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

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CONTENTS

SUMMARY

MOST RECENT DEVELOPMENTS

BACKGROUND AND ANALYSIS

U.S. Interests in South Korea

Recent Issues

 Relations with North Korea

 Nuclear Weapons and the Six Party Talks

 U.S. Moves Against North Korean Illegal Activities

 North Korea's Missile Program

 Weapons of Mass Destruction

 North Korea's Inclusion on the U.S. Terrorism List

 Food Aid

 North Korean Refugees in China and Human Rights

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

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

FOR ADDITIONAL READING

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 create an acute foreign policy problem for the United States. North Korea claims that it has nuclear weapons and that it has completed reprocessing nuclear weapons-grade plutonium that could produce six to eight atomic bombs. U.S. intelligence estimates reportedly agree that North Korea has this capability. North Korea also is operating a secret nuclear program based on highly enriched uranium (HEU).

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

China organized six party talks among the United States, China, Japan, North Korea, South Korea, and Russia in mid-2003, but the talks have made little progress. U.S. attempts to isolate North Korea in the talks have been countered by North Korea's strategy of threats

to leave the talks, actual boycotts of the talks, the issuance of settlement proposals, accusations that the United States plans an "Iraq-like" attack on North Korea, and denials that it has an HEU program. North Korea's position, first taken in August 2005, that it will not dismantle until light water nuclear reactors are constructed inside North Korea (construction would take an estimated 10-15 years) creates a significant gap between the Bush Administration's timetable for dismantlement and Pyongyang's timetable.

Differences have emerged between the Bush Administration and South Korea over policies toward North Korea. South Korea emphasizes bilateral reconciliation with North Korea and a policy more equidistant between the United States and China. The South Korean public has become critical of Bush Administration policies and the U.S. military presence. Anti-U.S. demonstrations erupted in 2002, and Roh Moo-hyun was elected President after criticizing the United States. In 2003-2004, the Pentagon announced plans to relocate U.S. troops in South Korea away from the demilitarized zone and Seoul. The United States will withdraw 12,500 troops between the end of 2004 and September 2008, and U.S. military officials have hinted that further withdrawals will come after 2008. U.S.-South Korean negotiations are underway to change the military command structure and determine the degree to which the United States could deploy U.S. troops in South Korea to other trouble spots.

MOST RECENT DEVELOPMENTS

North Korea continued its second lengthy boycott of the six party talks, demanding that the Bush Administration lift recent U.S. financial sanctions against Banco Delta Asia in Macau. The U.S. Treasury Department accused Banco Delta of laundering counterfeit U.S. 100 dollar bills produced by North Korea. In other developments, North Korea ordered the U.N. World Food Program (WFP) to cease food-donating operations at the end of 2005, but the WFP reached an agreement with Pyongyang for a two-year, \$102 million program to provide food to young children and women of child-bearing age. The Bush Administration received criticism from key Members of Congress that it had not acted to facilitate the admittance of North Korean refugees into the United States. The United States and South Korea agreed to begin negotiations to change the military command system under which U.S. and South Korean forces operate in South Korea and to resolve the question of U.S. flexibility to deploy U.S. troops in South Korea to trouble spots outside South Korea.

BACKGROUND AND ANALYSIS

U.S. Interests in South Korea

U.S. interests in the Republic of Korea (R.O.K. — South Korea) involve security, economic, and political concerns. The United States suffered over 33,000 killed and over 101,000 wounded in the Korean War (1950-53). The United States agreed to defend South Korea from external aggression in the 1954 Mutual Defense Treaty. The United States maintains about 34,000 troops there to supplement the 650,000-strong South Korean armed forces. This force is intended to deter North Korea's (the Democratic People's Republic of Korea — D.P.R.K.) 1.2 million-man army. Since 1991, attention has focused on North Korea's drive to develop nuclear weapons (see CRS Issue Brief IB91141, *North Korea's Nuclear Weapons Program*, by Larry A. Niksch) and long-range missiles.

