Order Code IB98045

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

Updated January 5, 2005

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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. Restarting the Yongbyon facilities opens up a possible North Korean intent to stage a "nuclear breakout" of its nuclear program and openly produce nuclear weapons. North Korea claims that it has nuclear weapons and that it has completed reprocessing nuclear weapons-grade plutonium that could produce five or six atomic bombs. North Korea's actions follow the reported disclosure in October 2002 that North Korea is operating a secret nuclear program based on uranium enrichment and the decision by the Korean Peninsula Energy Development Organization (KEDO) in November 2002 to suspend shipments of heavy oil to North Korea — a key U.S. obligation under the Agreed Framework.

The main elements of Bush Administration policy are (1) demanding that North Korea totally dismantle its nuclear programs; (2) withholding any U.S. reciprocal measures until North Korea takes visible steps to dismantle its nuclear programs; (3) assembling an international coalition to apply pressure on North Korea in multilateral talks; and (4) planning for future economic sanctions and military interdiction against North Korea. China organized six party talks 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, the issuance of settlement proposals, accusations that the United States plans an "Iraq-like" attack on North Korea, and denials that it has a uranium enrichment program.

Differences have emerged between the Bush Administration and South Korea over policies toward North Korea. South Korea emphasizes bilateral reconciliation with North Korea. 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 and to withdraw 12,500 troops from South Korea by the end of 2005.

MOST RECENT DEVELOPMENTS

North Korea ended 2004 by continuing to refuse to agree to another meeting of the six party talks on the nuclear issue. North Korea demanded preconditions for attending another meeting, including an end of U.S. "hostile policies," U.S. acceptance of North Korea's "reward for [nuclear] freeze proposal," and agreement of the six parties to take up the recently revealed nuclear activities of South Korean scientists. North Korean media commentary throughout November and December 2004 boasted of Pyongyang's strong position in the six party talks and the weakness and isolation of the Bush Administration. These boasts received support by open Chinese and South Korean criticisms of the Bush Administration's position in the talks. South Korean President Roh Moo-hyun gave policy speeches in Los Angeles and Europe in November 2004, criticizing the Bush Administration, rejecting pressure on North Korea, defending North Korea's assertion that it needed a "nuclear deterrent" in view of its perception of a threat from the United States, and describing North Korea's "reward for freeze" proposal as "a considerably positive proposal." Bush Administration officials asserted that the six party talks needed to make progress in 2005. However, they gave no indication of a strategy to change the complexion of the talks, and they remained silent toward the Chinese and South Korean criticisms. Japan remained supportive of the U.S. position, but Tokyo threatened to impose sanctions against North Korea after North Korea turned over alleged remains of two kidnapped Japanese that turned out to be bogus on DNA examination. The Bush Administration reportedly counseled Japan to refrain from sanctions because of possible damage to the six party talks.

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 fought the Korean War from 1950 to 1953, suffering over 33,000 killed and over 101,000 wounded. The United States agreed to defend South Korea from external aggression in the 1954 Mutual Defense Treaty. The United States maintains about 37,000 troops there to supplement the 650,000-strong South Korean armed forces. This force is intended to deter North Korea's (the Democratic People's Republic of Korea — D.P.R.K.) 1.2 million-man army. 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*) and long-range missiles, and severe food shortages in North Korea.

U.S. economic assistance 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, 1945-2002, 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 two factors within the Administration. First, President Bush has voiced profound distrust of North Korea and its leader, Kim Jong-il. Second, there are divisions over policy toward North Korea among factions within the Administration. An influential 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 led by Undersecretary of State John Bolton. They reportedly oppose negotiations with North Korea, favor the issuance of demands for unilateral North Korean concessions on military issues, and advocate an overall U.S. strategy of isolating North Korea diplomatically and through economic sanctions. Officials within this group express hope and/or expectations of a collapse of the North Korean regime. They assert that North Korean nuclear provocations will escalate to a point at which other governments will join the United States in isolating North Korea through economic sanctions. A second faction, mainly in the State Department and White House, is led by Secretary of State Powell and is composed of officials with experience on East Asian and Korean issues. This faction believes that the Administration should attempt negotiations before adopting more coercive measures, and they reportedly doubt the effectiveness of a strategy to bring about a North Korean collapse.

President Bush's designation of North Korea as part of an "axis of evil" in his January 29, 2002 State of the Union address symbolized a hardening of the Administration's policy. The policy is aimed at reducing and/or eliminating basic elements of North Korean military power, including weapons of mass destruction (WMDs), nuclear weapons and/or nuclear weapons-grade materials, missiles, and conventional artillery and rocket launchers positioned on the demilitarized zone (DMZ) within range of the South Korean capital, Seoul. The Administration's emphasis on WMDs mounted after the Central Intelligence Agency gained documentary evidence in Afghanistan that Al Qaeda seeks WMDs and plans new attacks on the United States. This reportedly influenced the Bush Administration to broaden the definition of the war against terrorism to include states like North Korea that potentially could supply WMDs to Al Qaeda.

