

Managing Change on the Korean Peninsula

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FOREWORD

The Council will sponsor an Independent Task Force (1) when an issue arises for U.S. foreign policy of current and critical importance, and (2) if it seems that a group diverse in backgrounds and perspectives, nonetheless, may be able to reach a meaningful consensus on a policy through private and nonpartisan deliberations. The Task Force is solely responsible for its Report. The Council takes no institutional position.

The Council last sponsored an Independent Task Force on Korea in 1994--95 to consider responses to the crisis surrounding North Korea's nuclear program. In the years since, the United States and the Republic of Korea (ROK, or South Korea) have kept a fragile cap on the North's nuclear ambitions through the 1994 Agreed Framework and have begun negotiations in the four-party talks aimed at establishing a peace treaty to replace the 1953 armistice that ended the Korean War. However, the underlying danger on the peninsula has not subsided. The demilitarized zone (DMZ) remains the most heavily armed location in the world. It is less than 50 kilometers from Seoul, and bristles with North Korean artillery and missiles.

Meanwhile, the situation on the ground continues to change in important ways. The North's economy and food situation continue to deteriorate. The South faces a major economic crisis. Funding and political support for the arrangements that resolved the nuclear crisis with the North are uncertain. And South Korea has a new president who has a bold vision for changing North-South relations.

In order to assess these developments and make recommendations for U.S. policy, the Council sponsored this Independent Task Force on Managing Change on the Korean Peninsula. The Task Force was co-chaired by Morton Abramowitz, senior fellow at the Council, and James Laney, former U.S. ambassador to Seoul, and was directed by Michael Green, Olin fellow for Asian security studies at the Council. The Task Force's effort represents one of the most extensive and authoritative examinations of U.S. policy toward the Korean peninsula ever undertaken outside the U.S. government. The Task Force's 37 members include former ambassadors to South Korea, all of the U.S. assistant secretaries of state for Asia from the last four administrations, the most senior U.S. official ever to negotiate with North Korea, and leading experts on Korean and Asian affairs from the academic community.

The Task Force met extensively from October 1997 through May 1998, with close to full attendance at each session. These sessions focused on briefings from U.S. government officials and expert papers prepared by members of the Task Force. In addition, a delegation of 12 Task Force members traveled to Seoul in April 1998 for deliberations with senior ROK government officials and academic experts. In Seoul, the Task Force delegation held a two-day seminar with members of the Seoul Forum, a leading South Korean foreign policy organization with which the Council has cooperated in the past. The Seoul Forum had held parallel sessions and at the joint seminar in Seoul the participants agreed on a general statement of U.S. and ROK objectives to guide each group's separate final Reports. That statement is included at the end of this Report. While in Seoul, the Task Force delegation also held consultations with President Kim Dae Jung, his national security adviser, and his ministers of foreign affairs and trade, finance, defense, and national unification.

In this final Report, the Task Force agrees that since 1994 U.S. policy has thus far succeeded in averting potential nuclear proliferation and military confrontation and in establishing a Korean-centered solution to the security problems of the peninsula. However, the Task Force argues that U.S. policy must move far more aggressively to try to reduce the lingering dangers of hostility and to reinforce North-South reconciliation. Noting that the new ROK government has taken steps to open North Korea to broader contacts with the outside world while asserting that the South will brook no military aggression from the North, the Task Force recommends a parallel and supportive approach for U.S. policy. According to the Task Force, this approach should be premised on robust deterrence and an acknowledgment that the United States does not seek the absorption or destruction of the North. The Task Force recommends that policy should move beyond these initial assumptions to expand contact with the North; to offer a larger package of reciprocal moves (beyond those already on the table) that might induce the North to make significant changes in its policies; and to deny any expanded assistance to the North (beyond those areas stipulated in existing agreements) if Pyongyang rejects the opportunity for reconciliation and threat reduction.

An underlying theme in the Task Force recommendations is the indispensable element of close U.S.-ROK cooperation. That cooperation was manifested in the Task

Force's extensive consultations with the ROK government and the Seoul Forum in the preparation of this Report. This Report is being released in advance of the first official visit to the United States of President Kim Dae Jung. It is our hope that the Report will contribute to a fuller U.S.-ROK dialogue on that occasion and will demonstrate the determination of the United States to stand with South Korea through the current difficult economic situation and assist its efforts to produce a new era of greater peace, stability, and reconciliation on the peninsula.

Leslie H. Gelb, President, Council on Foreign Relations

ACKNOWLEDGMENTS

This final Report represents an extraordinary amount of work by the members of the Task Force. They responded in detail to several previous drafts, improving the language, filling factual gaps, and suggesting new approaches to the problem. In addition, nine members prepared papers and memoranda to guide our discussions. These included:

- "North Korea and Its Options," by Kongdan Oh of the Institute for Defense Analyses;
- "Responding to North Korean Instability," by William Drennan of the National Defense University;
- "The Korean Peninsula: Preserve the Past or Move toward Reconciliation," by Kenneth Quinones of the Asia Foundation;
- "The Great Powers and the Future of Korea," by Robert Manning of the Council on Foreign Relations and James Przystup of the Heritage Foundation;
- "Korean Unification: Shaping the Future of Northeast Asia," by Robert Manning and James Przystup;
- "U.S.-ROK Relations," by Don Oberdorfer of the Paul H. Nitze School of Advanced International Studies;
- "Kim Dae Jung Looks North: Options for Korea and the United States," by Richard V. Allen;
- "Can the United States Cause the Collapse of North Korea? Should We Try?" a memorandum prepared by Frank Jannuzi of the U.S. Senate Foreign Relations Committee;
- "Security Objectives after Korean Unification," a memorandum prepared by Morton Halperin of the Council on Foreign Relations.

The Task Force also benefited immensely from the leadership of the co-chairs, Ambassadors Morton Abramowitz and James Laney. The Council is indebted to them for their commitment of time and experience to this project. From the Council staff, Aki Nagashima, research associate for Asian security studies, played a central role in organizing the Task Force meetings and working with interns Sam Na, Kim Kwang-Tae, Lee Hyun-Joo, and Kim Yeon-June to prepare research materials for the project. Thanks are also due to Senior Fellows Jerome Cohen and Morton Halperin for their guidance in initiating the project.

Dr. Han Sung Joo, Dr. Kim Kyung Won, and the members of the Seoul Forum deserve our profound thanks for their smooth organization of our joint seminar in Seoul and for their important insights into the Task Force's earlier draft discussion papers. Professor Chung Oknim and her staff at the Ilmin International Relations Institute did an outstanding job organizing materials and meetings for the Task Force

delegation in Seoul. We are also grateful for the generous time provided to the Task Force delegation by the government of the Republic of Korea. Finally, we are indebted to the Korea Foundation, and the Rockefeller Brothers Fund, whose generous financial support made this Task Force possible.

Michael J. Green, Project Director, Council on Foreign Relations

EXECUTIVE SUMMARY

A new situation is developing on the Korean peninsula with the continuing Asian economic crisis and the election of Kim Dae Jung as president of the Republic of Korea (ROK). After eight years of negative economic contraction and international isolation, it is clear that Pyongyang has lost the competition between the two Koreas. Though the North remains stubbornly resistant to change and the opening of its system, reform is now its only escape from continued erosion and eventual collapse. At the same time, South Korea's new president, Kim Dae Jung, has spent his entire political career thinking about and preparing for unification. The new South Korean government's approach is straightforward. As Kim Dae Jung asserted in his inaugural speech, the South will never tolerate armed provocation of any kind; it has no intention to harm or absorb the North; and it will actively push reconciliation and cooperation between South and North, beginning with those areas that can be most easily agreed upon. South Korea is rightly focused on recovery from its own economic crisis, but with domestic restructuring and financial help from the International Monetary Fund (IMF) and the international community, the South's economy may soon begin to turn the corner. Increasingly, signals between Pyongyang and Seoul suggest that there could be a new opportunity for North-South dialogue and some meaningful reconciliation.

The U.S. government needs to move more quickly in response to this changing situation. A continuing U.S. commitment to deterrence and stability on the peninsula is critical to Seoul's new approach to the North. With 37,000 troops on the ground and over \$400 billion annually in transpacific trade, the United States has clear interests in maintaining that commitment. Now the United States needs to consider bolder steps that could help Seoul transform the threat from the North.

DEALING WITH NORTH KOREA

It is impossible to predict the future of North Korea with any confidence. The North could muddle through in its current condition for the foreseeable future--or it could become unstable tomorrow. Until the regime changes, we will have to live with that uncertainty. The Task Force believes, however, that any effort by the United States and South Korea to hasten the North's collapse is likely to be unavailing at best and could be counterproductive at worst. Chinese assistance to the North will prevent a policy of hostile neglect from succeeding, and neither Seoul nor Washington is prepared to pay the price in blood and treasure to terminate the North Korean regime by force of arms. The international community therefore faces a dilemma. There should be no illusions about the North Korean regime and its willingness to abuse its own people and threaten the South. But the regime is unlikely to go away quietly. Indeed, its very desperation may make it more dangerous.

South Korea's new government has acknowledged this dilemma and has accepted that any policy toward the North must be premised on the continued existence of the

Pyongyang regime before a policy of reconciliation and threat reduction can succeed. Instead of the collapse of the North, Seoul seeks the gradual transformation of the North Korean system so that it is receptive to greater cooperation, external influences, and international norms. Peaceful reunification of the Korean peninsula is the long-term objective, but stability is a necessary precondition. There is no guarantee that such an approach will succeed, and South Korea remains vigilant against provocations from the North. But the South has decided that with the proper mix of deterrence, reciprocity, and inducements, the threat might be gradually transformed. This is a strategy the United States should embrace.

BEYOND THE STATUS QUO

THE NEED FOR A LONG-TERM STRATEGY

U.S. policy has succeeded thus far in averting conflict and nuclear proliferation on the peninsula and in building a mechanism for negotiating a peace treaty. However, the same policy will eventually lose support if it ends only by feeding the North and reinforcing the division of the peninsula without reducing the threat from the North or promoting North-South reconciliation.

It is time for a bolder approach. This approach should be premised on robust deterrence and an acknowledgment that the United States does not seek the absorption or destruction of the North--but the policy must move beyond these initial assumptions. First, following the lead already established by South Korea, the United States should expand contacts with the North, including making modest adjustments to U.S. sanctions policy, that could accelerate the forces of positive change. The United States should then join with South Korea in offering a larger package of reciprocal moves--beyond those already on the table--that might induce the North to make significant changes in its policies. Finally, the United States should be ready to walk away from any expanded assistance to the North (beyond those areas already stipulated in existing agreements or appropriate for immediate humanitarian reasons) if Pyongyang rejects the opportunity for reconciliation and threat reduction.

