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U.S. Relations with other Powers on the Korean Peninsula in the Global Financial Crisis

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ABSTRACT

The Korean peninsula continues to be a geostrategic and economic nexus for Northeast Asia. As such, relations involve economic, social, historical, and larger regional issues, as well as the nuclear issue. While the specifics are yet to emerge, this article surveys the Obama administration's strategic approach to the region and the peninsula, concluding that it is working with a broad tradition of U.S. approaches to the region: engage China, uphold traditional alliances, and contain the North Korean threat. The economic crisis has affected the specifics of this grand strategy, but not the overall U.S. approach to East Asia.

Keywords: financial crisis, Obama administration, East Asian regionalism, North Korea

The global financial crisis that begin in 2007 continues unabated, and has caused a major rethinking of the Washington consensus about economic policy that emerged in the 1990s, the United States' global role as hegemon, and a number of other enduring international institutions.[2] In Northeast Asia, "comprehensive coordination" involves much more than the Korean peninsula, and much more than merely North Korean policy. These tasks involve U.S. policies over a number of issues, including reassuring China, assuaging Japanese fear of isolation, and maintaining Korean relevance. As for economic issues, these include managing relations with three of the most vibrant economies in the world, which comprise a major portion of U.S. trade and among themselves have deep economic ties.

In this way, there is renewed debate over how best the U.S. might conduct its policies toward the region. Although 2009 began with cautious optimism regarding the denuclearization of North Korea, as we approach winter much of that hope has dissipated, and an old cycle of tension escalation has resumed on the Korean peninsula. North Korea has conducted a nuclear and missile test, refused to return to the six party talks, and declared in early September 2009 that it had completed a uranium enrichment program in addition to its known plutonium nuclear program. For their part, the U.S. and South Korea have joined together to apply greater sanctions on North Korea under the auspicies of UN resolution 1874, increased the "Proliferation Security Initiative" patrols that aim to restrict North Korea's ability to export any weapons or nuclear technology, and scaled back economic and humanitarian assistance. Lurking in the background to all this is the expectation that current North Korean leader Kim Jong-il's health is rapidly deteriorating, and that a succession struggle for political leadership in North Korea can only make a bad situation worse.

What are the prospects, then, for cooperation among the U.S. and other countries in their policies toward the Korean peninsula?

Although most of the focus is on the North Korean nuclear issue, the peninsula continues to be a geostrategic and economic nexus for Northeast Asia. As such, relations involve economic, social, historical, and larger regional issues, as well as the nuclear issue. This article will review the Obama administration's emerging strategic approach to the region and the peninsula, concluding that while the specifics are yet to emerge, the U.S. government is working with a broad tradition of approaches to the region: engage China, uphold traditional alliances, and

contain the North Korean threat. The economic crisis has affected the specifics of this policy, but not the overall approach to East Asia. Indeed, although the financial crisis has been a deep problem for all countries around the world, it also appears that the U.S. role in East Asia remains central, and that the crisis has not had as great an effect as might have been believed a year ago. The one area where Obama might be seen as slightly "evolutionary" in comparison his predecessors in his approach to Northeast Asia lies in the area of international and multilateral institutions. The Obama administration, although lacking specifics and as yet not having presented a positive vision for regional relations, has signaled a greater willingness to entertain the notion that the traditional U.S. hub and spokes approach to Northeast Asia might be supplemented by greater regional institutions.

The Obama administration's emerging Asia policy

The Obama administration's emerging Asia policy is based on two basic principles: emphasizing the importance of its traditional allies such as South Korea and Japan; and a desire for a cooperative engagement and partnership with emerging powers such as China. Although in other regions of the world Obama has made a sharper break with the policies of the previous Bush administration, in Asia the Obama approach appears to be incremental, building upon the Bush successes and largely approaching the region in roughly the same manner, with a similar set of goals. Dealing with the financial crisis has occupied U.S. attention, but it has not fundamentally changed the U.S. role in East Asia. Although the days of unquestioned hegemony for the U.S. are perhaps on the wane, the U.S. remains the most trusted leader in East Asia, and states in the region want more U.S. attention, not less.

Most centrally, the US-China relationship has become one of the most important bilateral relationships in the world, and managing and adjusting that relationship is a key task of the new administration. There is, of course, increasing concern in some U.S. quarters that the arrival of a new superpower may challenge the U.S. politically and perhaps even lead to military conflict, and the U.S. Pentagon's 2008 assessment of China's military power concludes that "much uncertainty surrounds China's future course, in particular in the area of its expanding military power and how that power might be used."[3] Aaron Friedberg, former advisor to Vice-president Dick Cheney, recently argued that, "It is past time for Americans to take seriously the challenge posed by the

continuing growth of China's military power."[4] Whether China can rise peacefully, or whether it can even continue to rise, is thus one of the major policy and scholarly issues of our time.[5]

However, seven consecutive U.S. presidents have encouraged China's integration into the global system, from Richard Nixon's belief that "dealing with Red China . . . means pulling China back into the world community," to President George Bush's welcoming "the emergence of a China that is peaceful and prosperous, and that supports international institutions."[6] The U.S. has generally viewed China as more an opportunity than threat, and official U.S. policy under the Bush administration was to encourage China to become a "responsible stakeholder" in international affairs.[7] As former U.S. Deputy Assistant Secretary of State for East Asian and Pacific Affairs Thomas Christensen noted, "Especially if one uses the United States' containment policies toward the Soviet Union as a basis of comparison, the [argument] that the United States has been dedicated to a grand strategy of containment of China as a general policy to maintain U.S. hegemony – is, for the most part, divorced from reality."[8]

President Obama and his advisors appear to be clearly within the mainstream of previous U.S. presidential approaches when it comes to China. As Scott Snyder has observed, "the conventional wisdom among Asia specialists on both sides of the aisle has been that there would be little need or change in policy toward Asia under the Obama administration."[9] As evidence of the priority given to Asia, Secretary of State Hilary Clinton's first international trip was to Japan, Korea, and China, and President Obama himself spent ten days in Asia in November 2009, visiting Japan, Singapore for the APEC meeting, China, and Korea. During his visit, Obama said that the U.S. had no wish to contain China, and that, "in an interconnected world, power does not need to be a zero-sum game," saying that the U.S. and China need to engage in "pragmatic cooperation."[10] In February 2009, Hillary Clinton concluded that it was "essential to have a positive, cooperative relationship," with China, and indicated that pressing China about human rights "can't interfere with the global economic crisis, the global climate change crisis, and the security crisis."[11] This pragmatic approach to human rights and China-U.S. relations in general, although angering a number of conservatives and liberals, also falls within the mainstream U.S. approach to China. Thomas Keating, the top U.S. military commander in Asia, described himself as "cautiously optimistic" about U.S.-China

relations, saying that, "We want to draw the Chinese out, we want to ask them to manifest their intentions forward for a peaceful rise and harmonious integration."[12]

At the same time, Obama has been reassuring traditional allies such as Japan and South Korea, that American policies will not only take them into account, but also that Obama will actively work to renew those alliances. Assistant Secretary of State for East Asia Kurt Campbell was deeply involved in a security strategy for a new administration that called "the U.S.-Japan alliance . . . the foundation for American engagement in the Asia-Pacific" while also "[re]affirming the importance of the US-ROK alliance."[13] Clinton and then Ambassador Bosworth have called the US-Japan alliance the "cornerstone" of stability in the region, and have begun to lay out a plan that moves the alliances past their cold war focus on deterrence of enemies to include climate change, energy security, and other out of area operations.[14]

Economic issues also appear to top the Obama administration's agenda, which comes as little surprise, given the state of the world economy in 2009. China and the U.S. merged two previous meetings into one, the "U.S.-China Strategic and Economic Dialogue," co-chaired jointly by Treasury Secretary Timothy F. Geithner, Secretary of State Clinton, and Chinese State Councilor Dai Bingguo and Vice Premier Wang Qishan.[15] Obama has also made global climate change and energy security major topics, and his appointment of Todd Stern as special envoy for climate change is evidence of the seriousness with which he views that problem.[16]

However, although these principles appear clear and also lie well within the mainstream of traditional U.S. foreign policy approaches to East Asia, the Obama administration has been relatively silent on the specifics of this approach. As yet the administration has not set forth a detailed agenda, nor listed a set of regional priorities.[17] Although this is due in no small measure to the startling number of truly massive crises that greeted Obama when he took office, it still reveals the fact that reality may overcome rhetoric when it comes to U.S. policy toward Asia.

U.S. policies and the Korean peninsula

More specifically, the Obama administration has concerns about the economy, environment, energy, and terrorism, all of which occupy a higher priority under the new administration than does the North Korean nuclear threat. As it applies to the Korean peninsula, this means an

opportunity for the states in the region to forge new relationships with each other over areas of common concern.

Although the U.S. has made vague reference to exploring "new structures of cooperation, both in the region and across the world, structures which link Asia to the global order," that willingness to consider multilateral institutions has been largely devoid of substance.[18] The dormant six party talks had included building multilateral institutions as one of its follow-on "working groups," although this as well has received little attention or energy.

China has proposed a trilateral US-Japan-China dialogue, and it appears the Obama administration looks favorably on such a possibility.[19] The trilateral dialogue would discuss stability, security, and transparency among the three countries, and decrease mistrust and misunderstanding. As Scott Snyder notes, "a trilateral dialogue might ease Chinese concerns about the U.S.-Japan alliance while ensuring that Japan is engaged fully on critical issues in the U.S.-China relationship."[20]

Yet President Obama has also embraced the close coordination and consultation for its policies with its traditional allies. For South Korea, this means more attention and less unilateral actions by the U.S. Such a trilateral dialogue would necessarily leave out South Korea; and it is possible that the U.S. and ROK could forge other, quadrilateral or even larger talks, or a US-Japan-ROK dialogue, with which to allay South Korean fears. For its part, South Korean president Lee Myung-bak has responded with a proposal for "five party talks," involving all members of the SPT except for North Korea. Continuing the China-Japan-Korea dialogue is one step to involve the ROK, and it is even possible that Lee Myung-bak's "New Asia Initiative" could propose a dialogue involving the ROK-Australia-Indonesia, or other such configurations that help expand South Korean ties in the region.

Energy security and environmental issues are also ways in which the U.S. and ROK could cooperate with other countries in the region. The Lee Myung-bak government has promoted a "low carbon, green growth" initiative, and the Obama administration is making environmental and energy concerns a high priority. Although negotiations with China over carbon emissions and climate change appear to be somewhat difficult, it is also increasingly clear that governments around the region are at least recognizing the issue, and willing to discuss ways in which they can cooperate.[21]

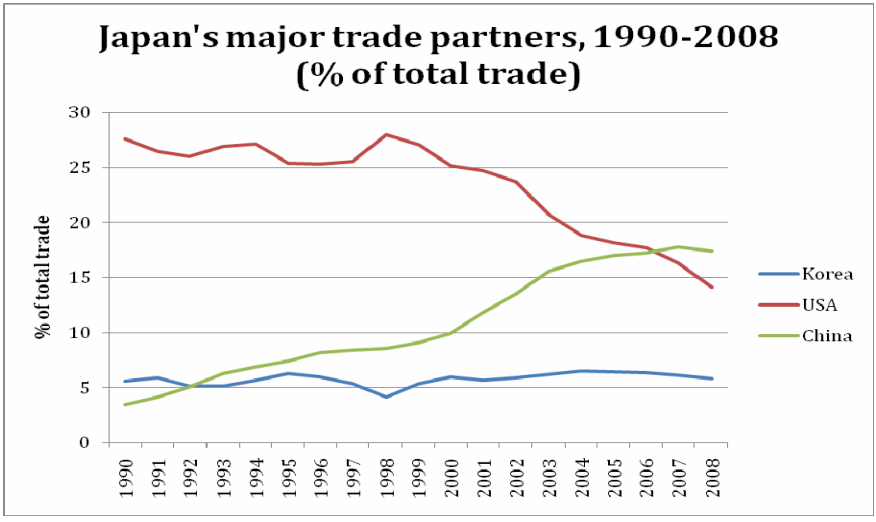
Economic issues appear increasingly important over the next decade, as the economies of Japan, Korea, and China become ever more closely integrated, and the need to create stable economic institutions becomes even more important for the region. The US-Korea Free Trade Agreement is clearly most important in the mind of South Korean President Lee Myung-bak, and there was intense speculation in the South Korean press before Obama's November visit about whether or not the U.S. president would commit to a timetable for submitting the FTA to the U.S. Congress. Although Obama did mention the FTA positively, he also refused to commit himself to a timetable. The Koreans, for their part, have negotiated an FTA with the European Union and are in the process of negotiating an FTA with India. While it is clear that South Korea would prefer to sign an FTA with the United States first, it is also just as clear that they are moving on with their trade agenda with the region and the world.

Regarding U.S. economic policies toward the region as a whole, new Japanese Prime Minister Yukio Hatoyama recently argued for "regional currency integration as a natural extension of the rapid economic growth begun by Japan, followed by South Korea, Taiwan and Hong Kong, and then achieved by the Association of Southeast Asian Nations (ASEAN) and China."[22] This idea has also been floated by the Chinese, who are increasingly viewing the dollar as a reserve currency as becoming problematic in the future. Chinese Central Bank governor Zhou Xiaochuan argued this summer that the dollar should eventually be replaced by a new global reserve currency.[23] The dollar, a reserve currency for well over half a century, has come under increasing pressure as U.S. deficits continue to mount and much of that gap has been filled with foreign borrowing. Given the intricate economic relationship between the U.S., China, Japan, and South Korea, the lack of a viable alternative means the U.S. dollar remains the "safe haven" and most stable reserve currency. It is unlikely in the foreseeable future that any substitute can be found for the dollar. However, long-term pressures are weakening the dollar's role, and the most likely replacements for a reserve currency will come either from the Euro, or from some type of currency arrangement in Northeast Asia.

Managing and coordinating economic relations within Northeast Asia and between the U.S. and these countries will only become more important over time. Economic adjustment and competition—not territorial conquest—appears to be the arena most needing coordination

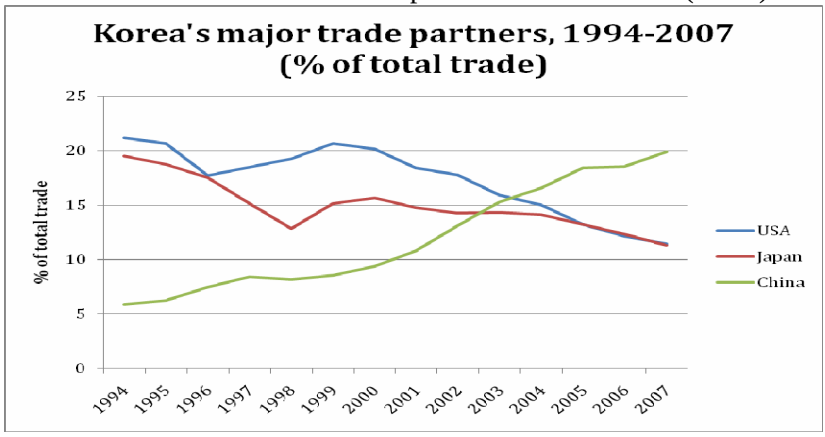
among states in the region. The increasing interdependence and integration of these economies in the past two decades has been remarkable. For example, since 1990, China has become the major trade partner of both Japan and South Korea, and mutual and cross-investment has also increased accordingly (Figures 1, 2, and 3 here). The U.S. remains an important and central economic actor, but increasingly states in the region are finding it necessary to work with each other as much as they concentrate on their economic relations with the U.S.

Figure 1. Japan's major trade partners, 1990-2008 (% of total trade)



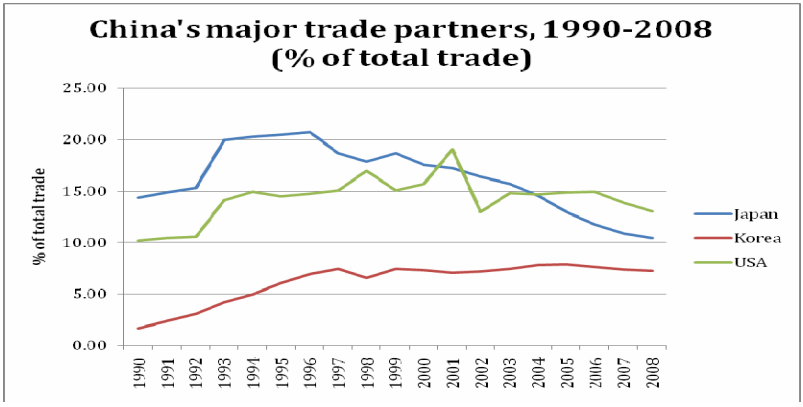
Source: data extracted on 25 Sep 2009 21:52 UTC (GMT) from OECD. Stat

Figure 2. ROK major trade partners, 1994-2007 (% of total trade)
Source: data extracted on 25 Sep 2009 21:52 UTC (GMT) from



OECD.Stat

Figure 3. PRC major trade partners, 1994-2007 (% of total trade)



Source: data extracted on 25 Sep 2009 21:52 UTC (GMT) from OECD. Stat

Managing a careful transition to a set of economic institutions—such as currency swaps and trade agreements—that are influenced by not solely formed around the U.S. will be a major task for economic policymakers in Northeast Asia over the next generation. Their own economic relations and their economic relations with the U.S. and

Europe all appear likely to begin to change from the Cold War institutions that have served so well in the past.

North Korean policy

In the short term, it appears that the Obama and Lee governments hold quite similar views towards the peninsula. There is widespread agreement among all types of analysts in the U.S. that the current policies are appropriate, and the U.S. should not be offering concessions to a North Korea that has obviously violated international norms. And this should be cause for optimism that both countries may be able to act in concert with each other and present a more consistent and unified approach toward North Korea. Previously, it was possible for North Korea to have one relationship with one country and a different relationship with a different country. So to the extent that policies and overall strategies are consistent, this is a positive step.

The Obama administration is determined to "break the cycle" of crisis escalation with North Korea. As Obama said on June 16, 2009, "there has been a pattern in the past where North Korea behaves in a belligerent fashion and, if it waits long enough, is rewarded . . . The message we are sending them is that we are going to break that pattern."[24] Within this broad approach, the Obama administration's North Korea policy emphasizes a desire for diplomacy and the desire for close coordination with its allies.

The sad fact is that the range of policy options available to both the U.S. and other countries involved in the six party talks quite thin. Few countries would consider military action to cause the regime to collapse, given the fact that Seoul is vulnerable to their conventional weapons and that war or regime collapse could potentially unleash uncontrolled nuclear weapons and potentially draw all the surrounding countries into conflict with each other. At the same time, the US, South Korea, and Japan are unwilling to normalize relations with North Korea and offer considerable economic or diplomatic incentives in the hopes of luring Pyongyang into more moderate behavior. As a result, U.S. and other regional governments are faced with the choices of rhetorical pressure, quiet diplomacy, and mild sanctions.

Sanctions are another option for putting pressure on the North Korean regime, and the Obama administration is following the Bush administration by punishing North Korea with sanctions after its 2009 nuclear and missile tests. The U.S. is currently cooperating with UN

resolutions 1718 and 1874 (both of which apply various sanctions on the DPRK), and its own proliferation security initiative (PSI), aimed at interdicting any transport or exports of North Korean weapons or nuclear technology and arms to other countries.

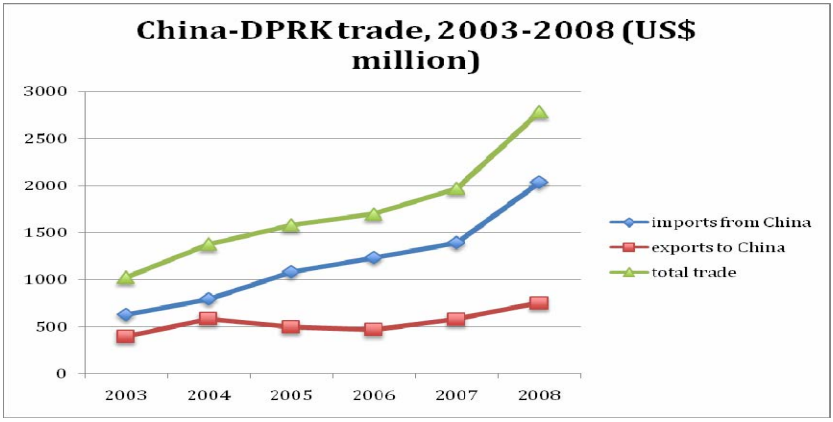
Yet sanctions are also unlikely to achieve their stated goal of changing North Korean behavior. The problems are two-fold. First, even the U.S. is unwilling to punish North Korean citizens by engaging in blanket economic sanctions against the North that would include basic foodstuffs and other materials. Thus, the sanctions have been "targeted" at the regime; focused on luxury goods and the like. But these will have a limited impact. Sanctions rarely force a country to change its ways; they remain more symbolic than practical for changing behavior.[25] Stephan Haggard and Marcus Noland argue "it is highly unlikely that the sanctions by themselves will have any immediate effect on North Korea's nuclear program or on the increasing threat of proliferation. Sanctions need to be coupled with a nuanced policy that includes a strongly stated preference for a negotiated solution as well as defensive measures, of which the sanctions are only one part."[26] As Ruediger Frank concluded in his study of sanctions against North Korea, "in the long run, [sanctions] lose their impact and become a liability."[27]

The second difficulty with sanctions involves the coordination problem that neither Russia nor China is eager to push sanctions too hard on the North; and thus any sanctions the U.S. puts on the regime are likely to be cosmetic in nature. The only country that could realistically impose severe enough sanctions on North Korea is China. Were China to impose draconian sanctions on North Korea, it could have a devastating effect. The Chinese appear to be fairly angered at North Korea's latest moves, and the nuclear test in particular has been a real insult to Chinese diplomatic efforts. After the first North Korean nuclear test in 2006, China called the test "flagrant and brazen," and voted with other UN Security Council members for resolution 1718, which imposed a series of sanctions on North Korea.[28] There has also been intense debate within China about the best way to deal with North Korea and even whether North Korea remains strategically important to China.

Yet Chinese economic and political influence is more limited than popularly believed. As Adam Segal noted, "The idea that the Chinese would turn their backs on the North Koreans is clearly wrong."[29] The Chinese (and Russians) have also interpreted sanctions in a way that rendered them to be essentially ineffective. Marcus Noland estimates

that Chinese exports, and even exports of luxury goods, have actually increased 140% since the imposition of sanctions.[30] Indeed, China is North Korea's main trading partner, and, despite the economic sanctions imposed by UN resolution 1718 and 1874, trade between the two countries continues to increase. Total trade in 2008 was 41.3 percent greater than trade in 2007, and amounted to between half and two-thirds of North Korea's total foreign trade (Figure 4).[31] In fact, Chinese trade now accounts for between 60 and 80 percent of North Korea's entire foreign trade.[32]

Figure 4. PRC-DPRK Trade, 2003-2008



Source: Mary Beth Mitkin, et al., "North Korea's Second Nuclear Test: Implications of UN Resolution 1874" Congressional Research Service R-40684 (Washington, D.C.), July 1, 2009, pp. 10-11

Thus, China retains considerable economic leverage over North Korea. However, it is unlikely that China will use such economic pressure, nor that such pressure would work. China has continued to build economic relations with North Korea over the past few years, and to a considerable degree, Chinese economic policies toward North Korea have been designed to prevent instability through expanded economic assistance. That is, China faces the same problem that other countries do —how to pressure and persuade North Korea to take a more moderate stance, without pushing so hard on North Korea that it collapses. In this way, North Korea's dependence on Chinese aid limits China's ability to pressure North Korea—North Korea is so vulnerable that China needs to

be quite careful in its policies toward it. Thus, the prospects of China putting any significant pressure on North Korea are dim.

As for Japan, the two dozen of its citizens who were abducted by North Korea in the 1970s has fixated the country on that issue, and become a major driver of Japanese policy toward North Korea.[33] The previous Japanese government made progress on resolving the abductee issue a prerequisite for cooperating on the nuclear issue during the six party talks, which led to difficulties in coordinating policies among the parties. With a new Japanese government headed by DPJ leader Hatoyama, it is still too early to tell how the Japanese will conduct their foreign policy toward North Korea. Early indications are that the policies will be similar to previous governments—attention to both the nuclear threat and the abductee issue.[34] How this manifests itself in actual policy decisions remains to be seen.

