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

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

SUMMARY

North Korea's decision in December 2002 to restart nuclear installations at Yongbyon that were shut down under the U.S.-North Korean Agreed Framework of 1994 and its announced withdrawal from the Nuclear Non-Proliferation Treaty creates an acute foreign policy problem for the United States. North Korea's major motive appears to be to escalate pressure on the Bush Administration to negotiate a nuclear agreement that would provide new U.S. political and economic benefits to North Korea, starting with Pyongyang's proposed non-aggression pact. However, restarting the Yongbyon facilities opens up a possible North Korean intent to stage a "nuclear breakout" of its nuclear program and openly produce nuclear weapons within six months. North Korea claims that it has nuclear weapons and that it has completed reprocessing nuclear weapons-grade plutonium that could produce five or six atomic bombs. North Korea's actions follow the reported disclosure in October 2002 that North Korea is operating a secret nuclear program based on uranium enrichment and the decision by the Korean Peninsula Energy Development Organization (KEDO) in November 2002 to suspend shipments of heavy oil to North Korea — a key U.S. obligation under the Agreed Framework.

The main elements of Bush Administration policy are (1) terminating the Agreed Framework; (2) withholding any U.S. reciprocal measures until North Korea takes visible

steps to dismantle its nuclear programs and makes concessions on other military issues; (3) assembling an international coalition to apply pressure on North Korea in multilateral talks; and (4) planning for future economic sanctions and military interdiction against North Korea. China, South Korea, and Russia have criticized the Bush Administration for not negotiating with North Korea, and they voice opposition to economic sanctions and the use of force against Pyongyang.

In 2003, the Pentagon announced plans to relocate the U.S. 2nd Infantry Division from the demilitarized zone to positions further south. Controversy over the 37,000 U.S. troops had grown in South Korea and reflected both disagreement over policy toward North Korea but also mounting South Korean public discontent over U.S. troops in South Korea. Incidents involving U.S. troops and South Korean civilians led to mass demonstrations in late 2002 in response to the killing of two South Korean schoolgirls by a U.S. military vehicle in June 2002. This also contributed to the election of Roh Moo-hyun as President in December 2002. His campaign stressed criticism of the United States. Since the election, Roh has stressed cooperation with the United States, and he opposed removing the 2nd Division until the North Korean nuclear issue is resolved. He is considering sending South Korean combat troops to Iraq.

MOST RECENT DEVELOPMENTS

At the APEC summit in Bangkok in October 2003, President Bush stated that he was willing to offer North Korea a written multilateral security guarantee that the United States would not attack North Korea if North Korea agreed to end its nuclear programs, but he continued to reject North Korea's proposal of a U.S.-North Korean non-aggression pact. North Korea replied that it would "consider" Bush's offer if the United States "confirmed" that it would settle the nuclear issue "on the principle of simultaneous actions." It announced on October 30, 2003, that it would participate in another round of six-party talks. North Korea asserted that it invited a U.S. congressional delegation to "watch on the spot the completed reprocessing" of 8,000 nuclear fuel rods into weapons-grade plutonium. The visit of the delegation was canceled because of opposition of the Bush Administration to the visit.

BACKGROUND AND ANALYSIS

U.S. Interests in South Korea

U.S. interests in the Republic of Korea (R.O.K. — South Korea) involve a wide range of security, economic, and political concerns. The United States fought the Korean War from 1950 to 1953, suffering over 33,000 killed and over 101,000 wounded. The United States agreed to defend South Korea from external aggression in the 1954 Mutual Defense Treaty. The United States maintains about 37,000 troops there to supplement the 650,000-strong South Korean armed forces. This force is intended to deter North Korea's (the Democratic People's Republic of Korea — D.P.R.K.) 1.2 million-man army. Since 1991, attention has focused on the implications of North Korea's drive to develop nuclear weapons (see CRS Issue Brief IB91141, *North Korea's Nuclear Weapons Program*) and long range missiles, and severe food shortages in North Korea.

U.S. economic assistance to South Korea, from 1945 to 2002, totaled over 6 billion; most economic aid ended in the mid-1970s as South Korea's reached higher levels of economic development. U.S. military aid, 1945-2002, totaled over \$8.8 billion. The United States is South Korea's second largest trading partner (replaced as number one by China in 2002) and largest export market. South Korea is the seventh largest U.S. trading partner. The United States has long viewed South Korean political stability as crucial to the nation's economic development, to maintaining the security balance on the peninsula, and to preserving peace in northeast Asia. However, U.S. officials over the years have pressed the South Korean administration with varying degrees of intensity to gradually liberalize its political process, broaden the popular base of its government, and release political prisoners. In recent years, South Korea has become more democratic, but democracy has spawned more open criticism of the United States.