The objective is to reduce the threat from North Korea. Pyongyang will not give up its ace in the hole, the military threat, without clear evidence that the international community will provide significant benefits if the North reduces tensions and opens its system. With the maintenance of credible deterrence and close U.S.-ROK cooperation, coupled with a healthy skepticism about the North's ability to change, a bolder U.S. policy can enhance stability on the peninsula and establish the groundwork for positive change in the future. Specifically, the Task Force recommends:

1. the maintenance of combined U.S. and ROK deterrence and readiness;
2. an acknowledgment that, like South Korea, the United States seeks the gradual transformation and not the destruction or absorption of the North;
3. the provision of food and other humanitarian assistance to the North in response to immediate needs, with a clear signal that longer-term assistance will depend on Pyongyang's readiness to make structural economic changes, allow adequate monitoring, and address other humanitarian concerns;
4. a South Korean lead in negotiations with the North, based on closely coordinated U.S. and ROK approaches to Pyongyang;

5. a series of initial steps, including easing of U.S. sanctions, to promote market principles and to induce North Korea to change its policies;
6. a subsequent package deal of larger reciprocal measures that might lead the North to improve relations with the South and reduce the military threat;
7. a readiness to withhold any expanded assistance to the North (beyond those areas already stipulated in existing agreements or appropriate for immediate humanitarian reasons) if Pyongyang rejects the opportunity for reconciliation and threat reduction;
8. a coordinated approach with Japan and improved consultation with China and Russia in policy toward North Korea;
9. sustained high-level attention to the Korea problem within the U.S. administration;
10. an adherence to the Agreed Framework and support for the Korean Peninsula Energy Development Organization (KEDO);
11. the continued support for South Korea in the current financial crisis, including U.S. funding for the IMF quota increase;
12. an articulation of long-term U.S. objectives beyond the unification of the peninsula.

FINDINGS AND RECOMMENDATIONS

BACKGROUND

The United States has long-standing interests in reducing the North Korean threat to peace on the Korean peninsula. More than 33,000 Americans were killed defeating North Korean aggression between 1950 and 1953. Today, the peninsula remains the one place in the world where total war could erupt with less than 24 hours' notice. North Korea (the Democratic People's Republic of Korea, or DPRK) maintains an army of over one million men and an arsenal of more than 10,000 artillery tubes, as well as Scud-type missiles and unknown quantities of chemical weapons. The United States stations a force of 37,000 troops in South Korea as a symbol of its commitment to deterring--and if necessary defeating--any future use of force by the North. This commitment and a strong U.S.-ROK alliance have helped to keep the peace for 45 years, but the danger is ever present. Less than 50 kilometers from the demilitarized zone (DMZ), roughly the distance from Dulles International Airport to the White House, and well within range of North Korean artillery, lies Seoul--home to 11 million people and the core of a dynamic trade relationship with the United States that accounts for \$30 billion a year in U.S. exports. Not much farther away are Japan, China, and Russia, major powers with a long history of rivalry and confrontation over the peninsula. The strategic relations of these states and the broader stability of the Asia-Pacific region rests on the uncertain peace between the two Koreas.

In fits and starts since the end of the Cold War, the United States and South Korea have attempted to take advantage of changes in international relations to improve the situation on the peninsula. After the establishment of informal U.S.-DPRK diplomatic contacts and limited North-South family reunions in the late 1980s, a substantial breakthrough was achieved in 1991 when the Bush administration announced that the United States would withdraw all tactical nuclear weapons deployed abroad--including those in South Korea. Isolated by the end of the Cold War and possibly encouraged by the U.S. initiative, the DPRK regime of Kim Il Sung agreed to a series of North-South meetings that led to the October 1991 Joint

Declaration on the Denuclearization of the Korean Peninsula and the February 1992 Agreement on Reconciliation, Non-Aggression and Exchange and Cooperation between the South and North (the "Basic Agreement"). Subsequently, three protocols were adopted and four joint commissions established to implement the agreement; for the first time since the Korean War, the prospects of war seemed to diminish and a positive environment was created for expanded North-South interaction.

Progress was interrupted, however, by growing confrontation in 1992 over North Korea's nuclear program (specifically, evidence suggesting that North Korea had reprocessed more plutonium than it had declared to the International Atomic Energy Agency, or IAEA) and Pyongyang's refusal to fulfill its obligations under the North-South Basic Agreement. Tension steadily mounted, leading to the brink of war, before Washington and Pyongyang found a way to begin capping the North's nuclear program and to avert military conflict with the signing of the Agreed Framework in October 1994. By all indications, since then Pyongyang has abided by the agreement.

Returning the momentum to North-South relations proved far more difficult, however. A proposed summit between North Korean leader Kim Il Sung and South Korean President Kim Young Sam was aborted when the North Korean leader died in July 1994. After the South Korean president refused to offer condolences, the North turned up its anti-Seoul rhetoric and reasserted a confrontational tone in North-South relations. Presidents Clinton and Kim reestablished an opportunity for North-South dialogue two years later in the aftermath of threats from Pyongyang to leave the armistice agreement that had ended the fighting in 1953. Meeting on Cheju Island in April 1996, the U.S. and South Korean leaders proposed four-party talks to negotiate a transition from the armistice to a formal peace treaty. Pressed by China to participate and desperate for economic assistance, the North grudgingly joined the first formal session of the talks in December 1997, after almost two years of testy preliminary negotiations. Joined by the United States and China, Seoul and Pyongyang were once again at the same table.

It is clear now that the Agreed Framework dug the United States and the ROK out of the deep and dangerous hole of potential nuclear proliferation and military confrontation and that the four-party talks have helped begin to reestablish a Korean-centered solution to the security problems on the peninsula. There is now a process in place that emphasizes negotiations over confrontation. However, process is not enough. The diplomacy may have stabilized somewhere around the status quo ante, but the situation in reality has continued to change in important ways.

NORTH KOREA'S DETERIORATING SITUATION

The most important fact is the continuing deterioration of the North Korean economy. There are few historical precedents of a state surviving eight straight years of negative investment--but somehow the Pyongyang regime holds on. The North's economic collapse began with the loss of its protected trading relationships with the Soviet Union and China. Then declines in imports of critical materials such as coking coal, fuel oil, and replacement parts for heavy machinery destroyed North Korea's manufacturing output, which was already weakened by the loss of preferential barter trade with the Communist bloc.

With the Asian economic crisis, the contraction of the North's gross domestic product (GDP) may be accelerating at an even faster pace. There are reports that capital inflows in January 1998 have declined as much as 40 percent from the year before. South Korean chaebol (industrial conglomerates), which did more than \$300 million worth of trade with the North in 1997, now have their own debt crises and domestic problems to resolve. Japan's pro--North Korean organization, Chosen Soren, once a source of hundreds of millions of dollars a year, also suffers from declining revenue as its Pachinko parlors and other businesses close and their main financial institution approaches bankruptcy. Desperate, the North Koreans have become increasingly dependent on counterfeiting, drugs, and missile exports to raise foreign exchange.

Once an industrial economy dependent on exports to buy food, North Korea has now been unable to feed itself for three years. Floods, shortages of fertilizer and agricultural equipment, and mismanagement of soil, crops, and distribution have all combined to erode what limited self-sufficiency in agriculture once existed. Estimates of famine deaths in the North are as high as two million, although it is impossible to confirm that the numbers approach even half that amount. Nevertheless, there is clear evidence of chronic famine and malnutrition throughout the country. Estimates of grain shortfalls are somewhat more consistent. The World Food Program (WFP) announced in February 1998 that North Korea would need about 700,000 tons of food grains, an estimate generally in line with assessments from both Pyongyang and Seoul. In response, the United States has given 220,000 tons, while South Korea has chosen to give 55,000 tons through separate Red Cross channels.

The deterioration of the North Korean economy has led to increasing signs of discontent among elites, the breakdown of central planning, the growth of an unofficial barter economy, and periodic purges of economic officials. Pyongyang is being forced to design new permutations in the official *juche* (self-reliance) ideology as North Korean diplomats travel throughout Asia asking for food. And yet every defector from the North--even after describing the desperate economic and social situation--denies the possibility of rebellion or even resistance to Kim Jong Il. The regime's ideological and political control of the country seems complete. Its lifeline is over one million tons of grain a year from China--provided without conditions in order to avert instability that could spread across the Yalu River. The objective economic facts suggest that civil war, a coup d'etat, or some other implosion could be possible, but there are no indications that the North has reached this stage yet. Kim Jong Il could remain firmly in control for a long time to come.

Even if regime change or state collapse do not appear imminent, however, the eventual outcome of current trends for the North cannot be positive. Pyongyang has attempted to adjust to its situation by permitting the unofficial economy to operate and by opening a free trade zone at Rajin Sonbong, with promises of further trade zones in the more practical port areas of Wonsan and Nampo. As a result, a small number of North Koreans have flourished even as famine has spread. However, these adjustments do not even begin to create the manufacturing productivity or investment environment that would be necessary to avert continuing economic degradation and famine. Rajin Sonbong is a failure, and the underground economy has led factory workers to barter their few remaining parts and materials for food. The system is eating itself alive because the leadership is afraid of introducing larger reforms that might undermine its control.

It cannot be forgotten that this desperate regime retains the firepower to devastate Seoul, even though the North Korean military has suffered declining readiness and sustainability. Many specialists believe that the danger is compounded by the fact that under Kim Jong Il the Korean Workers' Party (KWP) has diminished interaction with and control over the Korean Peoples' Army (KPA), and thus there may be no "circuit breakers" in Kim Jong Il's deliberations with the military in times of crisis. Command and control goes directly from Kim Jong Il to the KPA artillery commanders along the DMZ. The regime will be able to feed the elite and control the masses for some time to come, but if or when instability occurs, it will be dangerous for the entire region.

The other choice for Pyongyang, of course, is reform. At this point, the North rejects the Chinese and Vietnamese models and even the term "reform." Still, there is less evidence to suggest that North Korea will reform than there is that it will collapse. Thus far North Korea has attempted to train limited numbers of technocrats in international trade and has encouraged investors to look at Rajin Sonbong. Pyongyang treats South Korean businessmen with far more interest than it does South Korean government officials, but the North increasingly appears to recognize that business from the South and investment by the international community will come only when relations with the South have stabilized.

As a result, the North has taken a cautiously neutral view of Kim Dae Jung. Pyongyang has probed the skill and the sincerity of the new South Korean government at the four-party talks and in direct North-South meetings over the provision of fertilizer and technical assistance for North Korea's agricultural sector. Neither meetings have produced results, largely because Pyongyang rejected Seoul's demand that it agree to facilitate the reunification of divided families at the same time fertilizer was provided. However, Kim Jong Il hinted at a more positive tone for future dialogue with a letter to a North Korean national symposium on April 18 that calls for "improved relations between North and South" and "coexistence and harmony based on the recognition of two different ideologies and systems." While the April 18 letter goes on to demand the withdrawal of U.S. forces and the dismantling of Seoul's national security apparatus, its overall tone reflects a cautiously open response to Kim Dae Jung's new approach to inter-Korean relations.

