Order Code IB98045

CRS Issue Brief for Congress
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Korea: U.S.-South Korean Relations — Issues for Congress

Updated December 6, 2001

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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. Bush Administration policy aims to negotiate improved implementation of the U.S.-North Korean 1994 Agreed Framework to bring about international inspections of North Korea in line with the provisions of the Nuclear Non-Proliferation Treaty. The Bush Administration also seeks "verifiable constraints" on North Korea's missile program and pullbacks of North Korean artillery and rocket launchers from their concentrations on the demilitarized zone separating North and South Korea. 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 2001. 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

The South Korean government stated support for the United States after the September 11 terrorist attacks. The government intends to provide financial support and reportedly is considering the dispatch of support troops to the Afghanistan area. President Bush issued a policy statement on North Korea on June 6, 2001. It outlined policy objectives regarding the 1994 U.S.-North Korean Agreed Framework, North Korea's missile program, and North Korean conventional military forces. North Korean public statements have rejected U.S. calls resuming negotiations on missiles, asserting that the Bush Administration is seeking unilateral North Korean concessions on conventional forces pullback from the Korean demilitarized zone. North Korea ended its six month boycott of talks with South Korea with a meeting in September that renewed commitments to agreements reached in 2000. However, a North-South ministerial meeting in November 2001 ended in failure when North Korea demanded that South Korea rescind a post-September 11 military alert and agree that all future meetings would be held in North Korea. In late November, the Bush Administration issued statements highlighting North Korea along with Iraq as producers of weapons of mass destruction and resistant to international inspections.

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. This commitment is widely seen as vital to the peace and stability of Northeast Asia where the territories of China, Japan, and Russia converge.

The United States agreed to defend South Korea from external aggression in the 1954 Mutual Security Treaty. The United States maintains about 37,500 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. A bilateral Agreed Framework designed to ease concerns between North Korea and the United States over North Korea's nuclear program was signed on October 21, 1994, and is being implemented. The United States attempted to negotiate restrictions on North Korea's development of long range missiles. Also of concern is the widespread food shortage inside North Korea. While remaining militarily vigilant against North Korean aggression, the United States also strives

to maintain diplomatic contacts with North Korea in an effort to influence North Korea's policies.

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) amid strenuous U.S. government and financial sector efforts to fend off a credit collapse in South Korea.

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.

At the same time, highlights of a continued close, multifaceted U.S.-South Korean relationship include repeated summit meetings between U.S. and South Korean presidents and other high level meetings between the two governments.

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." Bush stated that he would work with South Korean President Kim Dae-jung on these issues and other issues between North and South Korea. The following is a discussion of the issues listed by President Bush and other issues between the United States and North Korea.

Nuclear Weapons. U.S. policy toward North Korea 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 had developed and was expanding 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 gave the IAEA the right to conduct a range of inspections of North

Korea's nuclear installations. However, North Korea obstructed or refused IAEA inspections, 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. U.S. estimates had been that North Korea had acquired enough plutonium for one or two nuclear warheads. Secretary of Defense Rumsfeld increased the estimate to two to five warheads in a statement of August 2001 in Moscow.

The Agreed Framework provided for the suspension of operations and construction at North Korea's known nuclear facilities, the safe storage of nuclear reactor fuel that North Korea had removed from the five megawatt reactor in May 1994, and the provision to North Korea of 500,000 tons of heavy oil annually until two light water nuclear reactors are constructed in North Korea. The United States is obligated to facilitate the heavy oil shipments and organize the construction of the light water reactors. Before North Korea receives nuclear materials for the light water reactors, it is obligated to come into full compliance with its obligations as a signatory to the Nuclear Non-Proliferation Treaty, especially its obligations to allow the full range of IAEA inspections specified in the North Korean-IAEA safeguards agreement of 1992.

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 numerous delays in the project, some caused by North Korea and others by legal and bureaucratic obstacles. KEDO officials now project the completion of the first light water reactor in 2008. 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 has risen from about $30 million in 1996 to an estimated $120 million in 2001. Congressional appropriations for the U.S. contribution to the financing of the heavy oil shipments has risen from $30 million in FY1996 to $55 million in FY2001. The Bush Administration requested $95 million for FY2002. KEDO's attempts to secure money from other countries has not filled the gap between U.S. money and the cost of the oil.