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

Recent Issues

Relations with North Korea

The Bush Administration's policy toward North Korea has been based on three factors within the Administration. First, President Bush has voiced distrust of North Korea and its leader, Kim Jong-il. Second, there are divisions within the Administration over policy toward North Korea. A coalition consists of Secretary of Defense Rumsfeld and his advisers, Vice President Cheney and his advisers, and proliferation experts in the State Department

and White House. They reportedly oppose negotiations with North Korea, favor the issuance of demands for unilateral North Korean concessions on military issues, and advocate a U.S. strategy of isolating North Korea diplomatically and through economic sanctions. Officials within this group express hope of a collapse of the North Korean regime. An alternative approach, advanced mainly by officials in the State Department and White House with experience on East Asian and Korean issues, favor negotiations before adopting more coercive measures; they reportedly doubt the effectiveness of a strategy to bring about a North Korean collapse.¹ The third factor is heavy reliance on other governments, especially China, to bring North Korea around to accept U.S. proposals on the nuclear issue.

Nuclear Weapons and the Six Party Talks.² From 1994 to 2003, U.S. policy was based largely on the U.S.-North Korean Agreed Framework of October 1994. It provided for the suspension of operations and construction of North Korea's active five megawatt nuclear reactor and plutonium reprocessing plant and larger 50 megawatt and 200 megawatt reactors under construction. It also specified the storage of 8,000 nuclear fuel rods that North Korea had removed from the five megawatt reactor in May 1994. It provided that the United States would facilitate the shipment of 500,000 tons of heavy oil annually to North Korea until two light-water nuclear reactors (LWRs) were constructed in North Korea. The Korean Peninsula Development Organization (KEDO), a multilateral body, was established to implement the LWR project. The IAEA monitored the freeze of the designated facilities and activities. North Korea would complete dismantlement of nuclear facilities when the construction of LWRs was completed.

According to U.S. officials, North Korea admitted to having a secret uranium enrichment program when U.S. officials visited Pyongyang in October 2002 (North Korea since has denied making an admission). This confirmed U.S. intelligence information of such a program that had built up since 1998. The Bush Administration reacted by pushing a resolution through KEDO in November 2002 to suspend heavy oil shipments to North Korea. The Administration also secured a suspension of construction of the light-water reactors and a total termination in November 2005. North Korea then initiated a number of moves to reactivate the plutonium-based nuclear program shut down in 1994 under the Agreed Framework: re-starting the five-megawatt nuclear reactor, announcing that it would re-start the plutonium reprocessing plant, and removing the 8,000 nuclear fuel rods from storage facilities. North Korea expelled IAEA officials who had been monitoring the freeze of the plutonium facilities under the Agreed Framework. In January 2003, North Korea announced withdrawal from the Nuclear Non-Proliferation Treaty. North Korea later asserted that it possessed nuclear weapons and that it had completed reprocessing of the 8,000 fuel rods into weapons-grade plutonium. According to nuclear experts and reportedly by U.S. intelligence agencies, this reprocessing would produce enough plutonium for four to six atomic bombs. A Central Intelligence Agency statement of August 18, 2003, estimated "that North Korea has produced one or two simple fission-type nuclear weapons and has

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

² For assessments of diplomacy on the North Korean nuclear issues, see Pritchard, Charles L. *Six Party Talks Update: False Start or a Case for Optimism?* Washington: The Brookings Institution, December 1, 2005.

validated the designs without conducting yield-producing nuclear tests.” Reuters News Agency and the *Washington Post* reported on April 28, 2004, that U.S. intelligence agencies were preparing a new National Intelligence Estimate that would conclude that North Korea had approximately eight atomic bombs based on plutonium and that the secret uranium enrichment program would be operational by 2007 and would produce enough weapons-grade uranium for up to six atomic bombs annually. “Senior officials across the government” were quoted in March 2006 that North Korea had plutonium for 8 to 12 nuclear weapons.³

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

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

A second reason is the relative lack of support for U.S. positions in the talks from China, South Korea, and Russia. In the early stages of the talks, Administration officials emphasized that North Korea would become isolated diplomatically and that the other parties in the talks would pressure North Korea to accede to U.S. proposals and demands. Administration officials stressed that China should exert diplomatic pressure on North Korea by exploiting North Korea’s dependence on China for an estimated 90% of its oil and 40% of its food. However, North Korea exerted an effective counter-strategy in late 2003 into 2004 featuring proposals of a U.S. security guarantee, a long-term freeze of North Korea’s plutonium program coinciding with U.S. concessions (“reward for freeze”), and retention by North Korea of a “peaceful” nuclear program. North Korea instituted a concerted propaganda campaign to promote these proposals, and it began a campaign of repeated denials that it had a secret highly-enriched uranium (HEU) program. Throughout 2004,