It is still too soon to judge whether Pyongyang will continue probing a new relationship with the South, or whether the current North-South dialogue is only an attempt to curry favor with China and the United States in the four-party talks--or even to paint Kim Dae Jung as naive, exposing him to greater domestic opposition in the South. However, there is at least a prospect of significant improvements in North-South relations.

SOUTH KOREA'S NEW APPROACH AND ECONOMIC CHALLENGE

The North is unlikely to have a better opportunity to establish a stable relationship with the South than it has with Kim Dae Jung. Indeed, if the North does not use this opportunity, that alone may be an indication that Pyongyang is unable to live with improved relations with Seoul. The new South Korean government maintains de jure unification as a long-term objective but has chosen to focus first on establishing an environment for de facto unification of the two Koreas, beginning with a framework for peaceful coexistence. In a departure from the policy of the government of Kim Young Sam, the new government in Seoul has concluded that it cannot premise its

policy on the collapse and absorption of the North. This conclusion reflects the North's apparent ability to muddle through its economic decline and the South's inability to manage the process of unification in the midst of the country's worst economic crisis since the Korean War. But the policy of peaceful coexistence also flows from Kim Dae Jung's long-held view that North Korea will not be induced to reduce tension and change its economic system if it is faced with a hostile takeover from the South.

While some accuse the new South Korean government of being too optimistic about the prospects for change north of the DMZ, thus far the media have generally supported President Kim's decision to separate political negotiations from economic and cultural interaction with the North. In the months since taking office in February 1998, the new South Korean government has raised the cap on direct investment in the North to \$10 million from \$5 million and has plans for a complete relaxation of controls on nonstrategic investment soon. Seoul has also moved to change its export control rules vis-a-vis the North from a limited list of items that can be exported to a limited list of items that cannot. The South Korean government has also relaxed rules governing information about North Korea and has encouraged sports and cultural exchanges, including missions by leading South Korean businessmen to bring large donations of food to the North.

Seoul's immediate diplomatic goal is to return to the framework of the 1992 Basic Agreement and in a general sense to move the diplomacy of the Korean peninsula back to its North-South focus. To do this, the South is careful to insist on strict reciprocity with the North with regard to political relations. South Korean business and private organizations are being allowed to expand their interaction with the North, but Seoul is not providing public funds or technical assistance for the North until Pyongyang agrees to reciprocate with humanitarian and security steps of its own. In the initial North-South dialogue over the North's humanitarian request for fertilizer and technical assistance, for example, Seoul insisted that Pyongyang respond to the South's humanitarian concerns about separated families before it would spend taxpayers' money to help the North with agricultural production. This principle of reciprocity in government-to-government negotiations with the North is a necessary element in Seoul's strategy for managing both Pyongyang and the opposition in the South's National Assembly. Thus far, the approach has worked on both fronts.

The cautious and incremental unfolding of a new North-South dialogue reflects uncertainties about Kim Dae Jung's ability to manage the political fallout from the South's economic crisis. The South Korean government is generally confident that the South can achieve an eventual return to strong economic growth, although much will depend on the difficult and politically unpopular process of implementation. Seoul has taken a series of dramatic steps to restructure its economy in order to secure standby credit from the IMF. The government and the chaebol have agreed to reduce private companies' debt-to-equity ratio to international standards in two years' time (domestic corporate loans are currently twice as large as the ROK's GDP). Seoul is also taking steps to open the South more broadly to foreign direct investment by allowing foreign brokerage houses and bank subsidiaries to operate domestically. In order to end the bribery and crony capitalism that led to catastrophic debt for the chaebol, the government is also forcing a reform of business practices--requiring, for example, that companies meet higher transparency and disclosure standards and submit to two audits by international accounting firms per year. Bankruptcy laws are

also being improved. Finally, in the most significant departure from past economic strategies, the government is consolidating economic ministries and ordering the bureaucracy to cease directing and guaranteeing private sector business decisions. These steps and the Korean people's own determination to overcome their current adversity have restored a good deal of international investor confidence in the South, as suggested by the positive response in March 1998 to Seoul's first bond offering since the crisis.

However, South Korea is by no means out of the woods yet. Unofficial estimates suggest that foreign liabilities are close to U.S. \$153 billion. In addition, domestic debt may run as high as \$750 billion with 30 percent of it in nonperforming loans. Bankruptcies and unemployment are expected to increase markedly after mid-1998. Foreign direct investment has been disappointing because the chaebol and their banks are unwilling to acknowledge the reduced value of their assets, and until they do so foreign firms will not participate in many mergers and acquisitions. High interest rates also plague the South. External threats to the recovery are just over the horizon as well. A weaker yen or devaluation of the Chinese renminbi would undercut South Korean exports, and any crisis in Japan's fragile banking system would accelerate bankruptcies in South Korea. Finally, a U.S. congressional vote against IMF funding might undermine confidence in Seoul and rekindle the financial crisis, particularly if other parts of Asia suddenly required further reserves. These problems all put Kim Dae Jung's leadership in jeopardy. Dislocation and labor strife resulting from the economic crisis will likely increase. If large numbers of protesters take to the streets in antigovernment demonstrations, President Kim's hand vis-a-vis the North will be significantly weakened.

The South's financial crisis has changed the psychological environment of North-South relations. Hard-liners in the South can no longer garner support for a policy designed to absorb the North. Opinion polls have always shown that the South Korean people would like unification to occur just around the corner--in five or ten years. The financial crisis has extended that psychological timetable considerably, giving the South Korean government leeway to pursue its strategy of peaceful coexistence. The South's economic situation has also leveled the propaganda playing field somewhat for the first time since the North's decline began eight years ago. The North's situation is still exponentially more dire, but the fact that both Koreas face pressures from globalism helps to create an unusual connection between North and South, a point played up in Kim Jong Il's April 18 letter to Kim Dae Jung. Finally, the currency crisis has highlighted the importance of a U.S. defense commitment to the South and was possibly one element behind President Kim's call for a continued U.S.-ROK alliance and U.S. military presence even after unification. The growing consensus in Seoul behind long-term security relations with the United States reduces the potential for Pyongyang or even Beijing to meddle in the U.S.-ROK alliance during peace negotiations with the North and provides an important backstop for Seoul's engagement with Pyongyang. While the financial crisis will continue to hang over Kim Dae Jung's effort to change relations with the North and will limit his maneuvering room, his strategy remains unchanged.

THE U.S. ROLE

It is critical that the United States stand with Seoul in this time of crisis and opportunity, both in maintaining a credible deterrent against the North Korean threat and in demonstrating leadership in the international financial system as the IMF,

World Bank, and Asian Development Bank (ADB) help Seoul to restructure and recover. The United States must also maintain support for KEDO and the framework of nonproliferation in northeast Asia. As the United States remains firm in deterrence, however, it must also retain the flexibility necessary to help Seoul improve North-South relations and enhance stability on the peninsula.

U.S. diplomacy has successfully averted conflict and nuclear proliferation on the peninsula and has established a mechanism for negotiating a peace treaty with the North. However, the U.S. approach has not yet followed South Korea's example in moving beyond the process of multilateral peace negotiations and taking bolder steps to expose the North to external influences and to test Pyongyang's readiness to make more substantive changes. Currently, the United States maintains a number of narrow channels with mid-level North Korean officials in negotiations over missiles, military personnel missing-in-action (MIA) issues, KEDO, and the four-party talks. These issues must be resolved if a breakthrough is to be achieved on the peninsula, but an incremental and piecemeal negotiating approach with Pyongyang does not offer much promise of significant reductions in the North Korean threat. Furthermore, it risks distracting from the North-South focus in diplomacy that Seoul is now trying to reestablish. It will also be portrayed by critics as a process that perpetuates the division of the peninsula and feeds North Korea without taking adequate steps to reduce the North's military threat and to enable the North to support itself.

In his inaugural speech, President Kim indicated that his government will support U.S.-DPRK contacts "as exchanges and cooperation between the South and the North get underway." As part of the Agreed Framework, the North expected U.S. efforts to "reduce barriers to trade and investment" in exchange for implementation of the agreement and North-South dialogue. The Pyongyang regime, despite its many troubling dimensions, has implemented the nuclear aspects of the accord, and Seoul is now attempting to jump start North-South dialogue. It is premature for the United States to remove all sanctions on the North or to provide unreciprocated economic assistance (see recommendation 5 in this Report for details). However, there is clearly room for some greater separation of economics and politics along the South Korean line. Expanded economic and other contacts expose the North to external influences that can lead to positive change. They increase early warning signals for the United States about events in the North. They do nothing to strengthen the North. And they would lay the groundwork for a package of larger U.S.-ROK proposals for reciprocal steps that might finally induce the North to reduce the military threat to the South.

It should be remembered that the precursor to the current policy was the Reagan administration's "modest initiative" in 1988, which was the first U.S. diplomatic interaction with the North since the Korean War. This was followed by the Bush administration's 1992 undersecretary-level talks with Pyongyang, the highest-level diplomatic contact with the North to date. Far-reaching proposals based on a long-term strategy to reduce the North Korean threat are the logical extension of this approach. The U.S. decision to remove tactical nuclear weapons in 1991 surprised Pyongyang and was one important factor in propelling North-South dialogue in a positive new direction.

If Pyongyang rejects a larger program for threat reduction this time, then the United States should be ready to walk away from any assistance to the North beyond those

areas already stipulated in the Agreed Framework or necessary for immediate humanitarian reasons. The U.S. defense commitment will be in place and support for North-South dialogue will continue, but the North will understand that the United States is not prepared to offer assistance simply for its participation in a process that perpetuates the status quo. Although preferable to confrontation and conflict, perpetuating the status quo does nothing to reduce the North Korean military threat, to induce changes in the North Korean economy that might allow Pyongyang to feed its people, or to avert a dangerous final conflagration for the North Korean regime. Stability in the diplomatic process does not necessarily indicate long-term stability on the ground. The United States must therefore maintain an approach that prepares for the worst, while attempting to shape the environment for the better.

