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## US-Korea Beef Protests: Concerns and Prospects

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The two months of protests against President Lee Myung-bak's 18 April US-Korea agreement to lift the five-year US beef restrictions are being viewed with great trepidation by overseas observers. The severity of the current beef crisis and the precipitous fall of President Lee's popularity so early in his presidency caught many Korea watchers by surprise. Just a few months ago, foreign investors anticipated a strong presidency, better economic conditions, and improvements in South Korea's foreign investment environment. The Lee administration is now flailing, confronting economic downturn and faced with a massive power vacuum with the entire cabinet and the president's senior advisers tendering their resignations. Many overseas investors are now asking questions about South Korea's future: What do the recent developments mean for Lee's ability to govern the economy? How will his pro-business economic reforms be changed? And, will US-Korea relations be threatened?

One major concern is whether the current crisis will cripple President Lee's ability to govern effectively. South Korea currently faces serious economic troubles (e.g., inflationary pressures, sluggish growth, and increasing debt) that according to some remind them of events that led up to the 1997-1998 Asian financial crisis. Although a repeat of the late 1990s is not likely, the worsening condition still requires President Lee to take immediate action to stabilize the economy and eventually boost the country's growth. For example, he will need to make politically unpopular choices such as: 1) privatization of state enterprises which might cause unemployment; 2) economic deregulation of the investment environment that may benefit big businesses over small and medium size enterprises; and 3) labor reforms that might undermine job security but improve needed flexibility in the labor market. With public support so low and his cabinet reshuffled, the Lee administration is too weak to implement these sweeping reforms anytime soon.

Many no doubt believe that South Korea's resilient economy will eventually rebound, but the fear is whether the weakened President Lee will miss the window of opportunity to reform the economy to ensure the country's global competitiveness and revamp the country's poor international investment reputation. For example, in the coming years, Korea faces growing competition from China - a giant economy that is quickly closing the technology and

development gap between the two countries. Korea needs to stay ahead if it does not want to be overrun by its increasingly dominant neighbor, but Korea does not have very much time to sustain its competitive advantage and develop its next generation of economic expertise (e.g., global finance, service industries). A key factor to this advancement will be South Korea's increased cooperation with international business and attracting foreign investments. Overseas investments, however, have been in a downward trend. International investors had hoped the new conservative Lee administration with its pro-business agenda would reverse the inhospitable investment environment of his liberal predecessors, but now the outlook for the weakened President Lee is to focus on rebuilding his public support base for the next several months rather than spearheading reforms to make South Korea a global economic powerhouse.

A second major concern is how Lee's pro-growth reform agenda will change with the current beef crisis. Many international observers optimistically viewed President Lee's original economic reform plans to create a more business-friendly environment with deregulation, corporate tax cuts, privatization of state-owned enterprises, infrastructure investments, and a better foreign investment environment. Now, under immense domestic pressure, these reforms will likely be set aside as the Lee administration focuses on subsidizing fuel costs, cutting consumer taxes, and implementing price controls to help citizens weather the sluggish and inflationary economy. This dramatic increase in social spending will likely create budget deficits and a less financially sound country. Already, the regime has shelved the controversial Grand Canal project and indefinitely delayed many privatization efforts of state-owned enterprises, (which labor unions had opposed) and many more of Lee's policies are likely to be delayed. It is not clear whether Lee will ever be able to revisit these pro-business reforms again in the future.

Finally, the beef protests have the potential of igniting anti-American sentiment and inflicting long-term damage to US-Korea relations. Fortunately, anti-Americanism has been kept to a minimum thus far. That said, there are opportunities ahead that could rekindle these destructive emotions and ultimately destroy the prospects for a US-Korea free trade agreement. Public anger against the US could quickly materialize in a number of scenarios: 1) the beef controversy continues with no compromise and the US is portrayed by the media as intransigent and unsympathetic to South Korean public health concerns about US beef; 2) President Lee is forced to formally renege the US-Korea beef agreement under heavy domestic pressure and the US government responds with some form of trade retaliation; 3) President Bush's 10 July visit is cancelled because of security reasons or as retaliation for renegeing on the trade agreement. If the Lee administration cancels its commitments to the

US-Korea beef agreement or should anti-Americanism grow to 2002 levels, it will destroy any slim chance for the free trade agreement to be ratified in the US Congress and disrupt the long-term benefits that a US-Korea free trade could bring to long-term political, security and economic bilateral relations.

Many in the US government are aware of the stakes involved for their ally and have reengaged in "additional" beef talks to work a mutually acceptable compromise. The US government, however, faces limitations on how much they can compromise. Currently, the US is engaged in negotiations with Japan and Taiwan to open these restricted markets to American beef. A Korean compromise would result in setting a bad precedent for these other lucrative beef markets that the US hopes to penetrate. The US beef industry needs these overseas markets open to remain profitable. Moreover, being a presidential election year, these domestic industries have extra leverage to make sure that their interests are protected.

In sum, given the disturbing events of the last few weeks, the overall outlook of the current situation in Korea from overseas is negative. With South Korea's persisting economic challenges and now the president's political paralysis, many who had anticipated a promising presidency under the Lee administration are now pessimistic about South Korea's medium term economic prospects and the country becoming a haven for foreign investors. Some fear that the current situation could get worse with the possibility of anti-Americanism flaring up again and permanently crushing any prospect for a ratified US-Korea free trade agreement. ■

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