

# The Tenth Korea-U.S. West Coast Strategic Forum

June 28, 2013  
The Walter H. Shorenstein  
Asia-Pacific Research Center  
Stanford University

In association with  
The Sejong Institute



세종연구소



THE WALTER H. SHORENSTEIN  
ASIA-PACIFIC RESEARCH CENTER



The Tenth Korea-U.S. West Coast Strategic Forum was held at Stanford University on June 28, 2013. Established in 2006 by Stanford University's Walter H. Shorenstein Asia-Pacific Center (Shorenstein APARC), and now convening twice annually and alternating in venue between Stanford and Seoul, the forum brings together distinguished South Korean (Republic of Korea, or ROK) and U.S. West Coast-based American scholars, experts, and former military and civilian officials to discuss North Korea, the U.S.-ROK alliance, and regional dynamics in Northeast Asia. The Sejong Institute of Korea is co-organizer of the forum. Operating as a closed workshop under the Chatham House Rule of individual confidentiality, the forum allows participants to engage in candid, in-depth discussion of current issues of vital national interest to both countries. Participants constitute a standing network of experts interested in strengthening and continuously adapting the alliance to best serve the interests of both countries. Organizers and participants hope that the publication of their discussions at the semi-annual workshops will contribute to the policy debate about the alliance in both countries and throughout Northeast Asia.



## EXECUTIVE SUMMARY

Meeting after North Korea had raised tensions on the Korean Peninsula in the spring, participants in the Tenth Korea-U.S. West Coast Strategic Forum focused on the implications for the Korean Peninsula of leadership changes in North and South Korea and especially China. Participants also focused on regional dynamics, including increased confrontation between China and Japan and various, sometimes conflicting, efforts to increase regional economic integration in Northeast Asia.

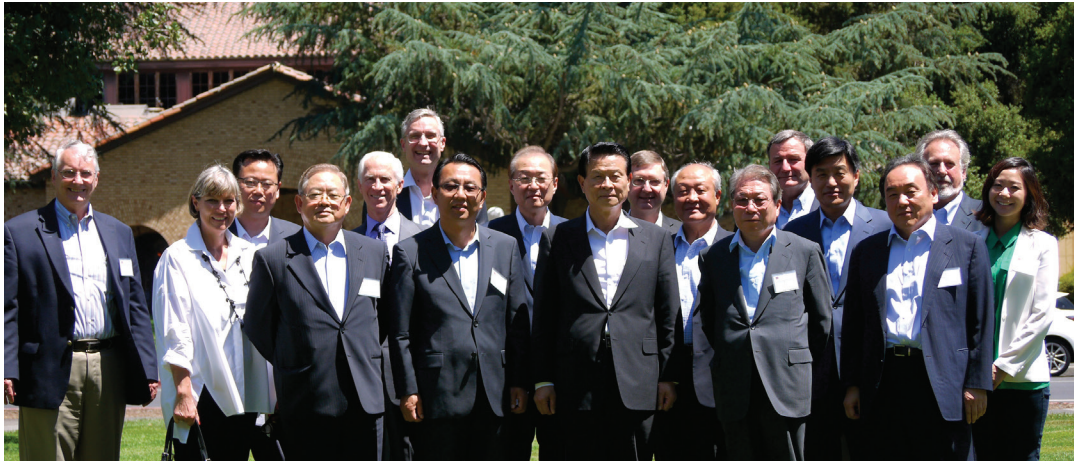
Participants differed about the extent that changes may be underway in North Korea and, if they are, whether they represent systemic reforms or only tactical adjustments by North Korean authorities. Some argued that North Korea has indeed shifted from its traditional military-first policy to pursue the simultaneous development of military (including nuclear) capabilities and economic growth, the path of “parallel development” (*pyeongchin*) espoused by North Korean leaders. Others insisted that the two are incompatible goals and that the military remains the regime’s highest priority. Some said that the regime has a political stake in making its cities and their infrastructures appear modernized—to bolster Kim Jong-un’s image as a capable leader—but participants wondered how North Korea is managing such increased construction despite recently toughened international sanctions. Some experts attributed the apparent increase in resources available to the regime to increased Chinese investment and trade situated along the border area.

