

Issue Brief for Congress

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Korea: U.S.-Korean Relations — Issues for Congress

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Korea: U.S.-Korean Relations — Issues for Congress

SUMMARY

The United States maintains a strong, multifaceted alliance relationship with South Korea that has for decades served vital interests of both sides. Against the background of continuing difficulties in dealing with North Korea and the dramatic consequences of the Asian economic crisis, the two governments face a range of security, economic, and political issues that involve the Congress in its oversight and appropriations capacities, and in frequent exchanges between congressional offices and the South Korean government.

Heading the list of issues is how to deal with the North Korean regime. The Bush Administration seeks policy changes from North Korea regarding weapons of mass destruction, conventional forces, and international inspections of its nuclear facilities. Tensions arose after North Korea revealed a secret nuclear program in October 2002. The Bush Administration also faces policy decisions on food aid to North Korea, North Korea's inclusion on the U.S. terrorism list, and U.S. responses to South Korea's "sunshine policy" toward North Korea. President Kim Dae-jung seeks reconciliation with North Korea following the historical North-South summit meeting of June 2000. He has urged the United States to engage North Korea and make concessions to Pyongyang as a support

for his policy. The Bush Administration's position on the sunshine policy is mixed, supporting some elements but having reservations about others.

The sunshine policy also has resulted in mounting controversy in South Korea over the presence of 37,000 U.S. troops. Growing numbers of South Koreans seek a reduction of U.S. military forces. Incidents between U.S. military personnel and South Korean civilians has necessitated U.S.-South Korean negotiations on several such issues.

South Korea is an important economic partner of the United States. The United States has sought to influence South Korean economic reforms arising from the 1997 Asian financial crisis. Bilateral trade disputes have resurfaced in 2000 and 2001 regarding automobiles, pharmaceuticals, beef, and steel. Intellectual property rights remain a point of contention.

South Korea has become more democratic politically, a success for U.S. policy since 1987. President Kim Dae-jung approaches the end of his term with declining popularity and growing criticism over his economic policies and the sunshine policy.

MOST RECENT DEVELOPMENTS

During the visit to North Korea by U.S. Assistant Secretary of State James Kelly, October 3-5, 2002, North Korea admitted the existence of a secret nuclear weapons program based on uranium enrichment. The Bush Administration's initial reaction was a demand that North Korea place the program under safeguards of the International Atomic Energy Agency (IAEA) and dismantle it under IAEA supervision. The Administration secured Japanese and South Korean support for this position and asked China for cooperation.

BACKGROUND AND ANALYSIS

U.S. Interests in South Korea

U.S. interests in the Republic of Korea (R.O.K. — South Korea) involve a wide range of security, economic, and political concerns. The United States has remained committed to maintaining peace on the Korean Peninsula since the 1950-1953 Korean War. The United States agreed to defend South Korea from external aggression in the 1954 Mutual Defense Treaty. The United States maintains about 37,000 troops there to supplement the 650,000-strong South Korean armed forces. This force is intended to deter North Korea's (the Democratic People's Republic of Korea — D.P.R.K.) 1.2 million-man army, which is deployed in forward positions near the Demilitarized Zone (DMZ) dividing North and South Korea. Since 1991, attention has focused on the implications of North Korea's drive to develop nuclear weapons (see CRS Issue Brief IB91141, *North Korea's Nuclear Weapons Program*, for background on this set of important issues) and long range missiles, and severe food shortages in North Korea.

The United States played a major role in fostering South Korea's remarkable economic growth, and has carefully monitored and supported international efforts to help South Korea deal with its current economic and financial crisis, the most serious since the Korean war. U.S. economic assistance to South Korea, from 1945 to 1971, totaled \$3.8 billion. The acute financial crisis in late 1997 saw Seoul receive a \$57 billion bailout from the International Monetary Fund (IMF). The United States is South Korea's largest trading partner and largest export market. South Korea is the seventh largest U.S. trading partner. The United States has long viewed South Korean political stability as crucial to the nation's economic development, to maintaining the security balance on the peninsula, and to preserving peace in northeast Asia. However, U.S. officials over the years have pressed the South Korean administration with varying degrees of intensity to gradually liberalize its political process, broaden the popular base of its government, and release political prisoners. In recent years, South Korea has become more democratic.

Recent Issues

Relations with North Korea

As part of a policy review toward North Korea, President Bush issued a statement on June 6, 2001, outlining policy objectives related to implementation of the U.S.-North Korean 1994 Agreed Framework on North Korea's nuclear program, North Korea's missile program, and its conventional forces. He stated that if North Korea took positive actions in response to the U.S. approach, the United States "will expand our efforts to help the North Korean people, ease sanctions, and take other political steps." President Bush's designation of North Korea as part of an "axis of evil" in his January 29, 2002 State of the Union address clarified the Administration's policy that had emerged after the June 6 statement. The policy is aimed at reducing and/or eliminating basic elements of North Korean military power, including weapons of mass destruction (WMDs), nuclear weapons and/or nuclear weapons-grade materials, missiles, and conventional artillery and rocket launchers positioned on the demilitarized zone (DMZ) within range of the South Korean capital, Seoul. The Administration's emphasis on WMDs mounted after the Central Intelligence Agency gained documentary evidence in Afghanistan that al Qaeda seeks WMDs and plans new attacks on the United States. This reportedly influenced the Bush Administration to broaden the definition of the war against terrorism to include states like North Korea that potentially could supply WMDs to al Qaeda.