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

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

China, Russia, and even South Korea expressed sympathy for Pyongyang's proposals, and Russia and China voiced doubts that North Korea has an HEU program. Pyongyang's first boycott of the talks (August 2004-July 2005) drew little criticism from these governments; and while South Korea criticized the second boycott (November 2005 to the present), Beijing and Moscow refrained from any public criticism. China appeared to demand from North Korea at least a nominal commitment to the talks and avoidance of provocative acts like a nuclear test; but China displayed a permissive attitude toward North Korean tactics in the talks, rejected sanctions on North Korea, and heightened levels of economic and financial aid to North Korea — the last being a reported commitment of \$2 billion in October 2005.

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

The fourth reason for the deadlock appears to be North Korea's strategy of securing a protracted diplomatic stalemate on the nuclear issue. In the initial stages of the talks, North Korea took advantage of the Bush Administration's unwillingness to make a comprehensive proposal by proposing its "reward for freeze" plan in late 2003 and launching an effective propaganda campaign to promote it in China, South Korea, and Russia. After the U.S. proposal of June 2004, Pyongyang's main tactic has been to progressively enlarge the gap between North Korean proposals and the Bush Administration's core proposal, thus "killing" the Administration's proposal as a basis for negotiations. After July 2004, North Korea enlarged its demands for U.S. concessions under the demand that the United States end its "hostile policy" and "nuclear threat." It proposed a "regional disarmament" agenda in March 2005, demanding a range of U.S. military concessions in return for a nuclear settlement. As stated previously, Pyongyang's linkage of LWR construction and nuclear dismantlement creates a huge time frame gap between its position and the Bush Administration's position. Pyongyang's boycotts create stalemate, but North Korea also appears to use boycotts and threats of boycott to condition South Korea, China, and Russia to treat North Korea's proposals and positions sympathetically when it does agree to a meeting, thus isolating the Bush Administration. (Only Japan has supported consistently U.S. positions.)

U.S. Moves Against North Korean Illegal Activities. North Korea's justification for its second boycott of the six party talks is the U.S. financial sanctions against a bank in Macau, Banco Delta, for involvement in North Korean money-laundering and counterfeiting activities. U.S. administrations have cited North Korea since the mid-1990s for instigating a number of activities abroad that are illegal under U.S. law. These include production and trafficking in heroin, methamphetamines, counterfeit cigarettes, counterfeit pharmaceuticals, and counterfeit U.S. currency. North Korea is estimated to earn between \$500 million and \$1 billion annually through these activities.⁵ (For a detailed discussion, see CRS Report RL33324, *North Korean Counterfeiting of U.S. Currency*, and CRS Report RL32167, *Drug Trafficking and North Korea: Issues for U.S. Policy*.) These earnings reportedly go directly to North Korean leader, Kim Jong-il, through Bureau 39 of the Communist Party. He reportedly uses the funds to reward his political elite with imported consumer goods and to procure foreign components for weapons of mass destruction.

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

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

⁵ Presentation of David Asher, Institute for Defense Analyses, at the American Enterprise Institute, February 1, 2006.

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

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

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

North Korea's Missile Program.⁸ North Korea has maintained a moratorium on flight testing of long-range missiles since September 1999. The last such missile test, on August 31, 1998, flew over Japanese territory. Japan also believes it is threatened by approximately 100 intermediate-range Nodong missiles, which North Korea has deployed. 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 countries in the Middle East. It exported Nodong missiles and Nodong technology to Iran, Pakistan, and Libya. In 1998, Iran and Pakistan successfully tested medium-range missiles modeled on the Nodong. Japan's *Sankei Shimbun* newspaper reported on August 6, 2003, that North Korea and Iran were negotiating a deal for the export of the long-range Taepo Dong-2 missile to Iran and the joint development of nuclear warheads. In February 2006, it was disclosed that Iran had purchased 18 BM-25 mobile missiles from North Korea with a range of 2,500 kilometers. Pakistani and Iranian tests of North Korean-designed missiles have provided "surrogate testing" that dilutes the limitations of the September 1999 moratorium.