The Agreed Framework came under increasing debate in 2000 and 2001. Critics charged that the two light water reactors could give North Korea the ability to produce large amounts of nuclear weapons grade plutonium. They cited potential safety problems with the reactors and asserted that North Korea's substandard electric power grid could not transmit electricity produced by the reactors. They cited delays in implementing the project and the rising cost of the heavy oil. Supporters of the Agreed Framework argued that it continues to fulfill its original aim of shutting down North Korea's Yongbyon nuclear reactors and plutonium reprocessing plant, which could have produced many nuclear weapons after 1994 if operations had continued. They acknowledged the safety and grid problems but predicted that these will be resolved in the future. (KEDO officials, however, stated that KEDO will reject North Korean demands that KEDO finance reconstruction of the electric grid.) Supporters of the Agreed Framework rejected the critics' claim that North Korea would be

able to use the light water reactors to produce nuclear weapons, arguing that this type of reactor is "proliferation resistant."

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 will seek to bring North Korea into compliance with its obligations to the IAEA prior to the point when the Agreed Framework specifies that North Korea must come into compliance. U.S. officials reportedly have said that point will come in the second half of 2003 or in 2004 when construction of the first light water reactor will reach the stage of delivery of nuclear components. However, 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. Administration officials point out that if North Korea does not meet its obligations to the IAEA considerably before 2003, the light water reactor project would be suspended in late 2003, perhaps up to four years, until the IAEA was allowed to complete its work. North Korea has rejected the Bush Administration's call for earlier compliance with the IAEA. Statements by Bush Administration officials, including the President, in November 2001 pressed North Korea to begin cooperation with the IAEA immediately.

Suspicions that North Korea was operating a secret nuclear weapons program came into the open in August 1998 with the disclosure that the U.S. Defense Intelligence Agency (DIA) had concluded that a North Korean underground facility located at Kumchangri was possibly a nuclear-related installation. The Clinton Administration responded to the disclosure by pressuring North Korea to allow the United States access to the Kumchangri facility. An agreement was reached on March 16, 1999, providing for multiple inspections of the site in return for at least 500,000 tons of new U.S. food aid to North Korea. The first visit took place in May 1999, a second in May 2000. Administration officials declared that no evidence of nuclear activity was found. However, reports indicated that North Korea had removed equipment from the facility prior to the first U.S. visit.

The Kumchangri revelation, along with North Korea's test firing of a long range missile, resulted in the Clinton Administration's "Perry initiative." Unveiled in October 1999 by former Defense Secretary William Perry, the Perry initiative set a goal of "verifiable assurances" that North Korea does not have a secret nuclear weapons program. The nuclear side of the Perry initiative made no progress during the Clinton Administration. After an inconclusive U.S.-North Korean meeting in Rome in May 2000 on the nuclear issue and the second U.S. visit to Kumchangri that same month, the Clinton Administration put aside this element of the Perry initiative, concentrating instead on missiles. Bush's June 6 statement did not mention U.S. suspicions of secret nuclear activities. However, at the time of the Kumchangri disclosure, press reports stated that U.S. intelligence agencies were monitoring at least ten more suspicious North Korean installations. Thus the issue could arise again.

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 in early 2000 cited U.S. intelligence findings that North Korea was 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 600-800 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. According to the South Korean Defense Ministry in April 2001, North Korea exported 490 Scud missiles and 50 Nodong missiles to Pakistan and Middle Eastern countries from 1985 through 2000.

The test launch of the Taepo Dong-1 missile spurred the Clinton Administration to intensify diplomacy on North Korea's missile program; negotiations had begun in 1996. The 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 and other officials 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. After a year of negotiations, North Korea sent a high level official to Washington in October 2000. Secretary of State Albright visited Pyongyang shortly thereafter, 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." 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 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. 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, although a subsequent statement of North Korea's Foreign Ministry warned that a continuation of the moratorium "depends entirely on the policy of the new [Bush] administration."

President Bush's June 6 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. If missile talks resume, the Administration will face at least four issues. One will be to determine the minimum level of U.S. monitoring necessary to insure verification of any agreement — in particular to determine whether an on-site, challenge inspection system within North Korea will be required. The second issue will be to determine whether the ultimate policy goal is the termination of the entire North Korean missile program or only those parts of it that can be monitored effectively. Monitoring of North Korean research, manufacture, and assembly of missiles would be extremely difficult because North Korea is believed to conduct these activities in deep underground facilities. Deployment and dismantlement of missiles as well as the export of missiles would be easier to monitor, but monitoring of deployments still might require a system of on-site, challenge inspections inside North Korea. The third issue will be whether to continue to seek a comprehensive missile agreement as the Clinton Administration did in late 2000 or whether to revert to the original Perry concept and seek a series of smaller agreements on the individual components of North Korea's missile program. The fourth issue will be the form of so-called compensation. The Bush Administration will have to decide whether to continue the Clinton Administration's interest in an arrangement for the United States to assist in the launching of North Korean satellites. It also will have to decide whether to offer North Korea any economic or financial incentives other than increased food aid. Food aid was the incentive on which the Clinton Administration relied. North Korea in the past has demanded $1 billion annually in cash.

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 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.