Recent Issues

Relations with North Korea

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

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

A key element of the Administration's strategy is to employ public accusations and warnings to pressure North Korea to reduce and eliminate its military assets. Administration officials said that they want a comprehensive negotiation with North Korea on all these issues. However, as stated previously, there has been substantial opposition within the Administration to any negotiations. When U.S. and North Korean officials have met, opponents of negotiations have succeeded in restricting what U.S. officials can say. Except for vague references to a "bold initiative," the Administration gave no indication that it would offer North Korea reciprocal measures for North Korean agreement and steps to reduce its military power in these areas. Public statements by the Administration continually

call for North Korea to take actions unilaterally. During his visit to South Korea in February 2002, President Bush issued a general offer to “welcome North Korea into the family of nations, and all the benefits, which would be trade, commerce and exchanges.” Until Bush’s offer of a U.S. security guarantee in October 2003, Bush Administration officials reportedly indicated in private remarks that they believed that the Administration does not have to offer reciprocal measures or compensation for North Korean concessions.

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

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

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

According to U.S. officials, North Korea admitted to having a secret uranium enrichment program when Assistant Secretary of State James Kelly visited Pyongyang in October 2002 (North Korea since has denied making an admission). This confirmed U.S. intelligence information that had built up since 1998 concerning such a program. North Korea used the admission to propose a negotiation with the United States to include a non-aggression pact, an end to U.S. “stifling” of North Korea’s economy, and recognition of North Korea’s “sovereignty.” Some experts believe that the proposals of a non-aggression pact and an end to U.S. economic “stifling” are “smokescreens” for long-standing North Korean demands for a U.S.-North Korean bilateral peace treaty and removal of North Korea from the U.S. list of states that sponsor terrorism.

The Bush Administration reacted by calling for concerned governments to pressure North Korea to abandon the secret uranium enrichment program. In November 2002, it pushed a resolution through KEDO to suspend heavy oil shipments to North Korea. North Korea then initiated a number of aggressive moves to reactivate the plutonium-based nuclear program shut down in 1994 under the Agreed Framework: re-starting the small, five megawatt nuclear reactor, announcing that construction would resume on two larger reactors, and announcing that it would re-start the plutonium reprocessing plant. North Korea also expelled officials from the IAEA who had been monitoring the freeze of the plutonium facilities under the Agreed Framework. In January 2003, North Korea announced withdrawal from the Nuclear Non-Proliferation Treaty. It threatened to end its moratorium on long-range missile testing in effect since September 1999. North Korea asserted that it possesses nuclear weapons and that it had completed reprocessing of spent nuclear fuel into weapons-grade plutonium. Moreover, North Korea threatened to export nuclear materials. It justified these actions by citing the U.S.-initiated cutoff of heavy oil shipments and by charging that the Bush Administration planned a “pre-emptive nuclear attack” on North Korea. It escalated this by citing the U.S. attack on Iraq as justification for North Korea developing a “nuclear deterrent.”

North Korea’s major motive appears to be to escalate pressure on the Bush Administration to negotiate a new nuclear agreement that would provide new U.S. security, political, and economic benefits to North Korea. Pyongyang long has emphasized intimidation tactics in its diplomacy. However, restarting the Yongbyon installations opens up a possible North Korean intent or option to stage a “breakout” of its nuclear program in 2003 by openly producing nuclear weapons. The most dangerous North Korean move would be to move 8,000 stored fuel rods at Yongbyon into the plutonium reprocessing plant for the production of nuclear weapons-grade plutonium. According to estimates by nuclear experts and reportedly by U.S. intelligence agencies, if North Korea began to reprocess fuel rods, it would take about four months to produce weapons grade plutonium and another one or two months to produce four to six atomic bombs. U.S. and South Korean officials estimated in July 2003 that North Korea had reprocessed a small number of the fuel rods.

North Korea’s proposal at the Beijing meetings in April and August 2003 was based on restoring major elements of the 1994 Agreed Framework; it called for U.S. commitments that go beyond the Agreed Framework. North Korea describes it as based on “the principle of simultaneous actions;” but it places key U.S. obligations in the early stages of a settlement process and defers and makes vague North Korean obligations. In a first step, North Korea would declare that it would end its plutonium nuclear program and the United States would resume the supply of heavy oil and increase food aid. In a second step, the United States

would conclude a written, legal non-aggression treaty and provide North Korea with electricity. North Korea would respond by refreezing the Yongbyon nuclear facilities and would allow renewed IAEA monitoring of the freeze but not full-scope inspections. North Korea would “settle the missile issue” when the United States and Japan open diplomatic relations with it and Japan extends several billion dollars to North Korea. The United States would remove North Korea from the U.S. list of terrorist countries. The final step would be for North Korea to dismantle its plutonium program when the two light water reactors are completed; given the state of construction of the reactors, this would mean a gap of at least five years between a settlement agreement and dismantlement. North Korea’s proposal referred only to its plutonium-based nuclear program; at the August 2003 Beijing meeting, it denied the existence of a uranium-based program. (According to *U.S. News and World Report*, September 1, 2003, the CIA advanced its projected date when North Korea could produce a uranium-based atomic bomb from 2005 to mid to late 2004.)