Discussion of North Korea’s nuclear program focused on what U.S. and ROK priorities should be as the two nations seek to find a solution to the problem. Some participants felt that the policy of South Korea’s new president, Park Geun-hye, offers an opening, as she, unlike her predecessor, has expressed a willingness to discuss some North-South issues before North Korea begins to denuclearize. Others emphasized the importance of making clear to Pyongyang that its denuclearization is essential to major increases in engagement with and aid to North Korea. Participants debated the role of international sanctions against North Korea; no one suggested they are a panacea but some underlined that they hinder North Korea’s nuclear development, while others noted that sanctions have the unintended consequence of isolating the North Korea people and inducing the regime to participate in more black and gray activities internationally.

Participants were generally optimistic about the future of the U.S.-ROK alliance. Both governments felt that the first Park-Obama summit was highly successful. American and Korean participants alike expressed their belief that the two governments will closely cooperate on not only economic and security matters but also other, broader issues under the Obama-Park leadership. A number of participants felt that the U.S.-ROK bilateral relationship should be advanced to address a broader set of regional issues and, also, that the U.S. and the ROK should think ahead to a new rationale for the alliance for the era after the North Korea problem is resolved.

Participants engaged in a vigorous discussion of the pros and cons of the scheduled transfer of wartime operational control (OPCON) from the United States to the ROK in 2015. Some felt that the time for the transfer is ripe, while others suggested it is still premature. Opponents of the transfer advocated maintaining the current Combined Forces Command (CFC) as the most efficient command system and expressed concerns that its abolition would reduce deterrence of Pyongyang. Some Korean participants argued for consideration of redeploying U.S. tactical nuclear weapons to South Korea; American participants argued that doing so would not increase deterrence and would be harmful to U.S. and South Korean interests. Some participants suggested that a trilateral coordination system among the United States, Japan, and South Korea would help to pressure Japan to come to terms with South Korea on historical issues, because Japan puts significantly more store by what the United States says than what South Korea says. A number of Korean participants stressed that South Korean efforts to strengthen ties with China will be pursued on the basis of a robust U.S.-ROK alliance.

Discussion of regional dynamics focused largely on the economic integration of Northeast Asia. Many expressed the hope that Korea would eventually play a pivotal role in bridging the ASEAN's Regional Comprehensive Economic Partnership (RCEP) and the Trans-Pacific Partnership (TPP), as the ROK may soon be the only major trading nation to have concluded free trade agreements with both the United States and China. Regarding regional security dynamics, most participants looked favorably on Park Geun-hye's Seoul Process, a trust-building program for Northeast Asia, especially given the problems with the Six-Party Talks. Some noted, however, that it might be difficult for the United States to accept North Korea's inclusion in such a new regional forum, even if it began by dealing with putatively less sensitive issues such as nuclear safety and counter-terrorism, because it might be interpreted as *de facto* acceptance of North Korea's nuclear weapons program.



*Participants at the Tenth Korea-U.S. West Coast Strategic Forum at Stanford University.*

## THE TENTH KOREA-U.S. WEST COAST STRATEGIC FORUM

### I NORTH KOREA

A Korean expert opened the first session with his assessment of two idiosyncratic aspects of North Korea—1) that North Korea is not a republic despite its name, the Democratic People's Republic of Korea, and 2) that the security of the Kim dynasty takes priority over even that of the state. North Korea's governing authority does not derive from public support but from the will of the founding father, Kim Il-sung, which has essentially become gospel. No one in the country has the authority to negate this legacy; every leader is bound to follow it. Leaders in North Korea thus cannot honor international laws, treaties, or practices if these come into conflict with Kim's legacy. Because the people's quality of life is a secondary concern, economic aid for the North Korean people will not serve to induce Pyongyang's leaders to denuclearize.

