



# U.S.-South Korea Relations

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## Summary

### Overview

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. Much of the current closeness between Seoul and Washington is due to President Lee. It remains to be seen whether this unprecedented closeness will extend beyond 2012. A month after U.S. elections in November, South Korea will elect a new president. By law, President Lee, whose popularity and clout have eroded over the past year, cannot serve another term.

### The KORUS FTA

Of all the issues on the bilateral agenda in recent years, Congress has had the most direct role to play in the Korea-U.S. Free Trade Agreement (KORUS FTA), the United States' second-largest FTA after the North American Free Trade Agreement (NAFTA). Approval by both countries' legislatures was necessary for the agreement to go into effect. The agreement was signed in 2007, but both the Bush and Obama Administrations delayed its submission to Congress, in part due to opposition to the deal. In early December 2010, the United States and South Korea announced they had agreed on modifications to the original agreement. South Korea accepted a range of U.S. demands designed to help the U.S. auto industry and received some concessions in return. In the United States, the supplementary deal changed the minds of many groups and Members of Congress who previously had opposed the FTA. On October 12, 2011, both chambers of Congress voted to approve legislation (H.R. 3080/P.L. 112-41) to implement the KORUS FTA. In November, after a contentious battle, the Korean National Assembly passed the agreement, which went into force in March 2012.

In 2011, two-way trade between the two countries totaled over \$95 billion, 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. In 2011, 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).

### Strategic Cooperation and the U.S.-ROK Alliance

The day after Congress passed the KORUS FTA, South Korean President Lee Myung-bak addressed a joint session of Congress. Lee was in Washington for a state visit to the White House, the fifth since Barack Obama's inauguration. Various aspects of his trip symbolized the close relationship between the two leaders, as well as the close policy coordination the two governments have forged, particularly over how to handle North Korea. The Obama and Lee Administrations have adopted a medium-to-longer-term policy of "strategic patience" that involves four 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; using Pyongyang's provocations as opportunities to tighten sanctions against North Korean entities; and insisting that significant multilateral and U.S. talks with North Korea must be preceded by improvements in North-South Korean relations. Lee, in turn, has linked progress in many areas of North-South relations to progress in denuclearizing

North Korea. North Korea's April 2012 long-range rocket launch has further cemented bilateral collaboration between Washington and Seoul.

The United States maintains about 28,500 troops in the ROK. Since 2009, the two sides have accelerated steps to transform the U.S.-ROK alliance's primary purpose from one of defending against a North Korean attack to a regional and even global partnership. Washington and Seoul have announced a "Strategic Alliance 2015" plan to relocate U.S. troops on the Peninsula and boost ROK defense capabilities. Some Members of Congress have criticized the relocation plans, and Congress has cut funds for a related initiative to "normalize" the tours of U.S. troops in South Korea by lengthening their stays and allowing family members to accompany them.

This report will be updated periodically.

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## Developments in 2012

Overall, through the end of April 2012, U.S.-South Korea relations continue to be exceptionally strong, as evidenced by close coordination over North Korea policy, by the entry into force of a bilateral trade agreement in March, and by the relationship forged by Presidents Barack Obama and Lee Myung-bak. It remains to be seen whether this combination of shared interests, priorities, and personal chemistry will extend beyond 2012. A month after U.S. elections in November, South Korea will elect a new president. (By law, President Lee cannot serve another term.)

### North Korea's April 2012 Missile Launch

In late 2011 and early 2012, U.S.-North Korean diplomacy appeared on the verge of reviving after years of relative dormancy. Working closely with the Obama Administration, South Korea's Lee government had also offered North Korea signs of greater flexibility, but for the most part Pyongyang rejected these overtures. Had U.S.-North Korean engagement advanced further, it is possible that U.S.-South Korean cooperation would have been tested.

However, North Korea's April 13, 2012, North Korea launch of a long-range rocket appears to have halted for the near future U.S. moves toward renewed engagement with North Korea and has further cemented already close U.S.-South Korean collaboration. The launch defied two United Nations Security Council resolutions that ban North Korea from any launch using ballistic missile technology.<sup>1</sup> As acknowledged by North Korea's official news media, the rocket failed to reach orbit, exploding over the Yellow Sea about 90 seconds after take-off. The launch, which North Korea said was designed to send an "earth observation satellite" into orbit, was timed to coincide with the DPRK's massive celebrations of the 100<sup>th</sup> anniversary of the birth of the country's founder, the late Kim Il-sung. Kim ruled North Korea from 1945 until his death in 1994 and founded a dynasty that continues today under his grandson, Kim Jong-un. The younger Kim became North Korea's supreme leader in December 2011 following the death of his father (Kim Il-sung's son), Kim Jong-il.

In response to the launch, the Obama Administration suspended its portion of the February 29, 2012, U.S.-DPRK agreements, in which the United States promised to provide food assistance and North Korea agreed to allow international nuclear inspectors back to its nuclear facilities at the Yongbyon site as well as to abide by a moratorium on nuclear activities and nuclear and missile tests. Following the U.S. withdrawal, North Korea then backed out of its side of the "Leap Day agreement." The Obama Administration also suspended another portion of its outreach to Pyongyang, the planned resumption of U.S.-DPRK missions to search for the remains of missing Korean War-era U.S. soldiers that may be located within North Korea's borders. The United States, South Korea, and Japan began an intense round of consultations with each other, as well as with China and Russia.

With South Korea's strong backing, the Obama Administration took the matter of the launch to the United Nations Security Council (UNSC). The Council—on which China and Russia serve, with the power to veto UNSC actions—authorized an April 16, 2012, UNSC Presidential

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<sup>1</sup> Among other items, UNSC Resolution 1874—adopted in 2009—bans "any launch using ballistic missile technology. UNSC Resolution 1718, adopted in 2006, "demands" that North Korea "not conduct any further nuclear test or launch of a ballistic missile."

Statement that “strongly condemns” the launch, which it regards as “a serious violation” of Security Council resolutions 1718 and 1874. In its statement, which the United States characterized as a “stronger response” than the UNSC’s reaction to North Korea’s 2009 rocket launch, the Council also directed the U.N.’s North Korea Sanctions Committee to tighten existing sanctions against North Korea by designating new North Korean enterprises that will be subject to an asset freeze and by identifying additional nuclear and ballistic missile technology that will be banned for transfer to and from North Korea.<sup>2</sup> Obama Administration officials’ statements appear to indicate they will focus on implementing existing sanctions, rather than pushing for new sanctions at the UNSC or imposing new unilateral U.S. sanctions.<sup>3</sup> The existing U.N. and U.S. sanctions regimes are already quite extensive. It is not clear China would support new U.N. sanctions against Pyongyang, and the Obama Administration is simultaneously attempting to secure Beijing’s cooperation with U.S. policy objectives on Syria and Iran.<sup>4</sup>

It remains to be seen whether the launch will lead the U.S. and South Korea to reinvigorate their efforts to pressure North Korea. Many observers feel that the Obama Administration generally has treated North Korea as a lower priority than other foreign policy matters such as Iran’s nuclear program. A key variable is likely to be whether U.S. and South Korean officials believe China is more willing to countenance tougher measures against Pyongyang. North Korea has responded to the joint U.S.-ROK stance by, among other steps, launching unusually specific threats against South Korea, including conservative South Korean media outlets. There is also widespread speculation that North Korea will conduct another test, its third, of a nuclear device.

The latest round of North Korean actions has led some in South Korea and the United States to call for South Korea developing its own nuclear weapons or for the United States to redeploy tactical nuclear weapons to South Korea. During the Cold War, U.S. forces in South Korea maintained nuclear weapons, but they were withdrawn in 1991. On May 10, 2012, the House Armed Services Committee voted 32-26 in favor of an amendment to H.R. 4310, the National Defense Authorization Act for Fiscal Year 2013, that encourages and would require the Department of Defense (DoD) to report on the redeployment of tactical nuclear weapons to the Western Pacific region. In response, a DoD official reportedly stated that U.S. policy remains in support of a non-nuclear Korean peninsula.<sup>5</sup>

### **South Korea’s New “Proactive Deterrence” Military Posture**

A greater willingness among South Korean leaders to countenance the use of force against North Korea have made some analysts and planners more concerned about the possibility that a small-scale North Korean provocation could escalate. Following two North Korean conventional attacks in 2010—sinking a South Korean naval vessel and shelling the South Korean island of Yeonpyeong—South Korean President Lee stated that “war can be prevented and peace assured only when such provocations are met with a strong response. Fear of war is never helpful in

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<sup>2</sup> United States Mission to the United Nations, “Fact Sheet: UN Security Council Presidential Statement on North Korea Launch,” press release, April 16, 2012, <http://usun.state.gov/briefing/statements/187937.htm>.

