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

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Summary

North Korea's decision in December 2002 to restart nuclear installations at Yongbyon that were shut down under the U.S.-North Korean Agreed Framework of 1994 and its announced withdrawal from the Nuclear Non-Proliferation Treaty create an acute foreign policy problem for the United States. North Korea claims that it has nuclear weapons and that it has completed reprocessing nuclear weapons-grade plutonium that could produce six to eight atomic bombs. U.S. intelligence estimates reportedly agree that North Korea has this capability. North Korea also is operating a secret nuclear program based on highly enriched uranium (HEU).

The main elements of Bush Administration policy are (1) that North Korea must dismantle both its plutonium and HEU programs; (2) that dismantlement must be an early stage in a settlement process; (3) assembling an international coalition to apply pressure on North Korea in multilateral talks; and (4) asserting that a full normalization of U.S.-North Korean relations is dependent on the resolving of several issues, including nuclear weapons, missiles, and human rights; and (5) instituting financial sanctions at foreign banks and companies that cooperate with North Korea in international illegal activities.

China organized six party talks among the United States, China, Japan, North Korea, South Korea, and Russia in mid-2003, but the talks have made little progress. U.S. attempts to isolate North Korea in the talks have been countered by North Korea's strategy of threats to leave the talks, actual boycotts of the talks, the issuance of settlement proposals, accusations that the United States plans an "Iraq-like" attack on North Korea, and denials that it has an HEU program. North Korea's position, first taken in August 2005, that it will not begin dismantlement until light water nuclear reactors are constructed inside North Korea (construction would take an estimated 10-15 years) creates a significant gap between the Bush Administration's timetable for dismantlement and Pyongyang's timetable.

There are considerable differences between the Bush Administration and China and South Korea over policies toward North Korea. China has supported key North Korean negotiating positions and rejects pressure on North Korea over the nuclear and missile issues. South Korea emphasizes bilateral reconciliation with North Korea and a policy more equidistant between the United States and China. The South Korean public has become critical of Bush Administration policies and the U.S. military presence. Anti-U.S. demonstrations erupted in 2002, and Roh Moo-hyun was elected President after criticizing the United States. In 2003-2004, the Pentagon announced plans to relocate U.S. troops in South Korea away from the demilitarized zone and Seoul. The United States will withdraw 12,500 troops between the end of 2004 and September 2008, and U.S. military officials have hinted that further withdrawals will come after 2008. U.S.-South Korean negotiations are underway to change the military command structure and determine the degree to which the United States could deploy U.S. troops in South Korea to other trouble spots in Northeast Asia. This report replaces IB98045, *Korea: U.S.-Korean Relations — Issues for Congress*, by Larry A. Niksch. It will be updated periodically.

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

Most Recent Developments

The U.S. Senate passed an amendment to the FY2007 defense authorization bill that would require President Bush to appoint a senior presidential coordinator of policy toward North Korea and submit to Congress an unclassified report on North Korea's nuclear and missile programs. North Korea fired seven missiles into the Sea of Japan on July 4, 2006, including one long-range Taepodong II missile. However, the Taepodong II's liftoff failed after 40 seconds, and the missile fell into the sea. Experts concluded that the Taepodong test was a failure but that North Korea also had tested a new model of Scud short-range missiles and a new intermediate range missile. The Bush Administration announced support for a Japanese resolution in the United Nations Security Council. China and Russia opposed it, but they offered their own resolution criticizing North Korea. A compromise resolution passed the Security Council on July 15, 2006. It did not cite Chapter 7 of the U.N. Charter, which provides for mandatory sanctions and steps toward military action. The resolution however, "requires all Member States, in accordance with their national legal authorities and legislation and consistent with international law, to exercise vigilance and prevent the procurement of missiles or missile-related items, materials, goods and technology from the DPRK [North Korea] and the transfer of any financial resources in relation to DPRK's missile or (weapons of mass destruction) programs." It "demands" that North Korea stop its ballistic missile program and "strongly urges" North Korea to return to the six party nuclear talks. North Korea immediately rejected the resolution and continued its second lengthy boycott of the six party talks, demanding that the Bush Administration lift recent U.S. financial sanctions against Banco Delta Asia in Macau. The U.S. Treasury Department accused Banco Delta of laundering counterfeit U.S. 100 dollar bills produced by North Korea. Recent reports indicated that the Treasury Department was considering applying similar financial sanctions against banks on the Chinese mainland that were cooperating with North Korean illegal activities. In other developments, North Korea ordered the U.N. World Food Program (WFP) to cease food-donating operations at the end of 2005, but the WFP reached an agreement with Pyongyang for a two-year, \$102 million program to provide food to young children and women of child-bearing age. Following criticism from Members of Congress, the Bush Administration admitted the first group of six North Korean refugees into the United States. The United States and South Korea began negotiations over a Free Trade Agreement.

U.S. Interests in South Korea

U.S. interests in the Republic of Korea (R.O.K. — South Korea) involve security, economic, and political concerns. The United States suffered over 33,000 killed and over 101,000 wounded in the Korean War (1950-53). The United States agreed to defend South Korea from external aggression in the 1954 Mutual Defense Treaty. The United States maintains about 34,000 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. Since 1991, attention has focused on North Korea's drive to develop nuclear weapons (see CRS Issue Brief IB91141, *North Korea's Nuclear Weapons Program*, by Larry A. Niksch) and long-range missiles.

U.S. economic aid to South Korea, from 1945 to 2002, totaled over \$6 billion; most economic aid ended in the mid-1970s as South Korea's reached higher levels of economic development. U.S. military aid, from 1945 to 2002, totaled over \$8.8 billion. The United States is South Korea's second-largest trading partner (replaced as number one by China in 2002) and largest export market. South Korea is the seventh-largest U.S. trading partner.