The Bush Administration’s policy response to the secret program and the re-starting of the Yongbyon facilities consists of:

(1) Progressive suspension of the Agreed Framework: The Administration secured KEDO’s decision to suspend heavy oil shipments to North Korea beginning in December 2002 despite reluctance by Japan and South Korea to move as quickly. North Korea cited this as justification for re-starting the Yongbyon nuclear facilities. In the summer of 2003, the Administration pressed other KEDO members to terminate the construction of the light water nuclear reactors promised to North Korea in the Agreed Framework. Administration officials stated in August 2003 that the reactor construction would be terminated or suspended long term. In January 2003, the Administration budgeted \$3 million for KEDO for FY2003, and Congress appropriated \$5 million in foreign assistance legislation for FY2003. However, there is no money for KEDO in proposed foreign assistance legislation for FY2004.

(2) Diplomatic strategy: Following North Korea’s reported disclosure of a secret uranium enrichment program, the Bush Administration adopted the position that North Korea must dismantle its nuclear programs before the United States would negotiate over other issues, including U.S. reciprocal measures. In a communique of January 7, 2003, with Japan and South Korea, the proposal stated that “the United States is willing to talk to North Korea about how it will meet its obligations to the international community” but that “the United States will not provide quid pro quos to North Korea to live up to its existing obligations.” In February 2003, the Administration began to promote a multilateral forum to include South Korea, Japan, China, and Russia. A three party meeting (China, North Korea, and the United States) occurred in Beijing in April 2003. President Bush reportedly restricted what the chief U.S. official at Beijing could say to only re-stating the Administration’s public position that North Korea must dismantle its nuclear program before the United States would discuss with it ways to improve U.S.-North Korean relations. Administration diplomacy achieved six-party talks in Beijing in August 2003. U.S. officials indicated that the Administration would specify the steps that North Korea must take to dismantle its nuclear programs, discuss U.S. reciprocal measures after North Korea “begins” steps to dismantle, develop a proposal for a written multilateral security guarantee to North Korea (Bush’s offer of October 20, 2003), consider proposing a peace treaty or “peace mechanism,” and offer North Korea a normalization of relations with the United States at the end of a settlement process.

(3) Forming an international coalition to pressure North Korea to end its nuclear program: The Administration's multilateral negotiation proposal and Bush's offer of a multilateral security guarantee are moves in this strategy. Administration diplomacy has aimed at securing support from other governments for a regime of economic sanctions against North Korea. Japan is imposing restrictions on North Korean economic activity in Japan and demands that North Korea end its nuclear programs and settle the issue of North Korea's kidnapping of Japanese citizens. South Korea states that it will suspend cooperative projects with North Korea if North Korea does not end its nuclear programs, but South Korean officials also indicate a deep reluctance to terminate such projects. The Administration has placed emphasis on China as a source of pressure on North Korea, citing China's stated support for a non-nuclear Korean peninsula. China has a mutual defense treaty with North Korea and supplies North Korea with an estimated 90% of its oil and 40% of its imported food. China, South Korea, and Russia have withheld full support from the U.S. position, causing frustration within the Administration. They criticize the Administration for not negotiating with North Korea. They all advocate that the United States offer North Korea a security guarantee and economic assistance in any agreement on nuclear weapons. They stated opposition to the U.N. Security Council formally taking up the issue, and China blocked Security Council action in early April 2003. China reportedly pressured North Korea to adopt greater flexibility regarding its demand for bilateral talks with United States, leading to the three-party and six-party Beijing meetings. However, in return, China apparently made diplomatic commitments to North Korea, including support for North Korean opposition to U.N. Security Council consideration and North Korea's proposal of a security guarantee from the United States. There reportedly is debate within the Chinese government over policy toward North Korea. There are influential parties who advocate that China cut or end support of North Korea. However, influential elements of the China military and senior communist leadership reportedly oppose breaking China's traditional ties to North Korea. China's official position remains opposed to economic sanctions and asserts that the United States should offer a comprehensive negotiating proposal including a security guarantee and economic aid for North Korea. Russia shares the Chinese position.

(4) Planning economic sanctions and military interdiction if North Korea does not end its nuclear program: The Administration reportedly has drafted plans for economic sanctions, including cutting off financial flows to North Korea from Japan and other sources and interdicting North Korean weapons shipments to the Middle East and South Asia. Administration officials assert that North Korea's escalation of provocations will convince other governments to support economic sanctions and thus isolate North Korea. President Bush proposed a Proliferation Security Initiative aimed at interdicting exports of weapons of mass destruction and illegal drugs by proliferator countries, especially North Korea. The United States and ten other countries are planning measures to interdict North Korean sea and air traffic. Taiwan detained a North Korean ship in August 2003 and removed chemicals that could be used in weapons of mass destruction; the CIA reportedly advised Taiwan authorities on the contents of the ship.

