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Overcoming the Cold War Legacy in Korea? The Inter-Korean Summit One Year Later

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The move toward rapprochement between the leaders of North and South Korea, symbolized by their well-documented embrace at the June 2000 summit, gave reasons for hope and new expectations for reconciliation between the two Koreas. The enthusiasm and euphoria generated by this summit, however, failed to move forward to concrete steps toward genuine peace and stability on the Korean peninsula. The reason has less to do with the enthusiasm of the summer as the hard realities of the political and economic issues confronted by each Korea and the geopolitical situation surrounding the Korean peninsula. So far Seoul's engagement policy toward North Korea has given an impression of one side giving and yielding without due reciprocity by the other side. This work will address the post-summit developments in inter-Korean relations, marking the one-year anniversary of the June 2000 Korean summit. It will reassess the meaning and significance of the summit talks by reevaluating the sunshine policy of ROK President Kim Dae Jung, analyzing the progress and problems for implementation of the June 15, 2000, joint declaration, and speculating about the DPRK's possible opening and its reform policy measures.

The June 2000 Korean Summit Talk: An Analysis

For more than a half-century, North and South Korea had remained estranged from each other due to an internecine war (1950-53) and cutthroat competition. The two Koreas had persisted in internalizing the Cold-War norms and value orientations. There were signs of change in Korean peninsula dynamics, however, with the emergence of new leadership in the two Koreas and the opening of the new millennium.¹ The historic Korean summit talks of June 13-15, 2000, in Pyongyang, between ROK President Kim Dae Jung and DPRK leader Kim Jong Il, was one manifestation of the new *modus operandi* and peace-building

process at work on the Korean peninsula.

In 1998, ROK President Kim Dae Jung launched a new policy initiative toward the North, under the slogan of a sunshine policy of engagement. That seems to have borne its intended fruit two years later. In 2000, the DPRK adopted a new policy initiative characterized by peaceful dialogue and negotiation with the South and a limited opening of the door to its socialist "hermit kingdom." Pyongyang was particularly interested in the address that Kim Dae Jung gave at the Free University in Berlin on March 9, 2000. In that address he elaborated his North Korea policy, dubbed the Berlin Declaration. The gist of Kim's proposal consisted of calling for (1) resumption of dialogue between the two Koreas, (2) terminating the Cold War on the Korean peninsula, (3) assisting the economic recovery of the North, and (4) humanitarian assistance to separated families. These calls, although not new by any means, gave the North Korean leader sufficient incentive to move forward on the ROK proposal.

An eye-witness account of the summit meeting described the historical encounter between the two leaders, the first face-to-face meeting of the Korean leaders in 53 years, as "an extended family gathering."² "No vestiges of suspicion, distrust, animosity, and hostility, all of which have long governed the psychic template of elite and people in both Koreas could be found; war was forgotten, and peace was near," according to this account. The same source continued:

The climax of the summit meeting came during the farewell luncheon hosted by chairman Kim Jong-il. Before the official luncheon was started, vice marshal Cho Myongrok, the first vice chairman of the National Defense Commission and the third in North Korea's power hierarchy, and Lim Dong-won, director of the National Intelligence Service of South Korea, who is in charge of covert espionage warfare on the North, exchanged brief speeches pledging their support of the summit meeting and the June 15 declaration.³

The most significant result of the summit meeting was the adoption of the June 15 North-South Joint Declaration. It was composed of five items. The declaration generally reaffirmed the "independent" and "peaceful" Korean unification formula (points 1 and 2) with agreements "to promptly resolve humanitarian issues such as exchange visits by separated family members" (point 3), to promote economic cooperation and exchanges (point 4), and "to hold a dialogue between relevant authorities" (point 5) in the two governments. Whereas the first two points were "political" in nature and tended to be "sensitive" and "controversial," the remaining three points were either "humanitarian,"

"economic," or "administrative" matters and, therefore, were less sensitive and controversial. Subsequently, a series of four inter-Korean ministerial talks was held in Seoul (and Cheju) and Pyongyang, alternately, before the end of 2000.

In view of the importance of this agreement, which provides a benchmark to assess and evaluate the subsequent post-Summit diplomacy in inter-Korean relations, each part of the five-point declaration requires analysis and discussion.

The first item stated, "the North and South have agreed to resolve the question of reunification independently and through the joint efforts of the Korean people, who are the masters of the country." This statement of the joint declaration has often been criticized as having reaffirmed North Korea's traditional position, which emphasizes the principle of independence and autonomy. Nevertheless, the Seoul side took solace in the fact that it omitted references to the exclusion of foreign influence and interference, which in the Korean context refers to the status of American forces in the South and the U. S. -ROK military alliance.

President Kim Dae Jung was quoted as saying that the most important outcome of his summit conference with North Korea in June was "a common understanding that American troops must stay in South Korea to prevent a vacuum on the Korean peninsula that would be inviting to its neighbors."⁴ During the Summit talks, President Kim took the position that when an official peace treaty replaced the current armistice agreement, the American troops in South Korea and on the Japanese island of Okinawa should operate "under the same logic" that governed the continuing presence of American troops in NATO after the collapse of the Soviet Union. During an interview with the *New York Times* in September 2000, while attending the United Nations General Assembly session in New York, President Kim Dae-jung categorically stated that North Korea was not insisting upon the U.S. troop withdrawal from South Korea⁵. If true, this would represent a significant policy reversal on the part of Kim Jong-il's North Korea.⁶

The second item stated that "(A)cknowledging that there is a common element in the South's proposal for a confederation and the North's proposal for a loose form of federation as the formulae for achievement of unification, the South and the North agreed to promote reunification in that direction." This statement was not free from ambiguity, raised the possibilities of varied interpretations, and touched the politically sensitive issue of the mode of Korean unification. It appeared to be a compromise between the North Korean unification formula of the DCRK (Democratic Confederal Republic of Koryo), which was first proposed by the late Kim II Sung on October 10, 1980,

and the South Korean formula of the KC (Korean Commonwealth) Plan (i.e., North-South union), as proposed by ex-President Roh Tae Woo in 1990 and reformulated by President Kim Dae Jung.

The North Korean proposal of confederation, despite its formal name, was said to be much closer to federation than to confederation in the strict sense. This is so because the DCRK position is predicated on the notion of "one nation, one unified state, two local governments, and two systems." Diplomatic sovereignty and rights over military command and control were assumed to belong to one central government, while other functions were delegated to the jurisdiction of two local governments.

The South Korean side countered, based on President Kim Dae Jung's own "'Three Stages' Approach to Unification," that it was virtually impossible to make a transition from the state of national division and conflict to a complete stage of (con)federation at once.⁷ According to him, the stage of federation (yonbang) cannot be reached without going through the stage of confederation (yonhap). His version of "confederation" was predicated on "one nation, two states, two governments, and two systems," which was similar to union of states in the European Union (EU) or the Commonwealth of Independent States (CIS).

In the end, the North Korean leader was receptive to the proposal of the South Korean President. They both reportedly agreed on at least two points: first, Korean reunification could be achieved through incremental and functional approaches, and second, the form of confederation (South Korean proposal) was said to converge with the loose form of federation (North Korean proposal). With the convergence of discourse on a unification formula, both leaders were in a position to agree to institutionalize "confederation or union" of North and South Korea by formalizing summit meetings, ministerial meetings, parliamentary meetings, and ultimately developing an umbrella consultative body linking the two Koreas.

The third item, dealing with reunion of separated families, stated that "[t]he South and the North had agreed to promptly resolve humanitarian issues such as exchange visits by separated family members and relatives on the occasion of the August 15 National Liberation Day and the repatriation of 'unswerving Communists,' who had been given long prison sentences in the South." President Kim Dae Jung acted quickly to realize the exchange of mutual visits by dispersed family members. Upon his return from the Pyongyang summitry, his government also promptly arranged to release and turn over the North Korean prisoners of conscience without demanding reciprocation from the North.⁸

The fourth item, on promoting economic, social, and cultural exchanges, stipulated that "The South and the North have agreed to consolidate mutual trust by promoting balanced development of the national economy through economic cooperation and by stimulating cooperation and exchanges in civic, cultural, sports, public health, environmental and all other fields." Although the economic exchange and cooperation were also included in the previous North-South Korean agreements, such as the 1991 Basic Agreement, the June 15 Declaration was said to treat them not as goals, per se, but as instruments to promote "balanced" development of the "national" economy. This could be interpreted as the promise by Seoul to work toward an integration of the North and South Korean economies rather than to exploit the economic weakness of the North.

The fifth item stated, "[t]he South and the North have agreed to hold a dialogue between relevant authorities in the near future to implement the above agreements expeditiously." Both sides activated official channels of dialogue and negotiation in order to implement this agreement, which was an important fundamental departure from the past. Unlike the past practices in which North Korea circumvented the South Korean government by expanding contacts with civic organizations and business firms, the opening of official dialogue and communication channels claimed to amount to recognition by the North of the South as the legitimate counterpart for dialogue and negotiation.

The summit meeting and the June 15, 2000, declaration had provided a historic turning point in inter-Korean relations. Both leaders expected to use the occasion to further mutual trust built upon a shared view that neither unification by force (the North Korean position in the past) nor unification by absorption (the previous South Korean intention) was acceptable. They initiated the inter-Korean summit meeting without help of third party intermediaries. With the anticipated return visit of the North Korean leader Kim Jong-il to the Second Korean Summit meeting in Seoul, the possibility of institutionalizing the inter-Korean cooperation would be greater. This was essential for tension reduction and confidence-building measures between the two Koreas.

The future path to Korean reunification, however, remained an open question. At least three scenarios were still possible—reunification by war, reunification by mutual consent, and reunification by default.⁹ Both Korean states seemed to have ruled out the path of reunification by conquest (as in Vietnam) or by absorption (as in Germany). Instead, both Koreas apparently were committed to the path of reunification by agreement (as in Yemen), a process that incorporates either a confederation or a "federation of lower stages."

The "Sunshine Policy" as ROK Grand Strategy: Origins and Background

The June 2000 Korean summit was the culmination of the Kim Dae Jung government's new policy initiative toward North Korea that was popularly known as the "sunshine policy."¹⁰ Its origin dated back to 1994 when Kim Dae Jung delivered a speech in Washington, D.C., in praise of ex-U.S. President Jimmy Carter's just-concluded visit to North Korea in order to defuse the North Korean nuclear crisis through personal diplomacy and negotiation with the late North Korean President Kim Il Sung. Citing a well-known Aesop's fable on "wind and sunshine," Kim Dae Jung argued that sunshine was more effective than strong wind in inducing North Korea to come out of isolation and confrontation.¹¹

Kim Dae Jung initially used the analogy of sunshine in order to persuade the U.S. government to pursue a soft-landing policy in dealing with North Korea. But when he was elected president, the sunshine policy became the official North Korea policy of the Kim Dae Jung government.¹² In his inaugural address on February 28, 1998, President Kim articulated his unification policy by announcing a set of three principles regarding North Korea: "First, we will never tolerate armed provocation of any kind; second, we do not have any intention to undermine or absorb North Korea; and third, we will actively pursue reconciliation and cooperation between the South and the North beginning with those areas that can be made available to us."¹³ He also expressed his "hope (that) the two sides will expand cultural and academic exchanges as well as economic exchanges on the basis of separating the economy from politics." For these purposes, he proposed "an exchange of special envoys to promote the implementation of the South-North Basic Agreement," adding that he was "ready to agree to a summit meeting, if North Korea wants."¹⁴

The sunshine policy was the instrument through which to achieve Kim Dae Jung's strategic vision of Korean unification. Soon after his inauguration, President Kim began using international forums to promote the agenda of his policy toward North Korea. While attending the second Asia-Europe Meeting (ASEM) in London on April 3-5, 1998, he reiterated the three-fold principle of what he called a "comprehensive and flexible" policy toward North Korea: zero tolerance of military provocation of any kind, no pursuit of absorption of the North, and an active search for reconciliation and cooperation."¹⁵

Addressing the London University School of Oriental and African Studies on April 4, 1998, President Kim also stated: "It is now time for big changes in inter-Korean relations. This is because a new

administration has been inaugurated in the South which is pursuing peace and cooperation with a flexible and sincere attitude, while maintaining a firm security posture. ... I have been steadfast in advocating what I call a *sunshine policy*" he continued, "which seeks to lead North Korea down a path toward peace, reform and openness through reconciliation, interaction and cooperation with the South. As President, I will carry out such ideas step by step."¹⁶ In presenting this new policy, Kim said he was willing to wait patiently. When his sunshine policy measures took effect, sooner or later, North Korea was expected to change itself from within. In this sense Kim Dae Jung's North Korea policy was based on the functionalist notions of gradualism and evolutionary process of change and advances.

Kim Dae Jung's "Sunshine Policy" could also be thought of as a grand strategy of his administration vis-a-vis North Korea, and an attempt to evolve a workable foreign policy toward the North in the post-Cold War era. Kim's sunshine policy of engagement toward the reclusive North Korean regime of Kim Jong-il, therefore, could be assessed from the theoretical perspective of "the strategy of conflict." As such, Kim's sunshine policy epitomizes a rational actor model of foreign policymaking as pioneered by such scholars as Thomas Schelling and Graham Allison.

The rational actor model of foreign policymaking is based on a series of assumptions to explain (or predict) a phenomenon "X," such as Kim's sunshine policy initiative toward the North and the North Korean response to South Korea's new policy initiative. It assumes that "X" is the action of a state, that the state is a unified actor, that it has a coherent utility function, that it acts in relation to either threats or opportunities, and that its action is or is expected to be value-maximizing.¹⁷ Based on this set of assumptions, one can ask: what threats and opportunities arise for the actor? Who is the actor (in North Korea as in South Korea)? What is its utility function? Is it survival of the regime, the maximization of power, or the minimization of threat? In order to maximize the actor's objectives in the specified conditions, what is the best choice?¹⁸

The sunshine policy could be seen as a proactive policy to induce incremental and voluntary changes in North Korea for peace, opening, and reforms through a patient pursuit of reconciliation, exchanges, and cooperation. But the sunshine policy, as Chung-in Moon and others argued, seemed to go beyond simple engagement, because it comprised several components such as military deterrence, international collaboration, and domestic consensus.¹⁹ Nevertheless, President Kim Dae Jung's policy objective was clear: to lay the foundation for peaceful Korean unification by severing the cycle of negative and

hostile actions and reactions by furthering peaceful co-existence and peaceful exchanges and cooperation.²⁰

The structure of the DJ Doctrine, as Chung-in Moon chooses to call President Kim Dae Jung's sunshine policy, had at least five major operating principles^ of which the notion of "strategic offensive" was the most pronounced. In the past, Seoul's policy on North Korea was said to be mostly reactive, often resulting in inconsistent, incoherent, and even erratic policy outcomes.²¹ The Kim Dae Jung government wanted to overhaul this passive and reactive policy by taking its own initiative. In this sense, the sunshine policy was an "offensive and proactive" policy, based on self-assurance and a moral high ground of strength, instead of appeasement or a weak apologist stance.²²

The remaining features of the DJ Doctrine had to do with the operating principle of "flexible dualism" which was predicated, according to C.I. Moon, on major changes in the sequential order of inter-Korean interactions. This concept involved dealing with "easy tasks first, and difficult tasks later," "economy first, and politics later," "non-governmental organizations first, and government later," "give first, and take later." Other principles named by Moon ranged from the principle of "a simultaneous pursuit of engagement and security, in which credible military deterrence was emphasized," to the principles of "emphasis on international collaboration" and that of "the centrality of domestic consensus."²³

The Kim Dae Jung Government articulated an ambitious goal of working to dismantle the Cold War structure surrounding the Korean peninsula, since Korea remained the last frontier of the now-defunct Cold War system. The means through which to accomplish this feat, suggested by President Kim Dae Jung, were better managing the inter-Korean conflict and the unification process through the self-initiative measures represented in the sunshine policy. This is why the DJ Doctrine or the sunshine policy is the functional equivalent of a grand strategy of the Kim Dae Jung administration. The concrete measures to achieve the ambitious policy goal of dismantling the Cold War structure included: improving inter-Korean relations, normalizing U.S.-DPRK relations, normalizing Japan-DPRK relations, encouraging North Korea's participation in the international community, preventing the proliferation of WMD (Weapons of Mass Destruction) and accelerating arms control, and replacing the armistice agreement by North-South Korean peace treaty.²⁴

The sunshine policy of melting the Korean peninsula glacier, in short, was the ROK grand strategy in the post-Cold War era. Its aim was to dismantle the Cold War structure of the Korean peninsula so that the last legacy of the Cold War years could be wiped out from Korean

soil once for all. A key step in furthering this policy was a proposed follow-up summit involving a U.S.-North Korean summit. Although President Clinton appeared to be open to such a meeting, arrangements were not completed before the end of his administration.

When the newly elected George W. Bush Administration decided to delay the U.S.-DPRK talks until it had completed a comprehensive policy review on overall defense and foreign policy, progress in implementing the sunshine policy of President Kim Dae Jung slowed dramatically. Kim's March 2001 trip to Washington to solicit the new U.S. President's blessing and support did not succeed; U.S. President Bush expressed his skepticism that the North Korean leader could be trusted. Three months later, the Bush Administration reversed its stance by offering to conduct bilateral talks with North Korea. But the damage had already been done, and Pyongyang decided not to resume the official dialogue for the time being.

Implementation Measures following the June 15 Joint Declaration

Nevertheless, President Kim Dae Jung's sunshine policy had opened an unprecedented window of opportunity for improving inter-Korean relations. The Korean summit talk of June 2000 and the June 15 North-South Joint Declaration, which resulted from Seoul's proactive diplomacy, had provided the concrete venue for dialogue and negotiation between Seoul and Pyongyang. This section will document the ways in which the inter-Korean relations in the post-Summit era evolved in the second half of 2000.

The inter-Korean summit was meant to accelerate the process of normalization and institution-building in inter-Korean relations in three important ways: first, a shift from confrontation to reconciliation; second, the normalization of government-to-government relations; and third, the beginning of a process to end the Cold War on the Korean peninsula.³⁵ The historic summit marked a dramatic turning point in inter-Korean relations. The two Korean leaders agreed that "the two Koreas must avoid war and end confrontation while promoting reconciliation and cooperation" between the two Koreas. The June 15 joint declaration was, in fact, based on such a consensus. The initial expectation of the summit talks was to bring an end to the Cold War on the Korean peninsula by accelerating the normalization process between North Korea and the international community.

The South and North Korean Red Cross delegations met on June 27, 2000, in the Mt. Kumgang Hotel to work out the details of the agreement reached in the joint declaration on resolving humanitarian issues. The talks led to the two sides agreeing to exchange visits by separated families and to establishing a meeting place for repatriation

of unconverted long-term prisoners in the South. The ROK government hailed this agreement as a success because it was the first concrete project produced in the wake of the June 15 joint declaration, and also the first in 15 years. The last prearranged visit by a group of 50 members of separated families from the two Koreas had occurred back in 1985.

On August 15, 2000, two 100-member groups of South and North Korean separated families each visited Seoul and Pyongyang and met with their families and relatives according to a pre-arranged schedule. On September 2, South Korea also repatriated all of the 63 unconverted long-term prisoners who had wished to return to the North. On November 30-December 2, the second exchange of mutual visits, consisting of 100-member groups of separated families from each side, also took place.

Next, the two Koreas agreed to hold ministerial talks regularly in order to implement the agreements stated in the joint declaration. This process involved two tiers of dialogue and negotiation between the two sides: ministerial talks to discuss issues related to reconciliation and cooperation, and a series of working-level discussions on particular issues and issue-areas such as a joint committee for economic cooperation. In the six month period from July to December 2000, four rounds of ministerial talks and several working-level meetings were held to implement the June 15 North-South Joint Declaration.

The first South-North Ministerial talks were held in Seoul, July 29-31, 2000. The two sides agreed to conduct their meetings according to a three-fold principle, "as a way of faithfully implementing the agreement of the June 2000 Korean summit." First, they agreed to "discuss and resolve the ways to implement the Joint Declaration signed by the two leaders in such a way as to respect the agreement and pursue common interest." Second, they agreed to "depart from the past habits of distrust and disputes to resolve easy issues first in the spirit of mutual confidence and cooperation." Third, they agreed to "give importance to actions so that they can produce realistic outcomes before the nation, and shall aim at achieving peace and unification." These principles provided the benchmark and guidelines for conducting the business of subsequent inter-Korean ministerial talks between the government officials of the two sides.

The first South-North ministerial level talks, held on July 30 in Seoul, adopted a six-point statement of agreement to be released to the press at the end of the meeting. These included agreements (1) "to resume the operations of the South-North Liaison Office at Panmunjom"; (2) "to hold events in the South, North and overseas respectively in support of the South-North Joint Declaration"; (3) "to

drum up national determination at large to put it into practice" on August 15 (National Liberation Day); (4) "to rehabilitate the Seoul-Shinuiju Railway and discuss the issues thereof at an early date"; (5) "to cooperate and take appropriate measures to ensure that members of Chongryun (the General Association of Korean Residents in Japan) can form tour groups to visit their hometowns"; and (6) to hold the next round of inter-Korean ministerial talks in Pyongyang on August 29-31, 2000.²⁶

The second South-North Ministerial Level Talks were held in Pyongyang on August 29-September 1, 2000. The joint press communique issued at the end contained a seven-point agreement that included: (1) "to hold two more rounds of reunions of separated families and relatives within the year" and to arrange for a new round of inter-Korean Red Cross talks; (2) "to work toward easing military tension and ensuring peace and to hold, for such purposes, talks between South and North Korean military authorities at an early date"; (3) "to establish a legal framework for economic cooperation, such as guarantee of investment and avoidance of double taxation" and, for that purpose, to hold working-level contacts sometime in September; (4) "to hold working-level contacts to discuss [a] groundbreaking schedule for connecting the railway between Seoul and Shinuiju and opening the road linking Munsan with Kaesong"; (5) "to meet to promote [a] joint flood prevention project on the Imjin River at an early date"; (6) "to exchange about 100 tourists from each side to visit Mt. Halla in the South and Mt. Paektu in the North between mid-September and early October" (such exchange visits of tourists did not take place during 2000); and (7) "to hold a third round of ministerial-level talks in Mt. Halla on September 27-30, 2000."²⁷

In addition to the two rounds of North-South ministerial-level talks held in Seoul and Pyongyang, respectively, several working-level meetings were also held between the two Koreas in an attempt to further clarify the agenda and to deepen the process of consultation and negotiation on the matters of mutual interest before holding the subsequent round of inter-Korean ministerial talks. The first important and notable working-level talk was a three-day visit to Seoul by the North Korean Workers' Party Secretary Kim Yong-sun on September 11-14. He came to Seoul in the capacity of a special envoy of North Korean leader Kim Jong-il to discuss views on a wide range of issues addressed between the two Koreas. He also met with President Kim Dae Jung at the Blue House before returning to Pyongyang via the truce village of Panmunjom.

A seven-point press statement was issued at the end of Kim Yong-sun's Seoul visit. The statement noted that (1) the North Korean leader

Kim Jong-il would visit Seoul in the near future but that the DPRK President Kim Yong-nam will visit Seoul prior to Kim Jong-il's visit; (2) both sides welcomed the ongoing discussion over holding the talks between the South's Minister of Defense and the North's Minister of People's Armed Forces; and (3) "to start the process of address checks" for separated families and "to allow those who have confirmed addresses to exchange letters," and to hold a round of Red Cross talks in Mt. Kumgang on September 20 "to discuss the issues related to exchanging two additional groups of separated families within the year as well as to establish and manage a permanent meeting center."

Four additional points of agreement on substantive matters were also reached during Secretary Kim's Seoul visit. Both sides agreed, for instance, (4) to settle the issue of investment guaranty and avoidance of double taxation by holding a working-level meeting in Seoul on September 25 to develop an institutional mechanism, (5) to have a groundbreaking ceremony to connect the Kyongui Rail Line and a road as soon as possible, (6) to send to the South an economic mission of North Korea composed of about 15 people in the month of October, and (7) "to start a joint survey for a flood prevention project in the Imjin River area and develop detailed plans for the project before the end of the year."

At the groundbreaking ceremony for the restoration of the Seoul-Shinuiju railroad and the inter-Korean road, held at the Imjingak, Kyonggi Province, south of the DMZ, on September 18, 2000, President Kim Dae Jung took the occasion to hail the project as a milestone in ending the Cold War on the peninsula. He said that "(Whereas) the severed railroad has been a symbol of the division and Cold War.. .today's groundbreaking for the restoration of the railroad will begin a new age of reconciliation, cooperation and partnership."²⁸

Subsequent to Kim Yong-sun's Seoul visit, a historic meeting was held between the defense ministers from the two Koreas on Cheju Island in the South on September 25-26. The purpose of the talks was to provide military assurance for the implementation of the June 15 Joint Declaration that had been adopted during the historic June 2000 Korean summit. This meeting issued a five-point statement of agreement broadly "to ease military tensions and remove the threat of war on the Korean Peninsula." The statement declared that both sides "would do their utmost to implement the joint declaration made by the heads of the South and the North" and "actively cooperate with each other to remove military obstacles in assuring travel, exchange and cooperation between civilians." The most interesting point made was that both sides (2) "hold the same view that to reduce military tension on the Korean Peninsula and remove the threat of war by establishing

a durable and stable peace is a matter of vital importance and agreed that they shall work together towards this end."

The two defense ministers also stated that both sides (3) "shall allow the entry of personnel, vehicles and materials into their respective sections of the Demilitarized Zone with respect to the construction of a railway and a road that connects the South and the North, and to review issues related to the safety of construction workers, that the working-level officials from both sides shall meet in early October to discuss the details related to this"; (4) "will handle the problem of opening the Military Demarcation Line and the Demilitarized Zone in the areas around the railroad and the road that connect the South and the North on the basis of the armistice treaty" and, finally, agreed (5) "to hold the second round of the talks of a location in the North in mid-November."²⁹

Next, a follow-up working-level meeting on economic cooperation was held in Seoul on September 25-26. This meeting addressed substantive "issues related to an institutional mechanism for investment guarantee and avoidance of double taxation." Participants reviewed a draft of the written agreement and agreed that "they needed written agreements on procedures for settling business disputes and clearing accounts and need to discuss this through" by establishing the working-level contacts in the next inter-Korean ministerial talks. Apart from the procedural points, the meeting produced an important seven-point inter-Korean agreement on food aid, whereby (1) the South agreed to provide the North "in the form of a loan of 300,000 tons of foreign rice and 200,000 tons of foreign corn as soon as possible"; (2) "the purchase and delivery of food shall be made by an agent designated by the South,"; (3) "the amount of the loan shall include the cost of purchasing the food and the cost of delivering it to the North"; and (4) "the terms for repayment of the loan shall be 30 years, including 10 years of a grace period and the annual interest rate to be 1.0%."

The agreement went on to state that (5) "the extension of the loan and its repayment under this agreement shall be made according to a loan agreement signed between the Import and Export Bank of the South and the Foreign Trade Bank of the North"; and (6) "the North shall provide all the facilities needed for their smooth implementation of the food loan and assure transparency in distribution." Finally, (7) "any problem arising during the process of implementing this agreement shall be resolved through a consultation between the authorities of the South and the North," according to the agreement. The South Korean government also offered an additional 100,000 tons of foreign corn that would be provided to the North free of charge through the United Nations World Food Program (WFP). The total cost

of the food loan and donation to the WFP would amount to approximately \$100 million.³⁰

The third inter-Korean ministerial talks were held on the Cheju Island on September 27-30. This meeting led to a six-point statement of agreements. A 22-member North Korean delegation, led by a senior cabinet councilor, Jon Kum-jin, flew to the southern resort island of Cheju on September 27 via Beijing and Seoul. South Korean Unification Minister Park Jae-kyu led the South Korean delegation as before. Each delegation had five regular members, along with four other delegates from each side. The six-point statement of agreement was broad-gauged, starting from the promise (1) "to implement all the agreements already made in various forms of talks and continue to discuss a wide range of issues in depth"; (2) "to cooperate with each other and to encourage the Red Cross societies of both sides to immediately take necessary measures for a prompt settlement of issues related to separated families..."; and (3) to praise "the successful completion of the first round of the working-level contact to provide institutional mechanisms for economic cooperation...."

The only substantively notable agreement at this session had to do with (4) establishing "a Committee for the Promotion of Inter-Korean Economic Cooperation to discuss and implement various issues to expand exchange and cooperation in the economic area." At this meeting the South proposed "to expand exchanges and cooperation in various areas, including academic, cultural and athletic," and to hold "regular soccer matches alternatively in Seoul and Pyongyang." The South (5) "urged exchange of visits by college professors, students and cultural leaders, while the North promised to give a positive review of the projects for exchange and cooperation, including the ones proposed above." Finally, they agreed (6) to hold the fourth round of the inter-Korean ministerial talks on November 28-December 1 at a location and venue to be decided later.³¹

The fourth round of inter-Korean ministerial talks was held on December 12-16 in Pyongyang. At this meeting the two sides traded criticisms on issues that had posed obstacles to the steady improvement in inter-Korean relations. These included the North's denunciation of the Pyongyang regime as the "potential enemy number one" in a South Korean defense white paper, and the South's complaint against the North's criticism of the South Korean Red Cross president for what he said during an interview with a monthly magazine in Seoul. Nevertheless, both sides agreed that the projects undertaken during the preceding six months to implement the historic inter-Korean joint declaration were a success. At the end, an eight-point joint press release was issued that reflected the gist of inter-ministerial and working-level

discussions.

The statement included an agreement (1) "to promote a balanced development and co-prosperity of the Korean national economy" by establishing and operating a Joint Committee for Promoting Inter-Korean Economic Cooperation. This joint committee will consist of a vice-ministerial level head of the delegation and five to seven members from each side. Items to be discussed by the joint committee were to include such practical issues in prospective economic cooperation as the supply of electricity, connection of railroads and highways, construction of the Kaesong industrial complex, and promotion of the Imjin River flood prevent projects.

They also agreed (2) "to cooperate in the fishing industry." The North offered a part of its fishing ground on the East Sea to the South. People representing their respective fishery authorities would meet in the Mt. Kumgang area to discuss the matter. They agreed (3) "to advise their respective Taekwondo organizations to meet with each other to discuss the exchange of exhibition teams between the two Koreas, and (4) "to promote address check and exchange of letters between the members of separated families." Initially, the address check should be limited to 100 people from each side, both in January and February, but the exchange of letters, limited to about 300 people from each side, would occur sometime in March. They agreed (5) to exchange the third group of one hundred separated families at the end of February 2001. The North shall (6) "send its Mt. Halla tourist delegation in March and its economic mission during the first half of 2001."

The most important point of agreement at this meeting was that they will "have each of four agreements signed by the heads of delegations, related to investment protection, avoidance of double taxation, account settlement and business dispute arbitration." They agreed (7) "to go through the necessary procedure for effectuating these agreements and notifying each other of the result" and (8) to hold the fifth round of inter-Korean ministerial talks in March 2001, although the venue for the meeting was to be decided later through mutual consultation.³²

With the expected reopening of the South-North liaison offices at the truce village of Panmunjom, as agreed to in the South-North Joint Declaration but not instituted, the two Korean governments were to complete the connection of the fiber cables linking the Peace House and the Tongilgak, respectively situated at the southern and northern part of Panmunjom. As a result, the two Koreas were to be able to exchange data, using cutting-edge computer technology. When and if their agreement to carry out future facilities beyond Panmunjom was implemented, this would pave the way for the two Koreas to set up an

information infrastructure that would be vital to various and stepped-up inter-Korean exchanges and cooperation.³³

Future Prospects and Conclusion

In retrospect, the objective of melting the Korean peninsula glacier with the sunshine policy, the vision of President Kim Dae Jung's grand strategy toward North Korea, was admirable. The approach contained elements of both idealism and realism. For the policy to succeed, however, required the determination not only of the South Korean President but also the positive response of the North Korean leadership to South Korean moves and actions. So far, the record of achievements has been mixed, reflecting success and failure.

On the one hand, the Kim Jong-il regime of North Korea finally responded favorably to the Seoul government's gesture of goodwill after more than two years of initial hesitation and hiatus. Its shift to an accommodative posture came about two years later in 2000, as manifest in the form of the Korean summit meeting between the two Korean leaders in June 2000. However, this was motivated not so much by Pyongyang's agreement with the premise of Kim Dae Jung's sunshine policy as by a decision on the part of the North Korean ruling elite to use improving relations with the South as a way of overcoming the desperate shortages of food and rebuilding its failing economy with the help of a more dynamic South Korea.

For inter-Korean relations to evolve meaningfully, they had to proceed according to the rule of reciprocity, a basic principle of international relations and diplomacy. Unfortunately, the record of North-South Korean dialogue and negotiations during the first year since the June 2000 Summit has been largely characterized by "one-side giving and the other-side receiving." The Seoul government has been largely yielding to Pyongyang's demands and pressures for special compensation and perks, like food assistance and the release of "unconverted" communist prisoners in the South. There has been no reciprocation with the release of the South Korean Prisoners of War, dating back to the Korean War, or the release of the kidnapped fishermen and citizens from the South.³⁴

The North side received tangible benefits and payoffs while the South acquired more symbolism than substance. There is value in psychological and political gratification that goes with the exchange of mutual visits by the divided family members, but the overall effort was more like a wealthy brother offering a helping hand to an impoverished brother. To be meaningful, the exchange and cooperation between the two Koreas must be balanced and based on "quid pro quo" to be meaningful.

There is an indication that North Korea in 2001 was seriously considering a change in its foreign and economic policies. In the annual New Year's Day editorial, carried in three official newspapers, the North Korean government emphasized: "There is no more important task before us today than to consolidate the national economic might commensurate with the 21st century." In another article in the official *Rodong Sinmun*, North Korean leader Kim Jong-il was quoted as saying, "We entered a new epoch, so (we) should learn structures and rules existing in foreign countries." Kim Jong-il further called for the North Korean people to "abandon old ideas and develop a new way of thinking and a new viewpoint," according to the *Korea Herald* reporting coverage on North Korea.

The visit to China by Kim Jong-il in January 2001 received a lot of good press coverage. He expressed enthusiasm for the booming economy in Shanghai, an observation that was taken as confirmation of a "change" to come in North Korea. His visit to the Shanghai Stock Exchange and information technology industry sites, which are symbols of capitalism, seemed to indicate to many that the North's political leaders were prepared to recognize the benefits of a market system. Considering Kim Jong-il's attitude towards capitalism only a few years ago, this "embracing openness" was a monumental development for North Korea. Implementation may, however, require bold steps over a relatively long period of time.

Even President Kim Dae Jung was surprised because he was, according to his spokesman Park Joon-young, "seeking ways that could develop inter-Korean relations on a wholesale basis." Park said President Kim had ordered steps to be prepared for a "considerable" level of change. Pyongyang appears to be pursuing change in terms of reform and openness in a departure from the staunch ideological basis of "socialism of our own style." Giving this instruction, President Kim reportedly observed that the North Korean leader Kim Jong-il would most likely give further hints of change, such as the North's adoption of "New Thinking," after returning home from his tour of industrial areas of China.³⁵

Suddenly, reclusive North Korea seemed to be reaching out to rest of the world. Although this new diplomacy might reflect confidence by Pyongyang's leadership, it may also be a desperate move for the regime struggling to insure the survival of a bankrupt system. North Korea reciprocated the former U.S. Defense Secretary William Perry's North Korea visit in May 1999 by sending its own special envoy Vice Marshal Cho Myong-rok to Washington in October 2000 to meet with U.S. President Bill Clinton. He carried a special message from Kim Jong-il. This was reciprocated, again, by the historical three-day visit

of U.S. Secretary of State Madeleine Albright to Pyongyang at the end of October in order to explore the possibility of a state visit by U.S. President Bill Clinton to Pyongyang before his term ended in January 2001. The idea of such a trip was later aborted. The European Union delegation to Pyongyang in November 2000 reported that North Korean officials were considering allowing multinational corporations to retain full control over investments in North Korea. Since January 1, 2001, Pyongyang has rapidly accelerated the apparent stalled contact with the South, proffering several economic and social meetings ranging from new fisheries talks to resuming Red Cross talks on family reunions. However, the inter-Korean talks on ROK electricity aid, originally scheduled to take place in Kaesong on January 29, were delayed at the request of Pyongyang. North Korea had previously requested that the South transmit 500,000 kilowatts of electricity to the North.

Both North and South Korea were apprehensive that the new U.S. Administration of President George W. Bush would pursue a policy that was contrary to former President Bill Clinton's support for Seoul's engagement policy toward North Korea. The Bush administration appeared to take a tougher line than its predecessor had toward the DPRK, especially on the missile proliferation issue. Secretary of State-designate Colin L. Powell's characterization of the North Korean leader as "dictator" during his U.S. Senate confirmation hearings earlier in January triggered an angry response from Pyongyang. A DPRK Foreign Ministry spokesman told the official Korean Central News Agency that the DPRK "cannot but interpret what he (Powell) said as a statement reflecting the sinister intention of big war industrial monopolies and other conservative hard-liners in the United States to keep U.S.-North Korean relations in the hostile and belligerent relationship forever." The spokesman warned that the DPRK would respond in kind, as he said, "If the U.S. brandishes a sword at us, we will counter it with a sword, and if it shows good faith, we will reciprocate."³⁶

Seoul wished to see its engagement policy toward North Korea continue within the framework of its close alliance with the United States and in consultation with Japan. As the Bush Administration was installed, Seoul feared that its engagement policy toward Pyongyang might be disrupted by a possible tougher stance toward the DPRK. The *Asian Wall Street Journal* on January 31, 2001, published an editorial "Shocked Pyongyang," which said that the DPRK's reactions to remarks made by U.S. Secretary of State Colin Powell reflected its defensiveness toward the tough stance it was likely to encounter from the Bush Administration. The article quoted ROK Representative Lee Bu-young, a vice president of the opposition Grand National Party, as saying, "(U.S. deputy Secretary of State designate) Richard Armitage

told me that the Bush Administration will never give a 'penny' of economic aid to North Korea if Pyongyang does not secure transparency in its production and export of missiles." It also cited an unnamed ROK government official as saying that Armitage urged the ROK to use the term "engagement policy" rather than "sunshine policy" in its dealings with the DPRK. The editorial argued, "the former implies reciprocity and consistency; the latter, indulgence and leniency. One relies on concrete actions; the other, symbolic gestures."³⁷

In a New Year press conference, on January 11, President Kim Dae Jung stated that he would continue "to pursue his engagement policy toward the North on a reciprocal basis" and would seek close consultations with the new U.S. Administration of President George W. Bush.³⁸ President Kim ordered his Cabinet "to coordinate positively but carefully" with the new U.S. administration's policies on Pyongyang. "I believe there will be no change in the basic format of cooperation between the two countries, but we need exchanges of opinion regarding implementation (with the George W. Bush Administration)," he said, stressing that "it is indispensable not only to enlist the support of the four neighboring powers but also that of the international community."³⁹ However, in marking the one-year anniversary of the Korean summit, President Kim reaffirmed his determination to continue the sunshine policy toward North Korea and his conviction that North Korean leader Kim Jong-il would visit Seoul by the end of 2001 for a second inter-Korean summit.

The scheduled return visit of Kim Jong-il to Seoul for a second face-to-face Korean Summit meeting, if it materializes, will strengthen the political stance of President Kim Dae Jung. The Seoul government of President Kim Dae Jung was seeking a "wholesale development" of inter-Korean relations in 2001, and has ordered preparations for change in North Korea "at a time when North Korea seems to be struggling to make the biggest ever leap out of its socialist cocoon." The "wholesale development" theory here refers to landmark steps to be taken in the forthcoming North-South Korean summit. If the summit materializes as planned, key steps like the signing of a historical inter-Korean peace treaty could be tackled during the upcoming visit to Seoul by the North Korean leader. President Kim was also reported to have expressed his frustration about the current pace and scale of inter-Korean exchanges, such as limited family reunions, amid signs of further delays by Pyongyang.⁴⁰

Although Kim Jong-il's intention was said to imitate the PRC and to reform his country's economy while trying to maintain a tight grip on political power, any attempt by the DPRK to become a "second

China" would be extremely difficult. Even if Kim wanted to learn from China's experiences, the situation in North Korea is different and requires its own solutions. Unlike the PRC, the DPRK is much more heavily industrialized, and only a tenth of its workers are engaged in farming. To restart its economy, the DPRK would need to tackle its huge, stagnating state industrial sector. Furthermore, there are really not many overseas North Koreans waiting to invest in North Korea as there were overseas Chinese. And there are not as many countries in the world interested in investing in North Korea as in China. North Korea does have a cheap labor force, but there is plenty of cheap labor elsewhere in the world and in Asia.⁴¹

To overcome the difficulties that both North and South Korea will confront in the years ahead, some speculate that both Korean leaders, Kim Dae Jung and Kim Jong-il, are working toward a breakthrough concept. This would include first and foremost the signing of the peace treaty between North and South Korea. The signing of such a historic treaty or agreement would usher in a new "fait accompli" worked out by the Koreans themselves. Under this scenario, the major powers, including the United States and China, would react and respond to the "fait accompli" and change in the status quo signaled by the signing of such an agreement between Seoul and Pyongyang.

However, whatever determination the Korean leaders exhibit and reaffirm in terms of Korea's future, they must be tempered and moderated by the exigencies of the external balance of power in regional and world politics. Fortunately for the ROK, U.S. President George W. Bush announced the resumption of talks with the DPRK on June 6, 2001, over a broad agenda that includes nuclear, missile, and conventional military posture issues. Although Pyongyang's initial response was cool, the Kim Jong-il regime cannot afford to miss the opportunity to resume dialogue with the U.S. that would take place sooner or later. Kim Jong-il's travel to Moscow for consultation, taking him on a trans-Siberian railway ride in August, reflected his attempt to acquire the support of Russian President Vladimir Putin before confronting Seoul about plans for a possible second summit meeting with President Kim Dae Jung, and before responding also to Washington on resuming bilateral talks.

