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C O N F I D E N T I A L SEOUL 001241

SIPDIS

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SUBJECT: SCENESETTER FOR CODEL BERMAN'S VISIT TO KOREA

Classified By: Deputy Chief of Mission Mark A. Tokola.

Reasons 1.4 (b),

(d).

짖 1. (C) SUMMARY: CODEL Berman, welcome to Korea. The alliance between the U.S. and the Republic of Korea (ROK) is strong, enduring, and strategically important. Your visit follows the successful June 16 U.S.-ROK Presidential Summit and adoption of the Joint Vision Statement. The Joint Vision Statement was well-received here, both for its recommitment

to a continued strengthening of our security relationship (including its affirmation of the U.S. nuclear umbrella and extended deterrence to the ROK), and for outlining what a 21st century U.S.-ROK relationship entails. To realize this vision, we will need to continue to expand our cooperation, both regionally and globally. Security in the region, particularly in view of North Korea's continued belligerent posture and Kim Jong-Il's declining health, is important to Korean officials. Like us, the ROK supports the Six Party Talks and remains adamant that we should not recognize North Korea as a nuclear state. Your South Korean interlocutors are very interested in how you view the proposed North Korean contingency plan, and prospects for denuclearizing North Korea.

썩 2. (C) President Lee has faced criticism from his opponents for his inability to generate momentum for the Korea-U.S. (KORUS) FTA in Washington. Ratification of the FTA is seen as a sign of America's strategic commitment in northeast Asia. President Obama's statement at the April G20 meeting with Lee, that the U.S. wanted to find a way forward on the KORUS FTA, allayed some of the anxiety in Seoul, and enabled Lee to push the FTA through the committee of jurisdiction in Korea's National Assembly in late April. A full plenary vote in the National Assembly has not been scheduled; while opponents are vocal, the KORUS FTA continues to receive about a 60 percent approval Korean public opinion polls, is strongly supported by the majority GNP party, and is expected to pass once there is some sign of movement in Washington. The Obama Administration is conducting a thorough review of the KORUS FTA and consulting closely with all stakeholders to understand the exact nature of their concerns, and to develop

recommendations for addressing them. To assist with this review, and to ensure that all who may have an interest in this free trade agreement are able to fully express their views, we issued a Federal Register Notice on July 27, 2009, requesting comments on the KORUS FTA. End Summary.

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BACKGROUND  
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썩 3. (C) The ROK, with its vibrant democracy, free market, high-tech economy, highly educated population, free press, and ever-deepening people-to-people ties with the United States, is a striking success story, including for U.S. foreign policy. Our intensive engagement with the ROK since its founding in 1948 exemplifies the importance of all three pillars Secretary Clinton has outlined describing U.S. foreign policy: defense, diplomacy, and development. South Korea's success is based on a shared commitment to defense, as shown by the 28,500 U.S. troops still on the Peninsula, the substantial development assistance the U.S. provided after the Korean War, and our close diplomatic cooperation to achieve a denuclearized North Korea and a more secure and prosperous future for the region.

썩 4. (C) Now a developed country with a tested democratic system, South Korea increasingly has the capability as well as the political will to assume larger regional and global roles. Your visit will encourage your interlocutors to become even more active partners with us on issues ranging from human rights promotion to climate change to sea piracy to counter-terrorism. We share values and strategic goals

with this highly capable ally; we need to give substance to our shared aspiration to upgrade our bilateral relationship, making it a global partnership.

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The Domestic Situation  
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썩 5. (C) President Lee, of the center-right Grand National Party (GNP), began his single five-year term in February 2008, ending ten years of center-left control of the Presidency. In April 2008 the GNP won a solid majority over the main opposition Democratic Party (DP) in the unicameral National Assembly. The GNP's success at the polls, however, belied the lack of consensus among the South Korean public on domestic political issues like media law reform, labor relations, tax policy, and education. President Lee has struggled with low approval ratings -- about 30 percent -- since taking office, especially following his decision to re-open the Korean market to U.S. beef last year. In the National Assembly, the GNP and DP have even lower approval ratings than President Lee, resulting in a virtually deadlocked domestic agenda.

