

## CRITICAL ISSUES FOR THE REPUBLIC OF KOREA

by The Honorable Duwan Pong

Recently, Korea has attracted a lot of attention in the international community, especially for its economic success. Korea, the seventh largest trading partner of the U.S., serves as a shining example of a free market economy for the world's developing nations. The large economic gap that now exists between South and North Korea clearly demonstrates the advantages of a free market economy as the communist-run economy of the North falls farther and farther behind each year. For example, South Korea's per capita gross national product last year stood at \$2,032 while that of North Korea reached only a meager \$765.

In trying to develop a more viable market economy, not long after the birth of the Fifth Republic in 1980, Korea began to implement a

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phased market-opening scheme. As a result, we have already liberalized importation of 91.5 percent of standard trade items--up some 23 percent from a low 68 percent in 1980. By 1988, virtually every import item will be admitted with no requirements for specific government approval.

Despite such efforts, Korea has often been accused of limited market access for foreign products. In fact, a lion's share of the newly created Korean markets for foreign products has been captured by Japan, with which Korea ran a serious \$5.4 billion trade deficit during 1986 alone. I may note, in this connection, that we are trying our utmost to encourage Korean buyers to switch their import sources from Japan to the U.S.

As our economy expands further, trade frictions with our trading partners will naturally arise. But we will continue to implement economic policies that are beneficial for us as well as our trading partners.

With regard to certain pending trade bills in the U.S. Congress--characterized as "protectionist" bills by some--I would like to point out that, if passed into law, these schemes will inevitably lead the U.S. and many other countries involved into a serious economic recession.

This is so because protectionist bills invite similar countermeasures from other countries. Once this vicious circle

starts, the most likely victim will be free international trade, which so far has been the single most important factor contributing to economic growth. With slowed economic growth followed by recession, I believe the world will be menaced with instability--the kind of instability which was the very cause of two world wars in the past.

The rapid economic progress and social transformation which have taken place in Korea naturally have given rise to desires for increased democratic development and for a political system that can accommodate those desires.

A major step taken in this regard was the adoption of a single-term presidency in the Fifth Republic's constitution. In fact, President Chun Doo Hwan himself has pledged that he will step down from office in 1988 and no one, including members of the opposition, doubts this. By achieving the first-ever peaceful transfer of power, Korea will take a major step forward in its political development.

A more recent measure taken by President Chun Doo Hwan and the ruling Democratic Justice Party was the decision to draft a new constitution in accordance with the wishes of the people. In order to accommodate the desire of the people for change and also to best serve the needs of a pluralistic society, the Democratic Justice Party has proposed a cabinet system of government. Many difficulties lie ahead, given the short period of time left for negotiations with the opposition, but I am confident that compromise can be achieved and that our draft of the new constitution will be accepted in the end.

Korea's economic prosperity and social stability are of key importance in the Korea-U.S. relationship, not only for Korea's continued viability as an economic partner of the U.S., but also for the security which both countries have worked so hard to protect.

For reasons of history and geopolitics, Korea constitutes a crucial linchpin in the security of Northeast Asia and for the Pacific basin as a whole. For forty years now, the Republic of Korea and the U.S. have shared a special bond, a bond that is strengthened by the knowledge that each plays a vital role in the other's security and prosperity.

What worries me, however, is the widening economic gap between South and North Korea. The prospect that the South will receive international prestige from holding the 1988 Olympics makes North Korea anxious. We are all aware of the close military alliance the North Koreans are forming with the Soviets and of the recent North Korean arms build-up along the demilitarized zone (DMZ). Furthermore, North Korea recently began construction of a massive dam just north of the DMZ on the Kumgangsan River, a major waterway which flows south toward Seoul. We fear that the North Koreans will use the dam as a weapon by triggering massive flooding in South Korea.

These next few years will be a critical period in Korean history, with many political and economic milestones to be reached as well as problems to be solved. The Republic of Korea recognizes its

responsibilities to preserve the security of the nation and to accommodate various desires of its people--not excluding the ardent desire for the reunification of the country in a peaceful manner. Korea also recognizes its responsibilities as an important member of the world community. I sincerely hope that you will continue to support and encourage us in our endeavors to fulfill these responsibilities.

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