RECOMMENDATIONS

1. Maintenance of combined U.S. and ROK deterrence and readiness.

A policy designed to enhance stability on the peninsula but promote change through expanded North-South engagement requires a credible platform of deterrence and readiness. North Korea's ability to launch and sustain an invasion of the South has deteriorated in recent years, but uncertainty over the regime's intentions has probably increased as Pyongyang has grown more isolated and desperate. As long as the North retains the ability to inflict massive damage on greater Seoul, the pattern of close U.S.-ROK alliance cooperation that has underpinned stability on the peninsula for the past four decades must be maintained. It is important to continue the command structure relationships (the U.N. Command [UNC] and Combined Forces Command [CFC], although the UNC mandate may change with progress toward a peace treaty) even as South Korea takes the lead in North-South dialogue. Any serious force-structure changes south of the DMZ should be considered only as part a package of larger reciprocal arrangements with the North. North Korea has pressed for the removal of U.S. forces from the peninsula, but it is an open question whether Pyongyang really seeks this objective or is only raising the stakes in negotiations. In either case, the disposition of U.S. forces on the peninsula is a matter for the United States to determine in consultation with South Korea. Furthermore, it is the view of the Task Force that even in the context of the reunification of the Korean peninsula, a residual U.S. military presence in Korea would make a meaningful contribution to the peace and stability of the region as a whole.

In addition, the United States and South Korea need to agree on how to respond to instability or provocations from the North. Although the North's collapse may not be imminent, the possibility that economic deterioration will sooner or later undermine the regime's control cannot be ruled out. Given the massive firepower the North Korean military retains, instability north of the DMZ could lead to new threats to the security of the South and the region. In the event of such instability, the basic principles guiding both U.S. and South Korean responses should be the following:

- avoid intervention except to stop attacks or threats on the South;
- contain instability within the North, if possible;
- rely on the ROK political lead in responding, with close coordination and consultation with the United States through the existing command relationships;

- take necessary steps as feasible to control weapons of mass destruction in the North should their use become probable;
- as part of the planning process, coordinate closely with Japan as a close ally and consult with China and Russia as major concerned powers.

Finally, the United States and South Korea must continue modernizing their forces on the peninsula to deal with the danger of North Korean chemical or biological attacks.

2. Acknowledgment that, like South Korea, the United States seeks the gradual transformation and not the destruction or absorption of the North.

In spite of the North Korean threat--indeed because of the nature of the threat--the United States and South Korea probably cannot and certainly should not attempt to cause the North's collapse. As long as China continues to provide food assistance to Pyongyang, it would be difficult to bring down the DPRK through a policy of starvation alone--even if the United States and the rest of the international community took the draconian step of halting humanitarian food aid. An openly hostile effort to undermine the regime through force of arms would only increase regional tensions--particularly with China--and could lead to a violent escalation that Seoul, Washington, and the entire region do not wish to see. At the same time, it is not appropriate for the United States to intentionally prop up the DPRK or to guarantee its survival over the long term without a strategy aimed at reducing confrontation and reforming the North Korean system. Finally, a policy aimed at the gradual transformation rather than the destruction of the North must be understood as a means to eventual peaceful unification, not as an end in itself. The United States does not now, and should not ever, support the permanent division of the peninsula.

3. Provision of humanitarian food assistance to the North in response to immediate needs, with a clear signal that future assistance will depend on Pyongyang's readiness to make structural economic changes, allow adequate monitoring, and address their humanitarian concerns.

The exact magnitude of famine in North Korea is unclear, but there is substantial evidence demonstrating that there is a dire and significant humanitarian challenge for the international community. The United States and South Korea face several major obstacles in responding to this challenge. First and foremost is the political difficulty of donating food when North Korea poses a major military threat to the South. Second is the problem of who receives food assistance. The North limits the number of monitors and the areas where they can go, and there is little doubt that a certain amount of food aid is diverted to the military. Third is the waste within the North Korean economic system. If Pyongyang were willing to engage in structural economic reform and the opening of its society, it could export goods and buy food. Fourth is the presence of other needy states elsewhere in the world. Fifth, and finally, there is the prospect that donor fatigue will set in as Pyongyang returns year after year seeking food assistance to meet its shortfalls.

The United States should respond to the immediate requests of international organizations, such as the WFP, based on a careful independent assessment of legitimate North Korean food requirements. In 1998, the WFP increased its request by 20 percent over the year before, and the United States provided over 200,000 tons of grain in response to this humanitarian need, as it has traditionally throughout the world. However, it should be made clear to the North Koreans and international

donor organizations that responses to future requests will be conditioned on changes in North Korean economic practices, particularly as they relate to the agricultural sector. This conditionality should begin with a requirement that North Korea purchase a certain portion of next year's food shortfall through barter of valuable North Korean minerals such as magnesite or zinc. (In 1997, such a deal was arranged with the Cargill Corporation, but the North violated the agreement by diverting the minerals and sending the Cargill ship home without unloading its grain.) The North will also require fertilizer and technical assistance for the agricultural sector before it can recover some degree of food self-sufficiency. U.S. sanctions should be loosened to allow North Korea to engage in humanitarian trade in these areas as well, although government-funded assistance should be pegged to reciprocal North Korean attention to humanitarian issues such as reunions of families divided by the DMZ (in keeping with the South's policy of separating commercial relations and government assistance). Finally, future food assistance must be closely conditioned on proper monitoring by Korean-speaking experts with proper access to the North Korean countryside. It is unrealistic to expect that no food will be diverted, but a higher level of vigilance is necessary.

This approach could prove difficult to maintain if the humanitarian crisis deepens in the North. Some members of the Task Force felt that conditions should not be put on humanitarian aid from the U.S. government (see Dissenting Views at the end of this Report). In addition, the Task Force notes that nongovernmental humanitarian organizations would not be subject to all the areas of reciprocity described here, although they will probably also insist on greater monitoring in the future.

4. A South Korean lead in negotiations with the North, based on closely coordinated U.S. and ROK approaches to Pyongyang.

The ROK is beginning to show a firm lead in North-South relations. The United States should support that effort and Seoul's preeminent role. Early signs of a willingness by Pyongyang to return to the Basic Agreement and the pattern of North-South dialogue of 1991 are mixed but generally encouraging, and the United States' diplomatic leverage should be aimed at convincing the North to move further down that road. The United States has interests in reducing the North Korean threat to peace, but North-South reconciliation and dialogue is the base upon which we must build our own policies to reinforce stability.

It is not necessary that Seoul and Washington move in lock step. With close consultation, a division of roles can be maintained in which, for example, Seoul pursues North-South reconciliation while Washington addresses missiles, MIAs, and other issues important from the perspective of global security. At the same time, Seoul must have the confidence to encourage the United States to follow President Kim's policy of exposing the North to greater external influences, including adjustments to U.S. sanctions policy. This confidence will require both transparency between Washington and Seoul about their dealings with Pyongyang and also efforts to ensure the support of the South Korean people. Confidence requires as well agreement on a clear long-term strategy for managing the North Korean threat.

5. A series of initial steps, including easing of U.S. sanctions, to promote market principles and to induce North Korea to change its policies.

A long-term strategy for the Korean peninsula should maximize opportunities for exposing North Korea to outside economic and political forces that contribute to gradual change. Based on the principle of separating economics and politics, the South Korean government has already taken a series of steps to end obstructions to economic and cultural contact with the North on a private basis, while insisting on strict reciprocity in exchange for any South Korean government assistance to the North. In his inaugural speech, President Kim stated that his government will not oppose North Korean contacts with the United States, "as exchanges and cooperation between the South and the North get underway." With progress in North-South dialogue, that message will grow stronger.

Most U.S. sanctions on North Korea fall into three general categories: those covered under the Trading With the Enemy Act (TWEA); those covered by legislation related to terrorism and emigration; and those covered by export controls related to nonproliferation legislation. The president has the authority either to end the TWEA sanctions, to change the scope of the restrictions, or to make exceptions on a case-by-case basis, based on U.S. national security interests. Already the Clinton administration has made exceptions for telecommunications, humanitarian trades of minerals for grain, and financial transactions related to the implementation of the Agreed Framework and KEDO. Further steps should be taken along the following guidelines:

- additional case-by-case exemptions to the TWEA so that North Korea can engage in humanitarian trades of minerals for food, agricultural assistance, and mining machinery that will expand its ability to export minerals for food-related imports;
- case-by-case exemptions to the TWEA to allow direct U.S. private sector investment in the North, with a preference for joint ventures with South Korean firms;
- no change in export controls related to nonproliferation legislation;
- no use of U.S. government support for trade with North Korea, including most-favored-nation (MFN) status and Overseas Private Investment Corporation (OPIC), General System of Preferences (GSP), or Export-Import (Ex-Im) Bank support or exceptions to import quotas in textiles and other areas;
- support for North Korean membership in the IMF, the World Bank, and the Asian Development Bank, including training for North Korean officials at centers such as the World Bank's Economic Development Institute and U.S. universities;
- close coordination with Seoul on the scope and conditions of changes in U.S. sanctions and on North Korean membership in the international financial institutions.

It must be remembered that North Korea is not an attractive investment opportunity under current circumstances. U.S. moves to ease business contacts with the North will lead to no significant economic benefit for Pyongyang until the regime takes steps to establish commercial credibility with Western firms and to reduce tensions in ways that would encourage the United States to remove other restrictions on trade and to offer MFN status and OPIC, GSP, or Ex-Im Bank support and other benefits. Moreover, membership negotiations with international financial institutions begin with strict transparency and economic reform requirements well before loans can even be considered. Finally, the exemptions for humanitarian trade (bartering

minerals for food) would provide a productive alternative to the \$140 million U.S. taxpayers have paid in emergency food aid to the North since 1995 and would force North Korea to feed itself based on commercial terms rather than begging. Overall, these unilateral U.S. initiatives put greater pressure on the North to change economic policy and encourage North Korean movement in negotiations related to larger security and diplomatic issues.

Most significantly, these largely symbolic steps will move U.S. policy beyond a tactical negotiating strategy and set the stage for bolder measures to improve the situation on the peninsula.

6. Presentation of a subsequent package of reciprocal measures that might lead the North to improve relations with the South and reduce the military threat.

Before the Kim Dae Jung administration, the four-party talks assumed center stage in U.S. diplomacy toward the Korean peninsula. These talks provide a useful mechanism for rekindling a North-South dialogue interrupted in 1992. Now that North-South talks are becoming the focal point of diplomacy, the main purpose of the four-party meetings is more narrowly focused on moving the parties to the 1953 armistice toward a lasting peace treaty. As part of this process, the United States is offering to remove incremental slices of the embargo in exchange for confidence-building measures (CBMs) by North Korea, including steps such as military officer exchanges, establishing new "hotlines" across the DMZ, giving prior notification of troop movements, and discussing changes in the deployment of conventional forces. These CBMs are an important first step toward negotiating a lasting peace agreement. However, it is an open question whether the North even understands or sees the merit in a Western-derived concept such as "confidence building" and equally dubious whether the North sees removal of the sanctions as anything other than a long-overdue commitment under the Agreed Framework. The tactical slicing of sanctions in exchange for CBMs may preserve the negotiating process but is unlikely to prove significant enough to get North Korea change its military posture or its attitude toward the South. Pyongyang will not give up its ace in the hole, the military threat, without demonstrated evidence that the international community can provide significant benefits in return.