썩 6. (C) President Lee has remained publicly disengaged from the squabbling in the National Assembly and is focusing instead on foreign policy, resource diplomacy, and international cooperative efforts on green growth, climate change, and overcoming the economic crisis. He campaigned on a pledge to strengthen the U.S.-ROK alliance, and is widely seen as having been successful. With China and Russia, he

has substantially expanded the ROK's economic and political ties. He has attempted to overcome historical animosities with Japan to advance Korea-Japan ties based on Korea's pragmatic interests, but sensitivities to Japan's colonization of Korea run deep. Looking wider, President Lee is actively cultivating new ties with Southeast Asia, Central Asia, and Europe.

썩 7. (C) Former President Kim Dae-jung's health has been failing and he is currently hospitalized in Seoul in intensive care. The prognosis for President Kim, who was in office 1998-2003 and who is 84, is not good.

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The Alliance  
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썩 8. (C) For over half a century the U.S.-ROK alliance has provided the foundation for peace and prosperity in Northeast Asia. The ROK has benefitted greatly; neither the economic "Miracle on the Han" nor Korea's democratic flowering would have been possible absent a U.S. defense shield and economic assistance and support. The U.S. too has benefited. USFK (U.S. Forces in Korea) is our only troop presence in mainland East Asia, and South Korea contributes billions of dollars to USFK operating expenses.

썩 9. (C) The Summit Joint Vision Statement offers a compelling vision of expanding the role of the U.S.-ROK alliance regionally and globally. On the Korean Peninsula, we are also working to strengthen, further broaden, and appropriately evolve the security relationship by

implementing three key bilateral transformation agreements known as YRP, LPP and STP.

-- YRP: The Yongsan Relocation Plan will relocate the headquarters of U.S. Forces (USFK) from the middle of Seoul to a new, purpose-built war-fighting headquarters south of the city, thereby giving back to the Koreans a large tract of land historically associated with Japanese occupation which they plan to turn into a central park. Progress on the implementation of YRP continues but construction to prepare U.S. Army Garrison ) Humphreys, the hub for the relocation, continues on schedule but faces obstacles that require President Lee,s and his administration,s support if we are to meet the agreed 2014 completion date.

-- LPP: The Land Partnership Plan will consolidate over 100 U.S. military bases spread all across Korea into two key strategic hubs south of the Han River, replacing an outdated military footprint from the end of the Korean War with a modern and better-positioned force posture. The ROK Ministry of National Defense (MND) seeks to complete the LPP by the end of 2015.

-- STP: The Strategic Transition Plan is the process under which we are transferring wartime operational control (OPCON) of South Korean forces from the U.S. military to the ROK military by April 17, 2012. President Lee has emphasized the need to keep the spotlight off of wartime OPCON transition due to increased scrutiny by ROK domestic opposition groups regarding the April 17, 2012 transition date (in the wake of North Korea,s recent claimed nuclear test). We are continuing to emphasize the process for close cooperation in

reviewing OPCON transition progress through the SCM and management of messaging and public perceptions to highlight the value of the restructuring.

썩 10. (C) We must continue to emphasize the importance of completing the two relocation elements of USFK transformation, YRP and LPP. Those agreements, signed in 2004, did not come with appropriated funds. The Master Plan, finished in 2007, lays out the cost and timeline but the ROKG has yet to request funding from the National Assembly. Other U.S. and ROK private sector initiatives are failing to fill the funding gap. As a result, alliance transformation, which was originally scheduled for completion in 2008, is facing a delay of many more years. To avoid further delays, the ROKG must make implementation of these moves a priority. For our part, we must be clear and consistent in identifying our own top priorities .

