



DEPARTMENT OF STATE
ACTION MEMORANDUM

SECRET 15 DEC 1980

39

S/S

December 6, 1980

~~SECRET/SENSITIVE/NODIS~~

To: The Acting Secretary
From: EA - Michael Armacost (Acting) *MA*
Subject: Harold Brown's Discussion with President Chun

Korea

Bill Gleysteen's most recent conversation with President Chun went rather well, and we believe there is still a fair chance that Chun will commute Kim Dae Jung's sentence.

Secretary Brown's discussion with Chun late next week offers the most authoritative opportunity for signalling the costs which the Republic of Korea would incur in the event Kim is executed. We face, however, two policy problems: 1) what actions should we be prepared to take in response to Kim's execution?, and 2) how specific should we be in forewarning President Chun of such actions?

Our dilemma reflects the fact that while we have substantial leverage with the Republic of Korea:

- Many potential actions (e.g. troop withdrawal) could damage U.S. interests as much as Korean interests;
- Being too specific about relatively modest sanctions could tempt rather than deter a decision to execute Kim;
- In dealing with nationalistic military officers, it is not self-evident that overt threats will achieve the intended effect; and
- It is dangerous to bluff about sanctions which a lame duck administration has no capacity to implement.

It is because of these considerations that I believe there is virtue in keeping our threats of countermeasures somewhat vague, and emphasizing the potential for the major unravelling of US-ROK and Japanese-ROK relations in the aftermath of a Kim execution rather than focussing exclusively on specific and immediate retaliatory actions.

6 Dec 80

~~SECRET/NODIS~~

RDS-3, 12/6/00 (Armacost, Michael)

I understand that you intend to speak with Harold Brown before he and the President discuss the message Brown should convey to President Chun. For that purpose I have attached an analysis of various potential economic, political and military sanctions. On the basis of the caveats noted above, I would recommend that Harold be authorized to signal to Chun the following. The tone and specificity of these warnings must, of course, be fine tuned in Seoul to reflect the situation at the time of his meeting with Chun.

1. A sharp, public condemnation of the action by the President.
2. Ambassador Gleysteen's recall for extended consultations.
3. Negative votes on IFI loans to Korea.
4. Suspension of remaining FY-81 FMS credits.
5. A halt to the obligation of the PL-480 loan.
6. Reconsideration of the sale of major new weapon systems (e.g. the F-16).

Needless to add, the force and effectiveness of such representations will depend heavily upon private messages being conveyed by authoritative sources within President-elect Reagan's camp. To the extent we have been able to monitor these, they have been supportive.

Potential Talking Points with Chun

- If the ROK expects the U.S. to maintain substantial forces in Korea and to shoulder major costs and risks on behalf of South Korean security, it cannot expect us to be indifferent on an issue which can have profound effect on the political underpinnings of the alliance.
- Our capacity to fulfill commitments and sustain cooperative arrangements depends upon our ability to sustain public support.
- Korea's image has already suffered badly in the international arena, and an execution of Kim would produce a souring in our relations and undermine public and congressional support to an extent which would have lasting and serious effect on the kind of close cooperation which we have known in the past.

