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

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

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

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

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

Talking Points

- The Republic of Korea has come a long way in liberalizing its economy. However, Korea's average tariff is still substantial, and other trade barriers stop the importation of nearly 1,000 items.
- A partnership in a Korea–U.S. Free Trade Agreement is one way to increase economic freedom. In fact, a trade agreement would strengthen Korea's economy and allow it to compete more effectively with every other economy in the world.
- Cutting and simplifying taxes and reducing the regulatory burden are other improvements that could be made.
- The U.S. and ROK must maintain their strong security relationship to counter threats from North Korea. Cooperation with Japan on regional security is essential as well.
- There are hopeful signs that the ROK will become part of the U.S. Visa Waiver Program.

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

But these opportunities will only exist for a short time, perhaps only the next 12 months. Therefore, this is a crucial moment for Korea and the United States. I believe that the decisions we make in the coming months will set the path of our relationship for decades to come.

There are many obstacles to overcome, however, and it will not be easy.

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

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

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

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

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

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

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

Making Korea an Economic Leader

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Thoughts from Washington

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

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

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

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

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

The Visa Waiver Program. As Congressman Henry Hyde said on his visit to Seoul just last month, a visa waiver program is "one of the most difficult problems" between our two countries.

This is indeed a challenge. In 2004, the number of South Koreans traveling abroad rose substantially, yet those who visited the U.S. actually fell. Addi-

tionally, as your Ambassador told me just last week, South Korea is now the largest source of foreign students for the U.S.: some 80,000 students.

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

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

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

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

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

Conclusion

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

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

I believe we can. I believe we will.

—Edwin J. Feulner, Ph.D., is President of The Heritage Foundation. He delivered these remarks to the Korean International Trade Association in Seoul, Korea.