썩 11. (C). The time is right to expand the areas in which the U.S. and the ROK cooperate on global security issues. You may want to raise the following areas where the ROK may be ready to increase its global security role:

-- Afghanistan: The ROKG is planning to provide more assistance and training in Afghanistan, including building a new hospital and a training center in Bagram, and contributing ambulances, motorcycles, and police trainers. However, we need a lot more from the ROK, especially financial support for the Afghan Army, for which we have requested USD 100 million a year for five years, which is the USG primary request of the ROK. The ROKG also is considering sending a Provincial Reconstruction Team (PRT) to

Afghanistan, which we would welcome, but we also have insisted that any such PRT include a military unit to provide for its own security. Such a deployment (the PRT as well as any other military assets, such as an ISR unit ) intelligence, surveillance and reconnaissance) will need National Assembly approval, which will pose difficult, but not insurmountable, political problems for President Lee.

-- UN Peacekeeping Operations: The National Assembly is deliberating on a bill that will allow the ROK military to be deployed for peacekeeping missions without prior legislative approval. In the meantime, the National Assembly in July approved extending the ROK's PKO deployment in Lebanon until the end of December 2010. The ROK has contributed 367 soldiers for peacekeeping in Lebanon since 2007 and is participating in eight other PKO operations around the world. As of January 1, 2008 the ROK was the 10th largest provider of assessed contributions to the UN PKO budget.

-- Combating Piracy off Somalia: The ROK is a member of the Contact Group on Piracy off the Coast of Somalia. Additionally, the ROKG deployed a 4,500 ton class destroyer equipped with a Lynx helicopter and rigid inflatable craft to the Gulf of Aden to be part of the maritime security operations of the combined maritime forces. The destroyer carries up to 310 personnel.

-- Proliferation Security Initiative: In response to the DPRK's May rocket launch and nuclear test, the ROK on May 26 joined the U.S.-initiated Proliferation Security Initiative (PSI). In June the ROK participated in a PSI meeting in Poland, and held a workshop in Seoul in July. The ROKG plans

to attend the next workshop in Sydney in September, and has expressed interest in attending the interdiction exercises in Singapore in October. PSI is an international, interagency effort aimed at preventing or interdicting the proliferation of weapons of mass destruction using existing domestic laws and established international agreements. The ROKG currently is formulating an interagency strategy for its effective PSI participation.

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U.S.-ROK Global Partnership  
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췉 12. (C) The ROK also wants to play a bigger role on other global issues and the following are good areas for increased cooperation:

-- Democracy and Human Rights: The ROK has demonstrated a new readiness to address human rights concerns in the DPRK, co-sponsoring the annual UNGA North Korea human rights resolution in 2008 for the first time. In October 2008 the ROK agreed to chair the first Senior Officials' Meeting of the Asia-Pacific Democracy Partnership, a U.S.-supported regional subset of the Community of Democracies.

-- Climate Change: Korea, the 13th largest per capita emitter of greenhouse gases and the world's 15th largest economy in terms of GDP, is playing a constructive role in discussions on global climate change. The ROKG shares the U.S. view that that investment in new and renewable energy sources not only can reduce greenhouse gas emissions, but also can create jobs, spur economic growth, and enhance

energy security. The U.S. Department of Energy is engaged in a variety of collaborative R&D activities with Korea, including in nuclear energy, fusion, gas hydrates, "smart grids," and other new and renewable energy technologies, but there is room to expand and strengthen our cooperation.

-- Development Assistance: Korea's overseas development assistance program currently includes nearly USD 500 million in Official Development Assistance (ODA), as well as a roughly similar figure for North Korea (suspended). The ROKG target is to triple ODA (as a percentage of GDP) by 2015. With limited functional and regional capacity, Korea should be receptive to policy discussions on ODA coordination.