The test launch of the Taepo Dong-1 spurred the Clinton Administration to intensify diplomacy on North Korea's missile program. The Administration's 1999 Perry initiative set the goal of "verifiable cessation of testing, production and deployment of missiles ... and the complete cessation of export sales of such missiles and the equipment and technology associated with them." The Perry initiative offered to normalize U.S.-North Korean relations, end to U.S. economic sanctions, and provide other economic benefits in return for North Korean concessions on the missile and nuclear issues. This produced the September 1999 North Korean missile test moratorium. The Clinton Administration responded in June 2000 by lifting of a significant number of U.S. economic sanctions against North Korea.

In October 2000, the Clinton Administration reportedly proposed a comprehensive deal covering all aspects of the issue. North Korea offered to prohibit exports of medium- and long-range missiles and related technologies in exchange for "in-kind assistance." (North Korea previously had demanded \$1 billion annually.) It also offered to ban permanently

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

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

The Bush Administration repeatedly described North Korea as a dangerous proliferator of missiles and demanded that North Korea cease exporting missiles and missile technology. However, the Administration has offered no specific negotiating proposal on missiles. The Administration emphasized the necessity of installing an anti-missile defense system.

Weapons of Mass Destruction.⁹ A Pentagon report on the North Korean military, released in September 2000, stated that North Korea had developed up to 5,000 metric tons of chemical munitions and had the capability to produce biological weapons, including anthrax, smallpox, the bubonic plague, and cholera. The Bush Administration has expressed concern that North Korea might sell nuclear, chemical, or biological weapons to a terrorist group such as Al Qaeda or that Al Qaeda might acquire these weapons from a Middle East country that had purchased them from North Korea. 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 assisted Syria and Iran in developing chemical and biological weapons capabilities.

North Korea’s Inclusion on the U.S. Terrorism List. In February 2000, North Korea began to demand that the United States remove it from the U.S. list of terrorist countries. North Korea’s proposals at the six party nuclear talks also call for the United States to remove Pyongyang from the terrorist list. North Korea’s chief motive appears to be to open the way for the nation to receive financial aid from the World Bank and the International Monetary Fund (IMF). P.L. 95-118, the International Financial Institutions Act, requires the United States to oppose any proposals in the IMF and World Bank to extend loans or other financial assistance to countries on the terrorism list. The South Korean 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 over North Korea’s kidnapping of Japanese citizens. The Clinton Administration gave Japan’s concerns increased priority in U.S. diplomacy in 2000 (See CRS Report RL30613, *North Korea: Terrorism List Removal?*, by Larry Niksch and Raphael Perl). At the Beijing meetings, the Bush Administration called on North Korea to resolve the issue with Japan. In 2004, the Administration made the kidnapping of Japanese citizens an official reason for North Korea’s inclusion on the terrorism list. Kim Jong-il’s admission, during the Kim-Koizumi summit of September 2002, that North Korea had kidnapped Japanese citizens did not resolve the issue. His claim that eight of the 13 admitted

⁹ Ibid., p.79-120.

kidnapped victims are dead raised new issues for the Japanese government, including information about the deaths of the kidnapped and the possibility that more Japanese were kidnapped. The five living kidnapped Japanese returned to Japan in October 2002. In return, Japan promised North Korea 250,000 tons of food and \$10 million in medical supplies. However, in late 2004, Japan announced that the remains of two alleged kidnapped Japanese that North Korea had turned over to Japan were false remains. This prompted demands in Japan for sanctions against North Korea. The Bush Administration reportedly advised Japan to refrain from sanctions because of a potential negative impact on the six party talks.

