who follow it know that the target is that a country should have fewer than 3 percent of visa applications rejected. Korea is very close to that number. Last year it was 3.5 percent, hopefully this year it will be below 3 percent. It is our hope, and at Heritage, we intend to press individuals inside the executive branch, that Korea is not only so close it should be eligible, but even that it should be granted visa waiver status for several reasons: firstly, because you are such an important ally; secondly, because

of the new technical means that your government is putting in place, like the new biometric chips inside your new passports that start coming into effect as of next January. Because all of these mean that it will be much easier for the United States to answer positively that basic question, again, "Does it make us safer?" Does it make us safer to give Koreans automatic entry rights?

Again, with the right protections in place, I think it does, because it then means that the Department of Homeland security can work on real threats to the United States in the War on Terror, instead of processing a lot of paper for 80,000 students who are coming to the United States. I've been told, with due deference to you, that perhaps your bureaucracy becomes somewhat bound up and paper, and doing things the same old way. I think this is a worldwide problem, but I think it is something here that those of us who believe in strengthening our relationship can actually have a very positive impact back in Washington, and we intend to be as helpful as possible in moving that forward as we possibly can.

Q Are you concerned about Japan's turn to the right, particularly on ultra-nationalism, which would negatively impact Korea-US relations? Do you think there is a US role to play to positively affect the current situation?

A Regarding the Japan-Korea relationship: In my past trips to both your country and to Japan, and particularly as related to North Asia issues, I've always stressed the importance of keeping Seoul, Tokyo, and Washington as closely together as possible on every policy issue imaginable. Frankly, that's why I worry at the six-party talks if there seems to be distance between these three parties. Because I think the three of us should have the same objective in common.

My colleagues and I have just arrived in Korea on Wednesday this week from Beijing. The people with whom we met with in Beijing are somewhat concerned about how to bring North Korea, the DPRK back to the six-party talks, about how to restart the six-party talks, because they realize, and everyone realizes, that if North Korea continues on its current trend line, it will mean that the government here and the government in Tokyo and other governments in the region too, like Taipei, will have no choice but to counter North Korea's actions. And that kind of destabilized world is not one that anyone should hope for. The United States and Japan have now for 45 years had a mutual defense treaty. We work very closely with our Japanese allies; we think we know them quite well. I believe we can work with them to make sure that our joint interests are protected even as Japan does more in terms of pulling its weight internationally. They are, as you know, buying more military hardware from the United States. They are doing more in terms of protecting themselves.

Again, I'm sure it was not South Korean submarine incursions into Japanese territorial waters, but somebody else, and so there are legitimate causes for Japan to be increasing its naval capability, to be increasing its surveillance capability with AWACS planes, etc. And again, the United States, at least in our worldwide strategic reviews, see Japan as we see Korea as our two anchors in North Asia. My urging to all of my Korean friends, especially those who visit Japan frequently, is to please work with our

Japanese friends, so that all three of our governments and our peoples are working together on these issues.