Another Korean expert argued that the transformation of North Korea would provide the solution to every North Korean problem. Citing remarks made at the Obama-Park summit, he said that every act of assistance to North Korea should be performed on the condition of it transforming North Korea in some way. He identified four challenges to turning North Korea into a normal state: 1) North Korea's political system, a brutal authoritarian military regime; 2) the lack of any significant experience of political change among the people; 3) the nation's military first policy; and 4) the dearth of exchanges between North Korea and the rest of the world.

The Korean expert continued that four strategic measures need to be taken: 1) the internationalization of North Korea; 2) an increase in exchanges between North Korea and South Korea, as well as with the rest of the world; 3) the formation of an active human rights movement; and 4) active assistance to North Korean defectors. The

people of North Korea lack universal values simply because they have not been exposed to international standards. Thus, virtually all South Korean and international efforts to engage North Koreans at any level are useful. Actively assisting North Korean defectors, of whom as many as 25,000 reside in South Korea, is useful because they are among the only individuals to possess accurate knowledge of North Korea and also have connections with other North Koreans.

An American expert provided an update on developments in North Korea, based on recent travel there by Westerners. Pyongyang has seen significant infrastructure progress: electric supply has improved, more vehicles (including taxis) are on the road, new restaurants have opened, and women are dressing more fashionably. The changes appear to have been made in response to new elite and popular demands. The food supply in North Korea has improved, due to relatively good weather resulting in a larger harvest, increased market activity, and some continuing international aid. The regime appears to be testing some reforms. These include new methods of economic management legislated in April of this year in the agriculture and light industry sectors, dividing working units into smaller teams and providing incentives, such as the allowance of an average of 0.9 acres of farmland per person for private farming. The most notable improvement is in the public health sector. There are new hospitals, including a breast cancer center, in Pyongyang. But, North Korea continues to be short of doctors and nurses, as well as medical equipment such as X-ray machines. Many North Koreans remain hungry and malnourished. Food aid helps to meet these needs and also brings engagement and spurs change. Although patience is a basic requirement when dealing with North Koreans, one North Korean told a visiting Westerner: "Change will come. Kim Jong-un has seen the world, but at present he's surrounded by too many old people."

Another American expert reviewed North Korea's actions in recent months, including announcing the cancelation of the armistice, a declaration of war on South Korea, and threats to launch a preemptive nuclear attack on the United States. While North Korea has typically engaged in a pattern of manufacturing tensions followed by offers to reduce tensions in exchange for aid or concessions, the harshness of North Korea's recent rhetoric represented a major escalation.

A Korean expert argued that while the Kim Jong-un regime has declared a new strategic line of the simultaneous development of its nuclear capabilities and its economy, the two goals are contradictory. An American suggested that at least the goals are not of equal importance. Another expert said that Kim Jong-un identifies with making his country more prosperous, which means that more changes may be on the way. It is not clear, however, that enough capital will be available to engage in substantial economic development. An American suggested that Chinese capital may be key in the current development in North Korea. There have been numerous accounts of Chinese investment, direct and indirect, in businesses both legitimate and illegitimate, in the border area. Another American agreed and added that the reported changes in North Korea have also been induced from the bottom, as a result of heightened market activity. Such changes are likely to stick and may spark a larger transformation, particularly as North Korea's middle class is exposed to a greater variety of goods and ideas from China.

A Korean expert said that, to North Korea's leaders, creating a nuclear arsenal is cheaper than trying to maintain a strong conventional force of more than one million



well-equipped personnel. Economically, North Korea cannot hope to compete with South Korea's armed forces. In the past, North Korea successfully used provocations to obtain foreign aid. North Korean leaders may still believe that this tactic will allow them to pursue nuclear and economic development simultaneously. Another Korean expert argued that there will be no substantial change in North Korea's strategy. Its basic strategy has always been military-first and that has never changed. North Korea is using nuclear weapons development to maintain its military-first policy. However, the international sanctions on North Korea, as long as it does not abandon its nuclear weapons program, will limit its efforts to promote economic growth.

