
U.S.-Korean Relations After the Summit

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The North-South summit in Pyongyang this past June was an historic event: the first meeting ever to take place between the heads of government of North and South Korea. Equally remarkable, however, is that the summit has produced what seems to be the beginning of an ongoing process of engagement and dialogue.

The visits of Vice Marshall Jo Myong-rok to Washington and Secretary Albright to Pyongyang were further steps in that process. With luck, other milestones will have passed by the time you read this. All these are achievements that few would have predicted only a few months ago.

A number of factors were responsible for these dramatic developments. First and foremost, major credit must be given to the administration of President Kim Dae-jung and its consistent pursuit of engagement with North Korea over the last two years. The Nobel Committee's decision to award its peace prize to President Kim last year gave much-deserved international recognition to his visionary leadership in reducing tension and increasing the prospects of a lasting peace on the Korean peninsula.

A second important factor has been the success of the Republic of Korea (ROK), the U.S., and Japan in the coordination of our respective policies toward North Korea. Through the so-called Perry Process the three countries agreed on a common set of goals and objectives with regard to North Korea, and we enhanced the coordination of our respective bilateral approaches to North Korea in pursuit of those goals and objectives. In fact, this trilateral arrangement was part of a broader regional consensus supporting North-South dialogue and cooperation. For the first time, Japan, China, Russia, and the United States sought the same outcome on the Korean Peninsula—the establishment of permanent peace and gradual reconciliation between North and South Korea.

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Only Kim Jong-il knows precisely why he agreed to a summit with President Kim Dae-jung, but clearly, the economic condition of his country must have been one of the principal reasons. The economy of North Korea has declined to a point from which recovery is fundamentally impossible without the infusion of vast amounts of aid from the outside; its own resources are simply insufficient. I believe that Kim Jong-il's decision to meet with Kim Dae-jung reflected a realization that only South Korea has the ability and self-interest to provide economic assistance to the North on the scale that is required. The decision to open a dialogue with the South also reflects a belief on Kim Jong-il's part that he can gradually open North Korea to the outside world—and to South Korea in particular—without jeopardizing the existence of his regime.

We now know more about Kim Jong-il, his leadership style, and the decision-making process in North Korea, than we did before the summit. We do not know how—or, in the long run, even whether—North Korea will be able to manage the process it now appears to have begun of external opening and change. We do know, however, that it will be an extremely demanding process for the Democratic People's Republic of Korea (DPRK), one that could not have been undertaken without a high degree of self-confidence on the part of its leader—a self-confidence on his part that we had not seen before, and frankly doubted that he possessed. Whether such confidence is fully justified remains to be seen.

Despite the dramatic events of the past few months and what seems to be a favorable convergence of conditions and events, the outlook for the future of the Korean peninsula remains uncertain. The road toward North-South reconciliation is not likely to be smooth. There will be problems and difficulties to overcome. As we look ahead, there are at least three obvious challenges. The first challenge is inherent in the nature of democracy. The Republic of Korea today is a vigorous, dynamic society whose record over the past decade or so has been a case study of successful democratic development. This development has our continued and full support, but the reality of democracy is that no set of public policies can be long sustained or successfully implemented without strong domestic political support. As someone who has observed Korean democracy with great interest, I can only say that I have great confidence that Korea will be able to maintain the kind of democratic consensus that is required for the successful and sustained implementation of its policy toward North Korea. Clearly, President Kim has fully committed his administration to that long-range objective, and I believe the consensus he has built can withstand anything short of a cataclysmic change in public opinion.

The second challenge confronting not only the Republic of Korea but the United States as well is to maintain a strong U.S.-ROK military alliance. It is important to recognize that at present, despite the very encouraging developments in North Korea's policy toward the South and the outside world, the physical

threat posed by its military has not diminished. Thus, as President Kim Dae-jung and many other leading political figures in Korea have stressed, it is important that Korea itself maintains a strong national defense, and equally important that the U.S.-ROK alliance be maintained as a strong, credible deterrent against possible North Korean aggression.

As a diplomat, I believe diplomacy properly executed can be a marvelous device, but there are many situations in which diplomacy without strength simply cannot be effective. Put another way, an alliance provides the vital shield behind which diplomacy can be used to great effect. For many years, North Korea's intransigence forced us to rely on deterrence as our principal strategy. President Kim Dae-jung has strengthened our capabilities in a crucial way by supplementing deterrence with engagement. Even so, I suspect it will be some time before engagement alone will be a sufficient strategy; until there is a substantial reduction of military tensions and true reconciliation, it must continue to be bolstered by deterrence.

To achieve this we must maintain a strong, healthy bilateral alliance with the Republic of Korea, requiring active and sustained efforts from both sides. On issues such as the Status of Forces Agreement—the bilateral treaty that defines the legal status and obligations of the American troops stationed in Korea and that is now being harshly criticized by many Koreans—we must work diligently to ensure we produce an agreement that is acceptable to both sides and that will provide a solid foundation for the future of our alliance. Since the opening of a new round of negotiations on the Status of Forces Agreement in the summer of 2000, we have approached those negotiations with great seriousness and with a careful eye to the requirements of a mature partnership.

Our alliance over the years has been a source of strength to both our countries, but we must continue to recognize that it requires careful nurturing and tending by both parties. We cannot take it for granted; we must work at it constantly. The fact that we are both democracies makes the management of the alliance even more complicated than it would be otherwise. Because in both countries—and I stress both countries—in the end, public opinion may be the prime determinant of the alliance's future viability.