- The President will be compelled to speak out publicly and candidly condemning the execution of a political leader by the government of a close ally. He will also have to recall Ambassador Gleysteen.
- Even if we are able to avoid tampering with the security relationship itself, there will be extraordinary pressures. We would have to place a hold on further obligation of FMS credits until the will of the Congress and the new administration can be clarified. It is unlikely that public and congressional pressures would permit proceeding with an FMS credit program. In view of the many other pressures around the world for available funds, it is likely that the credits now programmed for Korean use would be soon reprogrammed to other claimants.
- The same is likely to be true of other concessional aspects of our relationship, such as Food for Peace (PL-480) and even the sale of major new weapon systems.
- We look with great concern at the serious de-stabilization which could occur in Korean relationships with Japan, thus seriously weakening non-communist stability and linkages in North Asia, directly affecting your economic recovery, and undermining the Japanese ability to cooperate with our military arrangements for responding to an emergency on the Korean peninsula.
- Instead of these serious problems, which could escalate despite the best efforts of each of our governments, the opportunities for strengthening our cooperation if the Kim problem is settled with clemency are significant. Political party activity is resuming in Korea; you are moving rapidly toward new elections and a more normal and relaxed internal situation, and there are many positive tasks for our two nations to address in the months ahead.
- While I cannot speak for the new administration, it is my impression that, if there is no execution which would destroy the political basis for pursuing the opportunities which exist, they will seek to strengthen the important mutual interests which exist between the United States and the Republic of Korea. I expect that my successor will hope to continue the direct dialogue which I have had the opportunity to have in these past four years, but in the wake of an execution it might be very difficult to resume the regular ministerial consultations on security matters.

Attachment:

Listing and analysis of potential sanction actions.

~~SECRET/SENSITIVE/NO DIS~~

Potential Economic Sanctions Against Korea

The economic relationship between the Republic of Korea (ROK) and the United States is large, and the benefits are mutual. Implementation of sanctions will carry significant costs for us as well as for the ROK.

Once totally dependent upon foreign aid, Korea is now a major participant in the global economy. In the world trading community it ranked 15th by 1978. From an export base of \$43 million in 1961 and only \$1.1 billion in 1971, it exported \$15.2 billion in 1979, more than twice as much as China and more than such nations as Brazil or Spain. In 1979 its imports were \$20.1 billion, much of the difference being covered by construction contracts in the Middle East. The ROK won \$8 billion in such contracts in 1978 alone.

Nevertheless, we do have some leverage. The following areas may be considered, with the costs to us indicated in each instance.

DEVELOPMENT ASSISTANCE AND EXPORT FINANCING

PL-480 -- This is the only U.S. economic assistance now being supplied. A planned \$27 million loan for 1981 will complete our performance of a direct bargain struck with the Koreans several years ago by then Treasury Secretary Kennedy in return for Korean restraint in textile exports. We are already late in fulfilling our commitment; the Koreans have complied with their side of the bargain. To renege would pose questions of honor. Beyond this, we face potentially serious effects on our major agricultural commodity market in Korea, now running at more than \$1.1 billion annually and growing. The Koreans have continued to give us a monopoly on major grain exports to Korea despite heavy efforts by Australia and Canada to break into the lucrative ROK market. Use of our final tranche of committed PL-480 lending as a lever could forfeit a significant portion of the grain market to our competitors.

~~SECRET/SENSITIVE/NO DIS~~

RDS 1 11/23/00

-- Withhold Commodity Credit Corporation (CCC) Financing for agricultural commodity sales. This is basically a commercial export financing facility. This year, we made available \$458 million in CCC credits and guarantees for Korean purchases. During recent bilateral discussions on agricultural trade we promised \$410 million in CCC financing during FY 1981. Cancelling CCC availabilities would abrogate this agreement and have even more severe an impact on U.S. agricultural marketing than a PL-480 decision.

-- Vote negatively on Korea loans in international financial institution (IFIs) and possibly stimulate international efforts to defeat such loans.

We do not have support of other Bank and Fund directors to transform such isolated political votes by the US into actual loan denials. An international lobbying effort would not only fail, but would affect the international perception of the deterrent viability of the ROK-US alliance. Opposition to IFI loans would also deeply anger that segment of the Korean elite most responsible for the growth and prosperity of the country and most attuned to American ideals and concerns.

-- Withhold Export-Import Bank Financing. Ex-Im financing supports U.S. competitiveness on high-ticket, highly competitive sales to Korea, particularly on current bidding by U.S. firms for several power plants (nuclear and conventional) and telecommunications projects. These are worth almost \$1 billion each in sales and jobs to American contractors. A hiatus in Ex-Im availabilities for political reasons would only temporarily inconvenience the Koreans, since French, German and Japanese bidders, backed by equivalent national export financing agencies, have been aggressive bidders on all such projects. A shift to such suppliers could be made for all projects which present U.S. executive action could affect. The mid-term costs to American firms and workers would run into several billions of dollars, and such political action would have its effect as well on future bids by American companies on other projects.