Kim Dae Jung is a brilliant strategist and an accomplished politician not only in domestic politics, but also in international diplomacy. After all, as a human-rights activist and pro-democracy champion, the politician Kim Dae Jung was the one who inspired public support as an opposition politician and who was jailed and sentenced to death by the military regime for leading the pro-democracy campaign. He was sent abroad into exile, but he survived the ordeal of

adversity and rose to the presidency by winning a popular election in December 1997. In recognition of his unfailing faith and dedication to the causes of human rights, democracy, and peace, reinforced by his latest moves toward promoting reconciliation and reunification between the two Koreas, Kim Dae Jung was honored as the winner of the Nobel Peace Prize in 2000. He traveled to Oslo in November to receive the award. This award recognized Kim Dae Jung as a world-class citizen leader, placing him in the company of such figures as Nelson Mandela and Henry Kissinger.

The winds of change in world politics were blowing, however. The change in American politics was signaled by the inauguration of the Republican President George W. Bush. This change affected the policies of the major powers surrounding the Korean peninsula and the regional balance of power. As a result, the time schedule for implementing the June 15 Joint Declaration has been affected. Significantly, North Korean leader Kim Jong-il's return visit to Seoul has been delayed. Instead of the initial plan for Kim Jong-il's Seoul visit at the beginning of 2001, the trip will not materialize until later in the year, if at all. Each of the Korean leaders is operating under a double imperative that is unique to domestic political and economic systems of his respective country, as well as to changes in the international politics surrounding the Korean peninsula.

While the Kim Jong-il regime in North Korea continues to face an acute dilemma in regime survival along with the need to consolidate political power, the democratically elected Kim Dae Jung government in South Korea does not need to be concerned about legitimacy, though popular opinion has become far more skeptical about the potential results of the sunshine policy over the years. Kim Jong-il in the North faces difficult policy choices: (1) rapid rapprochement with the ROK, (2) getting tough with the South, the U.S., and Japan, (3) relying on old allies, China and Russia, and (4) improving ties with the European Union countries and others in the Asia-Pacific region. President Kim Dae Jung in the South is becoming concerned that time is rapidly running out for the ROK government to pursue the sunshine policy of engagement toward the DPRK. With his presidential term ending in February 2003, Kim Dae Jung will effectively become a lame duck president in 2002. External contingencies, such as the new U.S. administration, have worked to delay the implementation of key aspects of the June 15 Joint Declaration, including the signing of a peace treaty between the North and the South, as planned by the Seoul side.

It is most unlikely that the Bush Administration will ultimately block or derail the peace process that has been put into place through ROK President Kim Dae Jung's initiative and worked out with patience

and skill in close consultation with the previous administrations of its allies, the United States and Japan. President Kim Dae Jung was eager to acquire reassurance and support from his allies that the sunshine policy initiative was not in conflict with the new policy on North Korea that the United States was developing. He wanted a vote of confidence from the new U.S. President similar to the support that he had received from the administration of former U.S. President Bill Clinton. Although he was not initially successful in gaining that support, Kim Dae Jung's courageous efforts directed at lessening tensions on the Korean peninsula and overcoming the Cold War legacy in Korea will hopefully bear fruit in time with the changing environment in regional and world politics surrounding Korea. On the home front, continued tangible results are essential if the momentum set in place by the historic Summit of June 2000 is not to be lost in a rising tide of skepticism and frustration.

Notes

1. Young Whan Kihl, "The Two Koreas Under New Leadership: Challenges and Prospects," in Jae Kyu Park, ed., *North Korea in Transition and Policy Choices: Domestic Structure and External Relations*. Seoul: Kyungnam University press, 1999, pp. 199-232.

2. Chung-in Moon, "Two Days on the Other Side," *Time*, June 26, 2000.

3. Chung-in Moon, "The Summit Talk, Domestic Politics, and Its North Korean Policy in the Midrange." Presented at the conference on "The Korean Peninsula: Paths to Reconciliation and Reunification." The Sigur Center for Asian Studies of George Washington University and the American Council on Asian and Pacific Affairs, September 29-30, 2000.

4. Jane Perlez, "South Korean Says North Agrees U.S. Troops Should Stay." *The New York Times*, September 11, 2000.

5. *Ibid.*

6 The North Korean authority has not publicly acknowledged this position of reversing Pyongyang's stance on U.S. troop presence in the South. Therefore, President Kim Dae Jung's statement remains an unofficial view.

7. Kim, Dae Jung, "Three-Stages "Approach to Korean Reunification: Focusing on the South-North Confederal Stage. Los Angeles: University of Southern California Center for Multiethnic and Transnational Studies, 1997.

8 There are many ROK citizens who have been kidnapped and abducted to the North, including an unspecified number of ROK Prisoners of War dating back to the Korean War years. The return of these people should have been part of the exchange on a quid

pro quo basis, according to some critics in South Korea.

9. Young Whan Kihl, ed., *Korea and the World: Beyond the Cold War*. Boulder, CO: Westview Press, 1994, pp. 253-259.

10. The sunshine policy gets its name from the Aesop's Fable about the contest between the sun and the wind to compel a man to remove his overcoat. According to the story, the harder the wind blew, the more the man clutched his coat. But the sun easily convinces the man to remove his coat through its radiance of heat. Because of its overly optimistic and perhaps naive tone, this policy is sometimes known as "the engagement" or "the constructive engagement" policy.

11. Kim Dae Jung, "Don't Take the Sunshine Away," in *Korea and Asia: A Collection of Essays, Speeches, and Discussions* (Seoul: The Kim Dae Jung Peace Foundation, 1994), p. 33, as cited in Chung-in Moon, "Understanding the D.J. Doctrine: The Sunshine Policy and the Korean Peninsula." In Chung-in Moon and David I. Steinberg, eds. *Kim Dae-jung Government and Sunshine Policy: Promises and Challenges*. Asian Studies Program, Georgetown University and Yonsei University Press, 1999, pp. 36-37.

12. Moon, *Ibid.*, p. 37. Also, see: Young Whan Kihl, "Seoul's Engagement Policy and U.S. DPRK Relations," *The Korea Journal of Defense Analysis*, Vol. X, No. 1 (Summer 1998): 21-48.

13. Kim Dae Jung, *Inaugural Address*, February 25, 1998.

14. *Ibid.*

15. "Seoul to be flexible toward North Korea," *Korea Times*, April 4, 1998.

16. Address by President Kim Dae Jung of the Republic of Korea at the School of Oriental and African Studies, London University, London, April 4, 1998.

17. Graham Allison and Philip Zelikow, *Essence of Decision: Explaining the Cuban Missile Crisis*. Second Edition. (New York: Longman, 1999), p. 27.

18. *Ibid.*

19. Moon, p. 38. Also see: Soon-young Hong, "Thawing Korea's Cold War: The Path to Peace on the Korean Peninsula," *Foreign Affairs* May/June (1999), pp. 8-12; Dongwon Lim, "The Government of People's North Korea Policy," a speech delivered for senior officials of the Ministry of Unification, February, 1999 (in Korean, mimeo).

20. Moon, p. 38.

21. An exception to this rule, however, is "the Northern Policy," or Nordpolitik, pursued by the ROK Government of President Roh Tae Woo in the late 1980s.

22. *Ibid.*

23. *Ibid.*, pp. 38-43.

24. These and other measures are discussed in the various publications of the Korea Institute of National Unification, a government think-tank on unification issues.

25. "Overview of Inter-Korean Relations in 2000." *Korean Unification Bulletin*, No. 26 (December 2000), Seoul: Ministry of Unification of the Republic of Korea, p. 3.
26. *The I' South-North Ministerial Talks*, Seoul: Ministry of Unification, July 31, 2000.
27. "The Result and Significance of the Second Round of Inter-Korean Ministerial Talks," *Korean Unification Bulletin*, No. 22 (August 2000), Seoul: Ministry of Unification of the Republic of Korea, pp. 1-2. The third reunion of separated families, however, was postponed at the request of North Korea and was to be rescheduled sometime in the early part of 2001.
28. *The groundbreaking ceremony for the rail and road link of Kyong-ui Line*. Seoul: Ministry of Construction and Transportation, 2000.
29. *Korean Unification Bulletin*, No. 23 (September 2000), Seoul: Ministry of Unification of the Republic of Korea. Also, "Source Material" on Inter-Korean Relations. *Korea and World Affairs: A Quarterly Review* Volume 24-3 (Fall 2000), pp. 453-481.
30. "Source Material" on Inter-Korean Relations. *Korea and World Affairs: A Quarterly Review* Volume 24-3 (Fall 2000), pp. 473-475.
31. /Wrf, pp. 475-476.
32. "The Fourth Round of Ministerial Talks." *Korean Unification Bulletin* No. 26 (December 2000). Seoul: Ministry of Unification.
33. "Building of the South-North fiber-optic line." *Korean Unification Bulletin* No. 22 (August 2000), p. 7.
34. Some 19,000 POWs were held captive in the North at the end of the Korean War in 1953. Of these, some 351 are believed to be still alive and 19 have returned home to the South.
35. "President Orders Preparation for Changes in North Korea," *Chosun.Com*, January 22, 2001.
36. Robin Wright, "U.S. Signals Willingness to Engage North Korea," *Los Angeles Times*, January 29, 2001. U. S. Department of Defense Early Bird news service, January 29, 2001.
37. The U.S. Department of Defense Early Bird news service, January 31, 2001.
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39. "President Orders Preparation for Changes in North Korea." Chosun.com, January 22, 2001.
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Russian Policy toward the Korean Peninsula, 1991-2001

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In July of 2000, Russian Federation (RF) President Vladimir Putin spent two days in Pyongyang, North Korea, the first Russian (or Soviet) head of state ever to visit that country. Newly elected President in his own right in March 2000, Putin wasted no time promoting his East Asia foreign policy agenda, including presidential visits to South Korea, China, and elsewhere in the region within the past year.

Indeed, it is fair to say that Russian foreign policy has undergone a major sea change over the past five years. Between 1991-1995, the RF clearly was preoccupied with improving relations with western Europe and the United States. Yel'tsin worked hard to bring his country fully into the G-7 group of industrialized nations, succeeding in June 1997 in having the G-7 officially renamed the G-8. (Since that 1997 meeting in Denver, Russia has attended the annual political but not the economic meetings of the Group.) In January 1996, however, Andrei Kozyrev, the western-focused "architect" of post-Soviet Russian foreign policy, was replaced as Foreign Minister by Evgenii Primakov (former head of Soviet foreign intelligence), and Russian policy shifted rather quickly to one focusing on East Asia and the Third World, and on Asiatic Russia (east of the Urals) in addition to European Russia. Two-thirds of Russia lies east of the Urals, although only a small percentage of its population lives in that vast territory.

Foreign policy did not undergo substantial change with the appointment of Igor Ivanov as Foreign Minister to succeed Primakov when the latter was confirmed as Prime Minister in 1998. The post-1995 "disillusionment" with Europe and the U.S. resulted in good measure from Russia's belief that the West had failed to provide the financial support that the country needed—and deserved—in order to

move successfully from a command to a market-oriented economy and from an authoritarian to a democratic political system. Further, Russian political leaders were unhappy with the recent expansion of NATO membership to include Poland, Hungary, and the Czech Republic: the three were invited for membership despite strong Russian objections, and it is highly likely that NATO membership will be further extended within the next few years, with the possibility of one or more former Soviet republics (the Baltic states) being invited to join in addition to several Central European countries formerly under communist rule (Slovakia, Slovenia and, possibly, Romania).

While foreign policy can never be divorced from domestic considerations, and understanding a country's foreign policy requires an extensive understanding also of that country's domestic affairs and the interconnections between the two, I believe Russian foreign policy in the first decade after the collapse and disappearance of the USSR among the world's countries (and one of two superpowers at that) cannot be understood without substantial knowledge of the Russian domestic political scene and the continuing struggle that Russia's leaders have had in trying to move their country toward a democratically based political system with a market-oriented economy. Indeed, Russia's first president, Boris Yel'tsin, spoke of Russia's continuing struggle in his last speech to the nation as president on December 31, 1999, when he resigned in order to "create a most important precedent . . . the civilized voluntary transfer of power, power from one president of Russia to another, elected anew." Yel'tsin asked for Russia's forgiveness:

I want to apologize for not making many of our dreams come true. What had seemed easy turned out to be extremely difficult. I apologize for not justifying some of the expectations of people who believed that we could jump in one swoop from the gray, stagnant, totalitarian past to the bright, prosperous, civilized future. I believed in it myself. It seemed that if we could just make one jump, we would overcome everything. But the one jump didn't work. . . . In some areas the problems turned out to be far too complicated. We slogged ahead through these mistakes, through these failures...}

The political history of the Russian Federation from December 1991 to the present has been one characterized by the domination of domestic concerns, and foreign policy seems to have been designed largely to assist perceived domestic needs. Thus, the early post-Soviet efforts to enhance relations with the West were dictated largely by

Russia's need for western loans and investment, as state-owned industries were slated for privatization. Russia counted on major financial support not only from members of the European Common Market (later Union) as well as the United States, but also from western-dominated financial institutions such as the European Bank for Reconstruction and Development and the International Monetary Fund. Russia received massive loans during the 1990s, sometimes coupled with requirements for strengthening private ownership or fledgling democratic institutions, but the loans did not serve to anchor the country's economy; at the same time, with few exceptions, European and American corporations were unwilling to invest substantially in Russia's economy for a variety of business reasons, including a shaky legal system, a vague tax system, and demands that a significant percentage of the profits produced by Russian companies with foreign investment remain in the country.

The Gorbachev Foreign Policy Legacy: In Brief

During most of the Gorbachev era (1985-91), Soviet foreign policy was focused largely on improving relations with the major powers, particularly China and the United States. (Indeed, one of Mikhail Gorbachev's greatest triumphs in international diplomacy occurred when he was invited to join the G-7 group of industrialized nations for the first time at their 1990 annual meeting.) At the same time, however, the Soviet leader clearly believed it was in his country's interests to pay greater attention to the Soviet role in East Asia than had his predecessors and to establish the USSR as a major player in that region. Accordingly, in a major foreign policy speech in Vladivostok (in July 1986), the CPSU General Secretary emphasized the importance of Asia and the Pacific to Soviet security. The Soviet Union was concerned about a growing U.S.-South Korean-Japanese military alliance aimed at North Korea and possibly the USSR. In the last years of the Cold War, however, when both the U.S. and the USSR were reaching out diplomatically to countries with which they had never before had relations, the Soviets realized that South Korea, with its booming economy and accompanying foreign loan and investment possibilities, could assist the USSR economically in ways that North Korea clearly could not. And, with relations between the USSR and China improving steadily and rapidly, it no longer seemed to matter to the Soviets whether the North Koreans tilted more toward China or toward the Soviet Union, because the three-decade-old rivalry between the two communist-ruled powers had finally been brought to an end.

Soviet policy toward both Koreas changed dramatically during Gorbachev's years in power and first became public in 1988 when the

Soviets decided to send athletes as well as the Bolshoi Ballet to participate in that year's Olympic Games in Seoul. Despite repeated invitations from then North Korean leader Kim Il Sung, Gorbachev refused to visit Pyongyang, although an ideal opportunity arose in May 1989 when the Soviet leader visited China. (Reportedly, Gorbachev had promised Kim that he would return the latter's 1986 visit to Moscow "at a convenient time," but he never did.) Soviet-South Korean relations developed rapidly, with the Soviets opening a trade office in Seoul in the spring of 1989, and Kim Young Sam (soon to be elected President of the Republic of Korea—ROK—South Korea) visited Moscow in June of that year. Further, Soviet trade with South Korea increased substantially from 1986 on. For example, the volume of bilateral trade in 1986 was \$133 million; the following year, it had jumped to \$200 million.³ Gorbachev met with ROK President Roh Tae Woo in San Francisco in June 1990, and three months later, in September, the normalization of relations between the Soviet Union and the ROK was established. Together with the establishment of diplomatic relations came agreement on a \$3 billion loan from South Korea, to be provided over three years; \$2 billion would be made available to the Soviets for purchase of South Korean consumer goods at attractive prices, and the remaining \$1 billion would be used for Soviet industrial development. The Soviets agreed to repay the loan partly in raw materials, particularly coal and natural gas, which South Korea sorely needed. (By 1993, Russia had negotiated with the South Koreans to sell them military equipment as a way of partially repaying the loans.)

When then Soviet Foreign Minister Eduard Shevardnadze flew to Pyongyang in early September 1990 to inform the North Koreans of the impending establishment of diplomatic relations between his country and South Korea, Kim Il Sung refused to meet with him. Relations between the Soviets and North Koreans had deteriorated after 1988, at least in part because Soviet leaders had begun to pressure their North Korean counterparts to reform their economy, which Kim staunchly refused to consider. North Korea labeled the normalization of Soviet-South Korean relations "an act of betrayal" on the part of the Soviets. "The USSR, by its actions, joins the conspiracy of the United States and South Korea aiming at the destruction of the socialist system in the North," declared the North Korean Foreign Ministry.⁵

Shevardnadze confirmed after his visit that beginning in January 1991, the North Koreans would be obliged to pay for all Soviet goods in hard currency only (rather than through barter arrangements, as had been the norm), and also would have to pay at prevailing world market prices, rather than at significantly lower CMEA (Council on Mutual

Economic Assistance—the communist-ruled countries' economic counterpart to the European Common Market) rates, for Soviet oil and gas deliveries. Because of North Korea's heavy dependence on oil from the USSR, the latter agreed in April 1991 to postpone mandatory payments in hard currency until the following year.⁶ Trade between the two countries declined drastically in 1991; just two years earlier, Soviet-North Korean trade had reached an all-time high of \$2.5 billion. According to one source, in 1989 the North received 63 percent of its electric power, 50 percent of its coal and refined oil, and 33 percent of its steel from the Soviets.⁷ While Russian-DPRK bilateral trade increased somewhat during the mid-'90s, Russia for a number of years has no longer been one of the DPRK's top three trading partners. Indeed, by 1995 Russia had dropped to fifth place among North Korea's trading partners, with Russia accounting for only four percent of total trade turnover.⁸

YeP'tsin's Korea Policies

With the collapse of communist rule in the Soviet Union after the aborted August 1991 coup, and the final disintegration of the USSR in December of that year, foreign policymaking was temporarily put on hold until the new states formed out of the former USSR could agree upon a division of the international assets and responsibilities of that country. By the summer of 1992, Yel'tsin announced that his country would take responsibility for the continuity of Soviet foreign policy into the post-Soviet era. During that same year, Yel'tsin made official visits to both South Korea (where he was invited to address the South Korean parliament) and China. In his November 1992 visit to Seoul, Yel'tsin and South Korean President Roh signed a Treaty on Principles of Relations between Russia and the ROK, as well as a Memorandum of Understanding for Military Exchanges, which has resulted in exchanges of military information and personnel and, as mentioned earlier, in massive Russian sales of military defense technology and equipment (as a way of paying back Soviet loans agreed upon when diplomatic relations between the ROK and the USSR were established).

In June 1994, ROK President Kim Young Sam visited Moscow and reportedly agreed to postpone Russia's debt payments in exchange for a commitment by Yel'tsin to oppose North Korea's growing nuclear weapons program.⁹ Indeed, in the previous year, the Russian government had pressured the North Koreans into guaranteeing their compliance with the Nonproliferation Treaty and had stopped delivery of three nuclear plants that had been promised earlier. Russia also recalled about 160 of its nuclear scientists and missile specialists from the DPRK, who reportedly were assisting

the North Koreans with military programs, and in mid-1994, Yel'tsin told the North Koreans that Russia would support international sanctions against them if they pursued a nuclear weapons program.¹⁰ The Russian president also signed an executive order freezing a \$4 billion project, which included three light water nuclear reactors that were to be built for the North Koreans at Sinpo.¹¹

The possibility of an official state visit to North Korea was never raised publicly (although it may have been discussed privately) and, during his two terms in office, Yel'tsin never visited the DPRK nor met with either Kim Il Sung or his successor (and son), Kim Jong-il. Relations between Russia and the DPRK after 1991 deteriorated rapidly. Within a year, Russia had withdrawn all its technicians working in the North under contract, mainly at industrial defense sites, because of the DPRK's inability to pay them in hard currency. At the same time, the Russians pressed North Korea to begin to repay its \$3.5 billion debt, accumulated over many years, because the new Russian state badly needed hard currency. This, coupled with the North Koreans' inability after 1991 to buy Russian oil and natural gas to help satisfy fuel and energy needs (because of the requirement that they pay in hard currency—which they didn't have), contributed substantially to the North's precipitous economic decline during the 1990s, from which it is just now beginning to recover.¹² Russian-DPRK trade fell precipitously in 1991 and, from 1992 on, China became North Korea's main trading partner.

The fate of the thirty-year Soviet-North Korean Treaty of Friendship, Cooperation, and Mutual Assistance, signed in 1961, remained vague during the 1990s. The treaty's terms stated that if either party did not raise objections, the treaty was to be automatically renewed for five years and, accordingly, apparently remained in force until 1996. Beginning in 1992, however, there were numerous reports the Russians had initiated discussions about "updating" the treaty and eliminating the clause stating that if either side were attacked, the other would come immediately to its defense. During his visit to South Korea in November 1992, Yel'tsin promised to revise the Soviet-DPRK Treaty and, soon thereafter, reportedly, the Russians told North Korea that they would only come to the latter's defense if it were attacked "without provocation," although they assured the DPRK that it would remain under the Russian nuclear umbrella. Pyongyang responded that the Russians "need not concern themselves about the North's security."¹³ By 1996, it was clear that the Russians would not automatically provide military support to the North regardless of the reasons the latter was attacked,¹⁴ and negotiations over a new treaty were begun. According to V. I. Denisov, Russia's current ambassador

to the DPRK, Deputy Foreign Minister Aleksandr Panov's April 1996 visit to Pyongyang and his meetings with North Korean Deputy Foreign Minister Lee In Gue were designed to rekindle the dialogue and improve relations between the two countries.¹⁵ Two Russian State Duma (parliament) delegations, one in 1996 headed by Duma Speaker (and leading RF Communist Party member) Gennadii Seleznev, and the other in 1997, headed by Vladimir Lukin, chair of the Duma's International Affairs Committee, seemed designed to continue an effort to normalize relations between the two countries and also to indicate that the Russian legislature, if not the executive branch, was interested in improving relations with the DPRK. In January 1997, Deputy Foreign Minister Georgii Karazin made an official visit to North Korea to begin extended discussions on a new treaty,¹⁶ which was signed in February 2000 and soon ratified by the parliaments of both countries.

During Yel'tsin's years as president of the Russian Federation, his focus was overwhelmingly on Russian domestic affairs.¹⁷ Russia's enormous domestic challenge, beginning at independence in late 1991, to establish some form of democratic rule (without collapsing into either civil war or revolution) after literally centuries of dictatorial or authoritarian rule, cannot be overstated. And, at the same time, Russia was faced with an equally enormous challenge of trying to move from a state (Party)-directed command economy to a market-oriented one, again with no historical experience of a free market economy. Gorbachev had tried desperately between 1986 and 1991 to introduce major political and then economic reforms and had failed miserably, so miserably in fact that his country had literally disintegrated and disappeared by December 1991. The Russian Federation, as was the USSR, is a multinational country, although 82 percent of its population is ethnically Russian (in contrast to 53 percent of the former USSR having been composed of ethnic Russians); its constituent non-Russian republics signed a new, hastily designed Federation Treaty in 1992, but the new country continues to face many of the same problems of political cohesion as had the former Soviet Union, and the real possibility of political disintegration cannot be ruled out. Within this context, Russian foreign policymaking in the first decade after communist rule understandably has not taken center stage, and has been designed mainly to protect the country's national security interests.

Russia's Current East Asia Policy

In 1991, just prior to the collapse of the USSR, the Soviets agreed to provide North Korea with three 660-megawatt light-water (nuclear)

reactors (LWR), for which the latter was to pay in hard currency; in spring 1993, when the field work necessary to construct the nuclear plants was nearing completion, the DPRK announced it was unable to pay. At the same time, the North Koreans announced their withdrawal from the Nuclear Non-Proliferation Treaty (NPT), whereupon Yel'tsin signed an executive order suspending the LWR project¹⁸

Left out of major international negotiations with North Korea on various security issues affecting the Korean peninsula, particularly negotiations over North Korea's developing nuclear weapons program, the U.S.-North Korean agreement on restricting DPRK nuclear activities through the creation of the Korean Peninsula Energy Development Organization KEDO project, and the conclusion of a peace treaty between the two Koreas, Russia recently has sought to reassert its role in Northeast Asia and establish itself as a major player in East Asian affairs. Moscow's offer to KEDO to build and supply several light water reactors for North Korea was rejected early on (in favor of South Korea's supplying the reactors) by the major KEDO participants (U.S., South Korea, and Japan), and Russia subsequently backed away from the project altogether. Since the Four Power (U.S., China, North and South Korea) Talks on working toward a settlement between the two Koreas began in the mid-1990s, the Russians have sought unsuccessfully to expand the discussions to include themselves and Japan, thereby creating Six-Power Talks, and also have proposed Eight-Power Talks, which would include the U.N and the International Atomic Energy Commission (IAEA) in addition to the six countries.

Russia successfully improved relations with China during the 1990s, building on Gorbachev's earlier efforts. Yel'tsin and other high-level Russian officials have made regular state visits to China, and Chinese President Jiang Zemin, as well as Chinese political and military officials, regularly returned these visits to Russia. With respect to Japan, Yel'tsin seemed particularly interested in finally settling the two countries' territorial dispute and concluding a peace treaty formally ending World War II hostilities, but he was not able to reach an agreement with the Japanese before he resigned from office in December 1999. His chosen successor, Vladimir Putin, a career state security officer turned reformer (who headed the Russian Federal Security Service prior to his appointment as Acting President in December 1999), seems less willing to negotiate with the Japanese generally and not willing to consider any agreement that would end Russia's continued control over the four disputed southern Kurile islands. Visits by Russian and Japanese high-ranking officials to each other's country were repeatedly postponed during the past year, and the

signing of a Russo-Japanese peace treaty does not appear imminent.

In February 2000, Russian Foreign Minister Igor Ivanov became the first high-level Russian official to visit North Korea since the collapse of the USSR. His visit was preceded by a non-publicized two-week visit to Moscow by Kim Young Nam, former DPRK Foreign Minister and currently head of the DPRK's Supreme Peoples' Council Standing Committee and KWP Politburo member, who officially was in Moscow for eye surgery. While in the Russian capital, Kim Young Nam reportedly met with Russian foreign ministry officials to discuss improved North Korean ties with Russia.¹⁹ (Russia delivered ten tons of food to the DPRK "as a goodwill gesture" at the start of Ivanov's visit.²⁰) In Pyongyang, Ivanov and his DPRK counterpart, Foreign Minister Paek Nam Sun, signed the Treaty on Friendship, Good-Neighborliness, and Cooperation, in which both countries agreed "not to conclude any treaty or agreement with a third country nor join in its action or step if they stand against sovereignty, independence, and territorial integrity of either of the parties."²¹

President Putin's Northeast Asia policy currently appears to have three major objectives: (1) to ensure continued stability on the Korean peninsula; (2) to limit U.S. (and Japanese) influence in Northeast Asia and, at the same time, increase Russian influence there; and (3) to encourage significant foreign economic investment (from South Korea, China, and Japan) in eastern Siberia, a region incidentally that has been only loosely controlled, if at all, by Moscow since the collapse of the USSR. More generally, Russia wants to avoid a political or economic collapse in North Korea and wants to reassert Russia's role as an important player on the Korean peninsula.

Since he was elected to the presidency in March 2000 with a decisive margin of victory, Putin has traveled to Beijing to secure Chinese support against America's proposed National Missile Defense (NMD) system, and to Pyongyang and Hanoi, in part for the same purpose. Putin's two-day visit on July 19-20, 2000, to Pyongyang marked the first time a Soviet or Russian leader had ever visited that country, and the Russian President seemed eager to increase his country's influence on the Korean peninsula in light of the unprecedented meeting between the South and North Korean heads of state in Pyongyang the previous month. He visited Seoul in March 2001 to encourage South Korean economic and financial support for projects in eastern Siberia, as well as support for reconnecting the Korean railway between the South and North which, in turn, will link to Russia's Trans-Siberian railroad. The advantages for Russia are clear: transporting goods from China and Northeast Asia to Europe by train across Russia will provide the latter important revenue and boost the

economy of numerous cities and towns along the route. It also will save Asian shippers considerable time and expense. Russia will invest several hundred million U.S. dollars for renovation of the railway in the DPRK, Putin declared, but will need additional financial resources for the project.

At the end of their July summit meeting, Putin and Kim Jong-il "adopted an 11-point declaration on domestic and international issues of mutual concern."²² Putin also managed to secure North Korean agreement "to shut down its missile program if other nations provide it with rocket boosters for space exploration." The Russian President said he believed the elimination of a North Korean missile capability would "render groundless" the U.S. position that a NMD system was needed because of a "DPRK missile threat."²³ Putin and Kim Jong-il also discussed the reestablishment of economic ties and the possibility of Russian technicians assisting North Korea in refurbishing and modernizing major industrial plants that originally were built with Soviet assistance in the 1960s and '70s.²⁴ Because the DPRK cannot pay for substantial Russian assistance, and the RF cannot afford to provide support without repayment, the latter is eager to interest Japan and South Korea in providing loans.²⁵ Reportedly, North Korean officials supplied their Russian counterparts with a list of goods they could export to the RF as partial repayment, but the Russians declared most of them of no interest.²⁶

Just after Putin's visit, North Korean leader Kim Jong-il reportedly planned to visit the Russian Far East to help jump-start economic and trade relations between his country and Russia. Yevgenii Nazdratenko, then Governor of Russia's Primorskiy krai (which borders North Korea), was among those in Putin's North Korean visit entourage and had proposed several joint economic undertakings between his region and the North, as well as agreements to expand the number of North Korean guest workers (now estimated at 15,000 to 25,000) in Siberian logging camps and an additional ("undetermined") number working in construction projects in the Russian Far East.²⁷ This visit did not materialize, and Putin managed to secure Nazdratenko's resignation the following February.²⁸

Kim Jong-il's mid-April 2001 scheduled visit (in which he reportedly was going to talk with Putin before undertaking any discussions between his country and the new administration in Washington) also did not materialize, although Minister of Defense Kim II Choi visited Moscow in late April, met with his Russian counterpart as well as with Foreign Minister Ivanov, and signed two agreements on bilateral military cooperation. In late July and early August 2001, Kim Jong-il finally visited Russia, traveling from

Pyongyang to Moscow and St. Petersburg aboard a 21-car armored train. Leaving Pyongyang on July 26, he made several stops along the way, including an unscheduled one at Lake Baikal, reportedly so he could dip a hand into its crystal-clear waters. Kim spent two days in the western Siberian city of Omsk, where he visited a T-80 tank factory, the Omsk Bacon Company, and the Pushkin State Scientific Library, where he inspected its rare book collection.²⁹

Arriving in Moscow in early August, Kim met with President Putin and the two signed an eight point Declaration, issued on August 4, committing "the DPRK and Russia to the 'formation of a new fair world order' framed by international law and beyond the domination of any single power."³⁰ The North Korean leader promised to suspend ballistic missile launchings until 2003, and agreed with Putin that the 1972 ABM Treaty should remain the foundation of arms control efforts. Reportedly, Putin told Kim that Russia would consider supplying satellite-launch rockets to North Korea, but would insist on payment, either from the DPRK or another country.³¹ Russia also agreed to provide support for modernizing North Korea's railway stock, training DPRK railway engineers, linking Russia's Trans-Siberian Railroad to the North Korea rail line, and assisting with the reconnection of the inter-Korean rail line (which will include detection and elimination of land mines near the rail line in the DMZ between the two Koreas).

Kim also traveled to St. Petersburg, where he discussed the opening of a trade office between that city and Pyongyang, and toured shipbuilding, road construction, lumber equipment manufacture, and oil and gas system sites.³²

Although North Korea continues to be primarily concerned with its bilateral relationship with the U.S., Kim clearly wanted to gain Russian support for a number of projects, including (1) support when it bargains with the United States over nuclear and missile issues; (2) increased military assistance, including spare parts for existing weaponry as well as new, technologically advanced armaments; (3) provision of "reliable, long-term deliveries of Russian oil and gas"; and (4) assistance in developing economic cooperation between the North and other countries of the former Soviet Union, especially those in Central Asia.³³

For its part, Russia wants to confirm its role as the prime intermediary between North Korea and the United States and, accordingly, as an important player in any political settlement on the Korean peninsula.

Conclusion

Russian policy toward the Korean peninsula and toward Northeast

Asia has changed substantially during the past decade. For the first half of the decade, Russia was much more concerned with extending relations with South Korea than with the North and, more specifically, with ensuring continued economic and financial assistance from the ROK. The Russian government was determined to enhance relations with China (which it did) and to improve relations with Japan leading to agreement on a peace treaty (which it did not achieve). With respect to East Asian policy, Yel'tsin's foreign policy seemed to focus more on specific countries and targets of opportunity than on the region as a whole. Since 1996, however, Northeast Asia as a region has become more important to Moscow and, since 1999, North Korea and the whole Korean peninsula have become increasingly important.

Since March 2000, when he was elected president of Russia, Putin has spent a great deal of time traveling, much of it abroad. He has made state visits to China, the DPRK, the ROK, Vietnam, Malaysia, and other southeast Asian nations. Clearly, he wants to extend Russian influence in East Asia and, at the same time, counteract U.S. and Japanese influence on the Korean peninsula and elsewhere in East Asia. For the moment, he is especially eager to line up allies against the U.S.-proposed national missile defense system. More broadly, he seeks to revitalize Russian (formerly Soviet) influence around the world, particularly in the developing world. Thus far, judging from both his domestic and foreign policy priorities, Putin seems determined to recapture some of the great power status that was lost when the USSR collapsed, which Yel'tsin for many reasons was not able to do.

Notes

1. Boris Yel'tsin, *Midnight Diaries* (New York: Public Affairs/Pegasus, 2000), p. 386.
2. *Ibid.*, p. 387.
3. Evgeniy P. Bazhanov, "Russia's Policies Toward the Two Koreas," in Wonmo Dong, ed., *The Two Koreas and the United States* (Armonk: M. E. Sharpe, 2000), p. 151. By 1995, trade volume between the two had risen to \$3 billion.
4. See my essay, "Soviet and Russian Relations with the Two Koreas," *International Journal of Korean Studies*, I, 1 (Spring 1997), pp. 215-229.
5. Young Whan Kihl, "North Korea's Foreign Relations: Diplomacy of Promotive Adaptation," *Journal of Northeast Asian Studies*, X, 3 (Fall 1991), p.34.
6. Robert A. Scalapino, "Korea in the Cold War and its Aftermath," in Robert S. Ross, ed., *East Asia in Transition* (Armonk: M.E. Sharpe, 1995), p. 214. Scalapino cites a "Soviet foreign ministry official who had accompanied Shevardnadze to Pyongyang" as his source.
7. Zacek, *International Journal of Korean Studies*, *op. cit*^ p. 223.
8. For example, in 1990, the Soviets delivered 410,000 metric tons of oil to North Korea; in 1991, 100 metric tons less than 25 percent of the previous year were

delivered. Zacek, "Russia in North Korean Foreign Policy," in Samuel Kim, ed., *North Korea's Foreign Relations in the post-Cold War Era* (Hong Kong: Oxford University Press, 1999), p. 82 and footnote.

9. Bazhanov in Dong, ed., *op. cit.*, p. 156.

10. *Ibid.*, pp. 157-158.

11. Alvin Z. Rubinstein, "Russia's Relations with North Korea," in Stephen J. Blank and Alvin Z. Rubinstein, eds., *Imperial Decline: Russia's Changing Role in Asia* (Durham: Duke University Press, 1997), p. 170. See also Gilbert Rozman, Mikhail G. Nosov, and Koji Watanabe, eds., *Russia and East Asia: The 21st Century Security Environment* (Armonk: M.E. Sharpe, 1999).

12. According to Doug Struck ("North Korea Back from the Brink," *The Washington Post*, September 5, 2000), "The DPRK economy is growing for the first time in nine years and the mass starvation of the past five years is largely over . . ." See also an Associated Press Report from Seoul (ROK), July 30, 1999, which stated that ROK officials believe the North Korean economy began to turn around in 1998.

13. Andrew A. Bouchkin, "North Korea and Russia: A Blind Alley?" in Doug Joong Kim, ed., *Foreign Relations of North Korea during Kim II Sung's Last Days* (Seoul: The Sejong Institute, 1994), p. 315.

14. *Newsreview* (Seoul), September 14, 1996.

15. V. I. Denisov, "Russia and the Problem of Korean Unification," in Tae-Hwan Kwak, ed., *The Four Powers and Korean Unification Strategies* (Seoul: Institute for Far Eastern Studies, 1997), p. 40.

16. Bazhanov in Wonmo Dong, ed., *op. cit.*, p. 162.

17. In his memoirs of his last years in office, *Midnight Diaries*, (New York: Public Affairs/Perseus, 2000), Yel'tsin writes almost exclusively about domestic affairs, suggesting that he was preoccupied with these and much less so with foreign affairs.

18. Seong-Ho Joo, "DPRK-Russian Rapprochement and its Implications for Korean Security," *International Journal of Korean Unification Studies*, vol. 9, No. 1 (2000), p. 211.

19. Hwang Seong-joon, "North Korean Politburo Head Visits Moscow," *Choson Ilbo* (Seoul, in English), December 30, 1999. For a detailed chronology of visits by Russian officials (both executive and legislative) to North Korea, see Seung-Ho Joo, "DPRK-Russian Rapprochement and its Implications for Korean Security," *op. cit.*, pp. 193-223.

20. Dmitry Skosyrev, "Moscow has Renovated its Treaty with Pyongyang," *Nezavisimaia Gazeta*, February 10, 2000.

21. Agence France-Presse, Seoul, "North Korea and Russia End Cold War Alliance with New Pact," February 9, 2000.

22. Ko Jae-nam, "The Russia-North Korea Summit and Beyond: The Role of Russia on the Korean Peninsula," *East Asian Review*. 12, 3 (Autumn 2000), p. 6. According to Agence France-Presse, Ivanov invited Paek to visit Russia and the latter agreed, although no specific date was set. (AF-P, Seoul, February 14, 2000)

23. *Ibid.*, "North Korea Pledges to Give Up Missile Program in Landmark Putin Visit," July 19, 2000. See also David Hoffman, "Russian Outlines some Options in North Korean Missile Proposal," *The Washington Post*, July 23, 2000.

24. Associated Press, Seoul, "Putin Raises Question of North Korean Missiles with Kim Jong II," July 19, 2000.

25. Dmitry Kosyrev, "New Policy for Asia," *Dipkuryer NG* (in English), February 17, 2000.

26. *Special Report — DPRK Report # 26* (September-October, 2000), NAPSNet, November 29, 2000.

27. Kongdan Oh and Ralph C. Hassig, *North Korea Through the Looking Glass* (Washington: Brookings Institute Press, 2000), p. 178.

28. Reportedly, Nazdratenko's deputy and now his successor, Konstantin Tolstoshein, is as politically arrogant and corrupt as was Nazdratenko. *The New York Times*, February 12, 2001.
29. Michael Wines, "In Which We Learn How to Hide a Head of State," *The New York Times*, August 2, 2001.
30. Michael Wines, "North Korean, with Putin, Vows to Curb Missile Program," *Ibid.*, August 5, 2001. Wines writes that Kim stayed in the same Kremlin guest house in which his father had stayed when the latter visited Russia in 1984.
31. Dave Montgomery, "North Korea's Kim Visits Russian Facilities," Knight Ridder News Service, Moscow, August 6, 2001.
32. Huang Song-joon, "Chairman Kim to Open Trade Office in St. Petersburg," *Joongang Ilbo*, August 13, 2001.
33. *The DPRK Report*, No. 25 (July-August, 2000), p. 2.

In Search of New Patterns of Rivalry and Interdependence

China-Japan Relations in a Changing Northeast Asia

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The future of China-Japan relations will have a decisive impact on post-Cold War East Asia's economic and political order. Japan and China embody the world's second- and, by PPP-based calculations, third-largest economies, respectively, and wield growing political clout in regional affairs. Militarily, despite the different nature and sources of their national power, both countries are the major factors to be reckoned with in any East Asian strategic equation.

The relative rise in influence of China and Japan in post-Cold War regional affairs is evident. Japan is the world's largest creditor nation and largest donor of official development aid in East Asia and in the world. It also maintains the world's second largest defense budget with \$45.6 billion (\$1=108 yen) in FY 2000.¹ Japan's total armed forces are small—about 237,000 strong—and being reduced, but are buttressed by its vastly superior technological, industrial, and financial prowess. Seen from this perspective, Japan is already a potential major military power seeking a greater political and security role in post-Cold War East Asia.

In contrast, China is predominantly an independent military power with growing economic capability. China is the only Asian nation with strategic nuclear forces, and it maintains the world's largest military, approximately 2.5 million soldiers, which is also being reduced; thus, China stands in a position to effect major changes in Asia's security environment. In particular, since the early 1990s China's rise in wealth and influence has precisely been the focal point of the Asian and global security debate, which has subsequently shaped the widespread perception that future regional stability and prosperity will increasingly hinge on the capability and behavior of China.²

The two countries' growing national power and their respective wills to use it are complex and important questions in their own right, deserving serious attention from both scholarly and policy communities. In particular, their traditional rivalry and current and likely future power potential will continue to be a source for concern in their neighbors' strategic planning. For both historical and contemporary reasons, each country has also pursued its foreign policy goals with an eye on the other.