U.S. and South Korean policy should be designed with an incentive structure that will induce North Korea to make choices in a positive direction, while making it equally clear that the North will continue to pay a price so long as its policies and actions remain unchanged. Lifting the sanctions will only be a symbolic act that in itself will bring few economic advantages to the North. It is unlikely that Pyongyang will agree to take significant steps to end missile exports, agree to inspections and transparency, or pull back its artillery--unless substantial inducements are made clear. The United States, South Korea, and Japan should therefore be prepared to offer the North a significant package of loans and technical assistance that would be provided in stages through international financial institutions, such as the Asian Development Bank, in exchange for steady progress in the following areas:

- North Korean implementation of the North-South Basic Agreement;
- a negotiated agreement to reduce the North Korean military threat to the South, with a focus on heavy artillery near the DMZ;
- continued North Korean cooperation on returning remains and accounting for U.S. MIAs from the Korean War;

- North Korean adherence to international norms, such as the Missile Technology Control Regime (MTCR), the Nonproliferation Treaty (NPT), the Chemical Weapons Convention (CWC), and the Biological Weapons Treaty (BWT);
- a North Korean commitment on terrorism;
- a demonstrated improvement in respect for human rights.

There is no guarantee that North Korea will trade tension for economic benefits from the outside world. After all, Pyongyang's comparative advantage lies in its formidable military posture--and not in exportable commodities. Even if North Korea enters into larger negotiations along these lines, it must be acknowledged that the process could be protracted and tortuous. Nevertheless, the proposition that North Korea might be compelled by circumstances to accept a long-term bargain has not been tested--and it should be. In addition, congressional support for U.S. policy requires both an articulation of longer-term strategic objectives and a sense that the United States is not simply offering gifts to Pyongyang. The potential benefits of this approach are significant while the risks and costs are modest.

It is not the right or responsibility of the United States to act alone in this matter. South Korea must also assume responsibility for establishing a larger international package of inducements for changes in North Korean behavior, and Japan must be incorporated in the effort as well. However, the United States has clear objectives to gain and assets to offer, and these should be integrated in a joint strategy with Seoul that will test the prospects for a real change in the tense situation on the peninsula.

7. A readiness to withhold any expanded assistance to the North (beyond those areas already stipulated in existing agreements or appropriate for immediate humanitarian reasons) if Pyongyang rejects the opportunity for reconciliation and threat reduction.

The purpose of presenting a larger package of reciprocal steps to North Korea is to test Pyongyang's readiness to move beyond the narrow agenda now on the table. A more significant statement of benefits is necessary before the North will be able to make choices that would reduce the threat to the South. However, the North Korean system thrives on tension with the South, and rigidities in the system will make change difficult. If, as a result, Pyongyang is unwilling to buy into a larger package for improved relations, then the United States should not provide assistance to the North beyond the requirements for humanitarian relief and the commitments related to the Agreed Framework. The U.S. commitment to deterrence will remain unchanged and its support for North-South dialogue will continue. In the nongovernmental track, contacts and interaction with the North can expand. The four-party talks may continue as well, although North Korea should not be rewarded in any way for simply participating in the talks. Meanwhile, the formula for improved relations will be on the table for North Korea to mull over, particularly if its situation becomes more desperate and its choices narrow.

8. A coordinated approach with Japan, and improved consultation with China and Russia in policy toward North Korea.

The United States and South Korea are cooperating with Japan, China, and Russia in the four-party talks and elsewhere, but each of these powers has its own agenda for relations with North Korea outside of the narrow confidence-building agenda in

Geneva. Pyongyang will be able to avoid change as long as it can manipulate these separate bilateral relationships to its own advantage. It is therefore essential that South Korea and the United States work with Japan and with China and Russia to develop a longer-term strategy for achieving change in North Korea.

Japan. The first step of a strengthened international approach should be expanded U.S.-Japanese --South Korean coordination on policy toward the North. Thus far, Japan has played only an indirect role in the diplomacy of the peninsula. The South Korean government has encouraged Japan to pursue normalization talks with the North, confident that domestic obstacles will prevent Tokyo from moving ahead of the South's own agenda for relations with Pyongyang. The principal problem for Japan is North Korea's unwillingness to release Japanese citizens kidnapped by North Korean agents in the 1970s or to turn over Japanese Red Army terrorists hiding in the North. Pyongyang is politically incapable of meeting Japanese demands in either case. As a result, Tokyo has opted out of the current WFP food appeal, even though Japan has a large surplus of rice production this year. Japan has also quietly blocked negotiations with the North on entry into the World Bank, IMF, and ADB. (The South supports DPRK membership.)

Japan should be brought into a more central and responsible role in U.S. and ROK diplomacy on the peninsula. Japan has considerable economic benefits to offer the North, including somewhere between \$5 billion and \$10 billion in possible reparations. In addition, Japan remains a major source for North Korean trade and hard currency transfers, even with the declining revenue of the pro--North Korean Chosen Soren. Consequently, Tokyo has both important inducements that it can offer the North and important concessions that it expects in return. Tokyo will make little progress on its own agenda with the North operating on a purely bilateral basis. As part of a coordinated U.S.-ROK-Japan trilateral strategy, however, Tokyo can address its concerns more effectively and make a significant contribution to U.S. and ROK objectives in policy toward the North. This coordination should go beyond the trilateral consultation necessary for the four-party meetings. First, there should be regular trilateral policy coordination meetings at senior levels of the Foreign Ministries and the Department of State to harmonize negotiating strategies with Pyongyang. Second, Tokyo should be encouraged to provide food aid together with Seoul and Washington. Third, Japan should be encouraged to support DPRK membership issues at the World Bank, the ADB, and the IMF, consistent with the U.S. and ROK approach, and to play a role in crafting a strategy to address the missile and terrorism threats, which are core interests for Tokyo. Fourth, Japan should participate with the United States and South Korea in planning for possible instability in the North, including the provision of logistical, humanitarian, and rear-area support. Finally, Japan should join with the United States and South Korea in long-term planning requirements for the economic integration of North Korea

China. Beijing has vital interests on the Korean peninsula, as we know from China's participation in the Korean War. In recent years, Chinese policies have generally contributed to stability on the peninsula, operating on an independent but parallel path to that of the United States and South Korea. China has played a major role in keeping North Korea afloat, providing over one million tons of food to the North in 1997. China has also cooperated with the United States and South Korea in the four-party talks, after some initial skepticism. Finally, the Chinese appear content with the current U.S. posture on the peninsula, refusing to back North Korean demands in the four-party talks for a withdrawal of U.S. forces from the South. Beijing is motivated

to cooperate with the United States at this stage of the diplomacy to avert instability and massive refugee flows across the Yalu, to increase its influence over events in Korea, and to stabilize China-U.S. and China-ROK relations.

The longer-term Chinese role is less certain, however. Chinese and U.S. interests on the peninsula could diverge with regard to U.S. military presence after unification. It should also be a source of concern for the United States and South Korea that Beijing has refused to participate in KEDO, the WFP, or any of the other multilateral approaches to North Korea outside of the four-party talks. It is clear that the success of the strategy proposed in this Task Force Report will depend in large measure on China's policies toward North Korea. Put simply, depending on how China sees its own interests engaged on the Korean peninsula and with the United States and the other principal players, China can substantially undermine or helpfully reinforce the approach that the United States and the ROK take toward North Korea. Thus far, China has demonstrated by its substantial food assistance to Pyongyang that it is prepared to do whatever is required to avert a North Korean collapse and to do so unconditionally. In this regard, China is acting in what it sees to be its own interests on the peninsula. Nevertheless, the United States should explain to Beijing that it is important to broader U.S.-China relations that China put more of its assistance to Pyongyang on a conditional basis, even while the United States recognizes that China's approach may be difficult to influence. It follows that North Korea should occupy a central place in the ongoing "strategic dialogue" between Washington and Beijing and should be a major topic when President Clinton visits China at the end of June.

Russia. Russia's influence on the Korean peninsula has diminished significantly in comparison with China's. That said, the future of U.S.-Russia relations, if not the success of any formula for change on the peninsula, will also require close consultation with Moscow and Russian cooperation. Russians are frustrated with their secondary role in the current diplomacy regarding the peninsula, but given the narrow focus of the four-party talks on establishing CBMs and peace structures on the peninsula, Moscow's secondary status is appropriate. Russia's primary interests are in the broader security structures of northeast Asia, and thus consultation with Moscow should be aimed primarily at establishing subregional forums for consultation and dialogue as the peninsula undergoes transition.

Multilateral Cooperation. Long-term stability on the Korean peninsula would be enhanced by mechanisms beyond the four-party talks that facilitate security dialogue in northeast Asia. Multilateralism in itself is no panacea, and its success depends on a recognition of the underlying power balances and interests in the region. There are now proposals for a six-power forum (Japan, China, Russia, the United States, DPRK, and the ROK) to discuss security issues on the peninsula, including a proposal made in Beijing by South Korea's prime minister--designate, Kim Jong Pil. However, given the DPRK's resistance to such forums in the past and China's preference for safeguarding its interests on the peninsula in bilateral channels and now in the four-party talks, the proposal may not move far. Nevertheless, the establishment of such a forum would be a positive development, particularly if it provided a venue for discussing Japanese and Russian support for implementation of any agreements established through North-South dialogue and the four-party talks. In addition, senior Russian and Japanese government officials have called attention to proposals for a four-power forum (Japan, Russia, China, and the United States). As Japan's foreign minister has stated, these four powers form the strategic quadrangle in

northeast Asia. However, any discussion of the security of the Korean peninsula should include Seoul, and thus a four-power forum could prove problematic if not thought through carefully.

9. Sustained high-level attention to the Korea problem within the administration.

The Korean peninsula is arguably the most dangerous flash point in the world, one where war could erupt with barely 24 hour's warning time, putting at risk the lives of tens of thousands of Americans and millions of Koreans. The character of the problem and the risks to vital U.S. interests in the Pacific make Korea a first-order national security issue, one that requires sustained high-level attention within the government, closer consultation and cooperation between the administration and Congress, and more efforts at building public support for the U.S.-ROK relationship. A number of Task Force members felt that these objectives could only be met with the appointment of a special coordinator for Korea policy within the U.S. government (see Dissenting and Additional Views at the end of this Report).