<sup>3</sup> The White House Office of the Press Secretary, “Press Gaggle by Press Secretary Jay Carney and Deputy National Security Advisor for Strategic Communications Ben Rhodes Aboard Air Force One,” April 13, 2012.

<sup>4</sup> For more on sanctions against North Korea, see CRS Report R40684, *North Korea’s Second Nuclear Test: Implications of U.N. Security Council Resolution 1874*, coordinated by Mary Beth Nikitin and Mark E. Manyin, and CRS Report R41438, *North Korea: Legislative Basis for U.S. Economic Sanctions*, by Dianne E. Rennack.

<sup>5</sup> Chi-dong Lee, “No Plan to Deploy Tactical Nukes in S. Korea: Pentagon,” Yonhap News, May 14, 2012.

preventing war ... the Armed Forces must respond relentlessly when they come under attack.”<sup>6</sup> This posture became known as “proactive deterrence.” U.S. defense officials insist that the exceedingly close day-to-day coordination in the alliance ensures that U.S.-ROK communication would be strong in the event of a new contingency. In July 2011, General Walter Sharp, then-U.S. commander of the Combined Forces Command (CFC) in South Korea, confirmed to press outlets that the alliance had developed coordinated plans for countermeasures against any North Korean aggression.<sup>7</sup>

## **KORUS FTA Enters into Force<sup>8</sup>**

On March 15, 2012, the South Korea-U.S. free trade agreement (KORUS FTA) went into effect, closing a six-year long process and bringing the two countries into a new era of economic interdependence. The United States and South Korea first began negotiating the agreement in 2006, and signed it in 2007. It is the second-largest FTA by market size in which the United States participates (after the North American Free Trade Agreement, NAFTA). It is also South Korea’s second-largest FTA (after the Korea-European Union FTA, which went into effect on July 1, 2011). Congress passed legislation (H.R. 3080/P.L. 112-41) to implement the agreement on October 12, 2011, the day before South Korean President Lee Myung-bak addressed a joint session of Congress and was hosted for a state dinner by President Obama.<sup>9</sup> President Lee’s visit appears to have been an “action-forcing event” that triggered action on agreement, as the White House and congressional leaders became determined to schedule a vote before or during Lee’s trip.

The South Korean National ratified the agreement on November 22, in a special session marked by controversy. Reportedly acting on intelligence that the opposition parties were planning to physically block the National Assembly from voting on the KORUS FTA, President Lee’s ruling party called a rare snap vote on the agreement and several implementing bills. The National Assembly passed the KORUS FTA by a vote of 151-7, with 12 abstentions. (At the time, the Assembly had 299 members.) No members of the opposition parties participated in the voting. This controversy spilled over into 2012, as South Korean opposition party members attempted to delay the agreement’s entry into force, arguing that the agreement’s ratification process was flawed and that several of the agreement’s provisions should be modified. As discussed below, the opposition attempted to make the KORUS FTA an issue in the April 11 National Assembly elections, a move that some analysts argue backfired and contributed to the ruling party’s surprising victory.

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<sup>6</sup> The Blue House, Speech by President Lee Myung-bak, “The Building of an Advanced Nation Will Be Possible Only When We Sacrifice Ourselves for Others Rather Than Simply Pursuing Our Own Interest,” December 27, 2010.

<sup>7</sup> “U.S., Seoul Secure Plans for Potential Counterattack,” *Wall Street Journal*. July 7, 2011.

<sup>8</sup> For more on the provisions of and debate surrounding the KORUS FTA, see CRS Report RL34330, *The U.S.-South Korea Free Trade Agreement (KORUS FTA): Provisions and Implications*, coordinated by William H. Cooper.

<sup>9</sup> The House vote was 278-151 in favor of the legislation. The Senate vote was 83-15.



## U.S. Beef Exports<sup>10</sup>

A longstanding bilateral trade controversy resurfaced in late April, when U.S. Department of Agriculture (USDA) inspectors discovered the fourth U.S. case of Bovine Spongiform Encephalopathy (BSE), also known as “mad cow” disease, in a cow that was sampled for the disease at a rendering facility in central California. USDA says that the cow “at no time presented a risk to the food supply, or to human health,” because it was not intended for slaughter for human consumption.<sup>11</sup> Since 2003, when the first case of BSE infection was discovered in the United States, South Korea first prohibited, and subsequently limited imports of U.S. beef.

Shortly after President Lee took office in 2008, he reached an agreement with the Bush Administration to allow beef from cattle processed by removing BSE risk materials to be imported into South Korea—part of a strategy intended to pave the way for U.S. approval of the KORUS FTA. This triggered massive anti-government protests in Korea that threatened to paralyze his government. In response, the U.S. and South Korean governments confirmed a “voluntary private sector” arrangement allowing Korean firms to import U.S. beef produced from cattle under 30 months of age. Since mid 2008 under this arrangement, South Korean imports of U.S. beef noticeably increased, and reached \$686 million in 2011 (compared to \$815 million in 2003 prior to discovery of the first BSE-infected cow). In response to the most recent BSE case, the South Korean government said that it would dramatically increase its quarantine inspections of U.S. beef shipments (from 3% to 50%). Its decision not to halt imports has come under strong criticism at home. The National Assembly’s Food, Agriculture, Forestry, and Fisheries Committee, for instance, adopted a resolution in late April calling on the government to halt all imports of U.S. beef.

## South Korea-Iran Relations<sup>12</sup>

Over the past decade, growing concerns over Iran’s nuclear program have led to increased U.S. scrutiny of South Korea’s longstanding trade with and investments in Iran. South Korea is the fifth-biggest customer for Iranian oil.<sup>13</sup> Over the past decade, 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 has been a significant regional hub for thousands 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.

In late 2011, Congress passed and President Obama signed P.L. 112-81, the National Defense Authorization Act for Fiscal Year 2012, which places strict limitations on the U.S. operations of foreign banks that conduct transactions with Iran’s Central Bank. Foreign banks can be granted an exemption from sanctions if the President certifies that the parent country of the bank has significantly reduced its purchases of oil from Iran. Shortly after the law went into effect, the

<sup>10</sup> For more, see CRS Report RL34528, *U.S.-South Korea Beef Dispute: Issues and Status*, by Remy Jurenas and Mark E. Manyin.

<sup>11</sup> USDA Press Release, “Update from APHIS Regarding a Detection of Bovine Spongiform Encephalopathy (BSE) in the United States,” May 2, 2012.

<sup>12</sup> For more information, see CRS Report RS20871, *Iran Sanctions*, by Kenneth Katzman.

<sup>13</sup> Iran data from Economist Intelligence Unit, *Iran Country Report*, April 2012.

Obama Administration and Lee governments began negotiating whether South Korea would be granted an exemption.

In March 2012, the Administration did not include South Korea in the first group, of 11 countries, that were granted exemptions for significantly reducing purchases of Iranian oil. This may have been because in 2011 the volume of South Korean imports of Iranian oil rose by over 20%, to their highest level in at least a decade and a half, and South Korean oil refiners reportedly signed agreements to import even larger amounts in 2012. South Korean and U.S. officials reportedly are continuing to discuss ways to reduce imports so that Seoul could be granted an exemption.<sup>14</sup> The case of Japan, which was granted an exemption, may be instructive. Despite its increased need for oil imports with the shutdown of virtually all of its nuclear power industry, Japan crude oil imports from Iran fell by over 10% in 2011, and are at about half the level they were in 2003.<sup>15</sup>

The last time South Korea-Iran economic ties were a major issue in U.S.-South Korea relations occurred in 2010. In September of that year, after weeks of negotiations with the United States, South Korea announced a package of wide-ranging sanctions against Iran and Iranian entities that, among other steps, put nearly all financial transactions with Iran under government scrutiny and severed future South Korean involvement in projects in Iran's energy sector. Seoul's actions went beyond the requirements of United Nations Security Council (UNSC) Resolution 1929 that was passed in June 2010.

