



South Korea: Background and U.S. Relations

Overview

South Korea (officially the Republic of Korea, or ROK) is one of the United States’ most important strategic and economic partners in Asia. The U.S.-ROK Mutual Defense Treaty, signed in 1953 at the end of the Korean War, commits the United States to help South Korea defend itself, particularly from North Korea (officially the Democratic People’s Republic of Korea, or DPRK). Approximately 28,500 U.S. troops are based in the ROK, which is included under the U.S. “nuclear umbrella.” The U.S.-ROK economic relationship is bolstered by the U.S.-South Korea Free Trade Agreement (KORUS FTA). South Korea is the United States’ seventh-largest trading partner, and the United States is South Korea’s second-largest trading partner, behind China.

After several years of close coordination, notably on North Korea, collaboration between the United States and South Korea has become more inconsistent and unpredictable under the administrations of Donald Trump and Moon Jae-in. Moon, a progressive, was elected in May 2017 after a decade of conservative rule in South Korea. (See **Figure 1** for more on ROK politics.) Moon and Trump have aligned aspects of their approaches toward North Korea, with both pursuing a rapprochement with Pyongyang. Moon brokered a summit between North Korean leader Kim Jong-un and Trump in June 2018. Kim and Trump met again in Hanoi in February 2019, though the negotiations collapsed, dealing a major blow to Moon’s agenda of developing closer ties to the North. U.S.-DPRK and ROK-DPRK diplomacy have stalled since the Hanoi summit.

Critical differences remain on policy issues like whether and under what conditions to offer concessions to North Korea and how to share costs associated with the U.S.-ROK alliance. U.S. sanctions on Iranian exports, particularly condensates, for which South Korea is a major global importer, are also a growing concern for Seoul. In the trade arena, although South Korea has been excluded for now from U.S. Section 232 import restrictions on autos, U.S. import restrictions remain in place on several other South Korean exports. The Trump Administration’s tendency to change policy positions unexpectedly adds another element of uncertainty.

North Korea Policy Coordination

North Korea is the dominant strategic concern within the U.S.-South Korea relationship. In 2016 and 2017, North Korea conducted scores of missile tests and three nuclear weapons tests, demonstrating major strides in its ability to strike the continental United States with a nuclear-armed ballistic missile. The Obama and Trump Administrations responded by expanding multilateral and unilateral sanctions against North Korea.



Moon supported Trump’s “maximum pressure” campaign, but also retained his longstanding preference for engaging Pyongyang. During 2017, Trump Administration officials, including the President, repeatedly raised the possibility of launching a preventive military strike. This possibility, which would risk triggering a North Korean retaliation against South Korea, appears to have convinced Moon that the United States, rather than North Korea, represented the greatest immediate threat to South Korean security. The combination of the fear of war, an ideological preference for engagement, and a belief that South Korea should shape the future of the Korean Peninsula drove Moon to improve inter-Korean relations and broker U.S.-DPRK talks.

Kim Jong-un made these moves possible in early 2018 by dropping his belligerent posture and embarking on a push to break North Korea’s diplomatic isolation that has included summits with U.S., ROK, Chinese, and Russian presidents. Kim has pledged to “work toward complete denuclearization of the Korean Peninsula,” to not conduct nuclear or long-range missile tests while dialogue continues, and to allow the “permanent dismantlement” of the Yongbyon Nuclear Scientific Research Center “as the United States takes corresponding measures.” In the weeks following the breakdown of Trump and Kim’s Hanoi summit over disagreements about the timing and sequencing of concessions, Pyongyang generally refrained from engaging with Washington and Seoul, and resumed low-level provocations.

U.S.-South Korea Security Relations

In addition to the presence of U.S. troops, South Korea is included under the U.S. “nuclear umbrella” (also known as

“extended deterrence”), and traditionally has paid for about 50% (over \$800 million annually) of the total non-personnel costs of the U.S. troop presence in South Korea.

In February 2019, U.S. and ROK negotiators announced a preliminary one-year “Special Measures Agreement” (SMA) for dividing the cost of hosting U.S. troops in South Korea that increased South Korea’s contribution by approximately 8%, to \$924 million. This stopgap agreement is scheduled to expire in December 2019. The Trump Administration reportedly had sought as much as double the amount paid in the previous SMA, which covered five years. President Trump’s budget requests, paired with his sharp criticism of other allies’ contributions also has raised concerns in Seoul about the U.S. commitment to the alliance. To facilitate talks with North Korea, Trump suspended major U.S.-ROK military exercises, raising questions about the alliance’s ability to maintain its state of readiness.