Participants discussed at length North Korea's decision to withdraw its workers from the North-South industrial complex in Kaesong, in spite of the loss of the relatively large amount of cash that the move entailed for the regime. Participants also noted that this is the first time that Pyongyang has taken such drastic action against the joint project, despite heightened tensions in years past.

A Korean suggested that Pyongyang made a big mistake in withdrawing its workers from Kaesong, in the process revealing the regime's weakness. North Korean leaders appear to have feared ideological "pollution" of the North Korean workers due to their exposure to South Korean managers. As more than 54,000 North Korean workers were employed in the complex, and more and more people were being mobilized from outside the Kaesong region, the North Korean regime may have feared that these laborers would return to their towns and spread information gained from the South Korean workers they worked with. The profits from Kaesong went to the Kim family rather than the North Korean military. In the past, the North Korean military made a number of threats against Kaesong. The withdrawal of the workers suggests that the North Korean leadership is unstable, as did the conducting of a third nuclear test in the face of strong PRC opposition. Another Korean expert believed that by closing the Kaesong Complex, North Korea aimed to pressure the Park government into changing its North Korea policy. It will take much for North Korea to repair its relationship with China after its series of serious provocations during recent months, including the third nuclear test.

As discussion shifted to inter-Korean relations, an American raised the issue of the new South Korean administration's North Korea policy. Is the Park administration's "trust process" different from the North Korea policy of the Lee Myung-bak government? In some ways, the implementation of Park's policy actually appears tougher than that of Lee's. Why, for example, has the Park administration not responded in a more forthcoming way to North Korea's recent proposals for talks?

A Korean responded that while North Korea had initiated inter-Korean talks, it then boycotted them when the South did not fall for the North's ploy of trying to send a lower-ranking negotiator than the South. North Korea was never really serious about discussing anything substantial, and had proposed talks only in response to Chinese pressure. Another Korean agreed, noting that Pyongyang had proposed North-South talks immediately before the Obama-Xi summit in a transparent effort to deflect international pressure against it.

An American recalled that newly inaugurated President Obama had been prepared to negotiate with North Korea in 2009 until the North went forward with its second nuclear test. North Korea's revelation in 2010 of its uranium enrichment facility at Yongbyon

had destroyed whatever remaining credibility North Korea may have had in Washington and made it clear that there was no credible way to establish a verification regime even if a nuclear deal might be reached. U.S. policy toward North Korea had thus switched to containment, including bolstering South Korean defenses, increasing missile defense, strengthening nonproliferation measures, gradually increasing sanctions on North Korea, and putting more pressure on China to play a more active role. Even the appointment of engagement-oriented secretaries of state and defense was unlikely to result in any fundamental change in U.S. policy toward Pyongyang in coming years.

A Korean said that the Park administration's North Korea policy appeared to be more flexible than that of her predecessor but was in fact tougher. President Park has made North Korea's denuclearization a precondition for strategic talks and large-scale aid. In their summit joint statement, Presidents Park and Xi agreed that North Korean nuclear development constituted a threat to the peninsula. Having China acknowledge this publicly represented a notable accomplishment of the Park administration.

A different Korean expert, however, stressed that President Park's trust-building process on the Korean Peninsula had at least given North Korea room to propose talks. The Lee administration had not allowed for such a move without substantial progress on denuclearization, but the Park administration was aiming to improve relations with the North by setting no preconditions for talks or humanitarian assistance. Food aid to North Korea ought to be continued regardless of the political situation, but the Park administration is making a clear distinction between humanitarian aid and economic development cooperation. The latter should be provided only when there has been substantive progress in denuclearization. China's reasoning for taking a sterner attitude toward North Korea is unclear, but it might be based in part on the greater weight that China ascribes to its relationship with the United States as compared to that with Pyongyang.

An American commented that the attitude of Korean participants in the Forum toward China seemed to have become more positive in the wake of the Obama-Xi and Park-Xi summits. China had the potential to be a game-changer, but it had not yet changed its fundamental attitude toward the North.