Recent Issues

Relations with North Korea

The Bush Administration's policy toward North Korea has been based on three factors within the Administration. First, President Bush has voiced distrust of North Korea and its leader, Kim Jong-il. Second, there are divisions within the Administration over policy toward North Korea. A coalition consists of Secretary of Defense Rumsfeld and his advisers, Vice President Cheney and his advisers, and proliferation experts in the State Department and White House. They reportedly oppose negotiations with North Korea, favor the issuance of demands for unilateral North Korean concessions on military issues, and advocate a U.S. strategy of isolating North Korea diplomatically and through economic sanctions. Officials within this group express hope of a collapse of the North Korean regime. An alternative approach, advanced mainly by officials in the State Department and White House with experience on East Asian and Korean issues, favor negotiations before adopting more coercive measures; they reportedly doubt the effectiveness of a strategy to bring about a North Korean collapse.¹ The third factor is heavy reliance on other governments, especially China, to bring North Korea around to accept U.S. proposals on the nuclear issue.

North Korea's Objectives in July 2006 Missile Tests. North Korea's objectives in launching seven missiles on July 4, 2006, including a long-range

¹ Kessler, Glenn. "U.S. has a shifting script on N. Korea." *Washington Post*, December 7, 2003. p. A25. Beck, Peter. "The new Bush Korea team: a harder line?" *Weekly Dong-a* (Seoul), November 22, 2004.

Taepodong II missile, have been the subject of much analysis and, admittedly, speculation. Most of the analysis focuses on likely multiple objectives and motives. One set of these may be related to internal political factors in North Korea, particularly the assertion of the North Korean military (KPA) within the North Korean leadership. Recent reports have indicated that the KPA has been dissatisfied with the status of the six party nuclear talks, U.S. Treasury Department financial sanctions against a bank in Macao that was a major conduit for North Korean illegal activities, and the North Korea's agreement to open rail links with South Korea. The KPA reportedly intervened at the last moment to prevent the scheduled opening of the rail links on May 25, 2006. The KPA thus may have pressed for stronger North Korean measures to deal with a number of these issues.

On the diplomatic level, much of the analysis has focused on a likely North Korean objective of escalating pressure on the United States for bilateral U.S.-North Korean talks. Pyongyang has sought bilateral talks since the nuclear issue worsened in 2002, and the Bush Administration has resisted such negotiations. It also is possible that North Korea seeks to use provocative missile tests to place pressure on China for more aid, especially direct financial subsidies to the regime. Throughout the six party talks since August 2003, Pyongyang has used threats and boycotts of the talks to gain greater amounts of aid from China. North Korea also may view the missile launches as a way to test the boundaries China has placed on acceptable North Korean behavior since the six party talks began. Chinese officials claim that China warned North Korea in the spring of 2003 against conducting a nuclear weapons test. Pyongyang thus may view Chinese tolerance of the missile launches as constituting an opening for a future nuclear test.

On the military level, the KPA may have argued that development of the Taepodong II necessitated a test, since the last test of a Taepodong I was in August 1998. A more disturbing motive would be that North Korea has developed nuclear warheads that could be fitted on missiles and that the North Korean leadership decided that this achievement necessitated the test of a long-range missile delivery system. Another possible motive would be to advertise North Korean missiles to potential customers, including existing customers like Iran and Syria and countries cited as potential customers like Burma and Venezuela. North Korean missile sales have been lucrative sources of foreign exchange for North Korean leader Kim Jong-il and the leadership.

Nuclear Weapons and the Six Party Talks.² From 1994 to 2003, U.S. policy was based largely on the U.S.-North Korean Agreed Framework of October 1994. It provided for the suspension of operations and construction of North Korea's active five megawatt nuclear reactor and plutonium reprocessing plant and larger 50 megawatt and 200 megawatt reactors under construction. It also specified the storage of 8,000 nuclear fuel rods that North Korea had removed from the five

² For assessments of diplomacy on the North Korean nuclear issues, see Pritchard, Charles L. "Six Party Talks Update: False Start or a Case for Optimism?" Washington: The Brookings Institution, December 1, 2005. Also: Albright, David and Hinderstein, Corey. Dismantling the DPRK's Nuclear Weapons Program. Washington: United States Institute of Peace, January 2006.

megawatt reactor in May 1994. It provided that the United States would facilitate the shipment of 500,000 tons of heavy oil annually to North Korea until two light-water nuclear reactors (LWRs) were constructed in North Korea. The Korean Peninsula Development Organization (KEDO), a multilateral body, was established to implement the LWR project. The IAEA monitored the freeze of the designated facilities and activities. North Korea would complete dismantlement of nuclear facilities when the construction of LWRs was completed.

According to U.S. officials, North Korea admitted to having a secret uranium enrichment program when U.S. officials visited Pyongyang in October 2002 (North Korea since has denied making an admission). This confirmed U.S. intelligence information of such a program that had built up since 1998. The Bush Administration reacted by pushing a resolution through KEDO in November 2002 to suspend heavy oil shipments to North Korea. The Administration also secured a suspension of construction of the light-water reactors and a total termination in November 2005. North Korea then initiated a number of moves to reactivate the plutonium-based nuclear program shut down in 1994 under the Agreed Framework: re-starting the five-megawatt nuclear reactor, announcing that it would re-start the plutonium reprocessing plant, and removing the 8,000 nuclear fuel rods from storage facilities. North Korea expelled IAEA officials who had been monitoring the freeze of the plutonium facilities under the Agreed Framework. In January 2003, North Korea announced withdrawal from the Nuclear Non-Proliferation Treaty. North Korea later asserted that it possessed nuclear weapons and that it had completed reprocessing of the 8,000 fuel rods into weapons-grade plutonium. According to nuclear experts and reportedly by U.S. intelligence agencies, this reprocessing would produce enough plutonium for four to six atomic bombs. A Central Intelligence Agency statement of August 18, 2003, estimated “that North Korea has produced one or two simple fission-type nuclear weapons and has validated the designs without conducting yield-producing nuclear tests.” Reuters News Agency and the *Washington Post* reported on April 28, 2004, that U.S. intelligence agencies were preparing a new National Intelligence Estimate that would conclude that North Korea had approximately eight atomic bombs based on plutonium and that the secret uranium enrichment program would be operational by 2007 and would produce enough weapons-grade uranium for up to six atomic bombs annually. “Senior officials across the government” were quoted in March 2006 that North Korea had plutonium for 8 to 12 nuclear weapons.³

In early 2003, the Administration proposed multilateral talks, which became six party talks hosted by China. South Korea, Japan, and Russia also participated along with North Korea. Six party talks began in August 2003 and remained stalemated until September 2005, when the six parties produced a statement of principles on September 19. However, the talks quickly deadlocked as North Korea and the United States gave very different interpretations of the Six Party Statement and North Korea announced its second major boycott of the talks in November 2005, which has continued to the present.