The Administration's strategy is to employ public accusations and warnings to pressure North Korea to make policy changes regarding its military assets in line with U.S. objectives. Since July 2001, the Bush Administration has warned that it will suspend construction of the two light water nuclear reactors in North Korea (a provision of the 1994 U.S.-North Korean nuclear Agreed Framework) unless North Korea soon comes into compliance with its obligations to the International Atomic Energy Agency to allow full-scope inspections of nuclear facilities, including the secret uranium enrichment program North Korea admitted to in October 2002. The Bush Administration made a number of statements calling on North Korea to pull back artillery and rocket launchers from the DMZ. Beginning with statements in November 2001 and dramatically in the State of the Union address and in subsequent pronouncements, the Bush Administration set a demand that North Korea stop the export of missiles and weapons of mass destruction to the Middle East and South Asia, eliminate these weapons from its arsenal, and allow verification of such steps. President Bush's repeated declarations since the State of the Union that he would not stand by while this threat mounts constitute a broader warning to North Korea alongside the explicit warning of shutting down the light water reactors.

Administration officials have said that they want a comprehensive negotiation with North Korea on all these issues. However, they add that the Administration will not negotiate until North Korea ends the secret uranium enrichment program, which it revealed in October 2002. The Administration has given no indication that it would offer North Korea reciprocal measures, including reciprocal military measures, for North Korean agreement and steps to reduce its military power in these areas. Public statements by the Administration continually call for North Korea to take actions unilaterally. During his visit to South Korea in February 2002, President Bush issued a general offer to "welcome North Korea into the family of nations, and all the benefits, which would be trade, commerce and exchanges."

Bush Administration officials reportedly have indicated in private remarks that the Administration believes that it does not have to offer strict reciprocal measures or compensation for North Korean concessions.

In June 2002, Administration officials placed food aid to North Korea as a new agenda item for U.S.-North Korean negotiations. Previously, negotiations with the North Korean government were carried out by the United Nations World Food Program. The U.S. officials announced new food aid of 100,000 tons of grain but asserted that future food aid would depend on North Korea agreeing to three conditions: access of food aid donors to provinces (mainly in the north and northeast) which the North Korean government has barred aid donors from entering; a larger monitoring capability for the donors; and allowing donors to conduct a nation-wide nutritional survey.

Nuclear Weapons. U.S. policy since 1994 has been based largely on the U.S.-North Korean Agreed Framework of October 1994. The Agreed Framework was negotiated in response to U.S. concerns over nuclear facilities that North Korea was developing at a site called Yongbyon. Existing facilities included a five megawatt nuclear reactor and a plutonium reprocessing plant. Two larger reactors were under construction. U.S. intelligence estimates concluded that these facilities could give North Korea the capability to produce over 30 atomic weapons annually. North Korea had concluded a safeguards agreement with the International Atomic Energy Agency (IAEA) in 1992, which requires North Korea to report all nuclear programs to the IAEA and gives the IAEA the right to conduct a range of inspections of North Korea's nuclear installations. However, North Korea obstructed or refused IAEA inspections in 1993-94, including refusal to allow an IAEA special inspection of a underground facility, which the IAEA believed was a nuclear waste site. The IAEA hoped that a special inspection would provide evidence of past North Korean productions of nuclear-weapons grade plutonium. Secretary of Defense Rumsfeld estimated that North Korea has from two to five warheads in a statement of August 2001 in Moscow. The U.S. National Intelligence Council published an estimate in December 2001 "that North Korea has produced one, possibly two, nuclear weapons."

The Agreed Framework provides for the suspension of operations and construction of North Korea's "graphite-moderated reactors and related facilities" and the storage of nuclear reactor fuel that North Korea had removed from the five megawatt reactor in May 1994. It provides to North Korea 500,000 tons of heavy oil annually until two light water nuclear reactors (LWRs) are constructed in North Korea. The United States is obligated to facilitate the heavy oil shipments and organize the construction of the light LWRs. The IAEA monitors the freeze of the designated facilities and activities. The special inspection of the suspected nuclear waste site and the inspection of the stored fuel rods are postponed. The Agreed Framework states that before North Korea receives nuclear materials for the LWRs, it is obligated to come into full compliance with its obligations as a signatory to the Nuclear Non-Proliferation Treaty with regard to its past nuclear activities. Clinton Administration officials testified that this clause will obligate North Korea to allow IAEA inspection of the suspected waste site and the stored fuel rods. They also testified that any additional North Korean nuclear programs, including any secret programs, are covered by the 1992 safeguards agreement and are subject immediately to IAEA safeguards, including inspections.

The Korean Peninsula Energy Development Organization (KEDO) was created to implement provisions of the Agreed Framework related to heavy oil shipments and

construction of the light water reactors. Lead members are the United States, Japan, South Korea, and the European Union. Japan and South Korea are to provide most of the financing, estimated at \$5-6 billion, for the construction of the light water reactors. The Agreed Framework set a target date of 2003 for completion of the first of the light water reactors. There have been delays in the project, caused by North Korean obstructionist tactics, by legal and bureaucratic obstacles, and by an apparent Clinton Administration policy of not hurrying implementation. KEDO officials now project the completion of the first light water reactor in 2008. Bush Administration officials estimate that by 2005, construction will reach the point when nuclear components will be delivered to North Korea. KEDO also has faced rising costs of providing the annual heavy oil allotments to North Korea. Since October 1995, North Korea has received the annual shipments of 500,000 tons of heavy oil. The cost to the United States of the heavy oil and financial support of KEDO from FY1995 through FY2002 is \$378 million. Congressional appropriations for the heavy oil and KEDO have risen from \$30 million in FY1996 to \$55 million in FY2001. Congress granted the Bush Administration request for \$95 million for FY2002.