## **II. THE U.S.-ROK ALLIANCE**

A Korean expert said that the U.S.-ROK alliance has served as an anchor to Korean security, economic growth, and democratization, but the two countries should begin to discuss ways of moving beyond a bilateral relationship aimed largely at defending against North Korea, toward a regional and global partnership. China's continued economic growth and military expansion have established a new security environment in the region as well as in the international arena in which China hopes to enjoy higher status, and America's pivot to Asia has been interpreted by the Chinese as an attempt to counter their growing influence. Meanwhile, Japanese leaders have been denying Japan's wartime wrongdoings, seeking to stoke nationalist feelings for domestic political gain. In response, the Park administration has proposed a trust-building process on the peninsula and in the broader Northeast Asian region. The United States needs to deepen its involvement in the region, not just by taking additional security measures but also by actively mediating history conflicts.

Participants differed about the advisability of the planned—and already once delayed—transfer of wartime operational control (OPCON) over ROK forces from the United States to the ROK. Some supported keeping to the scheduled transfer in 2015; others felt that the current security situation on the Korean Peninsula necessitated a more thorough evaluation of the timing and possibly even of the transfer itself. A Korean said that the transfer was psychologically important; with it, Korean military leaders would become more strategic in their thinking. Another Korean, however, said that the South Korean public has become increasingly uneasy about keeping to the schedule in light of North Korea's continuing nuclear weapons development and its attacks on the South.

Another Korean wondered whether the United States would ever actually agree to have the commander of U.S. forces in Korea act as the deputy to a Korean general, as the current transfer plans contemplate. Some participants noted that it has been American practice not to permit its forces to be commanded by foreigners, while others said they believe the United States will have no problem with the planned changes. A Korean felt that the transfer should proceed as planned, along with complementary measures such as a new combined forces command system in which the two forces will continue to conduct combined planning, drills, and exercises. South Koreans have already begun to take the lead in some combined exercises, so implementing the transfer as planned, without further delay, should be no problem.

An American strongly recommended that South Korea continue with the current Combined Forces Command or at least replace it with a very similar system. Another American, however, said that South Korea would have greater negotiating leverage with China if a South Korean serves as the commander of all forces in the South. It would be easier for the Chinese to deal with a South Korean commander on Korean issues than with an American commander.

An American expressed concern that South Korean military manpower will soon be significantly reduced due to the birth dearth in the ROK. Also, too little contingency planning is underway for scenarios such as the collapse of North Korea, the beginning of a civil war in North Korea, or the aftermath of such a war. Thus, even with the much greater conventional forces that South Korea has at its disposal today, the United States and the ROK may fail to unify the peninsula or restore order to North Korea in the event of such a scenario. Since there is also a great chance of Chinese intervention following a North Korean collapse, all of the concerned should set rules of engagement in advance to reduce the risks of dangerous accidents taking place between U.S.-ROK and Chinese forces.

The American stressed the importance of measures to prevent the North's using nuclear weapons, including better intelligence on North Korea's nuclear facilities and leadership, an improved ability to intercept any launched weapons, and the formulation of active defense measures to be employed before any missile hit the ground.

Several Korean experts recommended consideration for the redeployment of U.S. tactical nuclear weapons to the ROK. One said that having tactical nuclear weapons in South Korea would increase the South Korean people's sense of security and serve to deter North Korea. Another Korean felt that if North Korea could not be induced to denuclearize through dialogue or sanctions, South Koreans would be left only with the option of creating a balance terror—that is, by having the same kinds of weapons in South Korea.

In response, an American expert cautioned that housing tactical nuclear weapons in South Korea could turn South Korea into the primary target for a North Korean nuclear attack while keeping such weapons outside South Korea would have a stabilizing effect. Regarding South Korean popular opinion, he recalled that USFK had had to remove its air training range in South Korea in part because some South Koreans feared it represented a tempting target for a North Korean strike.