³ Brinkley, Joel. “U.S. squeezes North Korea’s money flow.” *New York Times*, March 10, 2006. p. A11.

There are at least four reasons for the deadlock. The first is a fundamental disagreement between the United States and North Korea over the timing in a settlement process of North Korean dismantlement of its nuclear programs. The Bush Administration has maintained a core position that dismantlement must come in an early stage of a settlement, and it estimated in 2005 that dismantlement would take about three years. Until August 2005, North Korea took the position that it would dismantle only after receiving a number of concessions and benefits from the United States, but it was ambiguous on the timing. In August 2005, North Korea made a relatively secondary demand for light water nuclear reactors its core demand for U.S. concessions, taking the position that it would dismantle only after LWRs were constructed. Pyongyang maintained this position after the Six Party Statement, which called for discussions of LWRs. This position set a time frame of at least ten years and more likely 15 years before North Korea would begin dismantlement (ten years is the amount of time nuclear experts say is needed to construct LWRs in a “normal nation”⁴).

A second reason is the relative lack of support for U.S. positions in the talks from China, South Korea, and Russia. In the early stages of the talks, Administration officials emphasized that North Korea would become isolated diplomatically and that the other parties in the talks would pressure North Korea to accede to U.S. proposals and demands. Administration officials stressed that China should exert diplomatic pressure on North Korea by exploiting North Korea’s dependence on China for an estimated 90% of its oil and 40% of its food. However, North Korea exerted an effective counter-strategy in late 2003 into 2004 featuring proposals of a U.S. security guarantee, a long-term freeze of North Korea’s plutonium program coinciding with U.S. concessions (“reward for freeze”), and retention by North Korea of a “peaceful” nuclear program. North Korea instituted a concerted propaganda campaign to promote these proposals, and it began a campaign of repeated denials that it had a secret highly-enriched uranium (HEU) program. Throughout 2004, China, Russia, and even South Korea expressed sympathy for Pyongyang’s proposals, and Russia and China voiced doubts that North Korea has an HEU program. Pyongyang’s first boycott of the talks (August 2004-July 2005) drew little criticism from these governments; and while South Korea criticized the second boycott (November 2005 to the present), Beijing and Moscow refrained from any public criticism. China appeared to demand from North Korea at least a nominal commitment to the talks and avoidance of provocative acts like a nuclear test; but China displayed a permissive attitude toward North Korean tactics in the talks, rejected sanctions on North Korea, and heightened levels of economic and financial aid to North Korea — the last being a reported commitment of \$2 billion in October 2005. China’s criticism of North Korea in the draft resolution on missiles, which China and Russia presented in the U.N. Security Council in July 2006, was the first public criticism of Pyongyang by the Chinese government since the six party talks began in August 2003.

A third factor may have been the slowness of the Bush Administration in moving from a diplomatic strategy of demanding a unilateral North Korean nuclear

⁴ Herskovitz, Jon. “N. Korea says to build light-water nuclear reactors.” *Reuters News*, December 19, 2005.

dismantlement and rejecting bilateral discussions with North Korea to a strategy of offering some reciprocal concessions to North Korea in return for dismantlement and engaging in bilateral discussions in six party meetings. This reportedly was due to the factional disputes within the Bush Administration. China, South Korea, and Russia criticized the absence or limits of U.S. offers of reciprocity and the U.S. refusal to negotiate bilaterally with North Korea. In response to these criticisms, the Bush Administration offered a core proposal in June 2004 and modified it in July 2005 under Assistant Secretary of State Christopher Hill. The Administration's proposal calls for North Korean dismantlement over about a three-year period in an initial stage of a settlement. During this period, South Korea and Japan would supply North Korea with heavy oil, and South Korea would implement its offer of July 2005 to provide North Korea with 2,000 megawatts of electricity annually. After North Korea completed dismantlement, it would receive a permanent security guarantee. However, the Bush Administration did not offer North Korea full diplomatic relations in exchange for dismantlement, despite calls from Beijing, Seoul, and Moscow for Washington to make such an offer. These governments, too, gave little support to the Bush Administration's initiatives beginning with the June 2004 proposal. China and Russia, in particular, have not supported the core U.S. position that dismantlement must be an early stage of a settlement process.

The fourth reason for the deadlock appears to be North Korea's strategy of securing a protracted diplomatic stalemate on the nuclear issue. After the U.S. proposal of June 2004, Pyongyang's main tactic has been to progressively enlarge the gap between North Korean proposals and the Bush Administration's core proposal, thus "killing" the Administration's proposal as a basis for negotiations. After July 2004, North Korea enlarged its demands for U.S. concessions under the demand that the United States end its "hostile policy" and "nuclear threat." It proposed a "regional disarmament" agenda in March 2005, demanding a range of U.S. military concessions in return for a nuclear settlement. As stated previously, Pyongyang's linkage of LWR construction and nuclear dismantlement creates a huge time frame gap between its position and the Bush Administration's position. Pyongyang's boycotts create stalemate, but North Korea also appears to use boycotts and threats of boycott to condition South Korea, China, and Russia to treat North Korea's proposals and positions sympathetically when it does agree to a meeting, thus isolating the Bush Administration. (Only Japan has supported consistently U.S. positions.)