I do, however, have a few concerns. The first is that while North Korea remains South Korea's first priority in its foreign policy, North Korea is a very low priority for the U.S. Of greater concern is the global financial crisis, Afghanistan, Iran, Iraq, and Palestinian-Israeli relations. Thus, the attention and energy the U.S. will provide on North Korea is likely to be less consistent and less focused, and the question is whether the U.S. can provide enough leadership in a part-time capacity to be effective.

Additionally, while the U.S. and South Korea have repeatedly claimed a desire to return to negotiations with North Korea if the leadership in Pyongyang backs down, it should be noted that it might not be so clear from a North Korean perspective that the U.S. has put as much energy into dialogue as it has into pressure. From discussions about childlike behavior by Secretary of State Clinton to imposition of sanctions, both sides appear caught in a cycle of escalation. While "who started it" is one way to assign fault, it would be a tragedy if the cycle continues and everyone ends up worse off than they are today.

For the time being, U.S. and South Korean policies are closely coordinated and share the same goals regarding North Korea, and this in and of itself is a good thing. The Obama and Lee administrations appears to cooperate quite well, and even share similar views towards China and Japan. The real question will come down not to process and goals, but to outcome: North Korea remains a major danger to regional stability, and both the U.S. and South Korean governments will need to make this a top priority going forward.

A more fundamental concern is that as this process has dragged on for almost fifteen years, the beliefs of both sides may have changed. While in the mid-1990s North Korea may have been willing to exchange nuclear weapons for normal diplomatic relations with the U.S., leaders in Pyongyang may very well believe that events over the years have shown that the U.S. and South Korea will never choose to live with a North Korea. As for South Korea and the U.S., while it was previously possible to imagine that North Korea might give up its nuclear weapons under certain conditions, many observers now believe that will never happen. Thus, the leadership in all three countries may now believe that no real solution is possible.

As a result, the real issue facing countries may not be "how to denuclearize North Korea," but rather how best to manage living with a nuclear North Korea, contain the problem, and ultimately to enhance political change in the North that is peaceful. This is a much more difficult problem, especially given the fact that putting too much pressure on North Korea could very well cause either a devastating war on the peninsula or regime collapse that threatens stability throughout the region.

Some believe that coercion will eventually cause the North to capitulate, and that "just a little more" pressure on the regime will force it to submit. Unfortunately, past history reveals that this appears unlikely. North Korea has little history of giving something for nothing; but the leadership in Pyongyang has a consistent policy of meeting external pressure with pressure of its own.[35] There is little reason to think that applying even more pressure will finally result in North Korea's meeting U.S. demands and de-escalating tension.

The U.S. has consistently stated that a range of political and economic relationships and initiatives is available to North Korea, provided that they first resolve the nuclear problem. This basic policy has spanned the Clinton, Bush, and now Obama administrations. For example, former Secretary of State Condoleezza Rice said that, "the first step is to have, from the North Koreans, a clear indication to the rest of the world and a plan for the dismantling of those programs. Much is possible after that."[36] This year, Special U.S. Representative for North Korea Policy Stephen Bosworth recently said that:

> President Obama came into office committed to a willingness to talk directly to countries with which we have differences and to try to resolve those differences. This commitment to dialogue

> was communicated directly to North Korea in the President's first days in office. . . . It is North Korea that faces fundamental choices…We will welcome the day when North Korea chooses to come out of its cave, and we will be prepared to receive them.[37]

Dealing with the nuclear challenge, then, will most likely require more than the coercive components of sanctions and potential military strikes. This will include engagement, inducements, and hard negotiating from the U.S. The willingness by the U.S. and other countries to engage in consistent negotiations with North Korea has wavered, and talks have been sporadic at best. The mood for such negotiations is often described as "appeasement" or "blackmail," and thus U.S. administrations are hesitant to appear too soft on a regime such as North Korea's. As such, the situation has incrementally deteriorated over the years.

Conclusion

The challenges of cooperation on the Korean peninsula are much greater than merely coordinating North Korea policy. The U.S., China, and Japan—not to mention Russia—have a number of concerns that have a direct impact on the peninsula. Coordination of increasingly integrated and complex economic relations, environmental concerns, and overall strategic and security institution building are tasks that as yet have been much discussed but little implemented. The future will see only greater pressure for coordination, with corresponding greater risks if steps are not taken.

Regarding North Korea itself, a broad consensus appears to have emerged that the mainstream approach of engaging North Korea but also being consistent in punishing bad behavior is the best way to proceed. Japan and China have their own interests regarding North Korea, and may prove to be wild cards in this process. But coordination among traditional allies and between all the interested parties appears more likely now than it did in the previous few years. While North Korea itself is undergoing a highly unstable succession of power, and has taken a number of provocative steps during 2009, there is still the possibility that careful and sustained efforts by the countries involved may see some progress in the future.

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The Republic of Korea and Its Four Regional Partners' Policies Toward North Korea During the Global Financial Crisis

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ABSTRACT

This article examines the period 15 September 2008 to 15 September 2009, focusing on North Korean statements and actions regarding the denuclearization of the DPRK and the possibility of returning to the Six-Party Talks. The objective is to determine if the policies of China, Japan, South Korea, Russia and the United States have changed during the year, a time of severe economic downturn globally. North Korean actions were divided into negative, neutral or positive categories and placed on a timeline chart that visually depicts the number of events by month. From September 2008 until July 2009, negative actions predominated. Then, in August 2009, an "explosion" of positive events demonstrated that some factor or factors reversed the policies of the preceding ten months. After a general discussion of what might be behind the significant reversal – the health of Kim Jong Il, progress on succession decisions, etc., the article moves on to review the policies of the Republic of Korea, China, the United States, Japan, and Russia, and determines that "in reality, the frantic activity of the DPRK from September 2008 until July 2009 only made the members of the Six-Party Talks more unified in their common policies toward the DPRK." What triggered a change in DPRK tactics is discussed, but ultimately must await an informed assessment from inside this "hermit kingdom."

Keywords: Leadership Succession; non-proliferation; nuclear policy; DPRK-ROK relations; DPRK-U.S. relations; DPRK-China relations; DPRK-Japan relations; DPRK-Russia relations; cooperative security; Limited Nuclear Weapons Free Zone-Northeast Asia; DPRK decision making; 2009 global economic crisis.

Introduction

The period from the fall of Lehman Brothers in September 2008 to the present (mid-September 2009) forms the approximate "book ends" for this article. The collapse of this financial giant unleashed a "global financial storm"[1] that took the world into an economic crisis, unlike any since the darkest days of the Great Depression of the 1930s. Quick action by the multinational economic/financial community to increase liquidity and minimize the likelihood for individual protective action – as occurred in the 1930s—averted a long-term collapse, and, by the beginning of the 4th quarter of 2009, many economic indicators were showing that recovery was underway. Still, experts are guardedly optimistic, and advise caution in "unwinding countercyclical policies too soon."[2]

This period, September 2008 until September 2009 also marked a very tumultuous moment in the affairs of North Korea and the five other states, namely China, Japan, South Korea, Russia and the United States. Beginning in December 2008 when the DPRK announced that it would no longer participate in the Six-Party Talks, the world witnessed a display of brinkmanship by North Korea that was remarkable, even for Pyongyang. Whether the reported 14 August stroke of Kim Jong Il[3] played a role in the roller-coaster of events is not clear. Nor is it clear if the international financial meltdown that was occurring during Pyongyang's "period of discontent" played any particular role – was the intense activity linked to a perceived weakness that could be exploited? What was clear were the missile launches, the second nuclear test of 25 May, and the steady decay of South-North relations characterized by a series of events that included the isolation of the Kaesong Industrial Zone and its impact on its employees, both South and North Korean. Then, as if by cue from offstage, events changed the atmosphere from despair to cautiously hopeful. Former President Bill Clinton visited Pyongyang—gaining the release of two American journalists—and former South Korean President Kim Dae Jung passed away, leading to a productive visit by a high-level North Korean delegation. Within days, the dynamics had changed. (See Appendix A that lists the primary

actions by North Korea during this period. They are labeled as "positive," "neutral" and "negative," depending on the nature of the event, and probable impact on the international situation.)

Of interest to this article were the reactions by the governments engaged in the Six-Party Talks, and their individual and collective actions through the United Nations Security Council and other U.N. organizations. Of specific interest is the policy toward a nuclear North Korea. Perhaps a review of these reactions will provide an insight into their likely policies in the future. That being the case, the situation for the past year will quickly be reviewed and then individual state responses examined.

Setting the Stage: A Summary of the Chronology of North Korean Events (See Appendix A for a more complete listing)

When Kim Jong Il failed to appear at a very important 9 September military parade marking the 60th anniversary of the founding of the Democratic Peoples' Republic of Korea (North Korea), it became clear to close observers of North Korea that something serious had happened to the "Dear Leader." Shortly after that, on the 19th, the DPRK declared that it "neither wishes to be delisted as a 'state sponsor of terrorism' nor expects such a thing to happen." It then announced that it would re-start the Youngbyon nuclear reactor.

In a public display of disgust and anger at leaflets being released on balloons in late November, the North closed the border with the South and blasted as "confrontation policies" actions by the Lee Myung-bak South Korean government.

With these and other disruptive events as a backdrop, in December the Six-Party Talks ended in an impasse as Washington and Pyongyang failed to agree on a verification protocol—especially relating to sampling methods. From this point onward, the isolation of the Kaesong Industrial Zone intensified and only 880 South Koreans—of the 4000 South Koreans employed—were given entry permits

By the end of January, North Korea had announced that it had scraped all military and political agreements with the Republic of Korea

nd blamed the "South's hostile intent." To put an exclamation point on relations, a Taepodong 2 missile was launched on a so-called satellite trajectory, followed later by more missile launches and the test of a nuclear device in May. After the ROK joined the Proliferation Security Initiative, the North responded on the 27 May with the pronouncement that such actions were a "declaration of war!"

After a very "busy" June, on the 4th of July, North Korea launched at least seven scud-type missiles that seemed to emphasize its own independence and willingness to pull "Uncle Sam's beard." Continuing in this very pro-active state, a spokesman for the North closed out July with a resounding critique of Secretary of State Hillary Clinton's comprehensive peace package, calling it "nonsense," and launched into a personal attack on the American official herself.

The coming of August brought about a fundamental shift in tactics, and the political environment seemed to improve almost overnight with former President Bill Clinton's mission to North Korea, the DPRK funeral delegation for President Kim Dae Jung, and the positive developments relating to South-North relations. September continued on a similar, if less spectacular, track

General Comments on a Year of Uncertainty

If we examine the time-line for September 2008 to September 2009, and depict it on a chart (See Chart #1) events considered provocative or "negative" outnumber "positives" 24 to 12. Events considered "neutral "or "neutral-negative" numbered only 4. But if we take a more focused look, we observe that from September 2008 to June 2009, a ten month period, the ratio is 21 negatives to 2 positives. Thus, from just after the day Kim Jong Il reportedly had his stroke (14 August) until the end of June, there were ten negatives for every one positive.

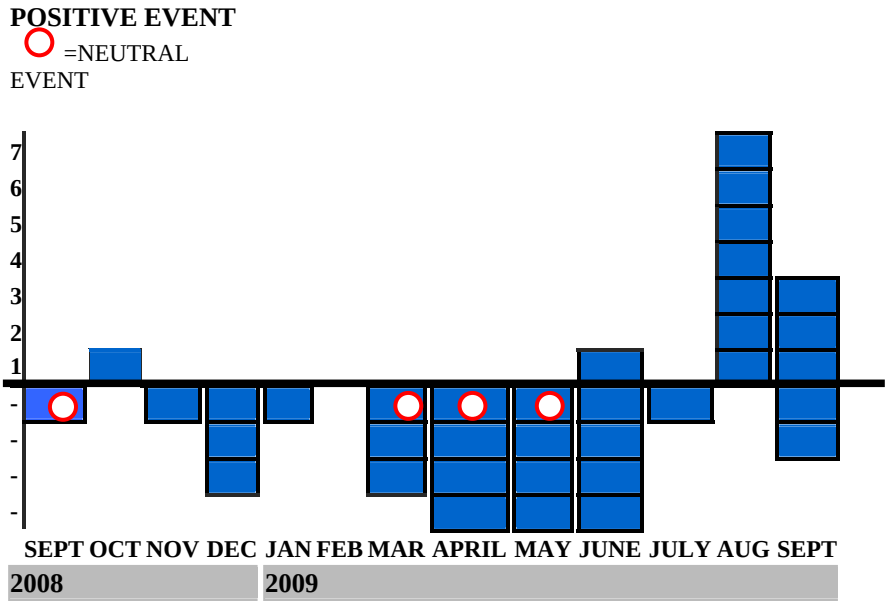
Looking at the period from July 2009 to September 2009, the positives were 10 and the negatives only three. The negatives included one that was the unfortunate release of water from the Hwanggang Dam that killed six South Korean campers. This is listed as a "negative," but some reports indicate that the discharge may not have been an intentional

"attack."[4] In fact, it is reported that the conclusive judgment on that matter is yet to be made by South Korean and U.S. Intelligence Officials. If, indeed, it turns out to have been a tragic accident, and the DPRK assumes culpability or responsibility, the negative might become a positive and contribute to a generally positive trend for the entire August to September period that would reflect 11 positives and two negatives.

Admittedly, two months does not eliminate the lingering effects of ten months of heavily negatively oriented news, but it does allow for speculation as to why, when the health of Kim Jong Il appears to be recovering, do the number of positive events seem to increase.[5] Permit the author an opportunity to return to this question after a review of regional interaction during this period.

Chart #1

Events Affecting DPRK Relations With Its Neighbors



Policies of the Republic of Korea and Its Four Regional Partners

When it comes to examining the policies of the five states negotiating with the DPRK in the Six-Party Talks, it became quite evident in the 19 September 2005 draft agreement that all the states, China, Japan, Korea, Russia and the U.S., were in full accord. They wished to see the elimination of nuclear weapons in North Korea as soon as it could be realistically accomplished. What we may observe in looking at the period of the economic crisis are the changes in nuance that can be observed or implied by such a review.

The Republic of Korea:

Relations with its neighbor to the north somewhat cooled with the inauguration of the Lee Myung-bak government in February 2008. The new conservative government was insisting on a greater return in its dealings with the Kim Jong Il regime. In late November the North closed the border blaming South Korean activists (largely refugees from the DPRK) who were launching leaflet balloons and citing "confrontational" policies by its neighbor. By December supplies getting into the Kaesong Economic Zone had been cut by 50% and the office to coordinate South-North exchange in the zone had been closed.

In an announcement on 30 January 2009, Pyongyang declared that ". . . all agreed points concerning the issue of putting an end to the political and military confrontation between the north and the south will be nullified."[6] During the spring a series of events, including the arrest of the two U.S. journalists, the missile launching, arrest of a South Korean employee in Kaesong, and the United Nations' condemnation for the missile tests led to charges and counter-charges by the North and the international security community. In this environment of heightened stress, the North declared all contracts of the Kaesong economic zone "null and void," and ten days later detonated its second nuclear device.

In response to the nuclear test, the ROK government announced it was joining the Proliferation Security Initiative as its 16th member. The North promptly labeled this as a "declaration of war."

It was in this extremely volatile environment that South Korea turned to a reaffirmation of the efficacy of the U.S.-ROK Alliance and sought a written statement committing the U.S. to provide "extended deterrence" through its nuclear umbrella to the South in the event of hostilities with the North.[7] At a summit between Presidents Barrack Obama and Lee Myung-bak, both nations underscored a united stance in dealing with the "grave threat" of the DPRK,[8] and reasserted the strength of the alliance. While standing firm in response to the provocations by the North, both leaders held out the possibility of significant assistance to the North if it chose a less adversarial stance.

At this June summit, the President of South Korea took the opportunity to chide the North for its unacceptable demands regarding working conditions at Kaesong. The North insisted on quadrupling the pay for workers and increasing the rent for the facilities by millions of dollars.[9]

The South Korean Defense Minister, Lee Sang-hee, approximately a month later, reiterated the policy of his government concerning nuclear weapons. He strongly reasserted that the ROK was committed to a de-nuclearized Korean Peninsula, and had been so committed since adhering to the Non-Proliferation Treaty in 1975. He rebuked politicians of the right who were calling for the acquisition of "nuclear sovereignty" after the North detonated its second device in May.[10] He alluded to the impressive conventional strength of ROK self-propelled howitzers and multiple launch rockets, saying that "Pyongyang is only 150 km away."[11]

In August, top U.S. and ROK diplomats charged specifically with negotiating the denuclearization of North Korea, met and reaffirmed that there was "no change" in the stance of both governments, ". . . in dealing with the North Korean nuclear weapons programs."[12] Both Stephen Bosworth and Wi Sung-lac met at a time when it appeared North Korea was changing tactics—releasing two American journalists who had entered Korea to former President William Clinton, and sending an official delegation to pay respects to honor former President Kim Dae-jung. While the North announced it would restart family reunions and other tourism programs with South Korea, it added that it was prepared

for ". . . a merciless and prompt annihilating strike" if the U.S. or South Korea infringed on its sovereignty.[13]

The period of the financial crisis ended in mid-September without any change in the policy of South Korea toward the North's nuclear capability. The policy of the Lee Myung-bak government since its inception in February 2008 was to require progress on denuclearization of the DPRK in exchange for aid and economic assistance. Its commitment to denuclearization of the Peninsula was clear throughout the period.

To close out the period (at least for this article), ROK Foreign Minister Yu Myung-hwan noted in a speech that it would be "naïve thinking" to believe that the DPRK would not target South Korea with nuclear weapons.[14] He stressed that the Six-Party Talks would be the best way to solve the nuclear issue, and stressed the priority of such talks, even if bilateral negotiations between the U.S. and the DPRK happen. Finally, he indicated that the nuclear issue took precedence over South-North relations because of the gravity of the matter.

In summary, it is very clear that the South Korea stance regarding nuclear weapons in the North is very closely tied to its relationship with the U.S. and the ultimate counter to any option chosen by the DPRK. Basically, Seoul appears resolutely determined to see North Korea live up to the commitments, originally made in 1991 by both states, to realize the denuclearization of the Peninsula – it was unchanged during the period of the financial crisis.

China

China has been seen as one of, if not the key player in resolving North Korea's infatuation with nuclear weapons since March 1993, when North Korea threatened to leave the NPT. It has also been seen as opposed to North Korea's possessing nuclear weapons since that time.[15] During the season of this article, the economic crisis began, and China continued to indicate its genuine opposition. The question being asked by most observers, however, was would China increase its pressure on the DPRK to move dramatically toward denuclearization, or would it

continue to be torn between employing effective measures to affect policy change, or would it continue to "pull its punches" out of fear that cutting its life line of support to the North Korean regime would cause it to implode and unleash massive refugee movements toward its border and coastal regions adjacent to the DPRK? These and other challenges to stability in NEA have been prime factors in determining PRC actions.

However, only hours after the second nuclear test came a clear denunciation by the PRC: On 25 May 2009, the DPRK [Democratic People's Republic of Korea] conducted another nuclear test in disregard for the common opposition of the international community. The Chinese Government is firmly opposed to this act. . . . To bring about denuclearization of the Korean peninsula, oppose nuclear proliferation and safeguard peace and stability in Northeast Asia is the firm and consistent stand of the Chinese Government. China strongly urges the DPRK to honor its commitment to denuclearization, stop relevant moves that may further worsen the situation and return to the Six-Party Talks.[16]

When the United Nations finally passed Resolution 1874—unanimously – the Chinese Representative, Zhang Yesui explained the position of the Peoples' Republic in the following manner:

> . . . the Chinese Foreign Ministry had issued a firm statement of opposition against the nuclear test conducted by the Democratic People's Republic of Korea, in disregard for the international community's common objective, it had strongly urged that country to honour the quest to denuclearize the Korean peninsula and return to the six-party talks….China supported the balanced reaction of the Security Council. . . . It should be stressed however, that the sovereignty, territorial integrity and legitimate security concerns and development interests of the Democratic People's Republic of Korea should be respected. After its return to the Nuclear Non-Proliferation Treaty, that country would enjoy the right to the peaceful use of nuclear energy as a State party. . . . The issue of inspections was complex and sensitive, and countries must act prudently and under the precondition of reasonable grounds and sufficient evidence, and refrain from any words or deeds that might exacerbate conflict. Under no circumstances should there be use

> of force or threat of use of force. China has always stood for a peaceful solution to the situation and has made tremendous efforts in that regard, including by initiating the Six-Party talks.[17]

Agreeing to new and more stringent sanctions on the DPRK was a step for China that indicated its major dissatisfaction with the Pyongyang regime, but it was followed by a "clarification" that revealed that it still had major concerns about too much pressure that would end in the collapse of its long-time colleague state. In a demonstration that it was enforcing the new U.N. program, however, the PRC seized a shipment of vanadium in late July that was headed to the DPRK. It was hidden in a truck and was found at a routine check at a border crossing.[18]

It is clear that during the period of the economic crisis, China continued to press the DPRK to honor its previous commitments to denuclearize the peninsula. As the period came to a close, China had sent a senior envoy, State Councilor Dai Bingguo, on a special mission to coordinate the visit of China's Premier Wen Jiabao, scheduled for early October. It can be assumed that discussions included the nuclear issue as he was accompanied by Wu Dawei, China's chief envoy to the Six-Party Talks. They met with Kim Jong Il. All in all, this was a good sign.[19]

The United States

Whether China or the United States is the prime actor in this drama is often debated. However, relations between the DPRK and the U.S. have involved nuclear weapons since General Douglas MacArthur called for their use during the dark days of the beginning of the Korean War,[20] and again after Chinese volunteers appeared in large numbers.[21] Later, both John Foster Dulles and Dwight D. Eisenhower claimed to have used the threat of nuclear weapons to gain the armistice in 1953. In any event, in conversations with diplomats of the DPRK the author has often found this to be one of their leading perceptions of the need for North Korean weapons—a counter to the U.S.'s overwhelming capability which formed " . . . a tangible military threat to the DPRK's very existence."[22]

As the period of the economic crisis began, the United States was still involved in Six-Party negotiations with the DPRK, and American

policy was clear that no nuclear weapons were to be permitted in the DPRK. The talks of December 2008, however, ended in an impasse over North Korea's failure to sign the verification protocol.[23]

The stated reason for the North Korean recalcitrance was how soil samples and related on-site sampling would be conducted. But this was also the season of approaching transition of the American government. A new President, Barack Obama, had been elected in November, and it is possible North Korean negotiators were reluctant to sign such an important agreement when a new administration might give them a better deal. We also must wonder about the state of the North Korean internal decision-making process at that particular time. Was Kim Jong Il fully recovered by this point? Were other decision makers – not so committed to the nuclear deal—in a position to block action? Did the maneuvering over a possible succession plan have any role at this stage of negotiations? And, ultimately, keeping with the theme of this conference, did the international financial crisis have any role, as those in power may have believed it would completely occupy decision makers in the capitalist world.

Unfortunately, only members of the North Korean inner circle can adequately address these questions. We, however, are left with the reality of the situation. The Six-Party Talks were dead in the water, and the new Obama Administration was just beginning to address major policy issues. The outgoing CIA head, Michael Hayden, in making a list of the top ten security concerns facing the new administration, listed North Korea as eighth, with Al Qaeda leading the list.[24] This being the case, Peter Beck of Yonsei and American University put it best when he wrote: "Over the years, the North has learned that nothing concentrates Washington minds more effectively than provocative behavior."[25]

From December until July a steady stream of North Korean provocative behavior (see the above chronology) was the norm. The U.S. in all instances held firm in its policy regarding nuclear weapons for North Korea. In this regard, the bad behavior exhibited by the DPRK caused the two newly formed governments of South Korea and the United States to coordinate policies and begin to articulate a joint vision

for the future. The June 2009 summit between President Lee Myung-bak and Barack Obama emphasized that solidarity between the two long-time allies would be the hallmark for future relations. Peace and prosperity for the Korean Peninsula was highlighted and regarding the nuclear issue it was very specific: ". . . We will work together to achieve the complete and verifiable elimination of North Korea's nuclear weapons and existing nuclear programs, as well as ballistic missile programs. . . "[26] At this same meeting, President Obama specifically noted that an "extended nuclear umbrella" would be provided to the ROK.[27]

By the middle of July 2009 the level of exasperation was seen as extremely high among Washington policy makers. One senior official noted that in the absence of the Six-Party Talks, "We may have no choice but to move to containment."[28] By the 25th of July, the world heard the North Korean reaction to American Secretary of State's comments about a "comprehensive package" that would offer incentives in return for DPRK denuclearization. At the ASEAN Regional Forum, North Korean diplomats called the proposal "nonsense," and stated: "North Korea will not agree to any kind of appeasement package until it gets the United States to reverse . . . 'hostile policies.'"[29]

It was not all bad news during July, as Kurt Campbell, the Assistant Secretary for East Asia and Pacific Affairs did call for "patience" in dealing with North Korea, but he insisted that "consequences" for recent provocations by the North were appropriate. He noted that the U.S. was ". . . looking at a full range of particular steps designed to put pressure on North Korea."[30]

Having gone through the month of June and hearing threats including "act of war" in response to the Security Council's enhanced sanctions on the DPRK and the negative response seen above to a comprehensive package, all of the sudden in August the sky turned blue and former President William Clinton went to Pyongyang and returned with two American journalists who had been sentenced to 12 years in prison for entering the DPRK illegally. While the journalists were not too positive about their treatment while in Pyongyang, they were housed in a guest house and permitted to call home. Their incarceration in the

DPRK was basically a deal waiting to happen—especially considering their close association with former Vice President Al Gore.