Participants expressed concern about heightened tensions between Japan and South Korea over history issues. Some urged greater U.S. efforts to ease the tensions and resolve the issues. An American worried about the impact of the change in government in Japan; he asserted that the United States should help Korea to clearly communicate to Japan that some of its words and deeds have been unacceptable. U.S. involvement would be beneficial, because Japanese leaders care less about South Korea than American criticism. A Korean expert agreed that the United States should urge Japan to adopt a more responsible attitude about its history.

Many participants agreed that relations between the United States and China and between China and South Korea have improved and that China has begun to take a more objective attitude toward North Korea. A Korean, however, argued that China will continue to view North Korea as a buffer zone. An American countered that China today is less concerned about an invasion through the Korean Peninsula than it is that North Korea's provocations might trigger a reaction from the United States or South Korea or both, in the worst case resulting in a war up to the Chinese border. Chinese protective gestures toward North Korea have been aimed at reducing the risk of what China regards as a potential overreaction to North Korean provocation by the South or the United States, rather than being a response to concern about Korean unification.

Several participants said that the managers of the U.S.-ROK alliance need to have a clear set of priorities among issues such as North Korean denuclearization, other North Korea issues, humanitarian issues, and China's rise. A thorough evaluation of potential challenges in the Northeast Asian region will help to improve coordination and cooperation between the United States and the ROK, even after the disappearance of an active North Korean threat. The U.S.-ROK alliance should take into account regional changes, including non military issues of common interest. This will help to provide a rationale for the continuation of the alliance following Korean unification and the resolution of security threats.

### **III. NORTHEAST ASIAN REGIONAL DYNAMICS**

An American opened the third session by asking how the Park administration's *trustpolitik* toward North Korea and Northeast Asia differs from the traditional concept of confidence-building, whether distrust itself is a major obstacle or just a reflection of substantive differences, and what steps the United States should take to support President Park's policy. After four decades of bilateral interaction, Chinese "strategic distrust" of U.S. intentions and objectives has hardened into a conviction that it is only a matter of time before the United States attempts to contain China's rise. The distrust works both ways: the United States feels uncertain about a growing China's intentions and objectives.

The so-called trust deficit in the region exists to some extent even in U.S.-ROK relations, for example, in some South Koreans' questioning of the credibility of the United States' extended deterrence for South Korea. While building trust may be necessary to address critical issues in Northeast Asia, it is not clear how trust can be built, especially with countries such as North Korea.

A Korean explained that the primary reason that the Park administration proposed the idea of a trust-building process was that the lack of trust between the two Koreas had resulted in the nullification of all of their formal agreements—over one hundred of them. The Park administration sought to show its willingness to respect and implement those previously broken agreements. Conceptually, Park's trust-building process is broader than the traditional notion of confidence-building, which is primarily a security-oriented approach. Park's main *trustpolitik* objective in Northeast Asia is to establish a multilateral security body even if the North Korean nuclear issue is not yet resolved, because the prospect of resolving the nuclear issue appears somewhat distant. Northeast Asian nations may begin to form a multilateral body to address less problematic security issues, such as anti-terrorism and nuclear safety, to set the groundwork for trust-building in the region.

An American suggested that the United States might be reluctant to enter into a multilateral forum including North Korea even to discuss issues such as anti-terrorism or nuclear safety. Doing so before the North Korean nuclear issue is resolved could be seen as implying U.S. tolerance or even acceptance of North Korea as a nuclear weapons state.

A Korean noted that President Obama, during his summit with President Park, had expressed support for *trustpolitik* as being "compatible" with U.S. policy. This suggests that the United States will maintain its policy of strategic patience for the time being while supporting South Korea's initiative to improve its own relationship with the North. Perhaps the United States feels it is time for South Korea to take the lead in dealing with the North and some regional issues.

An American agreed. Because the United States has no more cards to play with North Korea, it has no major problem with South Korea taking the lead on North Korea, including working with China. The United States will be comfortable playing "co-pilot." For the United States, the North Korean problem, while important, ranks considerably below China in strategic importance.