U.S. Moves Against North Korean Illegal Activities. North Korea's justification for its second boycott of the six party talks is the U.S. financial sanctions against a bank in Macau, Banco Delta, for involvement in North Korean money-laundering and counterfeiting activities. U.S. administrations have cited North Korea since the mid-1990s for instigating a number of activities abroad that are illegal under U.S. law. These include production and trafficking in heroin, methamphetamines, counterfeit cigarettes, counterfeit pharmaceuticals, and counterfeit U.S. currency. North Korea is estimated to earn between \$500 million and \$1 billion annually through these activities.⁵ (For a detailed discussion, see CRS Report RL33324, *North*

⁵ Presentation of David Asher, Institute for Defense Analyses, at the American Enterprise (continued...)

Korean Counterfeiting of U.S. Currency, by Raphael F. Perl and Dick K. Nanto; and CRS Report RL32167, *Drug Trafficking and North Korea: Issues for U.S. Policy*, by Raphael F. Perl.) These earnings reportedly go directly to North Korean leader, Kim Jong-il, through Bureau 39 of the Communist Party. He reportedly uses the funds to reward his political elite with imported consumer goods and to procure foreign components for weapons of mass destruction.

In September 2005, the Bush Administration made the first overt U.S. move against North Korean illegal activities; the Treasury Department named the Banco Delta in the Chinese territory of Macau as a money laundering concern under the U.S. Patriot Act. The Department accused Banco Delta of distributing North Korean counterfeit U.S. currency and laundering money from the criminal enterprises of North Korean front companies. The Macau government closed Banco Delta and froze more than 40 North Korean accounts with the bank. Banks in a number of other countries also froze North Korean accounts and ended financial transactions with North Korea. According to Treasury Department officials and other sources, these freezes have restricted the flow of foreign exchange to Kim Jong-il and have limited his ability to distribute consumer goods to members of his political elite.

The South Korea government reacted to the U.S. financial sanctions first with concern over their impact on the six party talks and second by asserting that it had no information that verified the U.S. claim of North Korean counterfeiting. By March 2006, the government had shifted its position toward agreement with the U.S. claim, and government officials stated that they had warned North Korea to deal with the U.S. allegations. China said nothing of substance publicly about the issue, undoubtedly reflecting China's sensitive position as the location for much of North Korea's illicit banking activities. The Chinese government reportedly investigated Banco Delta and concluded that the Treasury Department's allegations were correct.⁶ However, there have been reports that North Korea reacted to the shutdown of Banco Delta by shifting its financial operations to banks on the Chinese mainland. In March 2006, the Bank of China warned Chinese banks that counterfeit U.S. \$100 bills "have flowed into our country from overseas" but did not name North Korea as the source of the counterfeit currency.⁷

The Bush Administration officially held that the U.S. financial sanctions were a separate issue from the six party talks. However, some U.S. officials stated that there was increased sentiment within the Administration that the United States needed to apply pressure on North Korea in order to break North Korea's strategy of creating a diplomatic stalemate on the nuclear issue. These officials also stated that the Treasury and Justice departments had authority to take additional financial and legal steps against North Korea's illegal activities.

⁵ (...continued)
Institute, February 1, 2006.

⁶ Fackler, Martin. "North Korean Counterfeiting Complicates Nuclear Crisis." *New York Times*, January 29, 2003. p. 3. "China Finds N. Korea Guilty of Money Laundering." *Chosun Ilbo* (Seoul, internet version), January 11, 2006.

⁷ Fairclough, Gordon. "China Warns of Forgeries." *The Wall Street Journal Asia*, March 24, 2006. P. 7.

North Korea's Missile Program.⁸ North Korea maintained a moratorium on flight testing of long-range missiles since September 1999 until the missile launches on July 4, 2006. The last such missile test, on August 31, 1998, flew over Japanese territory. Japan also believes it is threatened by approximately 200 intermediate-range Nodong missiles, which North Korea has deployed. Reports since 2000 cite U.S. intelligence findings that North Korea is developing a Taepodong II intercontinental missile that would be capable of striking Alaska, Hawaii, and the U.S. west coast with nuclear weapons. U.S. officials reportedly claimed in September 2003 that North Korea had developed a more accurate, longer-range intermediate ballistic missile that could reach Okinawa and Guam (sites of major U.S. military bases) and that there was evidence that North Korea had produced the Taepodong II. U.S. and South Korean intelligence officials reportedly believe that North Korea may have tested this new intermediate range missile, dubbed the Mirim, in its launches on July 4, 2006.⁹ U.S. officials reportedly told Japanese counterparts in July 2003 that North Korea was close to developing nuclear warheads for its missiles, but later statements from U.S. officials indicate that there is no U.S. consensus on the crucial warheading issue.

In the 1990s, North Korea exported short-range Scud missiles and Scud missile technology to countries in the Middle East. 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. Japan's *Sankei Shimbun* newspaper reported on August 6, 2003, that North Korea and Iran were negotiating a deal for the export of the long-range Taepo Dong-2 missile to Iran and the joint development of nuclear warheads. In February 2006, it was disclosed that Iran had purchased 18 BM-25 mobile missiles from North Korea with a range of 2,500 kilometers. Pakistani and Iranian tests of North Korean-designed missiles have provided "surrogate testing" that dilutes the limitations of the September 1999 moratorium. Iranians reportedly were at the test site for the July 4, 2006, missile launches.

The test launch of the Taepo Dong-1 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 ... and the complete cessation of export sales of such missiles and the equipment and technology associated with them." The Perry initiative offered to normalize U.S.-North Korean relations, end to U.S. economic sanctions, and provide other economic benefits in return for North Korean concessions on the missile and nuclear issues.

In October 2000, the Clinton Administration reportedly 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.)

⁸ Kim Kyoung-soo (ed.). *North Korea's Weapons of Mass Destruction*. Elizabeth, New Jersey, and Seoul: Hollym Corporation, 2004: p.121-148.

⁹ Strategic Forecasting, Inc. (Stratfor). *North Korea: Missiles and Diplomatic Strategy*. July 2006.