Food Aid. North Korea's order to the U.N. World Food Program (WFP) to suspend food aid after December 2005 ended a ten-year program of WFP food aid to North Korea. The two-year program negotiated in early 2006 to feed small children and young women is much more limited in scope. From 1995 through 2004, the United States supplied North Korea with over 1.9 million metric tons of food aid through the United Nations World Food Program (WFP). South Korea has extended increasing amounts of bilateral food aid to North Korea, including one million tons of rice in 2004. Agriculture production in North Korea began to decline in the mid-1980s. Severe food shortages appeared in 1990-1991. In September 1995, North Korea appealed for international food assistance. The Clinton Administration used food aid to secure North Korean agreement to certain types of negotiations and North Korean agreement to allow a U.S. inspection of the suspected nuclear site at Kumchangri. The Bush Administration reduced food aid, citing North Korean refusal to allow adequate access and monitoring. It pledged 50,000 tons for 2005 but suspended the delivery of the remaining 25,000 tons when North Korea ordered the WFP to cease operations. The WFP acknowledged that North Korea places restrictions on its monitors' access to the food distribution system, but it professed that most of its food aid reached needy people. Several private aid groups, however, withdrew from North Korea because of such restrictions and suspicions that the North Korean regime was diverting food aid to the military or the communist elite living mainly in the capital of Pyongyang. The regime reportedly gives priority to these two groups in its overall food distribution policy. Some experts also believe that North Korean officials divert some food aid for sale on the extensive black market. The regime has spent none of several billion dollars in foreign exchange earnings since 1998 to import food or medicines. The regime refuses to adopt agricultural reforms similar to those of fellow communist countries, China and Vietnam, including dismantling of Stalinist collective farms. It is estimated that one to three million North Koreans died of malnutrition between 1995 and 2003.¹⁰

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. Estimates of the

¹⁰ Natsios, Andrew S. *The Great North Korean Famine*. Washington, U.S. Institute of Peace Press, 2001. Flake, L. Gordon and Snyder, Scott. *Paved with Good Intentions: The NGO Experience in North Korea*. Westport, Connecticut: Praeger, 2003.

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

Generally, China tacitly accepted the refugees so long as their presence was not highly visible. China also allowed foreign private NGOs, including South Korean NGOs, to provide aid to the refugees, again so long as their activities were not highly visible. China barred any official international aid presence, including any role for the United Nations High Commission for Refugees. It instituted periodic crackdowns that included police sweeps of refugee populated areas, rounding up of refugees, and repatriation to North Korea. Since early 2002, China allowed refugees who had gained asylum in foreign diplomatic missions to emigrate to South Korea. However, China's crackdown on the border reportedly included the torture of captured refugees to gain information on the NGOs that assisted them.

China tries to prevent any scenario that would lead to a collapse of the Pyongyang regime, its long-standing ally. Chinese officials fear that too much visibility of the refugees and especially any U.N. presence could spark an escalation of the refugee outflow and lead to a North Korean regime crisis and possible collapse. China's crackdowns are sometimes a reaction to increased visibility of the refugee issue. China's interests in buttressing North Korea also have made China susceptible to North Korean pressure to crack down on the refugees and return them. Reports in 2003 and 2004 described stepped-up security on both sides of the China-North Korea border to stop the movement of refugees and Chinese roundups of refugees and repatriation to North Korea. South Korea, which had turned refugees away from its diplomatic missions, changed its policy in response to the new situation. It accepted refugees seeking entrance into its missions and allowed them entrance into South Korea, and it negotiated with China over how to deal with these refugees.¹¹ However, South Korea, too, opposes encouragement of a refugee exodus from North Korea.

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

The refugee issue had led to increased outside attention to human rights conditions in North Korea. Reports assert that refugees forcibly returned from China have been imprisoned and tortured in an extensive apparatus of North Korean concentration camps modeled after the "gulag" labor camp system in the Soviet Union under Stalin. Reports by Amnesty International, the U.S. State Department, and, most recently, the U.S. Committee for Human Rights in North Korea have described this system as holding up to 250,000 people. In 2003 and 2004, the United States secured resolutions from the U.N. Human Rights Commission expressing concern over human rights violations in North Korea,

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

including concentration camps and forced labor. South Korea abstained from the Commission's votes in the interest of pursuing its "sunshine" policy with North Korea.¹²

South Korean officials also criticized passage by Congress of the North Korean Human Rights Act of 2004. The act requires the U.S. executive branch adopt a number of measures aimed at furthering human rights in North Korea, including financial support of nongovernmental human rights groups, increased radio broadcasts into North Korea, sending of radios into North Korea, and a demand for more effective monitoring of food aid.