(5) Ambivalence concerning U.S. military options if North Korea fully activates its nuclear program: The Administration stressed in January 2003 that the United States would not attack North Korea; this was in response to North Korea's charge that the United States planned a pre-emptive attack and to concerns voiced by China, Russia, and South Korea. In February 2003, Administration statements on military options focused on the growing belief

that North Korea would attempt to reprocess the 8,000 spent nuclear fuel rods at Yongbyon into weapons-grade plutonium and produce five or six atomic bombs. In late 2002, Clinton Administration officials disclosed that in 1994, the Administration approved a Pentagon plan to bomb Yongbyon to prevent reprocessing of the fuel rods. However, press reports and Administration statements claim that the United States has only limited intelligence capabilities to learn whether or not North Korea has reprocessed the spent nuclear fuel and that the Administration is uncertain of the situation. Statements by Pentagon officials indicate that contingency plans for direct military action against North Korea envisage strikes against multiple targets, including North Korean artillery on the demilitarized zone, rather than a strike solely against North Korea's nuclear installations. However, the extensive commitment of U.S. ground forces to Iraq, Afghanistan, and other locations limits the ability of the United States to commit sizeable ground forces to any Korean contingency.

North Korea's Missile Program. North Korea's proposal at Beijing offers to "settle the missile issue" but provides no details. Following the disclosure of North Korea's secret uranium enrichment program, Pyongyang has issued threats to end a moratorium on long-range missile testing, which it had instituted in September 1999. The last such missile test, on August 31, 1998, flew over Japanese territory. Japan also believes it is threatened by approximately 100 intermediate-range Nodong missiles, which North Korea has deployed. Japanese negotiators at Beijing emphasized the missile issue. Reports since 2000 cite U.S. intelligence findings that North Korea is developing a Taepo Dong-2 intercontinental missile that would be capable of striking Alaska, Hawaii, and the U.S. west coast with nuclear weapons. U.S. officials reportedly claimed in September 2003 that North Korea had developed a more accurate, longer-range intermediate ballistic missile that could reach Okinawa and Guam (sites of major U.S. military bases) and that there was evidence that North Korea had produced the Taepo Dong-2. U.S. officials reportedly told Japanese counterparts in July 2003 that North Korea was close to developing nuclear warheads for its missiles.

In the 1990s, North Korea exported short-range Scud missiles and Scud missile technology to several countries in the Middle East. It exported Nodong missiles and Nodong technology to Iran, Pakistan, and Libya. In 1998, Iran and Pakistan successfully tested medium range missiles modeled on the Nodong. North Korea reportedly shipped 50 complete Nodong missiles to Libya in 1999. Japan's *Sankei Shimbun* newspaper reported on August 6, 2003, that North Korea and Iran were negotiating a deal for the export of the long-range Taepo Dong-2 missile to Iran and the joint development of nuclear warheads.

The test launch of the Taepo Dong-1 spurred the Clinton Administration to intensify diplomacy on North Korea's missile program. The Administration's 1999 Perry initiative set the goal of "verifiable cessation of testing, production and deployment of missiles exceeding the parameters of the Missile Technology Control Regime, and the complete cessation of export sales of such missiles and the equipment and technology associated with them." The Perry initiative offered North Korea steps to normalize U.S.-North Korean relations, an end to U.S. economic sanctions, and other economic benefits in return for positive North Korean actions on the missile and nuclear issues. This produced in September 1999 a qualified North Korean promise not to conduct further long-range missile tests, which North Korea repeated in June 2000. The Clinton Administration responded in June 2000 by lifting of a significant number of U.S. economic sanctions against North Korea.

Secretary of State Albright visited Pyongyang in October 2000, and missile talks intensified. The Clinton Administration reportedly proposed a comprehensive deal covering all aspects of the issue. North Korea offered to prohibit exports of medium and long-range missiles and related technologies in exchange for “in-kind assistance.” (North Korea previously had demanded \$1 billion annually.) It also offered to ban permanently missile tests and production above a certain range in exchange for “in kind assistance” and assistance in launching commercial satellites. Pyongyang also offered to cease the deployment of Nodong and Taepo Dong missiles. It proposed that President Clinton visit North Korea to conclude an agreement. The negotiations reportedly stalled over four issues: North Korea’s refusal to include short-range Scud missiles in the commitment to cease the development and deployment of missiles; North Korea’s non-response to the U.S. position that it would have to agree to dismantle the already deployed Nodong missiles; the details of U.S. verification of a missile agreement; and the nature and size of a U.S. financial compensation package.