The Bush Administration considered the Agreed Framework in its North Korea policy review in the spring of 2001. Among the options it considered was a proposal floated by the Clinton Administration in 2000 to eliminate one of the light water reactors and substitute conventional power facilities of equal capacity. President Bush's policy statement of June 6, 2001, declared an objective of "improved implementation of the Agreed Framework relating to North Korea's nuclear activities." According to Administration officials, the policy insists that North Korea soon begin the process of coming into full compliance with its obligations to the IAEA. The Administration asserts that North Korea must begin this process well prior to the point when the Agreed Framework specifies that North Korea must be in full compliance, since the IAEA states that, once North Korea allows a full range of IAEA inspections, the IAEA will need three to four years to determine whether North Korea is in full compliance with the Nuclear Non-Proliferation Treaty. U.S. officials reportedly have said that point will come by 2005 when construction of the first light water reactor will reach the stage of delivery of nuclear components. Beginning in July 2001, Administration officials warned that if North Korea does not begin the process of compliance with obligations to the IAEA, the Administration would suspend the light water reactor project.

North Korea rejected the Bush Administration's call for earlier compliance with the IAEA, demanding instead that the United States supply it with electricity until the construction of the light water reactors is completed. In March 2002, the Bush Administration used the right of waiver and refused to issue a certification to Congress that North Korea was complying with the Agreed Framework. Administration officials described this an added warning to North Korea to begin compliance with the IAEA.

North Korea's admission of a secret uranium enrichment program in October 2002 confirmed U.S. intelligence information that had built up since 1998 concerning such a program. North Korea used the admission to warn that it possessed "big powerful weapons," and it demanded a negotiation with the United States to include a non-aggression pact and a guarantee against a U.S. military and/or nuclear attack, and an end to U.S. stifling of North Korean economic development. It later threatened to re-open the nuclear facilities shut down under the Agreed Framework, expand weapons proliferation to other countries, and conduct a new long-range missile test.

The Bush Administration's initial policy response to the secret program consists of:

(1) Immediate priority to Iraq. President Bush reportedly says that he does not want two simultaneous crises. U.S. officials say they will rely on diplomacy and expect diplomacy to run well into 2003.

(2) No immediate termination or suspension of the Agreed Framework. Many Administration officials have stated that the Agreed Framework will be terminated. President Bush reportedly told Japanese and South Korean leaders in late October 2002 that the Agreed Framework would be continued indefinitely. Statements indicate a debate within the Administration, possibly over whether to continue the Agreed Framework or the timing of ending it. The timing question could be related to the policy of priority to Iraq. The scheduled oil shipments to North Korea appear to be intensifying the debate and pressures within the Administration over policy toward the Agreed Framework. Following the 2002 U.S. elections, Congress will complete legislation of the FY2003 foreign operations appropriations bill, which contains money for KEDO and the heavy oil shipments. Japan and South Korea favor continuing the Agreed Framework indefinitely.

(3) Rejecting negotiation of any new agreement with North Korea over the secret program and insisting that North Korea first abide by its past nuclear agreements, especially placing the secret program under IAEA safeguards and dismantling it under IAEA supervision. Administration officials argue that negotiation of a new agreement would reward North Korea for its violation of its previous nuclear agreements. They indicate that the Administration would continue dialogue with North Korea, including periodic meetings between State Department officials and North Korean officials at the United Nations. They have not indicated the purpose of dialogue in the absence of a negotiation, an important issue in future U.S. diplomacy.

(4) Forming an international coalition to pressure North Korea to end the secret program. President Bush, Japan's Prime Minister Koizumi, and South Korea's President Kim Dae-jung issued a statement at the APEC summit on October 26, 2002, that North Korea should "dismantle this program in a prompt and verifiable manner and to come into full compliance with all its international [nuclear] commitments." The Administration has agreed to continued Japanese and South Korean talks with North Korea but has urged Japan not to commit any of the economic aid (an estimated \$10 billion) that Prime Minister Koizumi promised to North Korea in the Japan-North Korean agreement to begin talks to normalize relations on September 17, 2002. Japanese officials have stated repeatedly that Japan will not commit any aid until North Korea satisfies U.S. and Japanese concerns over the secret uranium enrichment program and other security issues. Coordination of U.S. and Japanese diplomacy toward North Korea is an important issue for the Bush Administration. The Administration has asked for Chinese cooperation and reportedly requested that China warn North Korea against re-opening the nuclear facilities frozen under the Agreed Framework.

(5) Stating that the Administration does not intend to attack North Korea militarily but warn of the prospect of economic sanctions if North Korea does not end the secret program. Administration officials indicate that the Administration would not consider sanctions until the Iraq issue is settled. References to economic sanctions have produced an open dispute with South Korea; President Kim Dae-jung stated that he is unalterably opposed to economic

sanctions. He said in a speech of October 30, 2002, that sanctions “would likely lead to a repeat of the nuclear crisis in the early 1990s.”

North Korea’s Missile Program. On August 31, 1998, North Korea test fired a three stage missile, dubbed the Taepo Dong-1 by the U.S. Government. The missile flew over Japanese territory out into the Northwest Pacific. Parts of the missile landed in waters close to Alaska. North Korea claimed that the third stage of the missile was an attempt to launch a satellite. U.S. intelligence agencies responded with a conclusion that North Korea was close to developing a Taepo Dong-1 missile that would have the range to reach Alaska, the U.S. territory of Guam, the U.S. Commonwealth of the Northern Marianas, and the Japanese island of Okinawa, home to thousands of U.S. military personnel and their dependents. Reports since 2000 cite U.S. intelligence findings that North Korea is developing a Taepo Dong-2 intercontinental missile that would be capable of striking Alaska, Hawaii, and the U.S. west coast with nuclear weapons. U.S. and Japanese intelligence agencies reportedly estimated in 2001 that North Korea had deployed up to 100 medium-range Nodong missiles. First tested in 1993, the Nodong missile has an estimated range of 600-900 miles. The upper range would cover all of Japan including Okinawa.