A key element of the Administration's strategy is to employ public demands and warnings to pressure North Korea to reduce and eliminate its military assets. Public statements by the Administration continually call for North Korea to take actions unilaterally. As stated previously, there has been substantial opposition within the Administration to any negotiations. When U.S. and North Korean officials have met, opponents of negotiations have succeeded in restricting what U.S. officials can say. Except for vague references to a "bold initiative" and a non-specific offer of a multilateral security guarantee, the Administration gave no indication that it would offer North Korea reciprocal measures for North Korean agreement and steps to reduce its military power in these areas.

Nuclear Weapons and the Six Party Talks. U.S. policy since 1994 has been based largely on the U.S.-North Korean Agreed Framework of October 1994. The Agreed Framework dealt primarily with nuclear facilities that North Korea was developing at a site called Yongbyon. Existing facilities included a five megawatt nuclear reactor and a

plutonium reprocessing plant. Two larger reactors were under construction. U.S. intelligence estimates concluded that these plutonium-based 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 required North Korea to report all nuclear programs to the IAEA and 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 in 1993-94, including refusal to allow an IAEA special inspection of a underground facility, which the IAEA believed was a nuclear waste site.

The Agreed Framework provided for the suspension of operations and construction of North Korea's "graphite-moderated reactors and related facilities" and the storage of 8,000 nuclear fuel rods that North Korea had removed from the five megawatt reactor in May 1994. It provided to North Korea 500,000 tons of heavy oil annually until two light-water nuclear reactors (LWRs) are constructed in North Korea. The United States was obligated to facilitate the heavy oil shipments and organize the construction of the LWRs. The IAEA monitored the freeze of the designated facilities and activities. The Agreed Framework stated that before North Korea receives nuclear materials for the LWRs, it is obligated to come into full compliance with its obligations as a signatory to the Nuclear Non-Proliferation Treaty with regard to its past nuclear activities. Clinton Administration officials testified that this clause obligated North Korea to allow IAEA inspection of the suspected waste site and the stored fuel rods. They also testified that any additional North Korean nuclear programs, including any secret programs, are covered by the 1992 safeguards agreement and are subject immediately to IAEA safeguards, including inspections.

The Korean Peninsula Energy Development Organization (KEDO) was created to implement provisions of the Agreed Framework related to heavy oil shipments and construction of the LWRs. Lead members are the United States, Japan, South Korea, and the European Union. The Agreed Framework set a target date of 2003 for completion of the first of the LWRs. In 2002, KEDO officials projected the completion of the first LWRs in 2008. From October 1995 through November 2002, North Korea received the annual shipments of 500,000 tons of heavy oil. The cost to the United States of the heavy oil and financial support of KEDO from FY1995 through FY2002 was $378 million Congressional appropriations for the heavy oil and KEDO rose from $30 million in FY1996 to $95 million in FY2002.

According to U.S. officials, North Korea admitted to having a secret uranium enrichment program when Assistant Secretary of State James Kelly 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 calling for concerned governments to pressure North Korea to abandon the secret uranium enrichment program. In November 2002, it pushed a resolution through KEDO to suspend heavy oil shipments to North Korea. (The Administration subsequently secured a suspension of construction of the light-water reactors; the suspension was renewed in November 2004) North Korea then initiated a number of aggressive moves to reactivate the plutonium-based nuclear program shut down in 1994 under the Agreed Framework: re-starting the small, five megawatt nuclear reactor, announcing that construction would resume on two larger reactors, announcing that it would

re-start the plutonium reprocessing plant, and removing the 8,000 nuclear fuel rods from storage facilities. North Korea also 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. It threatened to end its moratorium on long-range missile testing in effect since September 1999. North Korea asserted that it possesses nuclear weapons and that it had completed reprocessing of the 8,000 fuel rods into weapons-grade plutonium. Moreover, North Korea threatened to export nuclear materials. It justified these actions by citing the U.S.-initiated cutoff of heavy oil shipments and by charging that the Bush Administration planned a "pre-emptive nuclear attack" on North Korea. It escalated this by citing the U.S. attack on Iraq as justification for North Korea developing a "nuclear deterrent."

Restarting the Yongbyon installations opens up a North Korean option to stage a "breakout" of its nuclear program by openly producing nuclear weapons. The most dangerous North Korean move would be to produce nuclear weapons-grade plutonium from the 8,000 fuel rods. According to estimates by nuclear experts and reportedly by U.S. intelligence agencies, reprocessing of the fuel rods would produce enough plutonium for four to six atomic bombs. A Central Intelligence 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 likely 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.