In terms of future regional stability, what is perhaps more significant in post-Cold War East Asia is whether the two major regional powers will develop a relationship that is either strong and cooperative or weak and confrontational in the years ahead. Of equal importance is the diverse yet uncertain impact of this evolving relationship on the future of East Asian security, particularly in light of the absence of the unifying Soviet threat and a reduced U.S. military presence. Even though the United States decided in February 1995 to freeze the level of U.S. forces in the region at 100,000 personnel—which was repeatedly reconfirmed later—regional perceptions of the U.S. security commitment and credibility will significantly affect the strategic calculus of individual regional states and the overall power balance in the region. Beijing-Tokyo relations also directly touch on a host of major regional security issues such as peninsular stability, the Taiwan question, the South China Sea dispute, multilateral security issues, and the U.S. role in the region. In short, its potential impact on regional security should not be underestimated.

This article argues that, despite their huge and growing stakes in maintaining an amicable relationship, the China-Japan relationship will remain a difficult and often tense one. The persistence of their traditional rivalry and historical distrust over time suggests that these may have more to do with deeply ingrained cultural, historical, and perceptual factors than with the dictates of economic cooperation or shared interest in regional stability that are mutually beneficial. Also underlying their complex but competitive ties are fundamental differences between the two countries in terms of political systems, social values, and strategic objectives in Asia and beyond. The future stability in East Asia will hang in the balance as China and Japan continue to seek a new balance between their interdependence and rivalry.

Mutual Perceptions in a Historical Context

As befits their traditional rivalry for regional influence and as the present-day two most powerful states in East Asia, Japan and China have quite a broad range of bilateral concerns with each other. This should surprise no one, as Akira Iriye has strongly argued,³ given the fact that

both countries have, from the 1880s, developed multifaceted rivalry relations in power, culture, and economic dimensions. Traditional mutual perceptions between the Chinese and the Japanese have been very complex, but far from cordial, as the following long quotation typifies:

Scholars who have examined Chinese and Japanese mutual perceptions have suggested misunderstanding, or indifference, or condescension, or arrogance!—anything but communication. The Chinese are usually depicted as having clung to traditional images and looked down on Japan as a country of imitative dwarfs. They had not bothered to learn anything about Japan until it was too late. The Japanese in the Meiji era, for their part, avidly Westernized themselves until they no longer considered their country Asian, a member of the Chinese sphere of civilization.... Such mutual arrogance and condescension was conducive to misunderstanding, a reflection of the two countries' antagonistic power relationship.⁴

As Iriye has correctly noted, it is a pervasive yet distorted interpretation, and both countries had known one another's history and people for centuries. It may even be added that their pace of "learning" each other became quicker in the second half of the 20th century than before.

It can be equally and plausibly argued, however, that their mutual and growing knowledge of each other could also generate conflictual rather than cooperative bilateral relations, contrary to Iriye's suppositions. Historically, their traditional mutual condescension was sharply aggravated by an array of such major historical events as the Sino-Japanese War in 1895 and the resulting Japanese occupation of Taiwan, its invasion of China in the first half of this century, and particularly the Nanjing Massacre. All of these, which the Chinese call "historical facts," continue to undergird China's anti-Japanese feelings and attitudes, even if they are now expressed mostly in a subtle and private manner.

Different ideological beliefs after 1945 parted them into different "camps" until the early 1970s, when they normalized their diplomatic relationship after the Nixon visit to China. Responding to the common Soviet threat, China and Japan opted for a "marriage of convenience" in the U.S.-led global containment against the Soviet Union. Even if China and Japan were not pulled by the across-the-board improvement in bilateral ties but pushed by the overriding external security threat, both tried consciously—for the moment at least—to set aside historical and cultural baggage and hammer out a new working relationship.

It thus seems safe to say that Sino-Japanese relations in the 1970s and 1980s were an amalgam of practical need for strategic and, to a lesser extent, economic considerations on the one hand and historically deep-seated suspicions about the other's intentions and behavior in the region

on the other. Seen from this perspective, the removal of the strategic garb after the end of the Cold War, coupled with China's growing economic and military power and Japan's domestic changes, could well pit China and Japan against one another in a competitive bid for economic influence and regional role in East Asia.

As many scholars have noted, moreover, the enduring dual images of superiority and inferiority permeate their mutual perceptions to an extent and in ways that official and public perceptions in both countries regarding the other remain different, divergent, and distorted, and that *at present* there seems to be no strong constituency in either China or Japan to promote lasting friendship and cooperation. In a perceptive study on Japan's cultural diplomacy toward China, Diana Betzler and Greg Austin have convincingly argued that "the main impulses for official interaction between the two countries [China and Japan] remain outside what might be called the popular imagination."⁵

An *Asahi Shimbun* survey, jointly conducted with the Chinese People's University in commemoration of the 25th anniversary of the China-Japan normalization, unmistakably points to a continuing anti-Japanese feeling among the Chinese.⁶ Out of 3,500 Chinese respondents, a significant 34 percent said they disliked Japan; ten percent liked Japan; and 51 percent neither disliked nor liked Japan. In contrast, 29 percent of 3,000 Japanese said they liked China; 19 percent disliked China; and 48 percent said neither disliked nor liked China. To the question as to whether or not Japan's repentance over its past history is satisfactory, a whopping 86 percent of the Chinese respondents found it insufficient and only four percent sufficient. On the other hand, 26 percent of the Japanese believed it sufficient, while 58 percent insufficient. A glance at the survey indicates that historical issues remain a significant undercurrent in Beijing-Tokyo relations, especially in the eyes of the Chinese.

Not surprisingly, the underlying historical distrust and suspicions are often manifested in their contemporary policies toward the other. Each side has been critical of the other's moves toward greater military capability or a larger regional role. In addition, Japan has long been a rallying point for the renewal of nationalism in China, while Japan is suspicious of a reincarnation of China's traditional cultural and other kinds of dominance in the region once the latter achieves its Four Modernizations—a perception that has recently been accentuated by the debate on the "rise of China." While the growth of nationalistic sentiments seems evident in both post-Cold War Japan and China, the latter's increasing reliance on the nationalistic agenda to arrest the decline of communism as a credible ideology and to fend off international pressure for change in China does not augur well for the future of their bilateral relations.

Official Ties and Deepening Interdependence

Official dialogues and inter-governmental cooperation between Japan and China have gradually but steadily expanded over a quarter century. Both governments also assign top priority to bilateral economic ties. At the heart of their official relationship lie trade, investment, and aid. Bilateral trade between Japan and China exceeded the \$60-billion mark in 1996 and recorded \$60.8 billion in 1997, \$58 billion in 1998, and \$66.2 billion in 1999, making Japan China's largest trading partner for most of the last decade.⁷ In fact, Japan in the mid- to late 1990s constituted what the Chinese called "three firsts": Japan was the first in China's trade relations, technology imports, and domestic investment. China is also the largest recipient of Japan's Official Development Aid (ODA), which is aimed at building China's social and economic infrastructures.

By the end of 1996, Japanese direct investment in China amounted to over \$4.5 billion. By 1996, Japanese ODA exceeded two trillion yen (331 billion yen in 1979-83, 470 billion yen in 1984-89, 810 billion yen in 1990-95, and 600 billion yen in 1996-98)⁸ and one million mutual visits per year. From the normalization in 1972 to 1994, over 40,000 Chinese students were sent to Japan for various studies, whereas about 100,000 Japanese students toured China during the last decade. In 1994 alone, 22,000 Japanese students traveled in China, and Japan maintained about 180 sister-city relations in China.⁹ In 1999 alone, over 1.85 million Japanese visited China as well. People-to-people contacts between the two sides are evidently and steadily growing; they are indeed necessary and commendable efforts to acquire firsthand experience and a minimal understanding about the other. But growing bilateral contacts have yet to produce a better and more objective understanding of each other, let alone lasting friendship.

Japan roughly accounts for about 20 percent of China's total trade, while China occupies less than 5 percent of Japan's total trade,¹⁰ even if China's expanding economy would likely make the Japanese share smaller in the years ahead. Due to the asymmetrical importance of economic relations to China, it has largely abstained from openly and directly criticizing Japan—except the so-called "historical problems"—while Japan has tried to link the ODA with enhanced "transparency" in Chinese military affairs, as seen in the case of withholding a small part of ODA after China's nuclear testing in 1995. But the trade imbalance becomes a growing concern for Tokyo, as it has run a chronic trade deficit with China since 1988.

Salient Political and Security Issues

The Taiwan Issue

That the PRC government regards Taiwan as part of China is unquestioned. The Chinese leadership is also likely to take a tough posture against Taiwan, as vividly demonstrated during the 1995 and 1996 Taiwan Strait tensions, and has not ruled out the use of force, particularly if the latter declares independence or if China's national and security interests, including Taiwan, are deemed to be at stake by the actions of other countries.

To Tokyo, the Taiwan issue cuts across several identifiable yet overlapping contexts upon which Japan's major domestic and foreign policy debate is conducted: Japan-China relations, the U.S.-Japan alliance, joint development of the Theater Missile Defense (now called MD) with the United States, and its changing yet undefined political profile and security role in the region. For this reason alone, Japan's Taiwan policy has been very cautious and has always been conducted with one eye on China and the other on the United States.

Because of a combination of factors, including Japan's low-profile, non-confrontational foreign policy posture toward China since 1945, its history of aggression against and occupation of both mainland China and Taiwan, and China's past, present, and future influences on itself and the region, Japan has tried to prevent the Taiwan issue from standing in the way of an improved Japan-China relationship, notwithstanding its important stake in Taiwan's prosperity and stability.¹¹

Tokyo's utmost caution with respect to the Taiwan issue is best captured by Shinkichi Eto, a longtime Japanese China observer, in the following metaphor:

Matters that China regards as most central to its national interest—for example, the territorial issues revolving around Taiwan and Tibet—should be regarded as the sensitive hairs on the elephant's chin: one prerequisite for a manageable relationship [with China] is never to touch them.¹²

Likewise, while U.S. and Japanese policies have diverged on several issues (e.g. human rights, post-Tiananmen sanctions), their difference on the Taiwan issue apparently has not been so great as to cause an irritation between Washington and Tokyo. This is partly due to Japan's low-profile, cautious approach to China, as noted above, but Japan's cautiousness itself is derived from the fact that Japan is far more vulnerable to China's pressure than the United States, running the gamut from historical issues to Japan's regional role to the perceived and actual threat. Taken together, the Taiwan issue touches upon several major policy debates in Japan that

are still evolving. But Japan has been able to hold it within manageable limits in the context of both Japan-China and U.S.-Japan relations and is likely to do so in the near future.

Mutual Security Concerns

Both countries have quite a broad range of bilateral security concerns with each other. For their part, Japanese concerns include China's political uncertainty, lack of military transparency, territorial disputes over the Senkaku/Diaoyu Islands, Sino-Russian military cooperation, nuclear tests and missile proliferation, and the PLA's increasing strategic reach to the South China Sea.¹³ China's growing regional influence and its burgeoning power projection capability amidst the region's "strategic uncertainty" could well complicate Japan's economic and security policy in two major ways:

First, China's expanding maritime interests, manifested in its occasional yet determined moves in the South and East China Seas, could pose a challenge to Japan's huge trade and investment stakes in Southeast Asia. Not only has Japan been the largest investor in that subregion, but as an energy-deficient nation it continuously needs to secure extensive sealanes for trade and energy, which lies at the heart of Japan's security policy.¹⁴ It is noteworthy that Japan's 1,000-nm defense perimeter overlaps with China's maritime claims and that both navies are increasingly operating in the same area.

Second, China can also indirectly influence Japan's security concerns with North Korea and Russia. Japanese defense officials are well aware that China is either directly or indirectly related to the potential missile threat over insular Japan, on top of the growing concern on the issue after the August 1998 missile test by North Korea. Sino-Russian military cooperation could not only raise the level of regional arms buildup, but it could contribute to the development of China's power projection capability—a prospect Japan intends to delay by linking economic aid to Russia with the latter's arms sales to China.¹⁵ Furthermore, China's influence in Korean affairs has traditionally been a source of great concern to Japan, now more in the context of the Chinese role in a future North Korean contingency and in the Korean unification process.

To Chinese security planners, on the other hand, Japan's "recurrent militarism," defense budget, naval modernization, and joint development of MD pose a source of concern. For this reason, there have been only limited bilateral security dialogues between the two sides.¹⁶ Of particular importance is Japan's 1,000-nm defense perimeter to secure the SLOC (sea-lane of communication) for trade and raw material, which has obvious implications for China's expanding maritime interests.

Recent high-level visits between the two sides have all emphasized

that both countries need, for the moment, to put aside their historical enmities against each other, and their growing trade and investment relationships have largely restrained open criticisms against each other. In particular, their bilateral military diplomacy reached a new level in the late 1990s, which included frequent military-to-military contacts, an accord on maritime accident prevention, and future joint drills and port visits.¹⁷ But the point is that their traditional rivalry and historical distrust linger.

The U.S.-Japan Alliance

During the Cold War, the principal purpose of the U.S.-Japanese security alliance was to deter the common Soviet threat. Since that threat has dramatically dissipated, the alliance has no particular enemy state to focus on. Additionally, a host of recent bilateral and regional developments, such as the increasingly discordant trade relations between the U.S. and Japan, Japan's dubious role in the Persian Gulf War, and China's rising power, have all led the Japanese leadership and the public to redefine the U.S.-Japanese security relationship and Japan's regional and international security role.

The Taiwan issue is also related to the ongoing debate about Japan's regional security role. At issue is a definitional shift in Japan's defense contribution from the "defense of the Far East" (Article Six of the U.S.-Japan Mutual Security Treaty) to the "areas surrounding Japan," as stipulated in the new November 1995 National Defense Programme Outline (NDPO) and reconfirmed in the April 1996 U.S.-Japan Joint Declaration on Security and the September 1997 Review of the Guideline for U.S.-Japan Defense Cooperation (the "new Guideline").¹⁸ China has always been wary of Japan's expanded regional role, of course, but this time it would like to know whether or not the "situations in areas surrounding Japan" include Taiwan—a recurring controversy during and after the final revision process of the new Guideline in September 1997. Given Chinese and other neighboring nations' sensitivity about Japan's regional security role, Japan's official policy on this issue seems to be "not to offer a specific definition," echoing the American position that the scope of the new Guideline is "situational, not geographical."¹⁹

It is in this connection that China sees U.S.-Japanese security ties as crucial in restraining Japanese military power and in maintaining the present regional stability. As Paul Godwin has noted:

There is...a logical discontinuity between Chinese analysts' apprehension about a unipolar system dominated by the United States and its coalition of Western industrialized states and their belief that America plays a crucial role in restraining Japan's nationalism and militarism. It is a dilemma that China cannot resolve to its own satisfaction.²⁰

To repeat, that China adamantly opposes the revised Guideline—for its possibility of U.S.-Japan collaboration in a Taiwan crisis and of Japanese militarism—cannot be overemphasized. However, despite the Chinese analysts' pessimistic view of the revised Guideline and the U.S. role in post-Cold War East Asia, they are well aware that U.S.-Japanese security relations remain the primary linchpin in East Asian stability. In addition, the Chinese analysts believe that the disappearance of the common foe and the new dynamics in both American and Japanese domestic politics could lead to a further redefinition of U.S.-Japanese security relations in the years ahead—a step the U.S. and Japan took in early 1998 to meet the requirements of the new Guideline.²¹ Thus the so-called "double containment" role of the U.S. forces over Japan's possible unilateral military role is seen in a positive light among many Chinese security analysts. In a litchi nutshell, notwithstanding the remaining regional controversies over the interpretation of the "areas surrounding Japan," the NDPO and the new Guideline have steered Japan's security role and policy toward a new direction that may enhance common regional security, if guided by prudence.

China-Japan Relations and Future East Asian Security

The future of Northeast Asian prosperity and security will increasingly be shaped by the economic and security trajectories of China and Japan, and by U.S. relations with both countries. A continued U.S.-Japanese security relationship is vital to American interests and to Asian stability. But how long the current lopsided security ties can be acceptable to their respective publics remains uncertain. While popular antimilitarism is now very strong in Japan, that nation's historical extremism in foreign and security policy since the mid-19th century still is not reassuring, especially to its neighboring countries.²²

In China, now that Jiang Zemin and other top leaders are preparing for the upcoming 16th party congress in the fall of 2002, leaders must achieve unity to maintain political stability and economic development, or just to remain in power. Furthermore, coping with new and complex challenges in Chinese society unleashed by a nearly two-decade reform drive will also be a daunting task for the post-Deng leadership. China's growing social and economic problems—inflation, corruption, the center-regional divide, regional inequalities, and migrant workers, to name but a few—could well complicate leadership unity and political stability, especially in light of demographic pressure, relatively limited resources, and environmental constraints.

Externally, post-Deng leaders in China should not only remain engaged with the outside world but also address the widespread perceptions and worries about the long-term consequences of China's

rise. It is this complex set of major domestic and external challenges that the post-Deng Chinese leadership will face for many years to come. How well and in what manner they handle the challenges could significantly affect not only political stability in China but also, to some degree, the future capability and behavior of China.

In Japan as well, there is growing criticism over the effectiveness of its economic aid and assistance to China over the years on the current and future behavior of China. Not only is Japan's traditional image of an "agricultural China" rapidly eroding, but the Japanese government seems more determined than before to take a stronger response to China's posturing. Perhaps most significant over the long haul is, as Michael Green and Benjamin Self have persuasively argued, that Japan's Cold-War policy toward China, based on four pillars of security, politics, history and economics, is also undergoing significant changes, and its China policy in the new era is now inundated by "a wide range of actors with various distinct interests."²³

It is against the backdrop of these emerging relationships among the U.S., China, and Japan that the strategic identity of a unified Korea is seen as an unknown but critical factor that affects not only their three-way relationships but also the overall regional power balance. As Jonathan Pollack has aptly put it, "[t]he central set of relationships likely to define Northeast Asian security and stability will be the longer-term dynamics between Japan and China, and how the United States is likely to interact with both. The position of a unified Korea...could prove highly consequential in this context, but more in terms of how Seoul might choose to align itself in relation to this larger, three-power dynamic."²⁴

For the short and mid-term, the ROK and the U.S. should seek to bring China's influence to bear in North Korea in achieving the three countries' common interests on the peninsula, namely continued peninsular stability, improved North-South Korean relations, and North Korea's economic reform. Mutual understanding among the three countries could not only offer a potential solution to the current stalemate in North-South Korean relations but also create a favorable condition for the peaceful unification of Korea.

For years to come, the changing regional security climate will continuously draw the attention of U.S. and ROK policymakers and will necessitate the corresponding adjustment in the role and mission of the U.S.-ROK alliance, particularly after North Korea's threat passes. To meet future challenges to the alliance, the current shift for the U.S. from a leading to a supporting role must continue. Given the vast difference in power potential between the Korean peninsula and the surrounding major powers, regardless of whether Korea is unified or not, Korea requires a pro-active, amicable relationship with all major regional powers and needs

to participate actively in multilateral regional security dialogues and U.N.-sponsored peacekeeping activities.

To realize these policy goals, an active U.S. engagement in Asian security and Asian allies' greater defense burden sharing are necessary, but not sufficient. Both the U.S. and Asian governments need to expand the scope of dialogue and communication with the other's public and congress to strengthen further the mutual bonds between the two sides.

Additionally, drawing China and North Korea into a web of multilateral security dialogues is highly desirable, but given the bilateral nature of conflict, a relatively high level of hostility and militarization, and the Chinese and North Korean opposition, its feasibility is in doubt in the current state of interstate relations in Northeast Asia.²⁵ Rather, the United States needs to strengthen the existing network of bilateral security ties with credible military force.

In the years ahead, continued U.S. engagement with China will be an important step on the long road to a stable East Asia. Engagement with China remains a sensible policy but requires a clear and consistent set of goals, such as regional stability, shared development, and integration into international norms. To advance this larger goal, however, not only should the U.S. and East Asian nations recognize China's differing yet often legitimate security requirements, but also make genuine efforts to build confidence with China, which is a time-consuming yet least threatening way to make China more transparent. Finally, it is worth repeating that the future of East Asian security will increasingly hinge on how to deal with the old "China factor" in the new era.

To repeat, of greater relevance to this study is how Japan-China relations will evolve in the future. As the above analysis has shown, this requires an understanding of the history of Japan-China relations and the current dynamics of their bilateral ties, which are in many respects new phenomena. How the old ways of thinking and new dynamics interact with each other in China-Japan relations should prove to be a continuing agenda for Asia's security and prosperity.

Notes

1. International Institute for Strategic Studies, *The Military Balance 2000-2001* (Oxford: Oxford University Press for IISS, 2000), pp. 200-201. Unless noted otherwise, the data and figures on the Japanese and especially Chinese militaries used in the essay are from the above source and the authors' estimates. Due to significant fluctuation in conversion rates between the Japanese yen and the U.S. dollar in recent years, however, Japanese defense budget in U. S. dollar terms could often be misleading. See also "Japan's Increases Defence Budget," *Jane's Defence Weekly*, January 3, 2001, p. 6.

2. Most recent single volumes on a rising China (particularly the "China threat") include Steven W. Mosher, *Hegemon: China's Plan to Dominate Asia and the World*

- (San Francisco: Encounter Books, 2000); Bill Gertz, *The China Threat: How the People's Republic Targets America* (Washington, D.C.: Regnery, 2000); Edward Timperlake and William C. Triplett, Jr., *Red Dragon Rising: Communist China's Military Threat to America* (Washington, D.C.: Regnery, 1999). More balanced and circumspect assessments can be found in David Shambaugh, "Containment or Engagement of China? Calculating Beijing's Response," *International Security*, Vol. 21, No. 2 (Fall 1996), pp. 180-209; Robert Ross, "Beijing as a Conservative Power," *Foreign Affairs*, Vol. 76, No. 2 (March-April 1997), pp. 33-44. For the Chinese views, see Yan Xuetong, "Orientation of China's Security Strategy," *Contemporary International Relations*, Vol. 6, No. 2 (February 1996), pp. 1-15; Hu Ping, "Bo 'Zhongguo junshi weixielun'" [Refuting 'Chinese Military Threat Thesis'], *Guoji Zhanlue Yanjiu* [International Strategic Studies], No. 36 (June 1995), pp. 17-20.
3. Akira Iriye, *China and Japan in the Global Setting* (Cambridge: Harvard University Press, 1992). He strongly argues, however, that the future of Sino-Japanese relations will be determined by cultural cooperation, as a part of the global trend toward cultural interdependence, rather than by economic or military competition between them. See also his "Chinese-Japanese Relations, 1945-1990," in Christopher How, ed., *China and Japan: History, Trends, and Prospects* (Oxford: Oxford University Press, 1996), pp. 46-59.
 4. Iriye, *China and Japan in the Global Setting*, p. 28.
 5. Diana Betzler and Greg Austin, "Gulfs in Sino-Japanese Relations: An Evaluation of Japan's Cultural Diplomacy Toward China," *Journal of East Asian Affairs*, Vol. 11, No. 2 (Summer-Fall 1997), pp. 611-12.
 6. *Asahi Shimbun*, September 22, 1997.
 7. *Nichu Keikyo Journal* [Japan-China Economic Cooperation Journal], January 1997, p. 31; *Zhongguo tongji nianjian 1997* [China Statistical Yearbook 1997] (Beijing: Zhongguo tongji chubanshe, September 1997), p. 594. In their two-way trade, there is a controversy over the actual balance of trade, with each side claiming a trade surplus in the other's favor. The controversy stems from the fact that Beijing includes Japanese exports that go through Hong Kong, whereas Tokyo does not.
 8. "China and Japan: A Balancing Act," *China News Analysis* (Taipei), No. 1521 (November 1, 1994), pp. 3, 8. See also *Gaiko seisho 1997* [Diplomatic Bluepaper 1997], 2nd Volume (Tokyo: Ministry of Foreign Affairs, 1997), p. 22.
 9. Data on student exchanges are from Betzler and Austin, "Gulfs in Sino-Japanese Relations," pp. 583-84. See also Akimasa Mitsuta, "Dealing with China: Notes on Development of Student Exchange Between Japan and China," *Journal of Contemporary China*, No. 7 (Fall 1994), pp. 89-99.
 10. Robert A. Manning, "Burdens of the Past, Dilemmas of the Future: Sino-Japanese Relations in the Emerging International System," *Washington Quarterly*, Vol. 17, No. 1 (Winter 1993), p. 53.
 11. Japan's 1995 trade with Taiwan was US\$43.4 billion, making Japan Taiwan's second largest trade partner after the U.S. with US\$47.2 billion. The Chinese point to Japan-Taiwan relations as an issue to be resolved. See "Zhanhou wushi nian yataidiqu de Zhongguo yu Riben: goujihuiyi jiyao" [China and Japan in the Asia-Pacific Region after 50 Years since the War: An International Conference Summary], *Xiandai Guoji Guanxi* [Contemporary International Relations], No. 2 (1996), pp. 41-49.
 12. Shinkichi Eto, "China and Sino-Japanese Relations in the Coming Decades," *Japan Review of International Affairs*, Vol. 10, No. 1 (Winter 1996), pp. 16-34. The quotation is on p. 32.
 13. The disputed small island group off Taiwan is currently occupied by Japan and is called Senkakus by Japan, Diaoyudaos by mainland China, and Diaoyutai by Taiwan. For further details, see Ji Guoxing, "The Diaoyudao (Senkaku) Disputes and Prospects for Settlement," *Korean Journal of Defense Analysis*, Vol. 6, No. 2 (Winter 1994), pp. 285-311. Japan's naval modernization is in part influenced by China's growing strategic reach.

See Shigeo Hiramatsu, "Chinese Navy and the Revival of 'Sinocentrism,'" *Shin Boei Ronshu* [Journal of National Defense], Vol. 20, No. 3 (December 1992), pp. 16-37. For Chinese views on the TMD, see Information Office of the State Council of the People's Republic of China, *China's National Defense in 2000* (Beijing: Information Office of the State Council of the PRC, October 2000), pp. 5-6; Gu Ping, "Japan: Find a New Excuse to Participate in Constructing TMD," *Beijing Review*, August 21, 2000, pp. 10-11; and Kori J. Urayama, "Chinese Perceptions on Theater Missile Defense: Policy Implications for Japan," *Asian Survey*, July/August 2000, pp. 201-23. Pyongyang, together with Beijing and Moscow, takes a similar position on the TMD issue. See *Minju Chosun*, September 20, 2000, in *Foreign Broadcast Information Service (FBIS)*, October 18, 2000.

14. *Ibid.*, and Mohan Malik, "Japan Wary of Assertive China," *Jane's Intelligence Review*, December 2000, pp. 22-25.

15. Jim Hoagland, "An Arms Race in East Asia," *Washington Post*, July 14, 1992, p. A13; Richard C. Thornton and Bruce A. Babcock, "Japan's Response to Crisis: Not with a Bang but with a Buck," *Global Affairs*, Winter 1993, pp. 1-11.

16. "Japan's Defense Plan Creates Anxiety," *Beijing Review*, January 11, 2001, pp. 8-9. For further details, see *FBIS-CHI*, March 2, 1994, pp. 7-8; *Chosun Ilbo* (Chicago edition), January 17, 1995. As part of a goodwill tour, General Tetsuya Nishimoto, Chairman of Japan's Joint Staff Council, visited both China and South Korea in late February 1995. See *FBIS-CHI*, February 21 and 22, 1995, pp. 6-7 and 5-6, respectively. On the possible impact of the "historical problems" (particularly the recent revision of Japanese history textbooks), see Tang Tianri, "Japan's Stubborn 'History Syndrome' Requires Treatment," *Beijing Review*, March 22, 2001, pp. 8-10 and *idem.*, "Japan: A Passing Mark for Distorting History," *Beijing Review*, April 26, 2001, pp. 12-13.

17. *Xinhua*, December 2, 1997, in *FBIS-CHI*, December 2, 1997; *Sankei Shimbun* (Morning Edition), January 5, 1998, p. 2, in *FBIS-EAS*, January 6, 1998; *TaKungPao*, February 5, 1998, p. A2, in *FBIS-CHI*, February 5, 1998.

18. For the Chinese critique on U.S.-Japan security ties and especially the new Guideline, see "Cadres Voice Concern over U.S.-Japan Ties," *South China Morning Post*, September 6, 1997, p. 9; Liang Ming and Ding Zengyi, "How Can One Win the Trust of Others by Shifting His Troubles Onto Others," *Jiefangjun Bao*, May 18, 1998, p. 5, in *FBIS-CHI*, June 2, 1998.

19. Robert Karniol, "Japan Promotes Regional Security with US Accord," *Jane's Defence Weekly*, October 1, 1997, p. 15; "Hashimoto Warned on Scope of Security Plans," *South China Morning Post*, September 5, 1997, p. 10; Steven Lee Myers, "Risking China's Wrath, U.S. and Japan Bolster Military Ties," *New York Times*, September 24, 1997, p. A7.

20. Paul H. B. Godwin, "China's Asian Policy in the 1990s: Adjusting to the Post-Cold War Environment," in Sheldon W. Simon, ed., *East Asian Security in the Post-Cold War Era* (Armonk, NY: M. E. Sharpe, 1993), p. 131. See also Sheldon W. Simon, "Regional Security Structures in Asia: The Question of Relevance," pp. 11-27 in the same volume.

21. David I. Hitchcock, "Revitalizing U.S.-Japan Security: New Roles for Both Countries," *Yomiuri Shimbun*, July 21, 1994; author's interview with Ambassador Hitchcock, Maryland, October 3 and 4, 1994. See also Robert Karniol, "Japan Promotes Regional Security with US Accord," *Jane's Defence Weekly*, October 1, 1997, p. 15; Sheryl WuDunn, "Japanese Move to Broaden Military Links to the U.S.," *New York Times*, April 29, 1998, p. A6; "Tokyo Widens Pact on US Military Ties," *South China Morning Post*, April 29, 1998, p. 11.

22. For an excellent analysis of the impact of Japan's historical legacies on its current defense policy and perceptions, see Barry Buzan, "Japan's Defence Problematique," *Pacific Review*, Vol. 8, No. 1 (1995), pp. 25-43.

23. Michael J. Green and Benjamin L. Self, "Japan's Changing China Policy: From

Commercial Liberalism to Reluctant Realism," *Survival*, Vol. 38, No. 2 (Summer 1996), pp. 35-58. Sato Hideo argues, on the other hand, that most China specialists in Japan still either downplay China's military threat and the rise-of-China thesis or worry about other kinds of threats (i.e., political disintegration or environmental problems), thus emphasizing the relevance of the traditional Japanese policy toward China. See his "Japan's Perceptions of China and Its Policies in the Alliance with the United States," a paper presented at the Project Conference on "America's Alliances with Japan and Korea in a Changing Northeast Asia," Asia-Pacific Research Center, Stanford University, Stanford, CA, U.S.A., August 21-23, 1997. For a similar line of argument, see Harvey W. Nelsen, "Japan Eyes China," *Journal of Northeast Asian Studies*, Vol. 14, No. 4 (Winter 1995), pp. 81-90.

24. Jonathan D. Pollack, "Sources of Instability and Conflict in Northeast Asia," *Arms Control Today*, Vol. 24, No. 9 (November 1994), pp. 3-6. The quotation is on p. 4.

25. Taeho Kim, "Korean Security in Post-Cold War Northeast Asia," in Williamson Murray and Allan R. Millett, eds., *Brassey's Mershon American Defense Annual* (Washington and London: Brassey's, 1996), pp. 185-202, 270-72, especially pp. 198-200.

Peace and Arms Control on the Korean Peninsula

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Peace at the Central Stage on the Korean Peninsula

South Koreans did not recognize the importance of "the positive peace" until the Kim Dae-jung Administration came to power in 1998. Before then, the concept of "the negative peace" had long been engrained in the minds of South Koreans and Americans. The United States and South Korea have been successful in deterring war up to now. Although North Korea insisted that they should conclude a peace treaty with the United States, their true intent was not to establish "the positive peace" on the Korean peninsula. Herein, the positive peace means that there is neither a war nor a competition, and there is cooperation toward similar or common goals between different states. The Kim Dae-jung Administration began its reconciliation and cooperation policy to create conditions favorable to making positive peace on the Korean peninsula.

Instead, Pyongyang has long held the view that peace has two distinct steps. The first is the peace in slavery. Under that condition, a country lives peacefully, not because it has selected voluntarily such a condition, but because other imperial states or feudal lords have forced it to acquiescence to their rule. Therefore, this peaceful situation is doomed to break down finally. The second is the peace without an imperialist's rule or intervention. Under this condition, a country can truly live peacefully and independently. Based on this peace concept, Pyongyang demanded that the United States keep its hands off the Korean peninsula, leaving South Korea alone. Otherwise, Pyongyang will liberate South Korea from the U.S. imperialists by fighting against the United States with military means. According to their peace concept, war is inevitable and unavoidable so long as the United States stations its armed forces in South Korean soil. Kim Il-sung and Kim Jong-il have maintained this view, and, accordingly, they have insisted upon concluding a peace treaty with the United States to create conditions favorable for pursuing their style of unification. In their

eyes, South Korea has been a slave and puppet to the United States, thereby necessitating their liberation endeavor.

At the end of the Cold War, situations changed so significantly as to affect North Korea's peace concept and change its unification strategy. There has been no substantial agreement with North Korea, so we can conclude safely that their unification strategy and peace concept have not really changed. However, there was a thaw in the inter-Korean relationship first in 1992 as result of the inter-Korean reconciliation, non-aggression, and exchange and cooperation agreements, and the joint statement at the first-ever inter-Korean summit meeting in June 2000. In fact, the historic summit demonstrated North Korea's *de facto* recognition of the South Korean government as having legitimate sovereignty.

Some contend that Kim Jong-il merely attempted to utilize South Korean President Kim Dae-jung's sunshine policy as long as he has wanted to assist North Korea economically. Kim Jong-il's real intention is not to go one step further in order to recognize South Korea as a partner peacefully coexisting on the Korean peninsula. Kim Jong-il still requests that the United States conclude a peace treaty or make peace arrangements with North Korea. As far as the military issues on the Korean peninsula are concerned, Kim Jong-il seems to regard the United States as a legitimate negotiating partner, not South Korea.

Those who believe that North Korea is simply earning a breathing space with temporary South Korean economic assistance cite the evidence that President Kim Dae-jung and Chairman Kim Jong-il did not mention anything about peace and threat reduction in their June 2000 joint statement. This omission aroused concern in South Korea and in the United States. It remains questionable whether North Korea really accepted South Korea as a cooperative and coexisting partner.

Despite the lack of security-related agreements at the first inter-Korean summit, it is undeniable that the two heads of state began political confidence-building between them. They are leading the reconciliation process by preventing the process in their respective societies from going back to the hostile relationship as in the past. If the two leaders can survive the rising contention against the reconciliation policy in their own society as well as from abroad, mainly from the United States, the second summit meeting will take place and an agreement pertaining to peace will be more feasible.

It is, however, not easy at all for the two Koreas alone to strike a deal on peace on the Korean peninsula. To repeat, North Korea is not interested in peace arrangements with South Korea at all. The Bush Administration's new North Korea policy might complicate the inter-Korean reconciliation process in light of North Korea's long-held

position to address military issues with the United States. As the United States government commits itself to the dialogue with North Korea on three accounts such as the nuclear issue, the missile issue, and the conventional military issue, it is likely that South Korea will be sidelined again by North Korea as it was during the U. S .-DPRK nuclear talks.

Nevertheless, conventional arms control is needed on the Korean peninsula in tandem with negotiations to reduce or eliminate North Korea's threats of mass destruction weapons. Therefore, South Korea and the United States should sit down together to design a common scheme for a comprehensive arms control negotiation. It is not an easy task to replace the truce regime with a permanent peace regime all at once. Abolishing the truce regime without an actual threat reduction on each side endangers the security of South Korea and the United States, not to speak of North Korea's security. Hence, we need to have carefully designed arms control policy alternatives.

Retrospect and Prospect for Arms Control in Korea

It is often forgotten that Korean arms-control issues were discussed seriously nearly a decade ago. Indeed, the scope of prior discussions was remarkable. In 1991 and 1992, the South and North discussed how to improve their overall relationship and how to reduce military tension in the wake of the Cold War's end. The two Koreas agreed to resolve differences peacefully through dialogue and negotiation, pledged not to use force against each other, and agreed to establish a South-North Joint Military Commission (JMC) to discuss and carry out steps to build military confidence and realize arms reduction. These were to include the mutual notification and control of large-scale military maneuvers and exercises; the peaceful utilization of the Demilitarized Zone (DMZ); exchanges of military personnel and information; phased arms reductions, including the elimination of weapons of mass destruction and offensive capabilities; and verification of such elimination.

In large part because discussing U.S. forces was regarded as out of the question, the South demanded in the negotiations that confidence building should take place before any arms reduction talks, whereas the North demanded that arms reduction should take place first. The South proposed that the two Koreas agree to the notification and observation of military exercises and maneuvers, peaceful utilization of demilitarized zones, exchange of military personnel and information, and verification and elimination of weapons of mass destruction, whereas the North proposed prohibiting military exercises with foreign countries, changing the DMZ into a peace zone, staging force

reductions from 300,000 men to 100,000, with the phased withdrawals of U.S. forces in Korea being proportional to the reductions made by the two Koreas, reducing offensive weapons in proportion to manpower reduction, and suspending the acquisition of advanced weapons from abroad. Although the North's proposals were patently one-sided in many respects, their ambitiousness was considerable, and discussions proved possible. The two sides also agreed that subsequent negotiations would take up confidence building and arms reduction measures at the same time.

A sub-agreement signed in September 1992 as part of a process to move toward implementation went even further. It prohibited the intrusion of regular or paramilitary forces into the other's territory and any use of any force against the other. It also gave the JMC a mandate for further discussions about prohibiting: military build-ups along the DMZ, reconnaissance activities against the other side, the hindering or blocking of a side's air and sea access, and threats to the security of each side's capital. The parties also agreed to establish a hot line communication link between Defense Ministers.

Progress, then, appeared to be considerable. However, the action-officer meeting on the hot line was suspended when Seoul linked the resumption of the Team Spirit exercise with Pyongyang's acceptance of South-North nuclear inspections. The agreed measures were never implemented for at least three reasons. First, the issue of North Korea's nuclear program emerged, and the focus on that issue (particularly by the United States) blocked any potential progress on conventional arms control. Second, South Korea and the United States decided to resume the Team Spirit exercises when North Korea refused to accept special nuclear inspections. Third, the North unilaterally violated some provisions, such as its commitment not to vilify and antagonize the South and not to introduce regular or paramilitary forces into the South. It continued its espionage and sent submarines into Southern waters. Some of these efforts were detected and raised tensions. And, finally, the North did not even want to talk with the South on security issues after it had enjoyed direct talks with the United States on nuclear matters.

Although the inter-Korean arms control discussions yielded important results, it is sobering to make a net assessment. North Korea achieved some of its aims in the conventional military arena and gained a good deal from the nuclear discussions as well. Consistent with its objectives, Pyongyang saw a complete pullout of U.S. nuclear weapons from Korea and permanent cancellation of the Team Spirit exercises, which had been symbolic of the highly developed ROK-U.S. military alliance. Moreover, it achieved its goal of direct security talks with the

United States—"over the head" of Seoul. North Korea now contends that there are two remaining tasks: withdrawal of U.S. forces in Korea and a complete cessation of the U.S.-ROK military alliance. In contrast, South Korea and the United States ultimately gained nothing from the 1991 conventional arms control efforts because nothing was implemented.

Where South Korea and the United States arguably made some gains was on nuclear and missile issues, although those matters remain contentious. In the inter-Korean nuclear talks of December 1991, which were prompted by the unilateral withdrawal of U.S. tactical nuclear weapons, the two Koreas agreed to the principle of the de-nuclearization of the Korean peninsula. This was the result of a quid pro quo between South Korea's canceling Team Spirit and North Korea's accepting nuclear safeguards and inspections by the International Atomic Energy Agency (IAEA). In 1993 and 1994, the U.S. and South Korea achieved a freeze of North Korea's nuclear weapons development program (the true extent of which remains in question) in exchange for providing heavy fuel oil and light water nuclear reactors to Pyongyang and the lifting of economic sanctions. The United States used the resulting momentum to stimulate talks on North Korea's missile program. North Korea agreed to a moratorium on its missile test launches, and the U.S. lifted economic sanctions and removed the label of "rogue" state. However, there is still no permanent agreement on development, testing, or export of missiles. Despite some optimism following discussions between Kim Jong-il and Russian President Putin, it appears that North Korea will try to use its missile-related bargaining chip again and again. Ultimate results remain ambiguous. Moreover, they appear to be valued more by the United States (and perhaps Japan) than by South Korea.

As mentioned above, after initiating direct negotiations with Washington over nuclear weapons, North Korea consistently pursued discussions only with the United States. The United States and South Korea were, of course, sensitive to this divisive tactic. In 1996, they proposed the four-party talks (two Koreas, the United States, and China), which would meet in Geneva and address tension reduction and confidence building. South Korea and the United States tried to raise these issues in the resulting talks but blocked North Korea's efforts to include U.S. forces in the agenda. North Korea resisted any progress, at least in part for this reason.