Throughout the 1990s, North Korea exported short-range Scud missiles and Scud missile technology to a number of countries in the Middle East. After 1995, it exported Nodong missiles and Nodong technology to Iran, Pakistan, and Libya. In 1998, Iran and Pakistan successfully tested medium range missiles modeled on the Nodong. North Korea reportedly shipped 50 complete Nodong missiles to Libya in 1999.

The test launch of the Taepo Dong-1 missile spurred the Clinton Administration to intensify diplomacy on North Korea’s missile program. The Administration’s 1999 Perry initiative set the goal of “verifiable cessation of testing, production and deployment of missiles exceeding the parameters of the Missile Technology Control Regime, and the complete cessation of export sales of such missiles and the equipment and technology associated with them.” Dr. Perry seemed to envisage the negotiation of a series of agreements on the individual components of the North Korean missile program; each agreement would build progressively toward termination of the entire program. The Perry initiative offered North Korea steps to normalize U.S.-North Korean relations, an end to U.S. economic sanctions, and other economic benefits in return for positive North Korean actions on the missile and nuclear issues. This produced in September 1999 a qualified North Korean promise not to conduct further long-range missile tests, which North Korea repeated in June 2000. The Clinton Administration responded by announcing in September 1999 a lifting of a significant number of U.S. economic sanctions against North Korea. It published the implementing regulation for the lifting of these sanctions on June 19, 2000.

No further agreements on missiles were concluded by the end of the Clinton Administration. Secretary of State Albright visited Pyongyang in October 2000, and missile talks intensified. Unlike Perry’s view of a series of agreements, the Clinton Administration proposed a comprehensive deal covering all aspects of the issue. North Korea offered to prohibit exports of medium and long-range missiles and related technologies in exchange for “in-kind assistance.” (North Korea previously had demanded \$1 billion annually.) It also offered to ban permanently missile tests and production above a certain range in exchange for “in kind assistance” and assistance in launching commercial satellites. Pyongyang also offered to cease the deployment of Nodong and Taepo Dong missiles. It proposed that

President Clinton visit North Korea to conclude an agreement. The negotiations reportedly stalled over four issues: North Korea's refusal to include short-range Scud missiles in the commitment to cease the development and deployment of missiles; North Korea's non-response to the U.S. position that it would have to agree to dismantle the already deployed Nodong missiles; the details of U.S. verification of a missile agreement; and the nature and size of a U.S. financial compensation package. North Korean leader Kim Jong-il told European Union officials in May 2001 that he would continue a moratorium on missile test launches until 2003, and he agreed to extend the moratorium indefinitely in his meeting with Japanese Prime Minister Koizumi on September 17, 2002. In response to Japanese and U.S. pressure regarding its secret uranium enrichment program, North Korea warned on November 5, 2002, that it would conduct another long-range missile test.

President Bush's June 6, 2001 statement set a goal of "verifiable constraints on North Korea's missile programs and a ban on its missile exports." Administration officials have emphasized the necessity of a strong verification mechanism in any missile accord. After the January 2002 State of the Union speech, the Administration repeatedly described North Korea as a dangerous proliferator of missiles, and they demanded that North Korea cease exporting missiles and missile technology. However, the Administration has offered no specific negotiating proposal on missiles.

Weapons of Mass Destruction. The Bush Administration's emphasis on North Korea's weapons of mass destruction (WMDs) resulted from the September 11 terrorist attack. The Clinton Administration stressed nuclear issues but did not include North Korea's chemical and biological weapons as priority elements in the Perry initiative. A Pentagon report on the North Korean military, released in September 2000, stated that North Korea had developed up to 5,000 metric tons of chemical munitions and had the capability to produce biological weapons, including anthrax, smallpox, the bubonic plague, and cholera. The Bush Administration expresses a fear that North Korea might sell nuclear, chemical, or biological weapons to a terrorist group like al Qaeda or that al Qaeda might acquire these weapons from a Middle East country that had purchased them from North Korea. In November 2001, President Bush included North Korea's WMDs as part of the "war against terrorism" when he stated: "We want to know. Are they developing weapons of mass destruction? And they ought to stop proliferating. So part of the war on terror is to deny terrorist weapons." In the State of the Union on January 29, 2002, he described North Korea as "a regime arming with missiles and weapons of mass destruction." Upon departing for his trip to East Asia, President Bush stated on February 16, 2002, that "America will not allow North Korea and other dangerous regimes to threaten freedom with weapons of mass destruction." The Bush Administration has not accused North Korea of providing terrorist groups with WMDs. When asked about this in a joint press conference with South Korea's Defense Minister on November 15, 2001, Secretary of Defense Donald Rumsfeld answered "we do not have anything specific." There are reports from the early 1990s that North Korea exported nuclear technology to Iran and that North Korea assisted Syria and Iran to develop chemical and biological weapons capabilities.

Conventional Force Reductions and Pullbacks. Before and after taking office, Bush officials stated that the Administration would give conventional force issues priority in diplomacy toward North Korea. These officials stressed the objective of securing a withdrawal of North Korean artillery and multiple rocket launchers from the positions just north of the demilitarized zone (DMZ), where they threaten Seoul, located just 25 miles

south of the DMZ. The Bush June 6, 2001 statement set the goal of “a less threatening [North Korean] conventional military posture.” Advocates of such an initiative argue that North Korea might be more interested in a negotiation because of the progressive weakening of its conventional forces in the 1990s. They point out that monitoring of a pullback of North Korean artillery and multiple rocket launchers from the DMZ would be easier to monitor than any agreements on nuclear or missile issues. They believe that easing the central military confrontation on the DMZ is the key to resolving other military issues, including weapons of mass destruction.