## Conservatives' Surprise Victory in April 2012 Parliamentary Elections

2012 represents the first time in 20 years that Korean presidential and legislative (the unicameral National Assembly) elections will be held in the same year. In December, the country will elect a new president. (By law, South Korean presidents serve for one, five-year term.) In April, voters went to the polls for the quadrennial election of a new National Assembly, which consists of 300 seats. The outcome of these elections will have important implications for U.S.-South Korea coordination over North Korea policy and over the implementation of the KORUS FTA.

In the April 2012 National Assembly elections, the ruling Saenuri Party, officially translated as the National Frontier Party (NFP), shocked nearly all observers by winning an outright majority of 152 seats. (See **Figure 1**.) Although this was a fall from the nearly 170 seats the party held in the summer of 2011, it was a surprising reversal. For much of 2011, virtually all the political winds appeared to be blowing in favor of the opposition, left-of-center parties, and many predicted they would achieve a sweeping victory over ruling NFP, which formerly was known as the Grand National Party.<sup>16</sup> Thus, even though the opposition Democratic United Party (DUP) increased its seat tally by nearly 50%, to 127, the April vote was considered a humiliating defeat, and the party's leadership resigned soon thereafter.

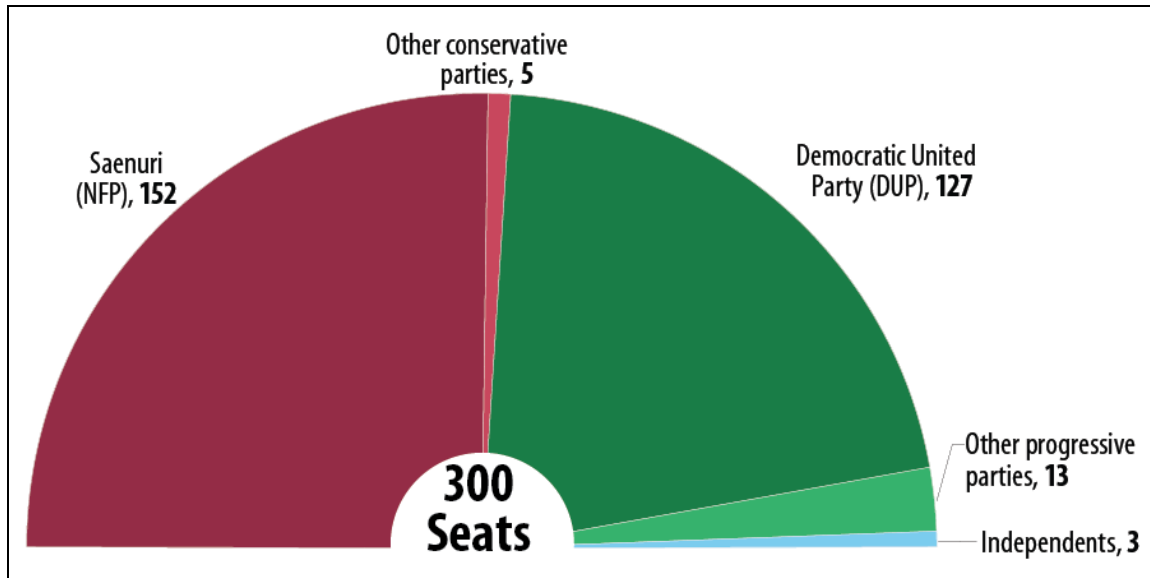
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<sup>14</sup> Data analyzed by CRS from Global Trade Atlas, accessed May 14, 2012. See also Economist Intelligence Unit, *Iran Country Report*, April 2012.

<sup>15</sup> Economist Intelligence Unit, *Iran Country Report*, March 2012.

<sup>16</sup> Among the many signs of this trend: the "progressive" parties soundly defeated the ruling party in April 2011 legislative by-elections, a left-of-center activist (Park Won-Soon) won a vote for the Seoul mayoralty in October; the approval ratings for President Lee and his party plummeted, due in part to a series of scandals; and in late 2011 and early 2012 Korea's major progressive parties either merged or decided to cooperate during the April National Assembly elections.

**Figure 1. Party Strength in South Korea's National Assembly**  
As of April 27, 2012



**Source:** Last nationwide elections held in April 2012. Next elections to be held in April 2016.

Although the National Assembly's powers pale in comparison to those of Korea's executive branch, the election results have important implications for the United States. First, the DUP had campaigned against the existing KORUS FTA, at one point promising to force the government to withdraw South Korea from the agreement if the United States did not agree to a series of changes.<sup>17</sup> The DUP also has been critical of the relatively hard-line policy the Lee and Obama governments have taken toward North Korea, and during the campaign DUP leaders called for a more aggressive policy of engagement with Pyongyang. Although the Assembly does not make policy, the need for Assembly approval over the budget, as well as its ability to use committee hearings to call attention to various issues, can influence the course of South Korean debate.

Virtually all observers agree that the big winner from the April elections was Park Geun-hye, the chairwoman of the NFP and daughter of former military dictator Park Chung-hee, who ruled South Korea from 1961-1979. Ms. Park assumed the leadership of the ruling party in December 2011, when it was widely depicted as in a state of disarray. Under her leadership, the ruling party rebranded the party by changing its name, purging many "old guard" politicians as candidates (many of whom were in Lee Myung-bak's faction), moving the party to the center by co-opting many of the DUP's positions on social welfare issues, and distancing itself from the unpopular Lee.

Park's performance solidified her position as the front-runner, at least for the moment, in the race for the presidency in December. Two other prominent names who are often mentioned as possible candidates include Moon Jae-in, a former chief of staff for President Roh Moo-hyun (2003-2008)

<sup>17</sup> The party's stance on the KORUS FTA appears to have hurt the DUP among voters, not only because the agreement appears to be generally popular, but also because a number of senior DUP leaders, including its party president, had *promoted* the KORUS FTA when they worked for President Lee's predecessor, Roh Moo-hyun (2003-2008). The DUP also was damaged by scandals and by criticism for not dropping a prominent party candidate who made allegedly sexist comments.

who won an Assembly seat as a DUP candidate in April, and Ahn Chol-Su, a popular software entrepreneur who has dabbled in politics in 2011. Both Park and Moon will have to survive their respective parties' nomination processes. Should the left-leaning Ahn decide to run for the presidency, he will have to decide whether to run as an independent or seek to enter the ranks of one of the existing opposition parties.

## 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:

- the challenges posed by 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>18</sup>

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<sup>18</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.

Figure 2. Map of the Korean Peninsula



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

Since late 2008, relations between the United States and South Korea have been arguably at their best state in nearly a decade, if not ever. Coordination over North Korea policy has been particularly close, with one high-level official in late 2009 describing the two countries as being “not just on the same page, but on the same paragraph.”<sup>19</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. Significantly, the joint vision expands the U.S.-ROK alliance beyond the Korean Peninsula into a regional and global partnership. 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.

The extraordinarily close U.S.-ROK partnership of recent years was both symbolized and further cemented in mid-October 2011, when President Obama hosted President Lee for a formal state visit, the fifth since Obama’s inauguration. On October 13, Lee addressed a joint session of Congress. In addition to their formal dinner, Obama and Lee had a private dinner at a local Korean restaurant and made a joint visit to a General Motors plant in Michigan. Lee was also given a security briefing by the U.S. service chiefs at the Pentagon inside the “Tank,” a conference room where the Joint Chiefs meet, the first time the United States has ever extended such treatment to a foreign leader. President Lee’s visit appears to have been an “action-forcing event” that triggered action on the South Korea-U.S. Free Trade Agreement (KORUS FTA), as the White House and congressional leaders became determined to schedule a vote on the agreement before or during Lee’s trip.

Much of the U.S.-South Korean closeness is due to the policies of President Lee, including his determination after assuming office in 2008 to improve Seoul’s relations with Washington. However, 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.

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. South Korea’s presidential election in December 2012 could erode some of the momentum established under Lee. Bilateral coordination will be particularly tested if South Korea’s progressives retake the presidential office (called the Blue House).

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<sup>19</sup> December 2009 interview.

## **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. On October 1, 1953, a little more than two months 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 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. 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. 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.

## The Obama-Lee Joint “Strategic Patience” Approach

However, since the middle of 2009, U.S.-South Korean collaboration over North Korea has been extremely close. In effect, the Obama Administration and the Lee government have adopted a joint approach toward North Korea, often called “strategic patience.” The approach has used both engagement and pressure, with an emphasis on the latter. In essence, strategic patience has four main components:

- keeping the door open to Six-Party Talks over North Korea’s nuclear program but refusing to re-start them without a North Korean assurance that it would take “irreversible steps” to denuclearize;
- insisting that Six-Party Talks and/or U.S.-North Korean talks must be preceded by North-South Korean talks on denuclearization and improvements in North-South Korean relations;
- gradually attempting to alter China’s strategic assessment of North Korea; and
- responding to Pyongyang’s provocations by tightening sanctions against North Korean entities, conducting a series of military exercises, and expanding the two countries’ cooperation with Japan.