Against this background, what is the context for new negotiations? Despite the 1991 South-North agreement to pursue military confidence building and arms reduction simultaneously, the Kim Dae-jung government still believes that confidence building should take place

before any arms reduction talks. It worries that any premature arms reduction talks will entail reconfiguration and reduction of U.S. troops in Korea, thus jeopardizing deterrence on the Korean peninsula. Some officials believe that such talks will also be "more than the traffic would bear," an opinion often expressed over the years by U.S. officials focused on nuclear issues. In contrast, North Korea maintains that arms reduction should take place first, although, notably, it has indicated several times a willingness to compromise on the future role of U.S. forces in Korea so long as the United States changes its status to one of neutrality or peacekeeping.

Perhaps most important, the June summit and subsequent meetings suggest that many changes have occurred in the security premises held by the North. North Korea's utmost concern seems to be in assuring its regime's survival. This suggests that defense planners in Seoul and Washington can think anew about reciprocal conventional threat reduction and how to reach unification peacefully, while maintaining Korea's long-term stability and regional status in East Asia. In sum, the first chance for conventional threat reduction failed in the early 1990s, but the conditions may be more auspicious now. If the United States shows a strong interest in conventional arms control, the chances for a negotiated settlement on this issue will increase substantially. The prospect for progress in the nuclear and missile issues will be higher when pursued with the conventional issue at the same time than when the United States negotiated only on the missile issue with North Korea.

Objectives and Principles for Conventional Arms Control

Objectives of Conventional Arms Control

One place to look for potential objectives is experience elsewhere, particularly in Europe during the 1980s. The Korean situation, however, is quite different. The differences include the depth of hostility and distrust between the DPRK and ROK, the special circumstance of having a superpower involved in what would otherwise be a purely local matter, the conflict within a single people, and the need to think about the post-normalization strategic balance in East Asia.

Upon reviewing the issues afresh, while focused on Korea rather than historical events elsewhere, the most suitable objectives appear to be the following:

- Facilitating peace, normalization, and potential eventual reunification
- Deterring invasion or other acts of attempted aggression

- Avoiding crisis and, if that fails, assuring crisis stability
- Cutting back on the arms competition to enhance strategic stability, but also to permit increased allocation of resources for social and economic development
- Laying the groundwork for a military transition of the Koreas (and U.S. forces) consistent with the strategic interests of a post-normalization Korea (or two Koreas) in East Asia and the Asia-Pacific region.

Although it may look like fluff to those familiar with Soviet-Western arms control history, the first objective is in fact a core issue in Korea, given the long history of rancor between them. If the strategic decision has been taken by the DPRK to forego unification by force and to instead pursue peace and normalization, then it will be very important to facilitate the shifts of perceptions—at all levels of society—that will be necessary for that normalization to succeed.

This said, the fact remains that the DPRK still represents a serious and immediate threat to the South. This is perhaps the single most important reality to be kept in mind. Moreover, it is likely that the DPRK harbors fears of invasion from the South or attacks from U.S. forces—if not under normal circumstances, then under plausible circumstances of domestic unrest. Such substantive security issues, not just perceptions about them, have a fundamental role in any negotiation. Deterring invasion and other acts of aggression, then, should have top priority. Deterring invasion involves making surprise attack much more difficult than it is today. Since the DPRK has systematically and asymmetrically mounted an immediate surprise-attack threat against the South by establishing forward-deployed invasion forces and a huge number of special-operations forces trained specifically for invasion, and because of geographic asymmetries, conventional arms control should also be asymmetric in its immediate implications. The principle, however, would be symmetric: neither side should fear surprise attack. In practice, "fear of surprise attack" would be measured differently by the two sides because Seoul is near the border and Pyongyang is not.

The surprise-attack issue is especially important because it is arguably the most "real" of the military threats to either side. North Korea's military is far weaker today than in years past, whereas South Korea's is stronger. It is widely agreed by military experts that any full-scale invasion by the North would be doomed to failure—if the objectives were traditionally grandiose, as in conquering South Korea. The only issue is how long it would take for ROK and U.S. forces to devastate the North's army. However, the story looks different when considering a surprise attack with limited objectives such as the capture

or siege of Seoul. That scenario remains a nightmare. If we view the situation from the North's perspective, there is, of course, the theoretical potential for invasion from the South. Realistically, however, that would seem to be implausible without extraordinary provocation. Moreover, any invasion would likely be a long, costly, and bloody affair—in part because the North has developed what amounts to a defense in depth. The United States would rather obviously not see such an invasion in its interests unless severely provoked, and probably not even then. And South Korea would have substantial difficulties operating by itself, since its military system has long been so intertwined with that of the U.S.-led U.N. command. In short, the North has little to worry about (unless, conceivably, it goes into collapse and civil war, at which point chaos might ensue). The North's more plausible concerns would probably be different in kind: aircraft and missile strikes by the United States, launched not only from South Korea, but from aircraft carriers and distant air bases. Given the number and character of American interventions or near-interventions in the last decade, such a prospect might be a concern to North Korea. However, the severity of such a threat ultimately depends on the issues of long-range missiles and mass-casualty weapons, not the status of conventional forces on the Korean peninsula. It follows that neither side has a serious problem of military threat—*except* for the threat of surprise attack on the South. Thus, addressing this issue has special importance.

Another component of enhancing military security is avoiding the crises that could turn into wars or, failing that, assuring that crises would not lead to war as the result of misperceptions or instabilities. In particular, there should be no significant real or perceived advantage in initiating hostilities. This is related to surprise attack, but goes well beyond it. It relates to the ability of the sides to defend against attack. For example, if both sides' forces were designed, trained, and poised primarily for rapid offensive operations, then commanders at the time of crisis could reasonably conclude that the side moving first would have major advantages. In contrast, if the sides' forces—taking everything into account from weapon systems to deployment locations and doctrine—were well suited to defense, then any pressures for instigating war would be greatly reduced. Although the notion that individual weapon systems, or even type units, are either "offensive" or "defensive" has long since been discredited by detailed military analysis, it remains the case that a nation's military forces can have decidedly offensive, defensive, or mixed characters. Arms control negotiations should identify attributes of an end state suitable to crisis stability.

Moving beyond the core security concerns, the sides should have every incentive to reduce the magnitude of defense expenditures so that national resources can be put to more productive ends. Given the very large levels of current Korean forces, normalization would include substantial reductions in force levels and a significant reduction in absolute defense expenditures.

The last objective is in some respects the subtlest. Some well-intentioned actions taken under the rubric of peace, normalization, and arms control could prove, in the long run, to be not in Korea's interest. When normalization is achieved, Korea (or two cooperating Korean states) will exist in a highly dynamic region of the world with many opportunities, issues, and challenges. To the north will be a massive neighbor, China, whose long-term behavior may range from that of a good and powerful neighbor and competitor to that of a demanding would-be regional hegemon. There will likely be continuing tensions among China, Japan, and Korea; and problems may arise involving other regional states as well. It is because of the importance of the region and the many potential sources of security problems that the United States is widely recognized as an essential stabilizer. The United States, however, has difficulties in maintaining and operating effective forces in the region. Furthermore, U.S. forces are small in number in comparison with those of regional forces, and the United States will likely continue to avoid taking the lead in peacekeeping, peacemaking, or other activities not involving its vital national interests. Thus, if the United States is to play an effective role as stabilizer, it will do so through cooperation with regional states—including consistent and well-respected partners, and occasional ad-hoc participants. A question, then, is whether Korea sees itself as a significant player in the future regional security issues and, beyond that, as acting as a long-term partner with the United States and other nations.

This question is easy enough to ask, but it deals with a drastically different Korea-U.S. relationship than exists today. Today, U.S. military leaders dominate planning for the security of South Korea, U.S. ground forces are permanently stationed in the very heart of Korea itself, and the United States would in some respects (e.g. air forces, naval forces, and command and control) play the lead role in any defense. In the post-normalization world, that relationship would be history. But what relationship would be suitable?

Although such matters will and should be discussed as events evolve, it seems to us that Korea will want to emerge with a much smaller but highly competent military suitable for: assuring national sovereignty, participating in regional security affairs in cooperation with other states, and—as an important part of that—working in long-

term partnership with the United States. This would not be partnership "against" someone (notably China, with whom one might actually expect Korea to have a long-term friendly relationship), but rather partnership "for" regional stability and continuing good relations and contacts among *all* the regional states. With this in mind, it is quite plausible that Korea will decide that it is in her long-term interest to host some U.S. forces and encourage regular or occasional visits by others—but all in the context of either (1) continuing help in assuring the peace between the Koreas or (2) promoting regional stability and development.

It follows that, in the long run, any U.S. force presence in Korea might logically shift from that of forward-deployed, combat-ready, heavy ground forces to an emphasis on naval forces, air forces, and multilateral ground forces for miscellaneous regional functions. Moreover, any such presence would logically shift toward the periphery of Korea. One possibility, with much to recommend it for the United States and the regional states benefiting from U.S. naval presence, would include providing the logistical services for a U.S. naval group to be serviced or even home ported (as one is home ported currently in Japan), having fairly frequent fly-ins of U.S. Air Force fighters for exercises and regional crises, and perhaps having some ground forces (with more of a U.N. character than U.S. character for continued monitoring and peacekeeping under benign conditions).

It follows that the ROK (and the United States) should follow a strategically adaptive strategy guided by at least three principles:

- The ROK should seek actions by the DPRK that more or less irreversibly reduce the threat it poses to the South. More specifically, the ROK should not rely on good intentions, but should recognize that intentions can change for the worse in a heartbeat, and that a "basket-case country" such as the DPRK could implode violently with unpredictable consequences.
- At the same time, the ROK should itself avoid premature irreversible measures. In particular, once any changes affecting U.S. ground forces occur, they are likely to be irreversible.
- The ROK should have, at each point of negotiation, options for opening or closing the valve for both economic assistance and military action.

We should expect the DPRK to have similar but opposite desires. This does not mean that we are dealing with a zero-sum game: when "the game" is viewed in the larger scheme, as discussed at the end of the section, a set of two-sided principles emerges that is consistent with a win-win outcome.

Reflecting the two sides' concerns

This discussion so far has identified potential ROK objectives. For any principle to be acceptable and negotiable, the views of the two opposing sides should be reflected in the principles. Therefore the following principles are suggested as even-handed ones to guide conventional arms control on the Korean peninsula.

- Both sides should be secure from surprise attack (i.e., surprise attack should be infeasible).
- Both sides should be reasonably secure from the threat of large-scale, deep, conventional invasion.
- Both sides should be secure from being coercively threatened by the other (as from missile attacks).
- Both sides should be secure in knowing that, even in crisis, neither side would have military reasons "compelling it" to initiate conflict. That is, the sides should be able to manage any crises that may emerge despite efforts to prevent them.
- Although some degree of military modernization should be expected and will be necessary, it should not be of a character or magnitude such as to upset the military balance.
- Eventually, the Korean peninsula should be free from foreign ground forces. In the interim, any such foreign ground forces should increasingly assume the character of peacekeepers with U.N. mandate rather than major combat forces. However, it is in the interest of both sides that any such transition occurs slowly, so as to avoid undercutting either the reality or the perception of assured deterrence and stability guaranteed by the U.S. presence.
- It is in the interest of both sides to achieve security and stability at substantially reduced force levels, and for both sides to spend smaller portions of their national products on military preparations than in previous years.
- Both sides should be secure from having misperceptions about the military balance that may cause political instability. As a result, there should be substantial transparency about the quantity, quality, and posture of the two sides' military forces. Regarding the WMD issues on the peninsula:
 - The Korean peninsula should have no weapons of mass destruction or long-range missiles. This principle reflects the recognition that for Korea to have such weapons would not only be destabilizing on the peninsula, but would potentially cause substantial problems for international security as a whole (i.e., Korea would be seen as a "proliferator" causing trouble worldwide).

Proposing Arms Control Measures

With this background of objectives and principles, this section summarizes the numerous measures that would support the objectives and principles we have postulated. Confidence-building and tension-reduction measures focus on perceptions: if the summit was indeed a historical milestone reflecting strategic intentions to normalize, then CBMs can help that process by helping to change the perceptions that otherwise might remain linked to the "bad old days" (and bad they have truly been).

The constraints deal with militarily substantive issues on how forces are "operated." This involves where they are located, their states of readiness, the operations they prepare for and conduct routinely, and so on. Constraints on such matters can do much to reduce the likelihood of surprise attack and to reduce any incentive for a side in crisis to initiate conflict.

Finally, the arms reduction measures deal with "structural" arms control—i.e., limits on the size and character of the forces. These measures can bring about reductions in the cost of defense generally and—if guided by appropriate principles—lead to increased strategic and crisis stability, while simultaneously preparing Korea to play a vigorous role in the region's larger long-term security affairs.

There are some measures to avoid. These include: (1) reductions in defense capabilities and readiness that could undercut deterrence by making surprise attack possible or initiating war (in crisis) advantageous, (2) constraints on military modernization that might preclude Korea from having the weapons systems and forces that would enable it to have an independent, effective, long-term defense capability and that would permit it to operate readily and proudly with other nations' forces. Our measures are also unabashedly "asymmetric" in referring to force pullbacks from the border. The reason is simple: Seoul sits near the border, whereas the DPRK's capital is more distant. Further, the current military balance is highly asymmetric: the DPRK has deliberately mounted an immediate surprise-attack threat on the ROK's capital; the ROK has done nothing similar. It follows that draw-downs should also be asymmetric. The principle for a negotiated outcome, however, can and should be symmetric: both sides should be secure from surprise attacks on their capitals. The principal relevant lesson from Europe's experience with conventional arms control is that a symmetric principle can hold sway even though the immediate implications are asymmetric: the Soviet Union *did* agree to equal ceilings, which meant highly asymmetric reductions. The biggest obstacle to that outcome was probably the argument by people within NATO that equal ceilings would be non-negotiable.

To foster peace and normalization, possibly leading to ultimate unification, CBMs should be instituted such as suspending underground insurgency and vilifying propaganda and allowing frequent exchanges at all levels, not only including political, economic, and social levels but also military personnel.

Constraints such as a temporary moratorium on large field exercises will be useful. However, unilateral change on U.S. and South Korean military posture will not be recommended. Regarding arms reduction measures, the U.S. and South Korea should acknowledge from the outset that changes in USFK is one component of subsequent negotiations with North Korea. The two Koreas should freeze defense expenditures with expectations of later reductions at the same time.

To deter war on the Korean peninsula—primarily by making surprise attack difficult—the two Koreas and the United States should install inspector teams to observe and monitor large-scale operations, including any that might occur on plausible invasion corridors. The purpose here is not nitpicking, detailed bean-counting, or intrusiveness, but substantive protective measures against surprise attack.

In this regard, the three countries should not only relocate forces to reduce the feasibility of surprise attack, but also create "red lines." A red line is a geographic line across which it is understood that a given side's military forces should not move—at least not beyond some agreed level. The crossing of a red line should be regarded as extremely serious provocation—so much so as to constitute a *casus belli*. Although red lines provide no guarantees of security, they can reduce ambiguities in crisis and increase the likelihood that decision-makers in crisis will recognize and act upon warnings of imminent threat. That, in turn, makes surprise attack more difficult to plan and achieve, and thereby enhances deterrence—not merely in some ethereal way, but in down-to-earth terms.

With respect to arms reductions, the three countries should reduce to common ceilings smaller than the current total of South Korea and U.S. forces. To cut back the military competition to permit increased emphasis on economic development and related non-military matters, the two Koreas should enter the joint discussion of modernization efforts, even to include ways to use military units as part of CBM activities (e.g., mine clearing, road building). As constraint measures, the two Koreas should reduce the level of overall readiness and the pace of training and exercising, while retaining high readiness of core forces, including those critical in deterring surprise attack.

The sides should also limit the extent and nature of modernization, but not modernization per se. Modernization can make reductions easier, reduce operations costs, and improve confidence in defensive

operations. On the other hand, some modernization could be destabilizing—particularly if well suited to large-scale offensives. Numbers matter here, not just names of weapon systems and unit types. Even defensive forces need "offensive weapons" such as tanks and tactical aircraft, but the overall nature of a force structure depends on the balance among component capabilities, deployment and readiness posture, and many other factors. To enhance crisis stability, the two Koreas and the United States should announce all large exercises one year in advance, and perhaps forego particularly large-scale exercises altogether. The Koreas might also install a hot line to facilitate discussions in crisis, although the hot line may simply be a symbolic matter in this era of worldwide communication technology. As constraint measures, the two Koreas and the United States should accomplish asymmetric pullbacks and create recognized red lines such as 40-50 km back from the DMZ on the DPRK side, and 20-30 km back from DMZ on the ROK side. The asymmetry here is important militarily, especially for the smaller pullbacks and South Korea's defense of its capital, Seoul. The two sides should prohibit force development suitable to rapid attack or invasion.

To increase the likelihood of long-term regional stability for South Korea or a unified Korea, the two Koreas in transition should encourage each other to participate in the discussion of Korea's role in regional security framework of different types, such as the ASEAN Regional Forum, the Northeast Asia Cooperation Dialogue, and other international mechanisms. As constraint measures, the two Koreas should discuss the transition of U.S. forces from a ground presence to a naval presence with naval servicing (even, potentially, home-porting) and air presence. As arms reduction measures, the two Koreas should establish eventual force levels adequate to assure Korean independence, freedom from coercion, and ability to participate in international peace actions. Our assumption here is that the two Koreas and the United States should focus on top-priority measures across the board, whereas lesser measures assume lower priority.

Negotiation Formats and Remaining Issues

In dealing with the WMD issue and conventional threat issue, the United States and South Korea should integrate their political, economic, and military inducements toward North Korea into one overarching strategy. The two allies should design integrated steps regarding how much and when South Korea and the United States will provide substantial economic assistance beyond the humanitarian aids to North Korea.

The United States and South Korea should link substantial

economic assistance to North Korea's concession on military threat reduction in both conventional and mass-destruction weapons. Considering the fact that the South Korean government has so far deferred the WMD issue and conventional threat reduction issue to the later stage, the United States had better take up the leading role to address the WMD issue and conventional reduction issue. In this sense, it is reassuring to see the recent U.S. announcement focusing its resumed talks with North Korea on the implementation of a 1994 nuclear deal between the United States and North Korea, the North's missile program and conventional military threats.

There are three ways to establish a close link between the progress on the resolution of the WMD issue and the progress on conventional arms control. The first one is to negotiate the two issues at one channel: trilateral arms control talks among South Korea, North Korea, and the United States. This will require the United States to fold nuclear and missile talks into three-party talks. The United States should address the issue of chemical and biological weapons in the talks, too. For this option to be viable, it is important to get China's support for opening trilateral talks first. It is also equally important to incorporate all the military issues pertinent to the Korean peninsula, including the USFK issue in the trilateral talks. The United States is inextricably intertwined with the WMD issue and conventional issue on the Korean peninsula. Thus, it is doubtful what we can achieve by leaving the WMD issue to the United States and leaving the conventional military issue to the South-North talks.

Pros for the trilateral talks are: (1) they can integrate all security negotiations into one channel; (2) they can address the totality of military threats, WMD and conventional alike, in one channel; (3) it is easy to calculate the contribution of any deal to the entire security of South Korea and United States on the Korean peninsula; (4) they can avoid North Korea's divisive tactics between South Korea and the United States; (5) they can maximize the utility of all the economic incentives to be provided to North Korea; (6) they can reflect common security interests of South Korea and the United States; and (7) they can reduce the time and energy South Korea and the United States otherwise would have spent in coordinating their policy through different channels.

Cons for the trilateral talks are: (1) North Korea may not come to the table because it only wanted to hold WMD talks with the United States; (2) it remains questionable whether South Korea and North Korea will agree with this format of dialogue; and (3) South Korea may be isolated at the negotiation table because of North Korea's efforts to marginalize the South.

The second negotiation format is the U.S.-DPRK talks as were in the nuclear talks in Geneva between 1993 and 1994. These bilateral talks will take up all the security issues, including nuclear, missile and conventional threats. The South Korean government seems to have expressed disapproval for this format. Nevertheless, this option is possible if the United States is to discuss all the security issues pertinent to the Korean peninsula at the talks with North Korea.

Pros for this format are: (1) there is high possibility of negotiated settlement between the United States and North Korea because North Korea has insisted upon having direct security talks with the United States for a long time; and (2) it is the most effective dialogue format in light of the military structure on the Korean peninsula, where the United States maintains the wartime operational control over South Korean forces and the U.S. Commander in Chief takes the position of Commander of the United Nations Command.

Cons for this format are: (1) there is the possibility that the United States will reluctantly accept North Korea's proposal for a peace treaty; (2) South Korea's sovereignty will be undermined because South Korea will continuously be excluded from any security talks with North Korea; (3) South Korea's sunshine policy may come to end because of the U.S.-DPRK talks; and (4) South Koreans will have to oppose the U.S.-DPRK if the agreed outcome between Washington and Pyongyang benefits North Korea excessively.

The third negotiation format is the division of roles between the United States and South Korea. South Korea will deal with the conventional arms control issue exclusively with North Korea, whereas Washington will negotiate with Pyongyang on WMD issues. In this case, the United States should not allow Pyongyang to divide the issue and negotiate on an item-by-item basis. In terms of verification, Washington should bear in mind that it could not persuade Pyongyang to accept special nuclear inspections in 1991 and 1992 through the inter-Korean nuclear talks. In the conventional arms control talks, the South Korean government should pursue a holistic approach by allowing all the conventional issues at the talks: confidence-building measures, constraint measures, and arms reduction measures.

Pros for this option are: (1) this format takes into full account South Korea's principle of resolving the Korean issue first between the two Koreas; (2) it can attempt to change the security reality gradually, not radically; and (3) it is in line with the recommendation promulgated by the Perry Process as result of policy coordination among South Korea, Japan, and the United States.

Cons for this option are: (1) it presupposes that the United States should not address the conventional military threats with North Korea,

which is against U.S. policy; (2) North Korea would not accept this format; and (3) the United States may be lukewarm to this division of roles.

Comparing the pros and cons of the three negotiation modalities, we can say that the trilateral arms control talks is the best option of all. However, it requires Seoul and Washington to choose the best option after discussing all the benefits and costs of the modality and alternative arms control measures to persuade Pyongyang to accept it.

Conclusion

As emphasized in the new U.S. approach to North Korea's security problem from the holistic perspective, now is the time for us to take a new look at the engagement policies of South Korea and the United States from a holistic perspective. In designing the grand bargain with North Korea, establishing linkage between economic aid and military issue is inevitable because political debate inside South Korea as well as in the United States compels the governments to set up such linkages. For example, in constructing the Kaesung Industrial complex, the linkage between economic aid and military threat reduction is unavoidable in order for the South Korean government to gain political support for the project continuously.

If we are going to make the best use of North Korea's incentive to negotiate with the United States on security issues, it would be wise to connect the incentive to the U.S. and South Korea's demand for pullbacks of North Korean forces from the frontal area with economic benefits proportional to the degree of those pullbacks. This linkage could further prevent North Korea's one-time hit-and-run approach. By doing so, South Korea and the United States can take the initiative to build peace on the Korean peninsula. In building peace on the Korean peninsula, we need to take a building-block approach with a time frame of five to ten years because it takes time for the three parties to implement the ambitious arms control approach faithfully with adequate, if not too effective, verification measures in place.

Notes

1. For discussion of the 1991-1992 negotiations, see Yong-Sup Han, "Resolving the Arms Control Dilemma on the Korean Peninsula," in Bjorn Moller, ed., *Security, Arms Control and Defense Restructuring in East Asia* (Brookfield, VT: Ashgate Publishing Company, 1998).

2. For other discussions of Korean-Peninsula negotiating history and suggestions for change, see Leon Sigal, *Disarming Strangers: Nuclear Diplomacy with North Korea*

(Princeton, NJ: Princeton University Press, 1998). Scott Snyder, *Negotiating on the Edge* (Washington D.C.: United States Institute of Peace Press, 1999). Yong-Sup Han, "North Korean Behavior in Nuclear Negotiations," *The Nonproliferation Review*, Spring 2000.

3. This section depends exclusively on the author's collaborative work with Paul Davis and Richard Darilek. Yong-Sup Han, Paul K. Davis and Richard E. Darilek, "Time for Conventional Arms Control on the Korean Peninsula," *Arms Control Today*, December 2000, Vol. 30. No. 10, pp. 16-22.

4. Yong-Sup Han, *Designing and Evaluating Conventional Arms Control Measures: The Case of the Korean Peninsula* (Santa Monica, CA: RAND, 1993), p. 120-124.

5. *Korea Herald*, June 9, 2001.

Power Dynamics of Weapons of Mass Destruction on the Korean Peninsula

Problems and Remedies

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Introduction

A decade after the Cold War ended, the world still seems to be in a transitional period. It is a dynamic time with drastic changes. There are opportunities that can consolidate sustained peace and future stability. There are also risks that could generate new instabilities and even conflicts in a fast-changing world. Northeast Asia, and the Korean peninsula in particular, is perhaps the best place to illustrate the uncertain situation.

Unlike some other regions of the world, Weapons of Mass Destruction (WMD) have been a central element in Northeast Asia.¹ Despite the reduced danger of a major nuclear exchange among the major powers, the proliferation of mass destructive warheads and their delivery systems is emerging as a new source of insecurity for almost all countries concerned. In particular, the Democratic People's Republic of Korea (DPRK: North Korea) has allocated a tremendous amount of resources over the past decades to develop WMD. This has consequently altered the delicate security balance on the Korean peninsula as well as all of Northeast Asia. How to address the issue best has become a common priority on the regional agenda.

How Does North Korea Develop Weapons of Mass Destruction?

Nuclear Development

North Korea has pursued a nuclear capability since the 1950s, when

it began to receive technological support from the former Soviet Union. In the mid-1960s, North Korea established a large-scale atomic energy research complex in Yongbyon, staffed with trained specialists who had studied in the Soviet Union. Under a cooperative agreement with the Soviet Union, North Korea launched its ambitious nuclear weapon program by assembling a Soviet IRT-2M research reactor in 1965. Throughout the 1960s, North Korea focused on modernizing Soviet reactors on the one hand, and building a new gas-graphite reactor to separate and produce plutonium on the other.²

In the 1970s, North Korea concentrated its nuclear research on the nuclear fuel cycle-refining, conversion, and processing technologies. It successfully increased the power generation capacity of the research atomic reactor through its own technology, and in 1980 started the construction of a 5MW-level research reactor.

In the 1980s, the North focused on the practical uses of atomic energy and completed the nuclear research and development infrastructure by 1986. Subsequently, it began to operate uranium refining and conversion facilities. In 1989, Pyongyang embarked on the construction of a 200MW-atomic energy power plant and large reprocessing facilities in Taechon and Yongbyon. Additionally, the North conducted detonations to test triggering devices with high explosives.

It is estimated that by the early 1990s, North Korea completed the entire nuclear fuel cycle from the acquisition of nuclear fuel to its reprocessing. Due to difficulties in developing detonation devices and delivery systems that require advanced precision technologies, it is uncertain whether Pyongyang has actually finished production or now possesses usable nuclear weapons. However, considering its capability to extract plutonium from used nuclear fuel, North Korea is estimated to be capable of assembling and producing one or two crude nuclear weapons.

The next task for North Korea would be to develop nuclear warheads small enough to load on a missile. Specific missile technologies for the North to focus on are: technology for stabilization of the inertial navigation system; technology for automatic adjustment of warhead weight; and technology related to fuel injection and combustion systems.³

Chemical and Biological Weapons

North Korean chemical weapons present a major challenge because a few can be assembled with widely available chemical agents and commercial equipment. Easily produced and potentially very destructive, they have been called "the poor man's atomic bomb."⁴

North Korea's chemical warfare capabilities include the ability to produce bulk quantities of nerve, blister, choking, and blood agents, using its sizeable, although aging, chemical industry.

Some chemical agents like tear gas are commonly used in riot-control, but those used in chemical warfare are more nefarious, attacking the body's nervous system, blood, skin, or lungs. North Korea long ago recognized the importance of chemical warfare and issued a "Declaration for Chemicalization" at the end of 1961. North Korea has since begun to build research and production facilities in a sustained and concerted effort to produce chemical weapons.

Eight different factories in North Korea have produced lethal chemicals, such as nerve, blister, blood, and vomiting agents, as well as tear gas, and at present they are stored in six different facilities.⁵ Their quantity is estimated to be around 2,500-5,000 tons, which could be employed should there be renewed fighting on the Korean peninsula.⁶

The North is also suspected of maintaining numerous facilities for cultivating and producing the anthrax bacteria and other forms of biological weapons.⁷ In the 1980s, the military turned to the development of biological weapons according to Kim Il-Sung's directive that "poisonous gas and bacteria can be used effectively in war."⁸

Biological agents consist of living organisms (bacteria and fungi) and viruses, as well as the toxins derived from them, that cause disease and death to humans, livestock, or agricultural crops. Biological weapons have perhaps acquired a more sinister reputation than chemical weapons due to their potential to produce frightening effects on the cheap.⁹

In addition, the North possesses various vehicles and equipment for launching chemical munitions. These include not only ballistic missiles, but also artillery and aircraft and possibly unconventional means. In fact, it is believed that North Korea has some long-range artillery deployed along the demilitarized zone (DMZ) and ballistic missiles, some of which could deliver chemical warfare agents against forward-based forces, as well as against rear-area targets. The North may also dare to launch a secret attack in the rear through its Special Operation Forces armed with biological weapons.

North Korean forces are prepared to operate in a contaminated environment; they train regularly in chemical defense operations and are taught that South Korean and U.S. forces will employ chemical munitions. To enhance its nuclear, biological and chemical (NBC) operations, the North Korean military has organic chemical platoons down to the regimental level. Furthermore, North Korea has provided

protective masks to the entire population. Not only military personnel but para-military personnel and civilians must participate in regular NBC defense drills.

North Korea has not signed the Chemical Weapons Convention (CWC), nor is it expected to do so in the near future.¹⁰ North Korea will attempt to maintain its chemical and biological weapon production capabilities despite its serious economic difficulties and the global pressure to ban chemical and biological weapons. North Korea will continue this policy because these weapons can be produced at a low cost. They are effective, and it is relatively easy to destroy the evidence of such programs.

Mid- and Long-range Missiles

During the last several years, North Korea has made substantial progress with its ballistic missile forces in the areas of research and development, testing, deployment, and exports. Despite the efforts of the U.S. and its allies to constrain North Korea's missile development, Pyongyang continues to move ahead. The North Korean missile development program can be divided into four distinguishable phases.¹¹ In the first phase, North Korea imported manufactured missiles and technologies from China and the Soviet Union for indigenous development of a missile program through reverse engineering. Pyongyang received Frog-7s and 60km range Frog-5 tactical rockets from the Soviet Union in 1969. The Soviets also furnished high-explosive shell warheads with rockets. From this beginning, North Korea developed its own chemical projectile warheads for the Frog-5 and Frog-7A.

Reportedly, Scud-B missiles were received from Egypt in mid-1976, in return for North Korean assistance to Egypt during the Yom Kippur War.¹² North Korea is now thought to be producing Scuds indigenously and to have exported their own versions to Iran during the Gulf War. North Korea also provided some assistance to Egypt with its indigenous production of a Scud clone. Chemical and biological warhead development is also being pursued in the Scud-B missile production program. The North Korean arsenal is believed to have at least 12-15 Scud launchers.

During the second phase, North Korea was mostly concerned with the modification of the Scud missile. A program to modify the Scud-B (300 km/1,000 kg) was known to have begun in 1988. The modified missile was referred to as the Scud-PIP (product improvement program), or Scud-C (500 km/700-800 kg). It achieved longer ranges than its predecessors due to a reduced payload and an extended length of the rocket body. Production of the Scud-C was estimated at four to

eight per month.

Reportedly, Pyongyang has hundreds of Scuds in its inventory, and they are available for use by its missile forces or for export. In 1990, Iran was reported to have arranged for a delivery of Scud-Cs, as well as North Korean assistance in setting up an assembly and manufacturing facility. Syria also has received shipments of the Scud-C along with launchers beginning in April 1991.¹³

In the third phase, North Korea poured its energy in the extensive redesigning of Scud technology. The new missile named Nodong-1 or Scud-D is thought to have a potential range/payload capability of 1,000-1,350 km / 800-1,200 kg. The higher range would cover a wide swath of cities from Tokyo to Taipei.¹⁴ The Nodong-1 represents a significant departure from the prior North Korean practice of incremental improvements on the basic single-engine Scud design, and this departure is reflected in the protracted development history of the system.¹⁵ The closely related Iranian Shahab-3 and the Pakistani Ghauri-2 reflect this design. A prototype was detected on a launch pad in May 1990, but test flights did not begin until May 1993, with an apparently successful launch of 500 km into the Sea of Japan. The operational status of the Nodong-1 design remains unclear, but the Rumsfeld Report (1998) concluded that "the Nodong was operationally deployed long before the U.S. Government recognized that fact. There is ample evidence that North Korea has created a sizable missile production infrastructure, and therefore it is highly likely that considerable numbers of Nodongs have been produced and deployed."¹⁶ According to the ROK's *Defense White Paper 1998*, North Korean Scud and Nodong-1 missiles are already in service and deployed near the Demilitarized Zone. South Korean government officials have announced that North Korea is also operating four Nodong missile brigades of nine launchers each.¹⁷

In the fourth phase, North Korea test fired a Taepodong-1 (Nodong-2 or Scud Mod E, and Scud X) on August 31, 1998. The Taepodong-1 is said to be a two-stage missile with an estimated range of 2,200-2,672 km and a payload of an estimated 700-1,000 kg.¹⁸ This vehicle apparently consists of a Nodong-1 as its first stage and a second stage based on the North Korean Scud-C missile. Currently, North Korea is developing the Taepodong-2, which could deliver a several-hundred kilogram payload to Alaska or Hawaii and a lighter payload to the western half of the U.S. North Korea is much more likely to weaponize the more capable Taepodong-2 than the Taepodong-1.

Since 1996, the U.S. and North Korea have proceeded with missile talks concerning North Korean participation in the Missile Technology Control Regime (MTCR). During the talks, the U.S. has pressured the

North to suspend its production and export of missiles. The talks, however, still have not produced any significant results. After the Taepodong missile incident in August 1998, the two renewed efforts to seek comprehensive compromises. During the top-level talks with the United States on September 24, 1999, North Korea's Ministry of Foreign Affairs agreed to a moratorium on its missile test firing. A year later, the First Vice Chairman of the National Defense Committee, Cho Myung-rok, reconfirmed the announcement in the "US-North Korea Joint Communiqué" issued at the end of the talks held on October 12, 2000, in Washington D.C.¹⁹ In May 2001, after his visit to Pyongyang, the Swedish Prime Minister Persson said that North Korea seemed to have an intention to extend the moratorium on halting missile tests until 2003. However, North Korea didn't miss the warning that it would take strong countermeasure if the U.S. tries to build an anti-missile shield program. North Korea also warned that South Korea would be doomed to "ruin and death" if it participates in the U.S. program.²⁰

North Korean WMD Strategy

The reasons for producing and possessing mass destructive warheads and mid- and long-range missiles are simple. They provide the means for North Korea to respond to the expanding military influence of South Korea, the U.S., and Japan and use them as bargaining chips at negotiation tables. WMD is a diplomatic tool for regime survival, while posing a military threat to other countries. Above all, these weapons can also perform decisive tactical and operational roles during a contingency. By using these weapons to attack the South's major cities and other strategic targets, the North will attempt to realize its military blitzkrieg strategy.

North Korea's WMD strategy is closely linked to its offensive war strategy, which consists of three phases. The objective of the first phase will be to breach the defenses along the DMZ and destroy the forward deployed forces. The objective of the second phase will be to isolate Seoul and consolidate gains. The objective of the third phase will be to pursue and destroy remaining forces and occupy the remainder of the peninsula. As the attack against the forward defenses along the DMZ begins, the North Korean forces will probably initiate SCUD and FROG missile attacks with high explosives and possibly nonpersistent chemical warheads against airfields, lines of communications, and logistics facilities.²¹

Reflecting Soviet military doctrine, North Korea has traditionally viewed chemical weapons as an integral part of any military offensive. There are no indications that this view has altered since the end of the Cold War. North Korean chemical weapons would complement conventional military power. In a surprise attack, North Korean forces

are expected to use chemical weapons to demoralize defending forces, reduce their effectiveness, and deny use of mobilization centers, storage areas, and military bases without physically destroying facilities and equipment. Nonpersistent chemical agents could be used to break through defensive lines or to hinder a CFC counterattack. Persistent chemical agents could be used against fixed targets in rear areas, including command and control elements, major LOCs, logistic depots, air bases, and ports.

It is likely that chemical weapons would be used early in the conflict rather than be held in strategic reserve. Virtually every stage of South Korean and U.S. military operations, including mobilization, deployment, and staging, would be made more complicated in a chemical environment. Thus, as far as North Korea is concerned, chemical weapons may be a weapon of first resort rather than last.

The introduction of chemical weapons in a conflict would have profound political consequences, potentially increasing the likelihood of a nuclear response. Admittedly, U.S. nuclear weapons might play only a limited role in deterring North Korean chemical weapons use against military targets in the South. While a nuclear response may be seen as credible in retaliation for use of nuclear or biological weapons against urban populations, such a response could be seen as disproportionate in the event of nuclear retaliation for battlefield chemical use. However, South Korea is so congested that chemical attacks against strategic nodes such as ports and airfields would be virtually indistinguishable from intentional attacks against population centers.

Essentially nothing is directly known about the North Korean nuclear strategy, doctrine, or war plans, except that North Korea's collaborations with Soviet and Chinese military and nuclear programs probably influenced Pyongyang's approach toward nuclear weapons development and policy. It is also quite certain that North Korea has closely studied the U.S. nuclear doctrine.

In the face of a credible threat to use nuclear weapons, the United States and its coalition partners could be forced to change the way the U.S. would conduct operations. North Korea may see the threat to use nuclear weapons against U.S. coalition partners or allies as a powerful tool in undermining U.S. options for coalition warfare, or in seeking through coercion to undermine U.S. basing or other support for operations. North Korea must also perceive that it would gain enormous value from threatening Japan in order to deny the United States access to key ports and airfields in that country.

Nuclear weapons could also deter the United States from launching a counter-offensive into North Korea. If one accepts the view that the

North Koreans are indeed worried about U.S. or ROK aggression that precipitates a war, then North Korean WMD may have a defensive, as well as offensive, character.

In addition to the military value of WMD, North Korea apparently views the development and possession of WMD to provide short- and long-term economic benefits. North Korea has produced and sold large numbers of various models of missiles for significant amounts of money to customers like Iran and Pakistan. North Korea has also found development of WMD an effective means of extracting money from the Western nations, notably the United States and Japan.

Fundamentally, however, the North Korean WMD strategy is not simply military or economic; it is also political. North Korea has effectively manipulated American concerns about their nuclear and missile programs as a means of advancing their broader agenda. The North Koreans have been remarkably clear in their demands, and when the West has done a poor job of listening, manipulation of the status of their nuclear or missile programs has served as an effective attention-getter.

What are the Problems of North Korean WMD?

Nuclear Weapon Proliferations

There has been a considerable effort to curb the North Korean nuclear program. North and South Korea signed the "Joint Declaration on the Denuclearization of the Korean Peninsula" in 1992. This declaration stated that the two sides "shall not test, manufacture, produce, receive, possess, store, deploy, or use nuclear weapons," and they "shall not possess nuclear reprocessing and uranium enrichment facilities." North Korea also signed a nuclear safeguard agreement with the International Atomic Energy Agency (IAEA) to allow inspections. This activity stalled when the North refused to allow special inspections of two unreported facilities in January 1993, however, and subsequently it withdrew from the Nuclear Non-Proliferation Treaty (NPT) in March 1993.

To freeze North Korea's nuclear weapons development program, the United States and North Korea signed the Geneva Agreed Framework in October 1994 after on-and-off bilateral negotiations which altogether had lasted for more than a year and a half. Under the Agreed Framework, the North would freeze and eventually dismantle its existing suspected nuclear programs, including the 50MW and 200MW graphite-moderated reactors under construction, as well as its existing 5MW reactor and nuclear fuel reprocessing facilities. In return, the North would be provided with alternative energy, such as two Light-Water (LWR) reactors and 500,000 tons of heavy oil each year

until the completion of the first reactor. The agreement also included gradual improvement of relations between the U.S. and North Korea, and committed North Korea to engage in South-North dialogue. Under the agreement of the Korean Peninsula Energy Development Organization"(KEDO), North Korea went on to sign the Light-Water Reactor Supply Agreement in December 1995. The construction of the reactor is currently under way.

Limited success or ultimate failure in containing or freezing North Korea's nuclear programs are big concerns to South Korea, Japan, and the U.S. Even though the 1994 Agreed Framework has considerably curbed North Korea's development of plutonium-based nuclear weapons, it did not remove all nuclear suspicions. North Korea still has four million tons of high-quality natural uranium deposits. If it successfully develops uranium enrichment technologies, then an unlimited number of nuclear weapons could be built even while North Korea adheres to the 1994 Agreed Framework.