Bush Administration statements hold that North Korea should withdraw unilaterally its artillery and rocket launchers from the DMZ in order to facilitate negotiations with the United States. According to the *Washington Post*, February 2, 2002, Secretary of State Colin Powell said that North Korea should remove its artillery from the DMZ as a good will gesture. President Bush stated on February 16, 2002, that North Korea would “be told directly by us during conversations. . . Move your arms back” from the DMZ. This stated goal of near-term North Korean force pullbacks contrasts sharply with a U.S.-South Korean study announced on February 27, 2002, on conventional force reductions. The study concentrated on confidence-building measures with North Korea (military exchanges of personnel and information) as a short- to medium-range goal. The study postulates actual force reductions as a distant objective. The study plans in the future to examine strategy and the details of actual force reductions. Some observers believe that this joint study suggests that the Bush Administration has de-emphasized seeking conventional forces reductions and pullbacks in favor of more modest confidence-building proposals, which date back to the 1980s. They attribute this to South Korean opposition to negotiations on conventional forces, possible opposition from elements of the U.S. military, and the Bush Administration’s reluctance to offer North Korea reciprocal military measures involving U.S. forces.

North Korea’s response to Bush Administration statements have denounced the Administration for proposing unilateral North Korean withdrawals from the DMZ. North Korea also used this to reject the general U.S. proposal to open talks. However, North Korean statements also have pointed out that Pyongyang in the past has proposed conventional force negotiations and pullbacks (these past proposals have included the total withdrawal of U.S. forces from South Korea). Japanese press reports in September 2002 asserted that North Korea had told Russian officials that it wanted to reduce its conventional forces and negotiate force pullbacks with the United States. Some experts believe that the Bush Administration will have to include mutuality and military reciprocity in any proposal for conventional force negotiations. They argue that the United States and South Korea will have to offer North Korea a pullback of some U.S. and R.O.K. forces from the DMZ in order to obtain North Korean agreement to pull back artillery, rocket launchers, and other forces. Bush Administration pronouncements on the necessity of North Korean pullbacks have not included any reference to mutuality or military reciprocity. As indicated previously, the President’s June 6 list of possible incentives to North Korea were political and economic in nature rather than military.

North Korea’s Inclusion on the U.S. Terrorism List. Beginning in February 2000, North Korea began to demand that the United States remove it from the U.S. list of terrorist countries. It made this a pre-condition for the visit of a high level North Korean official to Washington. Although it later dropped this pre-condition, it continued to demand removal from the terrorist list. In response to the terrorist attack of September 11, 2001,

North Korea issued statements opposing terrorism and signed two United Nations conventions against terrorism.

South Korea also urged the United States to remove North Korea from the terrorism list in order to open the way for North Korea to receive financial aid from the World Bank and the International Monetary Fund (IMF). U.S. law P.L. 95-118, the International Financial Institutions Act, requires the United States to oppose any proposals in the IMF and World Bank to extend loans or other financial assistance to countries on the terrorism list. The Kim Dae-jung Administration advised the Clinton Administration in July 2000 to drop from consideration past North Korean terrorist acts against South Korea. The Kim Dae-jung Administration advocated North Korean admission to the World Bank and the IMF.

Japan urged the Clinton and Bush administrations to keep North Korea on the terrorism list until North Korea resolved Japan's concerns. Japan's concerns are North Korea's sanctuary to members of the terrorist Japanese Red Army organization and evidence that North Korea kidnapped and is holding at least ten Japanese citizens. The Clinton Administration gave Japan's concern increased priority in U.S. diplomacy in 2000. Secretary Albright raised the issue of kidnapped Japanese when she met with Kim Jong-il in Pyongyang in October 2000. A high ranking State Department official met with family members of kidnapped Japanese in February 2001 and reportedly assured them that the Bush Administration would not remove North Korea from the terrorism list. (See CRS Report RL30613, *North Korea: Terrorism List Removal?*) Kim Jong-il's admission of kidnapping Japanese during the Kim-Koizumi summit of September 2002 did not resolve the issue. His claim that 8 of the 13 admitted kidnapped victims are dead and his ambivalence regarding the return to Japan of the five living Japanese raised new issues for the Japanese government, including information about the deaths of the kidnapped victims, North Korean compensation to the families of the victims, and the possibility that more Japanese were kidnapped. The five living kidnapped Japanese returned to Japan in October 2002 for a visit, but North Korea did not allow their children in North Korea to go to Japan.

In June 2002, the Bush Administration appeared to add conditions for removing North Korea from the U.S. terrorist list. Deputy Secretary of State Richard Armitage stated in a June 2002 speech that North Korea would have to acknowledge the 1983 bombing of the South Korean presidential delegation in Rangoon, Burma, and the blowing up of a South Korean airliner in 1987.

Food Aid. Agriculture production in North Korea began to decline in the mid-1980s. Severe food shortages appeared in 1990-1991. In September 1995, North Korea appealed for international food assistance. From 1996 through 2001, the United States contributed about 1.8 million tons of food aid to North Korea through the United Nations World Food Program. The Bush Administration announced 100,000 tons of new food aid in May 2001 and 105,000 tons in December 2001. The Bush June 6 statement indicated that it would use food aid as a negotiating incentive to North Korea in diplomacy over nuclear, missile, and conventional force issues. The Bush offer to "expand our efforts to help the North Korean people" suggested continued U.S. food aid but linked in part to progress on issues like missiles, conventional forces, and North Korea's nuclear program. The Clinton Administration used food aid to secure North Korean agreement to certain types of negotiations and North Korean agreement to allow a U.S. inspection of the suspected nuclear site at Kumchangri. Critics have asserted that the use of food aid in this way negates

consideration of two other issues: the weaknesses in monitoring food aid distribution in North Korea and the absence of North Korean economic reforms, especially agricultural reforms.