President Bush’s June 6, 2001 statement set a goal of “verifiable constraints on North Korea’s missile programs and a ban on its missile exports.” Administration officials emphasized the necessity of a strong verification mechanism in any missile accord. After the January 2002 State of the Union speech, the Administration repeatedly described North Korea as a dangerous proliferator of missiles, and it demanded that North Korea cease exporting missiles and missile technology. However, the Administration has offered no specific negotiating proposal on missiles. The Administration emphasized the necessity of installing an anti-missile defense system in Alaska by the end of 2004, which it claimed would be 90% effective in intercepting North Korean missiles; non-Administration experts have expressed skepticism over this claim.

Weapons of Mass Destruction. The Bush Administration’s emphasis on North Korea’s weapons of mass destruction (WMDs) resulted from the September 11, 2001, terrorist attack. A Pentagon report on the North Korean military, released in September 2000, stated that North Korea had developed up to 5,000 metric tons of chemical munitions and had the capability to produce biological weapons, including anthrax, smallpox, the bubonic plague, and cholera. The Bush Administration expresses a fear that North Korea might sell nuclear, chemical, or biological weapons to a terrorist group like al Qaeda or that al Qaeda might acquire these weapons from a Middle East country that had purchased them from North Korea. In November 2001, President Bush included North Korea’s WMDs as part of the “war against terrorism.” The Bush Administration has not accused North Korea directly of providing terrorist groups with WMDs. There are reports from the early 1990s that North Korea exported nuclear technology to Iran and that North Korea assisted Syria and Iran to develop chemical and biological weapons capabilities.

North Korea’s Inclusion on the U.S. Terrorism List. In February 2000, North Korea began to demand that the United States remove it from the U.S. list of terrorist countries. It made this a pre-condition for the visit of a high level North Korean official to Washington. Although it later dropped this pre-condition, it continued to demand removal from the terrorist list. In response to the terrorist attack of September 11, 2001, North Korea issued statements opposing terrorism and signed two United Nations conventions against terrorism. North Korea’s current proposal related to the nuclear situation — that the United States end its “stifling” of North Korea’s economy — appears to be a subterfuge for the demand for removal from the terrorist list. North Korea’s chief motive appears to be to open the way for it to receive financial aid from the World Bank and the International Monetary

Fund (IMF). U.S. law P.L. 95-118, the International Financial Institutions Act, requires the United States to oppose any proposals in the IMF and World Bank to extend loans or other financial assistance to countries on the terrorism list. The South Korean Kim Dae-jung Administration also urged the United States to remove North Korea from the terrorism list so that North Korea could receive international financial assistance.

Japan has urged the United States to keep North Korea on the terrorism list until North Korea resolves Japan's concerns. Japan's concerns are North Korea's sanctuary to members of the terrorist Japanese Red Army organization and evidence that North Korea kidnapped and is holding at least ten Japanese citizens. The Clinton Administration gave Japan's concerns increased priority in U.S. diplomacy in 2000. Secretary Albright raised the issue of kidnapped Japanese when she met with Kim Jong-il in Pyongyang in October 2000. (See CRS Report RL30613, *North Korea: Terrorism List Removal?*) At the Beijing meetings, the Bush Administration called on North Korea to resolve the issue with Japan. Kim Jong-il's admission of kidnapping Japanese during the Kim-Koizumi summit of September 2002 did not resolve the issue. His claim that 8 of the 13 admitted kidnapped victims are dead and his ambivalence regarding the return to Japan of the five living Japanese raised new issues for the Japanese government, including information about the deaths of the kidnapped and the possibility that more Japanese were kidnapped. The five living kidnapped Japanese returned to Japan in October 2002 for a visit. However, the Japanese government did not allow them to return to North Korea, and North Korea holds their children. Japan asserts that it will not provide economic benefits to North Korea, including benefits as part of a nuclear settlement, until North Korea settles the kidnapping issue.

Food Aid. Secretary of State Powell announced on February 25, 2003, that the United States would extend 40,000 metric tons of food aid to North Korea in 2003 and would extend another 60,000 tons if North Korea agreed to greater access of food donors and more effective monitoring of food aid distribution. The offer is a reduced U.S. commitment from previous years, and North Korea demanded increased food aid in its proposal at Beijing. Beginning in 1995, the United States supplied North Korea with 1.9 million metric tons of food aid through the U.N. World Food Program (WFP), including 157,000 metric tons in 2002. On June 8, 2002, the Administration stated that future U.S. food aid would depend on North Korea's willingness to allow access of food donors to all areas of the country, a nationwide nutritional survey, and an improved monitoring system. U.S. officials warn that North Korea will not receive the promised 60,000 tons of food unless it allows greater access and monitoring. North Korea has rejected the Administration's conditions.

Agriculture production in North Korea began to decline in the mid-1980s. Severe food shortages appeared in 1990-1991. In September 1995, North Korea appealed for international food assistance. The Clinton Administration used food aid to secure North Korean agreement to certain types of negotiations and North Korean agreement to allow a U.S. inspection of the suspected nuclear site at Kumchangri. Critics have pointed to the weaknesses in monitoring food aid distribution in North Korea and the absence of North Korean economic reforms, especially agricultural reforms.