South Korea's 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 a breakthrough in meeting with North Korean leader Kim Jong-il in Pyongyang, June 13-14, 2000. Seoul and Pyongyang then negotiated agreements on the restoration of a railway and road across the demilitarized zone (DMZ), investment guarantees and tax measures to stimulate South Korean private investments in North Korea, provision of South Korean food aid to North Korea, and flood control projects for the Imjim River. President Kim called on the United States to support his sunshine policy by normalizing diplomatic relations with North Korea, negotiating a missile agreement with Pyongyang, and removing North Korea from the U.S. terrorist list. Negotiations in August 2002 produced a renewal of family reunions and agreement to implement economic agreements of 2000. The roads in the eastern and western sectors of the DMZ opened in 2003, and work on the rail lines is continuing. Seoul and Pyongyang reached agreement in November 2002 on South Korean aid to construct a special economic zone at Kaesong inside North Korea to attract South Korean private investment. North Korea issued a law for foreign investment at Kaesong. The first South Korean companies began operations at Kaesong in late 2004. In June 2004, North and South Korea agreed to set up military hotlines and cease propaganda broadcasts across the DMZ. Current South Korean president Roh Moo-hyun has pledged to continue aid, trade, and programs with North Korea under a "peace and prosperity" policy, despite North Korea's nuclear policies. Roh consistently has opposed sanctions or other coercive measures against North Korea.

The most controversial component of the sunshine policy has been the cash payments the Hyundai Group has made to North Korea, supported by the R.O.K. government. In October 1998, Hyundai Asan, one of the member companies of the Hyundai Group, entered into an agreement with North Korea to operate a tourism enterprise at Mount Kumgang in North Korea. The agreement stipulated that Hyundai Asan would make cash payments to the North Korean government of \$942 million over six years plus \$300 from each tourist. From 1999 into 2003, Hyundai made public cash payments of about \$600 million to North Korea for the Mt. Kumgang project and two other projects.¹³ 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, however, they admitted to secret payments

¹² Hawk, David. *The Hidden Gulag: Exposing North Korea's Prison Camps*. Washington, U.S. Committee for Human Rights in North Korea, 2004.

¹³ Choe Sang-hun. N. Korea proves tough sell as tour destination. *Washington Times*, February 20, 2004, p. A17. Cho Hyung-rae. "Total Official NK Aid Hits US\$1.3 Billion," *Chosun Ilbo* (internet version), January 31, 2003.

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.¹⁴ Chung Mong-hun, the CEO of Hyundai Asan and one of the sons 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 bank accounts in Macao, Singapore, and Austria. Senior officials of the Kim Dae-jung administration facilitated a loan of 400 billion won (about \$359 million) from the Korea Development Bank to Hyundai Merchant Marine. The company immediately transferred 223.5 billion won (about \$190 million) of this to the R.O.K. National Intelligence Service, which transferred the money to the North Korean bank account in Macao.¹⁵ Thus, a sizeable share of the secret payments came from the South Korean government. 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*, on 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 strong circumstantial evidence that the Hyundai payments helped North Korea to accelerate the financing of its secret highly enriched uranium (HEU) nuclear program. The first element of this evidence is the corresponding time frame of 1999-2001 when the Hyundai cash was flowing to North Korea and North Korea apparently was accelerating its foreign exchange expenditures overseas to procure components and materials for the HEU program. According to CIA estimates and statements of former Clinton Administration officials, quoted in the *Washington Post* of February 1, 2003,¹⁶ North Korea began to procure uranium enrichment technology in 1999 and accelerated procurements and attempted

¹⁴ Choe Chae-hyok. "Cash-for-Summit Deal Coming to Light," *Chosun Ilbo* (internet version), June 11, 2003. Yonhap News Agency report, February 7, 2003.

¹⁵ Kang Chu-an. "North Cash Called "Payoff" by Counsel," *Chungang Ilbo* (internet version), June 26, 2003. Yim Chang-hyok and Kang Il-sik. "Counsel Says 2d Hyundai Firm Sent Cash North," *Chungang Ilbo* (internet version), June 5, 2003.

¹⁶ Pincus, Walter. "N. Korea's Nuclear Plans Were No Secret," *Washington Post*, February 1, 2003. p.A1.

procurements into 2000 and 2001. The *Asian Wall Street Journal* of October 29, 2002, reported that North Korea had paid \$75 million to Pakistan's Khan laboratory, which specialized in Pakistan's HEU nuclear weapons program.¹⁷ Jim Hoagland reported in the *Washington Post* of November 10, 2002, that North Korea had acquired 2,000-3,000 centrifuges, the basic infrastructure component for producing HEU; he also cited former Clinton Administration officials that North Korea began to accelerate the program in 1999.¹⁸