-- Counter-Proliferation: The ROKG has told Iranian counterparts at every opportunity that Tehran's uranium enrichment activities are unacceptable and has supported the P5-plus-1 incentives package.

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FTA and Economic Issues  
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썩 13. (C) President Lee has faced criticism from his opponents for his inability to generate momentum for the Korea-U.S. (KORUS) FTA in Washington. President Obama's statement at the April G20 meeting with Lee, that the U.S. wanted to find a way forward on the KORUS FTA, allayed some of the anxiety in Seoul, and enabled Lee to push the FTA through the committee of jurisdiction in Korea,s National Assembly in late April. A full plenary vote in the National Assembly has

not been scheduled; while opponents are vocal, the KORUS FTA continues to receive about a 60 percent approval Korean public opinion polls, is strongly supported by the majority GNP party, and is expected to pass once there is some sign of movement in Washington. The Obama Administration is conducting a thorough review of the KORUS FTA and consulting closely with all stakeholders to understand the exact nature of their concerns, to develop recommendations for addressing them. To assist with this review, and to ensure that all who may have an interest in this free trade agreement are able to fully express their views, we issued a Federal Register Notice on July 27, 2009, requesting comments on the KORUS FTA.

썩 14. (C) Korea is our seventh largest trading partner, with total merchandise trade in 2008 of over USD 82 billion (and more than USD 100 billion if services are included). The U.S. International Trade Commission estimated in September 2007 that U.S. merchandise exports to Korea would expand by USD 10-12 billion on an annual basis as a result of the FTA and that services exports would also expand. The United States has traditionally been the ROK's biggest trading partner in the post-WWII era. One tangible sign of China's growing importance in Asia and in Korea, however, is that China displaced the United States as Korea's top trading partner in 2004. By 2008, China-ROK merchandise trade reached USD 168 billion, doubling the U.S.-ROK total. With respect to North Korea, China accounts for nearly 50 percent of that country's total trade. The growing economic and political role of China on the Korean peninsula is one of the most important motivations for Korea to enter into FTA negotiations with the United States. Successive ROK Governments have seen the ratification and implementation of

the KORUS FTA as symbolic of the U.S. will to remain fully engaged in Northeast Asia in the face of increasing Chinese influence.

썩 15. (C) Korea also wants to conclude an FTA with the United States because Korean economic reformers recognize that the Korean economy needs to liberalize and open in order to promote greater competitiveness vis--vis China and Japan. South Korea has concluded a number of FTAs and launched negotiations on others since the signing of the KORUS FTA negotiations on June 30, 2007. The ROK has implemented FTAs with Chile, Singapore, EFTA, and ASEAN (except investment). The ROK has concluded negotiations with India and signing is reportedly imminent. Negotiations are underway with Canada, Mexico, the Gulf Cooperation Council, Australia, New Zealand, and Peru. In July, the ROKG announced that negotiations on the EU-Korea FTA were concluded (but the agreement is not yet signed). ROK media have been filled with stories of the increasing economic weight of Europe in Korea as a result of the FTA. The Board of Governors of the American Chamber of Commerce has expressed concern that the EU-Korea FTA will disadvantage the competitiveness of U.S. firms vis--vis their European competitors in Korea.

썩 16. (C) The reopening of the beef market was accomplished in an April 2008 agreement separate from the FTA. Under this agreement, the United States and Korea agreed to reopen Korea,s market to U.S. beef and beef products in a manner fully consistent with international standards and science. In June 2008, following massive street protests in Seoul, U.S. beef exporters and Korean beef importers reached a temporary commercial agreement to only export beef and beef

products from cattle under 30 months of age, as a transitional measure, until Korean consumer confidence improves. While beef sales have not yet returned to past levels due to Korea,s currency exchange fluctuations, increased competition from Australian beef, and lingering public concerns about the safety of U.S. beef, the market is open and we expect increased sales over the medium term. Korea is also watching closely our ongoing negotiations with other countries that have stricter restrictions on U.S. beef.