The U.N. World Food Program acknowledges that North Korea places restrictions on its monitors' access to the food distribution system, but it believes that most of its food aid reaches needy people. Several private aid groups, however, withdrew from North Korea because of such restrictions and suspicions that the North Korean regime was diverting food

aid to the military or the communist elite living mainly in the capital of Pyongyang. It is generally agreed that the regime gives priority to these two groups in its overall food distribution policy. Some experts also believe that North Korean officials divert some food aid for sale on the extensive black market. The regime has spent none of several billion dollars in foreign exchange earnings since 1998 to import food or medicines. The regime refuses to adopt agricultural reforms similar to those of fellow communist countries, China and Vietnam, including dismantling of Stalinist collective farms. While such reforms resulted in big increases in food production in China and Vietnam, North Korea continues to experience sizeable food shortages year after year with no end in sight. It is estimated that one to three million North Koreans died of malnutrition between 1995 and 2002.

The conditions set on future food aid by the Bush Administration appear to be influenced by Andrew Natsios, the Director of the U.S. Agency for International Development, who was intimately involved in food aid programs to North Korea in the 1990s. His 2002 book, *The Great North Korean Famine*, highlighted a view that the North Korean government employed duplicity and manipulation of food aid donors.

North Korean Refugees in China and Human Rights. This issue confronted governments after March 2002 when North Korean refugees, aided by South Korean and European NGOs, sought asylum in foreign diplomatic missions in China and the Chinese government sought to prevent access to the missions and forcibly removed refugees from the Japanese and South Korean embassies. The refugee exodus from North Korea into China's Manchuria region began in the mid-1990s as the result of the dire food situation in North Korea's provinces in the far north and northeast along the Chinese border. The North Korean government reportedly suspended the state food rationing system in these provinces beginning about 1993 and never allowed international food aid donors into them. Estimates of the number of refugees cover a huge range, from 10,000 to 300,000.

China followed conflicting policies reflecting conflicting interests. Generally, China tacitly accepted the refugees so long as their presence was underground and/or not highly visible. China also allowed foreign private non-government groups (NGOs), including South Korean NGOs, to provide aid to the refugees, again so long as their activities were not highly visible. China barred any official international aid presence, including any role for the United Nations High Commission for Refugees. It also interrupted its general policy of tacit acceptance with periodic crackdowns that included police sweeps of refugee populated areas, rounding up of refugees, and returning them to North Korea. In 2002 and 2003, China allowed refugees, who had gained asylum in foreign diplomatic missions, to emigrate to South Korea. However, its crackdown on the border reportedly included the torture of captured refugees to gain information on the NGOs that assisted them.

China tries to prevent any scenario that would lead to a collapse of the Pyongyang regime, its long-standing ally. Chinese officials fear that too much visibility of the refugees and especially any U.N. presence could spark an escalation of the refugee outflow and lead to a North Korean regime crisis and possible collapse. China's crackdowns are sometimes a reaction to increased visibility of the refugee issue. China's interests in buttressing North Korea also have made China susceptible to North Korean pressure to crack down on the refugees and return them. Reports in 2003 described stepped-up security on both sides of the China-North Korea border, including the deployment of Chinese army troops, to stop the movement of refugees and Chinese roundups of refugees and repatriation of them to North

Korea. The Chinese government also appears reluctant to establish the precedent of allowing any United Nations presence on its soil.

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

The Bush Administration has given the refugee issue low priority. The Administration has requested that China allow U.N. assistance to the refugees but has asserted that South Korea should have the lead diplomatically in dealing with China. Congress has been more active on the issue. The issue has been aired in hearings. In June 2002, the House of Representatives passed H.Con.Res. 213, which calls on China to halt forced returns of refugees to North Korea and give the U.N. High Commission on Refugees access to the North Korean refugees. In July 2003, the Senate passed legislation making it easier for North Korean refugees to gain U.S. refugee status. The Bush Administration said it is studying allowing the refugees into the United States; but the Department of Homeland Security reportedly opposes this, fearing that the Pyongyang regime could infiltrate agents.

The refugee issue had led to increased outside attention to human rights conditions in North Korea. Reports assert that refugees forcibly returned from China have been imprisoned and tortured in an extensive apparatus of North Korean concentration camps modeled after the "gulag" concentration camp system in the Soviet Union under Stalin. Reports by Amnesty International, the U.S. State Department, and, most recently, the U.S. Committee for Human Rights in North Korea have described this system as holding up to 250,000 people. In April 2003, the United States secured a resolution from the U.N. Human Rights Commission expressing concern over human rights violations in North Korea, including concentration camps and forced labor. South Korea abstained in the Commission's vote in the interest of pursuing its "sunshine" policy with North Korea.

South Korea's Sunshine Policy and the Hyundai Payments to North Korea.