After significant behind the scenes negotiations, President Clinton went to Pyongyang, had discussions with Kim Jong Il and returned to the States. From 4 August on, the atmosphere began to change. Cautiously at first; several days after Clinton's return the White House reiterated its position regarding North Korea—"the United States wanted to enforce U.N. resolutions to ensure North Korean weapons of mass destruction are not spread. . ."[31]

Then on the 19th of August, the DPRK announced it would send a delegation to honor the late President Kim Dae-jung. South-North developments gained momentum from their visit and meetings with the South Korean president and the unification minister. The atmosphere was taking on a very different hue.

By the 21st, worldwide observers awoke to see pictures of Minister Kim Myong-Gil of the North Korean Mission to the United Nations sitting drinking coffee with New Mexico Governor Bill Richardson and long-time Korean specialist, K.A. Tony Namung.[32] Their talks were seen as a "hopeful sign" with the North, indicating it was willing to start a new dialogue with the U.S over the nuclear issue. Day's later word was released that Ambassador Stephen Bosworth would be travelling to Northeast Asia, and that a visit by him to Pyongyang would be likely, but perhaps not in the immediate future.[33]

While the "immediate future" has not arrived at the time of writing, all sorts of statements are coming out of Washington, Tokyo and Seoul about a restart of bilateral U.S.—DPRK talks. Stephen Bosworth on the 8th of September was quoted as saying from Tokyo that the U.S. was ". . . willing to engage with North Korea on a bilateral basis;" how best to respond to a North Korean invitation was being considered.[34] Since then, several reports have reiterated the U.S. intent to find a formula for bilateral negotiations.[35] The bottom line, however, in all the talks would be the insistence for the North to relinquish its nuclear weapons and forgo any future involving such weapons.

Thus, while the period of the financial crisis witnessed some dramatic highs and lows, the basic policy of the U.S. toward nuclear weapons held by North Korea remains unchanged.

Japan

Japan's relations with the DPRK have been on a downhill slide since Pyongyang admitted it had abducted several Japanese citizens during a summit of 17 September 2002.[36] It came the same day that the two nations signed the "Japan—DPRK Pyongyang Declaration," which set out basic principles useful for finally establishing normal diplomatic relations. On the one hand, the declaration marked a significant mile marker and pointed toward a resolution of outstanding issues between the two powers. However, complications soon developed related to the fate of the abducted citizens, and while one hears references to the "Pyongyang Declaration," normalization of relations remains a distant goal.

In fact, relations have been so strained that, prior to the December 2008 Six-Party Talks, the North Koreans had real opposition to continuing with Japan as a participant, and according to the KCNA, "Japan is entirely responsible for the fact that Pyongyang had to pull out of the Six-Party Talks."[37] The issue, in addition to the missing Japanese is the fact that Japan held shipment of stores of heavy oil that had been promised to the DPRK in return for data on their nuclear program. Japan indicated it was waiting for information on the kidnapped Japanese before it released the oil.[38]

There is no doubt that Japan wishes to see North Korea denuclearized. The second nuclear test of 25 May 2009 came as a second provocation after the April missile launching. Both items in combination are considered a "grave threat to the national security of Japan"[39] and prompted Japan to strengthen its ties with the United States. In the annual report of the Ministry of Defense, Japan indicated that it believed North Korea may be capable of producing a nuclear warhead for its missiles "sooner than expected."[40] With such news in Japan,

right-wing circles were calling for a renewed debate on the question of nuclear arms for Japan.

In denouncing the 25 May 2009 nuclear test, Japan, in its support of UN Resolution 1874, did call attention to the need to protect, or not harm, the "innocent people of the DPRK."[41] Also, it called for the DPRK to cease "all activities related to nuclear programs," and urged it to resolve the abduction issue, among other observations.[42]

After the missile launches of 4 July 2009, Japan severely protested the North Korean action. The launches were called "grave and provocative," but in its concluding statement, it listed the abduction issue first. This final sentence read: "In addition, Japan strongly urges North Korea to take concrete steps towards the comprehensive resolution of the outstanding issues of concern including the abduction, the nuclear, and the missile issues.[43] The same order of priorities had been observed in the Prime Minister's statement of 13 June 2009, following U.N. Resolution 1874.

Of course, all discussion regarding Japan's policy in this article up to this point has dealt with the government controlled by the Liberal Democratic Party (LDP). With the election of 30 August 2009, a minor revolution in East Asia occurred. The LDP was emphatically defeated by the Democratic Party of Japan (DPJ), and replaced by a new government headed by Yukio Hatoyama.

If we examine the Manifesto of the DPJ we observe that the new government of Japan will be committed to the denuclearization of North Korea and resolving the abduction issue. In the section of the Manifesto titled: "Contribute to the World through Proactive Diplomacy," we find: "Ensure that North Korea halts development of nuclear weapons and missiles, and make every effort to resolve the abduction issue." It is clear that their goal is the same as that of the preceding party; action to realize the goal will now be awaited by all.[44]

The previous government of Prime Minister Yasuo Fukuda had made an agreement with the DPRK in August 2008, in the city of Shenyang that required North Korea to reinvestigate the abductions and to attempt to conclude that investigation sometime in the fall of 2008 ("this coming

autumn").[45] The Japanese side was to ease sanctions once the DPRK had begun its process. The North Koreans accused Japan of not living up to its obligation, and the DPRK cancelled the agreement because of Japan's "hostile" policies.[46] North Korea, upon the victory of the DPJ indicated it was ready to hold talks with the Hatoyama government. While this agreement refers to the normalization efforts between both countries, it does have significance if the DPRK-Japan relation can be improved. Japan can encourage the North back to the Six-Party Process.

As can be seen from the above, Japan is dedicated to seeing the end of a nuclear threat from North Korea. It can also be observed that the issue is complicated by the abduction issue involving the resolution of the welfare of 12 individuals who were kidnapped in the 1970s and 1980s, and the normalization issue. The abductee issue has been inflamed by right wing political forces and it has become a very critical issue for the Government of Japan to resolve. As we can see, at times there is a conflict between these goals and it does, at times, affect nuclear diplomacy with the DPRK. Clearly, Japan is dedicated to a non-nuclear North Korea. There has been no visible change in this policy during the period of the economic crisis.

Russia

As early as 2003, Russia and the United States had agreed (according to a statement by President George W. Bush) to "strongly urge North Korea to visibly, verifiably, and irreversibly dismantle its nuclear weapons program."[47]

After the 2006 nuclear test by North Korea, Russia joined in the unanimous condemnation by the Security Council. The Representative of the Russian Federation stated: ". . . He could only regret that North Korean authorities had ignored the warnings contained in the Council's presidential statement of 6 October about the negative consequences that would flow from a nuclear test, primarily for the DPRK itself." After setting out clearly that the behavior of the DPRK was unacceptable, he added that Pyongyang must take practical steps to achieve denuclearization of the Korean Peninsula.[48]

When the 25 May 2009 nuclear test occurred, Russia again joined the rest of the UN Security Council and condemned the DPRK. Ambassador Vitaly Churkin of the Russian Federation in his appended comments to Resolution 1874 stated that the resolution was ". . . an appropriate response" to the actions of the DPRK.[49]

Sometime after the launch of missiles and the testing of nuclear devices, it was reported that Russian military authorities had deployed air defense systems (the S-400 Triumph) in the vicinity of the Korean Peninsula. In the clarification that ultimately was given, the missile defense system was justified as a means to destroy errant missiles and debris that might transit Russian air space. No basic change in Russian policy was seen; the DPRK was not a "potential adversary;" some questioned the state of North Korean missile technology, and wanted a degree of protection against failed tests.[50]

Of more importance was the progress made by the United States and Russia in reducing their own nuclear arms inventories that took place in Moscow during President Obama's visit in July 2009. The two states made significant progress in updating nuclear weapons reduction goals. And, regarding the North Korean situation discussions between Presidents Medvedev and Obama revealed a keen interest in dealing with nonproliferation issues generally and North Korea specifically. One can reason that states in the process of reducing their own nuclear inventories have very little interest in supporting the development of an additional state with nuclear arms capability.[51]

With regard to Russia, it is clear that no significant change occurred during the economic crisis time frame and a commitment to a denuclearized Korean Peninsula was available from multiple vantage points.

Overall Assessment

It is clear that by resorting to bluster and bombast – plus a nuclear weapon test – the leaders of North Korea attempted to make it clear that it would not be deterred from joining the ranks of the world's nuclear weapons states. In reality, the frantic activity of the DPRK from

September 2008 until July 2009 only made the members of the Six-Party Talks more unified in their common policies toward the DPRK. Common policies found a voice in the several resolutions and statements emanating from the U.N. Security Council during the period of observation.

What triggered a change in DPRK tactics – and at this point we can only say that the tactics have seemingly changed—is difficult to determine, even sitting on the Korean Peninsula as a close observer. The questions the author had hoped to address can be asked, but not answered. Was it a return to active participation in the policy process by the leader of the DPRK, Kim Jong Il? Was it increased pressure from Chinese or Russian sources? Did a realization that the world's economic crisis was on the mend play any role? Were the results of the second nuclear test enough to satisfy technical requirements for a miniaturized warhead that could be mated with available missiles? Did the initial tests of the new American President reveal a will to match that of the Great Leader? Did the matter of succession enter into the equation at all?

All we can say at this moment is that it appears both the United States and the Democratic People's Republic of Korea indicate a willingness to meet in bilateral and multilateral forums to address, once more, the issues at the very root of this discordant relationship—security guarantees for one and complete nuclear disarmament for the other.

In an article that looks at foreign policy alternatives for the newly empowered Democratic Party of Japan, the respected Japanese security analyst, Yukio Okamoto, notes that in Asia there "…is no basis on which to build a collective security arrangement. . . ".[52] The only course for Japan to guarantee its security is ". . . through the steadfast Japan-U.S. security alliance." Having advocated the development of a limited nuclear free zone for Northeast Asia since 1991, this author has another observation. Perhaps, rather than collective security based on the formation of alliances to balance one another, we should examine cooperative security where the organizing principle features a "win-win" infrastructure. In this manner, not only would the desiderata of the DPRK and the U.S. be realized, the security desires of the remaining

states of Northeast Asia – China, Japan, South Korea, Mongolia, and Russia —would also be met.

Obviously, solving the security needs of all the states in Northeast Asia will not be easy, but the resort to nuclear weapons only creates new problems. In the early years of a new century, a new paradigm is in order.

Appendix A:

Setting the Stage: A chronology of North Korean events from the middle of September 2008:

9 September 2008: Kim Jong Il fails to appear at important military parade to mark the 60th anniversary of the founding of North Korea – Neutral

19 September 2008: DPRK declares that it neither wishes to be delisted as a 'state sponsor of terrorism' nor expects such a thing to happen." Announces it will re-start Youngbyon reactor. – Negative

11 October 2008: Condoleezza Rice takes North Korea off the terrorist list – positive

Late-November 2008: North Korea closes the border – ostensible reason is anger at non-governmental activists sending leaflet balloons into North Korea and ROK confrontational policies – Negative

December 2008: Last Six-Party Talks Meeting – Talks end in impasse as Washington and Pyongyang fail to agree on verification protocol – especially sampling methods – Dismantlement slows down – Negative

Isolation of Kaesong Industrial Zone intensifies – Of the 4,000 South Korean workers, only 880 permitted entry – logistics support cut by 50% – Negative

The Inter-Korea Exchange & Cooperation Consultation Office is shut down by the North – Negative

30 January 2009: North Korea scraps all military and political agreements with ROK blames, "South's hostile intent." ". . . all the

agreed points concerning the issue of putting an end to the political and military confrontation between the north and the south will be nullified." – Negative

19 March 2009: Two U.S. Journalists Detained by North Korea for Illegal Entry – Negative

25 March 2009: Taepodong 2 missile launched on a satellite trajectory and satellite configuration – Negative

30 March 2009 -- A South Korean employee at Kaesong was arrested for allegedly criticizing the DPRK's regime and trying to persuade a local female worker to defect. Hyundai Asan engineer. – Negative

9 April 2009: Kim Jong Il attends parliamentary vote to re-elect him leader -- his first major state appearance since a suspected stroke on 14 August 2008. – Neutral

5 April 2009: DPRK launches "Unha-2" rocket carrying a communications satellite. – Negative

That test launch brought about international condemnation. Pyongyang reacted swiftly by saying:

– it would conduct a nuclear test – Negative

– begin reprocessing plutonium from Yongbyon nuclear facility. – Negative

– withdraw from the six-party talks and remain so "as long as [they continue as] they are now constructed." —Negative

15 May 2009: DPRK declares contracts of Kaesong Econ Zone "Null and void." – Negative

23 May 2009: Former President Roh Moo Hyun committed suicide – Kim Jong Il sends condolences. – Neutral

25 May 2009: DPRK tests 2nd nuclear device and declares it is no longer bound by the 1953 truce. – Negative

26 May 2009: ROK joins the PSI becoming the 16th member – Negative

27 May 2009: DPRK responds with this is a "declaration of war!"Negative

June 2009: North proposes reopening talks on Kaesong industrial zone – Positive

2 June 2009: Kim Jong Il seems to appoint his successor – Kim Jong Un – Neutral

8 June 2009: Two U.S. journalists sentenced to 12 years in jail – Laura Ling and Euna Lee – for crossing the border illegally – Negative

11 June 2009: Pyongyang demands pay be quadrupled for Kaesong workers; introduces new rent structures – Negative

12 June 2009: United Nations Security Council votes unanimously to impose tougher sanction on the DPRK – Negative

13 June 2009: North Korea responds that any blockade will be considered an "act of war" and that it will weaponize its weapon stock – Negative

4 July 2009: North Korea launches at least 7 missiles of Scud type – Negative

25 July 2009: North Korea calls Secretary of State Hillary Clinton's comprehensive package "nonsense," and launches a personal attack on her – Negative

4 August 2009: 27 President Clinton brings home the two U.S. journalists from DPRK – meets with Kim Jong Il – Positive

19 August 2009: DPRK sends a funeral delegation for Kim Dae Jung – Positive

21 August 2009: Minister Kim Myong Gil of DPRK UN Mission meets with Governor Bill Richardson of New Mexico – Positive

23 August 2009: DPRK delegation meets with President LMB and Unification Minister – Positive

24 August 2009: Hyundai Group Hyun Jung-eun returns from DPRK – traffic normalized to Kaesong Economic Zone – Positive

28 August 2009: DPRK Agrees to resume family reunion exchanges – Positive

29 August 2009: DPRK Frees ROK fishermen detained in July – Positive

5 September 2009: North and South Korea normalize operations of the Inter-Korea Exchange & Cooperation Consultation Office – had closed in December – Positive

5 September 2009: North Korea in correspondence to the U.N. claims that its uranium enrichment program is nearing completion – Negative

7 September 2009: North Korea Discharges possibly 40 million tons of water from the Hwanggang dam into the Imjin River killing six South Korean campers. – Negative

11 September 2009: DPRK modifies pay increase demands for Kaesong employees to 5% – Positive

14 September 2009: U.S. indicates it is ready for bilateral talks with the DPRK – Positive

Notes:

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[2] Sakong Il, "It's too early to discuss 'exit strategies,'" *Ibid.* 23 June 2009, p. 10.

[3] Steven Erlanger, "Doctors Confirm Kim Jong Il Stroke," *New York Times*, 11 December 2008, Internet Edition.

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[5] Of course, this is a very rough way to indicate the dynamics of the situation. Were we to assign weights to each event in terms of significance, we might observe some change in the overall profile, but that is for another time.

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[10] "Korean peninsula must be nuke free, says defense chief," *The Korea Herald,* 20 July 2009, p. 2.

[11] *Ibid.*

[12] "S. Korea, U.S. to maintain pressure on Pyongyang," *The Korea Herald,* 24 August 2009, p. 4.

[13] "U.S. Welcomes N.K. steps, but wants more," *The Korea Herald,* 19 August 2009, p. 1.

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[15] In the author's association with the concept for a Limited Nuclear Weapons Free Zone for Northeast Asia, one moment in March 1993 stands out. Permit a slight, but interesting digression from the era of the financial crisis. At the time of our first international conference dealing with the concept held in Beijing in March 1992, the Chinese delegation attending that meeting of 75 representatives from all of the states in the region except Taiwan, was adamantly opposed to such an idea and made its opposition in clear and not very complimentary language. However, during a follow-up meeting in Atlanta in the first week of March 1993 with the same Chinese delegation, a Japanese delegation and an American group, the leader of the Chinese team (a member of the Chinese Peoples' Congress) approached the author at an evening reception on the first day of the meeting and said that now the time was appropriate to consider the idea in a very positive light. This represented a complete "about face" in attitude. It became clear why their policy had changed one week later when Pyongyang announced it would leave the NPT. From that volte face, one had to draw the conclusion that Beijing, like most others, was loathe to see a North Korea with nuclear weapons.

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[19] "North Korean leader meets China's envoy," *The Korea Herald,* 19 September 2009, p. 2.

[20] Bruce Cumings, *Korea's Place in the Sun: A Modern History, (*New York: W.W. Norton & Company, 2005), p. 272.

[21] *Ibid.* See especially a discussion beginning on pages 290 – 293. A request by MacArthur for 38 nuclear weapons was not approved.

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The Korea-U.S. Alliance in the Obama Era

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ABSTRACT

Where does the U.S.-ROK alliance, which is once again on a firm footing, go from here? Is a strengthened bilateral alliance the only path to follow? Or is there wisdom for both the United States and the ROK in complementing bilateralism with multilateralism, serious engagement of North Korea, and a wider range of international relationships generally? This article urges the latter course, with emphasis on the usefulness of continuing close ROK-China relations, rather than forging a fuller strategic partnership. The central argument is that the vitality of the U.S.-ROK alliance no longer depends only on the quality of their partnership, or on deterrence of North Korea. The new strategic challenge is to embed the Korean peninsula conflict in a regional security framework—a dialogue mechanism already agreed upon at the Six Party Talks—and that requires above all a good working relationship with China by all parties. A multilateral regional security mechanism would be a fitting strategic complement to sustained engagement with North Korea, which the Obama administration has yet to undertake. Serious engagement with North Korea would have to proceed from an understanding of its basic international objectives: regime survival, quest for international legitimacy, and self-determined development. These goals lend themselves to a U.S. policy, in close association with South Korea, of patient search for common ground, relying on diplomacy rather than threats or sanctions.

Keywords: U.S.-ROK alliance, Obama administration policy, North Korean nuclear weapons, China foreign policy, engagement, U.S. defense policy

Introduction

Assessing the South Korea-U.S. alliance today requires making choices in two areas, one conceptual and the other temporal. Conceptually, the choice is between focusing on bilateral or multilateral relations, and between alliance-based security or common security. Is this a time for buttressing the alliance and making it central to Korean peninsula security, or for revising the alliance in line with multilateral trends in East Asia and emerging prospects for a common-security approach to security issues? The actual political and strategic situation in East Asia complicates the choice of strategies. As will be proposed below, I see the situation optimistically: new governments are in power in several countries, including South Korea, Japan, and the United States; U.S.-China relations are fairly upbeat; and tensions between other countries in East Asia have eased. Do these circumstances argue for or against significant U.S. policy changes in relations with South Korea? This article will seek to make the case for important modifications of U.S. policy, mainly in the direction of multilateralism and common security.

U.S.-South Korea relations since the Korean War have exhibited many of the problems typical of those between a great-power patron and a junior-partner client. These include different values and policies, such as over human rights, Korean unification, and democratization; and different priorities, such as nuclear proliferation or denuclearization when dealing with North Korea. The patron tends to take liberties with the client's internal affairs, such as U.S. intervention in South Korea's domestic politics and presumptions of impunity in the running of military bases. This behavior is matched by the client's efforts, occasionally successful; to manipulate the patron's political and military support to serve its own narrow ends, as was notable during the years of dictatorship. Aggressive South Korean lobbying and other less savory activities in the United States in past years are another aspect of that manipulation. And there are the different meanings each country has attached to the idea of achieving greater "balance" in the relationship.[1]

These U.S.-ROK divergences continue today: over engagement with North Korea, U.S. base realignment, theater missile defense (TMD) and the Proliferation Security Initiative (PSI), Korean troop deployments overseas, defense cost-sharing, Korean beef imports, and the Korea-U.S. Free Trade Agreement (KORUS FTA)—alongside occasional outbursts of anti-U.S. nationalism, especially among younger Koreans. But the

U.S.-ROK alliance is strong at its core, and the new administration of Barack Obama—with help from North Korea's nuclear weapons and missile tests—quickly endorsed and acted to strengthen the alliance. Some problems, such as defense cost-sharing and the "beef issue," were resolved. The KORUS FTA will eventually be ratified, though not as soon as the Korean side would prefer, since Congressional resistance is expected to be stiff. Secretary of State Hillary Clinton reassured the Korean government on a common stance toward North Korea during her first Asia tour.[2] Still, other matters, such as transfer of wartime operational control of ROK forces to South Korea and the relocation of U.S. bases, have been put on a firm schedule. Anti-U.S. sentiment has subsided since 2003; though generational differences remain, overall Koreans appreciate the alliance and the U.S. military presence.[3] A visa waiver was granted to Korean visitors to the United States. And when the North Korean nuclear issue resurfaced, the Obama administration reaffirmed in strong terms its commitment to South Korea's defense.

On the South Korean side, the Lee Myung Bak administration began with a promise to restore the priority of the U.S.-ROK alliance and build a "strategic alliance for the twenty-first century." Lee has emphasized the two countries' shared interests and common values. Breaking with his two liberal predecessors, Lee has conditioned engagement with North Korean on verifiable and complete denuclearization. In May 2009, he responded to the North Korean nuclear test by announcing that South Korea would join the Proliferation Security Initiative. He has trumpeted a "global Korea" vision that looks for a role beyond the peninsula, and in that spirit has made a non-combat troop commitment to Afghanistan. Lee has talked, for instance, about the bridging role that the ROK might play between countries in the financial crisis and on climate change. South Korea's chairing of the G-20 in 2010 and Lee's "green growth" initiatives put the country in a good place to play these new roles.

Whether or not South Korea is prepared, and politically able, to work closely with the United States on other regional and global issues, such as counterterrorism, peacekeeping operations, and development aid, is less certain. Talk about a common vision, as Scott Snyder has observed, never was clearly articulated while George W. Bush was president and remains unclear to the present.[4] The "joint vision" statement that emerged from the Obama-Lee summit in June 2009 was not exactly rich in substance (they declared that the United States and South Korea will build "a comprehensive strategic alliance of bilateral, regional and global

scope").[5] As always, South Korea's foreign policy and national-security strategy are at the mercy of its domestic politics, and in this area the Lee administration has suffered from an assortment of controversies that have greatly reduced its popularity (though the trend reversed in the fall of 2009) and, consequently, its reliability as a strategic partner.[6]

Most close American observers of Korean affairs agree that the U.S.-ROK alliance has proven its value over the five decades of its existence. During that time, another Korean war has been avoided, South Korea has made the transition to democracy and from a developing to a high developed economy, the ROK military has become fully modernized, and South Korea has become an important player in regional affairs. Thus, the question is, Where does the alliance go from here? Is a strengthened bilateral alliance—a "21st century strategic alliance," as President Lee put it when he visited President George W. Bush in April 2008—the only path to follow? Or is there wisdom for both the United States and the ROK in complementing bilateralism with multilateralism and a wider range of international relationships generally?