A second element of evidence is that estimates of North Korea's exports in 1999 and 2000 indicate that Hyundai cash payments of over \$1 billion made up approximately 25% of North Korea's foreign exchange earnings. North Korea's economic collapse of the 1990s reached a nadir in those years with commercial exports falling to around \$600 million annually. North Korea also suffered from a commercial trade deficit of about \$1 billion annually. Exports of missiles and illegal drugs were estimated at close to \$1 billion in 2001 by the U.S. military command in South Korea, but other estimates of earnings from illegal drugs is in the range of \$200 million.¹⁹

The third element of evidence is the role of Bureau 39 of the North Korean Communist Party as both the recipient of the Hyundai money and the procurer of overseas components and technology for North Korea's nuclear programs. Bureau 39 reportedly is located in Kim Jong-il's headquarters and is directed by him. Bureau 39's functions reportedly include controlling and enlarging the inflow of foreign exchange to Kim Jong-il through legal exports and illegal exports such as drug smuggling. It also directs North Korea's foreign exchange expenditures 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 — 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 weapons of mass destruction (WMDs), including nuclear programs. Bureau 39 is known to operate banks in Macau, Singapore, and Vienna and a number of front companies overseas to purchase WMD components.²⁰ Marcos Noland of the Institute of International Economics wrote in 2000 that

¹⁷ Gittings, Danny. "Battling the Bribers," *Asian Wall Street Journal*, October 29, 2002. p. A11.

¹⁸ Hoagland, Jim. "Nuclear Deceit," *Washington Post*, November 10, 2002. p.B7.

¹⁹ CRS Report RL32167, *Drug Trafficking and North Korea: Issues for U.S. Policy*, by Raphael F. Perl. Ash, Robert F. Economy of the Democratic People's Republic of Korea. *The Far East and Australasia 2004*. London and New York: Europa Publications, 2004. p.497. Yu Yong-won. "US Forces Korea Discloses for the First Time That North Korea Exports Missiles Worth \$600 Million per Year." *Chosun Ilbo* (internet version), May 13, 2003.

²⁰ There are a number of reports on Bureau 39, which contain similar information on its functions, including its role in overseas procurements for WMDs. See Solomon, Jay and Choi Hae-won. "Money Trail: in North Korea, Secret Cash Hoard Props up Regime — defectors, Intelligence Sources Say Division 39 Supplies Billions to Kim Jong il," *Wall Street Journal*, July 14, 2003. p.A1. U Chong-chang. "Kim Jong-il's Slush Funds," *Wolgan Chosun* (Seoul), November 1, 2000. p.222-236. Suetsugu Tetsuya. "Risky business Leading N. Korea to Ruin." *Yomiuri Shimbun* (Tokyo, internet version), August 22, 2003. Solomon, J., Hae Won Choi, B. Baas, and C. Hardt. "The Dictator's Long Shadow: Secret Network of Funds and Firms Supports North Korean Regime," *Duesseldorf Handelsblatt* (internet version), August 6, 2003. Leidig, Michael. "Austria Accuses (continued...)"

Hyundai official payments for the Mount Kumgang tourist project apparently were “going into the Macau bank account of Bureau 39.”²¹ The South Korean special prosecutor and South Korean newspapers learned that the secret Hyundai payments of 2000 were transferred to bank accounts in Macao, Singapore, and Vienna controlled by Bureau 39. South Korea’s National Intelligence Service reportedly intercepted a message of June 12, 2000, from the head of North Korea’s Jokwang Trading Company in Macau (a known front of Bureau 39) to Communist Party officials in Pyongyang that the Hyundai secret payments had been received.²²