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 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 a missile settlement; 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. The Bush Administration has offered no specific negotiating proposal on missiles. The Administration emphasized the necessity of installing an anti-missile defense system and sought to dissuade a number of North Korea’s customers from buying new missiles.

Weapons of Mass Destruction.¹⁰ 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 has expressed concern that North Korea might sell nuclear, chemical, or biological weapons to a terrorist group such as Al Qaeda or that Al Qaeda might acquire these weapons from a Middle East country that had purchased them from North Korea. The Bush Administration has not accused North Korea directly of providing terrorist groups with WMDs. There are reports from the early 1990s that North Korea assisted Syria and Iran in developing chemical and biological weapons capabilities.

North Korea’s Inclusion on the U.S. Terrorism List. In February 2000, North Korea began to demand that the United States remove it from the U.S. list of terrorist countries. North Korea’s proposals at the six party nuclear talks also call for the United States to remove Pyongyang from the terrorist list. North Korea’s chief motive appears to be to open the way for the nation to receive financial aid from the World Bank and the International Monetary Fund (IMF). 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 South Korean also has urged the United States to remove North Korea from the terrorism list so that North Korea could receive international financial assistance.

Japan has urged the United States to keep North Korea on the terrorism list until North Korea resolves Japan’s concerns over North Korea’s kidnapping of Japanese citizens. The Clinton Administration gave Japan’s concerns increased priority in U.S. diplomacy in 2000 (See CRS Report RL30613, *North Korea: Terrorism List Removal?*, by Larry Nicksch and Raphael Perl). At the Beijing meetings, the Bush Administration called on North Korea to resolve the issue with Japan. In 2004, the Administration made the kidnapping of Japanese citizens an official reason for North Korea’s inclusion on the terrorism list. Kim Jong-il’s admission, during the Kim-Koizumi summit of September 2002, that North Korea had kidnapped Japanese

¹⁰ Ibid., p.79-120.

citizens did not resolve the issue.¹¹ His claim that eight of the 13 admitted kidnapped victims are dead raised new issues for the Japanese government, including information about the deaths of the kidnapped and the possibility that more Japanese were kidnapped. The five living kidnapped Japanese returned to Japan in October 2002. In return, Japan promised North Korea 250,000 tons of food and \$10 million in medical supplies. However, in late 2004, Japan announced that the remains of two alleged kidnapped Japanese that North Korea had turned over to Japan were false remains. This prompted demands in Japan for sanctions against North Korea. The Bush Administration reportedly advised Japan to refrain from sanctions because of a potential negative impact on the six party talks.

Food Aid. North Korea's order to the U.N. World Food Program (WFP) to suspend food aid after December 2005 ended a ten-year program of WFP food aid to North Korea. The two-year program negotiated in early 2006 to feed small children and young women is much more limited in scope. From 1995 through 2004, the United States supplied North Korea with over 1.9 million metric tons of food aid through the United Nations World Food Program (WFP). South Korea has extended increasing amounts of bilateral food aid to North Korea, including one million tons of rice in 2004. 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. The Bush Administration reduced food aid, citing North Korean refusal to allow adequate access and monitoring. It pledged 50,000 tons for 2005 but suspended the delivery of the remaining 25,000 tons when North Korea ordered the WFP to cease operations. The WFP acknowledged that North Korea places restrictions on its monitors' access to the food distribution system, but it professed that most of its food aid reached 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. The regime reportedly gives priority to these two groups in its overall food distribution policy. Some experts also believe that North Korean officials divert some food aid for sale on the extensive black market. The regime has spent none of several billion dollars in foreign exchange earnings since 1998 to import food or medicines. The regime refuses to adopt agricultural reforms similar to those of fellow communist countries, China and Vietnam, including dismantling of Stalinist collective farms. It is estimated that one to three million North Koreans died of malnutrition between 1995 and 2003.¹²

North Korean Refugees in China and Human Rights. This issue confronted governments after March 2002 when North Korean refugees, aided by South Korean and European NGOs, 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

¹¹ Japan. Ministry of Foreign Affairs. Abductions of Japanese Citizens by North Korea. April 2006.

¹² Natsios, Andrew S. *The Great North Korean Famine*. Washington, U.S. Institute of Peace Press, 2001. Flake, L. Gordon and Snyder, Scott. *Paved with Good Intentions: The NGO Experience in North Korea*. Westport, Connecticut: Praeger, 2003.

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. Estimates of the number of refugees cover a huge range, from 10,000 to 300,000, including a State Department estimate of 30,000-50,000 in June 2005.

Generally, China tacitly accepted the refugees so long as their presence was not highly visible. China also allowed foreign private 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 instituted periodic crackdowns that included police sweeps of refugee populated areas, rounding up of refugees, and repatriation to North Korea. Since early 2002, China allowed refugees who had gained asylum in foreign diplomatic missions to emigrate to South Korea. However, China's crackdown on the border reportedly included the torture of captured refugees to gain information on the NGOs that assisted them.

China tries to prevent any scenario that would lead to a collapse of the Pyongyang regime, its long-standing ally. 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 have made China susceptible to North Korean pressure to crack down on the refugees and return them. Reports since 2002 described stepped-up security on both sides of the China-North Korea border to stop the movement of refugees and Chinese roundups of refugees and repatriation to North Korea. South Korea, which 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.¹³ However, South Korea, too, opposes encouragement of a refugee exodus from North Korea.

The Bush Administration gave the refugee issue low priority. The Administration requested that China allow U.N. assistance to the refugees but asserted that South Korea should lead diplomatically with China. The issue has been aired in congressional hearings. The North Korean Human Rights Act (P.L. 108-333), passed by Congress in October 2004, provided for the admittance of North Korean refugees into the United States. In early 2006, key Members of Congress criticized the Bush Administration for failing to implement this provision, and the Administration admitted the first group of six refugees.