The Administration's policy has contained three elements: (1) a demand for unilateral concessions, (2) the avoidance of direct negotiations with North Korea, and (3) the isolation of North Korea internationally. In demanding unilateral concessions, the Administration called on North Korea to commit to and take concrete measures to realize the "complete, verifiable, irreversible dismantlement" of its nuclear programs, both the plutonium program and the secret uranium enrichment (HEU) program. This demand has become known as "CVID." The Administration asserts that North Korea must follow procedures similar to those that Libya has adopted in giving up its weapons of mass destruction.

Administration officials have spoken often about the objective of "isolating" North Korea. There are two components to this goal. One is to isolate North Korea from diplomatic support from other governments over the nuclear issue and create a bloc of governments demanding that North Korea accept CVID. The second component is the creation of a coalition of governments willing to impose economic sanctions on North Korea if Pyongyang rejects CVID. Since May 2003, the United States has formed a Proliferation Security Initiative (PSI) with over ten other countries aimed at interdicting exports of weapons of mass destruction and illegal drugs by proliferator countries. Measures are being planned to interdict North Korean sea and air traffic. The Administration reportedly has drafted plans for economic sanctions, including cutting off financial flows to North Korea from Japan and other sources and interdicting North Korean shipments of missiles and other weapons to the Middle East and South Asia. The Administration is pressuring several countries to cease purchases of North Korean missiles. The aim of the PSI would be to

constrict sharply North Korean foreign exchange earnings, which are a major source of sustenance to the North Korean political elite and the North Korean military.

In early 2003, the Administration proposed multilateral talks as the diplomatic focus. After a U.S.-North Korea-China meeting in April 2003, two plenary sessions of six party talks (including South Korea, Japan, and Russia) were held in August 2003 and February 2004; a six party working group meeting was held in May 2004. The Administration has viewed several roles for the six party talks. The talks help the Administration avoid bilateral negotiations with North Korea. Until the June 2004 meeting, the Administration limited direct contact with North Korean delegates. The Administration also views the six party talks as giving it a vehicle to secure support from China, South Korea, Japan, and Russia for the U.S. CVID demand. U.S. officials have spoken of creating a five versus one situation in the six party talks, thus isolating North Korea. This would lay the groundwork for the participation of these countries in sanctions against North Korea if North Korea rejected CVID — sanctions either through the U.N. Security Council and/or the PSI. Throughout 2003, Administration officials expressed a view that North Korea would isolate itself through its provocative actions in reopening its plutonium nuclear program and its threats to proliferate nuclear materials and test nuclear weapons and missiles.

The Administration has placed emphasis on China's role in the talks. They state that China should exert diplomatic pressure on North Korea to accept CVID. Some Administration officials have expressed the view that China can be persuaded to join the United States in sanctions against North Korea even to the extent of creating an internal crisis within the North Korean regime. The importance of China is pointed up by the mutual defense treaty China has with North Korea and China's role in supplying North Korea with an estimated 90% of its oil and 40% of its food.

In the summer of 2003, the North Korean leadership appeared worried that they faced international isolation and heavier U.S. pressure. From that point, there has emerged a multifaceted North Korean diplomatic strategy backed by a concerted propaganda campaign aimed at strengthening Pyongyang's position in the six party talks and weakening the U.S. position. A lead component of North Korea's strategy has been to threaten repeatedly that it would abandon the six party talks, thus playing on the psychological fears of the other parties. North Korea apparently has employed this threat to demand that China, the host of the talks, provide it with financial subsidies and increased shipments of food and oil as "payment" for North Korean agreement to attend future sessions of the talks. But with these repeated threats, North Korea has made a series of proposals: first, a formal U.S.-North Korean non-aggression pact, later modified to a formal U.S. guarantee that the United States would not attack North Korea; second, a "freeze" of North Korea's plutonium program; and third, retention by North Korea of a "peaceful" nuclear program. North Korean proposals also have called for extensive concessions by the United States and Japan, including removal of North Korea from the U.S. list of terrorist-supporting states, supply of electricity, several billion dollars in "compensation" from Japan, restoration of shipments of heavy oil and construction of the two light-water nuclear reactors under the 1994 Agreed Framework, and an end to U.S. economic sanctions and U.S. interference in North Korea's economic relations with other countries. While purposefully keeping its proposals vague regarding content and its own obligations, North Korea has engaged in a concerted propaganda campaign promoting its proposals and accusing the Bush Administration of plotting an "Iraq-like" attack.

An element in North Korea's counter-strategy has been a campaign to deny that it has a uranium enrichment (HEU) program. From the summer of 2003, North Korean propaganda organs have escalated denials of an HEU program and denials that North Korean officials admitted an HEU program to Assistant Secretary of State James Kelly in October 2002. North Korea also moderated its threats of proliferation and testing. It issued statements that it would not proliferate nuclear materials. However, Iranian and Pakistani testing of missiles based on North Korean technology and components appear to constitute "surrogate testing" that benefits North Korea. There are longstanding reports, including recent reports, of nuclear cooperation between North Korea and Iran and possibly Libya.