Strategic patience could be described as a passive-aggressive approach that effectively is a policy of containing North Korea’s proliferation activities, rather than rolling back its nuclear program. Indeed, underlying the approach is an expectation that North Korea will almost certainly not relinquish its nuclear capabilities. One drawback is that it has allowed Pyongyang to control the day-to-day situation. While Washington and Seoul wait to react to Pyongyang’s moves, the criticism runs, North Korea has continued to develop its uranium enrichment program, solidified support from China, and embarked on a propaganda offensive designed to shape the eventual negotiating agenda to its benefit.

## Coordination over the 2010 *Cheonan* Sinking

The two Administrations’ closeness was 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>20</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>21</sup>

<sup>20</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 or argue 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>21</sup> For more information, see CRS Report R41438, *North Korea: Legislative Basis for U.S. Economic Sanctions*, by Dianne E. Rennack.



## New Revelations of North Korea's Uranium Enrichment Capabilities<sup>22</sup>

In November 2010, the relative quietude in North Korea's relations with South Korea and the United States that had predominated in the months after the *Cheonan* sinking was shattered by two events. First, North Korea showed Dr. Siegfried Hecker, the former head of the U.S. Los Alamos National Laboratory, a new "ultra-modern" uranium enrichment facility with 2,000 centrifuges that the North Koreans said is producing low enriched uranium destined for fuel for a new light-water nuclear reactor that is under construction. The revelation confirmed long-standing fears that North Korea has been developing an alternative, uranium-based nuclear program to complement or replace its existing plutonium-based facilities. Although Dr. Hecker has said that the centrifuge plant and the new reactor appear to be designed primarily for civilian nuclear power, the uranium facilities could also be used to produce fissile material suitable for nuclear weapons.<sup>23</sup>

## North Korea's 2010 Artillery Attack Against South Korea

Second, on November 23, only days after the uranium revelations, North Korean artillery units fired over 150 shells onto and around Yeonpyeong Island, across the North-South disputed western sea boundary.<sup>24</sup> North Korea claimed that the South Korean military had fired first, during routine U.S.-ROK exercises in the area. According to one report, about half the North Korean shells hit the island. The barrage killed four South Koreans (two marines and two civilians), wounded dozens, and destroyed or damaged scores of homes and other buildings.<sup>25</sup> It was North Korea's first direct artillery attack on ROK territory since the 1950-1953 Korean War. South Korea responded by shooting 80 shells at North Korea. An official North Korean media outlet later said that the South Korean civilian deaths were "regrettable."<sup>26</sup>

The attacks prompted a number of responses:

- South Korea and the United States held large-scale naval exercises in the Yellow Sea area with the USS *George Washington* aircraft carrier strike group. In the months immediately after the *Cheonan* sinking, the U.S. and South Korea had refrained from staging exercises in the Yellow Sea area, after China had warned of its sensitivity to military activities there.

<sup>22</sup> For more on North Korea's suspected nuclear capabilities and the diplomacy surrounding them, see CRS Report RL34256, *North Korea's Nuclear Weapons: Technical Issues*, by Mary Beth Nikitin, and CRS Report R41259, *North Korea: U.S. Relations, Nuclear Diplomacy, and Internal Situation*, by Emma Chanlett-Avery.

<sup>23</sup> Siegfried S. Hecker, "A Return Trip to North Korea's Yongbyon Nuclear Complex," Center for International Security and Cooperation, Stanford University, November 20, 2010.

<sup>24</sup> This "Northern Limit Line" (NLL) was drawn in 1953 by the United Nations Command in South Korea because the Korean War armistice signed earlier that year did not establish a maritime boundary between the two Koreas. North Korea first protested the NLL's legitimacy in 1953, and since that time has periodically issued rhetorical challenges against the line. North Korea ships, including some naval vessels, also have occasionally crossed the line, sparking inter-Korean naval clashes in 1999, 2002, and 2009.

<sup>25</sup> Stratfor.com, "Satellite Imagery: Tactical Details of the Korean Artillery Exchange," November 30, 2010.

<sup>26</sup> "DPRK KPA Supreme Command's Communique on Artillery Gunfire Along Inter-Korean Border," Pyongyang Korean Central Broadcasting Station in Korean, November 23, 2010, translated by Open Source Center KPP20101123106004; "DPRK Commentary Says 23 Nov Clash Due to US, Civilian Casualties 'Very Regrettable,'" Korean Central News Agency, November 27, 2010.

- In a nationally televised speech, Lee announced that South Korea would no longer hold back on retaliating for North Korean provocations. President Lee and the South Korean military have come under strong domestic criticism for what was widely perceived as faulty military preparation and a delayed counterattack, prompting the defense minister to resign. His successor stated that if attacked in the future, South Korea would consider using its air force to strike back in North Korean territory.<sup>27</sup>
- China, after consulting widely among the other negotiating parties, proposed a meeting of participants in the Six-Party Talks to stabilize the situation. South Korea, the United States, and Japan rejected such a move, saying that it would only reward North Korea's attack and was premature without signs that North Korea would change its behavior.
- Instead, the three countries stepped up trilateral cooperation and called on China to do more to pressure North Korea. Secretary of State Clinton met in Washington, DC, with the South Korean and Japanese foreign ministers, where the three condemned North Korea's attack, affirmed their solidarity in dealing with North Korea, and discussed cooperation on a range of regional and global issues. Relatedly, for the first time, South Korea sent military observers to a U.S. and Japanese joint military exercise.<sup>28</sup>

### 2011–early 2012: Thaws in Relations with North Korea

In late 2011 and early 2012, the Obama and Lee governments re-activated efforts to engage with Pyongyang. The moves appeared to be at least partially motivated by a desire to reduce North Korea's incentives to behave provocatively, particularly on the part of the Obama Administration. As described below, North Korea responded—as it often does—more readily to Washington's overtures than to Seoul's. Had U.S.-North Korean engagement advanced further, it is possible that U.S.-South Korean cooperation would have been tested.

One indication of this was the debate the two countries waged in 2011 over whether to provide large-scale food aid to North Korea, which early in the year appealed for international aid.<sup>29</sup> The Obama Administration actively considered the North Korean request and in May dispatched an assessment team to North Korea to evaluate conditions there. South Korean officials in the first half of 2011 indicated that their government would prefer that neither country provide large-scale assistance to North Korea unless Pyongyang changes its behavior. On June 15, 2011, the House passed by voice vote an amendment proposed by Congressman Edward Royce to H.R. 2112, the FY2012 Agriculture Appropriations Act, that would prohibit the Administration from using the primary U.S. food aid program to send food assistance to North Korea. The Senate version of the

<sup>27</sup> "Full Text" of ROK President Lee's 29 November "Address to the Nation," *Yonhap*, November 29, 2010. Lee said that for decades, South Korea had "tolerated provocations by the North time and again.... South Korea nonetheless endured these continual provocations because we entertained a slight hope that the North would change course someday.... At long last, we came to a realization that ... that prolonged endurance and tolerance will spawn nothing but more serious provocations. If the North commits any additional provocations against the South, we will make sure that it pays a dear price without fail."

<sup>28</sup> See, for instance, State Department Press Release, "Trilateral Statement Japan, Republic of Korea, and the United States," December 6, 2010.

<sup>29</sup> For more on the food aid debate, see CRS Report R40095, *Foreign Assistance to North Korea*, by Mark E. Manyin and Mary Beth Nikitin.

bill, passed on November 1, contained no such measure. Participants in the House-Senate conference committee decided to strip the Royce amendment's tougher restrictions, replacing it with language (Section 741) that food assistance may only be provided if "adequate monitoring and controls" exist. President Obama signed H.R. 2112 (P.L. 112-55) into law on November 18, 2011.

In the latter half of 2011, the Lee government began to show an increased willingness to soften its stance toward North Korea somewhat, by offering some concrete signs of flexibility in areas that generally did not compromise the core of its harder-line policy toward Pyongyang. Seoul took steps such as relaxing some of its previous restrictions on its citizens' ability to travel to North Korea, reviving plans to build emergency facilities at the Kaesong inter-Korean industrial complex inside North Korea, and offering to help Pyongyang recover from devastating flooding over the summer. North Korea rejected the aid and generally did not respond to the small measures taken by the Lee government.

