



DEPARTMENT OF STATE

Washington, D.C. 20520

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The Official Visit of
Korean President Chun

February 1-3, 1981

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THE SECRETARY OF STATE
WASHINGTON

MEMORANDUM FOR: THE PRESIDENT
From: Alexander Haig
Subject: Your Meeting with Chun Doo-Hwan,
President of the Republic of Korea

I. OBJECTIVES

Chun's Objectives

President Chun regards this visit -- the first to the United States by a Korean President since 1969 -- as an important opportunity to:

- Symbolize the normalization of US-ROK relations after a period of prolonged strain;
- Consolidate his position within South Korea and legitimize his new government in the eyes of the world;
- Increase Korean security through the visible demonstration of American support;
- Revive investor confidence in future Korean stability; and
- Defuse criticism in the United States about Korean political developments.

Specifically, Chun will seek:

- Reaffirmation of the U.S. security commitment and a pledge that we will not resume withdrawals of ground combat forces;
- Expanded U.S. Foreign Military Sales credits to support the ROK force improvement program;
- Resumption of annual US-ROK Security Consultative meetings which we suspended for 1980 due to turmoil in Korea;

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UNITED STATES DEPARTMENT OF STATE
REVIEW AUTHORITY: CHARLES E LAHIGUERA
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- Endorsement of his recent proposal for reviving a North-South dialogue and assurances that we will not undertake unilateral initiatives toward the North; and
- Understanding of current ROK economic difficulties and our help in attenuating them.

Your Objectives:

- To restore normalcy to our relations with a valued ally;
- To underscore the constancy of the American commitment to peace and stability in Northeast Asia;
- To support recent ROK diplomatic initiatives on North-South issues; and
- To indicate understanding of ROK economic difficulties without incurring obligations we may be unable to meet.

II. THE SETTING

Following one of the most turbulent periods in post-war Korean history, President Chun has substantially consolidated his power, and restored political stability. While he has preserved democratic forms, like his predecessor, his style is Confucian and authoritarian. He enjoys the support of the Army, and has enlisted more active support from the bureaucracy and business community. The Korean public, chastened by Kwangju riots last May, seems prepared to give Chun a grace period to prove his mettle as a leader.

Chun recently lifted martial law and can expect a sizable margin in Presidential elections later in February. He will also use his great powers of incumbency to assure the election of a relatively cooperative national assembly. The more basic test for most Koreans is whether Chun can use his grace period to reverse South Korea's severe economic recession (minus 5.7% growth last year) and moderate his strongman-style of government enough to enlist more positive support without inviting a new internal confrontation. While this latter challenge is basically an internal issue, even key military officers, businessmen, and other members of the establishment expect us to play a quiet but firm role in working for political stability.

Chun has come a long way as a national leader in a short time. A highly regarded, rather aggressive career Army officer until December 1979, he has come into political power with little experience of the broader problems of national government outside the security field. He has an

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impulsive tendency toward quick solutions, and there are many gaps in his knowledge. But he is a fast learner and considerably less self-righteous and rigid than some of his younger supporters. He expects us to be concerned with Korean internal developments and is prepared to consider our advice when it is offered privately and in the context of basic cooperation. His ability and willingness to accommodate foreign concerns over the Kim Dae Jung issue is a measure of how much he has matured.

III. THE ISSUES

1. Normalization of Relations and Korean Political Development.

There is a considerable sense of relief within Korea that the long strains in the alliance may be ending -- those strains affected the underlying sense of national security and confidence in the society. Internally, there are still some Korean reservations regarding whether Chun will measure up to the tasks of leadership, but if this trip is successful it will contribute to stability.

The Koreans expect that your administration will offer less gratuitous public advice on internal affairs, but we can still encourage internal trends toward moderation and greater freedom.

2. The Security Commitment and Troop Withdrawals.

The suspension of U.S. ground force withdrawals in mid-1979 was prompted by a belated recognition that the major build-up of North Korean forces during the 1970's had produced a local military imbalance on the peninsula. The ROK Force Improvement Program is gradually narrowing the gap, but several years will be required to create a stable, indigenous balance of forces on the peninsula. Our military presence remains an effective deterrent and a source of reassurance to Japan and our other friends and allies in Asia.

3. Support for Korean Security Efforts.

The ROK is seeking as rapidly as feasible to enhance its self-defense capabilities. They have launched an ambitious program of defense industry development and plan major military hardware acquisitions from the U.S., including a long-standing request to purchase F-16 aircraft. If the Koreans reconfirm that they wish to proceed despite current economic stringencies, we should be prepared to move ahead with the necessary notifications to the Congress.