North Korea clearly occupied a stronger position in the February 2004 plenary session of the six party talks and in the six party working group meeting in May 2004. The Administration's goal of creating a five versus one situation remained distant. North Korea's proposals for a nuclear "freeze" and retention of a "peaceful" nuclear program occupied much of these meetings. U.S. negotiators claimed that the other four participants supported CVID; but China and Russia expressed sympathy and/or support for Pyongyang's proposals of a U.S. non-aggression guarantee, nuclear freeze, and North Korean retention of a "peaceful" nuclear program. China has asserted that the goal of the talks should be to eliminate North Korea's "nuclear weapons" rather than its nuclear programs. Russia and China voiced doubts that North Korea has an HEU program, and they did not challenge North Korea's denial strategy; in June 2004, a top Chinese official openly challenged the U.S. claim. Moreover, North Korea had succeeded in extracting more fuel, food, and financial subsidies (at least $50 million) from China in bargaining over North Korea's participation in the talks. China, Russia, and South Korea expressed opposition to economic sanctions, and only Japan joined the PSI.

The Bush Administration modified its policy in certain areas to counter North Korean strategy and the attitudes of China and Russia but with minimum success. President Bush responded to Chinese urgings in October 2003 and offered to propose a multilateral security guarantee to North Korea. The Administration attempted to use the reported "confession" of A.Q. Khan, Pakistan's nuclear czar, to rebuff North Korea's denial campaign regarding the HEU program; Khan reportedly confessed that he had transferred technology and components of an HEU program to North Korea. However, Khan's "confession" was based on second-hand information; and it did not change the Russian and Chinese positions.

Pressure from the other participants in the six party talks and the lack of progress toward U.S. goals at the talks appear to be major factors behind the Bush Administration's decision to issue the comprehensive proposal of June 23, 2004. The U.S. proposal called for a quick dismantlement of North Korea's plutonium and uranium enrichment programs following a three month "preparatory period." During the preparatory period, North Korea would declare its nuclear facilities and materials, suspend their operation, allow effective international inspections including a return of the IAEA, and negotiate the steps to be taken in dismantlement. In return, South Korea and Japan would supply North Korea with heavy oil. North Korea would receive a "provisional multilateral security assurance" against a U.S. attack. The United States and North Korea would begin talks over U.S. economic sanctions and North Korea's inclusion on the U.S. list of terrorist-supporting countries. The participants in the talks also would begin a study of North Korea's energy situation. After North Korea completed dismantlement, it would receive a permanent security guarantee, and permanent solutions to its energy problems would be undertaken.

North Korea's decision, announced on July 24, 2004, to reject the U.S. proposal as a "sham proposal" and its subsequent refusal to participate in scheduled six party meetings in August and September 2004, apparently is motivated at least in part by the objective of "killing" the June 23 proposal as an active basis of future negotiations. Pyongyang seemed to believe that if it succeeded, either a Bush or Kerry administration would be in a weakened position with limited options in 2005. Pyongyang had made major progress by the time of the U.S. elections. The other six party participants gave no endorsements or positive statements of the June 23 proposal after the June 2004 six party meeting; this appears to have encouraged North Korea to initiate its "kill strategy." The other governments refrained from criticizing North Korea's post-July 24 obstructionist tactics. China and Russia continued to voice support for elements of North Korea's "reward for freeze" proposal; and they continued to express skepticism toward the U.S. claim of a secret North Korean HEU program. South Korean officials joined in voicing skepticism. China continued offering "gifts" of oil, food, and money. The Bush Administration did not have a followup strategy to promote the June 23 proposal, gain diplomatic support for it from the other six party governments, and create pressure on North Korea to accept it as a basis for negotiations. By the time of the U.S. elections, Chinese, South Korean, and Russian officials stated publicly that the U.S. proposal was inadequate. China and South Korea reportedly want the United States to contribute financially to the delivery of heavy oil to North Korea in the first stage of a settlement.

North Korea also exploited the disclosures in August and September 2004 that South Korean scientists had conducted experiments in the early 1980s and in 2000 in which they produced small amounts of fissionable plutonium and enriched uranium. The IAEA launched an investigation of these activities and reported that the South Korean government was cooperating. North Korea, however, asserted that it would not agree to another six party meeting unless South Korea and the United States agreed to include the South Korean nuclear activities on the agenda. Pyongyang also used this issue to renewal its long-standing denunciations of the IAEA for "partiality" and "bias."