Furthermore, the Agreed Framework had no provision to control plutonium that is presumed to have already been produced. According to U.S. data on North Korea and testimony disclosed by North Korean defectors, Pyongyang has already acquired the technologies for the initial explosive devices necessary to assemble plutonium-based nuclear weapons.²² Estimates of North Korea's accumulated plutonium inventory range from a minimum of ten kilograms to a maximum of eighty kilograms. According to analyses by the ROK-U.S. joint nuclear inspection team—based on U.S. Central Intelligence Agency data—the amount of plutonium North Korea has accumulated was estimated to be about forty kilograms.²³ If North Korea, as is presumed, has the technology to assemble tactical nuclear weapons, then it is quite possible that the North could have up to ten nuclear weapons so far.²⁴

Although it is not clear that current non-nuclear states of Northeast Asia will embark on their own nuclear programs, such a development would have significant repercussions. North Korea already can be considered a "virtual nuclear weapon state" even though it is extremely difficult to verify whether it has succeeded in developing a small number of nuclear warheads. If Pyongyang explicitly or implicitly emphasizes nuclear capabilities as a key element of its military strategy regardless of international pressure, South Korea and Japan could begin to reevaluate their own policies regarding nuclear weapons and delivery vehicles. To date, and into the foreseeable future, however, it is highly unlikely that either Japan or South Korea would begin a concerted nuclear program, particularly since these two states form core security alliances with the U.S. But any widespread proliferation of nuclear technology in the region with advanced delivery systems would, at

minimum, have the following repercussions: (1) it would encumber, if not significantly constrain, U.S. power projection operations including rapid reinforcements in an acute crisis; (2) it would result in increased vulnerability among states that do not have the ability to field such systems; (3) it would weaken U.S. conventional deterrence and defense capabilities; (4) it would increase the cost of mounting conventional operations against states possessing nuclear capabilities; and (5) it would result in increased pressure toward even greater horizontal nuclear weapon proliferation.²⁵

North Korean Missile Threat

The North Korean missile program is widely viewed as a major threat to international security not only because of its inventory of short and long-range missiles which can threaten neighboring countries, but also because of missile sales to countries in conflict-ridden regions such as the Middle East. Concern over the program is a primary rationale for missile defense programs in affected countries. In many ways it epitomizes fears about the proliferation of weapons of mass destruction and their delivery systems. The U.S. and Japan's reiteration of their earlier decision to conduct joint research on a ballistic missile defense system is an illustrative product of this concern.

The North may forego its plan to fire a new missile due to stern opposition from neighboring countries. The evidentiary record suggests, however, that North Korea will not easily abandon its missile program. If it would, why is North Korea pushing for a missile program and hinting about another missile launch in the face of strong pressure from neighboring countries? The program is simply too valuable to North Korea. First of all, the missile program gives prestige. Most analysts believe the Pyongyang regime is counting on the missile program as a last resort to preserve its system, and the North Korean leadership likely believes that a successful missile launch will reinforce North Korean psychological confidence in the regime. It is said that the launch of August 1998 was timed to coincide with the 50th anniversary celebration of North Korea and the promotion of Kim Jong-II as chairman of the National Defense Commission.²⁶ Thus, North Korean Vice Foreign Minister Kim Gye-Kwan, the chief delegate to the Four-way Peace Talks and the Berlin Missile Talk, argued that the missile test is a "sovereign right," and the North would test fire a missile at "anytime if necessary."²⁷

Second, the program gives a significant military capability to a regime that prizes military power above all else. Whether for offensive or deterrent purposes, North Korea wants to demonstrate its capability to strike Japanese and U.S. military facilities in Northeast Asia. If North Korean missiles were tipped with nuclear, biological, or chemical

warheads, they could strike both population centers and sensitive military facilities. Furthermore, the North Korean missile might work to offset the deterioration of the North Korean conventional military forces, which was clearly confirmed by the West Sea Naval engagement in June 1999. With the growing disparity of conventional military forces and the widening gap of military investment between the North and South, Pyongyang might have no choice but to rely on weapons of mass destruction.

Third, the missile program has been North Korea's favorite diplomatic trump card. Pyongyang is attempting to gain leverage in its negotiations with the U.S., and it likely believes that the program is the main reason for the U.S. to negotiate, and that it makes the U.S. more compliant during negotiations. Without the program, North Korea would probably just be ignored. North Korea typically offers to suspend missile tests in return for economic compensation, and has suggested that \$500 million annually would be an appropriate sum. Many critics consequently argue that the North is engaging in brinkmanship or blackmail to gain economic and diplomatic benefit.

Lastly, the missile program is North Korea's most successful economic enterprise. In recent years, North Korea has emerged as an important missile supplier, and commerce has become an increasingly significant motivation for the program. It is selling missiles to Pakistan, Egypt, Iran, and other Middle East countries. This kind of missile trade has increased the tension in South Asia and the Middle East, already characterized by political instability, terrorism, and civil war. In this vein, missile launches are advertising events that demonstrate North Korea's technologies to potential importers. As long as customers are willing to pay for the missile, North Korea has never hesitated in supplying even the most sophisticated version of missiles in its arsenal.²⁵

With North Korea's missile threat as a justification, the Bush Administration declared a new global missile defense (MD) program in May 2001. However, most of the international community is responding nervously to this new defense architecture. In addition to widespread concerns regarding "burden-sharing" costs and the feasibility of striking down missiles from "rogue states" including North Korea, many are also worried about a costly arms race, particularly among the major powers, that could hurt stability.

Despite the prohibitive costs, feasibility questions, and lackluster support both at home and abroad, Washington appears set to push ahead with its missile shield scheme, either through persuasion or coercion. That in turn would exert further pressure on South Korea's already narrow diplomatic maneuvering room as it pursues its own more

compelling agenda to lure a recalcitrant North Korea back to the dialogue table, while enlisting China's active support for reconciliation on the peninsula.

What are the Remedies for North Korean WMD?

Objectively, North Korea's missile threat is less formidable militarily than it is politically. In strictly military terms, its ballistic missiles are not likely to be armed with nuclear weapons, and ballistic missiles themselves are generally ineffective delivery vehicles for releasing biological and chemical agents over wide areas.²⁹ Nonetheless, taking advantage of the secretiveness in its technology, North Korea may threaten to employ its ballistic missiles under the pretence of being armed with BC weapons to intimidate South Korea and Japan.

Besides developing a missile defense shield, there are other means to counter ballistic missiles armed with NBC warheads. The first alternative is to attain an Asian version of the Intermediate-range Nuclear Forces Treaty (INF) and/or to strengthen the existing Missile Technology Control Regime (MTCR). To conclude an INF Treaty-type agreement, however, the countries must perceive that any military advantages from missiles are only temporary and that ownership of the missiles would be unacceptably destabilizing.

It is true that the MTCR has delayed missile development programs in various countries because of the cumulative weight of multilateral and national export controls. Yet, despite such export controls, determined states can build and accumulate indigenous missile technologies in the long run. The burgeoning scientific and technological complex will become immune to MTCR controls. The MTCR can only buy time and is essentially a supply-side approach that consequently suffers from inherent defects; it does not deal with the motivations underlying proliferation. More importantly, the MTCR can do little to roll back existing ballistic missiles.

The second option is diplomacy. In view of the small prospect that arms control measures can eliminate the ballistic missile threat, however, it is very difficult to visualize a diplomatic option that removes ballistic missiles. As illustrated by recent overtures to dissuade North Korea from test firing its ballistic missiles, diplomacy can at most delay and constrain the development and deployment of ballistic missiles.

Preemptive strikes against missile sites and other suspected WMD sites in a severe crisis may be a third option. This measure, however, runs the risk of violating international law. We have to recall the criticism thrown against Israel when it launched an air attack against

Iraq's nuclear facility in 1981. More importantly, if a preemptive strike fails to eradicate an adversary's WMD or missiles entirely, such an action is likely to invite the very response it sought to prevent and, in the worst case, result in an escalation of hostilities.

Relying on U.S. extended deterrence could be the fourth option. During the Cold War, the U.S. provided its allies with convincing deterrence because regional conflicts ran the risk of escalating into a broader U.S.-Soviet armed conflict. However, post-Cold War regional conflicts, even those involving U.S. allies, are now literally regional conflicts for the U.S., and American stakes in such regional conflicts are not necessarily crucial. Additionally, U.S. self-restraint in threatening the use of nuclear weapons as an instrument for deterring regional conflicts, as pronounced in the 1994 "Nuclear Posture Review,"³⁰ may have generated the impression that American retaliatory options are now limited only to conventional weapons. Nevertheless, it is doubtful that a threat of conventional retaliation alone, even that of high-tech conventional weapons, is frightening enough to deter a risk-prone adversary. The costs associated with conventional weapons tend to be perceived as manageable. In addition, emphasizing high-tech conventional weapons capabilities may risk promoting development and production of WMD and their delivery means, including ballistic and cruise missiles. North Korea and China, which obviously lack the financial and technological capacity to counter U.S. high-tech weapons, may well find it advantageous to strengthen their asymmetrical WMD to offset U.S. conventional weapons superiority.

The last, but not the least, option is to reenergize the 1999 Perry Report. William Perry, former Secretary of Defense and Special Advisor to the President and Secretary of State on North Korea, outlined a revised U.S. strategy in his report of October 1999. The Perry Report asserted that the Agreed Framework should continue in order to prevent North Korea from producing a "significant number of nuclear weapons."³¹ It recommended two sets of new U.S.-North Korea negotiations with the objectives of securing (1) "verifiable assurances" that North Korea does not have a secret nuclear weapon program, and (2) "verifiable cessation" of North Korea's missile program. Perry recommended a step-by-step negotiating process. Perry also proposed that, in return for commitments by North Korea on the nuclear and missile issues, the U.S. should normalize diplomatic relations with North Korea, relax economic sanctions against North Korea, and "take other positive steps" to "provide opportunities" for North Korea. Perry stated that such U.S. initiatives should be coordinated with similar actions by Japan and South Korea.

Conclusion

The North Korean WMD program is indeed a vexing problem that has significant ramifications for the regional political order and strategic balance. With a large missile infrastructure, a formidable biochemical arsenal, suspected nuclear weapons, as well as one of the world's most powerful conventional military forces, concerns over the North Korean military threat are likely to remain. It is not certain, however, that we can completely stop the WMD proliferation and use of ballistic missiles. One must remember that the development and possession of WMD is closely related to the development and possession of ballistic missiles. Put another way, the strengthening of efforts to prevent the proliferation of WMD leads to the arrest of the proliferation and use of missiles. This is why the international community must redouble its collective efforts to prevent the proliferation of nuclear, chemical, and biological weapons on the one hand, and ballistic missiles on the other.

The current approach to curb the proliferation of WMD and ballistic missiles is fragmented. Each component of policy—implementing the Agreed Framework, Four-party talks, missile talks, food aid, etc.—operates largely on its own track without any larger strategy or focus that integrates the separate pieces. Absent a comprehensive policy on the part of its competitors, North Korea has held the initiative, with Seoul, Tokyo, and Washington responding when Pyongyang acts as demandeur.

A successful approach to counter North Korean WMD, therefore, must be comprehensive and integrated, and must address the totality of the security threat. The Bush Administration's recent announcement of a willingness to reopen dialogue could signal a comprehensive approach like that suggested in the Perry Report. After a three-month policy review on North Korea, the U.S.-proposed agenda includes an "improved implementation" of the Agreed Framework relating to the North's nuclear activities and "verifiable constraints" on its missile programs.³²

Washington should pursue this policy in the context of a comprehensive approach that encourages progress in inter-Korean reconciliation, peace on the peninsula, a constructive relationship with the U.S., and greater stability in the region. Many Korean observers agree that the time is ripe to resolve North Korean WMD problems through negotiations and to lead the reclusive regime in the North to open itself to the world community. In any event, raising tensions on the Korean peninsula can only prove counterproductive to the interest of most countries in Northeast Asia.

Notes

1. Nuclear weapons, along with chemical and biological weapons, are aptly referred to as weapons of mass destruction (WMD). These weapons are immensely destructive. But they also are, at least in most cases, designed to distribute their effects over large areas, therefore not discriminating between military and non-military targets. Bruce Russett, Harvey Starr, David Kinsella, *World Politics; the Menu for Choices* (Boston and New York : Bedford/St. Martin's, 2000), p. 221.
2. This reactor was called "Experimental Nuclear Plant No. 1," and was estimated to have a capacity of 20-30MWth. David Albright and Holly Higgins, "Looking Back," in David Albright and Kevin O'Neill, eds., *Solving the North Korean Nuclear Puzzle* (Washington, D.C.: Institute for Science and International Security Press, 2000), p. 15.
3. Shin Sung-tack, "Threats of North Korea's Weapons of Mass Destruction System," *The Quarterly Journal of Defense Analysis*, Vol. 41 (Spring 1998), pp. 243-244.
4. Bruce Russett, et. al., *op. cit.*, p. 226.
5. See <http://www.fas.org/nuke/guide/dprk/facility/cw.htm>
6. The Ministry of National Defense, The ROK, *Defense White Paper 2000* (Seoul: Ministry of National Defense, 2000), p. 58.
7. <http://www.fas.org/nuke/guide/dprk/facility/index.htm>
8. *Defense White Paper 2000*, p. 57.
9. John D. Steinbruner, "Biological Weapons: A Plague upon All Houses," *Foreign Policy*, Vol. 109 (Winter 1997-98), pp. 85-96.
10. Office of the Secretary of Defense, *Proliferation: Threat and Response* (DOD: January 2001), p. 1.
11. Hyun-Kun Yoon, "The North Korean Missile Tests and Its Implications," *KNDU Review*, Vol. 4 (1999), pp. 79-96.
12. *Kugbanggwa Kisul*, No. 127, Sept. 89.
13. *Jane's Intelligence Review*, Special Report No. 2, p. 13.
14. David C. Wright and Timur Kadyshev, "An Analysis of the North Korean Nodong Missile," *Science and Global Security*, No. 93.
15. This single-stage missile apparently incorporates an SS-N-4, Isayev S 2.713M engine with a single larger combustion chamber.
16. Donald H. Rumsfeld, Chairman, *Report of the Commission to Assess the Ballistic Missile Threat to the United States: Executive Summary*, 15 July 1998 (<http://fas.org/irp/threat/misssile/rumsfeld>)
17. *Defense White Paper*, 1998.
18. *Jane's Special Report*, No. 2, *op. cit.*, p. 13.
19. *The Korea Herald*, Oct. 13, 2000.
20. *The Korea Herald*, May 13, 2001.
21. Additionally, the DPRK attacks will be supported by the opening of a "second front" in rear areas by teams of SOF units. These soldiers, some dressed in ROK army uniforms and carrying ROK weapons and equipment, will infiltrate the south by air, sea, and through tunnels under the DMZ to attack CFC airfields, C3, and other key targets.
22. Ju-Hwal Choi, "North Korean Missile Proliferation," Hearing before the Subcommittee on International Security, Proliferation, and Federal Service of the Committee on Governmental Affairs, United States Senate, Oct. 21, 1997.
23. Shin Sung-tack, *op. cit.*, p. 240.
24. *The Korea Herald*, April 17, 1999.

25. Ashley J. Tellis, "Military Technology Acquisition and Regional Stability in East Asia," in Jonathan D. Pollack and Hyung-Dong Kim, eds., *East Asia's Potential for Instability & Crisis* (Santa Monica, CA: Center for Asia-Pacific Policy, RAND/The Sejong Institute, 1996), p. 55.
26. Joseph S. Bermudez, "North Koreans Test Two-stage IRBM over Japan," *Jane's Defense Weekly*, Sept. 9, 1998.
27. *The Korea Herald*, Aug. 10, 1999.
28. Rajiv Nayan, "North Korea and Missile Trade," (<http://www.isda-india.org/an-mar9-6.html>)
29. A comment by Dr. C. Wright at the International Symposium on "East Asian Regional Security Futures: Theater Missile Defense Implications," held at the United Nations University in Tokyo, June 24-25, 2000. Also see *The International Institute for Strategic Studies, Strategic Survey 1996/1997* (London: Oxford University Press, 1997), p. 17.
30. "Results of DOD Nuclear Posture Review," announced on Sept. 22, 1999.
31. *Perry Report 1999*.
32. *The Korea Herald*, June 9, 2001.

The Making of the Korean Financial Crisis

Financial Liberalization without Regulations

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In 1950, Korea was among the poorest countries in the world, with a per capita income of under US\$150.¹ Ravaged by a brutal war between 1950-53, a divided Korea was predicted to remain a "basket-case" for the foreseeable future. However, South Korea (hereafter Korea), defied the dire predictions — becoming in less than a generation the quintessential developmental success story — and a model for other developing countries to emulate. With the exception of a relatively short-lived recession in 1979-80, Korea enjoyed continuous economic growth between 1960 and 1997. With the economy expanding at an annual rate of over 8%, Korea's per capita income grew to US\$10,973 by mid-1997, earning it membership in the exclusive OCED (Organization of Economic Cooperation and Development) group of nations.² Already the world's eleventh largest economy in 1996, Korea publicly stated its ambition to outperform Japan technologically in the new millennium. Indeed, as the world's largest supplier of computer memory chips, the second largest shipbuilder, the third largest producer of semiconductors, the fourth largest maker of electronics and the fifth largest automobile maker, Korea hardly made an idle boast in its ambition.³

When the financial crisis unexpectedly hit Southeast Asia following the devaluation of the Thai baht on July 2, 1997, it was widely believed that the contagion would not spread to Korea. Not only was the Korean economy the second largest in East Asia, with a gross domestic product of 376 trillion won (or US\$454 billion), all the key macroeconomic fundamentals looked sound.⁴ First, since the early 1990s, the Korean economy had grown at an impressive rate. Though not as high as the

double-digit growth rate of the late 1980s, the growth rate still exceeded 8% in 1995 and 6% during the first three quarters just prior to the crisis. Second, inflation was not only under control, but since 1993 it remained relatively low, fluctuating between 4% and 5%. Price stability and expectations of low inflation also led to a gradual decline in nominal interest rates.⁵ Third, the real exchange rate was not significantly overvalued. In fact, in the three years prior to the crisis, the real exchange rate was essentially flat. Fourth, the gross domestic savings remained high, exceeding 30% in 1995-96. Fifth, the fiscal deficit, which was about 2.5% of GDP in the early 1980s, was turned into a surplus in 1993 — a position it maintained on the eve of the crisis. Sixth, between 1990-95, Korea's current account deficit averaged 1.9% of GDP. It increased significantly in 1996 to US\$24 billion (4.9% of GDP) because the Korean monetary authority decided to adhere to a strong won policy, despite market pressures for devaluation, due to their concern about price stability. However, as the Japanese yen became strong again by early 1997, the current account deficit fell to 2.5% of GDP, and by mid-1997 to US\$8.2 billion or 1.9% of GDP.⁶ Thus, on the eve of the crisis, Korea's external position was fairly sustainable. After all, its current account deficits were used to finance investment rather than consumption. Seventh, although Korea's foreign debt had grown significantly in the 1990s, it was not unsustainable. That is, the Korean debt/GNP ratio in 1996 was still only 22% — well under the critical level of 48% specified by the World Bank.⁷ Moreover, the debt service ratio of Korea was low at only 5.8%.⁸ Finally, unlike the other crisis-hit economies, Korea was blessed with a 99% literacy rate.⁹ From a macroeconomic perspective, the Korean economy looked well managed and sound.

In November 1997, when Thailand, Indonesia, Malaysia and the Philippines were in the throes of a deepening financial turmoil, the headlines in the Korean media consisted mainly of stories dealing with the upcoming presidential election.¹⁰ Thus, on November 19, when President Kim Young Sam announced his decision to fire several key economic policymakers on the grounds of gross economic mismanagement, most Koreans were surprised at the news. However, two days later, on the morning of November 21, the Korean public, including many outside observers, were shocked to learn that the Korean government had formally requested the IMF (International Monetary Fund) for emergency standby loans because Korea's own foreign reserve level was very low (at US\$7.3 billion) and most foreign financial institutions were unwilling to roll over their short-term loans to Korea.

On December 3, 1997, in order to calm the financial markets, the

IMF and the Korean government announced that they had agreed to a loan package totaling an unprecedented US\$57 billion to help Korea overcome a mounting foreign exchange problem and stop the rapid deterioration of the nation's credit standing. Of this, US\$21 billion would come from the IMF, US\$10 billion from the World Bank, US\$4 billion from the Asian Development Bank, and the remainder from bilateral sources, including US\$ 10 billion from Japan and US\$5 billion from the United States. Due to Korea's desperate situation, the IMF's part of the package was to be released quickly under the Fund's accelerated emergency financing mechanism.¹¹ However, the Korean government had to accept virtually all of the IMF's conditions. On December 4, the IMF released US\$5.56 billion to the Korean government. An additional US\$3.58 billion was to be made available following the first review on December 18, and an additional US\$2 billion on January 8, 1998, following the second review. The sheer magnitude of the bailout package and the acceptance of the IMF's many conditions led most Koreans to the same conclusion as their President, that "we have lost our economic sovereignty." The Korean media designated December 3 as the "day of national disgrace" and President Kim warned his fellow citizens to prepare for an indefinite period of humiliating "bone-carving pain."¹²

What went Wrong? Competing Explanations

Why did an economy with such seemingly sound fundamentals succumb so quickly to economic shocks? Two general interpretations have informed the discussion. According to the "fundamentalist" view, the Asian crisis was caused by poor economic fundamentals and policy inconsistencies. Proponents of this view argue that apparently sound macroeconomic indicators masked systemic structural problems. For example, Korea, like many other Asian economies, provided implicit guarantees to the banking system, which were often engaged in lending practices that favored financially unqualified borrowers. These implicit guarantees led banks to lend recklessly. This, in conjunction with poor corporate governance, created a stock of non-performing loans, thereby risking bank collapses.¹³ By contrast, the "panic" interpretation views the self-fulfilling pessimism of international lenders as the root cause of the crisis. Highlighting the fact that between October-December 1997, capital outflows from Korea amounted to about US\$9.8 billion, the more sophisticated version of this argument interprets the crisis as a classic liquidity crisis - where Korean banks had insufficient reserves and insufficient access to funds, and where investors who were suddenly seized with panic refused to roll over short-term debt, in addition to demanding immediate payment.¹⁴

From the perspective of actual experience, analytical distinctions between the "fundamentalist" and the "panic" perspectives are less sharp than they are made out to be in the literature. Indeed, it is impossible to point to any emerging market economy that experienced a financial crisis but did not have significant fundamental weaknesses that called into question the sustainability of its policies. In the case of Korea, as the currency crisis began to unfold, it became clear that the Korean economy possessed a number of serious structural weaknesses, most notably weak financial sectors and over-indebted corporate sectors. Yet it is also impossible to ignore the fact that "reputational externalities" were almost certainly at work.¹⁵ That is, a crisis in one country affected investors' expectations and perceptions about common structural conditions and vulnerabilities in other countries. Yet, even while acknowledging the impact of structural problems in the Korean financial and corporate sectors, it is hard to avoid the judgment that Korea's punishment was disproportionate to the "crime" — because there is no doubt that panic withdrawal of capital and poor policy responses greatly exacerbated the crisis.

This article, while building on the insights of the fundamentalist and panic interpretations, provides a third perspective. It argues that Korea's financial crisis had both long-term and short-term causes. Weaknesses in both the financial and corporate sectors, especially inefficient management and imprudent lending among financial institutions, coupled with over investment and low profitability in the corporate sector, made them vulnerable to external turbulence. In fact, it will be argued that poor corporate governance was a major destabilizing factor for the Korean economy. Because the *chaebols* (a conglomerate group of firms, linked by indirect cross-shareholdings) were highly interdependent financially through cross-share holdings and cross-loan guarantees, the financial trouble of one *chaebol* could easily lead to a disaster for the whole group, including the banking system.¹⁶ Indeed, six of the 30 largest *chaebols* (Hanbo, Sammi, Jinro, Kia, Haitai and New Core) had already filed for court protection in bankruptcy proceedings in 1997, before the collapse of the won triggered by contagion from Southeast Asia. Compounding this was poorly sequenced capital account liberalization (or liberalization which was not accompanied by the necessary reforms and prudent supervision of the financial system), which increased the economy's vulnerability to financial panic and economic collapse. Despite a relatively low overall external debt level and a moderate and sustainable current account deficit, Korea had high short-term debt relative to its international reserves — which made it vulnerable to a balance-of-payments crisis. The sharp deterioration in terms of trade in 1996, the

bankruptcy of a number of important *chaebols*, and a change in international market sentiment following the collapse of the Thai baht in mid-1997 were the proximate causes.

Specifically, starting in the early 1990s, the Korean government began to relax its control over the financial sector, especially its restrictions on foreign borrowing. As a result, the number of financial institutions engaged in foreign currency denominated activities increased sharply. This process was accelerated (partly in order to meet OECD requirements) under the Kim Young Sam government, which came to power on February 23, 1993. During this period, controls on short-term external borrowings by banks were greatly eased, while the government maintained quantity restrictions on medium- and long-term foreign borrowing as a means of capital flow management. That is, the Korean government provided financial institutions real incentives to borrow for the short-term by making it mandatory for them to notify authorities of long-term foreign debts, whereas short-term loans regarded as trade-related financing were hardly regulated. Helped by the strong earnings and the eased control on short-term external borrowing, Korea's big businesses, in particular the *chaebols*, undertook an aggressive investment drive. This investment drive was financed mainly by large increases in borrowing from domestic banks, merchant banks in particular. As a result, the number of merchant banks and the volume of their foreign currency business expanded rapidly. From 1994 to 1996, a total of 24 finance companies were made into merchant banking corporations, which meant a corresponding increase in the number of participants in international financial markets, because merchant banks were allowed to engage in foreign-exchange transactions while finance companies were not. During the same period, Korean banks opened 28 foreign branches, which gave them greater access to foreign funds. These changes in the institutional framework contributed greatly to the rapid growth in foreign-currency borrowing. Moreover, financial liberalization and tight monetary policy (which kept domestic interest rates above world interest rates), only encouraged commercial and merchant banks to rely heavily on cheaper foreign credit — perceived to be cheaper because of the pegged exchange rate. As Sylvia Maxfield aptly notes, "after the financial market was deregulated, newly licensed Korean merchant banks and *chaebols* began to borrow internationally with all the self-restraint of children let loose in a candy store."¹⁷

However, the excessive investments in capacity expansion during the boom years of the early nineties soon caught up with the *chaebols*. The high leverage ratios of the *chaebols* and their low profitability made them extremely vulnerable to any shock to their cash flow. In

turn, the health of the banking system was highly dependent on the viability of the *chaebols*, as the banks were exposed to the *chaebols* both directly through loans and discounts and indirectly through the guarantee of corporate bonds and commercial paper. Financial liberalization also played a major role in producing the deterioration in financial sector balance sheets. Specifically, while regulations on financial institutions were being relaxed in order to enable them to engage in a wider set of activities, an implicit government safety net for financial institutions along with weak prudential supervision led to excessive risk-taking. Inevitably, the result was the growing bad loan problems and deterioration of financial institutions' balance sheets. It is now recognized that what helped produce a deterioration in both financial and non-financial balance sheets was the tradition of the government's coming to the rescue of troubled corporations and financial institutions, not to mention government involvement in the credit market, which created the impression that the *chaebols* were simply "too big to fail." These conglomerates had huge leverage, and lending to them increased in the 1990s, despite the weakness of their profitability. Banks and other financial institutions kept lending because they expected that the government would not allow the *chaebols* to go bankrupt - thus, in effect, guaranteeing their loans. Moral hazard was a bigger problem for the non-bank financial institutions, many of which were owned by the *chaebols*. Since these institutions were largely independent of the government, supervisory standards and the monitoring of prudential regulations were extremely lax. They soon developed major maturity mismatch problems.

During 1996-97, several highly leveraged *chaebols* failed and went into bankruptcy. The slowing domestic demand coupled with deteriorating movement of Korea's terms of trade could not support the economy burdened with the excessive buildup in capacity. The resulting bankruptcies of a number of major companies, in addition to increasing failures of medium and small businesses, resulted in the deterioration in the balance sheets of Korea's financial institutions — resulting in a rapid decline of their international creditworthiness. As the structural weaknesses and the government's inability to cope with them became exposed following the string of large corporate defaults in early 1997, foreign investors began to take a fresh look at Korea. Arguably, the deepening crisis in Southeast Asia was the last straw. The collapse of the Thai baht in July 1997 increased the concerns of foreign creditors about the strength of Korea's corporate sector and the soundness of its financial system, despite the Korean government's repeated attempt to calm foreign creditors. The Hong Kong stock market turmoil in late October 1997 triggered a sudden loss of market

confidence. The capital inflows that had helped to finance Korea's rapid economic growth were sharply reversed. Jittery foreign investors, many reeling from losses in other East and Southeast Asian economies, decided to lower their exposure to Korea and pulled their funds en masse, thus contributing to the severity and duration of the crisis.

Korea's economic crisis erupted as a speculative attack on the won in a context of very low foreign exchange reserves. Because the government had allowed foreign finance to enter through the banking system while continuing to limit inward FDI and foreign purchases of Korean securities, it ended up with liabilities that were owed to foreigners and denominated in foreign currency. Under these circumstances, the capacity of the government and central bank to lend in the last resort was limited by the stock of international reserves. By the end of 1996, short-term external liabilities as a share of foreign exchange reserves had risen to some 300%.¹⁸ Thus, the Korean crisis was not a *current account*, but a *capital account* crisis. Conventional current account crises are caused by the deterioration of domestic macroeconomic fundamentals, such as price inflation, fiscal deficits and low rates of saving. A capital account crisis is characterized by massive international capital inflows, usually large enough to surpass the underlying current account deficit and composed mainly of short-term borrowings denominated in foreign currencies. This leads to currency and maturity mismatches, which adversely affect the balance sheets of domestic financial institutions. There is thus a dual financial crisis — a currency crisis due to currency mismatch that leads to international liquidity problems, and a domestic banking crisis resulting in credit contraction. Moreover, currency depreciation further aggravates the balance sheets of corporations by inflating the value of liabilities in domestic currency terms, thereby precipitating a currency and banking crisis. The Korean crisis also illustrates that although the alliance between the government, *chaebols*, and the banks had been in place since the 1960s, it was no longer compatible with Korea's integration into the global financial market. In sum, the Korean crisis reflected a fundamental structural misallocation of resources to which investors suddenly awoke when financial turmoil engulfed Asia. The withdrawal of funds from Korean banks and the ensuing crisis were simply triggers for a long-overdue process of industrial and financial restructuring.

Liberalization without Regulation

The Korean financial system comprises three main types of institutions: (a) commercial banks, (b) the specialized and development banks, and (c) nonbank financial institutions (NBFIs). In addition, there also exists an informal and unregulated financial market known as the

curb market.¹⁹ The commercial banks account for over half of the assets of the financial system. They are owned by small shareholders (prior to the crisis, no shareholder could own more than 4% of a nationwide commercial bank or more than 15% of a regional bank), and engage in both traditional short-term banking operations and long-term financing of the corporate sector, including leasing. Commercial banks comprise 16 nationwide banks, 10 regional banks, and numerous (52 as of September 1997) foreign banks. Commercial banking is highly concentrated with the top eight banks accounting for about two-thirds of commercial bank assets. The specialized and development banks (which are partly or wholly owned by government) were established in the 1950s and 1960s to provide funds to specific strategic sectors. They account for roughly 17% of financial system assets.²⁰

Prior to the post-1993 liberalization, the Korean government controlled all the internal and especially cross-border financial flows very tightly. Although there were financial liberalization measures introduced in the 1980s, these were limited in scope. For example, the fact that no shareholder was permitted to own more than 4% of a bank's equity resulted in fragmented ownership. In practice, this meant that the management of banks were not accountable to anyone, except to the government. Also, up until the 1990s, decisions regarding credit allocations that commercial banks could make were dominated by the government's policy of favoring investment loans to large corporations engaged in export activities. Foreign exchange transfers were heavily regulated: Korean nationals were not allowed to borrow freely on the international market, and the ability of foreign residents to buy, own, and sell domestic assets was limited. However, starting in the early 1990s, the Korean government began to relax its control over the financial sector and under the Kim Young-Sam government the liberalization process was greatly accelerated.²¹

Why did the Korean government pursue such far-reaching liberalization measures? There are several interrelated explanations. According to Ilpyong Kim and Uk Heon Hong, the Kim Young-Sam administration, enamored with *seggyehwa* (or globalization), "believed that only a full-blown market economy could build an economy competitive at the world level. Administrators therefore worked to increase the role of the private sector, to loosen the concentration of the *chaebols*, and further deregulate the financial markets."²² Also, Chang, Park, and Yoo compellingly note that by the early 1990s, the increased credit ratings of Korean corporations and banks in the international financial markets meant that the private sector began to regard government involvement in their foreign exchange transactions as a burden — and the "*chaebols* now hankered for greater freedom in their

investment decision-making."²³ Similarly, Lee notes that "the 1990s saw an increasing demand from *chaebols* for deregulation such as lifting the ceiling on their ownership of bank shares, financial opening for greater freedom in foreign borrowing, raising the aggregate credit ceiling, and so on."²⁴ Furthermore, the decision by the Kim government to apply for Korean membership in the OECD meant that Korea had to liberalize the country's financial markets substantially, in particular both the current and the capital accounts.²⁵ Beyond these domestic structural explanations are the external factors, in particular the continued pressure from the U.S. government for Korea to deregulate and open her financial markets. Yet, whatever the explanation, there is general consensus that the liberalization program was accompanied by extremely lax supervision and prudential regulation.

For example, a history of government involvement in bank lending decisions had hampered the development of a commercially oriented and sound banking system, besides creating a moral hazard. Within banks, lending decisions tended to be highly centralized, and the internal risk control structures as well as credit analysis skills and procedures did not mature fully. As a result, credit decisions tended to rely on collateral and inter-company guarantees, as well as informal government guidance, rather than projected cash flows. Loan review processes and management information systems were rudimentary. Thus, Balino and Ubide succinctly note that

although government involvement in bank lending decisions was gradually withdrawn, banks developed few skills in credit analysis or risk management. Lending decisions were still largely based on the availability of collateral rather than on an assessment of risk or future repayment capacity. Because of their large exposure and inadequate capitalization, banks were generally in a weak position relative to their *chaebol* clients. Reflecting the history of directed lending, banks did not insist on, or receive, full financial information from *chaebols*?

In addition, basic accounting, auditing, and disclosure practices were significantly below the best international practices. Commercial banks were under the direct authority of the Monetary Board (the governing body of the Bank of Korea) and the Office of Banking Supervision (OBS). However, specialized banks and NBFIs were under the authority of the Ministry of Finance and Economy (MOFE). This lack of a unified system of supervision and regulation, comprising both bank and non-bank financial institutions, created conditions for regulatory arbitrage and the development of risky practices.

Similarly, the standards for loan classification and provisioning were significantly more lax in Korea than in the other OECD countries. Non-performing loans were defined as loans that had been in arrears for six months or more compared to a standard definition of three months or more. Bad loans were defined as the portion of non-performing loans not covered by collateral. The classification system was based on the loans' servicing record and the availability of collateral without regard to the borrower's future capacity to repay. Banks also lacked good internal liquidity management controls, and regulations were not sufficiently stringent, especially in regard to foreign exchange. In order to ensure the liquidity of banks, the OBS required that long term loans (defined as those with a maturity between one and ten years), should be financed with funds with maturities of at least a year. However, banks were not expected to invest an amount equivalent to more than 100% of their equity capital in securities with maturities over three years. Moreover, all of these calculations included only domestic liquidity positions, not taking into account positions of overseas branches and off-shore funds — which accounted for more than 60% of the short-term external liabilities of domestic financial institutions in 1996. Yet, despite the growing maturity mismatches in banks' balance sheets that resulted from the capital account liberalization, no special consideration was given to the prudent regulation of liquidity management in foreign exchange. Finally, Korean banks were subject to considerable restrictions on product innovation, while controls on interest rates limited price competition. Labor laws made it difficult to reduce excess personnel. With little control over their credit policy or costs, and with relatively little concern about insolvency, the banks were usually more concerned with achieving profits through asset growth than in maintaining asset quality.

Another consequence of deregulation was the rapid growth of merchant banks. As noted earlier, many of these newly established merchant banks were previously (in the 1970s and 1980s) small-scale investment finance companies created to reduce the importance of the informal curb markets. However, with deregulation they simply changed their names and became merchant banks. In 1994, nine such merchant banks were established, and by 1996, 16 more were added to the group. At the end of 1996, there were 30 merchant banks in the country.²⁷ The merchant banks (which were the dominant lenders in the issuance and discounting of commercial paper) funded themselves by issuing bonds and notes and by inter-bank deposits and borrowing in foreign markets. As noted earlier, most of these newly established merchant banks were either owned or controlled by the *chaebols*. Similarly, the significant relaxation of restrictions on *chaebol*

ownership of other non-bank financial institutions such as life insurance companies and investment-trust companies enabled the *chaebols* to expand further and concentrate their financial operations.²⁸ Indeed, there were no effective laws to prevent excess concentration of lending. Korea did not have laws to restrict lending to multiple borrowers belonging to the same group. That is, different firms that belonged to the same *chaebol* family were treated independently. The result was a heavy concentration of lending. Finally, although the merchant banks often competed directly with commercial banks, they were subject to different regulatory regimes. In fact, the merchant banks faced far fewer regulatory restraints than the commercial banks, and therefore quickly developed some distinct vulnerabilities. For example, owing to the relatively lax regulatory supervision, merchant banks assumed a much higher interest rate and currency risk than the commercial banks. Their lending concentration inside affiliated groups was greater, and merchant banks usually lent without collateral — and thus had less protection in case of default.

Compounding this problem was the maintenance of tight monetary policy and the regulatory framework, which was explicitly biased towards short-term borrowing. That is, short-term loans regarded as trade-related financing were hardly regulated, whereas long-term borrowing was subject to much stricter restrictions, requiring one to provide detailed information, besides obtaining permission from the MOFE.²⁹ Also, since the government expected that the credit rating on bank loans of Korean companies would improve in the international financial market, it further induced financial institutions to transform long-term external debts into short-term debts. However, other "borrowers seem to have taken a 'wait and see' approach by continuously rolling over short-term loans rather than taking out long-term ones, an approach supported by the international lenders who were perfectly willing to roll over Korean loans until the eve of the crisis."³⁰ Overall, the bias toward short-term foreign borrowing only encouraged the development of large maturity mismatches in the banks' balance sheets.

Moreover, financial liberalization and tight monetary policy (which kept domestic interest rates above world interest rates) only encouraged commercial and merchant banks to rely heavily on cheaper foreign credit — or credit perceived to be cheaper because of the pegged exchange rate. No doubt, a pegged exchange rate in normal circumstances would eliminate the foreign exchange risk associated with foreign loans for domestic borrowers. However, Korea's exchange rate policies contributed to reckless foreign borrowing. Prior to the crisis, the Korean won was effectively tied to the U.S. dollar with very

little or predictable variation. Specifically, in March 1990, Korea adopted an approach to exchange rate management known as the Market Average Exchange Rate System (MAR). Under this system, the daily won/dollar rate was allowed to fluctuate each day within a band centered around the previous day's weighted average spot rate. The band width was initially set at plus or minus 0.2%. Between 1990 and 1996, the exchange rate was tightly managed, with the won depreciating fairly steadily by an annual average rate of 2%. The daily fluctuation band was gradually widened in the period before the crisis, reaching plus or minus 2.25% in 1996. In maintaining such a tight exchange rate, the Bank of Korea, in effect, absorbed the exchange rate risks on behalf of market participants. With little variation of exchange rates and high domestic interest rates, it is not surprising that *chaebols* and financial institutions increased their offshore borrowing, especially with short-term maturity loans. Moreover, although the exchange rate was not fixed, its undervaluation in a managed float system and relatively high interest rates at home had substantially increased the attraction of foreign borrowing. Yen-denominated loans became especially attractive in the couple of years before the crisis because the continuing decline in the value of the yen against the U.S. dollar lowered the real cost of yen loans to domestic borrowers.

The resultant wave of excessive short-term foreign borrowing was intensified by ineffective prudential supervision. Specifically, lax regulation of banks, in particular merchant banks (for example, there were no asset classification, capital, or provisioning rules for merchant banks), and the regulatory distortions which favored short-term borrowing, contributed heavily to the accumulation of short-term foreign debt, increasing bank vulnerability to maturity mismatch. As Chang, Park, and Yoo note, "leading this rapid build-up of short-term foreign debt were the inexperienced merchant banks."³¹ For example, in a period of almost three years, merchant banks managed to acquire US\$20 billion in foreign debt — 64% of which was short-term debt, while 85% of their lending was long-term. Overall, foreign debt jumped from US\$44 billion in 1993 to US\$120 billion in September 1997 (a 33.6% per annum increase between 1994-96), while the share of short-term debt (or debt with less than a year's maturity) in total debt rose from an already high 43.7% in 1993 to 58.3% at the end of 1996. However, these figures underestimate the actual size of the debt, since it does not include offshore borrowing of domestic enterprises and Korean banks and their overseas branches and subsidiaries.³² By the mid-1990s, low profits and soft lending combined to make the *chaebols* highly leveraged in terms of their debt/equity ratios. At the end of 1997, the top 30 *chaebols* had an unprecedented debt/equity

ratio average of 519%.

Economic Vulnerabilities: The Road to the Crisis

High as the foreign debt figure was, it was not necessarily at an unsustainable level. As noted earlier, in 1996, Korea's debt/GNP ratio stood at 22%, far below the World Bank's definition of "less indebted" (at 48%). Similarly, Korea's debt-service ratio of 5.8% was well below the critical 18% specified by the World Bank. Moreover, private corporate sector profligacy was not as widespread in Korea as it was in Indonesia or Thailand, nor was Korea highly exposed to real estate and property inflation. In fact, much of the foreign borrowing went into the tradeable sector and not to fuel speculative asset bubbles in the non-tradeable sector. Land prices, which had risen at a rapid pace in the second half of the 1980s, were basically stable in the 1990s. Instead, foreign borrowing primarily financed an expansion of industrial capacity. That is, the *chaebols* were investing in export industries with stable returns and in which they were particularly well represented — namely petrochemicals, petroleum refining, iron and steel, automobiles, electrical equipment, electronics and communications and shipbuilding. Yet, these only reflected part of the economic picture. Looming alongside were growing economic vulnerabilities.