In contrast, Pyongyang responded more eagerly when the U.S. reinvigorated its bilateral diplomacy with North Korea in 2011. The result was a February 29, 2012, agreement, in which the United States promised to provide 240,000 metric tonnes (MT) of food assistance and North Korea agreed to allow international nuclear inspectors back to its Yongbyon nuclear facilities as well as to abide by a moratorium on nuclear activities and nuclear and missile tests. At the time, some analysts believed that this so-called "Leap Day Deal" could open the door to the eventual resumption of "Six Party Talks" diplomacy over North Korea's weapons of mass destruction programs. However, on March 16, such hopes were dashed when the North Korean Committee for Space Technology announced that a polar-orbiting earth observation satellite would be launched between April 12 and 16. U.S. officials say that during negotiations with North Korea in 2011, they had warned their North Korean counterparts that a satellite launch would "abrogate" the agreement.<sup>30</sup> North Korea's lead negotiator, Kim Kye-gwan, has written that during the talks he "made very clear that the moratorium on long range missile launch did not include our peaceful satellite launch."<sup>31</sup> After North Korea went ahead with the launch on April 13, the Obama Administration suspended its portion of the Leap Day agreement. North Korea soon followed suit.

## Inter-Korean Relations

Relations between the two Koreas have deteriorated markedly since Lee's February 2008 inauguration. After 10 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—

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<sup>30</sup> State Department Spokesperson Victoria Nuland Press Statement, "North Korean Announcement of Missile Launch," March 16, 2012; "Daily Press Briefing," Washington, DC, March 16, 2012.

<sup>31</sup> March 20, 2012, letter from Kim Kye-Gwan to U.S. Ambassador Glyn Davies, Special Representative for North Korea Policy, as reprinted in the April 9, 2012, edition of *The Nelson Report*.

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>32</sup> Whether it is a coincidence or a 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>33</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>34</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. Opinion toward North Korea hardened after the shelling of Yeonpyeong Island, with fewer Koreans expressing support for a return to the largely unconditional engagement with North Korea that occurred during the "sunshine policy" era. However, polls also show 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 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

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<sup>32</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.

<sup>33</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. Kumgang 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>34</sup> For more, see CRS Report RL34093, *The Kaesong North-South Korean Industrial Complex*, by Mark E. Manyin and Dick K. Nanto.

presidential campaign to help raise North Korea's per capita income to \$3,000 over the next 10 years.<sup>35</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 met annually in standalone summits, established a trilateral secretariat in Seoul, signed an investment agreement, and in May 2012 agreed to launch trilateral "C-J-K" FTA negotiations by the end of the year.<sup>36</sup>

### Growing South Korea-Japan Cooperation

A cooperative relationship between South Korea and Japan, both U.S. treaty allies, and among the three countries is in U.S. interests because it arguably enhances regional stability, helps coordination over North Korea policy, and boosts each country's ability to deal with the strategic challenges posed by China's rise. However, despite increased cooperation, closeness, and interdependence between the South Korean and Japanese governments, people, and businesses over the past decade, mistrust on historical and territorial issues continues to linger. South Korea and Japan have competing claims to the small Dokdo/Takeshima islands<sup>37</sup> in the Sea of Japan (called the East Sea by Koreans), and most South Koreans complain that Japan has not adequately acknowledged its history of aggression against Korea. 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>38</sup> Among the victims were thousands of South Korean "comfort women" who during the 1930s and 1940s were recruited, many if not most by coercive measures, into providing sexual services for Japanese soldiers.

President Lee came into office seeking to improve official South 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

<sup>35</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*.

<sup>36</sup> From 1999 to 2007, trilateral summits were only held on the sidelines of the Association of Southeast Asian Nations' "Plus Three" summit (which included the 10 ASEAN countries plus China, Japan, and South Korea).

<sup>37</sup> Since the end of World War II, South Korea has administered Dokdo/Takeshima.

<sup>38</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.

close since the beginning of 2009. People-to-people ties have blossomed, with tens of thousands of Japanese and Koreans traveling to the other country every day. South Koreans, including some victims of Japan's colonial period, donated significant funds to Japan after the March 11 earthquake and tsunami off the coast of northeastern Japan. The South Korean and Japanese militaries also have stepped up their cooperation. 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 in August 2010, that recognized the 100<sup>th</sup> anniversary of Japan's annexation. Many observers said that the apology, along with Kan's move to return thousands of antiquities taken from Korea during the occupation, were major reasons South Korean protests marking the anniversary were much smaller and less virulent than had been expected.

However, South Koreans' interest in forming significant new institutional arrangements with Japan is dampened by three factors. First, continued suspicions of Japan among the South Korean population place political limitations on how far and how fast Korean leaders can improve relations. Second, continued disagreements over Dokdo/Takeshima's sovereignty continue to weigh down the relationship. These disputes flared most recently in 2011. A key to this issue will be whether such disputes are contained or spill over into other areas of the relationship. Third, unlike Japan, South Korea generally does not view China as an existential challenge and territorial threat. South Korea also needs Chinese cooperation on North Korea. Accordingly, Korean leaders tend to be much more wary of taking steps that will alarm China. A factor that could change this calculation is if China is seen as enabling North Korean aggression. Indeed, North Korean acts of provocation are often followed by breakthroughs in ROK-Japan relations, as well as in ROK-U.S.-Japan cooperation.

Two indicators to watch over the coming months in South Korea-Japan relations are (1) whether the two countries can restart and complete free trade agreement negotiations that have been stalled since 2004, and (2) whether they can complete negotiations over an information sharing and an Acquisition and Cross-Servicing Agreement (ACSA), both of which would facilitate greater cooperation and coordination between the two countries' militaries. In 2011, negotiations over these two agreements stalled, primarily due to the heating up of the Dokdo/Takeshima dispute and the Lee government's push for the Japanese government to provide compensation to the surviving "comfort women."<sup>39</sup> However, North Korea's April 2012 rocket launch appears to have restarted the ACSA and information sharing discussions, and has given rise to reports that the two countries and the United States are discussing whether to hold their first-ever trilateral military exercise.

## **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

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<sup>39</sup> The latter move came after a ruling by South Korea's Supreme Court that the government had not done enough to obtain official compensation for the "comfort women."

provinces, is drifting into China's orbit. Kim Jong-il made an unprecedented three trips to China in the 2010-2011 time period, China gave significant diplomatic and perhaps economic backing to Kim Jong-un following his father's death in December 2011, and the two countries have greatly expanded economic cooperation between provinces straddling their border. For those on the political left in South Korea, this has 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 and its perceived backing of Pyongyang after the Yeonpyeong Island shelling, 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. China's treatment of North Korean border-crossers, many of whom are forcibly repatriated to North Korea, has also become a bilateral irritant.

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. In 2011 and 2012, a bilateral dispute over usage rights in overlapping waters surrounding the Ieodo Island (which the Chinese call Suyan Rock) has been reignited by clashes between Chinese fishermen and the South Korean Coast Guard.<sup>40</sup> In one case in 2011, a Chinese fisherman stabbed a South Korean Coast Guard official to death. Thus far, the two governments have prevented these incidents from escalating; however, they appear to have fostered significant ill feelings among many South Koreans toward China.

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>41</sup> In 2012, the two countries agreed to start bilateral FTA negotiations. 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 with other major trading partners 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. The United States maintains about 28,500 troops in the ROK. 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. In October 2011, Secretary of Defense Leon Panetta visited South Korea, in a visit at least partially designed to reassure South Korea and Japan of the strength of the U.S. security commitment amidst

<sup>40</sup> South Korea and China both claim that the submerged land feature is part of its own exclusive economic zone (EEZ). South Korea has built a research observation station on Ieodo.

<sup>41</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.

uncertainty over the size of possible cuts to the U.S. military budget. Among other items, Panetta reiterated the Obama Administration's commitment to maintain the current U.S. troop level in Korea.<sup>42</sup>

Since 2009, the two sides have accelerated steps to transform the U.S.-ROK alliance, broadening it from its primary purpose of defending against a North Korean attack to a regional and even global partnership. At the same time, provocations from North Korea have propelled more integrated bilateral planning for responding to possible contingencies. Increasingly advanced joint military exercises have reinforced the enhanced defense coordination. According to U.S. officials, defense coordination at the working level as well as at the ministerial level has been consistent and productive. In June 2012, the two sides plan to hold their second so-called "2+2" meeting between the U.S. Secretary of State and Secretary of Defense and their South Korean counterparts. The first ever "2+2" meeting in July 2010, which featured a visit to the Demilitarized Zone (DMZ) by Secretary of State Hillary Clinton and Secretary of Defense Robert Gates, commemorated the 60<sup>th</sup> anniversary of the Korean War. 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.