A number of Asia experts, including several with U.S. government experience, have urged that the alliance with South Korea be stretched to support U.S. objectives beyond East Asia. They have argued that South Korean democracy is sufficiently advanced, and values are so shared with the United States, that the alliance should be viewed in global terms.[7] As one of those experts, Victor Cha, has put it, the United States "must strive to make the alliance an institution of intrinsic rather than just strategic value."[8] In fact, these experts seem to regard the U.S.-ROK alliance as having greater capability to serve American interests than any of the other four in East Asia (Japan, Australia, Thailand, Philippines). I will comment critically on this view; but for now, it may be enough to say that any such prospect of a global strategic role for South Korea depends, as it always has depended, on stable politics in Seoul and on the outcome of the security situation on the peninsula. In particular, how well Washington and Seoul cooperate in dealing with North Korea is likely to be the determining factor in any truly strategic U.S.-South Korean partnership.

In offering a perspective on the alliance, this article will focus on three areas of inquiry. First, it will assess the Obama administration's performance so far with regard to Korean affairs, and find that it does not differ much from that of its predecessor. Second, it will examine the so-called "North Korea problem," which I find is (or can be) less

threatening than is commonly thought, provided engagement is restored as the central element of both U.S. and Korean policy. Third, it will offer policy recommendations based on a broad view of the alliance in the context of regional (Northeast Asia) security. The central argument of my analysis is that the vitality of the U.S.-ROK alliance no longer depends only on the quality of their partnership, or on deterrence of North Korea. The new strategic challenge is to embed Korean peninsula conflict in a regional security framework, and that requires above all a good working relationship with China by all parties. Most importantly, I argue, work should move forward to construct a multilateral body for regional security cooperation, a project already agreed upon at the Six Party Talks (6PT) and a fitting strategic complement to the engagement of North Korea.

Obama's Korea Policy

Promise versus Performance

The Obama administration entered office with promises of foreign-policy departures from the George W. Bush administration in four major areas: greater reliance on traditional diplomacy, engagement with enemies and rivals, respect for international law and organizations, and the embrace of multilateralism. While it is very early to draw firm conclusions, and while Obama has been preoccupied with the economic crisis at home and the war in Afghanistan, we may still reflect critically on what the new policy-making team has and has not accomplished—and how these outcomes have impacted US-ROK relations.

U.S. policy toward North Korea so far has not been entirely consistent with the four promised new directions.

As to diplomacy, the President has not applied engagement to North Korea. There has been no talk of "pushing the reset button" (as with Russia), being willing to meet with adversarial leaders (as with Venezuela and Cuba), or softening sanctions (as with Syria). Contrast Obama's North Korea and Iran policies, for example. Toward both, U.S. policy has been a mixture of carrots and sticks. But early on in his administration, Obama pledged mutual respect in relations with Iran and wrote a secret letter in May to the supreme leader, Ayatollah Ali Khamenei, urging a new framework for talks. Obama has been properly credited with keeping a steady hand on the tiller—i.e., being faithful to his new realism—during the popular protests in Iran against the clearly fraudulent presidential election results. His policy team reportedly

decided not to openly come down on the side of Mir Hussein Moussavi, and instead to stick to the effort to engage the Mahmoud Ahmadinejad government. Clinton and Biden are said to have wanted a tougher response, but were overruled.[9] Despite the crackdown in Tehran, and the U.S. push for tougher sanctions on Iran, Obama seems willing to wait for a more auspicious moment for the besieged Ahmadinejad government to respond to his overtures.

There is little in this engagement scenario with Iran that is reflected in U.S. diplomacy with North Korea. Notably, when it comes to North Korea, the United States has shown a lack of patience, as reflected in Hillary Clinton's tough, even demeaning language when discussing North Korea.[10] The United States has eschewed private diplomacy (until the North Koreans themselves insisted on a visit from former President Bill Clinton in return for the release of two U.S. journalists) and has failed (as of September 2009) to follow up on North Korea's overtures to the South after the death of Kim Dae Jung. The Obama administration has yet to use the kind of conciliatory language it used with Iran that suggests mutual respect. For instance, it has not repeated the vow to end "hostile intent" between the two countries that was made by President Clinton and Vice Marshall Jo Myong Nok in a joint communiqué of October 2000.

U.S. diplomacy has mainly focused on providing security assurances to U.S. allies, not to North Korea. Direct talks with Pyongyang may have been proposed by Washington at the time the new administration took office; but if so, there does not seem to have been any energetic follow-up.[11] No suggestions have emerged from the U.S. side about a new deal that might bring North Korea back to the Six Party Talks, though in September 2009, the North Koreans hinted that they might return to the 6PT if direct talks with the United States were part of the deal. Instead of reaffirming the agreement of all parties to the Six Party Talks in 2005 and 2007 to move toward creating a new mechanism for regional security cooperation, under Obama the United States has opted for military countermeasures to compel cooperation. The United States and South Korea conducted war games (*Key Resolve*) in the spring of 2009, which involved over 25,000 soldiers; conducted a major military exercise, *Ulchi Freedom Guardian* in August; and pushed in the United Nations Security Council for interdiction of North Korean vessels, thus risking a dangerous incident at sea or along the DMZ that could become a *casus belli*.

When the Obama administration entered office, a senior official said it was committed to "trying . . . a fundamental change [from Bush's unilateral approach], a different view that says our security can be enhanced by arms control." [12] As Obama said in Prague, his objective is to eliminate nuclear weapons entirely. In that spirit, the administration has canceled research on new nuclear warheads, reached agreement with Moscow on further reductions of nuclear weapons under a new START, vowed to revive efforts to gain Senate approval of the Comprehensive Test Ban Treaty (CTBT), and indicated that it would seek to strengthen the Nuclear Nonproliferation Treaty (NPT) and negotiate a treaty to ban production of fissile materials. Critics have called all these efforts naïve and unenforceable, particularly against the likes of North Korea and Iran; but Obama argues that the naïveté lies with those who believe "we're going to be able to pressure countries like Iran and North Korea not to pursue nuclear weapons themselves" so long as the nuclear stockpiles of the United States and other nuclear-weapon states keep growing. What he might have added is, *and so long as the United States continues to rely on extended nuclear deterrence on the Korean peninsula*.

When it comes to North Korea, however, Obama has not followed through on his recipe for change. While he has reached agreement with Russia on further reduction of nuclear arsenals, he has rejected the arms-control approach with North Korea in favor of pressure tactics. Oddly, in light of Obama's campaign statements about engaging enemies, his actions are much more forceful than those chosen by Bush.[13] Obama has made it clear that nuclear weapons in North Korean hands are unacceptable ("under no circumstance are we going to allow going to allow North Korea to possess nuclear weapons," he said during Lee Myung-bak's initial visit to Washington in June 2009); that bargaining in pieces to denuclearize North Korea will no longer be tried (we will not "buy the same horse twice," Secretary of Defense Robert Gates has said); that extended nuclear deterrence would apply to South Korea and Japan; and that North Korea is a "grave threat" to international security. In short, confrontation, not engagement, is the main approach to the North, and U.S. nuclear weapons remain the deterrent of last resort.[14] These sentiments, while not ruling out direct talks with Pyongyang or resumption of the 6PT stress punishment unless the North complies. They seem designed as much for a domestic as for an international audience. North Korea has given the president an opportunity to display

toughness—in contrast with Iran policy—and satisfy the pro-missile defense members of Congress.

"Crime and punishment" might therefore be said to characterize Obama's approach to North Korea's nuclear weapon and missile tests. Recourse to the UN has followed the usual U.S. tendency to use it when it serves U.S. purposes and ignore it otherwise. But does U.S. policy promote adherence to international law and strengthen international institutions? To be sure, North Korea has violated previous and current UN Security Council resolutions with its weapons tests. But it is arguable that the chosen countermeasures will advance the peaceful resolution of disputes, one of the UN's principal purposes. In larger perspective, one might choose to understand North Korea's weapons tests as part of a longstanding search for a minimum deterrent to U.S. threats in both the Clinton and Bush years—threats that, Pyongyang surely noted, were followed by invasion in the Iraq case. North Korea can also point to the hypocritical behavior of the major powers and the UN. Numerous missile tests have been undertaken by other states without UN condemnation; nuclear disarmament by the major powers remains an unfulfilled promise under the Nuclear Non-proliferation Treaty; and proto-nuclear-weapon states such as Israel, India, and Pakistan have not faced severe international sanctions. Thus, Pyongyang might well say of U.S. policy that it amounts to "do as I say, not as I do."[15]

On multilateralism, the so-called North Korea crisis has been an opportunity for the United States to reaffirm its traditional security bilateralism even as it works with the other four parties to the 6PT to pressure North Korea. But since each of the other parties has a different preference for how to deal with the North, the U.S. approach resembles its traditional approach of "multilateralism à la carte"—on one hand, accepting limited sanctions as the least common denominator for collective action, but on the other, reserving the right to take stronger action unilaterally if necessary.

Walking the Walk

Serious engagement with North Korea would have to proceed from an understanding of its basic international objectives: regime survival, quest for international legitimacy, and self-determined development. These goals lend themselves to a U.S. policy of patient search for common ground, relying on diplomacy rather than threats or sanctions.

Forcible measures, while appealing in response to North Korean militancy, surely feed *sangun* ("military-first") politics, a fortress-state mentality, and militant nationalism. In the end, such measures are more likely to lead North Korea to expand its weapons capabilities than to rejoin the 6PT.

Moreover, classifying North Korea as an unrepentant and untrustworthy rogue state is not entirely accurate. On a number of occasions it has been possible for the United States to reach agreement with the DPRK and gain its cooperation, starting with the Agreed Framework of 1994.[16] We might recall Pyongyang's missile moratorium of 1999, its responsiveness to accusations made surrounding Kumchang-ri, and its receptivity to visits by various senior U.S. officials. The DPRK has joined the ASEAN Regional Forum. It has engaged in a variety of Track II and Track III activities with individuals and groups from the United States, the European Union, and Canada, among others. In accordance with the 2007 joint statements of the 6PT, North Korea cooperated in allowing the IAEA to resume inspections, providing a fairly comprehensive declaration on its nuclear programs, and completing about 80 percent of disablement. According to one specialist, it was the Bush administration's insistence, backed by South Korea and Japan, on more intrusive verification that led Pyongyang to halt disablement; and when the incoming Obama administration stepped up the rhetoric critical of North Korea—particularly Hillary Clinton during her Asia trip—the hardliners in Pyongyang responded in kind with weapons tests.[17]

Further strengthening the case for persisting on a diplomatic path to resolve the nuclear issue is the likelihood that both domestic and international factors account for North Korea's resort to nuclear-weapon and missile testing. The North's provocative acts might be part of the drama of leadership succession, a function of its economic woes, a reflection of its "military-first" politics, or a response to the changes in South Korea's policy toward the North. Externally, the possible factors include North Korea's disappointment with the Obama administration's perceived failure to present a new package that would satisfy its security needs; the dim prospects for productive direct bilateral talks with the United States; hence, the failure of Kim Jong Il's America policy and the shift to a tougher line that might, among other objectives, demand recognition as a nuclear-weapon state. Any or all of these factors argue

for caution and against the notion that Pyongyang is set on an aggressive path that has rendered negotiations moot.

Given the opaqueness of North Korean decision making, these comments about motives must be speculative. Nobody knows with reasonable certainty what prompted the weapons tests in 2009, nor what might convince the North Koreans to stop them, return to talks, and ultimately dismantle their nuclear-weapon capability. But the absence of clarity on such weighty matters is itself an argument for patience and prudence—and an opportunity for considering new approaches.

Revising U.S. Policy: Some Recommendations

Six Steps

What can the Obama administration do differently from the Bush administration with respect to Korean peninsula problems?

First, it can endorse engagement of North Korea as the central U.S. policy, and urge the South Korean government to do likewise. Then Obama might renew security assurances to North Korea and re-affirm that the United States will not undertake "regime change." This action would put Washington in a better position to build trust with the North and pave the way for productive bilateral or (with the ROK) trilateral talks. The Bill Clinton mission to Pyongyang provided an excellent opportunity for damage repair and trust building. To sustain the momentum, U.S. leaders should lower the volume of rhetoric critical of North Korea, rejecting the pattern of name-calling that had become standard in the Bush-Cheney years. Demonizing one's enemy is never fruitful; it merely embitters an already tense situation. This is not to say that criticism of North Korea, for example on its horrific human rights situation, should be avoided. But gratuitous insults should be.

Obama's point about the unlikelihood that Iran and North Korea will forfeit the nuclear option while faced with U.S. nuclear weapons seems especially well taken in light of the Iraq experience. Surely the North Koreans have considered that if Saddam Husssein had a nuclear deterrent, the Bush administration might have had to think twice about an invasion. But whether or not arms control will achieve the desired results depends ultimately on what motivates the Iranians and North Koreans in the first place. So far as Pyongyang is concerned, some experts contend that what it wants is to be recognized as a nuclear-weapon state (NWS) precisely in order to negotiate arms reductions—that is, to get added security in exchange for reducing its arsenal.[18]

Perhaps so; or perhaps talk of NWS status is just a bargaining move. It is extremely unlikely that North Korea, any more than India or Pakistan, will be granted NWS status—UN Security Council resolution 1718 of October 14, 2006, explicitly states that North Korea "cannot have" that status—all the more so in light of the way the North has sought it. North Korean leaders surely understand that, just as they understand that Obama has rejected arms control in their case and made elimination of the DPRK's nuclear weapons the indispensable objective of U.S. policy. Thus, the real challenge for negotiators may be how to grant the DPRK added security and legitimacy *without* having to elevate its nuclear status, and without having to rely on nuclear weapons.[19]

Second, Obama can build on the agenda with North Korea—showing willingness to get past the nuclear issue and deal with other, equally pressing matters, such as North Korea's development and the role of the five other parties in it. Peter Hayes at the Nautilus Institute has suggested that a new U.S. policy of *extended non-nuclear deterrence* be implemented on the Korean peninsula. Secretary of State Clinton's dismissal in May 2009 of the idea of further economic aid to Pyongyang until it returned to the 6PT may have been politically necessary, but may not have been strategically wise. At least some North Korean leaders may be chafing at the country's increasing economic dependence on China, creating an opportunity for the United States, South Korea, Japan, and others to step in. For instance, Obama might seek South Korean and Chinese initiatives, with U.S. support, to enlist North Korea's participation in regional economic activities, such as the Asian Development Bank and energy cooperation.

Third, Obama might creatively respond to Lee Myung-Bak's "global Korea" ambitions. Here, the administration should keep recent history in mind. In the early 1990s, President Kim Young Sam called for an "open and global foreign policy," and his foreign minister, Han Sung-joo, articulated elements of a "new diplomacy."[20] "New diplomacy" essentially meant ending South Korean clientalism without diminishing the security alliance with the United States. It incorporated Korean contributions to the resolution of global issues (such as through anti-poverty development assistance and soldiers for UN peacekeeping), the promotion of multilateralism economically (in APEC) and in security (a Northeast Asia security dialogue), new ways to engage North Korea (building on Roh Tae-woo's "Northern Policy"), and embrace of foreign-policy idealism (a diplomacy of values). Thus, for South Korea to step

outside the alliance and into regional and global roles is hardly novel, and should pose no problem for Washington.[21] Both could agree to make the establishment of a Northeast Asia security dialogue mechanism a central aim of regional policy, building on (or bypassing) the 6PT process.[22] In the meantime, they can support quadrilateral cooperation on environmental, confidence-building, and other topics with Japan and China.

Fourth, and consequently, the Obama administration should resist the kind of advice mentioned earlier to transform the alliance with the ROK into a strategic partnership. The South Korean government or particular interest groups may well be tempted to leverage U.S. support for domestic purposes—purposes that may be politically or strategically destabilizing. Such manipulation of the alliance occurred regularly during the Cold War. In the summer of 2009, the Korean government announced that it would be forming a joint task force with the United States to consider a Korean plan to augment the spent fuel from its commercial nuclear reactors.[23] Approval of such a plan clearly would increase tensions with the North as well as raise concerns elsewhere about South Korea's one day "going nuclear." Korean support of U.S. policies might also be used to impact North-South Korea relations. One example is the U.S. request that the ROK provide funds to support the war in Afghanistan, reportedly after apparently (and sensibly) deciding not to request South Korean troops.[24] A leading South Korean news article, noting that the request was delivered by Richard Holbrooke and not Stephen Bosworth, suggested, "we have to show sincerity in the Afghan issue before we can expect solid cooperation from the U.S. to solve the North Korean nuclear issue."[25] U.S. support of Pakistan is another example: Again, Washington sought and received South Korean money.[26] If the payoff for these contributions is a harder U.S. line on North Korea, it will be detrimental to a negotiated resolution of the nuclear and missile issues.

Another consideration against having the US-ROK alliance become a "strategic partnership" is that it risks involving both countries in unsupportable adventures abroad. The Vietnam War is a case in point; Afghanistan could become another. It is one thing to cement a partnership around development aid to poor countries, steps to mitigate global warming, or humanitarian and UN-sanctioned peacekeeping missions; but it is quite another to suggest partnering in international interventions. South Korea has enough on its plate in dealing with the

North; for it to play a global security role as part of another "coalition of the willing" would be quite risky.

Finally, such advocacy perpetuates Cold-War thinking about alliances. Similar arguments have been made about Japan—that it should "do more" (for the United States) in return for U.S. protection, and that Japan's fears of abandonment should constantly be addressed. These arguments always downplay Japanese public opinion, which seems less fearful of abandonment than it does of being drawn into overseas conflicts; and they give insufficient credit to the many ways that Japan has in fact supported the United States in return for U.S. security guarantees, sometimes (such as in wartime and violations of the supposed "non-nuclear" policy) at considerable risk to domestic political stability. Though South Korea's relationship with the United States is, of course, different from Japan's, some of the same alliance dynamics apply. Korean public opinion is bound to be wary of a leader who follows the United States too closely. Roh Moo Hyun was able to go against public opinion in sending troops to Iraq because he had established his independence of U.S. policy beforehand. In the current situation, it may not be to the benefit of either South Korea or the United States to have too tight of an alliance in which South Korea is perceived, at home or abroad, as a "follower" country.

We are in a new era in East Asia where multilateral cooperation, not alliance competition, is the name of the game, and where security threats have taken on new meanings beyond military ones. "Abandonment," while a legitimate fear on occasion, can also be a ploy to obtain more commitments from the United States. The solidity of the U.S. commitment to the alliance and to the ROK's security is not in doubt, and there is no indication that Pyongyang doubts it.[27] Reaffirming the value of the alliance can be accomplished in several ways that do not require new commitments or missions, such as strategic reassurances (which Obama has made), improved high-level communication, revitalization of the Trilateral Coordination and Oversight Group (TCOG), and (as mentioned below) ratification of the KORUS FTA and sales of militarily necessary weapons.[28]

Fifth, if Obama is serious about multilateralism, he should avoid doing anything that reinvents the Cold War division of Asia. This is especially important because of its implications for U.S. and ROK relations with China. Washington and Seoul need positive relations with China for both narrow (North Korea) and large-scale (global

environment and arms control) matters. China's cooperation is immensely important, regardless of what happens in North Korea—whether the future is collapse, integration in East Asian institutions, fulfillment of denuclearization promises, or simply low-level crisis management. If South Korea were to follow the advice to be a close strategic partner of the United States as a hedge against possible future Chinese expansionism,[29] it would risk losing a vital economic *and strategic* partner in Northeast Asia.

There is wisdom in the idea that South Korea should maintain the kind of balanced relationship with China and the United States that it has exhibited in recent years. U.S. policy should recognize that such a balance (which, to be clear, preserves U.S. security ties with the ROK) serves its own as well as all others' long-run interests in regional stability.[30] When U.S.-China relations are on the upswing, the good will redounds to the benefit of the rest of Asia, including Taiwan and the Korean peninsula. The United States has to recognize that China's regional and global influence are bound to keep rising,[31] that the "responsible stakeholder" approach to China is outdated, and that Korea is likely to find its interests best served by maintaining a friendly, mutually rewarding relationship with Beijing—a relationship that has become of greater import to the ROK than that with Japan.[32] "Leadership" in Asia can be shared, if unevenly, and doesn't have to be regarded as zero-sum.

China has more than proven its value in sustaining the 6PT process and preventing war on the peninsula, policies that have forced it to keep North Korea afloat as long as possible.[33] Its security interests in Korea, as in Taiwan, need to be respected. One way to respect them is to cultivate strong U.S.-China ties such that, when the day comes for Korean unification, China has no reason to fear regime change or U.S. or Japanese "colonization" of northern Korea, while the United States has no reason to fear a Chinese intervention to restore order and impose a pro-Beijing leadership. Regular U.S.-PRC-ROK senior-level meetings, inclusion of the PRC within TCOG, and even U.S. participation in some form in the Shanghai Cooperation Organization, would be ways to deepen U.S.-China dialogue while also contributing to regional security.

Sixth, the United States should make every effort to be on the positive side of Korean nationalism.[34] That means sticking to its scheduled turnover of OPCON to South Korea in 2012, despite the opposition of many Korean military leaders; pushing for ratification of

KORUS FTA, which is likely to be a significant confidence-builder for Koreans about the alliance;[35] and preventing ugly incidents at U.S. bases that are affronts to the Korean people. These steps all have in common a determination to recalibrate the alliance, respect Korean sovereignty, and deflate anti-Americanism. The rationale here does not rest on the belief that the U.S.-ROK alliance will fray; nor is it intended to mean a downgrading of the alliance. Like all other U.S. alliances, this one has gone through transformations and endured strains before. U.S. alliances with the EU in NATO, with Israel, and with ANZUS have all undergone major stresses, most often due to the gap between U.S. strategic perspectives and the narrower purposes for which allies entered into the alliance.[36] The United States should be prepared to draw down its military force level, currently 28,500, still more as relations normalize with North Korea and as Japan assumes more obligations for its own defense. Besides, we are long past the time when the ROK required a U.S. presence in order to deter North Korea. Like Israel, South Korea has high-tech military forces, a strong U.S. security commitment behind it, strong support in Congress, and a long track record of developing or obtaining weapons in support of defense modernization and self-reliance.[37]

Conclusion

The U.S.-ROK alliance has certainly proven its resilience. But we have to recognize the inadequacies of bilateral alliances in an age of limited resources, the appeal of multilateralism in Asia, generational change in Korea, and ever-present nationalist sensitivities in the Korean body politic. Alliances can take many forms, moreover; they do not have to be founded on a large foreign military presence that is expensive and politically problematic. The United States should look for ways to keep Korea secure other than by nuclear deterrence and a network of military bases. The North Korean threat with nuclear weapons aggression is no longer the chief security issue in Northeast Asia; the future path of a rising, powerful China is.

Fortunately, the time is ripe for changed thinking. New leaders have come to power in Japan and Taiwan as well as in the United States and South Korea. This augurs well for reducing China-Japan, Japan-Korea, and China-Taiwan tensions. In Japan, Hatoyama Yukio has reassured the United States that it remains the "cornerstone" of Japan's foreign policy. But he has also indicated that what used to be called "re-

Asianization" will be emphasized—notably, in the idea of an East Asia Community—and that Japan will seek to accommodate the trend of multilateralism:

> we must not forget our identity as a nation located in Asia. I believe that the East Asian region, which is showing increasing vitality, must be recognized as Japan's basic sphere of being. So we must continue to build frameworks for stable economic cooperation and security across the region. . . . The financial crisis has suggested to many that the era of U.S. unilateralism may come to an end. It has also raised doubts about the permanence of the dollar as the key global currency. I also feel that as a result of the failure of the Iraq war and the financial crisis, the era of U.S.-led globalism is coming to an end and that we are moving toward an era of multipolarity.[38]

And in Taiwan, President Ma Ying-jeou has vigorously pursued closer economic and political contacts with the mainland while not giving ground on the issue of sovereignty. Beijing has welcomed these departures from the pro-independence policies of Chen Shui-bian. These developments, along with positive U.S.-China relations and the foreseeable end to the U.S. occupation of Iraq, provide incentives to do things differently—specifically, to move with the tide of greater balance in the foreign policies of East Asian states—notwithstanding destabilizing events such as the global recession, conflicts in South Asia, and North Korea's provocations.