Specifically, the heavy indebtedness of the *chaebols* (and their subsequent insolvency) are to be found in the investment boom of the early to mid 1990s. During 1994-96, facility investment in manufacturing rose by 38.5% per year. However, the investment boom was not uniform across sectors but concentrated in manufacturing. Within manufacturing, the bulk of the investments (65.7%) went to expand existing production lines, while a relatively small amount was allocated to corporate restructuring (15.5%). Moreover, investments in heavy and chemical industries grew at an annual rate of 43.1%, while the rate of growth for light industries was only 15%. Also, investments by large firms grew 45.7%, while small- and medium-size enterprises increased their investments by 17.7%. In sum, the boom was dominated by the large *chaebols* investing in heavy industries such as steel, automobiles, petrochemicals, and electronics.³³ However, this boom soon resulted in gross over-investment. That is, in the absence of investment coordination, it was only a matter of time before over-investment would lead to overcapacity and declining profitability. Indeed, the profit rates (return on assets) in the manufacturing sector had fallen continuously from over 4% in 1988 to 0.9% in 1996. The decline of rates of return to capital during this period was caused at least in part by excessive and misallocated investment. In addition, using firm level data in eight major industries, Bailey and Zitzewitz

have shown that much of the rapid growth in the Korean economy could be accounted for by input growth rather than by productivity increases, and that the returns to capital (or profit rates) of Korean firms were lower than those of American and Japanese firms.³⁴ Similarly, a study by Borensztein and Lee found that many *chaebols* recorded little or no profit in 1996. Hence, by 1996, Korea's corporate sector was characterized by low levels of profitability and high levels of debt — reflecting the tendency of the *chaebols* to diversify into capital-intensive industries using short-term bank loans.³⁵ Banks, on the other hand, carried substantial non-performing loans and inadequate capital-asset ratios. Borensztein and Lee aptly note that Korea's economic performance in recent years "is one of economic growth sustained by higher and higher levels of investment even in the face of declining productivity of capital and almost vanishing corporate profitability."³⁶

The aggressive borrowing, especially of short-term foreign loans, had dire consequences. While there is nothing intrinsically wrong in borrowing from abroad to finance rapid industrialization, it is necessary to apply risk management to those foreign loans. First, in Korea, banks were exposed to large maturity mismatches in their foreign currency operations because they relied on foreign currency denominated short-term borrowing to fund long-term domestic currency denominated loans. The ratio of short-term external debt to total external debt was over 50% prior to the crisis, leading to a sharp mismatch between the short-term debts and official foreign reserves. In fact, the ratio of short-term external debt to official foreign reserves increased continuously in the 1990s, reaching an unprecedented high of 252% in 1997. Second, many of the foreign loans (which were short-term debts denominated in foreign currencies) were without an appropriate hedge. Third, the continued government support of industrialization through foreign debt was not accompanied by any improvement in the transparency of accounting standards in the leveraged *chaebols*. In fact, prudent regulation and supervision simply failed to keep up with the increasing concentration of risk in the domestic financial system. Not only were the banks lax in examining the large-scale investment project loans for which bank credits were requested by *chaebols*, but formal feasibility studies and risk analysis were also lacking. More often than not, bank managers decided on credit extension according to the size of borrowing firms under the assumption of the "too big to fail" argument. Further, the banks did not bother to check into possible misuse of loans by borrowers in the form of financial contributions to politicians and political parties, while foreign investors provided funds to domestic financial institutions without due vigilance since they were perceived as having implicit government guarantees.

Reflecting this lack of consolidated supervision, the increasingly risky activities of the merchant banks and other non-bank financial institutions, as well as the overseas subsidiaries and foreign branches of domestic financial institutions, were largely overlooked. The ill-experienced managers in merchant banks and financial companies were prone to allowing high-risk exposure due to their inability in managing short-term foreign capital. Without effective supervisory regulations, the merchant banks engaged in increasingly risky business — for example, investing in high-yield foreign junk bonds with funds borrowed cheaply, using Korea's high credit rating in international financial markets. Thus, they exposed themselves to significant interest rate, currency, and credit risks. Indeed, when foreign lenders started to recall loans in late 1997, these assets turned out to be illiquid. Finally, the liberalization of foreign exchange transactions on the current account allowed exporters to avoid depositing their foreign exchange revenues with the Central Bank. As a result, foreign exchange deposits in the commercial banks declined sharply, the build-up of short-term foreign debt far exceeding Korea's foreign exchange reserves.

The economic boom began to slow by the mid-1990s. Industrial output growth slowed from an annual growth rate of 14% in 1995 to 10% in 1996. Growth in manufacturing sales declined from 20% in 1995 to 10% in 1996. More troubling, Korea's export engine slowed significantly due to its deteriorating international competitiveness and the currency devaluation by China and Japan — Korea's major competitors in the export market. Korea simply could not effectively compete against Japan for high-valued products and against China for low-value goods.³⁷ As the world export demand receded, the *chaebols* suffered heavy losses. In particular, the slowdown in international trade in semiconductors (especially the memory chips market), office automation equipment, and consumer electronics, which began to slow imperceptibly in 1995 but reached crisis proportions by early 1997, severely hurt the Korean economy which had invested heavily in it.³⁸ Noble and Ravenhill note that "Korean companies ignored the softening demand for 4 MB and 16 MB chips in the mid-1990s and continued to expand production capacity."³⁹ The 16-megabyte memory chip, which accounted for approximately 20 percent of Korean exports, saw its price tumble from a high of more than US\$50 to under US\$7 by mid-1997, due to a world-wide glut, declining demand, and the entrance of new competitors (in particular, Taiwan and Singapore) in the marketplace.⁴⁰ By mid-1996, the unit price of semi-conductors had fallen by more than 70%, which was alone estimated to have decreased the value of Korean exports by more than US\$ 10 billion or over 2% of GDP, severely affecting the top three semiconductor companies:

Samsung Electronics, Hyundai Electronics and LG Semiconductors.⁴¹ Since the *chaebols* financed the construction and expansion of costly multi-billion dollar chip-fabrication factories known as "fabs" with massive doses of short-term dollar-denominated loans, they now faced an impending financial disaster as the huge losses in this critical sector mounted. Compounding the problem was the weakening profitability associated with cyclical downturns in sectors such as autos, shipbuilding, labor-intensive textiles, and steel.⁴² All this not only resulted in deteriorating terms of trade (during 1996-97, Korea's terms of trade deteriorated by more than 20% cumulatively), but it also severely constrained the *chaebols'* ability to cross-subsidize their investments.⁴³

As the new year began in 1997, foreign investors began to take a closer look at Korea — not only because of the unexpectedly sharp economic slowdown, but also because Korea's current account deficit of 5% in 1996 (the largest in five years) raised concerns. Then on January 23, the *chaebol* Hanbo Steel and Construction declared bankruptcy with a total estimated debt of US\$6 billion spread across 61 banks and non-bank financial institutions. On February 19, Moody's lowered the long-term ratings of three Korean banks (Korea Exchange Bank, Korea First Bank and Cho Hung Bank), all of which had substantial exposure to the Hanbo Group. However, this was just the beginning. Hanbo's collapse was followed by four more large *chaebols*, Sammi Steel on March 19 (with a 2.3 trillion won debt, 33 times its capital base), the Jinro Group (with a 3 trillion won debt) on April 21, Dainong in May and Ssangyoung in June. Each went into bankruptcy, dragged down by excessive investment, declining profits, and a substantial debt burden. As noted earlier, because of the cross-guarantee of debts among the affiliated firms of a *chaebol* group, the bankruptcy of one affiliate firm led to the bankruptcy of other affiliated firms. Moreover, these large corporate insolvencies inevitably undermined the health of the financial institutions with large exposure to these conglomerates.

The growing economic turmoil in the region, especially the collapse of the Thai baht on July 2, 1997, and the subsequent contagion to other regional currencies pegged against the U.S. dollar, brought Korea's growing financial and corporate sector problems into sharper focus. When on July 15, Kia Motors, Korea's third largest car-maker and eighth-largest *chaebol*, asked for emergency loans to avoid bankruptcy, the credit agencies immediately began downgrading ratings for several major Korean banks as they estimated that the fiscal bailout for the banking system would cost as much as 20% of GDP. In the face of the growing crisis, the Kim Young Sam government remained

indecisive — if not paralyzed. Although the Bank of Korea had alerted President Kim of the danger of a foreign exchange crisis as early as July 1997, "the Ministry of Finance and Economy (MOFE) and the presidential economic secretary downplayed it by emphasizing the 'healthy fundamentals' of the macroeconomy. Kim's aides thought they could put off the IMF bailout until Kim's tenure was over. His poor monitoring and mismanagement aggravated the crisis by mis-timing effective intervention."⁴⁴ Thus, an indecisive and discredited president (the result of the Hanbo scandal), coupled with a divided ruling party, pervasive intra-bureaucratic fragmentation, and an opposition resistant to reform legislation, produced political gridlock and policy incoherence. Finally, after weeks of sending mixed signals, the government began to take action. In early August, the government announced a set of measures aimed at increasing confidence in the Korean financial market. First, official support was provided by the Bank of Korea in the form of special loans and capital injection in exchange for government bonds to Korea First bank. In addition, a special funding facility was created to assist 21 merchant banks (out of the 30), whose exposure to bankrupt companies exceeded 50% of their equity. Second, the government announced guarantees covering the foreign liabilities of Korean financial institutions, including both commercial and merchant banks. And, third, more funds were earmarked for the Korea Asset Management Corporation (KAMCO), to which banks would be allowed to sell their non-performing loans.⁴⁵

It is now clear that the markets perceived these measures as insufficient. In October 1997, Standard and Poor downgraded Korea's sovereign status, making it difficult for Korea's private sector to obtain foreign currency funds. Indeed, by the fall of 1997, the balance sheets of Korean financial institutions had deteriorated severely. The share of non-performing loans in total assets of commercial banks had increased by about 70% between December 1996 and September 1997 — and amounted to about 80% of bank capital. As a result, the net worth of many financial institutions fell perilously low, and a significant shortfall in capital adequacy emerged. Of the 26 commercial banks, 14 had capital adequacy ratios below the norm, of which two were deemed to be technically insolvent. In addition, 28 of the 30 merchant banks had capital adequacy ratios below 8% and 12 were deemed technically insolvent. Park and Rhee carefully illustrate the fact that the Korean government "made a critical mistake" when it decided to bail out the near-bankrupt Kia group on October 22. "This was the moment that Korea's private banking crisis officially turned into a sovereign one."⁴⁶ Standard and Poor harshly criticized the Korean government's decision to bailout Kia — and Korean bonds tumbled to junk levels as investors

became nervous that the world's eleventh largest economy was heading for a Mexican-style crisis.

By mid-October, it was clear that not only were the foreign banks reluctant to roll over short-term loans, the massive outflow of capital continued unabated. The Bank of Korea tried to intervene in the exchange market with its foreign reserves in order to restore confidence. This meant that now a part of the current account deficit had to be financed from central bank reserves — and soon the central bank reserves began to fall rapidly as private capital inflows virtually vanished. Even before the collapse of Yamaichi Securities (Japan's fourth largest securities company), and the bankruptcy of Japan's Takushoku Bank on November 15, Japanese banks began to call in their loans from Korea, precipitating a liquidity crunch for the Korean banks.⁴⁷ As the merchant banks' weakest borrowers began going bankrupt, foreign and Korean commercial banks further curtailed their lending. To stay afloat, the merchant banks were forced to call in loans — causing more bankruptcies. They bought up dollars or yen with won to pay their foreign currency debts, and these won sales contributed to the drastic decline of the won's value.

Ever since the first quarter of 1997, the Bank of Korea had actively intervened in the foreign exchange market to uphold the value of the won. However, this intervention also contributed to the rapid depletion of foreign reserves. Why did the government try to uphold the value of the won despite a growing current account deficit? In large part the answer is that authorities expected the current account balance to improve soon and worried that a devaluation would trigger inflation and increase the debt service burden of the private sector. After October, domestic financial institutions found it extremely difficult to roll over their loans. As a result, Korean banks and corporations had to buy dollars in the domestic exchange market to service their external obligations. It also meant that the central bank had to supply foreign exchange to banks in the form of deposits at overseas branches.⁴⁸ However, the supply of foreign exchange declined sharply with the expectation of a won depreciation. In this quickly deteriorating environment, the Korean authorities made another fatal mistake by wasting a substantial part of the country's foreign reserves in the futile foreign exchange market intervention. That is, instead of letting the won float, the Korean government tried to defend it by spending approximately US\$15.1 billion in October and November. Korea's liquid foreign reserve, which was US\$22.4 billion in early October, dropped to a paltry US\$7.3 billion by mid-November. According to an IMF study, Korea's usable foreign exchange reserves fell dramatically in November at a rate of US\$1 billion to US\$2 billion daily, bottoming

out at around US\$5 billion by the end of the month.⁴⁹ Although the central bank of Korea tried to calm the financial markets by announcing that its reserves were around US\$30 billion, the strategy backfired. Foreign investors estimated that the actual reserves were as low as US\$ 15 billion — which totaled about five weeks' worth of imports and only a fifth of Korea's short-term debt. Cognizant of the fact that the announced reserves did not include dollars borrowed through forward market intervention, and recalling that Thailand had committed as much as two-thirds of its reserves in this way, the Korean government's lack of candor cost it credibility, besides fueling rumors among international financial investors regarding the actual amount of Korea's usable foreign exchange reserves. By the end of November, six of the top 30 *chaebols* had filed for court protection, and a seventh went into bankruptcy in December. These large bankruptcies, together with rising bankruptcies among small- and medium-sized enterprises, significantly damaged the asset position of financial institutions.

In early November, the Korean authorities had widened the won's daily fluctuation band to plus or minus 10%. However, on November 16, Korea finally abandoned its defense of the battered won and allowed the exchange rate to float freely. This sent the currency crashing through the psychological 1,000/dollar level with shock waves hitting the baht, the rupiah, the ringgit and other regional currencies which fell even further relative to the dollar. Referring to the problem as a "temporary funding shortage" in which the "idea of IMF aid as unthinkable," the affable new Finance and Economy Minister Lim Chang-Yuel announced that the government would form an emergency economic presidential advisory committee to solve the nation's financial problems, and, on November 19, he unveiled an emergency financial bailout package.⁵⁰ However, seen as "too little to late," the measure failed to restore market confidence, and on November 20, the won fell by another 10 percent to 1,139 won per dollar; with some US\$65 billion in short-term debts (mostly held by *chaebols*), the country now teetered on the brink of defaulting on its debt repayments. Following marathon all-night negotiations with the IMF team, the weary and somber-looking finance minister in a nationally televised press conference (on November 21) reluctantly announced that Korea would seek emergency financial assistance from the IMF.

However, with Korea's presidential elections to be held later in December 1997, the IMF made it clear that its support would be contingent upon all presidential candidates approving (in writing) the terms of the IMF agreement. This was done because one of the candidates, Kim Dae-Jung, had made it clear that his government would renegotiate the terms of the IMF rescue package if the level of

unemployment and corporate bankruptcies turned out to be too high. In this climate of uncertainty, the won dropped to 1,800 won to the U.S. dollar in early December and to 1,962 won per dollar on December 23. However, after some two weeks of tense negotiations, Michel Camdessus, Managing Director of the IMF, announced on December 4, 1997, that the IMF and the South Korean government had signed a three-year standby arrangement under which the IMF had agreed to provide a record-breaking US\$57 billion rescue package to South Korea. Seoul would receive the first payment of US\$5.6 billion immediately, with the second portion forthcoming after December 17, following review of Korea's adherence to the comprehensive economic reform program underpinning the loan.⁵¹ Moreover, the IMF plan (coupled with the suasion of G-7 governments), Japanese, European and American banks agreed to roll over their maturing short-term loans (with the intent of converting them subsequently into long-term bonds) through March 1998, giving the Korean government the much needed breathing space to negotiate a more comprehensive restructuring package. On January 28, 1998, the Korean government and the banks reached agreement on the rescheduling of some US\$24 billion in short-term debt owed by Korean companies and on a plan to replace the bank loans with sovereign-guaranteed bonds. This enabled the country to avoid defaulting on the repayment of its short-term foreign debts. Although after signing the IMF agreement President Kim Young Sam publicly conceded that "we have lost our economic sovereignty," he nevertheless stated with unusual candor that his government would honor the stringent IMF conditionality and pleaded with the nation to endure humiliating and "bone-carving pain." On December 18, 1997, Kim Dae-Jung was elected president of Korea. On accepting his electoral victory, he too promised to implement the conditions attached to the IMF program.

The IMF Program The financial crisis had a devastating impact on the Korean economy, causing Korea's worst recession in the post-war period. As noted earlier, real GDP growth fell from levels which had been running in the positive 7-12% range before the crisis to a negative 5.8% in 1998. Worse still, per capita income declined from US\$10,543 in 1996 to US\$9,511 in 1997, bankruptcies soared during the first half of 1998, the losses of Korean listed companies reached historical records (about 14 trillion won in the first half of 1998), and unemployment rose from pre-crisis levels of 2% to 6% in 1998 and to 8.1% in March 1999 — the highest in 30 years. To halt the spiraling economic decline and jump-start the faltering economy, the Kim Dae-Jung administration (which took office in February 1998) committed itself to the IMF's program of macroeconomic adjustment and

structural reform. In fact, the Kim Dae-Jung government did more than accept the very tight monetary and fiscal policy stance proposed by the IMF. The government closely worked with the IMF and the World Bank to devise a wide-ranging and politically challenging structural adjustment program designed to address outstanding problems in the financial and corporate sectors.⁵²

Although the IMF-sponsored program underwent several revisions, it consisted of three basic elements: macroeconomic stabilization, financial and corporate sector reforms, including comprehensive dismantling of the old financial system, and further measures related to trade liberalization, capital account liberalization, and labor market reform. The immediate task facing the IMF was to achieve macroeconomic stability and restore confidence in the currency. To do this the IMF program required that: (1) money supply be squeezed, or at least be limited to a rate consistent with containing inflation at 5% or less; (2) the government maintain a balanced budget by reducing its spending level to match its tax revenue — which was expected to decline; (3) that the exchange rate be determined by market forces; and (4) interest rates be allowed to rise to the highest possible level to stem capital outflows and discourage speculation. On December 22, the statutory ceiling on interest rates was raised from 25% per annum to 40%), and the high interest rate policy continued throughout the first two quarters of 1998; the IMF program also required that (5) the government work hard to accumulate foreign exchange; and (6) a tight fiscal stance be maintained for 1998 to alleviate the burden on monetary policy and to provide for the interest costs of restructuring the financial sector.

In the area of financial sector reforms, the program was designed to: (1) restructure and recapitalize the banking system to address the problem of the stock of bad loans and the weak capital base. This meant decisively dealing with problem institutions and problem loans by closing down the former and by selling off the latter and substantially improving the health of the remaining financial institutions by injecting additional capital. Indeed, at the outset of the program, in order to maintain public confidence, the government guaranteed all deposits of financial institutions until the year 2000 and suspended the operation of 14 insolvent merchant banks. In addition, two commercial banks were placed under supervision, while all remaining financial institutions were required to submit plans for capital restorations needed to meet the Basle standards. The program also sought to (2) strengthen the disclosure rules, enforcing transparency requirements and establishing a prudential regulatory framework in order to prevent the recurrence of similar problems. To this effect, the Korean National

Assembly passed a revised Bank of Korea Act in December 1997 to provide for the independence of the central bank. Laws passed in December 1997 also consolidated all financial sector supervision (for banks, non-bank financial institutions, insurance and securities markets) in a single and independent Financial Supervisory Commission (FSC), separate from the government, and merged all deposit insurance protection agencies into a newly established agency — the Korea Deposit Insurance Corporation (KDIC). Corporate sector reforms were explicitly designed to reform the *chaebols* by (1) reducing their high-debt/equity ratios; (2) ending intra-group debt guarantees; (3) requiring *chaebols* to divest themselves of non-profitable activities; and (4) requiring transparency of balance sheets through the enforcement of independent external audits, full disclosure, and consolidate statements for all conglomerates, including the publication and dissemination of key economic and financial data — giving them until 2000 to comply. In the area of economic liberalization, the IMF urged Korea to open up the economy rapidly and completely — with open trade in commodities, services, intellectual property rights, and foreign exchange. In fact, under the arrangement trade was to be liberalized by setting a timetable in line with World Trade Organization commitments to eliminate trade-related subsidies. Capital flows were to be completely opened and the capital account transactions substantially liberalized. Specifically, the capital account was to be liberalized by opening up the Korean money, bond and equity markets to capital inflows and liberalizing foreign direct investment. Labor market reform was also required to facilitate the redeployment of labor.

However, the IMF-mandated program, in simultaneously pursuing structural reform and foreign exchange market stabilization, posed a fundamental dilemma. Specifically, in order to stabilize the foreign exchange market in the short run, contractionary fiscal and monetary policies were needed. On the other hand, expansionary policies were required to alleviate the pains from the credit crunch that inevitably accompanied structural reform. As it turned out, although the IMF program helped to restore some measure of international investor confidence, it also produced severe negative economic shocks. Devaluation and high interest rates produced recession and inflation. Consumer prices rose from an annual rate of 4.5% in 1997 to roughly 20% during the first two months of 1998, unemployment increased sharply from 0.5 million to 1.3 million, and the exchange rate, which had dropped to near 2,000 won per U.S. dollar on December 24, 1997, improved only modestly, fluctuating around 1,600 to 1,700 won per dollar in mid-January 1998. Moreover, as banks became reluctant to provide new loans to firms in order to meet their Basle requirements,

the number of bankrupt firms jumped from 1,000 per month in September 1997 to 3,000 per month by December 1997 — taking an indiscriminate toll on both weak and healthy firms alike. In turn, company bankruptcies led to the insolvency of financial institutions and scared off foreign investors, decreasing the inflow of foreign capital.

Even as the IMF program was being implemented, Jeffrey Sachs pointed out that, in the case of Korea, there was not need for tight monetary and fiscal policy since Korea's macroeconomic policy was sound, with "the budget in balance, inflation is low, the savings rate is high, and the economy is poised for export growth."⁵³ According to Sachs, the IMF had gravely misjudged the Korean crisis by equating it with the Mexican peso crisis. However, while Korea and Mexico suffered from the same liquidity problems, the causes of the crisis were not the same. In the case of Mexico, it was profligate spending and consumption, while in Korea it was highly leveraged investment burdened with short-term debts. By applying the same prescriptions it did during the peso crisis, the IMF severely aggravated the Korean crisis. Because of this miscalculation, the sharp increases in interest rates failed to stabilize the exchange rate — which quickly depreciated far below the targets set in the IMF program. In agreement with Sachs, Kihwan Kim added that the IMF's decision to release its funds in small increments was shortsighted "as foreign banks judged these amounts to be altogether inadequate, particularly for Korea's need to meet its short-term obligations." No wonder the foreign banks "accelerated the withdrawals of their funds from Korea, thus pushing the country to the verge of a sovereign default in less than 10 days after the initial agreement was signed."⁵⁴ Both Sachs and Kihwan Kim noted that the IMF's high interest rate policy had disastrous consequences. The high interest rates were recommended on the rationale that they would serve to bring in foreign capital and discourage the outflow of funds — thereby stabilizing the exchange rate. However, coupled with the sharp devaluation of the won, the immediate effect of the high interest rate policy was to increase the debt burden carried by Korean businesses. Given the fact that Korean companies were highly leveraged, the high interest rates drove an usually large number of firms into bankruptcy. Kihwan Kim pointed out that the IMF's demand that Korean financial institutions meet their BIS capital adequacy ratio in a very short period of time "resulted in a credit crunch of unprecedented proportions. As all banks and financial institutions were preoccupied with the need to improve their BIS ratios, they not only ceased to make new loans but hurriedly recalled their outstanding loans as well. This, more than anything else, was responsible for the sharp contraction of economic activities during the first three quarters of 1998."⁵⁵

Martin Feldstein⁵⁶ also severely criticized the IMF program, arguing that the traditional prescription of budget deficit reduction and a tighter monetary policy (which together depress growth and raise unemployment), was inappropriate for Korea, given that its national savings rate was already one of the highest in the world. He stated that Korea was

a case of temporary illiquidity rather than fundamental insolvency ... what Korea needed was coordinated action by creditor banks to restructure its short-term debts, lengthening their maturity and providing additional temporary credits to help meet the interest obligations ... Although many of the structural reforms that the IMF included in its early-December program for Korea would probably improve the long-term performance of the Korean economy, they are not needed for Korea to gain access to capital markets.

Rather, the IMF's primary task should have been to persuade foreign creditors to continue to lend by rolling over existing loans as they came due. Given the fact that Korea had the advantage of a relatively strong economy, this arguably would not have been very difficult. By highlighting the fact that Korea's lack of adequate foreign exchange reserves was a temporary shortage, not permanent insolvency, the IMF may have been able to persuade creditors to exercise forbearance.

As noted earlier, the IMF was able to get the creditors to roll over Korea's debt through March of 1998. From the IMF's perspective, tight monetary policy was needed to restore investor confidence, and high interest rates were necessary (particularly at the outset) to stabilize the exchange rates and restructure the corporate sector. No doubt, regarding monetary policy, the IMF arrangement achieved its basic objective in curbing the depreciation-inflation spiral. The high interest rates that the Korean authorities were forced to maintain to encourage the markets to take up the sovereign-guaranteed bonds helped avoid default—which also facilitated the rapid restoration of the country's creditworthiness.⁵⁷ However, in retrospect, there is little doubt that the IMF's program was too contractionary in the short run, thereby making it very costly to implement structural reform. The IMF in pursuing tight monetary policies, while simultaneously requesting Korean banks to observe, within a short period of time, the capital adequacy ratio set by the BIS, unleashed problems. Fearful of the penalty they would receive in case they could not meet the ratio, banks rushed to withdraw loans from companies, thereby deepening the credit crunch and pushing interest rates up even further. This drove many firms, including profitable but highly leveraged firms, into bankruptcy. This, in turn, lowered the capital base of banks due to the losses, which only speeded up foreign

banks' collection of loans from the Korean banks, since they became fearful of the growing insolvency of the Korean banks.³⁸ Moreover, the decision to permit the exchange rate to continue to float rather than readjusting the pegs to rates deemed defensible only opened the door to continued market depreciation. No wonder the high interest rates failed to attract foreign capital as the credit risk involved in the payment of principal was too high. The Korean case vividly highlighted that the gap between domestic and international interest rates is not in itself a sufficient condition for stabilization of the exchange rate through interest arbitrage. Finally, as Sachs noted, in Korea the budget was balanced, with a slight surplus. Therefore, the IMF prescription of budget cuts (which is the standard way to deal with irresponsible governments running large deficits in their current accounts), was not only inappropriate for Korea, it also aggravated the crisis. Given this, it is difficult not to agree with the critics that the IMF's fiscal austerity program for Korea was fatally misguided.

Yet, and to its credit, the IMF seems to have recognized (although it did not admit) its mistake. Surprised by the sharp and unrelenting downturn of the economy, the IMF began to soften the stringency of its program. Beginning with the second quarterly review of the standby arrangement, on February 17, 1998, monetary policy was eased. The fiscal target for 1998 was lowered from a surplus of 0.2% of GDP in the original program (including bank restructuring costs) to a deficit of 0.8% of GDP. Although monetary policy was expected to remain tight as long as the exchange market situation remained fragile, the program, nevertheless, allowed for a gradual decrease in the interest rate and a slight increase in the growth of reserve money. As the won stabilized to the level of 1,350-1,400 won per dollar by the end of April 1998, it enabled the Korean government to lower interest rates below the 20% level — after consultation with the IMF. The program was also broadened to include measures to strengthen the social safety net by expanding the unemployment insurance system and increase labor market flexibility through public works and other programs. In the third quarterly review on the standby arrangement on May 28, 1998, the conditionality of the macroeconomic policies was adjusted in order to counter the recession and to strengthen the structural reform agenda. There was agreement to ease fiscal policy by increasing the target for the budget deficit to 4.0% of GDP. In the fifth program review signed on November 18, 1998, the deficit target was further increased to 5% of GDP.

Korea's three-year standby arrangement with the IMF expired on December 3, 2000. By then the macroeconomic fundamentals had improved considerably, especially the current account balances. The

sharp turnaround in current account balances also contributed toward a rapid accumulation of foreign exchange reserves (from US\$20.4 billion in December 1997 to US\$52.3 billion by December 15, 1998), thereby making the Korean economy more resilient to external shocks. The relatively speedy recovery of the Korean economy can be attributed to many factors such as the early resolution of creditor panic, the export-oriented industrial structure, the favorable external environment, the expeditious implementation of IMF-mandated structural reforms by the Kim Dae-Jung administration, and most importantly, the government's expansionary macroeconomic policies. Regarding the last point, it should be noted that in September 1998, the Korean government lowered interest rates, extended more credits to small- and medium-sized enterprises, and widened the fiscal deficit to revive the economy—despite criticisms from the IMF that a premature stimulus of the economy might undermine the restructuring process. Overall, while progress has been made in stabilizing the financial system, addressing corporate distress, strengthening the institutional framework for corporate governance and financial supervision, and enhancing transparency and the role of market discipline, many structural problems remain. There is much work yet to be done.

Conclusion

To sum up the preceding discussion of the various explanations of the Korean financial crisis, it is argued here that "financial liberalization without regulation" provides the most convincing explanation for Korea's full-blown financial crisis. The implications are clear: open financial markets offer both risks and benefits. The Korean experience illustrates the fact that effective monitoring and regulation of the financial liberalization process is necessary if emerging market economies are to resolve and avoid financial crises. It also means that corporate and financial sector restructuring and greater transparency in business-government relations is necessary before full-scale liberalization can occur. The fact that the Kim Dae-Jung administration has already taken steps to strengthen domestic regulation and supervision of banks and other financial intermediaries, to rebuild the information infrastructure of financial markets, and to improve corporate governance is a good sign.

Notes

1. Soon Cho, *The Dynamics of Korean Economic Development* (Washington, D.C.: Institute for International Economics, 1994).
2. After three years of careful analysis, South Korea became a member of OECD in October 1996.
3. For details, see World Bank, *World Development Report, 1999/2000* (Washington, D.C.: The World Bank, 2000a).
4. Mohamed Ariff and Ahmed M. Khalid, *Liberalization, Growth and the Asian Financial Crisis* (Cheltenham, U.K.: Edward Elgar, 2000), p. 63.
5. For example, the 3-year corporate bond yield (the benchmark interest rate) declined from an average of 15% during 1990-95 to 12% in 1996. For details, see World Bank, *Republic of Korea: Establishing a New Foundation for Sustained Growth* (Washington, D.C.: The World Bank, 1999).
6. Data is compiled from the Bank of Korea, *Statistics of the Korean Economy* (<http://www.bok.or.kr>) (1998), and Joon-Ho Hahm, "Financial System Restructuring in Korea: The Crisis and its Resolution," in Seiichi Masuyama, Donna Vandenbrink and Chia Siow Yue, *East Asia's Financial Systems: Evolution and Crisis*. (Singapore: ISEAS, 1999), pp. 109-143.
7. In the World Bank classification, a country is "less indebted" when the debt/GNP ratio is less than 48%; "moderately indebted" when the ratio is between 48% and 80%; and "severely indebted" when it is over 80%.
8. Ha-Joon Chang, "Korea: The Misunderstood Crisis," *World Development*, vol. 26, no. 8, (1998), pp. 1555-1561.
9. Ariff and Khalid, p. 62.
10. Sang-Mok Suh, "The Korean Economic Crisis" unpublished paper. Asia/Pacific Research Center. Stanford University, 1998.
11. The emergency financing mechanism (EFM) was established in September 1995. The EFM strengthened the IMF's ability to respond quickly in support of a member country facing an external financial crisis and seeking financial assistance from the IMF in support of a strong economic adjustment program.
12. Quotes from Nicholas Kristof, *The New York Times*, November 22, 1997, p. B2. It is important to note that all the three political parties and presidential candidates, Rhee In Je, Lee Hoi-Chang (the ruling party candidate) and long time dissident, Kim Dae Jung (who was slow to embrace the IMF package), all finally acceded to the IMF demands. In fact, because the crisis occurred in the middle of the presidential election campaign, the IMF made a very unusual request for a written endorsement of the IMF program from the three major presidential candidates. All three endorsed the program. Kim Dae Jung was elected president for a five-year term on December 18, 1997.
13. Giancarlo Corsetti, Paolo Pesenti and Nouriel Roubini, *What Caused the Asian Currency and Financial Crisis: A Macroeconomic Overview*, NBER Working Paper 6833, National Bureau of Economic Research, (Cambridge, Mass.: 1998).
14. Steven Radelet and Jeffrey Sachs, "The East Asian Financial Crisis: Diagnosis, Remedies and Prospects," *Brookings Papers on Economic Activity*, vol. 1(1998).
15. The concept of "reputational externalities" was developed by Zeckhauser. See Richard Zeckhauser. "The Muddled Responsibilities of Public and Private America" in Winthrop Knowlton and Richard Zeckhauser eds., *American Society: Public and Private Responsibilities*, (Cambridge, Mass.: Ballinger, 1986), pp. 45-77.
16. *Chaebols* are conglomerates of many companies clustered around one holding company. The parent company is usually controlled by one family. That is, the company founder and his family on average own about 10%, and through cross-shareholdings control another 30% to 40% of the group member firms in the top 30

- chaebols*. In 1998, the top 40 *chaebols* grouped a total of 671 companies. See, Kenneth Scott, "Corporate Governance and East Asia: Korea, Indonesia, Malaysia and Thailand," in Alison Harwood, Robert E. Litan and Michael Pomerleano, eds., *Financial Markets and Development* (Washington, D.C.: The Brookings Institution, 1999), pp. 335-365.
17. Sylvia Maxfield, "Capital Mobility and Democratic Stability," *Journal of Democracy*, vol. 11, no. 4, October 2000, pp. 95-106.
18. Tomas Balino and Angel Ubide, "The Korean Financial Crisis of 1997 — A Strategy of Financial Sector Reform," *IMF Working Paper*, March 1999, WP/99/28.
19. Although an accurate measurement of the size of the curb market is difficult to measure, estimates suggest that in the mid-1990s, the total lending in the curb market was between 2 to 5% of the total loans of the formal financial sector. In contrast, in the mid-1970s, the curb market was estimated to account for more than one-third of all credit extended in the economy. As noted earlier, curb market loans are characterized by high interest rates and risks — to satisfy the credit demands of individual households and small- and medium-size firms that have been excluded from the formal credit market. Balino and Ubide, p. 11.
20. Although specialized banks can borrow from the government, deposits constitute their main source of funding. Funding for development banks, which are wholly government-owned, come mainly from government-guaranteed bonds. Balino and Ubide, p. 9.
21. Chang, *op.cit.*, p. 1557.
22. Ilpyong J.Kim and Uk Heon Hong, "The Republic of Korea: The Taming of the Tiger" *International Social Science Journal*, March 2000, no. 163, pp. 70-71
23. Ja-Hoon Chang, Hong-Jae Park and Chul Gyue Yoo, "Interpreting the Korean Crisis: Financial Liberalization, Industrial Policy and Corporate Governance," *Cambridge Journal of Economics*, vol. 22 (1998), pp. 735-746
24. Chung. H. Lee. "Chaebol, Financial Liberalization and Economic Crisis" unpublished paper. University of Hawaii at Manoa (2000), p. 10.
25. Joining the OECD requires, as a precondition, free capital markets.
26. Balino and Ubide. p. 16.
27. Lee, "Chaebols, Financial" p. 11.
28. Before the deregulation, the top 15 *chaebols* were not allowed to own and control life insurance companies, while the next top 15 *chaebols* were allowed to have only up to a 50% ownership of life insurance companies. However, by May 1996, all *chaebols* but the top five were allowed to own or control life insurance companies. Also, before the deregulation only the commercial banks could own investment trust companies. However, in early 1996 the restriction was lifted.
29. It is important to note that short-term borrowing rates were lower than long-term rates, and short-term funds could be raised relatively easily through the international money markets. This resulted in domestic banks channeling external short-term funds to long term loans financing investments by domestic corporations.
30. Chang, Park and Yoo, *op. cit.*, p. 739.
31. *Ibid*, p. 738-9.
32. Daekeun Park and Changyong Rhee. "Currency Crisis in Korea: How was it Aggravated" *Asian Development Review*, vol. 16, no. 1 (1998), pp. 149-80.
33. Stephan Haggard and Jongryn Mo, "The Political Economy of the Korean Financial Crisis" *Review of International Political Economy*, vol. 7, no. 2, Summer 2000, pp. 197-218.
34. Martin N. Bailey and Eric Zitzewitz, "Extending the East Asian Miracle: Microeconomic Evidence From Korea" *Brookings Papers on Economic Activity: Microeconomics* (1998), pp. 249-308.

35. Eduardo Borensztein and Jong-Wha Lee, "Credit Allocation and Financial Crisis in Korea" IMF Working Paper no. 99/20, 1999.
36. Borensztein and Lee, *op.cit.*, p. 7.
37. During the period 1985-95, unit labor cost in manufacturing increased by 46.0% in Korea, while the corresponding figures were 22.1% in Japan, 25.1% in Taiwan and 4.4% in the United States. The situation became even worse when other countries such as China, Thailand, Malaysia and Indonesia adopted an export-oriented economic strategy. In the process, Korea was sandwiched between the developed countries (with their superior technological base), and the newly-industrializing countries, with their very low wages. As the dollar became stronger, particularly against the yen, Korea's export competitiveness suffered, and the country experienced an accelerated increase in its trade deficit.
38. The electronics exports declined from US\$43.6 billion in 1995 to US\$41.2 billion in 1996, an annual decrease of 5.5% after a 30.4% and 41.1% annual increases in 1994 and 1995. Bong Joon Yoon, "The Korean Financial Crisis, the Chaebol and Economic Reform" *Korea Observer*, vol. xxx, no. 3, Autumn 1999, pp. 411-441.
39. Gregory Noble and John Ravenhill. "The Good, the Bad and the Ugly"? Korea, Taiwan and the Asian Financial Crisis," in Gregory Noble and John Ravenhill, ed. *The Asian Financial Crisis and the Architecture of Global Finance* (New York: Cambridge University Press, 2000), p. 90.
40. See, "Semiconductors: Chips on their Shoulders," *The Economist*, November 1, 1997, p. 62.
41. In-June Kim and Yeongseop Rhee. "The Korean Currency Crisis and the IMF Program: An Insider's View" *Seoul Journal of Economics*, vol. 11, no. 4 (1998), pp. 351-380.
42. For example, Samsung spent 4 trillion won building a car manufacturing plant in Pusan when there was already an excess supply of cars, not only in South Korea, but in the world. With a capacity of 240,000 units per year, it sold only 60,000 units in 1998. Not surprisingly, Samsung Motors lost 156 billion won in the first six months of 1998. Its debt rose to nearly 4 billion won taking its debt/equity ratio to 555%.
43. Balino and Ubide, *op. cit.*, p. 28.
44. Chung-In Moon and Sang-young Rhyu, "The State, Structural Rigidity, and the End of Asian Capitalism" in Richard Robison, Mark Beeson, Kanishka Jayasuriya and Hyuk-Rae Kim eds., *Politics and Markets in the Wake of the Asian Crisis* (London: Routledge, 2000), pp. 77-98.
45. KAMCO was established in April 1997.
46. Park and Rhee, *op. cit.*, p. 171.
47. According to Kim and Rhee, p. 363, Japanese banks collected short-term lending of some US\$9 billion from Korea between October 1997 and December 3, 1997. See Kim and Rhee, *op.cit.*, p. 363
48. These deposits were not usable as foreign reserves.
49. Carl-Johan Lindgren, Tomas Balino, Charles Enoch, Anne-Marie Guide, Marc Quintyn and Leslie Teo. *Financial Sector Crisis and Restructuring: Lessons from Asia*. IMF Occasional Paper 188 (Washington, D.C.: International Monetary Fund, 1999).
50. Chang-yuel replaced Kang Kyong-shik who resigned after taking responsibility for the crisis. The quotes are taken from, Nicholas Kristof, "Seoul Plans to Ask the IMF for a Minimum of \$20 billion," *The New York Times*, November 22, 1997, p. B2.
51. Nicholas Kristof, "Package of Loans Worth \$55 Billion Set for South Korea," *The New York Times*, December 4, 1997, p. C6.
52. Stephan Haggard. *The Political Economy of the Asian Financial Crisis* (Washington, D.C.: Institute for International Economics, 2000).
53. Jeffrey Sachs, "The IMF is a Power unto Itself" *The Financial Times*, December 11, 1997.

54. Kihwan Kim. "The Korean Financial Crisis: Causes, Response and Lessons" in Joseph R. Bisignano, William C. Hunter and George G. Kaufman eds. *Global Financial Crises: Lessons from Recent Events*. (Boston: Kluwer Academic Publishers, 2000), pp. 201-208.
55. Kihwan Kim, p. 205.
56. Martin Feldstein, "Refocusing the IMF," *Foreign Affairs*, Vol. 77, No. 2, March/April 1998, pp. 20-33.
57. Korea was able to re-enter international capital markets as early as May of 1998.
58. As the economic recession grew worse and corporate bankruptcy multiplied, the IMF, it seems, finally realized its mistake, and in May 1998 granted permission to the Korean authorities to lower interest rates and to ease the money supply. However, the damage was already done.

The Role of U.S. Forces in a Unified Korea

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The geopolitical landscape in East Asia has changed dramatically, and one would hope permanently, as a result of last year's sudden and largely unexpected thaw in North-South Korean relations. The appearance of North Korea's formerly reclusive leader, Kim Jong-il, in the international spotlight through the much-heralded June 2000 inter-Korean summit in Pyongyang and his high-profile meetings with Chinese leaders in Beijing and Shanghai and with Russian President Putin in Pyongyang have resulted in a remaking of both the North Korean leader's and his nation's international image. As one senior U.S. official noted at the time, North Korea has gone, almost overnight, from the "hermit kingdom" to the "hyperactive kingdom."