The refugee issue had led to increased outside attention to human rights conditions in North Korea. Reports assert that refugees forcibly returned from China have been imprisoned and tortured in an extensive apparatus of North Korean concentration camps modeled after the "gulag" labor camp system in the Soviet Union under Stalin. Reports by Amnesty International, the U.S. State Department,

¹³ Kirk, Jeremy. "N. Korean Defections Strain Ties," *Washington Times*, February 11, 2005. p.A17.

and, most recently, the U.S. Committee for Human Rights in North Korea have described this system as holding up to 250,000 people. In 2003, 2004, and 2005, the United States secured resolutions from the U.N. Human Rights Commission expressing concern over human rights violations in North Korea, including concentration camps and forced labor. South Korea abstained from the Commission's votes in the interest of pursuing its "sunshine" policy with North Korea.¹⁴ South Korean officials also criticized passage by Congress of the North Korean Human Rights Act of 2004. The act requires the U.S. executive branch adopt a number of measures aimed at furthering human rights in North Korea, including financial support of nongovernmental human rights groups, increased radio broadcasts into North Korea, sending of radios into North Korea, and a demand for more effective monitoring of food aid.

South Korea's Conciliation Policy Toward North Korea. South Korean President Kim Dae-jung took office in 1998, proclaiming a "sunshine policy" of reconciliation with North Korea. He achieved a breakthrough in meeting with North Korean leader Kim Jong-il in Pyongyang, June 13-14, 2000. His successor, Roh Moo-hyun, has continued these policies under the heading, "Peace and Prosperity Policy," which his government describes as seeking "reconciliation, cooperation, and the establishment of peace" with North Korea. South Korean officials also hold that these policies will encourage positive internal change within North Korea. Key principles of this conciliation policy are: the extension of South Korean economic and humanitarian aid to North Korea, the promotion of North-South economic relations, separating economic initiatives from political and military issues, no expectation of strict North Korean reciprocity for South Korean conciliation measures, avoidance of South Korean government public criticisms of North Korea, and settlement of security issues with North Korea (including the nuclear issue) through dialogue only without pressure and coercion. Since the June 2000 summit, South Korea has achieved regular government-to-government meetings with North Korea. South Korea has extended growing amounts of economic and humanitarian aid to North Korea — \$2.6 billion planned for 2006, double the amount in 2005. This included significant amounts of food and fertilizer, including 400,000 tons of rice in 2004 and 2005. North-South trade surpassed \$1 billion in 2005, a ten-fold increase since the early 1990s. Seoul and Pyongyang also instituted a series of reunion meetings of members of separated families. As of 2005, nearly 10,000 South Korean had participated in reunions.¹⁵

The conciliation policy also has produced three major economic projects. A tourist project at Mount Kumgang, in North Korea just north of the demilitarized zone (DMZ), has hosted over one million visitors from South Korea. It began in 1998 under an agreement between the North Korean government and Hyundai Asan, a major company within the Hyundai business empire. Another agreement is for the connecting of roads and railways across the DMZ. The roads opened in 2003; but the scheduled opening of the rail lines on May 25, 2006, was canceled by North Korea

¹⁴ Hawk, David. *The Hidden Gulag: Exposing North Korea's Prison Camps*. Washington, U.S. Committee for Human Rights in North Korea, 2004.

¹⁵ Republic of Korea. Ministry of Unification. *Peace and Prosperity: White Paper on Korean Unification 2005*. 169 pages.

at the last moment. The third project is the establishment by Hyundai Asan of an “industrial complex” at Kaesong just north of the DMZ. South Korean companies are to invest in manufacturing, using North Korean labor. As of mid-2006, 15 companies had set up facilities, employing about 6,000 North Korean workers. The plan envisages 2,000 companies investing by 2012, employing at least 500,000 North Koreans. North Korean workers are paid \$50 monthly plus \$7.50 for social insurance. The wages are paid to a North Korean state agency.¹⁶

Critics have pointed to several negative effects of the conciliation policy. North Korean leader Kim Jong-il appears to view South Korea as a source of financial subsidies for the North Korean military and elite North Koreans. The Mount Kumgang tourist project resulted in significant South Korean financial subsidies to Kim Jong-il through both official payments and secret payments by Hyundai Asan, especially in the 1999-2001 period.¹⁷ As official and secret payments were made during this period, the North Korean regime accelerated its overseas purchases of components for its secret uranium enrichment nuclear weapons program.¹⁸ The Kaesong industrial complex also will generate considerable foreign exchange income to the regime in the near future — an estimated \$500 million in annual wage income by 2012 and an additional \$1.78 billion in estimated tax revenues by 2017.¹⁹ Another criticism is that South Korea does little monitoring of the food and fertilizer shipments to North Korea. Critics assert that people-to-people exchanges are primarily one way with far more South Koreans visiting North Korea than North Koreans visiting South Korea and that South Korean visitors face restrictions on their movements that prevent them from day-to-day contacts with the North Korean people. Critics also have focused on the North Korean workers in the Kaesong industrial complex. While working conditions in the South Korean factories are better than working conditions throughout much of North Korea, the North Korean workers appear to receive very little of their official wages, which are paid to a North Korean state agency. The U.S. State Department’s coordinator of U.S. human rights policy toward North Korea has criticized the Kaesong project on these grounds.²⁰

¹⁶ “Factbox — South Korea’s industrial park in the North.” *Reuters News*, June 12, 2006. Faiola, Anthony. “Two Koreas learn to work as one.” *Washington Post*, February 28, 2006. p. A10.

¹⁷ CRS was informed about the secret Hyundai payments in 2001. The Kim Dae-jung administration denied for two years that secret payments were made. In June 2003, a South Korean special prosecutor reported that secret payments of \$500 million were made shortly before the June 2000 North-South summit. See Kang Chu-an. North cash called “payoff” by counsel. *Chungang Ilbo* (internet version), June 26, 2003.

¹⁸ Pincus, Walter. “North Korea’s nuclear plans were no secret.” *Washington Post*, February 1, 2003. This report cited estimates and statements of the Central Intelligence Agency and former Clinton Administration officials.

¹⁹ Moon Ihlwan. “Bridging the Korean economic divide.” *Business Week Online*, March 8, 2006.