It might well be objected that the greatest barrier to changed thinking lies in the domestic politics of all these countries. Beset by a recession, political squabbling, and an increasingly unpopular war, the Obama administration may have great trouble selling a new approach to North Korea or deeper engagement with China. Lee Myung-bak's government may not be politically able to restore engagement with the North. The new Hatoyama government in Tokyo may prove as inept as its predecessors—and unable to fulfill promises of better social security and less bureaucratic control of the policy process. Finally, China may be convulsed by ethnic and other unrest and official corruption. There is, of course, no way to know how probable or influential any of these developments might be. Ultimately, leaders in these and other countries will have to sell the notion that there is a window of opportunity for moving East Asia onto a cooperative-security track.

U.S. thinking on Korean security—and Korean thinking as well—should turn toward working with its 6PT partners to create a Northeast Asia security mechanism, thus embedding U.S.-Korea relations in a formula for *regional* security. Bringing China into the picture as a security guarantor of a "permanent peace regime" in the Korean peninsula—understanding that the DPRK, as one component of that regime, would probably require constant attention and "feeding"—could create a security net of greater long-term vitality than a bilateral alliance alone, which is subject to the inevitable frictions caused by foreign bases and political shifts. Engagement of the North is, in reality, the only viable option for defanging it, whether that means the complete elimination of its nuclear weapons or the warehousing of its current nuclear arsenal. Part of an engagement strategy would be to embed North Korea in multilateral groups, a task that South Korea might find a worthy complement to the bilateral alliance with the United States.

Admittedly, the history of East Asian multilateral organizing does not provide much optimism for the idea that the United States will give full support to a multilateral approach to regional security.[39] Three themes stand out in that history. First, ever since the end of World War II and the creation of the so-called San Francisco system (marked by the treaty of peace with Japan in 1951), the United States has strongly preferred the hub-and-spokes approach to regional organizing. Second, the United States has generally opposed East Asian multilateral initiatives, including those proposed by security allies (such as South Korea's Asia and Pacific Council and Japan's Asian Monetary Fund) as well as those proposed by non-allies (such as Malaysia's East Asian Economic Grouping). Third, where the United States has acquiesced in East Asian multilateralism, it has done so grudgingly—either with limited participation (such as ASEAN and ARF) or with some confidence that it could have significant influence over the agenda (as with APEC). Yet the most important regional groups in East Asia are precisely those in which the United States is not a member: ASEAN+3 and the Chiang Mai currency swap arrangement.

While this history does not bode well for the possibility that the 6PT can evolve into a Northeast Asian security dialogue group, there are some positive developments. The fact that the United States, since the second George W. Bush administration, has embraced the 6PT process and evidently does not see it as undermining the bilateral alliance system is one modest encouragement. The fact, too, that all six parties to the

6PT have given their blessing to the idea of a Northeast Asia regional mechanism is important. Moreover, the recent policies of China, South Korea, Japan, and Russia all reflect the important role their leaders assign to multilateral organizing, notably on the functional side (environmental protection, trade, and energy, for instance). Thus, what some analysts are calling a "critical juncture" in regional history may be at hand, with the North Korean nuclear situation creating the crisis that seems to be a necessary ingredient in bringing that juncture about.[40]

Thus, what we are depicting here is a refocusing of alliance politics to take account of the new security options that multilateralism provides.[41] The United States has been a latecomer to Asian multilateralism, and has shied away from active participation in ARF and other groups. China, on the other hand, has made multilateral diplomacy a cornerstone of its "new security concept." Multilateral groups, to be sure, have their shortcomings; in the Asian way of things, they do not have the contractual, collective-security obligations of, say, NATO. But ASEAN and ARF provide forums for confidence-building measures and preventive diplomacy. Their emphasis on dialogue has institutionalized China-South Korea-Japan discussions (ASEAN+3), brought North Korea under the tent, helped prevent inter-state warfare in Southeast Asia, produced progress on territorial disputes, promoted free-trade agreements (notably, the China-ASEAN FTA) and steps toward a common currency basket, and gained acceptance of the Treaty of Amity and Concord by China and Japan. While it is commonplace (especially in Washington) to say that strong multilateralism of the European variety cannot be duplicated in East Asia, such a conclusion ignores the creative diplomacy that has been practiced within the ASEAN process.[42]

Refocusing the alliance also means acknowledging, and, in fact, promoting South Korea's policy independence, particularly when it comes to dealing with China. As one Korean analyst has written, the alternative to the patron-client, hub-and-spokes framework that has long characterized U.S.-ROK relations

> is to deal with South Korea on more equal terms and engage it as a partner in building a new order in the region, facilitating China's gradual transition and resolving the North Korean nuclear crisis to usher in a new era in Asia. This alternative would require the United States to be more 'equidistant' between China and Japan . . . South Korea would play the role of an

advocate for cooperation in the region, not a balance in the neorealist sense of the term.[43]

Clearly, this approach to the alliance involves policy changes of considerable magnitude, and counts on cooperative relationships that carry heavy historical baggage. But it will also hold out very positive benefits, such as for Korean unification, improved neighborly relations for Japan, and lower costs for the U.S. military.

One should also consider the possible consequences of indecision or holding fast to the status quo: a gradual drift of South Korea away from the United States, perhaps even with the end game of acquiring nuclear weapons;[44] North Korea's firm unwillingness to rejoin the 6PT or accept denuclearization; fissures among the five parties to the 6PT, and the demise of that framework and its gains in consensus decision making; Japan's quest for "normal nation" status; arms racing in East Asia; and the acceptance by some East Asian states of the Beijing Consensus.[45] "Back to the Cold War" may seem like only a remote possibility; but if containment of North Korea remains the focal point of U.S. policy, South Korea will be placed in the awkward position of having to choose between a continued tight alliance with the United States and closer ties with China.[46] And if containment should succeed, there is no telling what North Korea's embattled leaders might do. Neither North Korea's collapse nor a North Korea that lashes out seems preferable to an engagement policy aims—as South Korean leaders have long preferred—at a soft landing.

U.S. relations with the ROK should therefore be brought into line with a firm common commitment to engagement. Now that North Korea is, however temporarily, on its own engagement trajectory with the South, Washington needs to encourage South Korea's leaders to get back to President Lee's promised "flexibility" in relations with the North, such as by improving high-level ROK-DPRK communications, reversing the downward trend in South Korean development aid and trade with the North,[47] and restoring production at the Kaesong Industrial Park. By the same token, South Korea should be discouraged from needlessly provocative acts such as war games, propaganda balloon releases, and idle speculation about leadership succession in North Korea. The United States and South Korea should join forces on a coordinated economic development and environmental protection plan for the North, linked to humanitarian steps for dealing with North Korean refugees. The common alliance task immediately ahead is to prepare for a post-Kim

Jong Il world. It is essential that South Korea and the United States be on the same page concerning how to make the new North Korean leadership feel both more secure and more willing to join the modern world.

Notes:

[1] Patrick M. Morgan, "American Grand Strategy and the US-ROK Alliance," *Pacific Focus*, vol. 24, No. 1 (April, 2009), pp. 22-42.

[2] Speech in South Korea, February 20, 2009, at www.state.gov/secretary/rm/2009a/02/119412.htm.

[3] See Stephen J. Flanagan et al., "Adapting Alliances and Partnerships," in Flanagan and James A. Schear, eds., *Strategic Challenges: America's Global Security Agenda* (Washington, D.C.: National Defense University Press, 2008), pp. 246-47.

[4] Snyder, *Pursuing a Comprehensive Vision for the U.S.-South Korea Alliance* (Washington, D.C.: Center for Strategic and International Studies, April 2009), p. 7.

[5] Text at www.voanews.com/uspolicy/2009-06-23-voa2.cfm.

[6] As Scott Snyder has written, public support for foreign policy in South Korea is "a particularly formidable obstacle" because "many alliance issues are politically contested and little room exists to imagine a new alliance concept unburdened by the legacy of past inequalities and the fear of U.S. abandonment." Ibid., p. 11.

[7] Kurt M. Campbell et al., *Going Global: The Future of the U.S.-South Korea Alliance* (Washington, D.C.: Center for a New American Security, February 2009); Snyder, *Pursuing a Comprehensive Vision*.

[8] In Campbell et al., *Going Global*, p. 11.

[9] Roger Cohen, "The Making of an Iran Policy," *New York Times*, July 30, 2009, online ed.

[10] Prior to a meeting of the ASEAN Regional Forum in Bangkok in July 2009, she likened the North Koreans to "small children and teenagers and people who are demanding attention."

[11] A former U.S. diplomat communicated to the author that shortly after taking office, the new administration did send feelers to the North Korean leader on direct talks but did not receive a reply. But according to various South Korean

press reports following President Obama's election victory, the North Koreans were rebuffed by his camp when they asked about attending his inauguration.

[12] William J. Broad and David E. Sanger, "The Long Arc of a Nuclear-Free Vision," *New York Times*, July 5, 2009, p. 1.

[13] Donald G. Gross, "North Korea and the Importance of Arms Control," NAPSNet, June 25, 2009, at www.nautilus.org/fora/security/09052Gross.html.

[14] Consider here Secretary Clinton's admonition: "Current sanctions will not be relaxed until Pyongyang take verifiable, irreversible steps toward complete denuclearization. Its leaders should be under no illusion that the United States will ever have normal, sanctions-free relations with a nuclear armed North Korea." Speech at the United States Institute of Peace, October 21, 2009, Department of State No. 2009/1049, at www.usip.org/files/resources/Clinton_ usip_remarks.pdf.

[15] Samuel S. Kim, "North Korea's Nuclear Strategy and 'Intermestic' Politics," paper presented at a conference on "North Korean Nuclear Poltics," University of Washington, Seattle, June 4-5, 2009, p. 30.

[16] See Robert Carlin and John W. Lewis, *Negotiating with North Korea: 1992-2007* (Stanford, Calif.: Center for International Security and Cooperation, Stanford University, January 2008), esp. appendix A for a list of agreements between the United States and the DPRK.

[17] Leon V. Sigal, "Why Punishing North Korea Won't Work . . . and What Will," online at www.nautilus.org/fora/security/09046Sigal.html.

[18] On that objective, see the speech by Victor Cha, "North Korea: What Next?" at the Carnegie Council, June 3, 2009, at www.cceia.org/resources/transcripts/ 0172.html. Cha also suggests that North Korea wants the same deal that India obtained: separate treatment for its military and civilian nuclear power plants.

[19] Added security can take a number of forms: diplomatic recognition, negative security assurances, regular summit or other high-level meetings, a U.S. promise not to reintroduce nuclear weapons on the Korean peninsula, and a peace treaty that finally ends the Korean War. See Sigal, "Why Punishing North Korea Won't Work."

[20] This paragraph relies on my chapter, "Korea in the Asia-Pacific Community: Adapting Foreign Policy to a New Era," in Ray Weisenborn, ed., *Korea's Amazing Century: From Kings to Satellites* (Seoul: Fulbright Program, 1995), pp. 84-89.

[21] South Korea's foreign minister, Yu Myung-hwan, announced plans to increase official development assistance to 0.25 percent of GNP from 0.09 percent. *Korea Times*, October 29, 2009.

[22] Peter Van Ness, "Designing a Mechanism for Multilateral Security Cooperation in Northeast Asia," *Asian Perspective*, vol. 32, No. 4 (2008), pp. 107-26.

[23] Yonhap, "S. Korea to Form Task Force on Nuclear Accord with U.S.," Seoul, July 6, 2009; NAPSNet, July 6, 2009.

[24] *JoongAng Ilbo*, May 4, 2009, reported that a senior Lee Myung-bak administration official told it that "Washington has made a request for a large amount of cash for Afghanistan if it proves too controversial to send troops." Another official confirmed the request and added: "We will take into account the US-Korea alliance and public sentiment before we make a final decision." NAPSNet, May 5, 2009.

[25] *Chosun Ilbo*, April 17, 2009, in NAPSNet, April 20, 2009. The ROK decided to expand support in Afghanistan from $30 million to $74.1 million until 2011 and to bolster the scale of its contribution of a Provincial Reconstruction Team (PRT) to Afghanistan, all in lieu of sending troops.

[26] Yonhap (Seoul), April 17, 2009, in NAPSNet, April 20, 2009.

[27] See Terence Roehrig, "Restructuring the U.S. Military Presence in Korea: Implications for Korean Security and the U.S.-ROK Alliance," in Korea Economic Institute, *On Korea 2008* (Washington, D.C.: KEI, 2007), pp. 142-45.

[28] South Korea has been the third-largest importer in the world of conventional weapons in recent years (2004-2008), with 73 percent of those weapons purchased from the United States. (It bought about $1 billion worth of U.S. weapons in 2007.) In fact, the United States sold a higher percentage of conventional weapons to South Korea than to Israel or the United Arab Emirates during those years. Stockholm International Peace Research Institute, *SIPRI Yearbook 2009: Armaments, Disarmament and International Security* (Oxford: Oxford University Press, 2009), p. 15. See also *Korea Herald*, December 23, 2008, at NAPSNet, December 24, 2008.

[29] Snyder, *Pursuing a Comprehensive Vision*, p. 18. For instance, South Korea would not want to make its territory available to the United States in case of a U.S.-PRC crisis over Taiwan. See Flanagan et al., *Strategic Challenges*, pp. 253-54.

[30] Whether China's rise means (as I believe it should) that U.S. policy should give China highest priority, or that it should continue focusing on traditional

U.S. allies and seeking ways to offset Chinese power, is of course a fundamental issue for the new U.S. administration. For contending views, see the "Special Roundtable: Advising the New U.S. President," *Asia Policy*, No. 7 (January, 2009), at http://nbr.org/publications/asia_policy/AP7/AP7_B_SpecialRT_AdvisingPres.pdf.

[31] Pew and Chicago World Affairs Council polls show that in many parts of Asia the belief is that China will be the strongest country in the region by mid-century. But the United States still has a large reservoir of positive regard throughout Asia, notwithstanding the distaste for Bush's policies and widespread admiration for China's economic advances.

[32] Much like Roh Moo Hyun, Lee Myung-bak has spoken of Korea's need for a "balanced diplomacy" with China and the United States, a view consummated in the Lee-Hu Jintao summit of May 2008 when China and the ROK agreed to establish a "strategic cooperative relationship." See David C. Kang, "The Security of Northeast Asia," *Pacific Focus*, vol. 24, No. 1 (April, 2009), p. 14.

[33] One consequence of China's strong economic ties to North Korea, which include taking in nearly three quarters of its exports, is that it weakens the international sanctions voted on by the UN Security Council and strengthens the North Korean military, which evidently controls coal, metals, and other exported items. See Blaine Harden, "China Trade Helps Shield N. Korea," *Washington Post*, June 27, 2009.

[34] See Gi-Wook Shin and Paul Y. Chang, "The Politics of Nationalism in U.S.-Korean Relations," *Asian Perspective*, vol. 28, No. 4 (2004), pp. 119-145.

[35] See Uk Heo, "The US-ROK Alliance: Security Implications of the South Korea-US Free Trade Agreement," *Pacific Focus*, vol. 23, No. 3 (December, 2008), pp. 365-81.

[36] See Morgan, "American Grand Strategy and the US-ROK Alliance."

[37] Jae-Jung Suh, "Transforming the US-ROK Alliance: Changes in Strategy, Military and Bases," *Pacific Focus*, vol. 24, No. 1 (April, 2009), pp. 61-81. The ROK has consistently responded to changes in the U.S. defense posture and North Korean threats with weapons upgrades and increased military spending of its own. Consider that in 2009 alone, the ROK began deploying 1,000-km. range surface-to-surface cruise missiles, and made its first space launch from Korean territory (a Russian-made rocket with a Korean-built satellite). Seoul's ability to count on the United States for new weapons was enhanced in 2008 when Congress upgraded the ROK's procurement status to the same level as NATO and Japan. See John Feffer, "Ploughshares into Swords: Economic

Implications of South Korean Military Spending," *KEI Academic Paper Series*, vol. 4, No. 2 (February, 2009) and Flanagan et al., *Strategic Challenges*, p. 251.

[38] Hatoyama, "A New Path for Japan," *New York Times*, August 27, 2009.

[39] Kent E. Calder, "Critical Junctures and the Contours of Northeast Asian Regionalism," in Calder and Francis Fukuyama, eds., *East Asian Multilateralism: Prospects for Regional Stability* (Baltimore, Md.: Johns Hopkins University Press, 2008), pp. 15-38.

[40] Ibid., pp. 21-22. The other two crises that spurred regional organizing were the Korean War and the Asian Financial Crisis.

[41] For similar ideas, see Hyeong Jung Park, "Looking Back and Looking Forward: North Korea, Northeast Asia and the ROK-U.S. Alliance," Brookings Institution paper, December 2007, available at www.nautilus.org/fora/security/08004Park.pdf.

[42] For a good critique of the U.S. stance, see Ralph A. Cossa, "East Asia Community-Building: Time for the United States to Get on Board," *Policy Analysis Brief* (Stanley Foundation), September 2007, at www.stanleyfoundation.org/publications/pab/CossaPAB07.pdf.

[43] Wonhyuk Lim, "Regional Multilateralism in Asia and the Korean Question," NAPSNet Special Report, at www.nautilus.org/fora/security/09072Lim.pdf.

[44] On South Korean interest in developing a nuclear weapon, see Doug Bandow, "A New Approach to Counter Nuclear Proliferation on the Korean Peninsula," *International Journal of Korean Studies*, vol. 13, No. 1 (Spring-Summer, 2009), pp. 66-68.

[45] For example, a number of Chinese economists have urged a distancing of East Asian states from the major economies in order to avoid another regional financial crisis such as occurred in 1997. The argument is that the 1997 crisis revealed the vulnerability of Asian economies that were too dependent on the U.S. and other export markets and too reliant on easily withdrawn Western capital—in short, economies that were pursuing the IMF/World Bank development model. Hence, to the Chinese, the Chiang Mai Initiative (CMI) is an attractive alternative. See He Fan et al., "After the CMI: The Future of Asian Monetary Cooperation and China's Role," at www.aseansec.org/17904.pdf.

[46] For interesting observations on this scenario, see David C. Kang, "Inter-Korean Relations in the Absence of a U.S.-ROK Alliance," *Asia Policy*, No. 5 (January, 2008), pp. 25-41.

[47] In mid-2009 the Lee government did decide to resume humanitarian aid to North Korea. However, the NGOs selected to deliver aid are few in number, and the reported amount of aid—less than $3 million—is not impressive.

The U.S. and South Korea: Prospects for Transformation, Combined Forces Operations, and Wartime Operational Control: Problems and Remedies[1]

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ABSTRACT

There will be many challenges to military cooperation between the militaries of the US and South Korea in coming years as each country strives for military excellence in Northeast Asia. Not the least of these challenges will be preparing for the ongoing and ever changing North Korean military threat. When it comes to defending South Korea against what continues to be a heavily armed and unpredictable government in Pyongyang, issues such as Seoul's "self-reliant defense," the ability of the government in Seoul to pay for badly needed capabilities as it transforms its military, the dissolving of Combined Forces Command to two separate structures that to date remain in a state of flux, and the visions of the two governments that have inherited many of the policies of their predecessors in Seoul and Washington, are all important and must be examined. South Korea has been a loyal and robust supporter of the United States in its military operations all over the world, and Washington has stood by Seoul in defending it against attack from the North for more than 50 years. South Korea must strive to build up its military capabilities in order to meet the challenge of an evolving North Korean threat - but Washington can play an important role by exercising patience and flexibility when it comes to the timeline for changing and, ultimately, dissolving an infrastructure in Combined Forces Command that has deterred North Korean aggression and maintained stability and security in the region since its founding.

Keywords: Wartime OPCON, ROK-US Alliance, North Korean military, Military Transformation, Combined Forces Command

The very real challenges and issues that face Lee Myung-bak government and the ROK-U.S. alliance have recently become the center of more focus by policy makers and analysts in the United States and South Korea. Perhaps most importantly, Lee has now stated that his policy toward North Korea is to seek eventual unification under a liberal democracy. This is a significant break from the policy of his predecessors in the Kim and Roh administrations who sought "peaceful coexistence" with North Korea but paid little attention to what will be a hugely expensive and problematic post-unification situation.[3] This new policy points to the important issues that will be addressed in this article. In order for South Korea to be able to work toward unification under a liberal, democratic government, the government in Seoul must be able to develop its military capabilities in order to match the continuing North Korean threat posed by its conventional and unconventional forces. As Seoul looks to building its own capabilities, it must work very closely with its most important ally – the United States. Thus, the ROK-U.S. military alliance will be the key in factor in defending the South Korean landmass, building stability for the future, and protecting Seoul's and Washington's national security interests in the region.

ROK Military Development: Matching Capabilities to the Threat

There are many issues facing the alliance between the United States and South Korea, but there is no doubt that the bulwark of the relationship between these two nations is the ROK-U.S. military alliance. This is the alliance that has protected the stability and security of the Korean peninsula since the end of the Korean War. But the military alliance has undergone several important changes in recent years. Not the least of these is the "transformation" of ROK military forces with an original end date of 2020 that was estimated to cost 164 trillion won. The plan, set into place under the Roh Moo-hyun administration, also was supposed to give the ROK military the independent capability to operate under separate wartime operational control from the United States by 2012.[4] Evidence that the process of transitioning to two separate wartime commands is going forward can be seen if one examines the Ulchi Focus Guardian exercise held during August of 2008. During that exercise the South Koreans and Americans simulated fighting a war under two separate operational commands, one led by the Chairman of South Korea's JCS, and one led by the Commander of United States Korea Command (KORCOM – future successor to USFK).

The exercise was observed by several retired military officers from both the United States and South Korea, and is expected to aid in planning for the major changes that are expected to occur by 2012.[5] According to press reports, the U.S. and South Korea also planned to adopt a new war plan that would reflect projected changes in the military alliance as they held their joint/combined annual exercise in the summer of 2009, and will conduct every summer through 2012.[6]

There has been a great deal of criticism regarding the "transformation" plan set into action by the Roh administration. This expensive transformation process will not only put a huge strain on the budget of South Korea's government, but much of the planning put into this transformation process can legitimately be called very dangerous to the security of South Korea. There are several key weakness in the original transformation plan: 1) it called for cutting military forces by 180,000 men – before acquisition of modern programs can offset the reduction in forces; 2) the plan was not set up to counter North Korea's nuclear and missile threats – which have proven to be significant since the events of 2006; and, 3) the plan did not include enough programs or programs that are robust enough in nature—or the proper security measures - to meet the requirements of Seoul's planned take over of separate wartime operational control from the U.S. military in 2012. There are already press reports saying that the ROK government may push the plan back from 2020 to 2025 because of the reasons stated above and because of budgetary issues.[7]

As the South Korean military continues its transformation process and pushes on with the challenges it faces in the changing ROK-US military alliance, policy makers in Seoul cannot forget that the ominous North Korean threat remains very real. North Korea continues to maintain the world's fifth largest military—a military that is equipped with a nuclear capability, ballistic missiles, and an asymmetric capability that has evolved since the mid-1990s.[8] Pyongyang has yet even to discuss terms for eliminating its estimated six to 12 nuclear weapons, and continues to deploy 70 percent of its ground forces within 90 miles of the DMZ. These forces include four deployed mechanized corps (some converted to divisions), an armor corps (now reorganized into a division), and an artillery corps (also reorganized into a division) – plus a missile corps that has more than 600 Scud's and 200 No Dong missiles capable of striking anywhere in South Korea or Japan.[9] North Korea also poses a threat to the ROK through its large, well-equipped and

highly trained cadre of Special Operations Forces. These forces number up to 100,000 men (2008 estimates by the South Korean Ministry of National Defense now place the figure at up to 180,000 men) and are capable of attacking key nodes within South Korea (including American bases), disrupting command and control, and even carrying out acts of terrorism and assassination.[10]

In order for the Lee administration to make up for the mistakes made by the Roh administration's "transformation" program, it will need to focus on two key areas: 1) The North Korean threat, based on the simple intelligence doctrine that a threat is defined as capability + intent = threat;[11] and, 2) A renewed focus on interoperability with U.S. forces as ROK independent capability comes to fruition. The second key area was ignored for most of the Roh administration and will be very important as the ROK and U.S. militaries make an effort to continue deterring the North Korean threat during the transitions occurring in the ROK-U.S. military alliance.