The U.N. World Food Program requested donations of 611,000 tons of food for North Korea in 2002, but it cites a decline in donations. It acknowledges that the North Korean government places restrictions on its monitors' access to the food distribution system, but it believes that most of its food aid reaches needy people. Several private aid groups, however, withdrew from North Korea because of such restrictions and suspicions that the North Korean regime was diverting food aid to the military or the communist elite living mainly in the capital of Pyongyang. It is generally agreed that the regime gives priority to these two groups in its overall food distribution policy. The regime, too, refuses to adopt agricultural reforms similar to those of fellow communist countries, China and Vietnam, including dismantling of Stalinist collective farms. While such reforms resulted in big increases in food production in China and Vietnam, North Korea continues to experience sizeable food shortages year after year with no end in sight. It is estimated that one to three million North Koreans died of malnutrition between 1995 and 2002.

The conditions set on future food aid by the Bush Administration in June 2002, cited above, appears to result from two factors. One is the influence of Andrew Natsios, the Director of the U.S. Agency for International Development, who was intimately involved in food aid programs to North Korea in the 1990s. His 2002 book, *The Great North Korean Famine*, highlights a view that the North Korean government employed duplicity and manipulation of food aid donors. The second factor may be the influence of the newly-emerging issue of North Korean refugees in China.

North Korean Refugees in China. This issue confronted governments after March 2002 when North Korean refugees sought asylum in foreign diplomatic missions in China and the Chinese government sought to prevent access to the missions and forcibly removed refugees from the Japanese and South Korean embassies. The refugee exodus from North Korea into China's Manchuria region began in the mid-1990s as the result of the dire food situation in North Korea's provinces in the far north and northeast along the Chinese border. The North Korean government reportedly suspended the state food rationing system in these provinces beginning about 1993 and never allowed international food aid donors into them. The number of refugees is unknown, since China has not issued official figures. Estimates cover a huge range, from 10,000 to 300,000.

China followed conflicting policies reflecting conflicting interests. Generally, China tacitly accepted the refugees so long as their presence was underground and/or not highly visible. China also allowed foreign private non-government groups (NGOs), including South Korean NGOs, to provide aid to the refugees, again so long as their activities were not highly visible. China barred any official international aid presence, including any role for the United Nations High Commission for Refugees. It also interrupted its general policy of tacit acceptance with periodic crackdowns that included police sweeps of refugee populated areas, rounding up of refugees, and returning them to North Korea.

Chinese officials for years urged North Korea to adopt agricultural reforms similar to China's reforms since the late 1970s, including the abolition of collective farms and communes. However, North Korea remains as China's last communist ally, and China

supports the North Korean regime and trying to prevent any scenario that would lead to a collapse of the Pyongyang regime. Chinese officials fear that too much visibility of the refugees and especially any U.N. presence could spark an escalation of the refugee outflow and lead to a North Korean regime crisis and possible collapse. China's crackdowns are sometimes a reaction to increased visibility of the refugee issue. China's interests in buttressing North Korea also has made China susceptible to North Korean pressure to crack down on the refugees and return them. The Chinese government also appears reluctant to establish the precedent of allowing any United Nations presence on its soil.

The new situation in 2002 resulted from the activism of several South Korean and European NGOs, which decided to confront China and North Korea on the refugee issue. These NGOs assisted a small number of refugees to travel to Chinese cities where there are foreign diplomatic missions and seek asylum from foreign governments and repatriation to South Korea. China's attempts to prevent this added to the world-wide publicity, and China eventually allowed all of these refugees to emigrate to South Korea. China, however, reportedly instituted another crackdown in Manchuria against both the refugee population and the foreign NGOs. Chinese security authorities reportedly tortured captured refugees to gain information on the NGOs that assisted them. South Korea, which previously had turned refugees away from its diplomatic missions, changed its policy in response to the new situation. It accepted refugees seeking entrance into its missions and allowed them entrance into South Korea, and it negotiated with China over how to deal with these refugees.

The Bush Administration gave the refugee issue low priority. President Bush did not raise the issue with Chinese leaders when he visited China in February 2002. The Administration has asserted that South Korea should have the lead diplomatically in dealing with China. However, the Administration's new conditions for future food aid to North Korea may be a response to the refugee situation. The Administration's demand for food donors' access to all regions of North Korea points to the northern provinces from which most of the refugees have come. Congress has been more active on the issue. The issue has been aired in hearings. In June 2002, the House of Representatives passed H.Con.Res. 213, which calls on China to halt forced returns of refugees to North Korea and give the U.N. High Commission on Refugees access to the North Korean refugees.

Responding to South Korea's Sunshine Policy. U.S. responses to President Kim Dae-jung's "sunshine policy" has been an issue since South Korea achieved a breakthrough in relations with North Korea with the meeting of Kim Dae-jung and North Korean leader Kim Jong-il in Pyongyang, June 13-14, 2000. Their joint declaration said North Korea and South Korea would work for economic cooperation, cultural and sports exchanges, and meetings of divided Korean families. The summit apparently was in part the result of Kim Dae-jung's speech in Berlin in March 2000. He offered to provide large scale economic aid to rebuild North Korea's infrastructure. Following the summit, Seoul and Pyongyang negotiated agreements on the restoration of a railway and road across the DMZ, investment guarantees and tax measures to stimulate South Korean private investments in North Korea, provision of 600,000 tons of South Korean food aid to North Korea, and flood control projects for the Imjim River. A meeting of defense ministers occurred but with little result. President Kim called on the United States to support his sunshine policy by normalizing diplomatic relations with North Korea, negotiating a missile agreement with Pyongyang, and removing North Korea from the U.S. terrorist list. However, the sunshine policy stagnated after December 2000. North Korea demanded that South Korea supply it

with two million kilowatts of electricity and rejected a South Korean reply proposing a survey of North Korea's electrical grid. North Korea broke off talks in March 2001 and suspended implementation of the 2000 economic and family reunion agreements.