In the past, issues surrounding U.S. troop deployments have been a flashpoint for public disapproval of the military alliance. Recently, however, analysts point out that even potential irritants to the relationship have been dealt with skillfully by the military officials in charge: in 2011, United States Forces Korea (USFK) and South Korean environmental officials worked expeditiously to quell public concern about buried chemicals on U.S. military bases from the post-Korean War era, and, also in 2011, the USFK handed over a U.S. soldier accused of raping a South Korean woman to the Korean authorities, in addition to issuing high-level apologies and pledging full cooperation. Although both of these examples have drawn criticism and sparked renewed interest in revising the U.S.-ROK status of forces agreement (SOFA), it appears as though officials on both sides have worked together expeditiously to quell distrust of the U.S. military among the Korean public.<sup>43</sup>

## South Korean Missile Range Negotiations

The issue of extending South Korea's missile range has taken on added importance in the wake of North Korea's failed missile launch. A 2001 agreement with the United States limits South Korean ballistic missile range to 300 kilometers and their payload to 500 kilograms. The Lee government has reportedly been trying to persuade the United States to extend the range and warhead size of South Korean ballistic missiles. In April 2012, South Korea announced that it had developed an indigenous long-range cruise missile that can strike targets anywhere in North Korea. The cruise missile does not violate the terms of the ballistic missile agreement.

Proponents of extending the South's ballistic missile range argue that the South lags far behind North Korea's missile capabilities, while critics say that allowing the extension could spark a regional arms race, as well as go against international standards that discourage the proliferation

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<sup>42</sup> "Full Text of Joint Communique of ROK-U.S. Security Consultative Meeting," *Yonhap*, October 28, 2011.

<sup>43</sup> SOFAs establish the framework under which U.S. military personnel operate in a foreign country, addressing how the domestic laws of the foreign jurisdiction shall be applied toward U.S. personnel while in that country. For more, see CRS Report RL34531, *Status of Forces Agreement (SOFA): What Is It, and How Has It Been Utilized?*, by R. Chuck Mason.



of ballistic missiles. Some observers suggest that a compromise might be struck in terms of South Korea's maximum range, as well as agreements to develop joint efforts on missile defense.

## **Budgetary and Operational Challenges**

Despite these indicators of strength, the alliance faces a host of significant challenges in the months and years ahead. Delays and increasing price tags have slowed the implementation of agreements to reduce and relocate the U.S. troop presence in South Korea. (See "U.S. Alliance and ROK Defense Reform Plans" below.) Differences over burden sharing remain, but analysts note that these issues tend to be prevalent in all alliance relationships. 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.

## **Congressional Concern about U.S. Troop Deployments**

In 2011, some Members of Congress raised strong concerns with existing plans to relocate U.S. bases in South Korea and "normalize" the tours of U.S. troops there, including longer stays with family members accompanying them. In May 2011, Senators Carl Levin, John McCain, and James Webb issued a statement that urged a reconsideration of the existing plans for U.S. military presence in the Asia Pacific, including the current agreements in South Korea. A Government Accountability Office (GAO) report requested by members of the Senate Appropriations Committee released in May 2011 concluded that the Department of Defense had not demonstrated a "business case" to justify the tour normalization initiative, nor considered alternatives.<sup>44</sup> In June 2011, the Senate Armed Services Committee passed amendments to the 2012 Defense Authorization bill (S. 1253) that prevents the obligation of any funds for tour normalization until further reviews of the plan are considered and a complete plan is provided to Congress. In May 2012, the House Armed Services Committee reported H.R. 4310, the National Defense Authorization Act for Fiscal Year 2013, which included a provision (Section 2107) that would continue to prohibit funds for tour normalization. Critics of the Senators' call to overhaul existing plans say that such changes could restrict U.S. military capabilities and readiness as well as jeopardize hard-fought agreements designed to make U.S. presence more politically sustainable in South Korea.<sup>45</sup>

Testimony by Administration and military officials in 2012 appeared to reflect congressional concern on the cost of tour normalization. During his confirmation hearing, Assistant Secretary of Defense for Asian & Pacific Security Affairs Mark Lippert emphasized that tour normalization, while desirable, should be carefully considered with the costs of implementation in mind. In late March 2012, in testimony before the House Armed Services Committee, General James D. Thurman, commander of U.S. Forces Korea, said that tour normalization is not affordable at this time and that he was content to keep accompanied tours at their current level.

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<sup>44</sup> Report found at <http://www.gao.gov/products/GAO-11-316>.

<sup>45</sup> Bruce Klingner, "Proposed Re-Realignment for Northeast Asia Ignores Strategic Realities," *Heritage Foundation WebMemo #3262*, May 18, 2011.

## 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. 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>46</sup>

Meanwhile, South Korea’s **Defense Reform 2020** bill passed by the National Assembly in 2006 lays out a 15-year, 621 trillion *won* (about \$550 million) investment that aims to reduce the number of ROK troops while developing a high-tech force and strengthening the Joint Chief of Staff system. In addition, a plan known as “**Defense Reformation Plan 307**,” intends to enhance collaboration among the ROK military branches. Driven by the North Korean provocations in 2010, the approach calls for a more flexible posture to respond to future attacks, as opposed to the “total war” scenario that has driven much of Seoul’s defense planning in the past. However, political wrangling in the National Assembly blocked the passage of a set of defense reform bills in April 2012, leaving the future of reform unclear. The bills, which focused on overhauling the military command system, had been pending in the parliamentary body for over 11 months.

### 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” (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>47</sup>

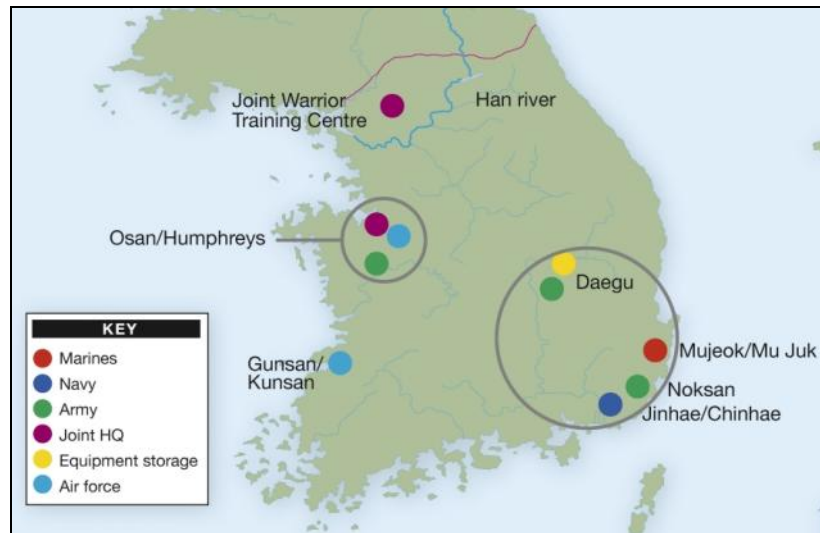
The relocations to Pyeongtaek originally were scheduled for completion in 2008, but have been postponed several times because of the slow construction of new facilities at Pyeongtaek and South Korean protests of financial difficulties in paying the ROK share of the relocation costs.

<sup>46</sup> “U.S. Army in South Korea Begins Transformation of Forces,” *Stars and Stripes*. August 25, 2010.

<sup>47</sup> “US-South Korea: a New Security Relationship,” *Jane’s Intelligence Weekly*, January 18, 2010.

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>48</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 3. 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. Members of Congress have raised concerns about the cost of the normalization initiative and requested a review of the plan.

### Cost Sharing

Under a Special Measures Agreement reached in 2009, South Korea’s direct financial contribution for U.S. troops in South Korea in 2011 will be 812.5 billion *won* (about \$743 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

<sup>48</sup> “Senate Armed Services Committee Holds Hearing on Security Situation on the Korean Peninsula,” *CQ Congressional Transcripts*. September 16, 2010.

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>49</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.