North Korea's Missile Program. North Korea's proposal at Beijing offers to "settle the missile issue" but provides no details. North Korea has maintained a moratorium on flight testing of long-range missiles since September 1999. The last such missile test, on August 31, 1998, flew over Japanese territory. Japan also believes it is threatened by approximately 100 intermediate-range Nodong missiles, which North Korea has deployed. Japanese negotiators at Beijing emphasized the missile issue. Reports since 2000 cite U.S. intelligence findings that North Korea is developing a Taepo Dong-2 intercontinental missile that would be capable of striking Alaska, Hawaii, and the U.S. west coast with nuclear weapons. U.S. 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 Taepo Dong-2. U.S. officials reportedly told Japanese counterparts in July 2003 that North Korea was close to developing nuclear warheads for its missiles. Reports in mid-1994 asserted that North Korea was close to completing underground missile bases for advanced intermediate range missiles that could reach both Guam and Hawaii.

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. North Korea reportedly shipped 50 Nodong missiles to Libya in 1999. 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. Pakistani and Iranian tests of North Korean-designed missiles have provided "surrogate testing" that benefits North Korea and dilutes the limitations of the September 1999 moratorium.

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 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." 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 the September 1999 North Korean moratorium on long-range missile testing. The Clinton Administration responded in June 2000 by lifting of a significant number of U.S. economic sanctions against North Korea.

In October 2002, 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.) It also offered to ban permanently missile tests and production above a certain range in exchange for "in kind assistance" and assistance in launching commercial satellites. Pyongyang also offered to cease the deployment of Nodong and Taepo Dong missiles. It proposed that President Clinton visit North Korea to conclude an agreement. The negotiations reportedly stalled over four issues: North Korea's refusal to include short-range Scud missiles in the commitment to cease the development and deployment of missiles; North Korea's non-response to the U.S. position that it would have to agree to dismantle the already deployed Nodong missiles; the details of U.S. verification of a missile agreement; and the nature and size of a U.S. financial compensation package.

President Bush's June 6, 2001 statement set a goal of "verifiable constraints on North Korea's missile programs and a ban on its missile exports." After the January 2002 State of the Union speech, the Administration repeatedly described North Korea as a dangerous proliferator of missiles and demanded that North Korea cease exporting missiles and missile technology. However, the Administration has offered no specific negotiating proposal on missiles. The Administration emphasized the necessity of installing an anti-missile defense system in Alaska, which it claimed would be 90% effective in intercepting North Korean missiles; non-Administration experts have expressed skepticism over this claim.

Weapons of Mass Destruction. The Bush Administration's emphasis on North Korea's weapons of mass destruction (WMDs) resulted from the September 11, 2001, terrorist attack. A Pentagon report on the North Korean military, released in September 2000, stated that North Korea had developed up to 5,000 metric tons of chemical munitions and had the capability to produce biological weapons, including anthrax, smallpox, the bubonic plague, and cholera. The Bush Administration expresses a fear that North Korea

might sell nuclear, chemical, or biological weapons to a terrorist group like Al Qaeda or that Al Qaeda might acquire these weapons from a Middle East country that had purchased them from North Korea. In November 2001, President Bush included North Korea's WMDs as part of the "war against terrorism." 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 exported nuclear technology to Iran and that North Korea assisted Syria and Iran to develop 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. It made this a pre-condition for the visit of a high-level North Korean official to Washington. Although it later dropped this pre-condition, it continued to demand removal from the terrorist list. In response to the terrorist attack of September 11, 2001, North Korea issued statements opposing terrorism and signed two United Nations conventions against terrorism. North Korea's proposals at the six party nuclear talks 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 it to receive financial aid from the World Bank and the International Monetary Fund (IMF). U.S. 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 Kim Dae-jung Administration also urged the United States to remove North Korean 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. 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 concerns 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. (See CRS Report RL30613, *North Korea: Terrorism List Removal?)* 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 an official reason for North Korea's inclusion on the terrorist list. Kim Jong-il's admission of kidnapping Japanese during the Kim-Koizumi summit of September 2002 did not resolve the issue. His claim that 8 of the 13 admitted kidnapped victims are dead 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 May 2004, North Korea released children of the five abductees (except two daughters of an abductee) and an American military deserter living in North Korea. In return, Japan promised North Korea 250,000 tons of food and $10 million in medical supplies.

Food Aid. Secretary of State Powell announced on February 25, 2003, that the United States would extend 40,000 tons of food aid to North Korea in 2003 and would extend another 60,000 tons if North Korea agreed to greater access of food donors and more effective monitoring of food aid distribution. The Bush Administration announced in December 2003 that it would proceed with the 60,000 ton shipment. The State Department announced another 50,000 ton donation in July 2004. The offer is a reduced U.S. commitment from previous years. North Korea demanded increased food in its proposals

in late 2003 for settlement of the nuclear issue. It has rejected the Administration's conditions. From 1995 through 2002, the United States supplied North Korea with 1.9 million metric tons of food aid through the WFP. On June 8, 2002, Andrew Natsios, Director of the U.S. Agency for International Development, stated that future U.S. food aid would depend on North Korea's willingness to allow access of food donors to all areas of the country, a nationwide nutritional survey, and an improved monitoring system. However, the announced commitments in December 2003 and July 2004 came without any North Korean agreement to the U.S. monitoring conditions. The WFP appealed for 485,000 tons of food for 2004, warning that diminished donations were lessening its ability to feed North Koreans. However, South Korea has extended increasing amounts of bilateral food aid to North Korea, promising one million tons of rice for 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 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.