썩 17. (C) On the global financial reform discussions, Korea is a strong ally in the G-20 process (which it will chair in 2010). Korea is enthusiastic about the G20 as the global forum for action on the global financial system. The ROKG is concerned that European countries are advocating other formulas for such discussions that would exclude Korea. Within the G20, President Lee has called for a strong fiscal response and refraining from protectionism as well as necessary regulatory improvements. President Lee Myung-bak has strongly argued that it would be premature to withdraw the national fiscal stimulus packages at this juncture. Korea sees itself as lining up on the U.S. side on almost all G20 debates.

썩 18. (C) The Korean economy is looking better and is increasingly forecast to be one of the first major economies to emerge from recession. The benchmark KOSPI stock index in early August reached the highest level since mid-August 2008 and the won, the Korean currency, closed at 1218 per dollar on August 4, the strongest level since October 14, 2008. Most analysts foresee further strengthening of the won in the months ahead. The picture looked far different last fall,

when the financial crisis hit Korea hard. A USD 30 billion swap line extended by the U.S. Federal Reserve in October, as the Korean won was plummeting and Korea looked to be on the brink of a financial panic, helped Korea weather the worst of the storm, and gained tremendous gratitude. The later Japanese and Chinese swap mechanisms did not have the same impact. In the closing months of 2008 Korea experienced dramatic contraction of demand for its exports. The ROKG's stabilization and stimulus packages mitigated the impact and the weakened currency has generated a significant current account surplus in recent months. Sectors of the Korean economy facing restructuring challenges include construction, shipbuilding, shipping and automotive. GM Daewoo, GM's Korean subsidiary, is negotiating with the Korea Development Bank for a sizeable loan to restructure its operations.

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North Korea  
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썬 19. (C) Presidents Obama and Lee agreed to send a clear message to North Korea that its provocations come at a price. They also agreed on principles to deal with North Korea's nuclear and missile threats, including commitments to achieving the "complete and verifiable elimination" of North Korea's nuclear weapons and existing nuclear programs as well as the ballistic missile program. Korean officials continue to seek assurances that the United States will consult closely with the ROK on its North Korea policy and that the United States will not recognize North Korea as a nuclear state.

썩 20. (C) North Korea policy is almost always the most sensitive issue on the South Korean agenda. Fifty-five years of alliance notwithstanding, the ROKG still fears being left out or surprised by Washington's initiatives or policy changes on North Korea. Simply put, the ROKG must be seen by South Koreans as being informed and consulted on all USG moves on North Korea. Korean officials see Washington and Seoul as partners in forming and implementing policies toward the North and consistently seek affirmation that Washington will not allow Pyongyang to drive a wedge between us.

썩 21. (C) There is virtually no chance of early improvement in South-North relations; President Lee is determined to stick to principle and to insist on a more reciprocal relationship with the North, and Kim Jong-il will not give in for his own domestic reasons. Importantly, South Koreans appear tired of, but not particularly bothered by, the continuing threatening rhetoric from the North, and therefore seem largely comfortable with their government's stance. Heightening tensions in the West Sea and missile launches have created less public anxiety than might be expected. The ROKG will welcome the opportunity to present with you a united front of calm and determination toward the North, combined with a call to return to the Six- Party Talks.

썩 22. (SBU) The Kaesong Industrial Complex (KIC) is the only remaining joint economic project between North and South Korea. (The other joint venture, Mt. Kumkang tours, was closed on July 11, 2008, after North Korean security forces shot a South Korean tourist to death.) Located in North Korea, six miles north of the DMZ, the KIC opened in December 2004 and is home to 106 ROK-owned factories employing

approximately 40,000 North Korean workers (84 percent are women age 20-39). Since late 2008, North-South tensions regarding the KIC have increased. The DPRK closed the border temporarily on multiple occasions, and has placed limits on the number of South Korean employees allowed in the KIC. The DPRK is demanding drastically higher wages for employees (up from USD 55 to USD 300 per month), construction of additional dormitories and an additional fee of USD 500 million for land usage.