Under the Roh administration the ROK government refused to acquire anti-missile systems capable of defending the ROK from the more than 600 Scud missiles in the North that target nodes all over South Korea. To exacerbate the situation, North Korea has now built, tested and deployed an advanced version of the old Soviet SS-21 (known as the KN-02).[12] This is one of the key examples in which the transformation of the ROK military as directed by the Blue House under the Roh administration in essence failed to take into account the very threat that it is supposed to be built to deter and defend against. Under the Roh administration, South Korea had agreed to purchase 48 second-hand PAC-2 Patriot systems from Germany—systems sadly lacking in their ability to shoot down Scuds.[13] According to sources in the South Korean press, these systems are now being deployed to some locations in the ROK.[14] In my view it should be stressed that the PAC-2 system will be highly ineffective in either providing deterrence against a Scud missile attack or in actually being capable of shooting down the missile. The PAC-2 system destroys its target by exploding a spray of shrapnel that is meant to destroy an incoming missile. The PAC-3 uses a "hit to kill" method that is far more accurate than the PAC-2.[15] During the Roh administration, high level American officials repeatedly advised the South Korean government of just this fact.

Under the Lee administration, the South Koreans have taken important steps to remedy their land-based ballistic missile defense – but

these are only preliminary steps. Reportedly, the South Korean government has now begun preliminary efforts to buy up to 48 PAC-3 fire systems (the PAC-3 system is widely considered to be much more effective than its PAC-2 predecessor in bringing down Scud and No Dong missiles), at least some of which will be deployed by 2012.[16] Press reports also indicate the South Korean military has decided to acquire Israel's Green Pine early warning radar system for tracking cruise and ballistic missiles (to enter service by 2010 or 2011).[17] But these are only initial steps—and as it stands right now the only missile defense systems on the peninsula that are truly capable of defending against a missile attack are the PAC-3 Patriot systems currently manned, maintained, and operated by the U.S. Army. There are 64 of these systems currently deployed in South Korea.[18]

The Japanese model serves as an excellent example of what the South Koreans can look to for building a missile defense system that forms a realistic deterrent and defense against possible North Korean attack. The Japanese Navy successfully conducted their first test of the SM-3 (ship deployed) interceptor missile in December of 2007. The Japanese are building a two-tier missile defense system in close cooperation with the United States. The SM-3 will be launched from Aegis-class ships to intercept missiles at high altitudes and the PAC-3 systems (deployed on land bases) will intercept missiles at lower altitudes.[19] The Japanese plan to deploy 36 SM-3 missiles between 2007 and 2010 on four Aegis-class ships. The Japanese also plan to deploy 124 advanced capability PAC-3 interceptor missiles by 2010 on several bases and key locations throughout their country. Finally, Japan has deployed the X-Band early warning radar.[20] Thus far, the South Korean government has made no plans to purchase the SM-3 system (the preliminary purchase plans for PAC-3 missile systems is for a much lower number of systems than Japan's and the threat from North Korean missiles is higher), for their own Aegis class ships (known as the King Sejong Class destroyers) and has not agreed to join the U.S. missile defense system – a carry over from the Kim Dae-jung and Roh Moo-hyun administrations.[21] The importance of missile defense for South Korea and Japan is highlighted by press reports that state the United States has positioned the majority of its Aegis-equipped ships with a ballistic missile defense capability in the Pacific Ocean.[22]

The reason behind Seoul's failure to purchase a modern missile defense system with the capabilities necessary to deter the North Korean

threat is most certainly not a lack of encouragement from the United States. In fact, during the Roh administration General B.B. Bell, then the Commander of USFK, stated, "The Republic of Korea must purchase and field its own TMD system, capable of full integration with the U.S. system. The regional missile threat from North Korea requires an active ROK missile defense capability to protect its critical command capabilities and personnel."[23] This assessment continues to be the view of the current Commander of USFK (General Walter Sharp), who stated in Congressional testimony that South Korea should build a "layered" missile defense system (probably a reference to the same type of system that is currently being built and deployed by Japan) and should look to being interoperable with the U.S. global missile defense shield (also a possible reference to the arrangement between U.S. and Japanese missile defense forces). General Sharp also stated, "in the short term, South Korea must develop a systematic missile defense solution to protect its critical civilian and military command capabilities, critical infrastructure and population centers."'[24] In an interview with the South Korean press General Sharp said, "The ROK does not have a robust missile defense capability in place and this would likely be one of the bridging capabilities the U.S. would provide until the ROK improves this." The U.S. has invited Seoul to participate in its missile defense network (as Japan has already done).[25] During Lee's successful campaign for president he reportedly stated that, if elected, his government might reconsider the Roh government's stance on missile defense.[26] If South Korea is to be capable of defending itself against a missile attack from the North, significant steps must be taken to initiate this policy.

As North Korea prepared to test-launch a Taepo Dong II ballistic missile during February of 2009, the issue of South Korea's participating in U.S.-led ballistic missile defense initiatives again resurfaced. There was a renewed call – particularly from conservatives in South Korea—for Seoul's joining in the U.S. system as Japan had already done. There is no denying that this could serve as a significant deterrent. The South continues to develop an indigenous, independent system that will be semi-proficient at shooting down SRBM's—largely based on the outmoded PAC-2 system.[27] The South Korean military is expected to pay around $213 million for an independent defense system that will go online by 2012. An anonymous government source told the South Korean press that, "When the anti-missile system is completed, we may even collaborate with the anti-theater missile team operated

independently by the United States Armed Forces to defend against and shoot down theater missiles. Obviously as this (in many ways lacking) ROK system goes online and as the South Koreans look to hopefully upgrade it, there will be many issues that will have to be worked out."[28] In an important first step, the South Korean Aegis-equipped destroyer, "King Sejong the Great" was reportedly scheduled to participate in Combat System Ship Qualifications Trials with the U.S. Navy in 2010. The drills would probably include training in engaging missile targets—and could be the first move Seoul is making to integrate its BMD system with that of the United States.[29]

But as discussed earlier, missiles are not the only threat that North Korea has against the South which has evolved since the mid-1990s. The biggest issue is one that was largely ignored or at best under-rated during the Roh administration—the necessity to acquire an independent, modern, robust, C4I system (Command, Control, Communication, Computers, and Intelligence), a system capable of being fully integrated with U.S. systems and interoperable service wide (joint) within the ROK military. This is very important now as the United States has reportedly completed the transitioning of 10 major security operations from USFK to the South Korean military. The 10th and last mission (Search and Rescue operations with the U.S. Air Force—which will now be conducted with ROK forces in the lead role) transitioned in the fall of 2008.[30] Of key importance here is the fact that in 2005, the ground based mission of providing counter-fire against the North Korean artillery (including the long-range systems) was handed over to the South Korean army. Up until that time the mission had been handled by the 2nd U.S. Infantry Division, which was equipped with 30 multiple rocket launcher systems and 30 M109A6 Paladin self-propelled howitzers.[31] The South Korean army reportedly plans to upgrade its multiple rocket launchers and other advanced artillery systems in both modernization and numbers to counter the North Korean threat—but these changes are unlikely to be fully implemented for several years.[32]

The relationship of C4I to this artillery mission is quite simply a matter of life or death. Integration of these systems into a modern C4I system means that, when they are operating in counter-battery mode, they will have a quick reaction time and will be able to identify the location of North Korean artillery units with radar and take them out just as the enemy systems have been fired or are about to be fired. A lack of this capability means the South Korean systems that replaced the

American systems are simply guns that cannot react rapidly enough to target North Korean systems in a timely manner and thus protect allied forces, and indeed Seoul and the seat of government.[33] This becomes even more a matter of concern if one addresses the issue of integrating counter-battery fire with allied airpower. Without a modern C4I system (as their American allies have) this is next to impossible, and in fact severely degrades the South Korean capability to target North Korean systems and quickly destroy them. According to Representative Kim Dong-sung of the South Korean National Assembly (as reported in the South Korean press in 2009), South Korean internal communications equipment used for artillery systems near the DMZ is largely obsolete. Kim cited aging communications lines used at front line bases and said that, in some cases, it could take up to 90 minutes for South Korean counter-battery systems to receive coordinates on North Korean guns.[34]

To be sure, Lee Myung-bak pledged during his campaign to turn the South Korean military into an efficient, high-tech force by establishing a network centric capability.[35] There are already signs that this is beginning to happen. During August of 2008 it was announced that the United States and South Korea had reached an agreement on the ROK military acquiring the Global Hawk UAV. The Global Hawk system is an advanced, long-range, long-dwell-time aircraft, and can transmit its data via satellite to forces on the ground.[36] The South Korean military also reportedly plans to increase its monitoring capability by developing more advanced drones (which may be particularly important if the Global Hawk deal falls through).[37] There are also reports that the South Korean army will set up an experimental, regiment size unit that will "adopt new organization structures, weaponry, and tactics ahead of other units" (this likely will include C4I).[38] Under modifications to the plan scheduled to be completed by 2020, the South Korean military plans eventually to address shortfalls in C4I (probably by 2020) and to focus on reinforcing its capability (currently lacking) in countering nuclear and missile attacks by North Korea.[39]

To put a finer point on it, the South Korean military (and its decision makers in government) continues to depend on the United States for almost all strategic information. In fact, at least for now, ROK forces are also heavily dependent on U.S. systems for much of their tactical battlefield information.[40] South Korea holds a significant edge in integrating, interpreting, processing, and utilizing battlefield information (such as the movement of forces, activities of missile units, mechanized

forces, etc.) over North Korea—especially on forces that are not fairly close to the DMZ—only because of the many high tech C4I systems that the United States currently mans, maintains, and deploys to the Korean Peninsula (or off-Peninsula) as part of its obligations in the ROK-U.S. military alliance.[41]

There is an important factor that must be addressed if one is to discuss South Korea's current capability to counter the North Korean SOF threat. This is the airlift of South Korea's own elite Special Forces and airborne brigades. South Korea currently has seven Special Forces brigades (all airborne) in its army, and five independent brigades (two infantry, and, three counter-infiltration). There are also other smaller units that would require airlift in any conflict or contingency. These are among the ROK's most elite forces and they are among the best trained in the world —but they cannot get to where they need to go to conduct their vital missions without airlift. The South Korean Air Force transport fleet is currently lacking in its capability to conduct this mission. There are only 10 C-130Hs in the ROKAF inventory and 15 smaller Spanish designed, twin-engined CN-235Ms (more transports may be on order but they will still leave the ROKAF sadly lacking in airlift capability).[42] Thus, as it stands right now, a major source of airlift for the ROK special forces and other airborne units (because of capabilities lacking in the ROKAF) is the United States Air Force. This issue must be addressed and compensated for in order for the South Korean military to truly be able to counter the North Korean SOF threat in an independent way. Thus, as the Lee administration looks to the future, these are important acquisition and integration issues that will have to be addressed.

This article has addressed three key threats from North Korea—a "triad" of asymmetric threats if you will (the long-range artillery, SOF and ballistic missiles constitute this triad). North Korea has been able to successfully integrate these capabilities into its military forces as resource constraints have limited the training and ultimately some of the readiness of its more conventional traditional ground forces. But one must keep in mind that during a full-scale force-on-force conflict, these asymmetric forces would likely be able to create gaps and vulnerabilities in ROK and U.S. military forces defending South Korea that would then enable less capable DPRK forces—but still deadly ones—to move into these gaps and attack key nodes, causing significant damage in the essential early hours and days of any war. This is an important aspect of analyzing the threat that must be (and likely is) included in any planning

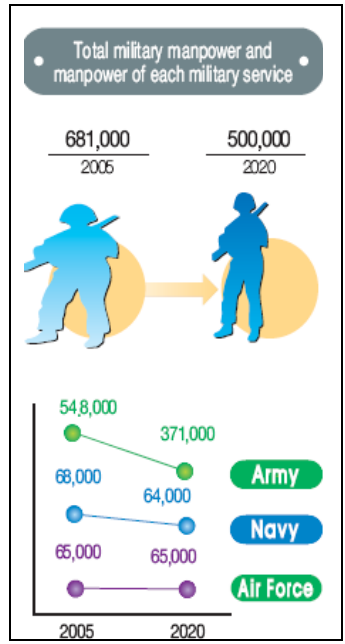
for conflict on the Korean Peninsula. One has only to look at the unique landmass of the Korean Peninsula along the DMZ to realize that the narrow invasion corridors into South Korea provide opportunities that can be exploited.

Can the ROK Government Pay for Needed Capabilities?

The world recession is likely to have a direct impact on another important issue for South Korea's military forces— "Defense Reform 2020," Seoul's transformation plan to upgrade and modernize its forces to prepare for independent national defense capabilities. According to press reports, the transformation plan, set to be finished by 2020, may end up undergoing intense revision. Reportedly, the primary reason for the drastic overhaul of the reform package is budget shortfalls, according to many military experts and defense officials in South Korea. Some experts have predicted a further decrease in defense expenditures for the plan. But there are other ramifications for the budgetary problems inherent in Seoul's current military transformation plan. First, it may end up getting pushed back to a finish date of 2025. Second, (as discussed earlier) the original schedule for systems acquisition and troop cuts is assessed by many experts to be inadequate to account for North Korea's asymmetric capabilities. And third (and perhaps most importantly), many military experts also believe that the defense reform did not include required arms procurement plans and security measures for Seoul's transition to independent wartime operational control of its forces, scheduled to occur in 2012.[43]

The South Korean military has begun to unveil the basic change of the previous government's reform plan. Reportedly, it will slow down troop reductions over the next decade because of budget shortfalls—and the continuing North Korean threat. The military now plans to take a more pragmatic approach by also planning to defend against the North Korean nuclear threat – and to initiate troop cuts only after weapons systems have been brought on line that will make up for the decrease in manpower.[44] One has only to look at the massive troop cuts planned under Roh administration to understand why the changes are likely to be initiated (see figure 1).

Figure 1: Projected Troops Cuts From "Transformation 2020"



Source: "Defense White Article," *Ministry of National Defense, Republic of Korea*, 2006

According to the South Korean press, sources in the Defense Ministry planned to cut its proposed budget for Defense Reform 2020 by 30 percent, as of April, 2009. The plan to reduce the cost of the budget will likely be accomplished (if the plan is implemented) by changing the priorities of some key arms acquisition programs over the next five years (apparently beginning in 2009). The Ministry planned to request procurement of more advanced Patriot missile defense systems and related early warning radars. But because of the expense of these programs, other important acquisitions such as air tankers and UAV's may end up being pushed back. The Ministry has also planned to request that President Lee slows down previously planned troop reductions until acquisition efforts of high-tech systems can catch up and match the capabilities that will be needed.[45]

Budget cuts have caused some controversy within the government. During September of 2009, the Ministry of National Defense reported that it planned to submit a 3.8 percent increase for spending in the next year—the smallest increase in defense expenditures since 1999. The surprisingly small increase in defense spending is reportedly due to economic difficulties in South Korea.[46] The Ministry of National Defense had earlier reportedly planned to submit a budget increase of 7.9 percent. In fact, the smaller budget request is said to have been suggested to the Blue House by Vice Minister Chang Soo-man, who is said to have gone over the head of the outgoing Minister of National Defense, Lee Sang-hee. According to sources in the South Korean press, Lee responded by writing a letter to presidential Chief of Staff Chung Chung-kil and others in which he urged the Blue House to accept the original version of the budget proposal (7.9 percent), saying budget cuts would dampen MND's efforts to strengthen defense capabilities, and also stating that it would send the wrong message to North Korea.[47]

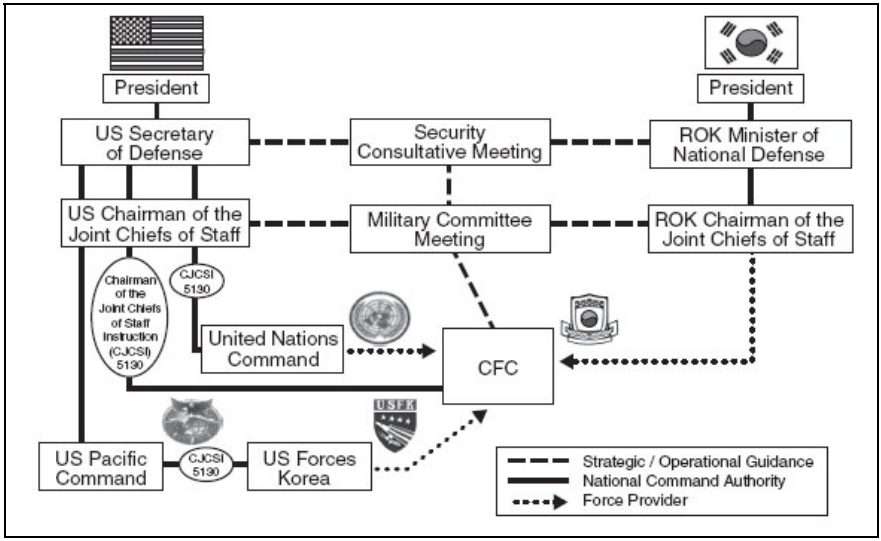
Wartime Operational Control: The Right Move at the Right Time?

The issues discussed earlier in this article all have direct relevance to and are also directly tied in with perhaps the most sensitive issue to be discussed in this article—the issue of wartime operational control. According to an agreement reached between Secretary of Defense Robert Gates and Minister Kim in 2007, CFC is to be disestablished and the ROK and U.S. militaries on the Korean Peninsula will continue to function as allies with two separate wartime operational commands effective April 17, 2012.[48] The issue of ROK and U.S. forces fighting with North Korea under two separate military commands has been a huge source of contention with most ROK retired military officials and generals being openly critical of the change in wartime OPCON because they believe it is both premature and dangerous to the security of South Korea.[49] And the majority of South Koreans reportedly believe that President Roh made the wrong move at the wrong time for ROK security. As Cheon Seong-whun, a scholar at the Korea Institute for National Unification has said, "Simply because the North Korean military is most delighted to see the OPCON transfer and the CFC dissolution, the decision is worthy of delay.[50] During the early months of 2008, U.S. officials reportedly said that ROK forces were making progress in C4I improvements that would be necessary in order to operate under separate wartime command beginning in 2012. But other

officials admitted that the South Korean R&D budget increased only nominally as compared to budgets of the three previous years.[51] Indeed, tough financial times ahead may mean more of the same in the future.

Despite the outcry from many in South Korea—particularly now that the left of center government is no longer in power—several American officials have stated definitively that postponing the date for separate warfighting commands (and ending the successful tenure of CFC) is simply not an option. The outgoing Ambassador to South Korea Alexander Vershbow, stated this in December of 2007 when he said, "As I said, the strategic transition plan is already agreed upon and it is being implemented."[52]

Figure 2: Current Wartime Command Relationships: ROK/U.S. Forces



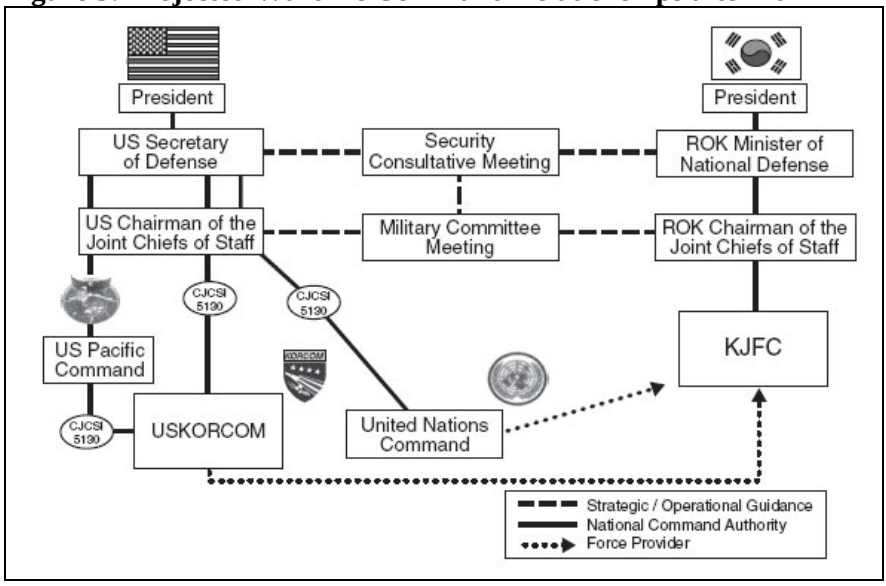
Source: Lt Gen Stephen G. Wood, USAF, and Maj Christopher A. Johnson, DM, USAF, "The Transformation of Air Forces on the Korean Peninsula," *Air and Space Power Journal,* Vol. XXII, No. 3 (Fall 2008), URL: http://www.airpower.maxwell.af.mil/airchronicles/apj/apj08/fal08/wood.html

Ambassador Vershbow's words were supported in a statement made by the Commander of U.S. forces in Korea, General Walter Sharp, who, according to press sources, said in 2009, "On the OPCON transfer, we

are on track. We will be prepared for 17 April 2012. By 2012, the Republic of Korea military leadership will be ready to take over."[53]

In my view this is a premature assessment. While complete self-reliance and its own separate wartime operational control may seem like the right thing to do in the long run, it will quite simply be impossible for Seoul to complete all of the initiatives important for assuming separate wartime OPCON of its forces by 2012 or to have anything close to a self-reliant military by that time. Of course, one of the key reasons for this (as stated definitively earlier in this article) is because the threat from North Korea, and its government's intentions to use that threat have not subsided.

Figure 3: Projected Wartime Command Relationships after 2012



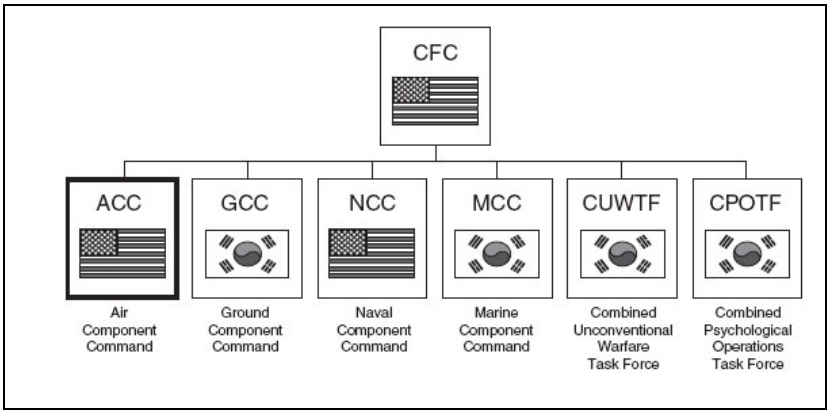
Source: Wood and Johnson, 2008

There are other important issues that in my view must be considered before CFC is disestablished and the U.S. and South Korea assume separate wartime operational control of their forces. The first is unity of command. The loss of a unified command (which exists today) is likely to curtail the high degree of coordination that exists between ROK and U.S. forces today. This is also likely to lead to higher casualties—including among South Korean civilians. The other issue is political.

The change in wartime OPCON could lead to misperceptions about the ability of the ROK military to conduct a war with the North on its own, and in the United States this could also lead to reduced Congressional and public support for a large-scale presence of U.S. troops on the Korean Peninsula.[54] This would be extremely dangerous for South Korea's security and stability and would not bode well for regional security as a whole—particularly given the fact that some in the U.S. Senate have recently shown an impatience with the alliance, perhaps because of U.S. obligations elsewhere.[55]

If one is to examine the command relationships as they exist today, it shows a seamless, transparent chain of command that extends from two separate national command authorities (NCA) in Washington and Seoul. In wartime, and when the NCA in Seoul agrees to it (the President in South Korea is the final authority), based on the advice of the Minister of National Defense and Joint Chiefs, designated ROK forces chop to the Commander of CFC—who then answers to both the U.S. and the South Korean NCA's and carries out their strategic decisions in command of ROK and U.S. forces as they carry out warfighting operations under a unified, combined force (see figure 2). If one examines the way command relationships are projected to change (see figure 3), during wartime, ROK forces will no longer fall under CFC (which will no longer exist). Instead, two separate warfighting commands will exist—Korea Command (KORCOM) for the U.S. and Joint Forces Command (KJFC) for South Korea (the name for South Korean Command is likely to change). Unity of command will no longer exist and forces will be fighting in the restricted terrain of the Korean Peninsula answering to two separate NCA's.