Anti-Americanism and Plans to Change the U.S. Military Presence²³

Beginning in early 2003, the Bush Administration made a series of decisions that will alter the U.S. presence in South Korea: withdrawal of the Second Infantry Division of about 15,000 troops from its position just below the DMZ to “hub bases” about 75 miles south; and relocation of the U.S. Yongsan base, housing about 8,000 U.S. military personnel in the center of Seoul, away from the city. (A 1991 agreement to relocate Yongsan never was implemented.) In May-June 2004, the Pentagon disclosed a plan to withdraw 12,500 U.S. troops from South Korea by the end of 2005, including the deployment to Iraq by August 2004 of one of the two combat brigades of the Second Division. Such a withdrawal would reduce U.S. troop strength in South Korea from 37,000 to about 24,000. The 3,600-man brigade left for Iraq in August 2004; but under South Korean pressure, the Pentagon agreed in October 2004 to withdraw the remainder of the 12,500 troops in phases stretching to September 2008 and to keep close to 1,000 U.S. military personnel in Seoul after the closing of the Yongsan base. Pentagon officials spoke of U.S. military compensation measures, including the augmentation of air and naval forces in the Western Pacific; they later deployed F-117 stealth fighters to South Korea. The Pentagon and the U.S. Pacific Command reportedly are considering changes in the U.S. military command structure in Korea, which presently includes the United Nations Command, the U.S. Forces Korea (USFK) Command, and the U.S.-South Korean Combined Forces Command. The Pentagon is investing \$11 billion to upgrade U.S. forces in Korea. South Korea has agreed to assume the estimated \$3-4 billion cost of relocating the Yongsan garrison by 2008.

There are several rationales for the Pentagon’s decisions. One is a doctrine of “strategic flexibility” under which the United States could use U.S. forces in South Korea in contingencies outside the Korean peninsula. Relocation of the Second Division will

²⁰ (...continued)

North Korean Bank of Spying,” *London Daily Telegraph* (internet version), July 23, 2003.

²¹ Noland, Marcus. “Economic Integration Between North and South Korea,” *Korea’s Economy 2000*. Washington: Korean Economic Institute, 2001. p.69.

²² Kang, Chu-an. “North Cash Called “Payoff” by Counsel,” *Chungang Ilbo* (internet version), June 26, 2003. Kim In-ku. “Money Sent Through Spy Office,” *Chosun Ilbo* (internet version), February 18, 2003. Special Reporting Team. “Wiretappers Intercepted Call Reporting Cash Transfer,” *Chungang Ilbo* (internet version), February 17, 2003.

²³ Perry, Charles. *Alliance Diversification and the Future of the U.S.-Korean Security Relationship*. Herndon, Virginia: Brassey’s, Inc., 2004. Mitchell, Derek (ed.). *Strategy and Sentiment: South Korean Views of the United States and the U.S.-ROK Alliance*. Washington, Center for Strategic and International Studies, 2004.

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

Anti-American sentiment is based on a younger generation of South Koreans who came of age under South Korean authoritarian regimes. Members of this "386" generation now occupy positions of power and criticize the United States for the perceived U.S. support of these regimes. After 1998, South Korean public opinion became critical of the U.S. military presence because of incidents involving South Korean civilians and the U.S. military, declining South Korean concerns over a North Korean military threat, and a view that USFK had exaggerated the capabilities of North Korean conventional forces. Later, criticisms arose of the Bush Administration's policies toward North Korea, reflecting South Korean public support for Kim Dae-jung's sunshine policy. In 2002, massive South Korean protests erupted when a U.S. military vehicle killed two Korean schoolgirls and the U.S. military personnel driving the vehicle were acquitted in a U.S. court martial. Roh Moo-hyun was elected in December 2002 after criticizing the United States during his campaign. Anti-U.S. sentiment is strong among younger South Koreans under 40, according to polls. Polls since January 2004 have found that more South Koreans view the United States as the biggest threat to South Korea as compared to those who view North Korea as the principal threat. A network of non-governmental civic groups has taken up anti-American themes, including some accusations similar to those advanced by North Korean propaganda. The U.S. invasion of Iraq also drew criticism from the South Korean public. President Roh faced public criticism for his decision to send a brigade-sized (about 3,600 troops) South Korean combat unit to Iraq. Roh has asserted that his ability to influence U.S. policy toward North Korea is a primary reason for his support of the U.S. war against Iraq. In October 2003, the R.O.K. government announced that it would commit \$200 million in reconstruction aid to Iraq.

President Roh raised new issues in early 2005 that potentially could affect the alliance. He asserted that U.S. forces in South Korea could not be used in contingencies in Northeast Asia without South Korean consent. He also declared that future South Korean security policy would seek for South Korea the role of a "balancer" among the major powers in Northeast Asia. Most analysts viewed both pronouncements as influenced by South Korea's growing ties with China and a desire to keep South Korea out of future disputes between the United States and China or Japan and China.

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

FOR ADDITIONAL READING

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