South Korean President Kim Dae-jung took office in 1998, proclaiming a "sunshine policy" of reconciliation with North Korea. He achieved an apparent breakthrough with his meeting of Kim Dae-jung and North Korean leader Kim Jong-il in Pyongyang, June 13-14, 2000. Their joint declaration said North Korea and South Korea would work for economic cooperation, cultural and sports exchanges, and meetings of divided Korean families. Following the summit, Seoul and Pyongyang negotiated agreements on the restoration of a railway and road across the DMZ, investment guarantees and tax measures to stimulate South Korean private investments in North Korea, provision of South Korean food aid to North Korea, and flood control projects for the Imjim River. President Kim called on the United States to support his sunshine policy by normalizing diplomatic relations with North Korea, negotiating a missile agreement with Pyongyang, and removing North Korea from the U.S. terrorist list. The sunshine policy stagnated after December 2000. North Korea demanded that South Korea supply it with two million kilowatts of electricity and rejected a South Korean reply proposing a survey of North Korea's electrical grid. Negotiations in August 2002 produced a renewal of family reunions and agreement to implement economic agreements of 2000. The roads in the eastern and western sectors of the DMZ opened in 2003, and the rail lines are to open by the end of 2003. Seoul and Pyongyang reached agreement in November 2002 on South Korean aid to construct a special economic zone at

Kaesong inside North Korea to attract South Korean and other outside private investment. North Korea subsequently issued a law for foreign investment at Kaesong.

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

Investigations by a special prosecutor and South Korean newspapers revealed that North Korean leader, Kim Jong-il, demanded \$1 billion from Hyundai Asan in return for meeting with Kim Dae-jung. Chung Mong-hun, the CEO of Hyundai Asan and one of the son's of Hyundai's founder, Chung Ju-yung, initially turned down the North Korean demand; but officials of the Kim Dae-jung administration urged him to make payments. Hyundai Asan and North Korean officials agreed on \$500 million on April 8, 2000. The special prosecutor's findings were that several Hyundai member companies of the Hyundai Group (also run by Chung family members) were involved in making the secret payments a few days before the summit: Hyundai Merchant Marine (\$200 million); Hyundai Engineering and Construction (\$150 million); Hyundai Electronics (\$100 million); and Hyundai Asan (\$50 million in luxury goods). The special prosecutor also found that officials of the government's Korean Exchange Bank and the National Intelligence Service helped the Hyundai companies transfer the money to North Korean banks in Macao, Singapore, and Austria. Senior officials of the Kim Dae-jung administration facilitated a government loan of \$359 million to Hyundai Merchant Marine, which used more than 50% of it in the transfers. President Roh Moo-hyun cut off the special prosecutor's investigation in June 2003; the opposition Grand National Party has charged that there were additional secret payments totaling several hundred million dollars. There were six indictments and convictions of R.O.K. and Hyundai officials.

After the conclusion of the Mt. Kungang agreement, U.S. military officials were suspicious that North Korea was using the Hyundai money for military purposes. U.S. military officials in Korea reportedly raised the issue with Hyundai officials in November 1999. The *Korea Herald*, February 5, 2001, quoted a spokesman for the U.S. Military Command in Korea that "I know that military experts at home and abroad are concerned about Pyongyang's possible diversion of the [Hyundai] cash for military purposes." Most serious is evidence that the Hyundai payments helped North Korea financially to accelerate its secret uranium enrichment nuclear weapons program and possibly also its missile program. Several experts had concluded that Hyundai Asan's public cash payments went into Bureau 39 of North Korea's Communist Party, which reportedly is controlled directly by Kim Jong-il. The special prosecutor and South Korean newspapers learned that the secret payments were transferred to bank accounts in Macao, Singapore, and Austria known to be controlled by the Daesong Group, a front organization for Bureau 39. Bureau 39's functions reportedly include controlling and enlarging the inflow of foreign exchange to North Korea

through legal exports and illegal exports such as drug smuggling. It also directs the expenditure of North Korea's foreign exchange resources with two priorities: (1) procurement of luxury products from abroad that Kim Jong-il distributes to a broad swath of North Korean military, party, and government officials to secure their loyalty — Mercedes Benzes, food, wines, stereos, deluxe beds, rolex watches, televisions, etc., estimated at \$100 million annually by U.S. military officials in Seoul, according to a Reuters report of March 4, 2003; and (2) procurement overseas of components and materials for North Korea's WMDs and missiles. (See especially the *Wall Street Journal's* report on Bureau 39, July 14, 2003.)

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

As a result of the Hyundai secret payment revelations and the financial difficulties of Hyundai Asan, payments for the Mt. Kumgang project declined to \$7 million over the first 8 months of 2003. However, the Roh Moo-hyun administration continues to promote deals between South Korean companies and North Korea, which potentially could lead to more North Korean demands for cash payments.