Figure 4: Current Wartime Structure of ROK/U.S. Military Forces



Source: Wood and Johnson, 2008

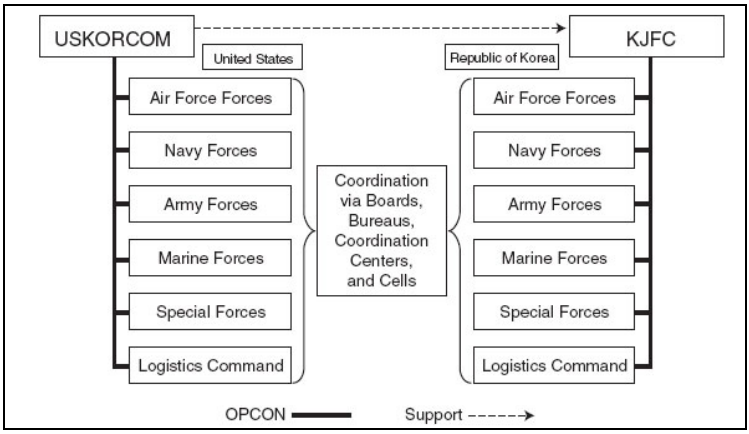
Figure 4 shows the current construct of CFC and it component commands. As the framework exists today, each component command has both American and South Korean military forces contained within it, fighting together (and planning for future military operations in a seamless, combined environment). This is not a structure dominated by U.S. commanders. In fact, if one looks at the flags on figure 4, identifying the country of the component commander, the result is that the majority of component commands (including the largest—the Ground Component Command) are commanded by South Korean General Officers. This is projected to change dramatically when CFC is disestablished.

As shown in figure 5, forces from both the U.S. and South Korea will be organized to fight separately. This will create difficulties in command and control of forces – particularly in the case of South Korea, which has an Air Force that is not projected to have the capabilities necessary to fight a large scale war on its own, C4I capabilities that are not yet fully developed, and a navy that is still building toward the maritime sealift and anti-missile capabilities that it will need in a fight with North Korea. General Walter Sharp has reaffirmed that the U.S. plans to provide stronger naval and air support to South Korea following the disestablishment of CFC.[56] In a speech at the 2009 Korean-American Association, General Sharp announced that there will be a

combined air force command following the disestablishment of CFC. Reportedly, a plan is also being drawn up for a combined intelligence group after CFC is gone.[57] Sources in the South Korean press have revealed that the U.S. will continue to lead air operations (both ROK and U.S.) after the projected wartime OPCON change in 2012.[58] U.S. forces will also lead combined amphibious operations and recovery of North Korean WMD.[59] Command and control for these entities is likely still to be coordinated as the ROK and U.S. forces will be commanded separately above the component level. As shown on figure 5, much of what is simply combined operations and planning today is projected to become coordination via boards, bureaus, coordination centers, and cells. Unity of command will vanish, and the battlefield environment will become more complicated.

According to a press release by the Ministry of National Defense, as the two allies build toward the disestablishment of CFC, many initiatives will occur. The ROK JCS will hold quarterly reviews to assess 114 tasks in six fields. The six fields include the "establishment of theater combat command systems, a ROK-U.S. military cooperation system, operational plans, command execution systems, joint exercises and basis for the transfer of OPCON." The ROK JCS plans to build a new command headquarters by 2011 and will establish a military consultation group at the Camp Humphries garrison once U.S. forces are relocated there. Consultative bodies that will replace much of the CFC infrastructure are planned for both peacetime and wartime. There will also be a joint (combined) crisis management system—though its infrastructure and make up are unclear.

Figure 5: Projected Wartime Structure of ROK/US Military Forces



Source: Wood and Johnson, 2008

Of course, this entire system will be less streamlined than what has existed under CFC. Command and control will also be much more of a challenge. There will be two separate theater commands (ROK and U.S.) that will be independent of each other—but will work together within a joint defense system. According to a press release, air and at least some intelligence operations will remain combined as they are under CFC—though the structure and command of these extremely important elements continues to be worked out (Americans are likely to command these elements as the ROK military simply will not have the capabilities to do so by 2012).[60] Amphibious operations are also scheduled to be conducted in a combined environment —likely because of capabilities the ROK Marine Corps and Navy simply do not (and will not) have—as are operations for the recovery of WMD (both under U.S. command), but aside from these exceptions, as a press report notes, "the Korea Command will control operations of U.S. forces in Korea, U.S. reinforcements and some United Nations troops."[61]

And then, of course, when one is considering wartime OPCON, the most important reason for a ROK-US military alliance and a strong U.S. troop presence on the Korean Peninsula also comes to mind – the ongoing and menacing presence of a belligerent North Korean military with asymmetric capabilities. As Lee Jong-gu, the head of the Korea Retired Generals and Admirals Association said in an interview with the

South Korean press, "We must consider when, not under what conditions, when dealing with the transfer of wartime operational command. North Korea is highly unlikely to abandon its nuclear weapons, and South Korea is not expected to equip itself with a military strong enough to deter North Korea's provocations by 2012. It is unreasonable to set a deadline for the transfer of the wartime operational command, which is directly related to South Korea's security, when North Korea is heightening its nuclear threat."[62] Following the nuclear test that North Korea conducted in May of 2009, many retired generals and conservative members of the National Assembly echoed the assessments of General Lee Jong-gu—calling for a review of the date of 2012 as a reasonable time frame for disestablishment of CFC.[63]

Conclusion

In previous publications I have addressed the four basic pillars of cooperation, both domestically and with the U.S., that the South Korean government can look to as they confront the threat of a rogue state to the North and the tough fiscal realities they will continue to face because of challenging economic times.[64] The first pillar is c*loser technological cooperation*. This should involve bigger, more robust, longer range combat, communications and intelligence systems. Joint government and business ventures must be initiated that will enable quality focused programs that will upgrade defense capabilities and surpass threat systems while at the same time downplaying vulnerabilities that are likely to occur as CFC is dissolved. The second pillar is c*loser intellectual cooperation that* focuses on a renewed and continuing commitment to combined doctrine, training, and education. The third pillar is c*loser ideological cooperation* and a newfound commitment to democracy, human rights and free market economies as South Korea and the United States re-affirm an alliance that has faced tough times under the previous administration in the Blue House. The final and perhaps most important pillar is a f*iscal commitment to support the pillars listed above*. This can be accomplished through defense appropriations that enable the realistic, threat-based acquisition of important systems that will be needed for truly independent national defense capabilities.

As South Korea looks to improve its national defense, the United States can also play a major role—that of a strong supporting ally. By allowing the ROK government time to build up its capabilities and improve its forces—perhaps by delaying the implementation of a change

to wartime OPCON—Washington will prove that it supports its loyal military ally and seventh largest trading partner.[65] To any analyst who has done a thorough analysis of current correlation of forces, opposing firepower ratios, or terrain-dominated strategy, it is obvious that South Korea's military will continue to need the help of the U.S. in meeting the North Korean threat. The tyranny of proximity dictates that one can hardly draw any other conclusion. As Lt. General Edward Rice of USFJ remarked in 2008, "North Korea continues to be a regime that is not very transparent in terms of their capabilities and their intentions."[66] Thus, these two great nations must reinforce an alliance that will continue to contribute to the security of the Korean Peninsula and the stability of Northeast Asia as a whole.

Notes:

[1] Parts of this article were earlier published as, Bruce E. Bechtol, Jr. "Preparing for Future Threats and Regional Challenges: The ROK-U.S. Military alliance in 2008-2009," *Korea Economic Institute, Joint U.S.-Korea Academic Studies*, Vol. 19, (2009): 75-99. The author would like to thank the Nicole Finneman and the Editors and staff at the Korea Economic Institute. A longer version of this paper will be included as a chapter in Dr. Bechtol's upcoming book, *Defiant Failed State: The North Korean Threat to International Security* (Potomac Books: 2010).

[2] The views expressed in this paper are those of the author and do not necessarily reflect the official policy or position of the Marine Corps Command and Staff College, the Marine Corps University, or the United States Government.

[3] See Kim Sue-young, "Seoul Seeks Unification Under Liberal Democracy," *Korea Times*, August 3, 2008, URL: http://www.koreatimes.co.kr/www/news/nation/2008/08/116_28672.html

[4] See Jin Dae-woong, "Military Arms Buildup to Cost W164tr Over Next Five Years," *Korea Herald*, July 19, 2007, URL: https://www.koreaherald.co.kr/SITE/data/html_dir/2007/07/19/200707190038.asp

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news_foreign_view.aspx?menu_code=02001000&news_id=AEN20090211004100315

Kim Min-seok, "U.S. Eighth Army to Remain Stationed in Korea," *Joongang Ilbo*, November 6, 2009, URL: http://joongangdaily.joins.com/article/view.asp?aid=2912218

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[8] For current analysis on the North Korean military threat, see Andrew Scobell and John M. Sanford, *North Korea's Military Threat: Pyongyang's Conventional Forces, Weapons of Mass Destruction, and Ballistic Missiles*, (Carlisle, PA: Strategic Studies Institute, 2007), URL: http://www.strategicstudiesinstitute.army.mil/pdffiles/PUB771.pdf

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[10] For more analysis on numbers, strategy, tactics, and capabilities of North Korean Special Operations Forces, see Robert D. Kaplan, "When North Korea Falls," *Atlantic Monthly*, October, 2006, URL: http://www.theatlantic.com/doc/200610/kaplan-korea and "North Korea: Special Operations Forces," *GlobalSecurity.Org*, 1996, URL: http://www.globalsecurity.org/wmd/library/news/dprk/1996/kpa-guide/part03.htm. "Defense White Paper," *Ministry of National Defense, Republic of Korea*, 2008, URL: http://www.mnd.go.kr/

[11] For details on this definition see Melissa Applegate, *Preparing for Asymmetry: As Seen through the Lens of Joint Vision 2020*, (Carlisle, PA, Strategic Studies Institute, 2001), URL: http://www.au.af.mil/au/awc/awcgate/ssi/preparng.pdf

[12] For analysis on the numbers and capabilities of North Korean SCUD and KN-02 missiles, see Jung Sung-ki, "S. Korea Vulnerable to NK Chemical Warheads," *Korea Times*, October 17, 2007, URL: http://www.koreatimes.co.kr/www/news/nation/2007/12/205_12072.html

[13] "Defense Ministry Seeks 20% Hike in Purchases," *Korea Herald*, May 30, 2007, URL: https://www.koreaherald.co.kr/SITE/data/html_dir/2007/05/30/200705300037.asp

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[15] Brian Lee, "South Korea's Missile Shortage a Concern," *Joonganag Ilbo*, March 10, 2009, URL: http://joongangdaily.joins.com/article/view.asp?aid=2902014

[16] "Raytheon Begins SAM-X/Patriot Missile Work in South Korea," *Defense Industry Daily*, March 4, 2008, URL: http://www.defenseindustrydaily.com/Raytheon-Begins-SAM-XPatriot-Missile-Work-in-South-Korea-04772/

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[18] See "U.S. to Withdraw Patriot Missiles From Gwangju," *Chosun Ilbo*, August 24, 2006, URL: http://english.chosun.com/w21data/html/news/200608/200608240011.html

[19] See "What Japan's Test Means for Korea's Missile Defense," *Chosun Ilbo*, December 19, 2007, URL: http://english.chosun.com/w21data/html/news/200712/200712190008.html

[20] "Japanese Ballistic Missile Defense," *MissileThreat.com*, Claremont Institute, August 24, 2008, URL: http://www.missilethreat.com/missiledefensesystems/id.30/system_detail.asp

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[22] "Most US BMD Warships Positioned in the Pacific," *KBS World*, January 9, 2009, URL: http://world.kbs.co.kr/english/news/news_In_detail.htm?No=60466

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The U.S. and the Territorial Dispute on Dokdo/Takeshima between Japan and Korea, 1945-1954

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ABSTRACT

The territorial dispute over Dokdo/Takeshima (or Liancourt Rocks) has frequently strained South Korean-Japanese relations in the post World War II era. Japan claims that it acquired Dokdo/Takeshima as a *terra nullius* in 1905, whereas Korea rejects Japan's claim on the ground that Dokdo was a Korean island, not a *terra nullius*, which Japan usurped llegally in 1905.The dispute was exacerbated further due to the inconsistent U.S. policy in the disposition of the disputed island during the Allied occupation of Japan (1945-1952). Initially, the U.S. decided to return Dokdo/Takeshima to Korea in accordance with the Cairo Declaration (1943) and the Potsdam Declaration (1945). Furthermore, all of the U.S. drafts of the peace treaty with Japan from 1947 to November 1949 explicitly stipulated the return of Dokdo/Takeshima to Korea. However, the U.S. became apprehensive about the possibility of the Communist takeover of the entire Korean Peninsula, the U.S. wanted to let Japan retain the disputed island in its December 1949 draft of the peace treaty. Subsequently, the U.S. and Great Britain worked out a compromise not to contain any provision concerning the disposition of Dokdo/Takeshima in the San Francisco Peace Treaty of September 1951. As a result, both Japan and South Korea have interpreted the meaning of the peace treaty differently. Since the U.S. has not rescinded its initial decision in 1946 on Dokdo/Takeshima with a new SCAP directive during the Allied occupation or by signing a new treaty nullifying the 1946 decision, Korea's legal claim to Dokdo/Takeshima is clearly stronger than Japan's insofar as the U.S. disposition of the Dokdo/Takeshima during the Allied occupation of Japan is concerned.

Keywords: Dokdo/Takeshima, SCAPIN Nos. 677 & 1033, the San Francisco Peace Treaty, the Rhee Line, John Foster Dulles, the Cairo Declaration, & the Potsdam Declaration.

Introduction

The territorial dispute over Dokdo Island has been a thorny issue in Korean-Japanese relations since the signing of the San Francisco Peace Treaty in September 1951. Both the Republic of Korea (ROK) and Japan have contended that they have legitimate claims over Dokdo (or Takeshima in Japanese). The problem was created largely due to the inconsistent U.S. policy toward the Dokdo/Takeshima (also known as Liancourt Rocks) from 1945 to 1952. It is a well known fact that the U.S. initially adopted the position in January 1946 that the island should be returned to Korea as part of the Korean territory that Japan had acquired illegally in 1905. However, when U.S. occupation policy toward Japan underwent a major change in 1949 as a result of the Communist victory in China, it did not want to implement punitive policies toward Japan. In addition, the U.S. began to reconsider its position on the return of Dokdo to the Republic of Korea in view of the strategic location of the island. By December 1949, in its new draft of the peace treaty with Japan, the U.S. stipulated the return of Dokdo to Japan, thus completely reversing its previous position. However, the new drafts prepared under the supervision of John Foster Dulles from March 1950 to August 1951 were completely silent on this issue by excluding it altogether from the treaty. In fact, the San Francisco Peace Treaty, signed on September 8, 1951, contained no provision pertaining to Dokdo. As a result, both Japan and South Korea interpreted the omission in the peace treaty so differently that neither was willing to accept the other's position on Dokdo/Takeshima (or Liancourt Rocks).

The purpose of this article is to examine U.S. policy toward the Dokdo/Takeshima problem from 1945 to 1954. It contends that the U.S. government's inconsistent and ambivalent policy during the Allied Occupation of Japan (1945-1952) contributed to the rise of the territorial dispute between Japan and South Korea. The U.S. policy was not consistent on the Dokdo problem, as it initially decided to return the island to Korea (1945-1949), but later took an ambivalent position, which could be interpreted as favoring either Korea or Japan.

The Genesis of the Dispute

In order to understand the territorial dispute between Japan and South Korea, it is necessary to review briefly the genesis of the dispute, which was created by Japan's unilateral incorporation of Dokdo as a *terra nullius* (ownerless land) on February 22, 1905. On that day, the

Governor of Shimane prefecture proclaimed that the islets were incorporated as part of the Shimane prefecture under the name "Takeshima." The Koreans refused to recognize the legitimacy of the Japanese acquisition of Dokdo as a *terra nullius,* for Korea had claimed sovereignty over the island for many centuries and had incorporated Dokdo in Ullungdo County in the administrative reform carried out in 1900.

The Koreans based their claims to Dokdo on the basis of numerous historic documents, maps, and administrative measures taken by the Korean government, some of them dating as early as 512 A.D.[1] In addition, there were two very important policy decisions adopted and issued authoritatively by two different Japanese governments, which disclaimed unequivocally Japanese sovereignty over Dokdo and thereby implicitly recognized Korea's sovereignty over the island in the pre-1900 period. The first disclaimer was issued by the Tokugawa military government in 1696[2]; and the second one by the Japanese Imperial government in 1877.[3] The Meiji government's decision was adopted in response to Shimane prefecture's attempt to incorporate both then Ullungdo and Dokdo into its prefecture. The Japanese Dajokan (the Council of State), the highest decision making organ of the Meiji government, denied Shimane prefecture's request by ruling in 1877 that "our country [Japan] has nothing to do with them" (i.e., the Ullungdo and Dokdo islands).[4]

Despite its initial disclaimer over Dokdo in 1877, the Meiji government's position changed following the Japanese victory in the Sino-Japanese war (1894-1895) and the Russo-Japanese war (1904-1905). During the latter, the Japanese took over the Korean islands located in the East Sea/Sea of Japan to establish watchtowers and to link them via submarine telegraph cable. Furthermore, Korea was virtually under the Japanese military occupation during the Russo-Japanese war.[5] By the spring of 1905, Japan not only occupied the Inchon-Seoul area but also maintained law and order in this vitally important region.[6] Furthermore, by November 1905, Japan forced Korea to sign a protectorate treaty with Japan which established the Japanese Resident-General's office in Korea. As a result, Korea lost its sovereign rights to conduct foreign relations. The Japanese takeover of Dokdo/Takeshima as a *terra nullius* in 1905 was regarded as completely unjustifiable and illegitimate by the Koreans in view of the fact that on October 25, 1900, or four years before the Japanese incorporation of the island, the Korean

government had incorporated Dokdo as part of Ullungdo county by promulgating Imperial Ordinance No. 41 (Article 2).[7] Although Japanese critics of this ordinance assert that the island named in the document, Sokdo (in Chinese character), is not Dokdo but refers to Jukseodo, located in the northeastern corner of Ullungdo, available documents verify that Sokdo was Dokdo, as both essentially mean the same thing: "rock island." As the text of the ordinance was written in Chinese characters, the "Sok" (rock) meant the dialectical Korean, "Dok" or "Dol."[8]

In incorporating Dokdo/Takeshima as a *terra nullius* in February 1905, Japan did not inform the Korean government of its decision. In fact, Japan did not notify any country of its action, a clear violation of the established customs under international law. The Japanese government did not even bother to announce its action in the official government *Kanpo* (*Gazette).* Instead, it announced it only in the Shimane prefectural government bulletin.[9] Such actions of the Japanese government differed sharply from Japan's previous practice in its incorporation of the Bonin Islands as *terra nullius* in 1876.[10] In this case, in accordance with the established customs under international law, Japan duly notified the U.S., Great Britain and a dozen other European countries regarding its acquisition of the newly-found islands. It does not require much imagination to speculate as to why Japan skipped the required diplomatic protocol in connection with its incorporation of Dokdo/Takeshima as a *terra nullius.*

Clearly, the Japanese took advantage of Korea's political weakness in 1905 when it incorporated Dokdo (renaming it Takeshima). The Korean government was not officially informed of Japan's takeover of the island until 1906, and then only indirectly.[11] Upon learning of Japan's decision to incorporate the island, Korean officials at both local and national levels protested the Japanese action as a violation of Korean sovereignty. However, having lost its sovereign rights to conduct foreign relations as a result of the Protectorate Treaty of 1905 (also known as the "Eulsa Treaty" or "the Second Japan-Korea Agreement"), Korea could not mount any effective protest against the Japanese action.[12] By 1910, Korea was officially annexed by Japan and subjected to Japanese colonial rule until 1945, when it was liberated by the victorious Allied Powers.

The Cairo and Potsdam Declarations

Japan's quest for the establishment of an empire by conquest did not stop with the annexation of Korea in 1910. The Japanese military's occupation of Manchuria in 1931-1932 heralded the beginning of Japan's campaign to conquer China and beyond. When China and the international community refused to recognize the puppet Manchukuo, the fruits of Japanese aggression in Manchuria, Japan decided to invade China proper by launching an all-out, though undeclared, war in July 1937. Contrary to the Japanese expectations for a quick victory, the Sino-Japanese war dragged on to 1945, as China put up fierce resistance to the Japanese invaders. By 1940, Japan became an axis power by signing the tripartite pact with Germany and Italy, alienating further the Western democratic nations. By then, Japan was also declaring its intentions to build the so-called "East Asia Co-prosperity Sphere" under Japanese control. In an attempt to conquer the resource rich colonies of the Western powers in Southeast Asia by utilizing the opportunities created by Nazi Germany's sweeping victories in Europe, Japan had occupied all of French Indochina by the summer of 1941. When the United States adopted economic sanctions against Japan, demanding that Japan withdraw from the illegally occupied areas, the military-controlled Japanese government launched a surprise attack on the U.S. naval base at Pearl Harbor on December 7, 1941. That attack brought about all-out war between Japan and the U.S. plus its allies from 1941 to 1945. The "Pacific War" ended on August 15, 1945, when Japan surrendered unconditionally to the Allied Powers.

Meanwhile, as the tide of war shifted in favor of the Allied Powers in 1943, the United States and its allies began seriously to consider plans for reshaping Japan after defeating it, including the disposition of overseas territories Japan had acquired after 1895. At Cairo, in November 1943, the leaders of the U.S., Great Britain, and China decided to strip Japan of all territories gained after 1895.[13] They also agreed to make Korea independent "in due course." According to the Cairo declaration, "Japan will be expelled from all territories which she has taken by violence and greed [since the time of the Sino-Japanese War of 1894-1895]."[14] Considering the way Japan had annexed Dokdo in 1905 and all other Korean territories by 1910, there can be little doubt that Japan's annexation of Dokdo fit into the territories as defined by the Cairo Declaration.

Following Germany's surrender in early May 1945, it became a foregone conclusion that Japan would follow suit. Such an eventuality became inevitable after the dropping of nuclear bombs on Hiroshima (August 6) and Nagasaki (August 9) and the entrance of the Soviet Union into the Pacific War. In fact, on July 26, the leaders of the Allied Powers issued the famous Potsdam Declaration, demanding Japan's unconditional surrender. They made it also clear that the Allied Powers would occupy Japan after the surrender to "demilitarize" and democratize Japan by carrying out far-reaching reforms. At the same time, they announced their intentions to implement the terms of the Cairo Declaration regarding the disposition of Japanese territories.[15] On August 15, 1945, Japanese Emperor Hirohito formally accepted the terms of the unconditional surrender demanded by the Allied Powers.

Koreans welcomed the Allied victory and rejoiced at the prospects of being liberated from Japan's colonial rule and becoming an independent nation in the postwar era. They also welcomed the Allied Occupation of Japan. In this context, it was natural for Koreans to expect the return of all the territories Japan had taken from Korea after 1905, in accordance with the Cairo and Potsdam declarations.

The Initial U.S. Policy on Dokdo

The Allied Occupation of Japan officially began when the Japanese government signed the instrument of surrender, incorporating the Potsdam Declaration, on the USS Missouri on September 2, 1945. It was the U.S. which took the dominant position in carrying out the occupation of Japan. The U.S. played this role largely because it had shouldered the major burden in defeating Japan in the Pacific war and partly because of its ability to establish immediate control under General Douglas MacArthur who became the Supreme Commander of the Allied Powers (SCAP) in Japan. In this capacity, MacArthur operated only under the broad directives of the United States. It is true that the U.S. agreed to an eleven-nation Far Eastern Commission that could define the Allies' policy toward Japan by a majority vote, including American, Soviet, British and Chinese approval. However, any Commission proposal was subject to an American veto. In addition, the U.S. could issue interim directives to SCAP headquarters in Tokyo. Even the four-member Allied Council for Japan, established in Tokyo, had only advisory powers.[16] Under the effective leadership of General MacArthur, the U.S. and its allies were able to achieve the dual goals of the

demilitarization and democratization of Japan by April 28, 1952, when the occupation of Japan ended.

Regarding the disposition of Japan's overseas territories, which it had acquired from 1895 to 1945, the Allied Powers were determined to implement the terms of the Cairo Declaration of 1943 and the Potsdam Declaration of 1945. As a result, the Koreans did not anticipate any problem in recovering their lost land from Japan. Indeed, the Koreans were gratified to see a manifestation of U.S. intentions to return Dokdo to Korea in 1946. SCAP's first major opinion concerning the territory of postwar Japan was cited in an instruction SCAP gave to the government of occupied Japan. The order, SCAPIN (or SCAP instruction) No. 677 of January 29, 1946, specifically defined Japanese territory and stated that the islands in dispute between Japan and Korea—Utsuryo Island (Ullungto), Liancourt Rocks (Dokdo) and Quelpart Island (Chejuto)—were to be excluded from Japan's political or administrative authority.[17] To be sure, a caveat was added to SCAPIN No. 677 that "Nothing in this directive shall be construed as an indication of Allied policy relating to the ultimate determination of the minor islands referred to in Article 8 of the Potsdam Declaration."[18] Another instruction (SCAPIN No. 1033 of June 22, 1946), prohibited Japanese nationals from approaching within 12 miles of Dokdo.[19] Dokdo's exclusion from Japan remained in effect throughout the remainder of the Allied occupation.