10. Adherence to the Agreed Framework and support for KEDO.

The Agreed Framework appears to have successfully capped North Korea's nuclear program and has established an important channel for confidence building between North and South Korea and for coordination among the United States, South Korea, and Japan. As long as North Korea remains in compliance, the United States must not allow the Agreed Framework to collapse. Such a development would return the peninsula to the tense conditions of 1994 and would set back all other efforts to achieve stability and North-South reconciliation. Obviously, North Korea's continued compliance with the terms of the Agreed Framework is a sine qua non for improved relations with Pyongyang and the implementation of the strategy outlined in this Report.

It is therefore essential to peace and stability on the Korean peninsula that the United States and all other parties to the October 1994 Agreed Framework fulfill their stated commitments. South Korea has agreed to maintain its commitment to supply, at great cost given the current economic crisis, about 70 percent of the funding for the light-water reactors (LWRs). Japan, after some domestic debate, stands ready to provide about \$1 billion as well. The United States cannot realistically expect more from either party. From the beginning, the United States agreed to make arrangements to provide North Korea with 500,000 tons of heavy fuel oil until the first reactor is operational. This is an indispensable part of the Agreed Framework. However, KEDO started its 1998 fiscal year with a debt of almost \$50 million in the heavy fuel oil account. The administration should ask for and Congress should provide funds to erase the existing debt for heavy fuel oil and ensure that future oil commitments are met in a manner that does not endanger the Agreed Framework or create new debt. It would be a mistake to ask the ROK to increase its share, which is already enormous, to cover the U.S. commitment to arrange for the provision of heavy fuel oil.

North Korea entered the Agreed Framework and is cooperating with KEDO as a nuclear-for-nuclear deal. From the perspective of North Korean energy needs, however, the LWRs may someday prove less attractive to Pyongyang than less expensive coal-fueled power generation plants. If in the future North Korea proposes shifting to nonnuclear power generation and modernizing its decrepit power grid in

lieu of the less practical LWR, the United States, South Korea, and Japan should give this option consideration. However, there should be no unilateral change in the Agreed Framework, which is most important at this point as a nonproliferation and security deal.

11. Support for South Korea in the current financial crisis, including full U.S. funding for the IMF quota increase.

Progress in North-South reconciliation will depend on the stability of the Kim Dae Jung government and its ability to overcome the challenges presented by the economic crisis in the South. There are some indications that international capital markets are beginning to regain confidence in the South Korean economy, but without U.S. and IMF support, this confidence could slip. The United States has already provided funding in response to the ROK financial crisis, but there are insufficient funds available to the IMF in the event that the crisis deepens significantly in South Korea or elsewhere in Asia. It is therefore essential that the United States provide all IMF funding promised by the administration. The IMF mission is in need of updating and review, but it would send a dangerous signal to Korea and investors if at this point the U.S. Congress held IMF funding hostage to a prolonged debate about the fund's future. That debate is necessary, but not before stability has been restored to South Korea's economy.

There are other measures the United States should take to assist South Korea with its economic difficulties. For example, the U.S. government should consider resuming OPIC arrangements with Seoul and financing scholarships for South Korean exchange students who can no longer afford tuition in the United States because of the financial crisis. These steps would have a substantial impact and would be gratefully remembered as evidence of the United States' commitment to the South Korean people in this difficult time.

12. An articulation of long-term U.S. objectives beyond the unification of the peninsula.

It is difficult to project specific policy recommendations past the achievement of unification, but there are long-term U.S. interests on the Korean peninsula that will transcend fundamental changes in the North. In the postunification environment, the United States will be interested in:

- the emergence of a unified Korea that is peaceful, democratic, nonnuclear, friendly with regional powers, and allied with the United States;
- maintaining the U.S.-ROK alliance as a symbol of the U.S. commitment to stability on the peninsula, as a balance against possible hegemony over the peninsula by outside powers, and as a basis for close U.S.-ROK political cooperation in the region;
- continuing a U.S. military presence in the western Pacific, centered in Japan but including personnel on the Korean peninsula to demonstrate the U.S. commitment to the U.S.-ROK alliance; to provide logistical support for the overall U.S. forward military presence in the western Pacific; and to engage in joint training with ROK forces;
- restructuring the military command structures (UNC and U.S./ROK CFC) on the Korean peninsula to reflect the reduced U.S. military presence and the new roles and missions of U.S. and ROK forces;

- preserving the nonnuclear status of the peninsula through full IAEA inspections during the process of unification; through pledges by the nuclear powers not to use nuclear weapons on the peninsula; and through region-wide confidence-building and transparency mechanisms, such as the establishment of a Pacific Atomic Energy Agency;
- reaching an understanding with China on long-term roles and political/military postures in the region, especially on the Korean peninsula;
- establishing a regional six-party political framework for security consultation and cooperation, beginning with regional endorsement of any peace treaty on the peninsula.

Depending on the course of reconciliation and reunification, there could well be obstacles to all of these objectives. Domestically, the U.S. public may question the need for a forward presence in East Asia and the Pacific after the North Korean threat is gone. South Korean public opinion could also turn against a continued U.S. role. Confrontational Sino-U.S. relations would also undermine the prospects for broader regional cooperation and might press the ROK into choices it wishes to avoid.

Overall, the most effective means to guard against these disruptive variables is to follow a long-term strategic approach that is clearly articulated to the American public, based on rough U.S.-ROK symmetry in relations with the North, coordinated with Japan, and inclusive of China. This end game for the division of the Korean peninsula should serve as a guide for policy choices today. A policy that only reinforces the status quo will lead to difficulties later. A policy that prepares for the worst but takes meaningful steps to shape the peninsula for the better will serve U.S. interests well into the next century.

DISSENTING VIEWS

THE CASE FOR LIFTING MORE SANCTIONS

The United States should eliminate all restrictions on trade and investment that derive solely from the restrictions imposed under the Trading with the Enemy Act. We want North Korea to be able to earn hard currency so that it can purchase needed food and fertilizer and not have to rely on handouts from the international community; including the United States. We should not prevent American companies that want to purchase minerals or other goods from North Korea or who want to invest in North Korea from doing so. The South Korean government is in the process of removing its restrictions on trade and investment with the North. It has suggested that we follow its lead on this matter. We should do so.

Edward J. Baker

Jerome A. Cohen

Morton H. Halperin

Marcus Noland

Kongdan Oh

Scott Snyder

Donald S. Zagoria

THE CASE FOR CONTINUED FOOD ASSISTANCE

While the Task Force recommends some conditions for longer-term food aid, some members feel that there is a moral imperative to respond to the crisis on purely humanitarian grounds. To say that, however, does not relieve the North of the responsibility for making those changes that will enable it to feed their people.

Morton Abramowitz

Edward J. Baker

Jerome A. Cohen

Morton H. Halperin

Kongdan Oh

Scott Snyder

THE CASE FOR A SPECIAL COORDINATOR

Apart from times of crisis--such as the 1994 nuclear crisis--Korea has not received sustained high-level attention. In light of current realities and other foreign policy preoccupations, a proactive policy as outlined in this Report is best pursued by a special coordinator, appointed by--and directly answerable to--the president and the secretary of state. Ambassador Robert Gallucci left his assistant secretary position and was appointed special coordinator in 1994 during the most consequential period of Korean diplomacy, although after his departure no successor was named. The Clinton administration has tended to utilize such extraordinary positions widely, in Northern Ireland, Bosnia, Kosovo, for Russian proliferation, for Africa (Jesse Jackson), for Latin America (Thomas McLarty), and in the Middle East Peace Process. In addition, Vice President Gore has assumed a special role in regard to Russia, Egypt, South Africa, and on energy and environmental issues with China. Moreover, informal negotiators, such as ex-President Jimmy Carter and then-Congressman Bill Richardson, have occasionally been active on the Korean peninsula.

In the case of Korea, a special coordinator clearly would not mediate in inter-Korean talks (as Dennis Ross mediated in the Middle East or George Mitchell did in Northern Ireland). The role requires a person of great stature who enjoys bipartisan respect in Congress, someone well known in the region and with the confidence of a mandate from the president. Those supporting this "point person" idea view it as key to:

- initiating and integrating more comprehensive policies as recommended herein;
- shepherding policy through the interagency process;
- fostering support from and consulting with Congress and leading public diplomacy;

- coordinating U.S. policy with all the major players in northeast Asia at the highest levels.

Richard L. Armitage

Edward J. Baker

Jerome A. Cohen

James Delaney

William M. Drennan

Donald P. Gregg

Richard Kessler

Robert A. Manning

James Pyzystup

ON THE IMF, OPIC, AND THE SOUTH KOREAN ECONOMIC CRISIS

First, the statement that "international capital markets are regaining confidence in the South Korean economy, but without U.S. and IMF support this confidence could slip": There is reason to believe that the explicit or implicit promise of IMF support (in the form of a bailout) was a contributing factor in the Asian crisis by creating moral hazard. Investor confidence should be based on the unbiased understanding of risk, not bolstered by the promise of IMF bailouts. South Korea can restore investor confidence by pursuing correct economic policies that create transparency and eliminate both government-directed credit and barriers to trade and investment, among others.

Second, the statement that "there are insufficient funds available to the IMF in the event the crisis deepens significantly in South Korea or elsewhere": On the contrary, estimates based on IMF financial statements and past lending patterns indicate that even if the entire Asian bailout package is deducted, normal IMF activities would have left \$46.44 billion in IMF coffers at the end of 1997. In fact, current IMF resources, coupled with the anticipated income of \$28.32 billion from loan repayments and repurchases by the end of the year 2000, would allow the IMF to conduct two bailouts equivalent in size to the Asian crisis.

Third, with regard to "resuming OPIC arrangements with Seoul": The OPIC program is the domestic side of the moral hazard coin. There is no paucity of private insurers for U.S. investors. The reason investors use government instead of private sector insurance is to secure subsidies. OPIC, by placing the risk of U.S. foreign investment on the American taxpayer and offering subsidized premiums, makes it easier for OPIC clients to pursue investments deemed too risky by private insurers.

James Przystup

ADDITIONAL VIEWS

ON THE DEFINITION OF U.S. INTERESTS AND THE ROLE OF CHINA

I agree with the general thrust of the Task Force Report but believe that a few central points warrant clarification or elaboration.

First, the central objective of U.S. policy is to enhance stability on the Korean peninsula, particularly by mitigating the threats posed by the risks of a suicidal North Korean military attack on the South, missile proliferation, and other internationally destabilizing North Korean behavior and by the implosion of the North Korean regime. Key to achieving this objective is changing North Korea's behavior in the areas listed under recommendation 6 of the Task Force Report. The United States has little or no interest in North Korea's economic reform per se. Fostering change in North Korea's economic behavior should be a U.S. policy objective only insofar as it helps achieve the desired changes in Pyongyang's cross-border and international policies and actions.