A Korean said that the Park government's proposed northeast Asian regional forum will be smaller than the unwieldy ASEAN Regional Forum and will include only countries in Northeast Asia. The participating countries have yet to be decided, and so far only the United States and China have been approached. Since the United States and China could misinterpret Seoul's intentions, Korea will need to make more opportunities to explain its goals and accommodate others' views.

On President Park's expressed desire to strengthen South Korea's ties with China, some participants expressed support while others said that the ROK should continue to give priority to the U.S.-Japan-ROK security relationship. A Korean noted that ROK-PRC trade alone is greater than the total trade volume South Korea has with Japan and the United States combined. An American said he believes the Park administration should prioritize its relationship with China for now, because ties had touched bottom due to the PRC's response to the *Cheonan* incident. The deterioration in ROK-PRC relations had only worked to the advantage of North Korea.

A Korean argued that the Chinese-ROK and Japanese-ROK relationships stand opposed to each other and that the Park administration seems to be putting disproportionate emphasis on South Korea's relationship with China. The ROK's relationship with Japan should not be taken less seriously, even though Japanese leaders' comments on history and territorial issues make it difficult for the South Korean government to improve the relationship.

Regarding the Japanese-ROK relationship and Japanese leaders' handling of history issues, an American suggested that part of the problem is that the Korean media and politicians pay attention only to the voice of the far right in Japan. A Korean said that, while governments seek to base their decisions on strategic interests, public opinion is often driven by emotion. In democratic countries such as Japan and South Korea, politicians must be responsive to the popular will. In authoritarian countries such as the PRC, leaders do not have to take popular views into as much account when determining foreign policy.

A participant said that, despite the ROK's vast economic exchanges with China, South Korea has never succeeded in holding a bilateral dialogue with China on the future of North Korea. A Korean felt that there can be no real political or strategic cooperation between China and South Korea if North Korean issues remain off the table. For South Korea to develop strategic relations with China, the ROK and the United States will need to consult even more closely.

A Korean said that the Park administration also intends to improve its relations with Japan. Since the Japanese government might adopt a more positive attitude after the July 21 Upper House election, the South Korean government should wait until then.

A Korean presented an overview of the current trade regime and trade regime negotiations in the Asia-Pacific region. Three recent trade developments in East Asia are the ongoing China-Korea FTA negotiations, China-Japan-Korea trilateral FTA negotiations, and the Regional Comprehensive Economic Partnership (RCEP), which includes ASEAN+6 countries (China, Japan, Korea, India, Australia, and New Zealand). The Trans-Pacific Partnership (TPP), which involves the United States and ten other nations, is progressing in parallel with various types of economic integration in East Asia. The United States has invited South Korea to join the TPP. The ROK does have an interest in entering the TPP, but for now is focusing on stably implementing its one-year-old bilateral FTA with the United States.

Another Korean observed that the combined GDP of the nine countries with which the ROK has (mostly high-level) FTAs equals 59 percent of total world GDP. Other participants said that South Korea is well ahead of other states in the region in including its trading partners in FTAs and that the ROK can become a free trade regime standard-setter in East Asia.

An American noted that although the China-Japan-Korea FTA negotiations seem not to be making progress, the countries already have a trilateral investment treaty that is of almost as much value to them as an FTA. A Korean countered that the China-Japan-Korea investment treaty lacks any liberalization component and only respects existing investments; it does not address sensitive issues such as service sector investment. The treaty represents a kind of a political agreement and does not contribute to the opening of the investment market. If the two major FTA architectures in the region, the RCEP and the TPP, were to proceed successfully on the principles of open regionalism, there



could be the formation, in the long run, of an overarching “Free Trade Area of the Asia-Pacific”—the ultimate goal of the Asia-Pacific Economic Cooperation (APEC). If this to happen, however, the scope and depth of the RCEP and the TPP integrations must not differ substantially.