Pyongyang's sudden opening has many former skeptics openly (if not overly) optimistic about the future of the Korean Peninsula. Even ROK President Kim Dae-jung wrote that "the most important outcome of the summit is that there is no longer going to be a war."² As a result, some are already calling for a sharp reduction, if not a complete withdrawal, of U.S. forces on the peninsula, now that the North Korean threat has receded.³ Others, including President Kim himself, have argued that U.S. forces will be required on the peninsula even after reunification—and that Chairman Kim Jong-il "concurred" with his reasoning.⁴ The role of these forces would no doubt change, however, depending on the form of unification or North-South reconciliation and how it occurs.

A word of caution at the outset. Given North Korea's past unpredictability and the history of abrupt swings in North-South cooperation—we experienced a similar, although not quite as dramatic rapprochement in 1991-1992—the peninsula remains a potentially dangerous place.⁵ One has only to look at the current lull in North-South high-level interaction imposed by Pyongyang in March 2001 (and continuing at this writing) to understand the fragility of the still

embryonic peace process, an effort which, to date, remains more symbolic than substantive, despite official proclamations from Seoul to the contrary.⁶

But the only thing more unrealistic than believing (or hoping) that everything has changed is pretending that nothing has changed. For better or worse, North Korea's diplomatic charm offensive has changed the way we must look at North-South issues. It will also have an impact on the debate over U.S. alliances, forward military presence, and even missile defenses.⁷ In fact, some security analysts (myself included) have argued even before the historic summit that the time for a reassessment of future U.S. force structure on the peninsula and elsewhere in Northeast Asia is long overdue.⁸

This paper will look at the implications various forms of "unification" might have for ROK and U.S. security strategy and the future role of U.S. forces on the peninsula. Several scenarios will be examined: a continuation of the current, or perhaps slightly modified, status quo; peaceful coexistence, including genuine tension reduction measures; a genuine federation or confederation with more open borders and positive interaction; and eventual reunification under one central government, presumably in Seoul, under the current ROK democratic and economic system. Some policy prescriptions will also be offered to help the U.S. and ROK adjust to and facilitate the evolving change in North-South relations.

Current Geopolitical Environment

The dramatic, unprecedented June 2000 inter-Korea summit has been rightfully praised as a major breakthrough in North-South relations. Along with this limited, yet significant opening up of North Korea has come increased economic and food aid, impending or restored diplomatic ties with a wide number of states, and admission into the ministerial-level ASEAN Regional Forum (ARF).⁹

Kim Jong-il's surprise appearance on the tarmac, smiling and warmly greeting President Kim Dae-jung and his entourage during the latter's visit to Pyongyang, was indicative of the kinder, gentler image North Korea has been trying to carve out for itself. However, it is still difficult to know at this stage if the apparent changes represent a genuine change in DPRK attitude or merely a shift in tactics aimed at regime survival.

After all, in June 1999, one year almost to the date before the historic summit, a maritime border confrontation was shaping up off the peninsula's west coast, which culminated in the sinking of a North Korean ship. Meanwhile, the standoff between Washington and Pyongyang over halting DPRK missile tests was heating up, and the

visit to Pyongyang by former Secretary of Defense William Perry left Perry, among others, pessimistic about Pyongyang's willingness to respond favorably to a combined U.S.-ROK-Japanese formula for enhanced cooperation.¹⁰

The situation changed dramatically with the June 2000 summit and the series of high-level meetings that followed, including the visit of North Korea's defense minister to the South for formal talks with his ROK counterpart. For a time, North-South cooperation seemed more reminiscent of 1991-1992, when the two sides negotiated two yet to be implemented agreements—the Agreement on Reconciliation, Nonaggression, and Exchange and Cooperation (also known as the "Basic Agreement") and the Joint Declaration for Denuclearization of the Korean Peninsula¹¹—amid summit discussions. The fact that this earlier promising period of reconciliation proved so fragile should be a sobering reminder of the challenges that lie ahead, as is the North's still not fully explained decision to suspend high level talks in March.¹²

Without denying the historic nature of the summit and the still generally cooperative attitude of the North (especially when compared to pre-summit days), it is important to remember what has not changed. North and South Korea still remain technically at war. The 1953 Armistice has yet to be replaced with a genuine peace treaty and discussion of core security issues has continued to be absent from inter-Korean talks. The word "peace" was nowhere to be found in the June 2000 Joint Statement, and Kim Dae-jung's desire for some type of North-South Peace Declaration (not to be confused with a Peace Treaty) at the next summit, in my view, could be a large contributing factor behind Kim Jong-il's reluctance to honor his pledge to visit the South.¹³

North and South Korea also remain two of the most heavily fortified nations on earth. The threat from North Korea remains real, if somewhat diminished as a result of North Korea's economic bankruptcy, its dwindling military capabilities relative to the South, and the adjustment of its Cold War alliances that previously provided less restrictive security assurances. The Pentagon's 1998 *EastAsia Strategy Report (EASR)* rightfully warned that North Korea "can still inflict considerable damage against the South and threaten its neighbors," given its large inventory of artillery, missiles, and a suspected "sizable stockpile of chemical weapons."¹⁴ This has not changed.

Recent political overtures and the North's continuing economic and social hardships notwithstanding, the size of the North Korean military has not been diminished; rather it has experienced slight growth in overall numbers and in new hardware over the past decade. North Korea possesses the fourth largest armed forces in the world, with some

1.2 million active duty military personnel armed with over 4,000 tanks and 10,000 field artillery pieces.¹⁵ One-fourth of North Korea's population, some five million men and women, serve in the reserve forces. With 65 percent of its forces heavily fortified and situated in close proximity to the demilitarized zone (which itself is less than 25 miles from Seoul), the first few days of a North Korean-initiated conflict would be extremely destructive. The country that has many times threatened to bring a rain of fire on the South still retains the capability to do so.

Absent from North-South deliberations thus far are any substantive discussions on military confidence building measures (CBMs) and mutual and balanced force reductions and pullbacks from the demilitarized zone.¹⁶ Until security issues such as these are dealt with seriously, the peninsula remains a very dangerous place. Ironically, the North Korean defense minister, during his historic visit, refused to discuss security issues, limiting his discussion to the opening up of a road and rail corridor through the demilitarized zone. The enormous potential security implications of such a gesture were not even discussed, much less reconciled.

All of this is not said to overshadow the positive signs that have come from the inter-Korean summit. Yet it is necessary to counterbalance the optimism with the gravity of reality. It will be a long road to walk for both Koreas. Patience and restraint are needed as Koreans on both sides of the demilitarized zone attempt to break down fifty-year-old barriers. It is also useful to bear in mind the well-founded skepticism that accompanies any dealings with North Korea.

Also important to bear in mind is that when Koreans (South and North) talk about "reunification" today, more often than not they are really talking about reconciliation and peaceful coexistence between two separate state entities, under some type of "one nation-two states or two governments" formula, with both Seoul and Pyongyang retaining their sovereign rights over the peoples of the South and North respectively or, at best, some form of federation or confederation between two equal entities, each presumably with its own political and social systems (and armed forces).

Basic Assumptions

This paper is built on two basic assumptions. First, that as long as the DPRK exists as a separate entity, some form of deterrence will be required and that means the continued presence of U.S. military forces in the ROK and a continuation of a unified command structure. A second basic assumption is that a strong defense alliance relationship

between the U.S. and ROK today and between the U.S. and a reunified Korea in the future provides the greatest assurance of stability on the peninsula. Even after reunification, common ideals, common values, and common objectives between Washington and Seoul can provide the basis for a continued robust security relationship, one that will prevent a resumption of historic strategic rivalries and thus ensure peace and stability on the peninsula. This will enhance the prospects for simultaneous good relations between a reunited Korea and all its giant neighbors.

Deterrence

The principle deterrent to conflict on the Peninsula continues to be South Korea's well-equipped, highly-capable, well-trained 672,000 military forces, further augmented through their alliance with the U.S. The 37,000 American military forces on the peninsula serve as a symbol of U.S. commitment and as a "tripwire" ensuring that America will become fully engaged immediately upon the initiation of hostilities by the North. U.S. forces would quickly swell to over 500,000 in the event of hostilities.¹⁷

Lending further credibility to this deterrence capability is the U.S./ROK Combined Forces Command (CFC) that evolved from the multinational United Nations Command (UNC). The U.N. Command, which includes representatives from the United States, ROK, and 15 other countries, oversees the 1953 Armistice. The CFC was established in 1978 in order to give the ROK a greater role in the war fighting, planning, and command structure. The establishment of the CFC was part of a bilateral agreement calling for a U.S. transition "from a leading to a supporting role" in the defense of the peninsula, to ensure that the ROK military had a greater role in the operational planning and combat command and control of combined ROK/U.S. forces both during peacetime and in the event of hostilities.

While the CFC structure allows both for a smooth transition from peace to war and for an effective combined war fighting effort, many in the ROK continue to call for greater indigenous operational control of ROK military forces. Such issues play to the South's "little brother" complex which continues to serve as an irritant which must constantly be addressed. They do not detract, however, from the deterrent value of the alliance nor its centrality to broader ROK-U.S. relations.

Even in the event of more genuine North-South cooperation, or even a loose Korean confederation, I would argue that a continued ROK-U.S. security alliance presents the best insurance policy as a hedge against a sudden change in intent by the North. As a result, Washington and Seoul must continue to make clear to Pyongyang that

the continued presence of U.S. troops in the ROK is not a bargaining chip but an essential stabilizing force which makes U.S.-DPRK and South-North dialogue possible.

Headlines shortly after the historic summit indicating that Kim Jong-il had "approved" of a continued U.S. presence were both encouraging and disturbing: encouraging because it appeared that the North Korean supreme leader understood the long-term value of a continued U.S. presence to the peninsula's stability; discouraging since this implies, at least in the minds of headline writers, if not their readers, that Kim Jong-il's "approval" is somehow required.¹⁸ If these reports are indeed true,¹⁹ Kim Jong-il's willingness to accept this reality is encouraging, but he should not be given the impression that his approval is needed for U.S. forces to remain on the peninsula since this implies a Pyongyang veto over this critical U.S.-ROK decision. Until reunification, the status and fate of U.S. forces based in the ROK should be for Seoul and Washington alone to determine; as far as Pyongyang is concerned, the U.S. presence must be seen as non-negotiable. Once true reunification occurs, it will then be up to Washington and the new unified Korean government to decide the desirability and nature of any new bilateral security arrangement.

This does not preclude reductions in U.S. force levels, pragmatic restructuring and relocation, or modifications to existing command arrangements. If tensions are significantly reduced, the U.S.—in close consultation with the Republic of Korea—could conduct some limited troop withdrawals. Likewise, renewed provocations could justify a measured build-up of U.S. forces. Possible force and command structure modifications will be discussed during the review of potential scenarios. But, under all scenarios short of the disappearance of the North Korean state as a separate entity, I will argue that some credible U.S. military force presence is necessary.

Maintaining the Alliance

As a "shrimp among whales"—to borrow an ancient Korean proverb—Korea has always been concerned about being dominated by its neighbors. While the most recent transgressor was imperial Japan during the first half of the 20th century, both China and Japan have, over the past millennium, exercised control over the peninsula on numerous occasions. Meanwhile, Russia played the central role in dividing Korea during the U.S.-Soviet Cold War confrontation and exerted sufficient control over Pyongyang first to veto and then to approve (if not order) the North's invasion of the South.²⁰

The introduction of a fourth whale into Korean waters has been largely beneficial to the ROK since the U.S. has no territorial or

colonial ambitions and—debates over bases and status of forces agreements notwithstanding—has generally respected the ROK's sovereignty, while providing the security guarantees under which both political and economic reform have safely taken place.

In today's geopolitical setting, the U.S.—as the regional "balancer" or "stabilizer"—continues to help underwrite current and future ROK security.²¹ As Professor Rhee Sang-woo notes:

Koreans anticipate that for the next few decades the U.S. will persist as the hegemonic power in East Asia. Close alliance with the U.S. is therefore the only option for Korea in designing its survival strategy. Korea will cooperate to maintain peaceful and stable order in the region. Meanwhile, Korea will also develop and maintain friendly relations with the other members of the regional security system, China, Japan, and Russia.²²

The U.S.-ROK alliance allows Seoul simultaneously to pursue close and cordial relations with all its neighbors. Without American security guarantees, the options are limited. Korea could attempt to go it alone, although neutrality has not proven to be a successful strategy in the past. Or, it could choose to align with one of the nearby whales. Whichever one Seoul chooses—and China would be the most likely (though not inevitable) choice, since memories of Japan's domination are freshest and Russia today has little to offer—historic rivalries and suspicions are almost certain to be revitalized, leading to greater regional instability.

Particularly unsettling would be a unified Korea that looks toward Japan as its primary future threat or enemy. It is an unfortunate fact that one of the few things that the people of North and South Korea have in common today is an historical sense of distrust for their Japanese neighbors, a distrust shared, and all-too-frequently played upon, by the Chinese. If future South-North or Korea-China ties are built on this factor, however, with Japan emerging as the common concern today and future threat tomorrow, this will put Korea on a collision course with the United States, whose national security strategy rests upon the foundation of close U.S.-Japan relations and greater Japanese participation in regional security affairs (within the framework of the U.S.-Japan Mutual Security Treaty and Japan's Peace Constitution).²³

A unified Korea closely aligned with and under the protection of either China or Japan is sure to make the other great regional powers nervous, even if the relationship is professed to be benign. This is why many South Koreans, President Kim Dae-jung foremost among them, attach high priority both to simultaneous close relations with the four major powers *and* to the continuation of a strong alliance relationship

with the U.S. As President Kim noted in his inaugural address:

To strengthen our national security, we will preserve and maintain alliance ties and close cooperation with the United States—the central factor in our national security.

To maintain peace and stability on the Korean Peninsula, we will do our best to elicit positive cooperation with the four major powers around us—the United States, Japan, China, and Russia.²⁴

The U.S. likewise sees the value of a continued strong U.S.-ROK alliance relationship even after North-South reconciliation or reunification. *EASR* states that "the U.S. strongly agrees [with President Kim Dae-jung] that our alliance and military presence will continue to support stability both on the Korean Peninsula and throughout the region after North Korea is no longer a threat."²⁵ This sentiment has been reinforced by the Bush administration. Under most plausible scenarios, I personally see a future role for U.S. forces on the Korean Peninsula even after reconciliation or reunification, at least in the near term, in order to help ensure a secure environment conducive to much-needed demilitarization, if for no other reason.

Possible Future Scenarios

As noted earlier, future force and command structure decisions are scenario-dependent. In this section, I will briefly look at four increasingly optimistic scenarios and comment on the implications of each regarding the future role of U.S. forces on and around the peninsula. Not addressed is the real, but hopefully remote, possibility that none of the optimistic scenarios may come to fruition. Given the roller coaster-like history of North-South relations, it is possible that relations could once again unwind. Renewed tensions and a resumption of North Korean-instigated provocations would, of course, end any prospects for force adjustments, other than perhaps a measured build-up of U.S. forces. In addition, a resumption of North Korean missile tests could (and should) result both in the deployment of additional theater missile defense (TMD) assets and an ROK commitment to participate in future research and development and deployment of advanced TMD systems.

North Korea is not the only one capable of derailing the current peace initiative. It must also be noted that the Kim Dae-jung Administration and opposition party leaders have failed to reach a bipartisan consensus on President Kim's Sunshine Policy toward the North. The main opposition Grand National Party (GNP) has severely criticized President Kim's conciliatory approach to the North, and the

GNP's presumptive candidate in the 2002 elections, Lee Hoi-chang, has made little effort to join with President Kim in crafting a bipartisan policy toward the North. Making matters worse, former President Kim Young-sam has demanded that his successor extract an apology for the Korean War from Kim Jong-il before allowing the North Korean leader to visit the South.²⁶ It would be an absolute tragedy if, at this historic moment, domestic politics in the ROK were to unravel the peninsula's greatest opportunity for North-South reconciliation since the peninsula was divided.

Slightly Modified Status Quo

Despite North Korean unpredictability and South Korean internecine political warfare, I remain cautiously optimistic about the prospects for continued North-South cooperation and expect that, at a minimum, we will see a continuation of the current, or perhaps slightly modified, status quo, especially now that the U.S. policy review is completed and the stage has been set for a resumption of U.S.-NK dialogue. This should include more serious dialogue on tension-reduction measures, such as the installation of a military hotline, a naval demarcation agreement, and perhaps even an "incidents at sea" accord.

Under such a scenario, U.S. troop levels should remain as they are. However, simple statements from Washington stating that "we see no reason yet to adjust our force presence" will not suffice. The U.S. needs to acknowledge the potential for change and express a willingness, in close coordination with Seoul, to adjust force levels "as the security situation permits" while reaffirming the U.S. commitment to remain on the peninsula "as long as the Korean people want American forces to continue." This approach provides a useful reminder that the U.S. is not forcing its presence upon the peninsula but is there at the behest of, and on behalf of, the Korean people and their democratically elected government.

At this stage—or, for that matter, right now—the U.S. needs to enter into serious, private security consultations with the ROK and Japan (perhaps through the TCOG mechanism) to identify the milestones and trigger events that would merit a phased reduction of U.S. forces along the lines outlined below.

Peaceful Coexistence

I believe that there is a better than even chance that "peaceful coexistence" can be achieved and sustained over the next several years, if the earlier momentum can be restored and bipartisan support can be hammered out in the South. This will require the North to be more

forthcoming than it has been of late, but surely Kim Jong-il recognizes that if he does not cement a deal with the ROK under Kim Dae-jung, the current window of opportunity will close and North Korea will be the big loser. Peaceful coexistence would include genuine military CBMs and more general tension reduction measures, to include, at a minimum, some drawback by both sides from the demilitarized zone along with the emplacement of a cooperative monitoring system similar to that installed in the Sinai, with data available to both sides. An open skies agreement would be another significant step toward institutionalizing this state of peaceful coexistence.²⁷ Eventually, mutual and balanced force reductions would also be seriously considered.

For such a peaceful state to be reached, both South and North Korea need to feel secure enough to take steps leading to some long overdue demilitarization on the peninsula.²⁸ The U.S.-ROK security alliance today provides that defensive assurance to Seoul. China and Russia both have security alliances with Pyongyang, which could provide the foundation for similar security assurances to North Korea. Rather than talk about a premature withdrawal of U.S. forces from the peninsula—which I have argued would be destabilizing—Moscow and Beijing should seek to provide Pyongyang with the necessary defensive security assurances that will allow North Korea to proceed down the path of enhanced cooperation and measured demilitarization.²⁹ This should in no way be seen as an endorsement of Russian arms sales to the North, however. Moscow's apparent willingness to upgrade North Korea's military arsenal, especially during the current lull in North-South dialogue, does little to further the cause of peace on the peninsula.

Some downward adjustment in the current level of forward-deployed U.S. forces seems reasonable and appropriate at this stage. If tensions are significantly reduced, the U.S.—in close consultation with the Republic of Korea—could conduct some limited troop withdrawals, starting with the 5,000 ground troops initially scheduled for removal under then Defense Secretary Dick Cheney's *East Asia Strategy Initiative*. This move was subsequently postponed by President Bush's father (George H. Bush, or "41," as he is referred to among Washington insiders to distinguish him from his son, the 43rd U.S. president) and then canceled by President Clinton after the 1994 nuclear crisis.³⁰ The existing command structures—the United Nations Command and the Combined Forces Command—would still remain intact, however. As it is today, the primary role of U.S. forces would be deterrence, although they would assume a less threatening posture toward the North once genuine CBMs are installed.

Confederation/Federation

North-South federation or confederation proposals have been around for many years. North Korea, in particular, has long argued for a South-North confederation as an interim step toward eventual reunification. At a CSCAP North Pacific Working Group meeting in early 1997, for example, a North Korean scholar from the Foreign Ministry-directed Institute of Disarmament and Peace in Pyongyang spelled out the North's confederation views in considerable detail:

It is the international trend today to set up a confederal state or coalition government among the peoples with different ideas and views.

The proposal for national reunification through confederation advanced by the respected President Kim Il-sung is the formula to achieve reunification on the basis of one nation, one state, two systems, and two governments, leaving the ideas and systems existing between the north and the south as they are.

The proposal for national reunification through confederation is the way for the north and the south to embody the idea of independence, peaceful reunification, and great national unity in real terms, and this proposal provides institutional guarantee for coexistence of two systems in the north and the south from the principle of neither side conquering or being conquered by the other.

The proposal is aimed to resolve national reunification by the method which guarantees peace, stability, impartiality, and neutrality.³¹

Former ROK governments have uniformly rejected such proposals as a North Korea scheme aimed at perpetual separation. However, as an opposition leader, Kim Dae-Jung also saw merit in establishing a confederation as part of his "unification in three phases" philosophy. This has now become a part of the ROK's unification policy and is explained as follows:

The three-stage unification formula calls for the formation of a confederation in the first stage, a federation in the second, and complete unification in the third. The most important stage is the first stage which is the preparatory period for unification.

'Confederation' means a systematic mechanism through which the two Koreas will form close, cooperative organizations, while maintaining two different systems and two governments as well as two militaries and foreign policies. Thus, the two sides will peacefully

manage the state of the division of the country and develop a unification-oriented cooperative relationship.³²

As is evident when comparing the two statements, there is considerable common ground between these two positions. So much so that, in their historic June 14 Joint Declaration, Kim Dae-jung and Kim Jong-il agreed that their respective proposals for a confederation or loose federation system provided a "common element" upon which to build toward eventual reunification.³³ The North has been challenging the South for years to examine such a proposal; finally, Seoul seems willing to see if Pyongyang is really prepared to take "yes" for an answer.

A genuine federation or confederation would be one with more open borders, greater North-South freedom of movement, and other examples of positive interaction, ranging from combined sports teams (already a possibility) or a common flag and anthem, either superceded or augmenting the current national symbols. Inspections of one another's military facilities (with U.S. facilities included in the mix) would also be called for at this stage, if not accomplished earlier.³⁴

At this stage, after some demilitarization has occurred on the peninsula and the current Armistice has been replaced by a North-South Peace Treaty (co-signed by the U.S. and PRC and endorsed by Japan and Russia), the United Nations Command could be safely disbanded or perhaps replaced with a more benign peacekeeping or peace monitoring force. The Combined Forces Command would continue to exist, but additional, deeper ground force reductions could be appropriate. Before any significant reductions in U.S. forces on the peninsula or elsewhere in Asia, however, close coordination would be required not only with Seoul but with Tokyo as well, since the U.S. military presence in Korea is closely linked to the presence of American forward-deployed forces in Japan as well. A withdrawal from either country would put strains on the other and would make the remaining presence both more critical (from a geopolitical perspective) and more difficult to rationalize (from a domestic politics perspective, especially to those living in close proximity to the remaining U.S. bases).

Under the DPRK's confederal proposal and under the ROK's first confederation phase, both sides continue to maintain separate governments and independent militaries. As a result, U.S. deterrence is still needed, and a joint command structure (as provided by the CMC) would still be required. The primary U.S. role would be to provide a security blanket under which North-South cooperation would grow. Deterrence would still be an implied mission, however.

Reunification Under One Central Government

Every Korean continues to dream of eventual reunification under one central government. I will presume that this government will be in Seoul, under the current ROK democratic and economic system. For this to occur peacefully, the current generation of North Korean leaders must either dramatically change (and renounce) their current ideology or agree to go silently into the night. Neither seems very likely today or in the near future. As a result, true reunification seems a long way off. Even if the current regime in the North were to suddenly collapse, it is more likely to be replaced by another totalitarian (or at least highly authoritarian) regime which would want to hold on to power in the North.

Nonetheless, the German example demonstrates that fate does not always happen as anticipated or planned. If and when the border between North and South is opened, people may vote with their feet and create a reunified state, despite the intentions or designs of either side. As a result, serious discussion on this alternative is also needed today.

As noted previously, I would strongly argue that even under a true reunification scenario, a continued U.S.-Korea security relationship is desirable. But, provided there are no other significant changes in the regional threat environment, this relationship can be sustained with considerably fewer troops than are presently deployed either in Korea or in Japan. And the Combined Forces Command structure would become irrelevant, being replaced by a joint planning headquarters involving the ROK Joint Chiefs of Staff and the Headquarters, U.S. Forces Korea. This would be a cooperative, rather than a combined relationship, more along the lines of the U.S.-Japan military relationship.

Once North Korea goes away as a credible threat, maintaining the current level of 100,000 forward-deployed U.S. forces in East Asia is neither realistic nor necessary.³⁵ Significant reductions, especially in the number of U.S. Army combat troops forward deployed, appear advisable and inevitable. The key is maintaining the alliance structure through enhanced planning and coordination mechanisms and periodic military exercises.³⁶

The fundamental shift in East Asia's strategic landscape brought about by true Korean reunification will require a major adjustment in strategic thinking by Washington and its allies, including a future justification for a continued U.S. military presence that does not include deterring conflict on the Korean Peninsula. That rationale must center primarily around the need to maintain regional stability. In truth, sustaining stability is not a new mission for the United States in East

Asia. Preserving stability has long been a stated rationale behind the U.S. presence and is one of the primary objectives of the 50-year-old U.S.-Japan Security Treaty as well. What will be new is that sustaining regional stability will be the central mission, one that is harder to define and defend than the more easily comprehended mission of deterrence in Korea.

As McDevitt and Kelly argue, U.S. forward presence forces currently serve both a stability and a deterrence role because they blend multi-service capabilities well-tailored to deal with the three most dangerous Asian security uncertainties: the possibility of conflict on the Korean Peninsula, the possibility of Sino-U.S. military conflict over Taiwan, and conflict over sovereignty claims in the South China Sea (especially over the contested Spratly Islands, claimed in whole or in part by Brunei, China, Malaysia, the Philippines, Taiwan, and Vietnam). Forward-deployed forces are relevant because "they have the proper blend of capabilities to deal with the most credible military problems in the region. Limited forces are by no means the solution to all problems, but can be credibly applied to the most likely problems."³⁷

Even if the Korean Peninsula problem is resolved, other challenges will remain and other new ones could emerge, so the deterrence function will not disappear completely—in fact, one could argue that removing U.S. deterrent forces could be the surest way of guaranteeing that other challenges will emerge. However, regional stability will become the more important role. It should also be noted that it is sometimes difficult to determine where one stops and the other starts, since deterrence is an essential element in providing stability. The major concern, of course, is to avoid creating a "power vacuum" which others would be tempted to fill.

This is not to imply that a U.S. military presence is the panacea for every form of misfortune in East Asia. Most challenges today are internal, and the U.S. long ago rejected the "world's policeman" role. But it can be argued that the U.S. presence and influence have helped contribute to the process of democratic change by creating a "greenhouse" within which political and economic reforms can blossom and also by reducing the effectiveness of the pretense of external aggression as a justification for military rule. Kelly and McDevitt also argue that the U.S. military presence in East Asia has played a significant role in "dampening out the military dimension of historic animosities and rivalries" by inhibiting the use of military power to change boundaries or resolve territorial disputes, at least in situations that are within the reach or capability of U.S. military power.³⁸

The future mission of an American East Asian military presence in

a post-Korean deterrence political scenario—to preserve stability by preventing militarily-induced instability—can best be achieved by what could loosely be called "anti-hegemony forces," i.e., forces that are optimized to prevent others from exerting undue influence over neighboring states. McDevitt and Kelly call them "anti-power projection forces," arguing that "to sustain stability in the future, U.S. force structure will have as its primary warfighting focus defeating power projection anywhere in the East Asian littoral. In the future, anti-power projection ought to be the concept of operations for forward deployed U.S. forces."

This puts increased emphasis on the ability to control the sea and air space around the periphery of Asia which, in turn, suggests a greater reliance on air and naval forces and a greatly diminished ground forces role once the peninsula is reunited and North Korea disappears.³⁹ Some modest permanent ground force presence might be required to signify commitment and for essential non-stability missions (operations other than war) such as non-combatant emergency evacuation (NEO), humanitarian assistance, search and rescue, and special operations, although this could largely be satisfied through periodic deployments and regularly scheduled exercises and training.

In a post-North Korea scenario, the U.S. Air Force will have an important role to play as an anti-power projection force. Its force structure remaining in East Asia must be a comprehensive mix of air to air, air to ground, surveillance, and aerial refueling, along with earmarked U.S.-based airlift. The current air base at Kadena in Okinawa is critical to this equation, as is a continued air force presence on the peninsula.

Because of the nature of the anti-power projection mission, the current composition of U.S. Navy and Marine Corps forces in the region is the least likely to change greatly. The Seventh Fleet commander based in Japan, a carrier battle group, and an amphibious ready group would remain at the heart of naval capability. The location of the Marines is subject to serious debate, however. Some have suggested Korea, others Australia, and still others Guam or even back to Hawaii or the continental U.S. No option should be ruled out, but it is clear that the people of Okinawa will argue that their "peace dividend," should true peace come to the peninsula, includes the removal of U.S. marines from their island. It will take an extremely persuasive argument (or an imminent outside threat) to convince them otherwise.

The question of command of U.S. forces always presents itself. The U.S. Army has sought a Northeast Asia Command for decades.⁴⁰ McDevitt and Kelly argue convincingly that today's separate command

"structures"—one for Korea and one for Japan—make little sense in a post-Korea situation, recommending instead a three-star officer level command with a separate joint headquarters, located in the region. This commander would be, in U.S. parlance, a sub-unified commander reporting to U.S. Pacific Command in Honolulu. The real strength of the stability force is the synergy provided by combining appropriately tailored forces from all the services.

It should be noted in closing that alliance relationships do not necessarily or always require large forward detachments of American troops to be credible. The alliance relationship itself is based on the presence of common interests, values, and objectives. These are expected to continue between the United States and a peacefully reunified (under Seoul) Korean Peninsula. The number of forward-based forces is geared more toward the existing security environment. A case in point: few doubt the solidity of the U.S.-Australian alliance, given the number of times Americans and Aussies have fought shoulder to shoulder in the century just passed. Yet, on a day-to-day basis, there are few American military officers based on Australian soil. The U.S.-Australia model may apply to a more benign Northeast Asia at some time in the future, even if some modest forward presence may well be desirable in both Korea and Japan to promote regional stability.

Policy Prescriptions: Getting There From Here

There are a few steps that both the ROK and the U.S. should consider taking in order to help move the peace process in the direction of the more optimistic outcomes.

Achieve Bipartisan Support of a Policy of Engagement with North Korea

Despite the current lull, the Sunshine Policy still appears to be the best alternative for proceeding with North Korea. As Assistant Secretary of State James Kelly has noted, in the final analysis, the U.S. has no real option other than to support the ROK. But, President Kim's policy still enjoys scant support among many of the ROK elite and especially among opposition leaders. Achieving ROK domestic support is critical to long-term success, and this will require greater effort on the part of all parties. As one frustrated Korean security specialist told me earlier this year, "President Kim has spent more time consulting with the Americans and Japanese on his North Korea policy than he has with the Korean people themselves."⁴¹ In order to alleviate anxiety, the world's newest Nobel Peace laureate needs to exert as much effort mending fences at home as he does building bridges

abroad, since international support for his policies will be for naught if domestic consensus cannot be achieved.

Meanwhile, U.S. support appears to have gone from slightly more than lukewarm under Clinton to downright tepid (or worse) under Bush, despite outward professions of continued support. The U.S. needs to demonstrate and not merely profess its support for Kim Dae-jung's engagement policy, and this can best be done through a rapid completion of its Korean policy review, followed by the promised resumption of U.S.-NK dialogue. This will help President Kim build an ROK consensus in support of deeper engagement with the North as well.

The U.S. also needs an agreed-upon, well-articulated, closely-coordinated, bipartisan, long-term strategy aimed at opening up the North and preparing the geopolitical landscape for closer South-North interaction and cooperation. This strategy should not be aimed at hastening the collapse of North Korea, nor should it be specifically aimed at propping up the current North Korean regime. If, however, some policies contribute to the DPRK's survivability, at least in the near term, so be it! The goal is to open up the North, to build confidence, and to expose the people of North Korea to the prospects of a better, safer, more prosperous and secure life. The aim is to create a desire and incentive for eventual reunification under Seoul's political and economic system.

The basic recommendations in William Perry's October 1999 report still provide a good starting point for crafting this long-term strategy.⁴² Those recommendations are summarized as follows:

- Adopt a comprehensive and integrated approach to the DPRK's nuclear weapons- and ballistic missile-related programs;
- Create a strengthened mechanism within the U.S. government for carrying out North Korea policy;
- Continue the Trilateral Coordination and Oversight Group (TCOG) mechanism to ensure close U.S. cooperation with the ROK and Japan;
- Take steps to create a sustainable, bipartisan, long-term outlook toward the problem of North Korea; and
- Approve a plan of action prepared for dealing with the contingency of DPRK provocations in the near term, including the launch of a long-range missile.

While Perry's efforts have rightfully garnered bipartisan praise, little was done during the Clinton administration to implement his recommendations beyond the continued smooth functioning of the

TCOG process, an important but by itself inadequate step forward. The Bush administration has already made good on its promise to continue the TCOG process, but it should give serious consideration to the other Perry proposals as well.

Honor the spirit and intent of the Agreed Framework

The United States must continue to demonstrate its good faith adherence to the Agreed Framework. At a minimum this includes continued fuel oil deliveries and obtaining broader political and financial support for the Korean Peninsula Energy Development Organization (KEDO). To accomplish this, a broader constituency for KEDO must be developed within the U.S. Congress. The Bush administration must also eventually face the need for a formal U.S.-DPRK Nuclear Cooperation Agreement in order to transfer American nuclear technology used in the ROK reactors to the North. This will also require bipartisan Congressional support. For its part, the U.S. Congress must also face the need and responsibility to keep the KEDO process alive through assured funding.

One final point about the Agreed Framework: the press is full of speculation about American desires to change the terms of the agreement, but the Bush administration is firmly on record supporting the current agreement as long as Pyongyang also honors its commitments, which it has done thus far. However, the real moment of truth for Pyongyang and for the Agreed Framework in general is the requirement for the North to come in full compliance with the IAEA prior to the delivery of any sensitive components of the promised light water reactors (LWRs). This requires detailed inspection to determine past accountability, a process which some speculate could take a year or more. Thus far, Pyongyang has not allowed the IAEA to begin this task and thus will have only itself to blame if additional delays occur in the completion of this project.

In the meantime, the U.S. and the Korean Peninsula Energy Development Organization (KEDO) are honoring their part of the bargain. Construction activity continues on the LWR site (even though striking North Korean workers had to be replaced with Uzbek laborers), and KEDO continues to provide North Korea with 500,000 tons of heavy fuel oil annually as compensation for shutting down its Yongbyon reactor. These deliveries are scheduled to continue until the first LWR becomes operational, making North Korean demands for compensation if the project is delayed doubly inappropriate: first because they are already being compensated and second because they have been at least as much at fault for delays experienced thus far (which make the 2003 target date unattainable) and will guarantee

future delay if they do not start cooperating with the IAEA to come into full compliance.

Establish a Korean Peninsula Agricultural Development Organization

As part of the Sunshine Policy's goal of separating economics and humanitarian assistance from politics, South Korea has provided food aid and promised other agricultural assistance to the North. It has also urged the United States, Japan, and others to provide such assistance. What is needed is a means for putting the ROK in the driver's seat in the application of such humanitarian aid and agricultural developmental assistance. Whether or not one supports the Agreed Framework, it is clear that its implementing mechanism, KEDO, has been one of the bright spots in U.S.-ROK-Japan cooperation with North Korea. I would propose a parallel organization, KADO—the Korean Peninsula Agricultural Development Organization—chaired by the ROK, to administer future food aid and agricultural assistance programs that would be a central part of any package deal. KADO would provide a vehicle for channeling U.S., Japanese, and broader international food aid to North Korea with Seoul in the driver's seat and with emphasis not just on handouts but on agricultural development to address North Korea's long-term food needs. This could help depoliticize U.S. and Japanese food aid by casting such aid not merely as "handouts propping up a corrupt regime" but rather as a meaningful demonstration of support for President Kim's engagement policy and an instrument of ROK leverage over the North.

Build a "Virtual Alliance" Among the U.S., ROK, and Japan

Close security cooperation among Tokyo, Washington, and Seoul has already paid rich dividends in pressuring North Korea both to keep its Agreed Framework commitments and, at least temporarily, to abandon its missile testing program. As one of the "key findings" of the Perry Report notes, "no U.S. policy toward the DPRK will succeed if the ROK and Japan do not actively support it and cooperate in its implementation." The creation of the Trilateral Coordination and Oversight Group has helped to institutionalize this three-way cooperation, as least as far as dealing with Pyongyang is concerned. The challenge is to bring the three sides even closer together in a way that serves all three nations' national security interests, while also taking into account the concerns of others (especially China and Russia).

Absent a clear and present threat, a formal, official trilateral security alliance is neither necessary nor advisable, either today or in a post-Korean reunification era. The challenges involved in

creating—and in gaining both public support for, and legislative approval of—a formal treaty would be daunting and, for Japan, would raise serious constitutional issues as well. The creation of a "virtual alliance" is achievable, however, and in the interests of long-term peace and stability.⁴³ This virtual alliance can be achieved through the maintenance of a reinvigorated U. S.-Japan alliance, the continuation of a solid U.S.-Korea security relationship post-unification, and the strengthening of bilateral security cooperation between Tokyo and Seoul. This will allow all three states to deal more effectively with North Korea as well.

Conclusion

Until the Korean Peninsula is peaceful, prosperous, nuclear-free, and reunified, the U.S.-ROK security alliance and a credible U.S. military force presence remain essential for continued peace and stability. The alliance remains a potentially relevant factor in assuring peace on the peninsula post-reunification as well. The American security blanket provided through a continued alliance relationship will continue to make it possible for Seoul, both now and after reunification, to pursue close, cordial relations simultaneously with its three giant neighbors: Japan, China, and Russia. Absent such assurances, Seoul might feel compelled to establish security links with one of its larger neighbors to the perceived detriment of the other two, a destabilizing prospect, especially if it resulted in a Sino-Korean strategic relationship seemingly aimed at Japan.

However, the desire and ability of both sides to continue a close security alliance after unification cannot and should not be presumed. If U.S. and Korean officials and strategic planners are convinced that a continued U.S. military presence is necessary or desirable even after North-South reconciliation or reunification, they must begin serious discussions now in order to develop the strategic rationale. They must then begin making convincing arguments to potentially skeptical legislatures and publics in both nations, lest they be overtaken by events should reunification come more quickly than expected.

Notes

1. Comments attributed to then-U.S. Assistant Secretary of State for East Asia Stanley Roth.
2. Kim Dae-jung, "Koreans Are One People and Will Fight No More," *International Herald Tribune*, June 20, 2000.
3. Most of these calls have come from anti-base activists, but even staunch anti-communists like U.S. Senator Jesse Helms have begun to question the continued need for U.S. forces on the peninsula in light of recent developments.
4. See, for example, Kim Dae-jung, "Momentum of Change in North Korea Brings New Opportunities," March 8, 2001, speech at the American Enterprise Institute/Council on Foreign Relations luncheon, Washington D.C., as excerpted in *Korea Update*, vol. III, no. 2, March 2001.
5. For the immediate post-summit anti-euphoria perspective, see Han Sung-joo, "The Koreas Must Develop Trust, Confidence and Cooperation," *International Herald Tribune*, June 17-18, 2000, and Ralph A. Cossa, "With No Peace Deal, the Peninsula Remains a Dangerous Place," *International Herald Tribune*, June 20, 2000. The 2001 *ROK Defense White Paper* also realistically underscores the continued threat.
6. For background information on this break in high-level dialogue, see Aidan Foster-Carter, "Will It All Go Well: Ups and Downs in the New Inter-Korean Normality," *Comparative Connections*, vol. 3, no. 1, April 2001. *Comparative Connections*, a quarterly on-line journal that provides analysis of key Asia-Pacific bilateral relationships (complete with chronologies of significant events), is available on the Pacific Forum CSIS web site [www.csis.org/pacfor].
7. I reject the view of those who claim, however, that the U.S. needs North Korea as an enemy to justify its missile defense programs and is thus dragging its feet on resuming its missile dialogue with Pyongyang. For more on the rationale behind the review, see Ralph A. Cossa, "Bush Asia Policy Off to Rocky Start," *Comparative Connections*, vol. 3, no. 1, April, 2001.
8. The Pacific Forum CSIS, in cooperation with the Yoido Society in Seoul and the Okazaki Institute in Tokyo, have been examining this topic over the past two years, as have several other organizations at the non-governmental level. Official dialogue still appears lacking, however, with the U.S. still holding to its increasingly unrealistic figure of 100,000 American troops forward deployed in East Asia "for the foreseeable future."
9. Current membership includes the ten ASEAN states (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam) plus Australia, Canada, China, Japan, Mongolia, Papua New Guinea, Russia, South Korea, North Korea (as of July 2000), New Zealand, the United States, and the European Community. For an assessment of the implications of North Korea's participation in the ARF, please see Ralph A. Cossa, "North Korea's Coming Out Party: A Potential 'Win-Win' for All," *PacNet* No. 29-00, July 21, 2000. *PacNet* is a weekly newsletter available on the Pacific Forum web site.
10. For continuing analysis of the Korean Peninsula developments, including North and South Korean relations with the U.S., China, and Japan, as well as with one another, please see the quarterly issues of *Comparative Connections* [www.csis.org/pacfor/ccejournal.html].
11. For more on these agreements, see Byong-Hyo Choi and Seo-Hang Lee, "Peace and Stability on the Korean Peninsula and in Northeast Asia: A Korean Perspective," in *IFANSReview*, Vol. 3, No. 6, December 1995, pp. 1-12.