Nevertheless, the Bush Administration faces major difficulties in developing an initiative. One problem is South Korean reluctance to enter into negotiations on conventional forces, despite President Kim Dae-jung's overall emphasis on engagement with North Korea. President Kim has said that negotiations on conventional forces should be held in the distant future after other issues have been settled. R.O.K. officials have voiced concern that an initiative for conventional force talks could complicate President Kim's goal of negotiating a North-South peace agreement before he leaves office in March 2003. They have argued that South Korea should have exclusive jurisdiction in negotiating with North Korea on

conventional forces; the United States, in short, should not participate in such negotiations. Thus, the Bush Administration will have to convince South Korea to change its positions if the Administration seeks to offer North Korea a joint U.S.-South Korean proposal for conventional force talks.

A second difficulty will be to make a negotiating proposal attractive enough to secure an affirmative North Korean response. North Korea's response to Bush Administration statements have denounced the Administration for proposing unilateral North Korean withdrawals from the DMZ. North Korea also has used this to reject the U.S. proposal to renew missile 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). 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. Thus, a key issue for the Administration is whether it can achieve conventional force negotiations without a reference to mutuality and military reciprocity in a proposal for negotiations.

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 the 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.

The South Korean government also has 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 has begun to advocate North Korean admission to the World Bank and the IMF; it probably calculates that admission, which P.L. 95-118 does not cover, would be a step toward convincing the United States to remove North Korea from the terrorism list and thus allow Pyongyang to receive financial aid from these institutions.

Japan, however, has taken the opposite position, urging the Clinton and Bush administrations to keep North Korea on the terrorism list until North Korea resolved Japan's concerns over North Korean terrorism. 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?)* The State Department's annual report on terrorism for 2001 also cited evidence that the Moro Islamic Liberation Front in the Philippines, a combination guerrilla and terrorist group, had received North Korean arms.

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 2000, the United States contributed over 1.3 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. 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 has requested donations of 810,000 tons of food for North Korea in 2001. 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, have withdrawn 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, has refused 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 apparently with no end in site. Food shortages and resultant suffering were reported to be increasing in 2001. It is estimated that one to three million North Koreans died of malnutrition between 1995 and 2001.

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 military dialogue also began with a meeting of defense ministers. President Kim called on the United States to support his sunshine policy by normalizing diplomatic relations with North Korea and negotiating a missile agreement with Pyongyang, and removing North Korea from the U.S. terrorist list.

The issue of whether the Bush Administration supports President Kim Dae-jung's sunshine policy has been discussed since the Bush-Kim summit in March 2001. U.S. statements during the summit seemed to indicate that the Bush Administration had reservations about President Kim's policy. The substantive issues for the Bush Administration seems to be two-fold. One is the U.S. response to the component parts of the sunshine policy, since it involves a number of South Korean initiatives and policy positions. 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 administration 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 is using for military purposes the large cash payments, over $400 million since 1998, that the Hyundai Corporation has made to the North Korean government for the right to operate a tourist project at Mount Kumgang in North Korea. (According to informed sources, Hyundai has made secret payments to North Korea, which may bring total payments closer to $800 million.) The U.S. Central Intelligence Agency reportedly delivered a memorandum to the R.O.K. government in February 2001 outlining U.S. suspicions. 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 have endorsed North-South negotiation of a peace agreement, and President Reagan originally proposed Four Party Talks as a suitable vehicle for peace negotiations. However, during the Bush-Kim Dae-jung summit in March 2001, Bush 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 expressed reservations to South Korea concerning 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 IAEA inspections.

The second substantive issue is how the Bush Administration should respond to Kim Dae-jung's apparent view that the United States should adopt flexible, or soft, terms with North Korea on issues like missiles and North Korea's status on the U.S. terrorism list. President Kim pressed President Clinton to visit Pyongyang and sign a missile agreement. He appears to believe that such U.S.-North Korean agreements have a greater value of reinforcing the sunshine policy and that this consideration outweighs the terms of agreements. R.O.K. officials and South Korean supporters of the sunshine policy have urged the Bush Administration, sometimes through criticism, to adopt flexible positions on issues like verification of military agreements and North Korean reciprocity. The Bush Administration appears to accept this view to a degree regarding economic accords, but Bush officials have argued for strict verification and reciprocity in military agreements with North Korea.

North Korea's suspension of talks ended in September 2001 when Pyongyang offered to meet with South Korea. The meeting in mid-September reaffirmed agreements of 2000 regarding family reunions, rail and highway connections, and flood control. North Korea reportedly pressed South Korea to supply electricity, but there was no agreement. A ministerial meeting at North Korea's Mount Kumgang in November 2001 ended in failure when North Korea demanded that South Korea end a post-September 11 anti-terrorism alert and agree that all future meetings would be held in North Korea. Most informed opinion in South Korea concluded that there would be a "cooling off period" in North-South talks.