Second, the purpose of U.S. policy is to serve U.S. national interests. The recommendation that Seoul take the lead in negotiations with the North is not intended to subordinate our interests to those of South Korea. Rather, it is based on the premise that such an approach would better serve U.S. interests than would insistence--over Seoul's objections--on a U.S. lead. That is, given our security relationship with the ROK, in combination with the evolution of Seoul's policy toward Pyongyang and North Korea's possible responsiveness to recent South Korean initiatives, there should be a presumption in favor of the United States supporting South Korea's political strategy vis-a-vis the North, consistent with not becoming hostage to that strategy should our respective priorities seriously diverge.

Third, the Task Force Report correctly calls for an articulation of longer-term U.S. interests. In this connection, it should be emphasized that (a) the United States has a vital interest in ensuring that a reunified Korea is and remains nonnuclear; and (b) while a continued U.S. military presence in a reunified Korea would be in the U.S. interest, it would be premature to prejudge at this time the composition and purpose of that presence. In particular, it is too soon to conclude that the presence should be no more than a "residual" adjunct to a presence centered on Japan or that it should be limited to providing "logistical" support to our overall presence in the region.

Add to recommendation 12, after the third bullet, the following:

Arnold Kanter agrees entirely that a continued U.S. military presence in a reunified Korea would be in the U.S. interest, but he believes it would be premature to prejudge at this time the composition and purpose of that presence. In particular, it is too soon to conclude that the presence should be no more than a "residual" adjunct to a presence centered on Japan or that it should be limited to providing "logistical" support to our overall presence in the region.

Arnold Kanter

Sam Nunn

ON SANCTIONS (RECOMMENDATION 5)

Although such steps are thought to be symbolic, they confer significant benefits upon North Korea. Accordingly, they cannot be open-ended: the restrictions eased and/or sanctions lifted must be closely coordinated with steps taken by the South, and must be quickly and easily rescinded in the event North Korea fails to respond with significant policy changes.

Richard V. Allen

ON THE ROLE OF CONGRESS

The Report of the Independent Task Force is a policy document, and rightly focuses upon the structure and implementation of a policy that proposes an important shift in existing U.S. policy. New policy initiatives of this magnitude require a broad base of support, and cannot be realized by executive branch measures alone. To be successful, the Congress must become fully engaged, and for that to happen, the Congress must be informed and made a partner in a nonpartisan process. The Task Force can and must play a role in urging the administration to evaluate these recommendations and to seek support for them. The Task Force must simultaneously make a concerted and sustained effort to brief key members of Congress and committee staff members, thus assisting an administration that already has a full plate of contentious issues, and, more important, does not enjoy a harmonious relationship with Capitol Hill.

Richard V. Allen

ON RESPONDING TO INSTABILITY (UNDER RECOMMENDATION 1)

The following bullet should be added to the list of "Guidelines": Avoid unilateral military action by either alliance partner.

William M. Drennan

MEMBERS OF THE TASK FORCE

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Jason T. Shaplen** is a Policy Adviser at KEDO, where his primary responsibility is to prepare and negotiate agreements between KEDO and the DPRK in connection with the light-water-reactor nuclear project.

Scott Snyder* is the recipient of an Abe Fellowship from the Social Sciences Research Council and during 1998--99 is conducting independent research on aspects of U.S.-Japan-ROK policy coordination on security issues in northeast Asia. He is completing a monograph analyzing patterns in North Korea's negotiating style.

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Donald S. Zagoria is Professor of Political Science at Hunter College and the Graduate Center of the City University of New York. His specialty is the international relations of East Asia.

Note: Institutional affiliations are for identification purposes only.

*Individual largely concurs with the Statement but submitted a Dissenting View.

_Individual largely concurs with the Statement but submitted an Additional View.

**Because of his position at KEDO, Mr. Shaplen neither endorses nor dissents from the views about KEDO expressed in this Report.

OBSERVERS OF THE TASK FORCE

Kurt Campbell, Department of Defense

Robert Carlin, Department of State

Thomas Harvey, Department of Defense

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John Merrill, Department of State

Mark Minton, Department of State

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Note: Each individual listed above participated in the Task Force discussions but chose to be an observer or was not asked to endorse the Statement because of his or her official capacity.

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Patrick M. Cronin was Director of Strategy and Policy Analysis at the Institute for National Strategic Studies of National Defense University.

Gary B. Luck was commander-in-chief UN Command, Combined Forces Command, and U.S. Forces Korea until 1996.

JOINT STATEMENT WITH THE SEOUL FORUM

The following points were agreed upon by the members of the Independent Task Force sponsored by the Council on Foreign Relations and the Seoul Forum following a joint session in Seoul on April 24--25, 1998:

1. Our goal is to reduce the threat to peace on the Korean peninsula and to advance North-South dialogue and reconciliation;
2. Maintenance of a credible and joint U.S.-ROK deterrence against North Korean aggression is the backstop for our diplomacy;
3. We acknowledge that the ROK and the United States seek the peaceful transformation and not the destruction of North Korea;
4. The U.S.-ROK security alliance is important not only for the defense of South Korea, but also for the long-term stability of the Asia-Pacific Region;
5. North-South reconciliation is the key to bringing greater stability to the peninsula and the ROK should take the lead in negotiations with the North, based on close coordination in ROK and U.S. approaches to Pyongyang;
6. Opening North Korea to the outside world is in the national interests of the United States and the ROK;
7. Coordination of U.S. and ROK policy toward North Korea with Japan and China and Russia is important;
8. All parties must adhere to the terms and understandings of the Agreed Framework and support KEDO;
9. The United States should continue to demonstrate support for the ROK in the current financial crisis.

ABOUT THE SEOUL FORUM

The Seoul Forum for International Affairs is a private, nonpartisan membership association dedicated to promoting a better understanding of Korea's global and regional context. It was formally incorporated as a nonprofit organization in 1986.

The Seoul Forum seeks to arrive at and disseminate impartial and authoritative findings on international issues of importance to Korea and Korea's foreign relations. To this end, the Seoul Forum engages in a broad range of activities, including monthly membership meetings, distinguished speakers series, bilateral forums with countries of particular importance to Korea, joint policy studies with select counterparts, special projects, and publications.

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THE NORTH-SOUTH BASIC AGREEMENT

In February 1989, the Republic of Korea proposed that the premiers of North and South Korea hold talks, and a first meeting was held on September 5, 1990, following eight preliminary and two executive-level meetings. A total of eight high-

level talks followed over a two-year period. At the fifth meeting in October 1991, the representatives adopted the Joint Declaration on the Denuclearization of the Korean peninsula, which went into effect on December 31, 1991. The North-South Agreement on Reconciliation, Cooperation and Exchanges (the so-called Basic Agreement) was concluded at the sixth round of talks in February 1992, and the Non-Aggression Protocol was signed at the eighth North-South high-level talk in September 1992.

The Basic Agreement contains articles regarding the establishment of political, military, and exchange cooperation committees as well as North-South liaison offices. In the agreement, the North and South promised to respect each other's political system, to refrain from using armed force against each other, and to endeavor to restore homogeneity in the two Koreas through the promotion of exchanges and cooperation.

On January 29, 1993, in the context of the growing confrontation over the nuclear issue, Pyongyang declared that it would no longer engage in dialogue with Seoul. That position was essentially reversed with the October 1994 Agreed Framework.

THE AGREED FRAMEWORK AND KEDO

From September 23 through October 16, 1994, representatives from the United States and the DPRK met in Geneva to negotiate an overall resolution of the nuclear issue on the Korean peninsula. In the resulting October 24, 1994, "Agreed Framework," the United States and North Korea agreed to take a series of actions. The DPRK is to be supplied two pressurized-water-type light-water nuclear reactors (referred to as LWRs) for electricity generation in exchange for abandoning its existing graphite-moderated nuclear research reactors and taking further steps to comply with nuclear safeguards. Under the conditions of the Agreed Framework, the United States also partially lifted trade and investment sanctions long levied against Pyongyang, and the two sides held diplomatic meetings to open respective liaison offices. Until the reactors are completed, the Korean peninsula Energy Development Organization (KEDO), established by the ROK, Japan, and the United States and later joined by Australia, Canada, and the European Union, has an obligation under the framework to supply 500,000 metric tons of heavy fuel oil to the DPRK annually. The oil delivered by KEDO is intended to be used to fuel electricity generation facilities and, nominally, to help the DPRK maintain electricity supplies while the LWRs are under construction. In addition, the two sides will "move toward full normalization of political and economic relations" and will "work together for peace and security on a nuclear-free Korean peninsula," including DPRK engagement in "North-South dialogue."

In November 1997, KEDO's Executive Board agreed to a total cost estimate for the LWR project of \$5.18 billion. Seoul has reiterated, despite its economic crisis, its commitment to fund 70 percent of the project, and Japan has indicated it will pay around \$1 billion (at the outset Seoul agreed to play a "central role" and Tokyo a "significant role" in the project). Currently, there is a projected 10 percent shortfall over the life of the project, but estimates of total costs (and the shortfall) may change as a result of exchange rate changes and other factors.

THE FOUR-PARTY TALKS

On April 16, 1996, the U.S. and ROK governments in a joint communique proposed four-party talks to reduce tension on the Korean peninsula and to achieve permanent peace. In this communique, the presidents of the ROK and the United States reaffirmed the validity of the Korean Armistice Agreement until it can be superseded by a permanent peace arrangement to be negotiated and attained through inter-Korean dialogue. The neighboring countries, namely, China, Russia, and Japan, responded affirmatively to the four-party talks proposal. However, despite a clause in the Agreed Framework on the promotion of North-South dialogue, almost no progress was made in improving North-South relations. The September 18_19 preparatory Four-Party Talks ended in stalemate because of North Korea's demands for a huge U.S. food commitment and U.S. troop withdrawal. At the first plenary session in December 1997, the four parties agreed to establish a subcommittee. At the second plenary session on March 16_21, most of the time was spent discussing various procedural matters. Although the parties agreed to consider establishing one subcommittee to address military confidence-building measures that could enhance transparency and reduce tensions on the peninsula and ultimately lead to a permanent peace, the U.S./ROK and the DPRK disagreed on whether the withdrawal of U.S. forces from Korea is an issue for negotiation at these talks.

THE NORTH KOREAN FOOD CRISIS

In November 1997, the World Food Program/Food Aid Organization (WFP/FAO) confirmed that the food outlook for 1997_98 in North Korea is considerably worse than in the previous two years. The WFP report assessed North Korea's import requirements for 1997_98 at 1.95 million tons. Commercial imports including cross-border trade, mostly on barter terms, with China were provisionally estimated at 700,000 tons, leaving a requirement for some 1.25 million tons uncovered. Most of the unmet food requirement will have to be covered by bilateral and multilateral emergency food aid.