The Bush Administration periodically issues a general statement that it supports the sunshine policy. However, the U.S. response to the component parts of the sunshine policy indicates a mixed U.S. reaction. The Clinton and Bush administrations supported South Korea's proposals to build a railroad and road across the demilitarized zone and assist North Korea in flood control of the Imjim River. They also supported North-South agreements to reunite divided Korean families and for investment guarantees for R.O.K. firms investing in North Korea.

However, the Bush Administration appears to have reservations over other components of the sunshine policy. As stated previously, the Bush and Kim administrations appear to disagree over North Korea's inclusion on the U.S. terrorism list. The U.S. military command in Korea and the Central Intelligence Agency reportedly believe that North Korea has gained greater financial flexibility to make military purchases because of the nearly \$400 million it has received from the Hyundai Corporation during 1999-2001 for the right to operate a tourist project at Mount Kumgang in North Korea. According to informed sources, Hyundai made additional secret payments to North Korea. Hyundai denies making secret payments, but new accusations of secret payments and government subsidies to Hyundai for these payments arose and were debated in South Korea in late 2002. According to the South Korean newspaper, *Choson Ilbo*, February 25, 2001, U.S. officials voiced this concern to South Korean intelligence chief, Lim Dong-won, during his visit to Washington in February 2001 and that the CIA delivered a memorandum to the R.O.K. government containing a list of weapons that North Korea recently purchased from overseas. The *Korea Herald*, February 5, 2001, quoted a spokesman for the U.S. Military Command in Korea that "I know that military experts at home and abroad are concerned about Pyongyang's possible diversion of the [Hyundai] cash for military purposes." South Korea's Unification Minister stated before a Korean National Assembly committee on April 2002 that the government was aware of a possibility that North Korea would use the Hyundai payments for military purposes. The Kim Dae-jung Administration has touted the Mt. Kumgang project as a highlight of its sunshine policy. It has decided to financially subsidize the project, which has been a big money loser for the financially troubled Hyundai Corporation.

The Bush Administration also has reservations over Kim Dae-jung's proposal that the 1997-1999 Four Party Talks (North and South Korea, the United States, and China) be reconvened and used for North-South negotiation of a Korean peace agreement to replace the 1953 Korean armistice agreement. Past U.S. administrations endorsed North-South negotiation of a peace agreement, and President Reagan originally proposed Four Party Talks as a vehicle for peace negotiations. President Kim did not raise his four party talks proposal directly during the March 2001 summit, but Bush Administration officials appeared to be skeptical toward President Kim's peace initiative. The Bush Administration appears concerned that a peace agreement without provisions for conventional forces reductions and pullbacks would create a false sense of security and could undermine South Korean public/political support for the U.S. troop presence in South Korea.

The Bush Administration is known to have concerns over North Korea's proposal that South Korea provide North Korea with 2 million kilowatts of electric power in the near

future. South Korea did not accept the proposal but offered to send a survey team to North Korea to study North Korea's electric system. The Bush Administration reportedly is concerned that 2 million kilowatts of electricity is the exact amount that the two light water nuclear reactors, which North Korea is to receive under the Agreed Framework, would provide North Korea. The Administration reportedly believes that if South Korea agreed to the North Korean proposal, this would remove incentives for North Korea to meet its obligations to the International Atomic Energy Agency to allow a full range of inspections.

The Kim Dae-jung Administration has supported the general Bush Administration goals toward North Korea, including the U.S. position that North Korea should end its secret uranium enrichment program under IAEA safeguards; but it has urged the Bush Administration to make greater efforts to negotiate with North Korea and opposes economic sanctions on North Korea. After President Bush's declaration of North Korea as part of an "axis of evil," R.O.K. officials expressed misgivings about the Bush Administration's policy of public pressure and warnings toward North Korea.

North Korea's blockage of implementation of the agreements of 2000 continued until August 2002. North-South relations reached a nadir in June 2002 when the North Korean navy attacked South Korean naval units. However, North Korea expressed "regret" over the incident, and negotiations in August 2002 produced a family reunion held in September and agreements to implement economic agreements of 2000. A key agreement called for the North and South Korean militaries to construct the rail and road linkages through the demilitarized zone (DMZ) in east and west sectors. Work actually began on September 18, 2002, with target dates of December 2002 for the western sector and spring 2003 for the eastern sector. South Korea is to supply needed materials to North Korea for the road and rail connections. Seoul and Pyongyang reached agreement in November 2002 on South Korean infrastructure aid to construct a special economic zone at Kaesong inside North Korea to attract South Korean and other outside private investment. North Korea is to issue a law and regulations for foreign investment at Kaesong.