The WFP acknowledges that North Korea places restrictions on its monitors' access to the food distribution system, but it believes that most of its food aid reaches needy people. Several private aid groups, however, withdrew from North Korea because of such restrictions and suspicions that the North Korean regime was diverting food aid to the military or the communist elite living mainly in the capital of Pyongyang. It is generally agreed that the regime gives priority to these two groups in its overall food distribution policy. 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. While such reforms resulted in big increases in food production in China and Vietnam, North Korea continues to experience sizeable food shortages year after year with no end in sight. It is estimated that one to three million North Koreans died of malnutrition between 1995 and 2003.

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 refugee exodus from North Korea into China's Manchuria region began in the mid-1990s as the result of the dire food situation in North Korea's provinces in the far north and northeast along the Chinese border. The North Korean government reportedly suspended the state food rationing system in these provinces beginning about 1993 and never allowed international food aid donors into them Estimates of the number of refugees cover a huge range, from 10,000 to 300,000.

China followed conflicting policies reflecting conflicting interests. Generally, China tacitly accepted the refugees so long as their presence was underground and/or not highly visible. China also allowed foreign private non-government groups (NGOs), including South Korean NGOs, to provide aid to the refugees, again so long as their activities were not highly visible. China barred any official international aid presence, including any role for the

United Nations High Commission for Refugees. It also interrupted its general policy of tacit acceptance with periodic crackdowns that included police sweeps of refugee populated areas, rounding up of refugees, and returning them to North Korea. In 2002 and 2003, China allowed refugees, who had gained asylum in foreign diplomatic missions, to emigrate to South Korea. However, its 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 in 2003 described stepped-up security on both sides of the China-North Korea border, including the deployment of Chinese army troops, to stop the movement of refugees and Chinese roundups of refugees and repatriation of them to North Korea. The Chinese government also appears reluctant to establish the precedent of allowing any United Nations presence on its soil.

South Korea, which previously had turned refugees away from its diplomatic missions, changed its policy in response to the new situation. It accepted refugees seeking entrance into its missions and allowed them entrance into South Korea, and it negotiated with China over how to deal with these refugees.

The Bush Administration has given the refugee issue low priority. The Administration has requested that China allow U.N. assistance to the refugees but has asserted that South Korea should have the lead diplomatically in dealing with China. Congress has been more active on the issue. The issue has been aired in hearings. In June 2002, the House of Representatives passed H.Con.Res. 213, which calls on China to halt forced returns of refugees to North Korea and give the U.N. High Commission on Refugees access to North Korean 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" concentration camp system in the Soviet Union under Stalin. Reports by Amnesty International, the U.S. State Department, 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 and 2004, the United States secured a resolution 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 in the Commission's votes in the interest of pursuing its "sunshine" policy with North Korea.

South Korean officials also criticized passage by Congress in October 2004 of H.R. 4011, the North Korean Human Rights Act of 2004. The act (P.L. 108-333) would grant asylum and legal immigration status to North Korean refugees and would have the U.S. executive branch adopt a number of measures aimed at furthering human rights in North Korea, including financial support of non-government 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 Sunshine Policy and the Hyundai Payments to North Korea. South Korean President Kim Dae-jung took office in 1998, proclaiming a "sunshine policy" of reconciliation with North Korea. He achieved an apparent breakthrough with his meeting of Kim Dae-jung and North Korean leader Kim Jong-il in Pyongyang, June 13-14, 2000. 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 South Korean food aid to North Korea, and flood control projects for the Imjim River. President Kim called on the United States to support his sunshine policy by normalizing diplomatic relations with North Korea, negotiating a missile agreement with Pyongyang, and removing North Korea from the U.S. terrorist list. Negotiations in August 2002 produced a renewal of family reunions and agreement to implement economic agreements of 2000. The roads in the eastern and western sectors of the DMZ opened in 2003, and work on the rail lines is continuing. Seoul and Pyongyang reached agreement in November 2002 on South Korean aid to construct a special economic zone at Kaesong inside North Korea to attract South Korean and other outside private investment. North Korea subsequently issued a law for foreign investment at Kaesong. In June 2004, North and South Korea agreed to set up military hotlines and cease propaganda broadcasts across the DMZ.

The most controversial component of the sunshine policy has been the cash payments the Hyundai Group has made to North Korea, supported by the R.O.K. government. In October 1998, Hyundai Asan, one of the member companies of the Hyundai Group, entered into an agreement with North Korea to operate a tourism enterprise at Mount Kumgang in North Korea. The agreement stipulated that Hyundai Asan would make cash payments to the North Korean government of $942 million over six years. From 1999 into 2003, Hyundai made public cash payments of about $600 million to North Korea for the Mt. Kumgang project and two other projects. According to informed sources available to CRS in 2001, Hyundai companies made additional secret payments to North Korea. Hyundai officials and the Kim Dae-jung administration denied for nearly two years that secret payments were made. In early 2003, they admitted to secret payments of $500 million and that the money was transferred shortly before the June 2000 North-South summit.

