

Advancing U.S.–Korean Economic Cooperation for a Post-Pandemic World

Anthony B. Kim and Ambassador Terry Miller

KEY TAKEAWAYS

The U.S.–South Korea alliance is a linchpin of peace and prosperity in Asia, based on shared values, people-to-people ties, and powerful economic cooperation.

The U.S. and South Korea have much to gain from an ever-evolving partnership and should work together on key strategic fronts to move the alliance forward.

Priority areas of focus should include maximizing KORUS, expanding the Blue Dot Network's scope, and encouraging bilateral 5G and biomedical research.

During his recent phone call with his South Korean counterpart, Secretary of State Mike Pompeo highlighted the two countries' close cooperation on fighting COVID-19, reaffirming the strength of the U.S.–Korean alliance, “which continues to be the linchpin of peace and security in the Indo-Pacific and around the globe.”¹

From a foreign policy perspective, the global pandemic has highlighted the importance of practical partnerships with like-minded and willing allies like South Korea. The need for close cooperation to preserve and advance freedom, civil society, and other democratic values; to push back together against potential adversaries or deal with international challenges to health, safety, or the environment; and to foster the trade and investment flows that allow economies to grow and ensure prosperity has never been greater. In this context, the priorities for strategic

This paper, in its entirety, can be found at <http://report.heritage.org/ib5081>

The Heritage Foundation | 214 Massachusetts Avenue, NE | Washington, DC 20002 | (202) 546-4400 | heritage.org

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

bilateral economic discussions between Washington and Seoul should include (1) maximization of the U.S.–Korea Free Trade Agreement (KORUS FTA); (2) enlargement of the Blue Dot Network’s scope and practical application; (3) development and commercialization of fifth-generation (5G) wireless technology and biomedical technology; (4) cooperation in energy production and trade, and (5) joint strategic engagement with countries in the developing world to nurture economic freedom and free-market institutions.

South Korea: America’s Proven Business Partner

For generations, the U.S.–South Korean alliance has been the linchpin of peace and prosperity in Northeast Asia. South Korea’s relationship with the U.S. is based on shared values, people-to-people ties, and leading-edge business cooperation led by global companies in both countries. The bilateral relationship is one of the strongest and most successful built by America since the end of World War II. Once a recipient of U.S. development assistance, South Korea has become one of the richest countries in the world, with purchasing power per capita approximating levels in Japan or the United Kingdom. According to The Heritage Foundation’s annual *Index of Economic Freedom* that measures a country’s overall business environment, South Korea ranks 25th in the world as a “mostly free” economy.²

The recent \$60 billion bilateral currency-swap agreement to relieve a possible liquidity crunch caused by the pandemic demonstrates the joint U.S.–Korean commitment to maintaining the two economies’ resilience. In fact, the United States and South Korea have put into place a framework for a fruitful economic partnership that is delivering measurable, concrete benefits for Americans and Koreans alike. Dynamic trade and investment activities have deepened and broadened the economic relationship, particularly since March 2012, as interaction between the two countries has become more multifaceted and institutionalized through the implementation of the KORUS FTA.

Priorities for U.S.–South Korean Economic Cooperation

Unquestionably, the current pandemic-induced economic downturn is deeper, wider, and more complex than past economic challenges. In such circumstances, the resilience of countries like South Korea is especially valuable.

The United States and South Korea have fought side by side against common foes in the past. The same determination and cooperation is required to defeat COVID-19. South Korea's admirable performance to date shows exactly why it is important for the United States to stay engaged with international allies, who have much to offer in light of their own experiences, and considerable expertise to augment that of the United States.

Beyond the fight against COVID-19, however, much more can be accomplished with a reliable partner like South Korea in promoting freedom, opportunity, and prosperity at home and around the globe. The United States and South Korea have much to offer to each other, and much to gain from their ever-evolving partnership on many key policy fronts. Washington and Seoul should work together to move the U.S.–South Korean alliance onward and upward by:

1. **Making renewed and strategic efforts to maximize the utility of the KORUS FTA.** Since the KORUS FTA's implementation in 2012, bilateral trade flows have increased, with U.S. services exports rising from \$6.5 billion in 2012 to \$23.1 billion in 2019, and auto imports from \$9.7 billion in 2012 to \$25.2 billion in 2019.³ Foreign direct investment (FDI) has also increased markedly since 2012, with the stock of South Korean investment in the United States nearly tripling to \$58.3 billion in 2018 (latest data available) and U.S. FDI to South Korea increasing by almost 50 percent to \$41.5 billion.⁴ Enhancing trade and investment facilitation in the framework of the KORUS FTA—particularly to deal with trade uncertainties intensified by the current pandemic more effectively through the greater utilization of secure digital trade—is critical for the future economic health of the two long-time allies.
2. **Enlarging the Blue Dot Network's (BDN's) scope and practical application.** The U.S., Australia, and Japan, have unveiled the BDN initiative, designed to promote “high-quality trusted standards for global infrastructure development.”⁵ Given that the three BDN partners are already working together—the U.S., through the Development Finance Corporation; Australia, through its Department of Foreign Affairs and Trade; and Japan, through its Bank for International Construction—Washington should welcome Seoul, a significant international investor, as a key member of the BDN.
3. **Launching a bilateral 5G and biotechnology research and development consortium.** Washington should work with Seoul

to create a pragmatic framework for crafting concrete outlines for mutually supporting core 5G and medical technologies in the context of the KORUS FTA and the BDN, enabling greater and more strategic commercialization of secure telecommunications networks as well as advancing public health security and capacity.

4. **Securing and advancing energy trade between the U.S. and South Korea.** Washington and Seoul should work together in order to ensure that America's invigorated energy production also facilitates South Korea's energy supply and security. In order to further bolster trade ties between the two countries, the U.S. and South Korea should develop a forward-looking bilateral strategic energy trade initiative to ensure that no artificial barriers impede the development of a durable energy partnership. Ultimately, such an initiative could be developed into a regional energy architecture involving other countries, such as Taiwan and Japan, as well.
5. **Forging a strategic partnership to promote values-based global development for the post-pandemic era.** South Korea has become one of the principal U.S. partners in addressing an array of global challenges as well as diplomatic opportunities. In the world of development assistance, with its greater emphasis on the vital role of the private sector in achieving durable economic growth and public health, enhancing U.S.–South Korean international-development cooperation presents a unique opportunity for coordinating the two countries' ongoing development assistance more strategically and maximizing the impact of aid to nations in need of greater economic freedom. Such a partnership would in turn reinforce other vital economic and diplomatic linkages between the two trade and investment partners.

The U.S.–South Korean Alliance: Fulfilling Its Promise

This year marks the 70th anniversary of the outbreak of the Korean War. Since then, time and time again, South Korea has proven to be a reliable and steadfast ally for America in dealing with many common challenges. Once a recipient of U.S. aid, South Korea has become one of the most dynamic free-market democracies in the world. Throughout many trying and challenging times over the past several decades, South Korea has demonstrated its willingness and resilient capacity to work with the U.S. toward shared goals.

At President Donald Trump's request, on June 1 he and President Moon Jae-in had a constructive and forward-looking phone call during which President Moon welcomed and accepted President Trump's invitation to join this year's Group of Seven summit in September.⁶ The policy proposals in this *Issue Brief* pinpoint five strategic ways in which to broaden cooperation even further, and elevate and invigorate the practical partnership between the two proven allies in pursuit of sustained economic recovery in the pandemic, and post-pandemic, world. Washington and Seoul should work closely together to realize them.

Anthony B. Kim is Research Manager and Editor of the *Index of Economic Freedom* in the Center for International Trade and Economics, of the Institute for Economic Freedom, at The Heritage Foundation. **Ambassador Terry Miller** is Director of the Center for International Trade and Economics.

Endnotes

1. U.S. Department of State, "Secretary Pompeo's Call with Republic of Korea Foreign Minister Kang," May 6, 2020, <https://www.state.gov/secretary-pompeos-call-with-republic-of-korea-foreign-minister-kang-4/> (accessed June 1, 2020).
2. Terry Miller, Anthony B. Kim, and James M. Roberts, *2020 Index of Economic Freedom* (Washington, DC: The Heritage Foundation, 2020), www.heritage.org/index.
3. Brock R. Williams, "South Korea: Background and U.S. Relations," Congressional Research Service *In Focus*, April 22, 2020, <https://fas.org/sgp/crs/row/IF10165.pdf> (accessed June 1, 2020).
4. *Ibid.*
5. U.S. International Development Finance Corporation, "The Launch of Multi-Stakeholder Blue Dot Network," November 4, 2019, <https://www.dfc.gov/media/opic-press-releases/launch-multi-stakeholder-blue-dot-network> (accessed June 1, 2020).
6. Josh Smith, "South Korea's Moon Tells Trump He Would Accept Invitation to G7 Summit," Reuters, June 1, 2020, <https://www.reuters.com/article/us-usa-southkorea/south-koreas-moon-tells-trump-he-would-accept-invitation-to-g7-summit-idUSKBN2382QG> (accessed June 1, 2020).