썩 23. (SBU) North Koreans detained a South Korean Hyundai Asan employee working at KIC on March 30, accusing him of defaming North Korea and attempting to suborn a North Korean female worker. In addition to securing the release of the ROK citizen, South Korea's priorities at the KIC include guaranteeing employee safety, freedom of access and border-crossing, and increasing the number of North Korean workers brought in from outside the Kaesong area. Although the South Korean firms at KIC are concerned about the current tension and complain of financial losses, only one company has withdrawn from KIC to date.

썩 24. (SBU) The DPRK and the ROK have held four rounds of negotiations between April and July 2009 without any breakthrough, with the most recent session taking place on July 2. Both sides appear to be committed to continuing KIC operations. The United States has consistently supported North-South dialogue and expressed hope that the two sides will resolve their disputes over the KIC.

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VWP/WEST

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썩 25. (U) The ROK was included in the the Visa Waiver Program (VWP) in October 2008. This step has been a success in facilitating travel and improving people-to-people ties between nations. As of the beginning of July, approximately 200,000 Koreans had applied for VWP approval using the ESTA (Electronic Approval for Travel Authorization). More than 99 percent of the ESTA applications have been approved and we continue to see an upward trend in ESTA usage.

썩 26. (U) The WEST (Work, English Study, and Travel) program, inaugurated in March 2009, allows qualifying college students and recent graduates to enter the U.S. for up to 18 months on J-1 exchange visitor visas that allow them to study English, participate in professional-level internships and travel independently. A group of 185 Korean students have already travelled to the U.S. on the WEST program and a second wave of 159 is preparing to depart. As of December 2008, there were 110,000 South Koreans studying in the U.S. at all levels, from elementary to graduate school. According to Korean Ministry of Education data for 2007, 27% of all post-graduate students choosing to study abroad chose to study in the U.S.

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The Bottom Line

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썩 27. (C) South Korea is a like-minded, energetic partner that is ready, prepared, and wants to have a broader and deeper alliance with the United States. Koreans would like the

alliance to be a lot more than a security arrangement. Yes, they want more say, even a more equal relationship, but this is only part of their motivation. Rather, they see that their ties with the U.S. are deeper now than ever; witness, for example, the two million-strong Korean American community, and the enormous numbers of Koreans studying in the United States. Above all, however, a very large majority of South Koreans are convinced that the ROK and the United States have shared values and shared strategic interests. It's time to take the relationship to a new level of global partnership, even as we deepen our cooperation on the Korean peninsula.

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Your Meetings  
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썩 28. (C) You are scheduled to meet with President Lee Myung-bak, National security Advisor Kim Sung-hwan, Foreign Minister Yu Myung-hwan, Trade Minister Kim Jong-hoon, Speaker of the National Assembly Kim Hyong-o, and Chairman of the National Assembly Foreign Affairs, Trade and Unification Committee Park Jin. Likely topics of discussion include:

-- North Korea: Your interlocutors may seek assurances that the U.S. will consult closely with the ROK on its North Korea policy and that the U.S. will not recognize North Korea as a nuclear state.

-- U.S.-ROK Alliance: Your interlocutors may stress the importance of the U.S. commitment to the defense of the Korean peninsula.

-- Global Partnership: Your interlocutors may gauge your level of interest in ROK contributions to reconstruction and stabilization of vital countries such as Afghanistan and Pakistan; ROK peacekeeping in Lebanon; and anti-piracy efforts off the coast of Somalia.

-- FTA: Your interlocutors will seek your views on the prospects for Congressional approval of the agreement. The Trade Minister will stress that the FTA represents a balance of American and Korean interests and that the ROKG cannot re-negotiate the text of the FTA.

STEPHENS