THE MILITARY BALANCE

Despite the country's serious economic situation, the DPRK is still giving priority to allocating national resources to the military and is modernizing its armed forces to maintain and improve their readiness. The country's defense spending is estimated at about 25 percent of its gross national product (GNP). North Korea's armed forces are primarily made up of its army, which has a total strength of approximately 1,100,000 and about two-thirds of which is deployed to forward areas along the DMZ. Infantry constitutes the main fighting capabilities of the army, which also possesses armored forces, including 3,400 tanks and a large arsenal of artillery. It is believed that North Korea has reinforced its long-range artillery, including 240 mm multilaunch rockets and 170 mm guns along the DMZ. In addition, the North has many special operation troops trained to carry out guerrilla warfare in the South. The North Korean Navy possesses about 740 surface combat ships with a total displacement of some 106,000 tons, 22 Romeo-class and 60 midget submarines, and some 140 air-cushioned landing ships, thought to be used for the infiltration of special operation units. North Korea's Air Force has about 610 combat aircraft, including MiG-29s and SU-25s as well as dated AN-2s for transporting troops. Most of the aircraft are older-style Soviet and Chinese types.

Against this force, South Korea spends approximately 3 to 4 percent of its GNP on national defense. It maintains 22 army divisions with approximately 550,000

personnel; naval forces with approximately 200 ships (total displacement of 147,000 tons); two marine divisions; and eight combat air wings with some 490 combat aircraft, including F-16 fighters. The United States deploys approximately 37,000 troops in South Korea, mainly comprising the Second Infantry Division and Seventh Air Force, which has three squadrons of F-16 fighters and one squadron of A-10 and OA-10 ground attack aircraft. The United States also deploys the Seventh Fleet, the III Marine Expeditionary Force, and the Fifth Air Force in Japan, an additional total of approximately 47,000 personnel.

THE IMF PACKAGE

The International Monetary Fund (IMF) on December 5, 1997, approved the Republic of Korea's request for a three-year standby credit equivalent to SDR 15.5 billion (about U.S. \$21 billion) in support of the government's economic and financial program. Of the total, SDR 4.1 billion (about U.S. \$5.56 billion) was available immediately. SDR 2.6 billion (about U.S. \$3.58 billion) was available on December 18, following the first review under the program, and a further SDR 1.5 billion (about U.S. \$2 billion) on January 8, 1998, following the second review. Subsequent disbursement was made available on February 18, following the attainment of performance targets and program reviews, bringing the total aid loans released by the IMF to the ROK to U.S. \$15 billion as of April 1, 1998. The macroeconomic objectives of the program include creating conditions for an early return of confidence, so as to limit the unavoidable slowdown of GDP growth in 1998, followed by a recovery in 1999; containing inflation at or below 5 percent; and building international reserves to more than two months of imports by the end of 1998.

In addition to the IMF funding of U.S. \$21 billion, the president of the World Bank indicated the Bank's readiness to provide up to U.S.\$10 billion in support of specific structural reform programs in accordance with bank policy and brought the total amount of funds to U.S. \$5 billion as of April 1, 1998. Similarly, the president of the Asian Development Bank indicated his readiness to recommend to his board the provision of up to U.S. \$4 billion in support of policy and institutional reforms within the framework of the bank's policy. At the same time, a number of countries (Australia, Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States) informed the IMF of their willingness to provide a "second line of defense" in the event that unanticipated adverse external circumstances create the need for additional resources to supplement Korea's reserves and the resources made available by the IMF and other international institutions. This second line was expected to be in excess of U.S. \$20 billion.

COMMAND STRUCTURE

Since the Korean War of 1950_53, the commander-in-chief of the United Nations Command (UNC), who was automatically the commander-in-chief of the U.S. Forces Korea, had exercised operational control over the ROK armed forces. On November 7, 1978, the U.S./ROK Combined Forces Command (CFC) was established as the war-fighting headquarters, and the CFC maintained operational control over both countries' active-duty military personnel of all services. These would be augmented by Korean reservists and additional U.S. forces in wartime. As mentioned, the CFC is headed by the four-star general of the U.S. Forces Korea, with a four-star ROK general as deputy. Throughout the command structure, the CFC is manned on an

equal and bilateral basis: If the chief of a staff section is American, the deputy is Korean, and vice versa. The CFC has four component commands: ground, air, naval, and combined marine forces. The armistice (peacetime) operational control that the CFC commander had exercised over some delegated ROK units was transferred to the chairman of the ROK Joint Chiefs of Staff (ROKJCS) effective December 1, 1994. In peacetime, the commander of the CFC now exercises the combined delegated authority over the ROK forces delegated by the chairman of the ROKJCS. The CFC supports the UNC, which is in charge of maintaining the Korean Armistice Agreement in response to armistice violations by the opposing side. The commander of the CFC and the commander of the UNC are the same person.

U.S. SANCTIONS POLICY AND NORTH KOREA

"For well over four decades _ longer than any other country _ North Korea has been the target of a regime of U.S. commercial sanctions of the most comprehensive and restrictive kind. Because of their varied rationale and historical development, these sanctions also at times overlap and are duplicative. In addition to _and along with _ a virtually total embargo on U.S. commercial and financial transactions and blocking of North Korean assets in the United States imposed in 1950, various other types of transactions (specific aspects of merchandise trade, export credits, private investments) are prohibited, limited, or subject to discriminatory practices." The principal elements of the economic restrictions on North Korea include:

Sum The Trading With the Enemy Act (TWEA)

"The most comprehensive U.S. measure restricting economic relations with North Korea is a virtually total and strictly enforced embargo on U.S. trade and financial relations with North Korea. Following the mid-1950 imposition of a ban on exports to North Korea, triggered by North Korea's attack of South Korea, the comprehensive embargo was imposed under the "national emergency" authority of section 5 (b) of the Trading With the Enemy Act (TWEA)"

"Apart from its possible removal or modification by specific legislation, the embargo on all transactions with North Korea _including the blocking of North Korean assets in the United States _ can be removed or modified by executive action. This could take place in several ways: by instituting a policy of approving on a case-by-case basis, instead of denying, the licenses required under current regulations; by changing the restrictiveness of the regulations with respect to North Korea (e.g., by increasing the scope of transactions permitted by various, if still marginal, general licenses); or, definitively, by revoking their applicability to North Korea by striking North Korea from the list of countries subject to Foreign Assets Control Regulations."

Sum The Trade Act of 1974

"Meanwhile, the denial of MFN status to North Korea was reaffirmed by section 401 of the Trade Act of 1974, which required continued denial of MFN status to any country denied such status at the time of its enactment, except as otherwise noted in Title IV of the Act. The procedure of Title IV, applicable to "non-market economy" (NME) countries (of which North Korea is one), requires compliance with the provisions of the freedom-of-emigration (usually referred to as Jackson-Vanik) amendment, and the conclusion of a bilateral trade agreement and its implementation by enactment."

Sum Denial of GSP and OPIC

"North Korea is also denied the status of "beneficiary developing country," (BDC) under the U.S. Generalized System of Preferences (GSP), which permits a substantial array of products of countries designated as BDCs to be imported into the United States under certain conditions free of duty."

"Were the embargo to be lifted, such investment would still be adversely affected by three provisions involving the investors' ability to use the facilities of the Overseas Private Investment Corporation (OPIC), a U.S. Government agency insuring or guaranteeing American private investments in developing countries."

Sum Terrorism

"Participation in any U.S. Government program that extends export credits or export credit guarantees or insurance (Export-Import Bank, Commodity Credit Corporation, etc.) is prohibited to any non market economy country (including North Korea) unless the freedom-of-emigration requirements of the Jackson-Vanik amendment are fulfilled."

"[Ex-Im Bank credit facilities are also denied to any country] that the Secretary of State has determined to have repeatedly supported acts of international terrorism. The Secretary designated North Korea as a terrorist country on January 20, 1988. The President can waive this prohibition after consulting with Congress and determining that national security interests or humanitarian reasons warrant the resumption of assistance."

-compiled from Zachary S. Davis, et. al., "Korea: Procedural and Jurisdictional Questions Regarding Possible Normalization of Relations With North Korea," Congressional Research Service,

The Library of Congress, November 29, 1994.

International Roles and Responsibilities on the Korean Peninsula ROK-DPRK North-South dialogue based on the precedent of the 1992 Basic Agreement

ROK-U.S.

Maintenance of deterrence and readiness

Decisions on disposition of U.S. forces

Strategic coordination on the four-party talks

Consultations on North-South dialogue and U.S.-DPRK interactions

ROK-U.S.-Japan

Coordination on long-term strategy for sanctions, reparations, and normalization

Coordination on contingency planning and reconstruction planning

Coordination on food aid

Coordination on KEDOfunding and implementation

Coordination on terrorism and MTCR negotiations

U.S.-DPRK

Embargo (coordinate with ROK and Japan)

Normalization (coordinate with ROK and Japan)

Liaison offices

MIAs

U.S.-ROK-DPRK

Implementation of confidence-building measures

Armistice-related issues

Conventional force reduction process

Four-Party talks

Confidence-building measures

Armistice and peace treaty negotiations

U.S.-ROK-DPRK-China

four party talks

Armistice and peace treaty negotiations

Consultation on humanitarian and other potential crises

Global

Missile Technology Control Regime

Nonproliferation Treaty

Chemical Weapons Convention

Biological Weapons Treaty

Terrorism

Northeast Asia (through four-party or other forum)

Guarantee denuclearized peninsula

Nuclear energy issues

Guarantee peace treaty

Tumen River/Yellow Sea development and reconstruction

Environmental issues

THE COSTS OF UNIFICATION

In South Korea there is a growing skepticism about the desirability of unification, driven largely by the perception that it would be prohibitively costly. Indeed, most studies put the cost of unification in the hundreds of billions of dollars, with some studies reaching even higher estimates. Most of these studies use one of two conceptually inadequate methodologies. One is to extrapolate the budgetary costs of unification from the German experience, despite the facts that the government budget is not the best measure of economic cost and that South Korea's social safety net is considerably less well-developed than West Germany's was at the time of German unification. The second method is to estimate the amount of investment needed to raise per capita income in North Korea to some desired level (typically some target share of per capita income in the South). This approach is superior to simply calculating the impact on the government budget but still ignores the fundamental fact that investments yield a stream of returns that accrue to owners of capital. One study, which took the potential benefits to South Korean investors into account, found that under some circumstances economic integration with the North could actually make the South Korean economy better off. This would occur if South Koreans were able to make private investments in the North, and Northerners were permitted to work in the South on a controlled basis.

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Note: Institutional affiliations are for identification purposes only.

*Individual largely concurs with the Statement but submitted a Dissenting View.

_Individual largely concurs with the Statement but submitted an Additional View.