Participants hoped that South Korea, on its conclusion of the China-ROK FTA, would play a pivotal role in bridging the RECP and the TPP, as it may be the only major trading nation to have concluded FTAs with both the United States and China. A Korean urged that the United States consider China’s future participation in the TPP; a number of Chinese officials and scholars whom he had met had concerns about the TPP and how matters such as state-owned enterprises and labor issues were discussed in the agreement. An American noted that President Xi had reportedly expressed interest in the TPP to President Obama during their recent summit and that Obama had promised to provide information to China about the TPP. China’s participation in the TPP hinged largely on the question of intellectual property rights (IPR), about which greater trust would likely have to be generated before the PRC could participate. A Korean agreed that Chinese involvement in the TPP would be premature, but another Korean argued that it is essential to include China in trade liberalization regimes, given the size of its economy. The United States should adopt a more moderate position toward China, focusing more on market liberalization, in order to seek opportunities for the TPP to be merged into a larger regional cooperation forum.

Regarding the China-ROK FTA, a Korean said that the leaders of the two countries have agreed to accelerate talks—as of July six rounds have been held—for faster progress. A Korean observed that despite efforts by both governments, the negotiations could face great difficulties on certain matters, such as IPR, service sector investment, and some non-tariff issues. The two sides have already agreed on the degree of comprehensiveness to achieve, but some experts are still doubtful that China will make concessions regarding the service sector. Several participants suggested that a low-level PRC-ROK FTA would be pointless.

A Korean argued that China’s approach to the FTA is politically rather than economically motivated. While South Korea emphasizes economic benefits, by pursuing a high-level comprehensive FTA such as its agreements with the United States and the EU, China would like to restrict negotiations to commodities and tariff rates. Korea has proposed almost 90 percent liberalization measures and China has responded unenthusiastically. Another Korean recounted obstacles to the China-ROK negotiations. For example, China asked South Korea to open up the agricultural and fisheries market—difficult for South Korea given Chinese illegal fishing activities in Korean waters. In such a situation, illegally caught fish would enter South Korea not under penalties but under incentives. South Korea demands concessions on service sector investment, IPR, and non-tariff matters, but China find its difficult to negotiate on these issues.

Asked about South Korea’s reasons to conclude an FTA with China, a Korean responded that because South Korea has trade agreements with the United States, the EU, and India, it can become a hub of FTAs if it also has an FTA with the PRC. South Korea has wanted to incentivize greater foreign investment at home, to better utilize the trading connections that it has with other nations. In sum, all major Korean firms have begun to go abroad, but few foreign firms have come to South Korea. If South Korea reaches an FTA

with China, American and European companies would be willing, despite the high wage rates in Korea, to establish service sectors in Korea because they could then move into China without barriers.

Regarding the China-Japan-ROK trilateral FTA negotiations, halted by China to protest Japan's positions on history and territorial conflicts, participants expressed pessimism that negotiations would progress in the near future. Without the cooperation of China, Japan, and South Korea, the three biggest economic actors in the region, it will be hard to realize the economic integration of East Asia.

On Japan-ROK FTA negotiations, which had begun but were aborted after one year, a Korean noted that the FTA was welcomed by Korean farmers because South Korea exports a great deal of agricultural products. For this reason, South Korea has proposed 97% liberalization of manufactured items and 90% of agricultural products. Japan, while agreeing on manufactured goods, will accept only 75% liberalization of agriculture products, and the two have not been able to come to terms on non-tariff issues. Since Japan and South Korea did not see the benefit of having such a low-level FTA, they suspended negotiations altogether.

A Korean cautioned that increased economic integration and cooperation does not necessarily result in a more stable political situation or contribute to trust building, as the examples of China, Japan, and South Korea so far demonstrate. Politically sensitive questions, such as the history issue, seem unaffected by increased trade.

On the FTA between the United States and the ROK (KORUS FTA), a Korean said that implementation is going very well. The real value of an FTA is the implementation process. Eighteen groups or subgroups exist within the KORUS FTA, and representatives from both sides meet regularly to deal with specific items. No serious opposition to the KORUS FTA's implementation has arisen in South Korea so far, perhaps in part because South Korea's exports to the United States have increased more than its imports from the United States.



## **PARTICIPANTS OF THE TENTH FORUM**

### **REPUBLIC OF KOREA**

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