-- Increase the Federal Reserve Board's risk assessment for Korea lending and/or actively discourage American private bank lending. We probably cannot manipulate the Fed's risk assessment, although civil unrest and instability in Korea would lead to a revision. The banking community will make their own judgments about economic and political conditions, but a US-ROK confrontation would affect their calculations. Instability internally, or in the US relationship, would have profound effect on Korea's ability to finance its external debt. Incidentally, American business is becoming increasingly critical of U.S. Government "harassment" of the ROK.

TRADE AND LICENSING

Our mutual trade now exceeds \$9 billion annually (without counting most of our military exports) and is roughly in balance. The trade account was slightly in our favor in 1979 and will be somewhat more so in 1980. Nevertheless, we could take stiff and painful trade measures against Korea.

Announcement of a major review of U.S.-Korean economic relations would have an impact on trade, as U.S. importers and exporters react to the uncertainty such an announcement would create. On the import side, our freedom to act is severely constrained -- especially in the short run -- by U.S. laws and international obligations. U.S. exports to Korea could be cut back sharply, however, if we are willing to put new foreign policy controls in place. Specific measures include the following:

A. Imports

-- Renegotiate and tighten our restrictive textile agreement. Unless we choose to violate the terms of the GATT Multi-Fiber Agreement, however, the most severe restrictions we could impose would not reduce Korea's 1981 shipments significantly below 1980's projected \$1 billion.

-- Accelerate the unfair-trade-practice (Section 301 case pending at USTR against Korean restrictions on the U.S. insurance industry, and use that case to "retaliate" against Korean commerce.)

-- Press Japan to stop selling rice to Korea at subsidized prices, or face a challenge in GATT. (This implies reneging on an agreement we have worked out with Japan.) It would be considered to be a sharply hostile act by Korea in view of the difficult problem of managing food grain availabilities in the wake of a poor rice harvest this autumn due to unfavorable weather this year.

-- Deny Korea trade preferences under the Generalized System of Preferences (GSP) for some or all products. (Such a step introduces a new "political" element into the program and could create a difficult precedent for our administration of GSP worldwide. Imports from Korea under GSP were \$750 million in 1979.)

B. Exports

-- Place new foreign policy controls on U.S. exports to Korea. These controls would delay Korean development plans -- for example, to install a billion-dollar telephone switching system purchased from U.S. firms. The controls would cause permanent damage to the competitive position of U.S. firms in Korea and throughout the region, as Korea turns toward alternate and more reliable suppliers in Europe and Japan.

-- Under existing authority, prevent further licensing of nuclear power plants and related technology and fuel for Korea. This would have a sharp impact in a nation heavily committed to rapid expansion of nuclear power investment in the face of total dependence on imported petroleum. Earlier, we pushed hard on the Koreans to agree to accept U.S. suppliers. Action on our part would quickly eliminate U.S. industry from this major nuclear power market and turn the Koreans completely to French and German competitors. It would also significantly loosen our leverage on non-proliferation.

Many of the possible actions in the trade field would have potentially seriously destabilizing effects on the Korean economy. Even those steps which did not would produce long-term resentments against us and immediately undercut present Korean efforts to stimulate greater shifts of Korean purchasing away from Japan and to the United States.

FISHERIES

-- Cancel Korean access to fisheries in the U.S. economic zone or sharply reduce current quotas. Except for the Soviet invasion of Afghanistan, we have avoided using fisheries allocation for political purposes, and to do so again would probably provoke criticism from domestic fishery interests. This would have direct and immediate impact on several tens of thousands of jobs in Korea's fisheries industry and would thus increase unemployment and reduce the ability of the government to manage the present economic recession. Ironically, we would be joining the Soviet Union as the second state to exclude the Republic of Korea from its fishing zone. Some profitable successful US-Korean joint fishery ventures would be victim of such a policy, as would an important source of fish imports by a number of American firms.