The U.S. military is relocating its forces farther south from bases near the border with North Korea, with South Korea paying \$9.7 billion for construction of new large-scale military facilities. The recently opened Camp Humphreys is the largest overseas U.S. base in the world.

South Korea’s Regional Relations

China’s influence in the region figures prominently in South Korea’s foreign and economic policy. North Korea’s growing economic dependence on China since the early 2000s has compelled South Korea increasingly to factor Beijing’s actions and intentions into its North Korea policy. China is South Korea’s largest trading partner and destination for foreign direct investment. In general, South Korea tries to avoid taking steps that might antagonize China.

Ties with Japan are perennially fraught because of sensitive historical issues stemming from Japan’s colonization of the Korean Peninsula from 1910 to 1945. Three events in 2018 and early 2019 caused ROK-Japan relations to decline precipitously: multiple incidents involving Japanese reconnaissance planes and South Korean naval vessels; South Korean Supreme Court rulings that Japanese firms should compensate South Koreans for forced labor during Japan’s occupation; and Moon’s steps to weaken implementation of a 2015 ROK-Japan agreement over “comfort women” who were forced to provide sexual services to Japanese soldiers during the 1930s and 1940s. Trilateral security cooperation among the United States, Japan, and South Korea has become more difficult during this time of rising ROK-Japan tensions, which coincides with Seoul and Washington’s rapprochement with Pyongyang.

U.S.-South Korea Economic Relations

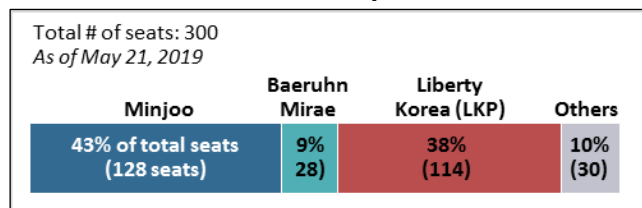
In 2018, U.S. goods and services exports to South Korea totaled \$82.0 billion, while imports totaled \$87.3 billion. Since the 2012 KORUS FTA’s entry into force, bilateral trade flows have increased with U.S. services exports (+\$7.9 billion to \$24.6 billion in 2018) and auto imports (+\$6.9 billion to \$22.4 billion in 2018) seeing the largest gains. Foreign direct investment (FDI) between the two

countries also has increased markedly since 2012 with the stock of South Korean FDI in the United States more than doubling to \$51.8 billion in 2017, and U.S. FDI to South Korea increasing one-third, to \$41.6 billion.

Though many U.S. businesses highlight improved market access since the KORUS FTA’s entry into force and its improved mechanism for dispute resolution, they also have criticized Seoul’s implementation of certain provisions. Growth of the bilateral trade deficit, particularly in the first years the FTA was in effect, also led some policymakers to question the agreement’s benefits to the United States, while most economists view macroeconomic factors, not trade agreements, to be the main drivers of trade balances. More recently, a significant increase in U.S. energy exports to South Korea contributed to a \$13 billion decline in the deficit from its 2015 peak. At \$5.3 billion in 2018, the deficit was back to its pre-FTA 2011 value.

At the Trump Administration’s request, the two countries negotiated limited modifications to the KORUS FTA in 2018. South Korea agreed to a number of concessions, most prominently on bilateral trade in motor vehicles, including a delayed reduction in U.S. light truck tariffs to 2041. Although President Trump characterized the changes, which took effect January 1, 2019, as a “basic redoing” of the agreement, most analysts agree that the modifications are limited in scope and unlikely to fundamentally alter the balance of commitments. The conclusion of the somewhat contentious FTA modification negotiations and the Trump Administration’s apparent decision to exclude South Korea from Section 232 auto import restrictions has eased bilateral trade tensions. A number of U.S. import restrictions, however, including a quota on South Korean steel exports and increased tariffs on aluminum, washing machines, and solar panels, continue to add tension to the trading relationship.

Figure 1. Party Strength in South Korea’s National Assembly



Notes: President Moon belongs to the Minjoo Party. National Assembly elections are held every four years and were last held in April 2016. South Korea’s next presidential election is scheduled for May 2022. South Korean presidents are limited to one five-year term.

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