In 1979, President Park agreed, at President Carter's request, to increase defense spending from just over five percent

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to six percent of GNP, a very large effort. No NATO country supports a comparable effort. We should at this time indicate full awareness of the heavy ROK military burden and indicate that in a period of severe economic recession in Korea we are not pressing for a higher percentage of defense expenditures than are currently borne.

Chun may well request a significant increase in U.S. support for arms purchases through the provision of FMS credits. Our \$160 million in FMS credits for Korea this year is considerably lower than our earlier planning figure of \$275 million annually which we estimated was the minimum to maintain a sufficient pace in the Korean Force Improvement Program.

4. North-South Korea.

For some years South Korea has sought to find means to co-exist peacefully and expand contacts with North Korea. Various mechanisms have been proposed to draw North Korea into direct discussions with the South, with or without the participation of other parties such as the United States. North Korea, however, insists on regarding itself as the only legitimate government on the peninsula, and has steadfastly refused to deal with the ROK on an equal footing.

Even though the prospects for substantial results in lessening tensions remain poor, the growth of South Korean strength and self-confidence have permitted the ROK to adopt an increasingly effective policy toward the North. On January 12, Chun invited Kim Il-sung to South Korea and offered to go to North Korea in search of a mutually agreeable framework for eventual unification. Although the North has rejected the offer, it remains on the table.

The ROK has always been nervous and defensive in its approach to the North when it feared we might abandon it or accede to Pyongyang's blandishments for unilateral discussions without ROK participation. We should continue to insist upon direct North Korean dealings with South Korea.

5. Economic-Commercial Issues.

Korea is our twelfth largest trading partner, with the trade balance somewhat in our favor. It is a major and important agricultural market as well as a significant customer for nuclear power plants and other big ticket contracts. After more than fifteen years of rapid growth, however, external and internal factors combined in 1980 to throw the Korean economy abruptly into severe recession. The mid-term prospects are sound, but this is a very difficult economic year in Korea and the need to restore economic momentum is vital to political stability.

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The Koreans may ask for greater quantities of U.S. concessional assistance and a more liberal U.S. policy on trade quotas and other restrictions. We should indicate that we are taking into account the severity of Korea's economic recession and will do everything possible to be helpful. U.S. cooperation in allowing Korea recently to buy some subsidized Japanese rice has been much appreciated in view of the disastrous 1980 Korean crop. In return the Koreans have bought record amounts of American rice (over one million tons). For some years Korea has given us a virtual monopoly of its burgeoning grain purchases of wheat and corn in appreciation for relatively small amounts of PL-480 financing and despite determined Canadian and Australian efforts to break into the lucrative Korean market.

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TALKING PAPER FOR CONDUCT OF THE SUMMIT MEETING

In view of the need for translation, there will be relatively little time for discussion. Therefore, you may wish to set the tone for the meeting by preempting several of Chun's concerns:

--Welcome Chun's visit as an opportunity to reaffirm our friendship, restore the foundations of the alliance, and symbolize U.S. determination to meet its security responsibilities in the Pacific;

--Express appreciation for the statesmanlike manner in which the Kim Dae Jung decision was handled, thus facilitating our resumption of a normal relationship.

--Emphasize that your Administration will refrain from public criticism of Korean internal affairs, but evidence of political moderation within Korea will help us sustain important popular support in the U.S. for the alliance.

--Reaffirm the U.S. commitment to ROK security and emphasize that you have no plans to withdraw U.S. ground combat forces from the peninsula;

--Note that we should resume a full range of consultations in order to improve our cooperation; in this regard, a Security Consultative Meeting should be held this year. Details should be worked out between our Defense Departments;

--Indicate support for Chun's recent proposal for reciprocal visits with Kim Il-sung, noting that such initiatives serve to keep Pyongyang on the defensive and remind the international community where responsibility for the North-South stalemate lies.

--Note our awareness that this is a particularly crucial year for Korea's economy, and our intention to be as helpful as possible in promoting expanded economic ties.

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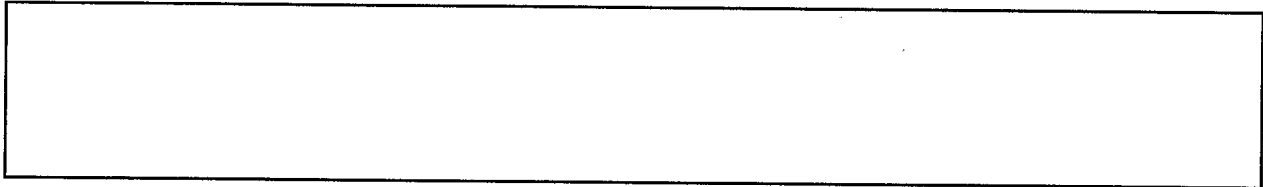
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Following these initial remarks, you should allow President Chun to respond, inviting his assessment of the security situation, political developments, and economic prospects in South Korea.