²⁰ Lefkowitz, Jay. “Freedom for all Koreans.” *The Wall Street Journal Asia*, April 28, 2006. p. 13.

U.S.-R.O.K. Negotiations over a Free Trade Agreement (FTA)

In May 2006, South Korea and the United States began negotiations over a Free Trade Agreement. The negotiations are conducted under the trade promotion authority (TPA) that Congress granted to the President under the Bipartisan Trade Promotion Act of 2002 (P.L. 107-210). The authority allows the President to negotiate trade agreements that would receive expedited congressional consideration (no amendments and limited debate). However, the TPA is due to expire July 1, 2007, placing a tight time restriction on the negotiations. Congress would have to approve an FTA before it could enter into force. A U.S.-R.O.K. FTA would be the second largest FTA in which the United States is a participant and the largest in which South Korea is a participant.

The negotiations come as the U.S.-South Korean alliance has showed signs of fraying due to differences over policies toward North Korea and anti-American sentiment in South Korea. Some observers assert that a successful negotiation would help to shore up the alliance. On the other hand, failure of the negotiations could damage the relationship fundamentally. Each country has key objectives in the negotiations. The United States will seek reduction or elimination of South Korean restrictions on agriculture imports, discriminatory tax and other regulations on foreign auto sales, and foreign investment. The United States will encourage stronger South Korean government enforcement of intellectual property rights and policies more favorable to foreign business activity in South Korea. South Korea will seek FTA preferential treatment for goods produced in the Kaesong industrial zone in North Korea, the inclusion of South Korean residents in the U.S. visa waiver program, discussion of U.S. anti-dumping policies, and reduction of U.S. restrictions on maritime services trade. A number of these issues could prove to be contentious, including South Korea's desire to include the Kaesong complex in an FTA. See CRS Report RL33435, *The Proposed South Korea-U.S. Free Trade Agreement (KORUSFTA)*.

Anti-Americanism and Plans to Change the U.S. Military Presence²¹

The U.S. alliance with South Korea is undergoing fundamental changes that are affecting the alliance structure and the U.S. military presence in South Korea. Anti-American sentiment has emerged as a major factor in South Korean politics. At the popular level, South Korean fears of a North Korean attack are declining, prompting growing questioning of the need for U.S. forces in South Korea. This declining fear is related to minimal concern over potential North Korean nuclear threats to the United States and Japan and North Korean proliferation of weapons of mass destruction. South Korean public opinion became critical of the U.S. military because of incidents involving the U.S. military and South Korean civilians. In 2002, massive South Korean protests erupted when a U.S. military vehicle killed two

²¹ Perry, Charles. *Alliance Diversification and the Future of the U.S.-Korean Security Relationship*. Herndon, Virginia: Brassey's, Inc., 2004. Mitchell, Derek (ed.). *Strategy and Sentiment: South Korean Views of the United States and the U.S.-ROK Alliance*. Washington, Center for Strategic and International Studies, 2004.

Korean schoolgirls and the U.S. military personnel driving the vehicle were acquitted in a U.S. court martial. Since then, polls have shown majorities or substantial pluralities of South Koreans in favor of the withdrawal of U.S. forces from South Korea. Popular support for the R.O.K. government's conciliation policy toward North Korea has brought forth substantial South Korean public sentiment against the Bush Administration's perceived policy toward North Korea. This sentiment has included fears that the United States plans to launch a unilateral military attack on North Korea. South Korean attitudes critical of the United States and sympathetic to North Korea are especially pronounced among South Koreans below the age of 50, while older South Koreans remain substantially pro-United States.²²

At the level of the South Korean government the political elite, a generational change of leadership has taken place. Members of a so-called 386 generation have gained dominant positions in the Roh Moo-hyun administration and in the majority Uri party which controls the National Assembly. Many of these people were student protestors against the South Korean military government of the 1980s and criticize the United States for "supporting" that government. They strongly believe in conciliation with North Korea and that the conciliation policy will bring about moderation in Pyongyang's policies. Members of the 386 generation also have established new centers of media opinion in the internet, which have gained a wide following among "computer savvy" younger South Koreans. Most spokesmen for the 386 generation express support for the U.S.-R.O.K. alliance, but they also advocate that South Korea establish policies that are independent of the United States. These views crystalized in the 2002 South Korea presidential election when Roh Moo-hyun won on a platform of criticisms of the United States and advocacy of South Korean "independence" from the United States.²³

There are three areas of South Korean policy changes which reflect these changing attitudes and generational shift. The Roh Moo-hyun administration is demanding changes in the military alliance structure. It wants to change the command structure from the U.S.-R.O.K. Combined Forces Command, which is commanded by a four-star U.S. general, by 2111 or 2012; South Korean forces would be removed from the authority of the U.S. Commander. President Roh has said that South Korea would have the right to veto any U.S. plan to utilize U.S. forces in South Korea in military crises outside the Korean peninsula in Northeast Asia; his objective appears to be to keep South Korea out of military crises involving China with either Taiwan or Japan. Second, as indicated previously, U.S. and R.O.K. policies toward North Korea have diverged. This has become evident in the six party nuclear talks, in South Korean financial subsidies to North Korea, in South Korean opposition to a more assertive U.S. policy toward North Korean human rights abuses, and most recently, in U.S.-R.O.K. differences in responding to North Korea's July 2006 missile firings. Third, South Korea has become increasingly critical of Japan

²² Lee Naw-young. "Changes in Korean public perception of the U.S. and Korea-U.S. relations." *East Asian Review*, Summer 2005. p. 3-45.

²³ Lee Jung-hoon. "The emergence of new elites in South Korea and its implications for popular sentiment toward the United States." In *Strategy and Sentiment: South Korean Views of the United States and the U.S.-ROK Alliance*, edited by Derek J. Mitchell. Washington, Center for Strategic and International Studies, June 2004. p. 59-66.

over the issues of Japan's historical rule over Korea, territorial disputes with Japan, and Japan's policies toward North Korea. This criticism of Japan includes South Korean opposition to U.S. encouragement of Japan taking on a greater military security role in the Western Pacific. Correspondingly, South Korea has established friendlier relations with China with their growing economic relationship as the base. South Korean diplomatic cooperation with China in policies toward North Korea has become an important factor in the six party negotiations.