OPIC GUARANTEES

Withholding of OPIC guarantees would not have much effect on Korea, but would be severely damaging to a number of American businesses. It would also leave the investment field largely to our competitors just at a juncture when the new Korean Government has relaxed investment policies in favor of permitting wholly-owned foreign investments in some important economic sectors.

Drafted: EA/K:RGRich/EB:EJohnston:ced
Clearances: OES - MBusby
OES - LNosenzo

Potential Political/Defense Sanctions
Against Korea

The mutual security relationship with the Republic of Korea is a key element of our entire strategy in East Asia. Our presence in Korea is welcomed by the Koreans, Japanese and other US allies, viewed as a stabilizing force by the Chinese, and tolerated by the Russians. Our policy has served us well for the past 25 years and should not be tampered with lightly. Nevertheless, there are some reactions that might be appropriate under the circumstances.

SHARP PUBLIC STATEMENT ON EXECUTION

This would be politically essential and expected. It would be a proper reaction under the circumstances. It would be offensive to the Korean leadership and set the stage for a very cool period in our relationship. It would be portrayed by the Korean media in a manner that would risk arousing anti-American reactions in Korea and some possibility of random actions against US persons and installations.

PUBLICIZE OUR EFFORTS TO SAVE KIM, INCLUDING THE PRESIDENT'S LETTERS

This would clearly demonstrate that we have tried every means to save Kim's life and set the record straight.

RECALL AMBASSADOR GLEYSTEN

This would be expected and follow from the preceding measures. It would demonstrate the gravity with which we viewed the situation. It would leave us without an Ambassador on the spot during a difficult and potentially dangerous period, however, and experience suggests that it is never easy to find an appropriate time to return an ambassador to Seoul.

ADJUST OUR RELATIONS WITH NORTH KOREA

There may be strong pressures to do so. Any adjustment in our relations, however, should stand on its own merits as part of a systematic diplomatic effort to reduce tensions on the peninsula and not used as a means for demonstrating our displeasure with South Korea.

Nor would the threat of such a basic change in policy be credible during a transition period.

WITHHOLD FMS CREDITS AND TRAINING GRANTS

This would demonstrate a willingness to withhold tangible support even in the security area, though the concessional element of this assistance is relatively modest. This step would impair the ROK ability to pursue its force modernization program and further delay the restoration of the local military balance. As an international signal it would signify to potential enemies a significant weakening of the U.S. security commitment despite our statements to the contrary. If we suspend FMS credits to Korea, this would halt obligations of about \$100 million in FY-81 credits.

WITHDRAW ADDITIONAL TROOPS

This step would risk reopening a major diplomatic dispute with Japan, invite Congressional resistance, and raise larger questions about the steadiness of American policy in East Asia. In any event it is not a credible option at this time.

WITHHOLD SALES OF MAJOR DEFENSE ITEMS, INCLUDING THE F-16

The F-16 program is already on hold. ROK acquisitions of additional aircraft early this decade are important in correcting the tactical air imbalance on the peninsula. A statement by this administration that it was halting further sales of new weapons systems would in any case be largely symbolic, since such a policy may not be supported by the new administration.

NOT PARTICIPATE IN MILITARY EXERCISES WITH ROK FORCES

While some exercises, perhaps, might be dispensable, the maintenance of both of our forces in a high state of readiness to operate effectively together is essential in situations where we could be directly engaged in combat on a moment's notice.



National Security Archive,
Suite 701, Gelman Library, The George Washington University,
2130 H Street, NW, Washington, D.C., 20037,
Phone: 202/994-7000, Fax: 202/994-7005, nsarchiv@gwu.edu