Chun will warmly welcome your assurances. You may also wish to take note of the \$1 million contribution which he will be making on Tuesday to the Smithsonian for the new Asian Art museum, and it would be nice if you attend that ceremony. Almost surely Chun will express appreciation for U.S. cooperation in assuring that Korea has adequate rice stocks after the recent disastrous harvest. He may also:

- Seek expanded FMS credits in support of ROK force improvements;
- Request agricultural credits;
- Ask for a U.S. commitment to sell the F-16 aircraft; and
- Express concern about possible U.S. weapons sales to China.



The following talking points may be useful for expanded discussion or if Chun raises the issues outlined above.

CONTINGENCY TALKING POINTS

Defense Support

- We are aware of the heavy defense burden which Korea bears, and do not ask that you do more under present economic circumstances;
- We will try to expedite the transfer of appropriate weapons systems and technology;
- If you reconfirm your desire to go ahead with a specific F-16 purchase, we will proceed promptly with the necessary notifications to the Congress; and
- We will make every effort to sustain and possibly increase FMS credit levels.

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North Korea

-- We have no intention of changing our policy of refusing to discuss Korean questions with Pyongyang authorities in the absence of full and equal participation by South Korea.

-- We shall not undertake any kind of official relationship with North Korea until and unless China and/or the Soviet Union are prepared to extend reciprocal treatment to you,

-- (If asked about non-official travel to or from North Korea) We are committed to the principle of individual freedom of travel. We cannot prohibit American citizens from travelling to North Korea in a strictly private, unofficial capacity. North Korean citizens will not be permitted to come to the United States for political or propaganda purposes, but cannot exclude private individuals solely on the basis of North Korean citizenship.

Economic Relations

-- We will do our best with FMS and agricultural credits.

-- Korea is a valued market for U.S. agricultural exports. We wish to cooperate to maintain the value of this trade for both parties.

-- We will promote a better understanding in the United States of the mutuality of ROK-U.S. trade. This will help us to resist special interest pressures, but our ability will to some extent depend upon continued large, highly visible ROK purchases in the United States.

-- (If Chun requests reestablishment of bilateral aid) It is not in our mutual interest to resume a formal economic aid program. Korea has gained stature by no longer appearing as a recipient of aid; to reinstitute aid at this juncture would jeopardize rather than nurture investor confidence.

Arms Sales to China

-- Constructive US-PRC relations exert a salutary influence on the security situation in Asia and contributes to a stable global equilibrium.

-- Defense contacts between the U.S. and China are modest.

-- We sell no lethal arms to the PRC; any change of policy in this area will be examined closely and will be a subject of consultations with our allies.

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KOREAN ECONOMIC OUTLOOK

The Republic of Korea is a vital, dynamic nation now on the verge of joining the world's advanced industrial societies. Per capita GNP grew from approximately \$70 at the end of the Korean war in 1953 to an estimated \$1775 in 1980. The economy is as dynamic as it is diverse. Korea is now the world's leading shipbuilder. The construction industry is rapidly modernizing all aspects of Korea's infrastructure and is increasingly effective in the larger arena of world construction competition. Limited resources and energy shortages are largely offset by dynamic trade policies and innovative technology. Contracts have been let for nine nuclear power plants and more are forthcoming. The large and growing heavy industrial sector is adding its wares to the traditional exports of Korea's light industrial sector. Korea produces about 12 million tons of steel and hopes to complete its second integrated steel complex this decade, expanding annual production to 30 million tons, an output exceeded only by the super powers and Japan.

After nearly two decades of rapid economic growth, Korea's economy slipped into recession in late 1979. External and internal factors caused the slump which continued through 1980 and reduced the GNP by 5.7%. Oil price increases in 1979 doubled Korea's oil import costs from \$3 billion to \$6 billion, gave a massive boost to inflation, and weakened the balance of payments. A slowdown in the developed world economies which provide markets for Korea's industry weakened the vital export sector. These external factors coincided with a stabilization program designed to cope with the structural inefficiencies which had developed during the headlong industrialization of the 1970s. The rapid expansion had driven wages up faster than productivity. Increasing prosperity had boosted consumer demand and inflation. As a result, Korea was quickly losing its price competitiveness in the light industrial sector (textiles, electronics, etc.) on which economic health was still significantly dependent.

These congruent problems would have been enough, but the year-long political instability which followed President Park's assassination in October 1979 reduced governmental efficiency, discouraged investment and delayed effective economic solutions.