Investigations by a special prosecutor and South Korean newspapers revealed that North Korean leader, Kim Jong-il, demanded $1 billion from Hyundai Asan in return for meeting with Kim Dae-jung. Chung Mong-hun, the CEO of Hyundai Asan and one of the son's of Hyundai's founder, Chung Ju-yung, initially turned down the North Korean demand; but officials of the Kim Dae-jung administration urged him to make payments. Hyundai Asan and North Korean officials agreed on $500 million on April 8, 2000. The special prosecutor's findings were that several Hyundai member companies of the Hyundai Group (also run by Chung family members) were involved in making the secret payments a few days before the summit: Hyundai Merchant Marine ($200 million); Hyundai Engineering and Construction ($150 million); Hyundai Electronics ($100 million); and Hyundai Asan ($50 million in luxury goods). The special prosecutor also found that officials of the government's Korean Exchange Bank and the National Intelligence Service helped the Hyundai companies transfer the money to North Korean banks in Macao, Singapore, and Austria. Senior officials of the Kim Dae-jung administration facilitated a government loan of $359 million to Hyundai

Merchant Marine, which used more than 50% of it in the transfers. President Roh Moo-hyun cut off the special prosecutor's investigation in June 2003; the opposition Grand National Party has charged that there were additional secret payments totaling several hundred million dollars. There were six indictments and convictions of R.O.K. and Hyundai officials.

After the conclusion of the Mt. Kumgang agreement, U.S. military officials were suspicious that North Korea was using the Hyundai money for military purposes. U.S. military officials in Korea reportedly raised the issue with Hyundai officials in November 1999. The *Korea Herald*, February 5, 2001, quoted a spokesman for the U.S. Military Command in Korea that "I know that military experts at home and abroad are concerned about Pyongyang's possible diversion of the [Hyundai] cash for military purposes." Most serious is evidence that the Hyundai payments helped North Korea financially to accelerate its secret uranium enrichment nuclear weapons program and possibly also its missile program. Several experts had concluded that Hyundai Asan's public cash payments went into Bureau 39 of North Korea's Communist Party, which reportedly is controlled directly by Kim Jong-il. The special prosecutor and South Korean newspapers learned that the secret payments were transferred to bank accounts in Macao, Singapore, and Austria known to be controlled by the Daesong Group, a front organization for Bureau 39. Bureau 39's functions reportedly include controlling and enlarging the inflow of foreign exchange to North Korea through legal exports and illegal exports such as drug smuggling. It also directs the expenditure of North Korea's foreign exchange resources with two priorities: (1) procurement of luxury products from abroad that Kim Jong-il distributes to a broad swath of North Korean military, party, and government officials to secure their loyalty — Mercedes Benzes, food, wines, stereos, deluxe beds, Rolex watches, televisions, etc., estimated at $100 million annually by U.S. military officials in Seoul, according to a Reuters report of March 4, 2003; and (2) procurement overseas of components and materials for North Korea's WMDs and missiles. (See especially the *Wall Street Journal*'s report on Bureau 39, July 14, 2003.)

Estimates of North Korea's exports in 1999 and 2000 indicate that the Hyundai payments made up at least 30% of North Korea's foreign exchange earnings. During the same period into 2001, according to reported CIA estimates, North Korea accelerated its secret uranium enrichment (HEU) program, advancing it from a research and development stage to the procurement and installation of equipment capable of producing uranium-based atomic weapons. The CIA estimates, according to a *Washington Post* analysis of February 1, 2003, stressed North Korea's overseas procurement of "large quantities" of materials and components for the HEU program. The *Asian Wall Street Journal*, October 29, 2002, reported that North Korea had paid $75 million to Pakistan's Khan laboratory that specialized in Pakistan's uranium enrichment program. A number of press reports described the specific role of the Daesong banks from 1999 to 2003 in purchases of components that could be used in an HEU program. Public and reported CIA estimates since December 2002 project that North Korea could produce a uranium-based atomic bomb as early as mid-2004.

As a result of the Hyundai secret payment revelations and the financial difficulties of Hyundai Asan, payments for the Mt. Kumgang project declined to $7 million over the first eight months of 2003. However, the Roh Moo-hyun administration continues to promote deals between South Korean companies and North Korea, which potentially could lead to more North Korean demands for cash payments.