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 become more active and have been joined by a network of non-government civic groups. A new element are proposals by several prominent South Koreans for changes in the size and functions of U.S. troops, including a proposal to convert U.S. troops to a peacekeeping force. Polls 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; the Clinton Administration took a strong public stance against withdrawals in 2000. It is known, however, that U.S. military planners have been examining options for changing the structure of U.S. forces and/or reducing their size.

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 controversy over the conduct of the U.S. military and related U.S. policy. A number of incidents and issues in 2000 resulted in mounting South Korean public criticism of U.S. troops. 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 will join the global Missile Technology Control Regime (MCTR).

Contentious issues remain. 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. This was the first ever ruling against the U.S. military by a R.O.K. court. The Bush Administration reportedly has decided to seek a 30 percent 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 current South Korean direct financial contribution is below $350 million annually.

U.S.-South Korean Economic Relations

In 2000, U.S.-South Korean trade totaled over $66 billion, making South Korea the United States' seventh largest trading partner. U.S. exports in 2000 totaled $26.3 billion. Major U.S. exports include semiconductors, electrical machinery, general machinery, aircraft, agricultural products, and beef. After a period of U.S. trade surpluses with South Korea during 1994-1997, the United States has run deficits with South Korea. This is partly due to the economic crisis which hit South Korea in 1997. In December 1997, South Korea and the International Monetary Fund (IMF) agreed to the terms of a $58 billion financial support package. The economic recession led to a sharp decline in most countries' exports to South Korea, including U.S. exports. Renewed South Korean economic growth in 1999 and 2000 resulted in a recovery in U.S. exports, but growth in U.S. imports from South Korea was larger, causing the trade deficit to widen.

As part of its commitment to the IMF in 1997, South Korea pledged to eliminate most restrictions on foreign direct investment. The Kim Dae-jung Administration aggressively liberalized R.O.K. regulations on foreign investment. As a result American companies have invested nearly $10 billion in South Korea in the 1998-2000 period.

During South Korea's economic crisis in 1997 and 1998, the Clinton Administration muted U.S. criticism of South Korea's barriers to foreign companies seeking to sell products in the Korean market. Since the spring of 2000, the United States has intensified its pressure on South Korea. In early May 2000, the U.S. Trade Representative cited South Korea as a "priority watch country" under "Special 301" (Section 182 of the Trade Act of 1974) because it deems Seoul's enforcement of intellectual property rights to be unsatisfactory. The United States has stepped up criticism of South Korea for barriers to the sale of U.S. automobiles, pharmaceuticals, and beef. In December 2000, the United States and Australia won a decision of the World Trade Organization that South Korea discriminated against foreign suppliers of beef. The United States continues to criticize South Korea for other policies, which Washington claims discriminate against U.S. beef. In August 2001, the U.S. Federal Aviation Administration refused a bid by Korean Air to expand airline service to the United States, citing lax safety procedures by Korean Air.

A surge in U.S. imports of Korean steel in 1997 and 1998 has caused the United States to include South Korea in a group of steel-exporting countries being investigated for alleged dumping of steel products into the U.S. market. The Bush Administration is considering initiating safeguard measures under Section 201 of the Trade Act of 1974 to slow steel imports from South Korea and other countries. The U.S. International Trade Commission, an independent U.S. agency, ruled in October 2001 that several categories of imported Korean steel had caused serious damage to the U.S. steel industry. The Commission will recommend remedial action to President Bush, which could include higher tariffs and/or quotas. (See CRS Report RL30566, *South Korea-U.S. Economic Relations: Cooperation, Friction, and Future Prospects*)

Political Issues

From one perspective, U.S. support for democratization in South Korea has been a great success for U.S. policy. 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. But the process of democratization has seen greater political instability and uncertainty in South Korea, raising questions for U.S. policymakers about the South Korean government's ability to carry out burden sharing and economic reform programs sought by the United States.

Unlike the authoritarian leaders of the past, former general Roh Tae Woo was the first popularly elected president in late 1987. Former oppositionist Kim Young Sam won the December 1992 presidential election and took office in February 1993. In 1997, Kim's ruling New Korea Party selected Lee Hoi Chang as its candidate for the December 1997 presidential elections. Opposition leader Kim Dae-jung won the December 18, 1997 presidential election with 40% of the vote. Lee Hoi Chang got 38%. Kim Dae-jung took power on February 25, 1998. However, the National Assembly remains controlled by the opposition party. In a general amnesty marking the 50th anniversary of the Republic of Korea on August 15, 1998, President Kim released several thousand prisoners including scores of political prisoners and military officials jailed in connection with past repression activities. 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 and the uneven progress of his sunshine policy toward North Korea. 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.