12. Pyongyang originally provided no explanation, even though the press speculated at the time that the North's decision could have been in response to the new Bush Administration's seemingly more hard-line approach toward North Korea. Kim Jong-il's recent statement that he was waiting for the Bush Administration to complete its Korean Peninsula policy review before setting a date to visit Seoul feeds this belief, although I remain somewhat skeptical (more on this later).
13. For additional arguments, also see Scott Snyder, "Is the U.S. Really an Obstacle to Inter-Korean Dialogue?" *PacNet* no. 21, May 25, 2001.
14. Officially titled *The United States Security Strategy for the East Asia-Pacific Region* (Washington D.C.: Office of the Assistant Secretary of Defense, December 1998), p.23.
15. According to U.S. Forces Korea unclassified Command Briefing.
16. The ROK has put forth several security-related proposals, including establishing a military hot line, which the North has "reacted to in a positive way" ("Two Koreas Near Accord on Reduction of Military Tensions," *Korea Times*, August 30, 2000) but, positive headlines notwithstanding, no dialogue has occurred on actual CBMs.
17. According to U.S. Forces Korea unclassified Command Briefing.
18. See, for example, "Pres. Kim Reaffirms Kim Jong-il's Approval of US Troops Here," *Korea Times*, August 18, 2000, and "North Korean Leader Okays US Forces on the Peninsula: Report," *Korea Times*, August 10, 2000.
19. I say "if true" because, Kim Dae-jung's assurances notwithstanding, official North Korea broadcasts still repeatedly call for a full withdrawal of U.S. forces from the peninsula. See, for example, Choi Win-ki, "N.K.-U.S. Dialogue Not Important, Pyongyang Broadcast Reports," *JoongAng Ilbo*, May 27, 2001, as reported in the May 30, 2001, *NAPSNet Daily Report*.
20. See, for example, "Reexamining [sic] Causes of the Korean War," *Korea Now*, Vol. 29, No. 9, May 6, 2000, pp. 12-13.
21. Some, like Professor Song-woo Rhee immediately below, use the terms "hegemon" or "benign hegemon" to describe the U.S. I reject these terms as doubly false. The U.S. is not, nor should it be, benign in Asia and the basic characteristic of a hegemon - the imposition of its will by force - does not apply.
22. Sang-woo Rhee, "Korea-Japan Security Cooperation: A Prescriptive Design," in Sang-woo Rhee and Tae-Hyo Kim, *Korea-Japan Security Relations: Prescriptive Studies* (Seoul: New Asia Research Institute, 2000), p. vi.
23. This should not be read, as some are inclined to do, as a U.S. desire to "deputize" Japan to carry out current U.S. security responsibilities. This is not likely to be acceptable to either side. But Japan has earned the right and appears increasingly ready to accept the responsibility to participate more fully in regional security affairs.
24. Kim Dae-Jung, "Address to the Nation," December 19, 1997, as reprinted in *A Profile of Courage and Vision: Kim Dae-Jung* (Seoul: Korean Overseas Information Service, February 1998), p. 26.
25. EASR, p. 62.
26. "Kim YS Demands NK Apology for Korean War Before Kim Jong-il's Visit," *Korea Times*, August 26, 2000.
27. For more on the author's suggestions on confidence building measures, please see Ralph A. Cossa and Alan Oxley, "U.S.-Korea Alliance" in Robert Blackwill and Paul Dibb (ed), *America's Asian Alliances* (Cambridge, Mass: MIT Press, 2000), pp. 61-86.
28. Combined, the North and South have more forces under arms than the United States, Russia, or any other nation, save China—this from a peninsula with a combined population of under 65 million people.
29. For more on this argument, please see Ralph A. Cossa, "Coming of Age and Coming Out," *Comparative Connections*, July, 2000.

30. The so-called EASI Reports, produced by the Bush administration in 1990 and 1992, preceded the EASR documents and outlined the initial post-Cold War force reductions in Asia.
31. Pak Hyon-jae, "Problems in Confidence-Building in North Pacific Region," paper presented at the second CSCAP North Pacific Working Group meeting, Vancouver, Canada, Jan 31 - Feb 2, 1997, pp. 3-4.
32. "The New Administration's North Korea Policy," Korean Overseas Culture and Information Service, Seoul, Korea, Feb, 1998, pp.2-3.
33. For more on the author's views of the summit and Joint Declaration, see "North-South Korea: The Path Toward Reconciliation," *PacNet* 24-00, June 16, 2000.
34. Such inspections were called for under the 1991 Basic Agreement. At the time, the U.S. had agreed that its facilities would also be open for inspection. Of note, South Korea hosted an ASEAN Regional Forum Inter-sessional Support Group meeting on confidence building measures in November 2000 which included a visit to an ROK military facility. This would have provided North Korea, as an ARF member, with its first opportunity officially to visit an ROK military installation, but Pyongyang elected not to send a delegation.
35. Short of the emergence of a new credible threat to regional security—a resurgent China or a revitalized, angry Russia most readily coming to mind.
36. For a discussion of possible force dispositions and missions, please see Michael A. McDevitt and James A. Kelly, "In Search of Stability: Designing for a Better Peace in East Asia," in Ralph A. Cossa, ed., *U.S.-Korea-Japan Relations: Building Toward a "Virtual Alliance"* (Washington, D.C.: CSIS Press, 1999), pp. 150-171. The remainder of this section draws heavily from their analysis.
37. *Ibid.*
38. *Ibid.*
39. A contrasting view with greater employment of ground forces is in Michael O'Hanlon, "Keep US Forces in Korea After Reunification," *Korean Journal of Defense Analysis*, pp. 5-19, Seoul, Vol X, No. 1, Summer 1998, pp. 5-20.
40. See, for example, Richard L. Bogusky "The Impact of Korean Unification on Northeast Asia: American Security Challenges and Opportunities," *Korean Journal of Defense Analysis*, Seoul, Vol X, No. 1, Summer 1998, pp. 49-73, for a more comprehensive review of the Northeast Asia Command issue.
41. This comment was made on a not-for-attribution basis.
42. William Perry, *Review of United States Policy Toward North Korea: Findings and Recommendations* (Washington, D.C.: State Department, October 1999).
43. For more details, see Ralph A. Cossa, ed., *U.S.-Korea-Japan Relations: Building Toward a "Virtual Alliance"* (Washington, D.C.: CSIS Press, 1999).

Political Future of the Korean Peninsula

A New Challenge to Unification Strategies

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Introduction

The launching of the Kim Dae-jung administration in February 1998 signified drastic changes in the erstwhile ROK policy toward North Korea. President Kim adopted a flexible policy toward North Korea, the so-called sunshine policy. The policy is based on three principles: 1) deterrence of armed aggression, 2) rejection of unification through absorption, and 3) realization of reconciliation and cooperation. President Kim Dae-jung has been consistent in carrying out his sunshine policy despite the provocative actions of North Korea (DPRK), such as the submarine incursion and missile launch a few years ago. The purpose has been to create a favorable environment for the government-level talks between the two Koreas to take place.

From June 13-15, 2000, President Kim Dae-jung and the Chairman of the National Defense Commission, Kim Jong-il, held a landmark summit in Pyongyang. At the end of the meeting, President Kim and Chairman Kim adopted the five-point South-North Joint Declaration. The June 15 Joint Declaration outlined plans to reunite separated families and to engage in inter-Korean exchanges and cooperation. Soon after the summit, South and North Korea held ministerial talks to discuss political and social issues. The ministers of the two Koreas agreed to create institutional frameworks for inter-Korean economic cooperation, to implement family reunion programs, and to restore the disconnected railway lines across the demilitarized zone (DMZ). By the end of last year, however, North Korea began to slow the pace of the inter-Korean talks. Delays in implementing various agreements have made the South suspicious of North Korea's intentions.

"The sunshine policy worked effectively with strong backing by then-U.S. President Clinton. But the political shift from a Democratic

to Republican government in the U.S. posed a great trial and challenge to President Kim's peace initiatives. President Bush emphasized that the U.S. will demand strict reciprocity and transparency in dealing with North Korea. After the Seoul-Washington summit talks on March 7, 2001, North Korea abruptly called off the inter-Korean ministerial talks as a sign of warning against the Bush administration's hard-line policy. All inter-Korean rapprochement programs have now come to a screeching halt.

Given the geopolitical conditions surrounding the Korean peninsula, inter-Korean rapprochement needs support from the four major powers—the U.S., Japan, China, and Russia. A cooperative relationship between the U.S. and China, in particular, is one of the necessary conditions for peace building on the Korean peninsula. But the rising tensions between the U.S.-Japan and China-Russia over the missile defense (MD) program are also complicating the challenges facing South Korea, which finds it difficult to maintain a balanced diplomatic relation with its neighboring countries. Thus, President Kim Dae-jung's vision for peaceful unification seems to be in an awkward dilemma as it faces challenges from various sides.

South Korea's Sunshine Policy

Kim Dae-jung's sunshine policy has taken a two-track approach to improve inter-Korean relations, one track being the economic and social exchanges and cooperation, and the other one reducing military tension and increasing confidence building.¹

South Korean leaders have taken the principle of separating economic matters from politics in order to facilitate inter-Korean exchanges and cooperation. In other words, political and security problems are not allowed to prevent mutually beneficial business deals and civilian contacts. By virtue of the progressive policy, South Korean industrial conglomerates and small businesses have promoted various joint venture projects with the North. Regarding economic aid to the North, Seoul announced that it would demand reciprocity from the North at government-level contact. Despite the reciprocity-oriented policy, however, it has often offered food or fertilizer unconditionally to the North.

South Korea has made efforts to induce the North to take the path of reform and openness through economic and diplomatic incentives. It has expressed full support for the North's admission to the international financial organizations such as the Asian Development Bank (ADB), the International Monetary Fund (IMF), and the World Bank.² It also has promoted large-scale infrastructure projects in the North. Over the past three years, the North has been showing some

signs of opening itself to the outside world. But North Korean leaders still hesitate to open up and reform.

Kim Dae-jung's peace initiatives

At the South-North summit, President Kim and Chairman Kim recognized the common ground of their unification formulas. The June 15 Joint Declaration states that the two Koreas would tackle the unification issue by exploring the similarities found in Seoul's view of confederation and Pyongyang's "loose form of federation."³ Unification, however, cannot be achieved solely by similarities of the proposed unification plans, but rather by similarities of the ideologies and political systems to be unified. President Kim himself understands that Korean unification is not a realistic goal for at least the next twenty years. Rather, he hopes that the Joint Declaration will become a stepping-stone for a permanent peace on the Korean peninsula.

President Kim has expressed his desire to build a peace system before his tenure ends in February 2003. But the replacement of the current armistice on the peninsula with a permanent peace mechanism is a sensitive issue, as it would most likely affect the status of U.S. forces in Korea. The president, therefore, emphasized that Kim Jong-il has come to understand the U.S. military presence in the South, sharing the view that it is necessary for stability not only for Korea but also for the Northeast Asian region. He also reiterated that South Korea wants to maintain the U.S.-ROK military alliance even after unification.

The South Korean government formulated a plan to hold the second inter-Korean summit in Seoul within the first half of 2001 and to make the forthcoming summit into an occasion to get the peace process into gear.⁴ It was expected that the two leaders would exchange views on establishing a peace agreement. Following the second summit, according to the plan, South Korea would raise comprehensive confidence-building measures at the defense ministerial talks, including the establishment of a military hot line between the highest military officials, prior notification of military drills and troop movements, and sending observers to each other's military exercises. Thereafter, it was expected that the two Koreas would discuss step-by-step arms control measures in accordance with progress in the confidence-building measures.

South Korea has made efforts to promote Four-party talks on a long-term basis to ensure durable peace on the Korean peninsula.⁵ In the Four-party talks, South and North Korea would play the main role in establishing a peace system on the Korean peninsula, while the U.S. and China would play supporting roles to guarantee the steps agreed upon by the two Koreas. In addition, South Korea hopes Japan and Russia will play

a constructive role in promoting inter-Korean peace. After signing a peace treaty between two Koreas, it is expected that the Four-party talks could expand to six-way talks, including Japan and Russia, to initiate a regional security forum for peace and cooperation in Northeast Asia.

Criticism in South Korea

Conservatives in the opposition Grand National Party (GNP) have criticized the sunshine policy as a naive appeasement policy from the beginning of the Kim Dae-jung administration. They maintain that Pyongyang will not change its hard-line policy toward the South no matter what aid is given. And they demand that South Korea adopt an eye-for-an-eye strategy toward the North and increase pressure on the North to facilitate its reform.

Soon after the historic summit, the lawmakers of the GNP criticized President Kim for having drawn a broad agreement on a unification formula instead of addressing how to establish peace on the Korean peninsula. They pointed out that nowhere in the document was there reference to the normalization of relations or to the signing of a North-South Peace Treaty to formally bring the Korean War to a close by the two Koreas. And they assert that the formulation of the unification policy must be made by national consensus or parliamentary endorsement, reasoning that the president should not determine such a vital issue all by himself. Ahead of a presidential election set for next year, the opposition is attacking the president for sacrificing too much to Pyongyang.

In spite of harsh criticism by the opposition party, the majority of South Koreans still believe in the rationale of the government's North Korea policy.⁶ They see the June 15 Joint Declaration as an achievement to promote inter-Korean reconciliation, although worded in general and vague terms. With the domestic economy in poor shape, however, a growing number of people are becoming critical of the cost-effectiveness of the sunshine policy, demanding that the government should pursue inter-Korean economic projects with due consideration of South Korea's financial ability.⁷ What is worse, President Kim's declining popularity as the result of various policy failures, such as the decline of the South Korean economy, the financial crisis of the health insurance system and the disoriented reform of the education sector, have made it difficult for the president to push ahead with his sunshine policy consistently.

North Korea's Dual Strategy

After the conclusion of the Geneva Agreement in 1994, North Korea's top priority had been to build better ties with the U.S. And it

had been seeking ways to sign a peace treaty with Washington, while rejecting South Korea as a party concerned.⁸ At the Four-party talks, North Korea reiterated its demand for the withdrawal of U.S. forces and tried to drive a wedge between Seoul and Washington. But relations with the U.S. did not develop as smoothly as the North had expected. Rather, North Korea faced a crisis in 1998 over the issue of the suspected underground nuclear facility in Kumchang-ni and long-range missile development. While U.S.-DPRK relations were strained, South Korea's sunshine policy stood out as a relief for the North.

President Kim advocated a comprehensive package deal on pending issues between Washington and Pyongyang. According to President Kim's comprehensive approach, North Korea should faithfully abide by the 1994 Agreed Framework and completely resolve the issue of missile production and exportation. In return, the U.S. and Japan should improve and normalize their respective ties with the North. And President Kim made diplomatic efforts to persuade the U. S. and Japan. The North seemed to be impressed with the South Korean government's effort to persuade William Perry to accept the comprehensive approach to solve the nuclear and missile issues.⁹

Policy toward the South

With the recognition that it is impossible to resuscitate its failing economy and to end its isolation from the international community without support by Seoul, the North has positively responded to the sunshine policy and accepted the South-North summit proposal.¹⁰ Chairman Kim Jong-il's performance during the South-North summit indicates that he has decided to shift its South Korean policy from confrontation to peaceful coexistence. After the summit, Pyongyang has shown some changes in its attitude toward South Korea. However, there is a big difference between shifting the direction and setting the speed.

From July 15-31, 2000, the first inter-Korean ministerial talks were held in Seoul, and the two sides agreed to begin discussing the reopening of the severed railway links. On August 15, the North-South Liaison office in Panmunjon reopened, and 100 South Koreans and 100 North Koreans visited Pyongyang and Seoul respectively to meet their separated families. On September 25-26, the first inter-Korean defense ministerial talks were held in Cheju Island, South Korea. On this occasion, both sides agreed to establish a working-level panel to discuss military support in reconnecting the inter-Korean railway. The defense ministers agreed to begin clearing mines and create an area of joint control in the DMZ for the connection of the cross-border railroads. They also agreed to hold the second round of the defense ministerial talks in November 2000, but this failed to take place.

In October 2000, when the U.S. and the DPRK resumed talks, North Korea slowed the pace of the inter-Korean process. The North again played its old games of raising complaints and outrageous demands, while trying to create an impression that the South was to be blamed for the lack of progress. After the South Korean government released Defense White Paper 2000 on December 4, it became North Korea's main target of criticism because the North was identified as the prime security threat to the South.¹¹ Thereafter, North Korea threatened to put off the implementation of an agreement on joint regulation for the cross-border railway projects unless the South dropped its policy of regarding Pyongyang as its main enemy.

The fourth round inter-Korean ministerial talks was held on December 12-16, 2000, in Pyongyang. The North demanded that the South should agree to provide 500,000kw of electricity as a prerequisite for more dialogue. North Korea, however, postponed the fifth ministerial talks indefinitely just hours before the meeting was to take place on March 13, 2001, in the wake of diplomatic confusion between Seoul and Washington over the North Korean policy.

At the various inter-Korean talks, the North has displayed some enthusiasm for the issues of economic cooperation, but has shown less zeal on the issues of easing military tension and establishing peace. It is, therefore, suspected that North Korea is still attempting to deal directly with the U.S. to sign a peace agreement. In any case, the North feels burdened to discuss comprehensive confidence-building measures with the South.

Policy toward the U.S.

Following the South-North summit, North Korea has conducted multifaceted diplomacy. First of all, it mended diplomatic relations with China and Russia, which had soured after the collapse of the eastern European socialist block. Kim Jong-il has restored North Korea's friendly relationship with China and Russia through a series of diplomatic summits. And the North has established diplomatic ties with the Philippines, Australia, and European Union (EU) nations.¹² It has also joined the regional forum of the ASEAN, and has taken a big step toward normalizing ties with the U.S.

Kim Jong-il sent special envoy Jo Mong-rok, deputy chairman of the National Defense Commission, to Washington on October 9-12, 2000. In the meeting with President Clinton, the North Korean official reportedly offered to end its export and development of long-range missiles in exchange for third country satellite launch services, financial compensation, sanctions relief, and normal diplomatic relations with the U.S.¹³ This visit was followed by Secretary of State Madeleine Albright's

trip to Pyongyang.

On October 23-24, 2000, Kim Jong-il and Albright reached a broad consensus on issues of major concern, including the North Korean missile development program, as well as the removal of North Korea from the list of terrorism-sponsor states. Kim Jong-il also extended his invitation to President Clinton. Kim Jong-il tried to seal the missile negotiations while the Democrats, whom he considered more lenient than the Republicans, remained in power. Unfortunately, however, things did not develop as he expected.

After the inauguration of the Bush administration on January 20, 2001, North Korea became anxious about the hard-line stance of Washington. North Korea criticized the Bush administration for exaggerating North Korea's missile threats to rationalize its missile defense (MD) projects. And Pyongyang announced that North Korea would no longer tie itself to the commitments it made with the Clinton administration; it threatened to revive its suspended test firing of missiles and frozen nuclear development.¹⁴ However, North Korea's threat appears to be a negotiation tactic. Pyongyang is well aware that improved relations with the U.S. are essential to assure its security and economic assistance. Pyongyang is using a dual strategy of threats and appeasement to coax Washington into an early resumption of dialogue.

The U.S. Hard-line Stance on North Korea

The Clinton administration made efforts to contain North Korea within the sphere of U.S. influence through economic and diplomatic incentives. In return for the engagement policy, it expected reciprocity from the North in the form of discarding its nuclear and missile programs. After the South-North summit in June 2000, the U.S. policy on North Korea generally followed guidelines laid down by the Perry Report, which advocated a comprehensive package deal with the North.¹⁵ The Perry Report suggested that the North should be pressed to freeze its nuclear and missile programs, but Washington should, in return, normalize relations with Pyongyang. The cross-visit by North Korean envoy Jo Myong-rok and Secretary of State Albright could be regarded as the realization of the U.S.-DPRK high-level talks that the Clinton Administration had been pursuing through the Perry Process.

However, the Bush administration's diplomatic and security team is very critical of Clinton's stance on the North Korean engagement policy. The Bush team believes that the U.S.-DPRK missile deal is fraught with uncertainty and that the Geneva Agreement falls short of exercising a binding power to deter the North from developing nuclear weapons. For example, Secretary of Defense Donald Rumsfeld thinks that the North Korean missile program is a threat to the U.S.; Deputy Secretary of

Defense Paul Wolfowitz argues that the U.S. must convert the current foreign aid program to one that would provide conventional, fossil fuel, or hydroelectric power instead of nuclear reactors to North Korea.

Bush administration officials think that the South Korean president's peace initiative has moved too fast with too few concessions from the North. They regard South Korea's sunshine policy as a naive appeasement policy in that North Korea has done little to mitigate the military threat it poses to South Korea, and rather deployed more than 55 percent of its key forces near the frontline. Such events as family reunions and the railroad link have hardly convinced U.S. officials who believe that inter-Korean progress—centered on the South's unilateral food and economic aid—could be rendered all for naught if military confrontation broke out. According to them, it is unwise to proceed with large-scale economic aid and investment without reciprocity from North Korea. Moving North Korean forces back from the DMZ, mutual conventional force reductions should be the price of major assistance.

Secretary of State Colin Powell said, "We are open to a continued process of engagement with the North as long as it addresses political, economic and security concerns, is reciprocal and does not come at the expense of our alliances and relationships."¹⁶ However, the precise direction of the Bush administration's North Korean policy is still in the process of articulation. Deputy Secretary of State Richard Armitage, who leads the working-level policy formulation on the two Koreas, accentuates the principles of reciprocity and transparency in its future relationship with the North. He stresses that the U.S. will not give a penny of economic aid to the North unless transparency is guaranteed over the nuclear development and missile issues.

The U.S.-ROK summit and its aftermath

The cooperative U.S.-ROK relationship has served as the cornerstone in deterring North Korea's aggression, and the U.S.-ROK security alliance remains essential to prevent North Korean miscalculation and to keep pressure on North Korea to act in good faith. In dealing with North Korea, South Korea's foremost concern is to maintain good relations with the U.S.; without progress between the U.S. and North Korea, advances in inter-Korean relations are difficult to achieve. Therefore, President Kim Dae-jung has made efforts to persuade President Bush and his security team of the merit of the sunshine policy.

In the U.S.-ROK summit talks on March 7, 2001, in Washington, President Bush said that he would support South Korea's engagement policy toward the North. After the summit, however, President Bush told reporters that he had some skepticism about Kim Jong-il and that the U.S. would not resume missile talks with the North soon. And Secretary of

State Powell stated in his Senate testimony held during President Kim's Washington trip that "We have no illusions about the nature of the gentleman who runs North Korea... we have expressed in the strongest possible terms our concerns about their efforts toward development of weapons of mass destruction and the proliferation of such weapons and missiles and other materials to other nations."¹⁷ Thus, the Bush administration has made it clear that there will be no progress in U.S.-DPRK relations unless the North resolves its nuclear and missile threat.

Although Washington expressed support for Seoul's engagement policy toward the North, the summit talks confirmed that the two allies have different views on North Korea. The Bush administration has placed more of the political burden on President Kim by recognizing South Korea's leadership in dealing with the North. Thus, President Kim, who had visited Washington to eliminate stumbling blocks to his peace initiatives, brought home great barriers: reciprocity, verification, and transparency.

After the U.S.-ROK summit, President Kim pledged to implement the North Korean policy on a more reciprocal basis. He proposed to adopt comprehensive reciprocity in dealing with the North: the proposal calls for South Korea and the U.S. to provide North Korea with economic aid, promises not to strike first against the North, and support for the North's bids to join global organization in return for the North's promise to observe the Geneva Agreement, scrap missile concerns, and declare nonaggression. The president seemed to believe that the demand for reciprocity and verification is legitimate, but a strict reciprocity of give-and-take is not practical. In fact, friendly inter-Korean relations are impossible if Seoul seeks to secure tit-for-tat rewards from Pyongyang in return for its concessions.

The President also promised that South Korea would consult with the U.S. every step of the way, so that progress in South-North Korea relations serves the interests of the two allies. And he said that South Korea would reactivate the dormant 1992 inter-Korean Basic agreement, rather than push for a new peace declaration in the planned second South-North summit in Seoul.¹⁸ In reality, any measures associated with peace on the Korean peninsula could be directly linked with the status of the U. S. forces in Korea. So, President Kim may feel a heavy burden in promoting the peace declaration with Kim Jong-il at a time when South Korea and the U.S. are showing a perception gap in regards to North Korea.

International Dimension of Inter-Korean Relations

U.S. strategic interests and inter-Korean relations

The United States, the sole superpower in the post-Cold War,

international order, and the most powerful player in the Korean game, has enjoyed almost exclusive influence in East Asia during the past ten years. Its strategic priority in East Asia has been to prevent any single country from dominating that region. To counterbalance the U.S. influence, China and Russia have agreed to retain a strategic partnership. In spite of all the differences with the U.S., however, each has preferred to work out its own compromise arrangements with Washington rather than jointly collaborate against U.S. interests. And both have been very cooperative with the U.S. to restrain North Korea's nuclear and missile development. In fact, one of the main arguments made by the Clinton administration regarding the value of close Sino-U.S. ties had been Beijing's positive role as an interlocutor with Pyongyang.

China and Russia have persistently advised North Korea to pursue a direct dialogue with Seoul. In some respects, they encouraged the South-North summit as a countermeasure to strong U.S. influence on the Korean peninsula. They believed that the inter-Korean summit and its ramifications would likely alter the dynamics of Northeast Asia's geopolitical balance. Soon after the summit, as they expected, the U.S. seemed to have lost its firm grip on Korean affairs: President Kim's peace initiatives put South Korea on the frontlines of diplomatic negotiations with the North, relegating the U.S. role to intermediary.¹⁹ By contrast, China and Russia seemed to be emerging as new contenders, given their newly restored friendship with North Korea. Against this backdrop, the strategic questions regarding the future of inter-Korean relations and its relationship to the U.S.-ROK security alliance were raised in Washington: how will the U.S.-ROK alliance fit into the regional security architecture in the era of the seemingly diminishing North Korean threat?

Some strategists became concerned that the peace process in the Korean peninsula could touch off disputes about the withdrawal of U.S. forces in Korea. Nevertheless, the Clinton administration gave support to President Kim's peace initiatives and made diplomatic efforts to contain North Korea within the sphere of U.S. influence through the U.S.-DPRK normalization talks. In fact, the Clinton administration virtually outpaced the South in engaging the North at the end of Clinton's tenure by visits of high-level officials. But the situation has changed abruptly with the rise of the Republican administration.

The Bush administration regards China as a strategic competitor, rather than a cooperative partner. And it gives strategic priority to the establishment of a missile defense (MD) system. It alleges that the missile defense system would protect American territory from being hit by ballistic missiles from rogue states, including North Korea. However, many believe that the administration uses North Korea as a cover to contain China as a potential future adversary. Although the U.S. insists

that MD is a purely defensive system, China and Russia find the missile defense system inherently provocative. In protest against the U.S. efforts to build a missile shield, China and Russia are putting aside their differences and talking about ways to undermine U.S. hegemony. Meanwhile, North Korea has reached a consensus with these two countries to oppose the U.S. missile defense program.

South Korea is not interested in the missile defense system. Rather, its strategic priorities focus on reducing North Korean forward deployed artillery and other conventional weapons aimed at Seoul. Seoul has been eager to please China as well as Russia as South Korea endeavors to use them to pressure North Korea towards a more positive response to President Kim's sunshine policy. As the friction has intensified among the four major powers over the MD issues, however, the diplomatic game surrounding the Korean peninsula has become extremely complicated. And South Korea finds itself in a very awkward situation.

President Kim and Russian President Vladimir V. Putin held summit talks on February 27, 2001, in Seoul. At the end of their meeting, they issued a joint communique, which declared that the 1972 Anti-Ballistic Missile (ABM) Treaty was a cornerstone of strategic stability and that it should be preserved and strengthened.²⁰ Although Seoul has denied that the Putin-Kim statement was, in effect, a criticism of the U.S. missile-shield project, foreign media analysts interpreted it as a sign of Seoul's tilt toward Moscow in the Washington-Moscow dispute over MD. However, President Kim gave tacit support to the MD plans at the U.S.-ROK summit talks on March 7 by agreeing with President Bush that threats posed by missiles and weapons of mass destruction require a new approach. By endorsing Russia's position that the U.S. should abide by the ABM Treaty and then later backing away from it, Seoul's status has eroded in both Washington and Moscow.

European Union factor

South Korea has developed close diplomatic ties with China and Russia as part of the engagement policy with North Korea. Recently, however, it has become difficult for South Korea to pursue cooperation with China and Russia without damaging its traditional alliance with the U.S. And the contention over the MD issue has almost ended the behind-the-scenes cooperation between Washington and Beijing in talking sense to North Korea. To make matters worse, ties between Seoul and Tokyo have also reached a new low over the history textbook distortion dispute, adversely affecting the three-nation joint approach toward Pyongyang. While South Korea's peace initiatives are driven into a corner, the European Union (EU) and its member countries are strengthening their diplomatic activities as intermediaries between the two Koreas.

Throughout Europe there has been growing concern that the Bush administration's new strategy may be engendering a more confrontational era in world politics. European worries about the Bush administration's hard-line policy toward North Korea have led to greater EU involvement in inter-Korean affairs. At an EU summit held in Stockholm on March 23-24, European leaders agreed to dispatch a team of mediators, led by Swedish Prime Minister Goran Persson, to the two Koreas in the near future.²¹ EU leaders at the summit agreed that it is important to maintain a dialogue with Pyongyang and instill new momentum in the Korean peace process, even at the risk of antagonizing the Bush administration. Among the 15-member EU, Germany has a particularly strong feeling about the importance of the conciliatory approach of Kim Dae-jung, who is sometimes compared to Willy Brandt, the Social Democratic chancellor 30 years ago.

On May 3, 2001, North Korean leader Kim Jong-il told a visiting European delegation led by Swedish Prime Minister Goran Persson that his country would maintain a moratorium on missile tests until 2003, a promise regarded as a positive step towards settling the sensitive issue. Chairman Kim also expressed his intention to visit Seoul to reciprocate President Kim's trip. The EU initiative is noteworthy as an expression of goodwill, but it does not have much leverage beyond the diplomatic and commercial concerns that each member nation pursues with North Korea. And the EU cannot replace the current role held by the U.S., but rather play the supposed supplementary role.

Prospects for the Future

The U.S.-DPRK normalization talks

Upon completion of his North Korea policy review, President Bush announced a reopening of dialogue with the North on June 6, 2001. Bush's proposed agenda includes an "improved implementation" of the Agreed Framework relating to the North's nuclear activities, "verifiable constraints" on its missile programs, and the conventional military posture.²² Bush said that Washington would pursue these discussions in the context of a "comprehensive approach" toward the North to encourage "progress toward inter-Korean reconciliation, peace on the peninsula, a constructive relationship with the United States, and greater stability in the region." However, President Bush's short statement did not specify detailed ideas for the U.S.-DPRK talks that would cover a broad range of tough issues.

At the U.S.-DPRK talks, the U.S. would seek to revise the 1994 Agreed Framework to ensure the transparency of North Korea's past nuclear activities and address North Korea's missile issues, comprising

their production, export and deployment. It would focus on verification in dealing with the North. For its part, North Korea would counter that the nuclear inspection should depend on implementation of the Agreed Framework. And it would demand international assistance in launching North Korean satellites and large sums of money as compensation for ending its missile development. Considering the wide gap between the two views, the U.S. and North Korea would confront each other on every issue. Particularly, the issue of verification would be the main issue of contention.

If negotiations stall without producing tangible results, the U.S. would express its strong intention to deter the North's missile exports on the open sea and make a preemptive attack against the North's nuclear and missile facilities.²³ But the coercive measures would be hard to impose, since South Korea would not risk increasing tension on the peninsula. North Korea might feel tempted to resort to diplomatic brinkmanship on its part. The North could react with threats of war and nuclear development. However, it is unlikely that the North would transform its threat into real action. Pyongyang is well aware that the combined U.S.-ROK forces in the case of war would quickly defeat the North. And the possibility of North Korea's abrogation of the Geneva agreement is low, considering the fact that it is prepared to trade its military threat for economic assistance and security assurance.

The deadlock in U.S.-DPRK negotiations is not likely to last long, given North Korea's poor economic situation.²⁴ North Korea cannot maintain its system without foreign assistance. The pressing need to secure foreign aid will force Pyongyang to make concessions to the U.S. Therefore, it is expected that the U.S. and North Korea will be able to reach an agreement on improving relations as well as settling the nuclear and missile disputes before 2003, even though its timing and manner remain uncertain. Probably, they will settle the missile issue in a way similar to the method that they used in resolving the nuclear issue. Pyongyang should take proper actions to clear up suspicions about its nuclear facilities, suspend missile development and exports, and reduce tensions caused by conventional weapons; the U.S. and South Korea should take steps to assist the North Korean economy in return. If the U.S. and North Korea reach an agreement, the U. S. should remove North Korea from the State Department's list of terrorism-sponsor countries and setup a rehabilitation fund for North Korea in cooperation with the World Bank and the Asian Development Bank. And it should accelerate its efforts to normalize ties with North Korea.

South-North Korea's peace building

With the resumption of the U.S.-DPRK talks, inter-Korean dialogue

can also begin. The North may try to increase inter-Korean economic cooperation. However, it cannot obtain the necessary capital to restart its economic development because South Korea may implement its North Korean policy in a more transparent manner to earn confidence from the U.S. Since Seoul's policy toward Pyongyang is closely related to U.S. policy, the stalemate in U.S.-DPRK relations will also slow down the progress in inter-Korean relations. Thus, South-North Korean relations are likely to go through a cooling-off period until the U.S. and North Korea conclude an entente.

In parallel with the U.S.-DPRK improvements, inter-Korean relations should improve. The inter-Korean economic exchanges and cooperation will be increased substantially, and the leaders of the two Koreas can hold summit talks to establish a peace system on the Korean peninsula. But it will take considerable time before the two Koreas can come up with a peace treaty and arms control measures that might be sufficient to convince the U.S. and China to join the party. Even though the two Koreas have made an agreement on a feasible peace structure, a possible conflict between the U.S. and China can still undermine the ongoing peace process. If U.S.-China relations become strained due to the MD issue, China might choose to be confrontational on Korean issues. Then it may increase pressure on the two Koreas to withdraw U.S. forces in Korea (USFK). In this case, the critical issue for peace building on the Korean peninsula will be how to redefine the U.S.-ROK security alliance to make it serve the regional stability.

Regardless of the Bush administration's chosen catchphrase, some form of cooperative engagement and managed competition is likely to guide Sino-U.S. relations in the future. And pragmatic common interests of the two countries, such as reducing the number of military forces and weapons of mass destruction in the Korean peninsula, will enable them to cooperate in the Four-party talks to establish a permanent peace regime on the peninsula. If a deal is made at the Four-party talks, the U.S. and ROK should make the necessary structural adjustments in the role, mission, and force structure in the USFK in tandem with new political arrangement in the talks.

With the settlement of the peace system, the industrial capability of North Korea could expand markedly with enormous economic aid from the international community. With the passage of time, if the North succeeds in economic development, South and North Korea could reach a peaceful unification agreement through negotiations as equal parties.²⁵ In case the North Korean economy collapses, the South, despite foreign assistance, will have few options besides absorbing the North. In any case, reunification is an enormous task that could take more than two decades.

Conclusion

The South-North summit agreement is undoubtedly an event of major historical significance. At the same time, it is just the first step in a long voyage toward reunification. The way will be long and arduous, requiring incessant effort and patience from those on both sides. If the German case is any guide, the dismantling of the Berlin Wall in 1990 had to wait two decades after the first East-West summit in 1970.

The South Korean government emphasizes the establishment of a peace regime. But, peace and reconciliation in the real sense of the words will not be achieved unless Pyongyang engages Seoul in a serious dialogue on military tension-reduction and confidence-building measures. Therefore, the South should give economic assistance based on the North's reciprocal measures on security matters.

The U.S. is hardly wrong in its demand for solid evidence of North Korea's real change, not just its tactical change. Nevertheless, the U.S. should engage the North consistently. The process of obtaining a North Korean guarantee to give up its nuclear and missile programs requires a great deal of patience. And it appears premature for the two Koreas to enter shortly into dialogue on the reduction of conventional weapons, because they need further confidence-building processes. It seems better that the issue concerning North Korea's conventional weapons should be dealt with by the two Koreas, not between Pyongyang and Washington.

South Korea and its neighboring countries are concerned about the future of the Korean peninsula because of the uncertain attitude of North Korea. The political risk in the sunshine policy has been the possibility that the North will fail to respond to President Kim's peace initiatives. Chairman Kim Jong-il must show the world that he is not merely utilizing the sunshine policy to sustain a military dictatorship. It is a crucial time for leaders in Pyongyang to prove to the world with practical moves that they take the process of inter-Korean reconciliation seriously.

Notes

1. Ministry of Unification, The Republic of Korea, *Kim Dae-jung's Policies on North Korea: Achievements and Future Goals*, Ministry of Unification, ROK, 1999.
2. It is estimated that Pyongyang's joining the World Bank will enable the cash-strapped government to receive a loan of between \$1 billion and \$4.5 billion. A possible entry by North Korea, however, would mean that a number of diplomatic preconditions would have to be met. That is, North Korea should make rapprochement with the U.S. and Japan, the two biggest shareholders.
3. The South's "Korean National Community Formula" suggests three phases, from reconciliation and cooperation to a confederation and eventually a unified Korea. In the second stage, one nation and two allied states exist, while a unified Korea should be one nation, one state, and one government, according to the formula. North Korea's

unification model is a revision of the "Koryo Democratic Confederate Republic," introduced in 1980. The plan aimed at transforming the two Koreas directly into a federation. In 1991, North Korea introduced the idea of "one nation, one state, two systems and two autonomous regional governments," making the federation a provisional entity in the process toward full reunification. The change is said to make the North Korean unification plan closer to that of the South.

4. Ministry of Unification of the Republic of Korea, *Korean Unification Bulletin*, No. 28, February 2001.

5. On April 16, 1996, South Korean President Kim, Young Sam, and U.S. President Bill Clinton put out a co-proposal that South and North Korea, the U.S., and China hold Four-party talks without any conditions whatsoever, with a view to setting up a peace structure on the Korean peninsula.

6 According to a survey conducted by a major polling organization on March 30-31, 2001, President Kim Dae-jung's engagement policy toward the North earned an endorsement of 53.1 percent, while 39.6 percent supported the opposition Grand National Party's policy emphasizing reciprocity. *The Korea Herald*, April 9, 2001.

7. South Korean business groups hesitate to expand investments to the North, where they cannot expect short-term benefits. For one thing, the Hyundai Group, suffering from a severe liquidity crunch, recently failed to honor its pledge to pay \$12 million a month to North Korea for the Mt. Kungang tourism project.

8. North Korea's argument was that the South is not eligible to sign a peace agreement because South Korea was not a signatory of the Armistice Agreement and because the U.S. forces in Korea have the operational control of all the armed forces in South Korea.

9. *The Korea Times*, December 8, 1998.

10. The primary factor that makes North Korea engage with the South is its deteriorating economic situation. The North Korean economy had recorded negative growth rates for nine years in a row since 1990. But it shifted to a positive growth of 6.2 percent in 1999, and its GDP growth slowed to 1.3 percent in 2000, the Bank of Korea estimated.

11. The Ministry of National Defense, ROK, *Defense White Paper 2000*, p. 68.

12. North Korea has linked diplomatic ties with 10 countries in 2001: the Netherlands, Belgium, Canada, Spain, Germany, Luxembourg, Greece, Brazil, New Zealand and Kuwait.

13. *The Pyongyang Times*, October 14, 2000.

14. "Fully prepared for worst scenario: DPRK Foreign Ministry spokesman warns Washington against new Korea policy," *The Pyongyang Times*, March 3, 2001.

15. William J. Perry, *Review of United States Policy Toward North Korea: Findings and Recommendations*, (Unclassified Report) Washington, D.C. October 12, 1999.

16. Colin L. Powell, Statement before Foreign Relations Committee, January 17, 2001.

17. Colin L. Powell, Testimony at Budget Hearing before the Senate Foreign Relations Committee, March 8, 2001.

18. *The Korea Herald*, March 12, 2001.

19. Sung-Joo Han, "The Koreas' New Century," *Survival*, vol. 42, no. 4, Winter 2000-01, pp. 85-95; Kurt M. Campbell and Mitchell B. Reiss, "Korean Changes, Asian Challenges and the US Role," *Survival*, vol.43, no. 1, Spring, 2001, pp.53-69.

20. 7-point Joint Communique Issued by President Kim Dae-jung of the Republic of Korea and Vladimir Putin of Russia on February 27, 2001, in Seoul.

21. *The International Herald Tribune*, March 27, 2001.

22. The White House, *Statement by the President*, June 6, 2001 .

23. Richard L. Armitage, "A Comprehensive Approach to North Korea," *Strategic Forum*, No. 159, March 1999, pp. 1-8.

24. North Korea has suffered chronic food shortages since the early 1990s. It needed to import 1.8 million tons of grains this year because the previous fall's poor harvest supplied only 3 million of the 4.8 million tons of grains that North Korea's 23 million people need to feed themselves. *The Korea Times*, April 18, 2001.

25. The ROK government declares that it is pursuing a negotiated unification. The most desirable scenario from South Korea's perspective is to delay the process of unification until a later date, when the industrial capabilities of North Korea have grown markedly. But there are many critics of the assumption of unification by mutual consent. Nicholas Eberstadt, "Hastening Korean Reunification," *Foreign Affairs*, vol. 76, no. 2, 1977, pp. 77-92; Marcus Noland, *Avoiding the Apocalypse: the Future of the Two Koreas*, (Washington, D.C.: Institute for International Economics), 2000.

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