The South Korean government expresses support for the alliance, and the South Korean Defense Ministry has sought to minimize changes in the U.S. military presence. Nevertheless, the Defense Ministry has had to accede to the changes sought by President Roh and his administration. Officials of the Roh Administration and the Bush Administration tout alliance unity in their public statements and minimize disputes and problems. President Roh went against South Korean public opinion and sent 3,600 R.O.K. troops to Iraq. He asserted that his ability to influence U.S. policy toward North Korea would be enhanced by sending South Korean troops to Iraq.

Despite this public show of unity, the Bush Administration and the Pentagon appear to seek changes in the alliance structure in ways that likely will loosen military coordination and reduce the U.S. military presence in South Korea. Part of this relates to the restructuring of the U.S. military, especially the U.S. Army, that is proceeding on a global basis, the aim being to create smaller, more mobile army units that can be more easily moved to sites of military crises. This concept has been termed "strategic flexibility." However, statements by officials like Secretary of Defense Rumsfeld indicate that it also is a response to South Korean public complaints against U.S. troops, broader anti-American sentiment in South Korea, and diverging South Korean policies.

In 2003, the Bush Administration made a series of decisions to alter the U.S. military presence in South Korea and reduce the number of U.S. troops. The Second Infantry Division of about 15,000 is being withdrawn from its position just below the DMZ to "hub bases" about 75 miles south; and the U.S. military is relocating the U.S. Yongsan base, which has housed about 8,000 U.S. military personnel in the center of Seoul, away from the city to the "hub bases," to be completed in 2008. In August 2004, the United States withdrew a 3,600-man brigade of the Second Division and sent it to Iraq. In October 2004, South Korea and the United States agreed to a U.S. plan to withdraw an additional 12,500 U.S. troops but on a more deferred basis, in stages stretching to September 2008; the Pentagon originally wanted to withdraw these troops by the end of 2005. The Pentagon has put in place an \$11 billion plan to modernize U.S. forces in South Korea, and it has deployed F-117 stealth fighters to South Korea for extended training. South Korea has agreed to assume the estimated \$4.5 to \$5 billion cost of the relocating the Yongsan garrison.

The Pentagon has agreed to negotiate with South Korea over changes in the military command structure. The Bush Administration and Roh Moo-hyun Administration issued a statement in January 2006 in which South Korea "fully understands" the U.S. strategic flexibility doctrine and the United States "respects" South Korea's wish that U.S. forces in South Korea do not involve South Korea in

unwanted conflicts in Northeast Asia. However, the Pentagon appears to view South Korea's position on these issues as providing justification for further U.S. troop withdrawals after September 2008. The Pentagon appears to seek avoidance of a situation of divided U.S. and R.O.K. commands involving large numbers of U.S. forces. Moreover, a South Korean veto threat over the use of U.S. forces, especially U.S. air power, in a conflict with China undoubtedly creates a rationale for withdrawing U.S. forces from South Korea before any potential conflict with China could materialize. In congressional testimony in the spring of 2006, Pentagon officials discussed the command structure and strategic flexibility issues and indicated that the Pentagon foresaw larger troop reductions after September 2008.²⁴

The Pentagon reportedly also has a plan to reshape the military command structure in South Korea to lower the U.S. role. The plan reportedly involves a downgrading of U.S. Forces Korea (USFK) and placing USFK under a U.S. Army I Corps Command, which the Pentagon plans to move from Washington State to Japan. This undoubtedly would involve a reduction in the rank of the U.S. commander in Korea (he currently is a four-star general). Such a plan, too, likely would involve a change in the United Nations Command, which has been in place since the Korean War headed by the four-star U.S. commander.²⁵

Several issues will have an important bearing on the alliance prior to the end of the current U.S. force restructuring and withdrawal cycle in September 2008. One is the degree of divergence between the United States and South Korea over policy toward North Korea, especially if the nuclear negotiations fail. A second will be the outcome of U.S.-R.O.K. negotiations over restructuring of the Combined Forces Command and further U.S. troop withdrawals. South Korean officials complained that the changes in the U.S. force structure beginning in 2003 were unilateral decisions by the Bush Administration with minimal prior negotiations with South Korea. (However, the Pentagon did agree under urgings from the South Korean Defense Ministry to move back the withdrawal of 12,500 U.S. troops from December 2005 to September 2008.) A third will be the outcome of the negotiations over a U.S.-South Korea Free Trade Agreement. If these negotiations fail to bring about an FTA, many analysts believe that the alliance will suffer fundamental damage. A fourth will be the extent to which relations with the United States will enter into South Korean presidential and National Assembly elections in 2007. If candidates, especially presidential candidates, adopt anti-American themes and win elections, as Roh Moo-hyun did in 2002, this too could produce fundamental damage to the alliance. If tensions between China and Taiwan or Japan should mount, South Korean policy toward the U.S. strategic flexibility doctrine could pose a bigger threat to the alliance. Finally, any new incidents between the U.S. military and South Korean civilians similar to the killings of the Korean schoolgirls in 2002 could turn South Korean public and political opinion more decidedly against the alliance and the U.S. military presence.

²⁴ "U.S. officials raise possibility of further troop cut in S. Korea." *Yonhap News Agency*, March 10, 2006.

²⁵ Halloran, Richard. "U.S. Pacific Command facing sweeping changes." *Washington Times*, February 2, 2004. p. A11.

The total cost of stationing U.S. troops in South Korea is nearly \$3 billion annually. The South Korean direct financial contribution for 2005 and 2006 is \$681 million.

For Additional Reading

CRS Report RL31555. *China and Proliferation of Weapons of Mass Destruction and Missiles: Policy Issues*, by Shirley A. Kan.

CRS Report RL32167. *Drug Trafficking and North Korea: Issues for U.S. Policy*, by Raphael F. Perl.

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