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As a new government emerged in late summer 1980, efforts were focused on wage policy and on a much-needed reorganization of the heavy industrial sector. Some sweeping reorganization measures announced in the autumn of 1980 were poorly prepared and probably will be only partially implemented, but the new government has now become more realistic about "quick fixes" by fiat. The Government is determined to slow the rise in real wages and it is already having some success in restoring Korean export competitiveness.

Inclement weather resulted in a disastrously poor rice harvest in 1980. Only 3.6 million tons were produced, far below the annual consumption of 5.7 million tons. Korea has been scouring world markets to make up the 2.4 million ton short-fall, but market supplies of the Japonica types of rice readily acceptable in the Korean market are limited. As a result, prices have risen rapidly. American growers are expected to sell a record 1 - 1.2 million tons of rice to Korea this crop year at good prices.

Although the problems are not minor, Korea has the potential to realize its ambition of becoming a fully industrialized nation by the end of the decade. While it possesses few natural resources, its work force is industrious and adaptable, its entrepreneurs effective, and government economic planning and effectiveness generally are of a high caliber. The 35% of the work force still in agriculture provides a reservoir of labor for further expansion. Koreans have proven their ability to organize production and compete in international markets. The ideological and social climate remains favorable for renewed growth. The confidence of international financial circles in the underlying strength and resilience of the Korean economy appears justified by past performance and a demonstrated ability to make the tough economic decisions needed to retain balance.

Factors which could impede future growth are a lack of energy resources, stagnation in international trade, weakness in the technological base, or political instability. The phalanx of solid Korean economic planners understand these factors, and much of the government's energy is devoted to dealing with them.

January 26, 1981

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U.S.-SOUTH KOREA NUCLEAR COOPERATION

Other than South Korean concerns about U.S. reliability as a nuclear supplier there have been no significant problems in our nuclear cooperation with South Korea since 1976, when the Koreans decided to cancel their plans to purchase a nuclear fuel reprocessing plant from France



This cooperation is carried out pursuant to the U.S.-Korea Agreement for Cooperation in the peaceful uses of Atomic Energy which expires in 2014. This agreement provides the framework for the supply of nuclear fuel, reactors and related equipment. Originally the agreement contained a ceiling limiting the amount of enriched uranium that could be provided to that necessary for fueling 5,000 MWe of installed nuclear capacity. However, this ceiling was eliminated last year at Executive Branch initiative through the enactment of Public Law 96-280 which removed the ceilings in all agreements with countries which have ratified the Treaty on the Non-Proliferation of Nuclear Weapons. Korea ratified that treaty in 1975.

As required by the Nuclear Non-Proliferation Act of 1978, we have talked to the Koreans about renegotiating our agreement to incorporate the additional controls required by that act. A draft of a revised agreement has been provided to them and they are currently reviewing it. While we do not anticipate any major problems with the provisions of the new agreement, we do not expect that they will wish to move on it until they see the results of our similar renegotiations with the Japanese.

Korea currently has nine nuclear power plants in operation, under construction or on order with a total electrical generating capacity of approximately 7,300 MWe. Six of these were ordered from the U.S. and one from Canada. A contract for the last two plants was awarded to a French firm late last year without competitive bidding. At that time, we advised the Korean Government of our dissatisfaction with this process and expressed the hope that future awards would be made on the basis of competitive bidding with U.S. firms

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being given a fair opportunity to compete. Two more units are expected to be ordered later this year. Present plans call for approximately 60 percent of their electrical generating capacity to be nuclear by the end of the century although we believe this to be optimistic.

In addition to the supply of materials and equipment under the bilateral agreement, there is extensive cooperation in nuclear reactor safety, training and other energy technologies. This cooperation is coordinated through the Joint Standing Committee on Nuclear and Other Energy Technology which was established in 1976 following the Korean decision to abandon their plans to acquire a nuclear fuel reprocessing plant. Cooperative activities in effect or under negotiation include solar energy, conservation and coal technology. Also, as a part of the U.S. Country Energy Assessment Program, we are conducting with Korea a joint energy assessment of the country. A first draft of the interim analytical results was provided to the Korean Government late last year. It indicated that by the year 2008 about 50 percent of their electricity production will come from nuclear plants. Korea has also expressed interest in cooperation in the area of fast breeder reactor technology. Discussions on this subject must await clarification of the U.S. policy on breeder reactor development and the role of international cooperation in that effort.

We plan to compete vigorously for contracts to build additional nuclear power plants as each plant, including the turbine-generators, represents an export of \$600-\$700 million. In addition, the annual export value of the nuclear fuel used by each plant is about \$10 million, throughout the 30 year life of the plant.

January 23, 1981

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