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

Beginning in early 2003, the Bush Administration made a series of decisions that will alter significantly the U.S. presence in South Korea. In June 2003, the Pentagon announced that the Second Infantry Division of about 15,000 troops would be withdrawn from its position just below the DMZ and relocated to "hub bases" about 75 miles south. It also announced that the U.S. Yongsan base, housing about 8,000 U.S. military personnel in the center of Seoul, would be relocated away from the city. (A 1991 agreement to relocate Yongsan never was implemented.) In May-June 2004, the Pentagon disclosed a plan to withdraw 12,500 U.S. troops from South Korea by the end of 2005, including the deployment to Iraq by August 2004 of one of the two combat brigades of the Second Division. Such a withdrawal would reduce U.S. troop strength in South Korea from 37,000 to about 24,000. The 3,600-man brigade left for Iraq in August 2004; but under South Korean pressure, the Pentagon decided in October 2004 to withdraw the remainder of the 12,500 troops in phases stretching to September 2008 and to keep close to 1,000 U.S. military personnel in Seoul after the closing of the Yongsan base. Pentagon officials spoke of U.S. military compensation measures, including the augmentation of air and naval forces in the Western Pacific; and they later announced long-term training deployment of two squadrons of stealth fighters and F-15 fighters to South Korea. There also are reports that the Pentagon and the U.S. Pacific Command are considering changes in the U.S. military command structure in Korea, which presently includes the United Nations Command, the U.S. Forces Korea (USFK) Command, and the U.S.-South Korean Combined Forces Command. As part of these changes, the Pentagon will invest $11 billion to upgrade U.S. forces in Korea. The South Korean government has expressed reservations over the U.S. decisions; but it has concluded several agreements with the Pentagon to facilitate the relocations. South Korea has agreed to assume the estimated $3-4 billion cost of relocating the Yongsan garrison by 2008 in an agreement finalized in July 2004. South Korean officials have indicated that they will try to secure a postponement of the 2005 target date for the withdrawal of 12,500 U.S. troops.

There are several rationales for the Pentagon's decisions. Relocation of the Second Division will facilitate its restructuring and reorganization along the lines of the Pentagon's plans to restructure the U.S. Army's traditional combat divisions into smaller, mobile combat brigades. The withdrawal of troops will help the U.S. Army meet the manpower burdens of its role in Iraq and potentially in other fronts in the "war against terrorism." U.S. officials also have voiced the hope that the troop changes and reduction would mitigate against the rising anti-American sentiment among South Koreans.

Signs appeared after 1998 that South Korean public opinion was becoming more critical of the U.S. military presence. Later, criticisms arose of the Bush Administration's policies toward North Korea, partly reflecting South Korean public support for Kim Dae-jung's sunshine policy. South Koreans increasingly viewed the U.S. military presence and the Bush Administration's policy as endangering South Korea's efforts to improve relations with North Korea. South Korean fears of a military threat from North Korea have declined, according to numerous polls. Incidents involving U.S. military personnel and South Korean civilians drew growing South Korean criticisms. In 2002, massive South Korean protests erupted when a U.S. military vehicle killed two Korean schoolgirls and the U.S. military personnel driving the vehicle were acquitted in a U.S. court martial. Roh Moo-hyun was elected in December 2002 after emphasizing criticisms of the United States during his

campaign. Anti-U.S. sentiment is especially strong among younger South Koreans under 40, according to polls. A January 2004 poll found that 39% of respondents viewed the United States as the biggest threat to South Korea as compared to 33% who viewed North Korea as the principle threat. Respondents in their 20s chose the United States by 58% to 20% for North Korea.

A growing network of non-government civic groups have taken up anti-American themes, including some accusations similar to those propagated by North Korean propaganda. A widespread South Korean view, reportedly held by some officials of the Roh Moo-hyun administration, is that the Pentagon's plan to relocate the Second Division is intended to get the Division out of range of North Korean artillery north of the DMZ so that the Bush Administration could launch a unilateral attack against North Korea. The U.S. invasion of Iraq also drew considerable criticism from the South Korean public. President Roh faced considerable public criticism for his decision to send 700 South Korean medical and engineering personnel to Iraq. In December 2003, South Korea announced that it would send a brigade-sized (about 3,000 troops) South Korean combat unit to Iraq. President Roh reaffirmed that decision in June 2004 in the face of the execution of a South Korean national by Iraqi insurgents. Roh has asserted that his ability to influence U.S. policy toward North Korea is a primary reason for his support of the U.S. war against Iraq. In October 2003, the R.O.K. government announced that it would commit $200 million in reconstruction aid to Iraq. However, the new Uri Party-dominated National Assembly elected in April 2004 is expected to pressure for a reversal of the decision to send South Korean troops to Iraq and likely will take up other issues involving criticisms of the United States.

The total cost of stationing U.S. troops in South Korea is nearly $3 billion annually. The South Korean direct financial contribution for 2004 is $623 million, up from $399 million in 2000.

FOR ADDITIONAL READING

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CRS Issue Brief IB91141. *North Korea's Nuclear Weapons Program*.

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