## 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.

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<sup>49</sup> “Sharp: Korea Plan Synchronizes Capabilities,” PACOM Headlines, *American Forces Press Service*. September 21, 2010.

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 \$966.9 million worth of U.S. arms in FY2010. The country is regularly among the top customers for Foreign Military Sales (FMS).<sup>50</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>51</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>52</sup> In response to recent attacks, Seoul has deployed precision-guided missiles near the DMZ<sup>53</sup> and is currently developing a next generation multiple launch rocket system to be placed near the Northern Limit Line.<sup>54</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>55</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>56</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, 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.

<sup>50</sup> Joint United States Military Affairs Group—Korea Mission Brief. August 18, 2010.

<sup>51</sup> “South Korea to Buy More U.S. Weapons to Counter North,” *Reuters*. September 21, 2010.

<sup>52</sup> “South Korea Pulls Back from Original Defense Spending Plan Amid Economic Woes,” *Yonhap News*. September 27, 2009.

<sup>53</sup> “Seoul Deploys Precision-guided Missiles Targeting Pyongyang,” *Korea Herald*. June 28, 2011.

<sup>54</sup> “Next-Generation MLRS Named ‘Cheonmu,’” *KBS*. June 28, 2011.

<sup>55</sup> “South Korea Defense Budget,” *Jane’s Defence Budgets*. December 14, 2009.

<sup>56</sup> “Korea’s T-50 Spreads Its Wings,” *Defense Industry Insider*. September 13, 2010.

## 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>57</sup> In February 2010, the National Assembly approved and funded the deployment of over 300 Army personnel to protect 100 Korean civilian reconstruction workers for a two-year mission. Forty police officers were also dispatched. The first soldiers arrived in June 2010 and are scheduled to stay until the end of 2012. Increasing numbers of attacks on Korean facilities, coupled with the Obama Administration decision to begin troop withdrawal in summer 2011, have raised questions about an early return of some ROK personnel. According to some South Korean press reports, the ROK government is considering an earlier withdrawal.

## Economic Relations

South Korea and the United States are major economic partners. In 2011, two-way trade between the two countries totaled over \$95 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 2011, 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 overtook the United States, and since that time South Korean annual trade with the 27-member European Union has caught up with ROK-U.S. trade.

**Table 1. Annual U.S.-South Korea Merchandise Trade, Selected Years**  
(Billions of Nominal 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	38.7	-11.7	65.7
2010	36.8	47.9	-11.1	84.7

<sup>57</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.

Year	U.S. Exports	U.S. Imports	Trade Balance	Total Trade
2011	41.3	56.0	-14.7	97.3
Major U.S. Export Items, 2011	Industrial machinery; semiconductor circuits; specialized instruments; civilian aircraft; transistors; corn & wheat; chemicals.			
Major U.S. Import Items, 2011	Motor vehicles & parts; Cell phones; semiconductor circuits & printed circuit boards; motor oil & jet fuel; iron & steel.			

**Source:** 1990 and 1995 data from Global Trade Information Services. 2000-2011 data from U.S. International Trade Commission. The 2000-2011 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>58</sup>

The Bush and Roh Administrations initiated the KORUS FTA negotiations in 2006 and signed an agreement in June 2007. The text of the free trade agreement covers a wide range of trade and investment issues and, therefore, is expected to 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 supported the agreement, the original KORUS FTA was opposed by some groups, including some auto and steel manufacturers and labor unions. Following December 3, 2010, modifications to the FTA by the Obama and Lee administrations, several automotive interests—including Ford and the United Auto Workers—announced that the new auto provisions had convinced them to support the agreement. In South Korea, while public opinion polls generally showed broad support for the KORUS FTA, the largest opposition party as well as many farmers and trade unionists vocally and actively opposed the agreement.

Many observers have argued that, in addition to its economic implications, the KORUS FTA will have diplomatic and security implications. Indeed, in many respects, the KORUS FTA's 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 will help to solidify the U.S. presence in East Asia to counterbalance the increasing influence of China. Additionally, many East Asian leaders have seen the move as a sign that the United States is intensifying its involvement in 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, which went into effect in July

<sup>58</sup> For more information, please see CRS Report RL34330, *The U.S.-South Korea Free Trade Agreement (KORUS FTA): Provisions and Implications*, coordinated by William H. Cooper.

2011) and has begun negotiating several others. The KORUS FTA's entry into force likely has given added momentum to the Obama Administration's push to negotiate a Trans-Pacific Partnership (TPP) FTA with eight other countries in the Asia-Pacific region.<sup>59</sup>

## South Korea's Economic Performance

South Korea has recorded relatively 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 roared back and grew by 6.2% 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>60</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*.

Since the second half of 2010, South Korean real GDP growth has slowed, in part due to the *won*'s appreciation. South Korea's economy is highly dependent upon capital inflows and exports, the latter of which are equal to around half of the country's annual GDP. Thus, South Korean officials have expressed concern that their country could be hit hard by a recurrence of a major European debt crisis, the possibility of a "double-dip" recession in the United States, and a slowing of growth in China. GDP growth in 2011 was 3.6%.

Although South Korea's economic performance may look favorable to many around the world, Lee's handling of economic issues has come under criticism from many inside South Korea. Complaints have risen in recent years that only Korea's rich individuals and large conglomerates (called *chaebol*) have benefitted from the country's growth since the 2008-2009 slowdown. The 2012 presidential election is likely to be fought over the issues of governance (in the wake of a number of corruption scandals), social welfare, and rising income inequality. Leading figures in both parties, as well as President Lee, have proposed ways to expand South Korea's social safety net. Inflation, particularly due to rising oil prices, has also emerged as a concern, though it has slowed in 2012. Growth is expected to be in the 3% for 2012.

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<sup>59</sup> For more, see CRS Report R40502, *The Trans-Pacific Partnership Agreement*, by Ian F. Fergusson and Bruce Vaughn.

<sup>60</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*.



# Nuclear Energy and Non-Proliferation Cooperation

## Bilateral Nuclear Energy Cooperation<sup>61</sup>

The United States and South Korea have cooperated in the peaceful use of nuclear energy for over 50 years.<sup>62</sup> This cooperation includes commercial projects as well as R&D work on safety, safeguards, advanced nuclear reactors and fuel cycle technologies. As with other countries, the legal framework that underpins this cooperation is a bilateral civilian nuclear cooperation agreement (or “123” agreement).<sup>63</sup> The U.S.-South Korean 123 agreement expires in 2014. The two countries began official talks in Washington on renewing the agreement in October 2010.<sup>64</sup> These talks continue, and a draft agreement was proposed by South Korea in the second round of talks in March 2011. Additional talks were held in December 2011 and February 2012.

Details of the current 123 agreement negotiations have not been made public. One point of potential disagreement in the renewal process is whether South Korea will press the United States to include a provision that would give permission for U.S.-obligated spent nuclear fuel (the majority of nuclear fuel in Korea) to be reprocessed to make new fuel. The South Korean government is reportedly also seeking confirmation in the renewal agreement of its right to pursue enrichment technology. The United States has pursued a policy of limiting the spread of enrichment and reprocessing technology for nonproliferation reasons. The current debate centers on whether to treat this issue as a global standard or on a case-by-case basis, with a decision made based on the particular country’s capabilities, nonproliferation record, and relationship with the United States.<sup>65</sup>

The current U.S.-Korea nuclear cooperation agreement, as with other standard agreements,<sup>66</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>67</sup> This is because reprocessing can create new fuel or plutonium for weapons use. The issue has become a sensitive one for many South Korean officials and politicians, who see it as a matter of national sovereignty. The United States has been reluctant to grant such permission due to concerns over the proliferation potential of this

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<sup>61</sup> Written by Mary Beth Nikitin, Specialist in Nonproliferation.

<sup>62</sup> The original agreement was concluded in 1956, and amendments were made in 1958, 1965, 1972 and 1974. See also CRS Report R41032, *U.S. and South Korean Cooperation in the World Nuclear Energy Market: Major Policy Considerations*, by Mark Holt.

<sup>63</sup> See also CRS Report RS22937, *Nuclear Cooperation with Other Countries: A Primer*, by Paul K. Kerr and Mary Beth Nikitin. Full text of the agreement is available at [http://nnsa.energy.gov/sites/default/files/nnsa/inlinefiles/Korea\\_South\\_123.pdf](http://nnsa.energy.gov/sites/default/files/nnsa/inlinefiles/Korea_South_123.pdf).