U.S.-South Korean Military Issues

South Korea's fear of military threat from North Korea has declined since the mid-1990s. In June 1999, South Korean naval forces inflicted severe damage on the North Korean navy in a serious naval clash in the Yellow Sea, which experts attributed to superior South Korean technology and antiquated North Korean weaponry. According to recent polls, South Koreans increasingly do not register the same level of concern as many Americans over a North Korean invasion threat, suspected nuclear weapons development, ballistic missile testings, and missile sales abroad. In congressional testimony in March 2001, General Thomas Schwartz, U.S. Commander-in-Chief in Korea, asserted that the North Korean military threat was growing due to the size of its forces (over one million) and armaments, the holding of large North Korean field exercises in 2000, and especially the concentration of artillery and multiple rocket launchers within range of the South Korean capital, Seoul. Schwartz's testimony received criticism within South Korea and from a number of U.S. experts. The critics argue that North Korean conventional military capabilities have eroded since the early 1990s due to the obsolescence of offensive weaponry like tanks and strike aircraft, logistics/supplies deficiencies, the absence of major field exercises from 1994 to 2000, food shortages among even North Korean front-line troops on

the DMZ, and the decline in the physical and mental capabilities of North Korean draftees after a decade of malnutrition.

Declining South Korean fears of a North Korean invasion and the inter-Korean dialogue have produced a growing debate in South Korea over the U.S. military presence. Small radical groups, which demand a total U.S. military withdrawal, have been joined by a network of non-government civic groups. Several prominent South Koreans have proposed changes in the size and functions of U.S. troops, including a proposal to convert U.S. troops to a peacekeeping force. Some polls, including a poll commissioned by the State Department's Office of International Information Programs in September 2000, show a majority of South Koreans in favor of a reduction in the number of U.S. troops in South Korea. The official U.S. position is that the United States has no plans to reduce the number of U.S. troops in South Korea. In March 2002, the U.S. and R.O.K. governments announced a ten-year program to reduce by nearly 50% the bases and land used by U.S. forces in South Korea but that the total number of 37,000 U.S. troops would remain.

The North-South summit of June 2000 intensified this debate. The debate centers on two issues: (1) the impact of the U.S. military presence on prospects for advancement of President Kim's sunshine policy and (2) disputes between the U.S. military and South Korean civilians. Attitudes toward one affect attitudes toward the other. Kim Dae-jung states that he discussed U.S. troops with Kim Jong-il at the summit and that the North Korean leader agreed that U.S. troops should remain in South Korea. Reportedly, however, the two Korean leaders also discussed changing the role of U.S. troops from a military combat force to that of peacekeepers.

This debate has been intensified by new controversies over the conduct of the U.S. military and U.S. policy. The Clinton Administration in its final days concluded two agreements with South Korea that settled contentious issues. One was a new Status of Forces Agreement, completed in December 2000 after six years of negotiations. It provides that U.S. military personnel accused of particular, specified crimes would be turned over to South Korean authorities prior to their trial and that such individuals would receive certain legal guarantees from the R.O.K. government. The second agreement was a settlement of the No Gun-ri issue, which involved the report that U.S. troops had massacred Korean civilians at No Gun-ri in July 1950 during the early stage of the Korean War. The agreement found that U.S. troops had killed a large number of South Korean civilians at No Gun-ri but that there was no evidence that they were acting under orders from higher U.S. commanders. President Clinton issued a statement of regret for the incident, but the Clinton Administration rejected demands from South Korean groups that the United States issue a formal apology and pay compensation to surviving family members. The Clinton Administration also settled with South Korea the issue of R.O.K. development of missiles. South Korea sought agreement to extend the range of its missiles, which had been the subject of a 1979 U.S.-R.O.K. accord. An agreement announced in January 2001 will allow South Korea to develop missiles with a range of up to 187 miles, up from the 1979 limit of 112 miles. South Korea joined the global Missile Technology Control Regime (MCTR).

Contentious issues remain. U.S. military personnel accidentally killed two South Korean children in 2002, sparking an outcry of South Korean complaints and demands that the soldiers be turned over to R.O.K. authorities for trial. A South Korean court in April 2001 ordered compensation for 14 Korean civilians, who claimed injury from a U.S.

bombing exercise; the court ruled that the U.S. military had violated Korean law. The Bush Administration reportedly decided to seek a 30% increase in South Korea's host nation support for U.S. troops. The total cost of stationing U.S. troops in South Korea is over \$2 billion annually. The South Korean direct financial contribution for 2002 is \$490 million, up from \$399 million in 2000. In early 2000, large-scale criticism arose in the South Korean media and among civic groups over the R.O.K. government's apparent selection of the Boeing's F-15K fighter over European competitors as South Korea's next generation fighter. The controversy arose over reports and statements that the selection was made under pressure from the Bush Administration.

Political Issues

As South Korea moved from the authoritarian regimes of the past to more democratically-based governments of the last decade, U.S. officials have been prominent in encouraging greater pluralism and democratic process. Free elections have been held since 1987. Kim Dae-jung won the December 1997 presidential election with 40% of the vote. However, throughout much of his term, the National Assembly has been controlled by the opposition party. President Kim's economic reform program, strong economic growth in 1999 and 2000, and the North-South summit of June 2000 gained him considerable popular support. Since late 2000, however, his popularity has slipped due to a slackening of economic growth, the uneven progress of his sunshine policy toward North Korea, and reports of corruption in his government. President Kim has been criticized for attempting to impose restrictions on newspapers which criticize his policies. The next presidential election is scheduled for December 2002. President Kim is limited to one term under the R.O.K. constitution. His 1997 election opponent, Lee Hoi-chang, will represent the opposition Grand National Party. President Kim's Millennium Democratic Party has nominated Roh Moo-hyun, a former labor union lawyer. Roh in the past has advocated a withdrawal of U.S. troops from South Korea. He now says U.S. troops should remain but that South Korea should gain equality in the security relationship. In September 2002, Chung Mong-joon, son of the founder of the Hyundai group of companies, entered the race. He drew significant support in the polls from his successful organizing of the World Cup soccer tournament in South Korea in June 1992.