To put it bluntly, we have reached a point at which neither side can count on automatic public support for our military presence in Korea. Koreans who feel free to protest that presence in the assurance that its necessity and merits are self-evident to all Americans are as mistaken as Americans who believe they can count on full Korean support for anything that we do in the name of security. For some Americans, the advantages of stationing thousands of troops thousands of miles from our shores, far from families and friends, at considerable expense to the American taxpayer, are anything but self-evident. Add to that a widespread perception of hostility or lack of support on the part of the host

nation, and a precarious situation could develop. I do not believe that we have reached such a situation, or that we will do so, but I do think that we must be vigilant with regard to the climate of public opinion. If we believe—as I believe, and as I am confident most Koreans continue to believe—that our alliance remains the foundation for peace on the peninsula, then we must be prepared to explain and defend those beliefs. The dramatic events of the summer have not made this duty any less necessary; they may indeed have made it more so.

Finally, there is the third challenge posed by the likely economic requirements of successful engagement with North Korea. The cost of reconstructing the collapsed economic infrastructure in North Korea will be very large, as will the cost of creating new economic connections between North and South. Assuming that North Korea continues on its present course and that it is prepared to make major changes in the management of its domestic economy, some portion of the cost of reconstruction in North Korea will be supported by development assistance from international financial institutions such as the World Bank and the Asian Development Bank. If other cases in recent history are an example, however, the amount of that assistance is likely to be far from sufficient to meet the needs of North Korea. In the end, most of the funds required in North Korea are likely to come either from South Korea directly or from the international financial markets through the South Korean financial system.

These monies will have to be carried, in effect, on the balance sheets of South Korea's government, South Korea's corporations, and, ultimately, South Korea's households. So it is here that two of South Korea's highest national priorities—reconciliation with the North, and economic reform and restructuring—come together. Economic reform is not only critical to the future prosperity of South Korea; it is also fundamental to the eventual success of efforts to reconcile peacefully with North Korea.

South Korean economic reform has three key components: economic transparency, corporate restructuring, and stronger capital markets. In all these areas, the Kim Dae-jung government is clearly on the right path. It recognizes that if capital is to be used efficiently, Korean financial entities will have to continue to change their behavior. In pursuing greater economic transparency, the government has asked the banks to publicize their remaining non-performing loans. It will require state-funded banks and other banks that require new capital injections to publish self-help plans, and it has announced plans to group some banks under financial holding companies to help rationalize costs and management strategies.

The availability of more information about the banks gives more power to the market. That power became evident during a recent bank strike when, in a matter of days, depositors withdrew trillions of won from banks where employees had threatened to walk out. It is a healthy sign of greater financial maturity when

depositors are looking carefully at banks to determine where their money will be safest, knowing that the Korean government is about to impose strict limits on deposit insurance at the end of this year. The banks must react appropriately because their depositors will punish them if they do not.

Continued corporate restructuring is another essential requirement for a strong Korean economy. If companies do not invest rationally, the banks that lend to them and the Investment Trust Corporations (ITCs) that buy their bonds will never be solvent, and will be unable to effectively perform their important intermediation function. At present, too many Korean corporations are still burdened by an excessive level of debt. Many continue to have difficulty servicing their debt. There is no better test to apply to the corporate restructuring effort than the case of Daewoo, once Korea's second largest chaebol. Daewoo was allowed to collapse, reversing the myth of "too big to fail." That was a good lesson for the other chaebol. But one year after Daewoo's demise, the financial workouts of the Daewoo affiliates are still mostly unresolved. Market uncertainty about just how much non-performing Daewoo debt remains in the system complicates the task of rebuilding the financial system and reprivatizing the banks. From that perspective, I would applaud the rational and transparent way the Daewoo creditors have handled, thus far, the proposed sale of Daewoo Motors.

Another key part of Korea's financial restructuring is the need to create strong capital markets. A strong, efficiently functioning bond market is particularly important. Foreigners will tend to judge South Korea's financial viability by watching how well the bond market operates. Since Daewoo's collapse, the bond market has been in turmoil. That has caused major problems for Korea's investment trust companies, which were big holders of Daewoo paper. Korea's ITCs will have to be restructured and recapitalized, as the government is doing. Marking ITC bond funds to the market is a good beginning.

The main point I wish to underscore with this brief overview of the status of economic reform and restructuring is that while much progress has been made, and while Korea has without question come further and faster than any other country in East Asia, the journey is not yet over, and there is still a need for substantial forward movement. Such movement was critically important to Korea's future before the June summit; it is, if anything, even more critical now that the summit has taken place and economic engagement with the North has become a real possibility.

Looking ahead, I believe that the events of the past few months mark a fundamental shift in our expectations and assumptions about the Korean peninsula. Notwithstanding the many difficulties and challenges to be faced in the future, prospects for peace and stability have probably never been better. For our part, we will continue our strong support of South Korea's effort to build greater dialogue and cooperation with the North. We will also continue

bilateral effort to achieve a more normal relationship with North Korea. These bilateral approaches to Pyongyang, coordinated with those of Japan, can be mutually reinforcing. The process will be time-consuming and at times uncertain, but recent events have established a stronger foundation for optimism and hope than anyone—myself emphatically included—could reasonably have expected when this memorable year began. ■