<sup>64</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>.

<sup>65</sup> For more information see, CRS Report R41910, *Nuclear Energy Cooperation with Foreign Countries: Issues for Congress*, by Paul K. Kerr, Mark Holt, and Mary Beth Nikitin.

<sup>66</sup> CRS Report RS22937, *Nuclear Cooperation with Other Countries: A Primer*, by Paul K. Kerr and Mary Beth Nikitin.

<sup>67</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.

technology, the potential impact on negotiations with North Korea, and the possible contradiction with global nonproliferation policy to prevent enrichment and reprocessing plants in new states.

For decades, the United States and South Korea have worked on joint research and development projects to address spent fuel disposition. In the 1990s, the two countries worked intensely on research and development on a different fuel recycling technology (the “DUPIC” process), but this technology ultimately was not commercialized. In the past ten years, joint research has centered on pyro-processing, a type of spent fuel reprocessing. 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>68</sup> U.S.-South Korean bilateral research on pyro-processing began in 2002 under the Department of Energy’s International Nuclear Energy Research Initiative (I-NERI). New R&D work on pyro-processing was halted by the United States in 2008, due to the proliferation sensitivity of the technology.

In an attempt to find a way forward, in March 2010 the United States and South Korea began a six-month joint study on the economics, technical feasibility, and nonproliferation implications of pyro-processing.<sup>69</sup> This initial study resulted in the announcement in October 2010 of a 10-year, three-part joint research project that is separate from the 123 renewal negotiations.<sup>70</sup> It will include bilateral work on pyro-processing at the Idaho National Laboratory, development of international safeguards for this technology, economic viability studies, and other advanced nuclear research, including alternatives to pyro-processing for spent fuel disposal.<sup>71</sup> The South Korean government has also included the International Atomic Energy Agency safeguards in the research and development of pyro-processing to provide transparency and assurance of peaceful purposes.

## South Korean Nonproliferation Policy

South Korea has been a consistent and vocal supporter of strengthening the global nonproliferation regime, which is a set of treaties, voluntary export control arrangements, and other policy coordination mechanisms that work to prevent the spread of nuclear, biological, and chemical weapons and their delivery systems. South Korea is a member of the Nuclear Suppliers’ Group (NSG), which controls sensitive nuclear technology trade, and adheres to all international nonproliferation treaties and export control regimes. South Korea also participates in the G-8 Global Partnership, and other U.S.-led initiatives—the Proliferation Security Initiative, the

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<sup>68</sup> Reprocessing of spent nuclear fuel can be used to make new reactor fuel or to separate out plutonium in the spent fuel for weapons use. Pyroprocessing, or electro-refining, is a non-aqueous method of recycling spent fuel into new fuel for fast reactors, that only partially separates plutonium and uranium from spent fuel. There is debate over the proliferation implications of this technology.

<sup>69</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>70</sup> “Discussions on Korea-U.S. Joint Research on Fuel Cycle,” Press Release, Ministry of Education, Science and Technology, Republic of Korea, April 18, 2011.

<sup>71</sup> “S. Korea, U.S. Agree to Start Joint Study on Nuclear Fuel Reprocessing,” *Yonhap*, April 17, 2011.

International Framework for Nuclear Energy Cooperation (formerly GNEP), and the Global Initiative to Combat Nuclear Terrorism.

An Additional Protocol (AP) to South Korea's safeguards agreement with the International Atomic Energy Agency (IAEA) entered into force as of February 2004. This gives the IAEA increased monitoring authority over the peaceful use of nuclear technology. In the process of preparing a more complete declaration of nuclear activities in the country, the Korean Atomic Energy Research Institute (KAERI) disclosed previously undeclared experiments in its research laboratories on uranium enrichment in 2000, and on plutonium extraction in 1982. The IAEA Director General reported on these undeclared activities to the Board of Governors in September 2004, but the Board did not report them to the U.N. Security Council. In response, the Korean government reconfirmed its cooperation with the IAEA and commitment to the peaceful use of nuclear energy, and reorganized the oversight of activities at KAERI. The experiments reminded the international community of South Korea's plans for a plutonium-based nuclear weapons program under President Park Chung Hee in the early 1970s. Deals to acquire reprocessing and other facilities were canceled under intense U.S. pressure, and President Park eventually abandoned weapons plans in exchange for U.S. security assurances. The original motivations for obtaining fuel cycle facilities as well as the undeclared experiments continue to cast a shadow over South Korea's long-held pursuit of the full fuel cycle. As a result, since 2004, South Korea has aimed to improve transparency of its nuclear programs and participate fully in the global nonproliferation regime. In addition, the 1992 Joint Declaration between North and South Korea says that the countries "shall not possess nuclear reprocessing and uranium enrichment facilities." Since North Korea has openly pursued both of these technologies, an intense debate is underway over whether South Korea should still be bound by those commitments. Some analysts believe that an agreement with North Korea on denuclearization could be jeopardized if South Korea does not uphold the 1992 agreement.

Of recent significance, South Korea hosted the 2012 Nuclear Security Summit, a forum initiated by President Obama shortly after his inauguration. This was the second such summit after the 2010 Washington, DC, event. The South Korean government agreed to host the summit because: it fit into the "Global Korea" concept of international leadership and summitry; it was a chance for the South Korean nuclear industry to showcase its accomplishments; and the South Korean government was able to emphasize South Korea's role as a responsible actor in the nuclear field, in stark contrast with North Korea. It was also an important symbol of trust between the U.S. and South Korean Presidents. The Obama administration preferred that the host of the second summit would maintain the focus and objectives of the original U.S. summit, and Obama administration officials have praised South Korea's leadership. Observers have pointed out that South Korea was more than merely a logistical host for the summit, and displayed intense engagement and leadership in setting the agenda, accommodating diverse opinions on the scope of the meeting, convincing heads of state to attend, and producing summit outcome documents. While there reportedly were initial disagreements between the United States and South Korea over some of the summit agenda items (such as to what extent to include radiological security issues), overall, the summit appears to have strengthened the bilateral relationship and coordination on nonproliferation policy. In parallel with the summit, a nuclear industry summit and non-governmental expert symposium were also held.

## South Korean Politics<sup>72</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 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). Toward the middle of his term, in 2010, Lee's ratings had risen to the 40%-50% range, a development many attributed to South Korea's strong recovery from the 2008-2009 global financial crisis. However, by late 2011 and early 2012, the president's approval ratings had once again fallen, driven down by—among other factors—a series of scandals surrounding some of his associates and family members, and by an increasing concern among more Koreans about widening income disparities between the wealthy and the rest of society.

South Korea's next presidential election will be in December 2012. By law, Lee cannot run again; South Korean presidents serve one five-year term. The country's next parliamentary elections are scheduled for April 2016.

### A Powerful Executive Branch

Nominally, power in South Korea is shared by the president and the 300-member unicameral National Assembly. Of these, 246 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.

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<sup>72</sup> For more, see CRS Report R40851, *South Korea: Its Domestic Politics and Foreign Policy Outlook*, by Mark E. Manyin and Weston Konishi.

## Political Parties

Presently, there are two major political parties in South Korea: President Lee's conservative Saenuri Party (which has been translated as "New Frontier Party," or NFP) and the opposition, center-left Democratic United Party (DUP).<sup>73</sup> U.S. ties have historically been much stronger with South Korea's 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.

From 2008 to 2012, the NFP's predecessor party held 169 seats, well over half the National Assembly's total. However, the party's numerical strength masked significant intra-party divisions. Lee's most significant rival is Park Geun-hye, the architect of the NFP's April 2012 victory, and the daughter of Korea's former military ruler Park Chung-hee. Lee only narrowly defeated Ms. Park in a 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 United Party, so keeping the GNP unified on controversial issues has been critical to Lee's ability to govern.

For years after the 2007 election, Korea's progressive camp was 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 deprived them of most tools of power and influence within the South Korean polity. In 2011, the progressive camp scored significant victories in local and bi-elections, leading many observers to predict that they would take over the Assembly in the April 2012 vote, particularly after two of the leading parties merged to form the DUP in late 2011. The DUP's defeat in April, however, combined with a vote-rigging scandal in another left-of-center party, appears to have thrown the progressive camp back into disarray.

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CRS Report R41032, *U.S. and South Korean Cooperation in the World Nuclear Energy Market: Major Policy Considerations*, by Mark Holt

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<sup>73</sup> The Saenuri Party formerly was known as the Grand National Party (GNP).

## North Korea

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