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

On June 5, 2003, the United States and South Korea announced that the U.S. Second Infantry Division of about 15,000 troops would be withdrawn from its position just below the demilitarized zone and relocated to "hub bases" about 75 miles south. They also announced that the U.S. Yongsan base, housing about 8,000 American military personnel in the center of Seoul, would be relocated away from the city. (A 1991 agreement to relocate Yongsan never was implemented.) The U.S. military would invest \$11 billion to upgrade its forces in Korea. These moves are part of a comprehensive plan by Secretary of Defense Rumsfeld to restructure the U.S. Army and revise the system of U.S. bases worldwide. Reportedly, the Pentagon plans to reduce number of U.S. troops in South Korea, currently 37,000, by about 12,000; the Second Division would be reorganized to allow the Pentagon to send elements of the Division to other countries in times of crisis.

However, the Pentagon's decisions came after large-scale demonstrations in South Korea against U.S. forces and the related election of Roh Moo-hyun as President, who criticized the United States frequently during his campaign, in December 2002. The protests and Roh's campaign criticism of the United States were the result of South Korean public anger over the killing of two South Korean schoolgirls by a U.S. military vehicle in June

2002. The South Korean government wanted the two American military personnel operating the vehicle turned over to South Korean authorities; but the U.S. Military Command refused, citing the provision in the U.S.-R.O.K. Status of Forces Agreement that American military personnel accused of crimes while on duty would remain under U.S. military jurisdiction. The court-martials of the two vehicle operators found them innocent. The South Korean reaction was massive demonstrations, isolated violence directed at U.S. soldiers, and wider discrimination against Americans. Since his election, Roh has stated support for the U.S.-R.O.K. alliance. His government declared that there should be no changes in U.S. troop strength until the North Korean nuclear issue is resolved. The Roh Administration agreed only reluctantly to the relocation of the Second Division announced June 5, 2003.

These events were the culmination of changing South Korean attitudes toward the U.S. military presence that began to appear in 1998. Since that time, South Korean fears of a military threat from North Korea have declined. According to recent polls, South Koreans increasingly do not register the same level of concern as many Americans over a North Korean invasion threat and nuclear weapons development. South Korean and some American analysts questioned the claim of the U.S. military command (USFK) that North Korean conventional forces on the DMZ constituted a bigger threat than ever. The critics argued that North Korean conventional military capabilities had eroded since the early 1990s due to the obsolescence of offensive weaponry like tanks and strike aircraft, logistics/supplies deficiencies, the absence of major field exercises from 1994 to 2000, food shortages among even North Korean front-line troops on the DMZ, and the decline in the physical and mental capabilities of North Korean draftees after a decade of malnutrition.

Following the North-South summit of June 2000 and the intensification of Kim Dae-jung's sunshine policy, South Koreans viewed U.S. forces more from the standpoint of their impact on prospects for improved North-South relations. South Koreans grew increasingly skeptical of President Bush's statements that he supported the sunshine policy. These factors produced a growing debate in South Korea over the U.S. military presence. Small radical groups, which demand a total U.S. military withdrawal, have been joined by a network of non-government civic groups. Polls, including a poll commissioned by the State Department's Office of International Information Programs in September 2000, show a majority of South Koreans in favor of a reduction in the number of U.S. troops in South Korea. A South Korean newspaper poll of February 2003 showed 57 percent of South Koreans in favor of a reduction of U.S. troops or a total U.S. troop withdrawal. However, a frequently voiced view among South Koreans is that the Pentagon's plan to relocate the Second Division is intended to punish South Korea for the anti-American protest in 2002. Officials of the Roh administration expressed the view that a motive of the Pentagon's plan to relocate the Second Division is to get the Division out of range of North Korean artillery just north of the DMZ in case the Bush Administration decides to attack North Korea. Surveys showed that younger South Koreans under 40 hold much more negative views of U.S. policy and the U.S. military than do older Koreans.

The U.S. invasion of Iraq also drew considerable criticism from the South Korean public. President Roh faced considerable public and political criticism for his decision to send 700 South Korean medical and engineering personnel to Iraq. He currently is weighing a U.S. request to send a brigade-sized (about 3,000 troops) South Korean combat unit to Iraq. Roh has asserted that his ability to influence U.S. policy toward North Korea was a primary reason for his support of the U.S. war against Iraq. In October 2003, the R.O.K. government

announced that it would commit \$200 million in reconstruction aid to Iraq and would send additional troops.

The total cost of stationing U.S. troops in South Korea is nearly \$3 billion annually. The South Korean direct financial contribution for 2002 is \$490 million, up from \$399 million in 2000.

FOR ADDITIONAL READING

CRS Report RL31696. *North Korea: Economic Sanctions.*

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

CRS Report RS21391. *North Korea's Nuclear Weapons: How Soon an Arsenal?*

CRS Report RS21473. *North Korean Ballistic Missile Threat to the United States.*

CRS Report RL31785. *U.S. Assistance to North Korea.*