Apparently, these SCAP instructions were based on extensive research carried out by the officials and scholars on the question of the disposition of Japan's illicitly acquired overseas territories after 1895. Regarding Dokdo, the study conducted by the State-War-Navy Coordinating Committee (SWNCC) in 1946 recognized Korea's claims over Dokdo.[20] In fact, the U.S. State Department's preparatory studies showed that Dokdo was "to become Korean Territory" and planned to return it to Korea until November 1949.[21] Apparently, SCAPIN No. 677 and No.1033 were based on the initial determination of the status of the island by the U.S. State Department and other relevant government agencies.

Following the promulgation of SCAPIN 677 in January 1946, jurisdiction over Dokdo was transferred to the U.S. military government in South Korea, which was administering Korea south of the 38th parallel after the Japanese surrender on August 15, 1945.[22] On August 15, 1948, on the basis of democratic elections held in South Korea under the supervision of the United Nations Temporary Commission on Korea

(UNTCOK), the Republic of Korea (ROK) was established. Whereupon, the U. S. immediately transferred the administrative jurisdictions over all South Korea, including Dokdo, to the Republic of Korea.[23]

Meanwhile, the Japanese Foreign Ministry appealed to SCAP concerning Japan's claim to sovereignty over both Ullungdo and Dokdo by preparing a report entitled "Minor Islands in the Sea of Japan." In an attempt to influence the U.S. in any future deliberations concerning these islands, Japanese officials denied Korea's ownership of Dokdo by contending that "no Korean name exists for the island" and that the island "is not shown on the maps made in Korea."[24] The Japanese also argued in the report that the settlers on the larger island, Ullungdo, had arrived recently and that the island's development was "still in an incipient stage," and, for these reasons, it was not within the Korean government's ability to develop the island.[25] However, such an effort did not have an immediate effect on the U.S.

On March 17, 1947, following the signing of the peace treaties with Italy and other European Axis countries at the Paris Peace Conference in the previous month, General MacArthur proposed at the Foreign Correspondents' Club in Tokyo to draft a peace treaty with Japan. The first draft was prepared in the U.S. State Department in the same month. According to several drafts of the treaty prepared from 1947 to November 1949, all five drafts contained a provision stipulating the return of the Dokdo to Korea. For example, Article 4 of the treaty draft prepared in March 1947 prescribed the return of Dokdo to Korea:

> Japan hereby renounces all rights and titles to Korea and all minor offshore Korean islands, including Quelpart Island, Port Hamilton, Dagelet (Utsuryo) island and Liancourt Rock [Dokdo].[26]

Thus, Dokdo was included in the "minor offshore islands" considered to be part of Korea.

In July 1947, the U.S. officially invited eleven members of the Far Eastern Commission to call a preliminary conference on peace with Japan. It was scheduled for August 19. In the meantime, a revised draft was prepared with more revisions on August 5. In the August draft, precise demarcation was attempted by delineating the territorial limits of Japan (Article 1) and of the Korea that Japan was to renounce. Accordingly, Article 4 of the draft treaty stipulated:

> Japan hereby renounces all rights and title to Korea (Chosen) and all offshore islands, including Quelpart (Saishu To); the Nan How group (San To or Komun Do) which forms Port Hamilton (Tonankai); Dgelet island (Utsuryo To, or Matsu Shima); Liancourt Rocks (Takeshima); and all other islands and islets to which Japan had acquired title lying outside the line described in Article 1. . . This line is indicated on Map No. 1 attached to the present Treaty.[27]

These early drafts were very detailed and lengthy, designed for a firm delimitation of Japan's territory. However, the August 1947 draft was criticized by the Policy Planning Board (PPS) of the U.S. State Department, headed by George Kennan, the architect of the "containment." In August, Kennan forwarded a memo prepared by his PPS staff to U.S. Under-Secretary of State Robert A. Lovett, suggesting that discussions of peace terms with other powers be delayed until the U.S. could formulate its objectives precisely.[28] The PPS emphasized the need to reconsider the peace terms in order to reflect U.S. interests in light of the intensified Cold War. Lovett sent back the treaty draft as "inadequate in present form."[29]

Additional drafts of the treaty were prepared in November 1947 and January 1948 "in general along the line of PPS thinking."[30] However, the Korean disposition remained the same, and Japan renounced "in favor of the Korean people all rights and titles to Korea (Chosen) and offshore islands, including . . . . Liancourt Rocks (Takeshima); and all other islands and islets to which Japan had acquired title lying outside the line described in Article 1. . . "[31] According to the "Analysis" prepared with the January 8, 1948 draft, the territorial clauses of the draft were "based largely on international agreements made at Cairo, Yalta and Potsdam."[32]

After returning from a visit to East Asia on March 25, 1948, Kennan wrote a report [PPS 28] entitled "Recommendations With Respect to U.S. Policy Toward Japan."[33] It argued for the policy of securing Japan for the Western bloc in view of the changing international security environment in Asia. It also suggested that a peace treaty not be drafted impetuously, but focus on Japan's economic recovery. In addition, it argued that Japan would have to be rearmed to cope with a possible invasion by the Soviet Union. Changes in the U.S.- Japan policy suggested by the PPS were adopted by the National Security Council

(NSC) on October 26, 1948.[34] The drafting of the peace treaty with Japan was stalled thereafter for over a year until the fall of 1949.

A new draft of the peace treaty was prepared in the U.S. State Department on October 13, 1949, one based on that of January 8, 1948, with changes in many parts of the treaty. According to the "Commentary" prepared with the draft, "the underlying concept of the treaty draft is that the settlement should restore Japan to a genuinely sovereign status with a minimum of restrictions and special disabilities." The overriding objective of U.S. policy was to ensure that Japan align itself with the U.S. in international politics, and such an objective could be "better served if Japan is restored to a genuinely sovereign status free to determine its own future course than if it is placed in any sort of a strait jacket."[35] However, there was no change regarding the return of Dokdo to Korea in the October 1949 draft.

The next draft dated November 2, 1949, specified the territorial limits of Japan by delineating the specific outlines in terms of latitude and longitude with an attached map indicating the line of allocation. The first sentence of Article 3 of Chapter II stated that "The territory of Japan shall comprise the four principal Japanese islands . . . and all adjacent minor islands. . ." The second clause of the same article stipulated that "[t]his line of allocation is indicated on the map attached to the present treaty."[36] Regarding the Korean disposition, it remained essentially the same as the previous draft, except that the "Korean Peninsula" was replaced with "the Korean mainland territory." Again, it stipulated the return of Dokdo to Korea.

Sebald's Recommendation to Recognize Japan's Claim

The November 2, 1949 draft was sent to William J. Sebald, U.S. Political Advisor to General MacArthur. After studying the draft with MacArthur, Sebald sent comments and suggestions for revisions. In a commentary sent to the State Department on November 19, Sebald recommended that the Liancourt Rocks be specified as belonging to Japan, for "Japan's claims to these islands is old and appears valid, and it is difficult to regard them as islands off the shore of Korea." In addition, Sebald argued that "Security considerations might also conceivably render the provision of weather and radar stations on these islands a matter of interest to the United States."[37] Sebald's recommendation for recognizing Japan's title to the Liancourt Rocks issue was to influence the subsequent U.S. policy toward Japan and the Dokdo problem, for he

was to play a major role in drafting and signing the peace treaty with Japan on September 8, 1951.

Insofar as the historical background of the disputed island was concerned, Sebald's argument was not only inaccurate but also contravened earlier findings of the U.S. government. For example, the study of U. S. State-War-Navy Coordinating Committee (SWNCC) had stated in July, 1946, that Liancourt Rocks was one of the islands considered "historically and administratively part of Korea."[38] Clearly, Sebald's recommendation was not based on historical facts. It is a well known fact that Sebald was a pro-Japanese U.S. official who had been a major target of lobbying by the Japanese government in its attempts to regain control of Dokdo. He was clearly influenced by Japanese officials, especially those in the Japanese Ministry of Foreign Affairs which had prepared a pamphlet entitled "Minor Islands in the Pacific and the Sea of Japan (Taiheiyo oyobi Nihonkai sho Shoto)," in June 1947.[39]

To be sure, Sebald was more persuasive in making the case on the basis of strategic considerations. In the face of the intensifying Cold War, the U.S. became quite uneasy about the establishment of the Communist regime in China in October 1949. Against this background, Japan was viewed as the country of primary importance for the U.S. strategy in East Asia. It was included in the "first line of strategic defense" in the key policy documents such as NSC 13 and NSC 48 (approved by President Harry Truman in December 1949). In contrast, South Korea was accorded merely secondary importance and was excluded from the U.S. defense perimeter in East Asia (i.e., the "Acheson Line"), announced by the U.S. Secretary of State Dean Acheson on January 12, 1950.[40] By then, many feared a possible North Korean invasion of the South for the domination of all of Korea and felt that it was preferable for Japan, not Korea, to keep islands in the Sea of Japan, such as the Liancourt Rocks.

It became increasingly evident that the argument for territorial disposition to suit security concerns was gaining support within the U.S. government. In light of Sebald's commentary, a revised draft was prepared on December 29, 1949. The new draft specified the Liancourt Rocks as belonging to Japan by adding it to the list of islands Japan would retain in Chapter 2 (Territorial clause), Article 3. In addition, it deleted the island from Article 6 of the Korea provision. According to Article 6 of the draft treaty,

> Japan hereby renounces in favor of Korea all rights and titles to the Korean mainland territory and all offshore islands, including Quelpart (Saishuto), the Nan How group (Santo, or Kuomun Do) which forms Port Hamilton (Tonankai), Dagelet Island (Utsuryo To or Matsu Shima), and all other offshore Korean islands and islets to which Japan had acquired title.[41]

Another important change contained in the draft was that, for the first time, Korea was added to the list of treaty signatories in the preamble. However, South Korea was deleted from the list of signatories in the joint U.S.-British draft in June 1951 and thereafter.

John Foster Dulles and the Peace Treaty with Japan

Following the appointment of John Foster Dulles as Consultant to the U.S. Secretary of State in the spring of 1950, Dulles became officially responsible for overseeing the drafting of the peace treaty with Japan. He began working basically along the lines suggested by the PPS. Shortly thereafter, on June 25, the North Korean army invaded South Korea, which resulted in the Korean War and involved the participation of the U.S. and U.N. forces against North Korea and eventually China until the armistice on July 27, 1953. The war further enhanced Japan's strategic importance to the U.S. Under the circumstances, Washington clearly wished to avoid a peace settlement that might humiliate Japan or intensify Japanese resentment against the U.S.

In the face of Communist aggression in Korea, the U.S. decided to defend South Korea together with 15 other U. N. member nations by committing its combat troops under General Douglas MacArthur, who became the supreme commander of the U. N. forces in Korea. After the successful campaign to land U.S. forces at Inchon on September 15, the U.N. forces not only chased the Communist invaders out of South Korea, but began to move into North Korea in the beginning of October. Although the campaign to unify Korea was disrupted by the Chinese intervention in the Korean War in November, the military situation was largely stabilized by the spring of 1951. Following the signing of the armistice agreement on July 27, 1953, South Korea became a U.S. ally by signing the treaty of mutual defense with the United States in October 1953, which went into effect in November 1954

Against the backdrop of fierce fighting on the Korean Peninsula, Dulles continued the task of drafting a peace treaty with Japan. The first version under Dulles' supervision was drafted on August 7, 1950. Dulles

wanted a "simple treaty" instead of the lengthy one previously prepared.[42] Accordingly, the clause delineating Japan's territorial limits was deleted from the text, and a simple "Chapter II. Sovereignty" was substituted. Unlike the previous drafts, there was no use of latitude and longitude for border demarcation. Moreover, it did not contain any detailed listing of Japanese islands or a map.[43]

It is also noteworthy that the treaty draft of August 7, 1950, did not contain any provision concerning Liancourt Rocks which was deleted completely from the draft. Why did Liancourt Rocks disappear from the treaty text? Some observers speculated that it was due to the new format which simply drastically shortened the text. However, it was undoubtedly related to the earlier decisions adopted by the U.S. (e.g., in SCAPIN No. 677 and in several U.S. drafts of the peace treaty from 1947 to 1949) stipulating the return of Dokdo to Korea. It was also related to the U.S. involvement in the Korean War, defending South Korea from the North's aggression. Under the circumstances, it would not have been prudent for the U.S. to side either with Japan or South Korea on the Liancourt Rocks issue, as both countries were vital to the U.S. in countering the challenge of Communism in East Asia. Apparently, the U.S. preferred to preserve some room to maneuver in case the strategic situation changed in Korea.[44] The U.S. made it clear that if any territorial issue, such as the Dokdo/Takeshima problem, became a dispute, it was expected to be dealt with by the International Court of Justice.

On September 11, 1950, a revised draft was prepared.[45] However, the Korea-related provision remained the same. Also, the U.S. prepared a memorandum summarizing the major points of the September 11, 1950 draft, including (1) Parties; (2) United Nations; (3) Territory; (4) Security; (5) Political and Commercial Arrangements; (6) Claims; and, (7) Disputes. These and other changes in the drafts of the treaty prepared under the supervision of Dulles reflected the strong U. S. security interest.[46]

Following an exchange of views with the other Allied powers in the fall of 1950, President Truman established a Japanese Peace Mission headed by Dulles. The mission visited Japan on January 22, where it discussed the contents of the seven principal sections of the treaty draft with Japanese officials as well as representatives of several Allied Powers stationed in Tokyo. After returning from the trip, Dulles prepared yet another treaty draft on March 1, 1951, with further changes.

Regarding the territorial clauses, it stated that "Japan renounces all rights, titles and claims to Korea, Formosa and [the] Pescadores . . . Antarctica." Also, Japan would accept a "United Nations trusteeship . . . over the Ryukyu and Bonin Islands" and the establishment of the Trust Territory of the Pacific Islands.[47]

In the meantime, the British Foreign Office prepared its own treaty drafts in the spring of 1951. Its April 1951 draft was to serve as a "preliminary working document" for the U.S.-United Kingdom (UK) joint draft. The British draft was handed to the U.S. on April 7. It was long and detailed and similar to the earlier drafts of the U.S. State Department from 1947 to November 1949. In Article 1, it specified the boundary of the Japanese territory and excluded Liancourt Rocks from Japanese territory.[48] According to Article 2,

> Japan hereby renounces any claim to sovereignty over, and all rights, titles, and interest in Korea, and undertakes to recognize and respect all such arrangements as may be made by or under the auspices of the United Nations regarding the sovereignty and independence of Korea.[49]

Although the word "Liancourt Rocks" is not included in Article 2 of the British draft, when combined with the text of Article I and the attached map, it was evident that the island was considered to be Korean territory.[50] The British draft differed substantially from the U.S. draft of March 1, 1951, not only in its format and in the disposition of Korea, but also in areas such as war criminals and compensation claims.

On May 3, through a series of negotiations with the U.K., the U.S. was able to work out a joint draft. The British regarded the U.S. draft as "too imprecise to meet the criterion set out" by the British and wanted a "[very] careful drafting . . . in order to ensure that no islands near Japan are left in disputed sovereignty in condition which might benefit the Soviet Union" and others in Asia. It maintained further that "the device used in Article 1 of the United Kingdom draft is probably the best method of defining the limits of Japanese sovereignty."[51] The British draft was supported by Australia and New Zealand. However, the British gave in to the U.S. insistence that the British method of defining the Japanese boundaries "would have a bad psychological effect on Japan and emphasize the contraction of their country."[52] Thus, in the joint draft the U.S. format was adopted for the territorial disposition, not the British draft's method of delineating borders by latitude and longitude.

Article 2 of the joint draft stipulated that "Japan renounces all rights, titles, and claims to Korea (including Quelpart, Port Hamilton and Dagelet). . . ." However, again, Liancourt Rocks was not mentioned in the joint draft. Following Dulles' visit to London, a revised U.S. – U.K. joint draft was prepared on June 14, 1951. According to Chapter II, Article 2 (a) of the revised joint draft, "Japan, recognizing the independence of Korea, renounces all right, title and claim to Korea, including the islands of Quelpart, Port Hamilton and Dagelet."[53] The text of the revised U.S.-UK joint draft of June 14 was circulated to the Allied Powers in July, and was kept open for further changes until mid-August. The clause concerning the Korean disposition remained without further change in the text of the joint draft. It became officially the peace-treaty with Japan and was signed by 48 countries in San Francisco on September 8, 195l. Meanwhile, in July 1951, when the text of the U.S.-UK joint draft treaty became available, Seoul demanded that the devolution of Liancourt Rocks, which it regarded as its inherent territory taken away illegally by Japan in 1905, should be specified in the proposed treaty. The South Korean government submitted a commentary on the U.S.-UK joint draft, requesting specification of Dokdo as Korean territory:

According to Korean Ambassador You-Chan Yang's memorandum, his government requested the words "renounces" in Paragraph a, Article Number 2, should be replaced by "confirms" that "Japan renounced on August 9, 1945, all right, title and claim to Korea and the islands which were part of Korea prior to its annexation by Japan, including the islands Quelpart, Port Hamilton, Dagelet, Dokdo and Parangdo."[54] Receiving this document at a meeting with the South Korean ambassador on July 19, 1951, Dulles asked whether Dokdo/Takeshima and Parangdo had been Korean before the Japanese annexation. The Korean ambassador's reply was affirmative, whereupon Dulles said he "saw no particular problem in including these islands in the pertinent part of the treaty which related to the renunciation of Japanese territorial claims to Korean territory."[55]

On August 9, the final U.S. answer on this point was given by U.S. Assistant Secretary of State for Far Eastern Affairs Dean Rusk, in a statement to the South Korean ambassador. In the letter, Rusk stated:

> As regards the islands of Dokdo, otherwise known as Takeshima or Liancourt rocks, this normally uninhabited rock formation was according to our information, never treated as part

> of Korea and, since about 1905, has been under the jurisdication of the Oki Islands Office of Shimane prefecture of Japan. This island does not appear ever before to have been claimed by Korea. It is understood that the Korean Government's request that "Parangdo" be included among the islands named in the treaty as having been renounced by Japan has been withdrawn.[56]

Rusk's reply shocked the Koreans, for it contradicted the previous position taken by the U.S. on the Dokdo issue in the SCAPIN No. 677 as well as several drafts of the peace treaty with Japan from 1947 to November 1949. And these earlier drafts showed that the island was to be returned to Korea. Although the U.S. position shifted briefly to the recognition of Japan's claims over the island in the December 1949 draft, all the drafts prepared under the direction of John Foster Dulles from August 1950 to the U.S.-UK joint draft of June 14, 1951, were completely silent on the Liancourt Rocks. Clearly, Dean Rusk's view on the status of Dokdo/Takeshima was not based on the earlier studies made by the SWNCC or the U.S. State Department on the issue from 1946 to November 1949. Rather, it was influenced by William Sebald, who had argued in his commentary on the draft treaty of November 1949 for the recognition of the island as Japan's for historical, strategic and psychological reasons in the face of the intensification of the Cold War.

The San Francisco Peace Treaty and the Dokdo Dispute

On September 8, 1951, the Treaty of Peace with Japan was signed by 48 countries at a peace conference held in San Francisco. Neither South nor North Korea was invited to the conference. Initially, Dulles considered South Korea's participation; however, he abandoned the idea in the face of Japanese and British opposition. Japan's opposition was based on its claim that South Korea was not legally at war with Japan, and also on the concern for the possibility that Korean participation might undermine Japan's economic interests.[57] British opposition was related partly to the Soviet Union's non-recognition of the Republic of Korea (South Korea) and partly to the issue of Chinese participation. The UK wanted to invite the People's Republic of China (PRC) to the peace conference, whereas the U.S. wanted to invite Nationalist China. As a compromise, they decided not to invite either Communist or Nationalist China. Under the circumstances, it was difficult for the U.S. to insist on inviting South Korea, while not inviting China, which had been at war with Japan from 1937 to 1945.[58] As a result, the U.S. dropped the idea

of inviting South Korea to the peace conference. In his meeting with South Korean Ambassador to the U.S. You-Chan Yang, Dulles explained the exclusion of South Korea to the peace conference on the ground that the invitation to the San Francisco Peace Conference was limited to the signatories of the 1942 Declaration of the United Nations.[59]

Regarding the disposition of Korean lands, Chapter II, Article 2 (a) of the San Francisco peace treaty of 1951 stipulated that "Japan, recognizing the independence of Korea, renounces all rights, title and claims to Korea, including the islands of Quelpart, Port Hamilton and Dagelet." Again, there was no provision concerning Liancourt Rocks in the treaty. As a result, both South Korea and Japan interpreted the peace treaty, which became effective April 28, 1952, differently to strengthen their national claims over Dokdo/Takeshima.

In the meantime, on January 18, 1952, South Korean President Syngman Rhee proclaimed the "Presidential Declaration of Sovereignty over Adjacent Seas" (known as the "Peace Line" or the "Rhee Line"), essentially along the MacArthur Line and placed Dokdo within the protected waters of South Korea.[60] Six months later, South Korea issued a presidential order to seize all illegal foreign ships engaged in fishing in breach of the Rhee Line. The Japanese government protested to South Korea, and the territorial dispute over the island became public. Why did South Korea proclaim the Rhee Line? Apparently, it was based on several considerations.

First, the purpose of the proclamation was to protect natural resources, "marine or otherwise," within a specified zone of seas adjacent to the territories of Korea. Koreans were not ready to compete against the better-equipped Japanese fishing companies in the East Sea/the Sea of Japan. South Korea requested the U.S. to insert a clause in the treaty for the retention of the MacArthur line even after the termination of the Allied occupation, so as to prevent Japan's domination of fisheries in the East Sea/Sea of Japan. However, such a request was turned down by the U.S. in May 1951.[61] As a result, South Korea issued the "Rhee Line" in order to protect maritime resources in the coastal waters of Korea along the MacArthur line.

The second reason for the Rhee line was to ensure South Korea's continued control of Dokdo. Clearly, the Rhee government was dissatisfied with the U.S. policy in dealing with the peace treaty with Japan in general and the Dokdo problem in particular. As a leader of anti-Japanese nationalism, Rhee was clearly unhappy with the Peace

Treaty for its generous terms to Japan, while ignoring Koreans' legitimate demand on Dokdo. As South Korea was not invited to the Peace Conference in September 1951, it could not argue its case at the conference. Thus, when the San Francisco Peace Treaty was signed without stipulating the return of Dokdo to Korea, President Rhee took the only measures at his disposal to keep Dokdo within South Korea's jurisdiction by placing it within the protected waters of South Korea. Since then, South Korea has been effectively in control of Dokdo.

Third, it should also be mentioned that South Korea's action was based on its interpretation of the San Francisco Peace Treaty. According to the ROK Foreign Ministry, there was no provision in the peace treaty which stipulated that Dokdo/Takeshima belonged to Japan. In spite of the serious Japanese-Korean disagreement on its status of the island in the post WW II era, the peace treaty remained completely silent on its status. Furthermore, there was no provision in the treaty that invalidated the actions taken by SCAP (e.g., SCAPIN No.677) during the Allied Occupation of Japan. Thus, even though Dokdo was not mentioned specifically in Article 2 (a) of the peace treaty, South Korea maintained that it had sovereignty over Dokdo, for SCAPIN No. 677 had not been rescinded or nullified by SCAP. In short, SCAP's earlier decision to exclude Dokdo from Japan's jurisdictions, which had led to Korea's effective control of Dokdo after August 15, 1948, remained valid. This is why Korean Foreign MinisterYoung-Tai Pyon justified Korea's claim to Dokdo, largely on the basis of SCAPIN No.677 and the historical validity in a cable sent to the U.S. State Department in October 1951.[62]

Fourth, South Korea also regarded Dokdo as one of several hundred "minor offshore islands" that were returned to Korea from Japan together with the three larger islands (i.e., Quelpart [Chejudo], Port Hamilton [Keomundo], and Dagelet [Ullungdo]) as stipulated in Article 2 (a).[63] The enumeration of the three large islands in Article 2 (a) was illustrative in nature, not exclusive, in dealing with numerous offshore islands to be returned to Korea under the peace treaty. In fact, many of these offshore islands returned to Korea together with three largest islands which reverted to Korea under Article 2(a), were much larger in size than Dokdo (e.g., Keojaedo, Oryukdo, etc.) None is identified by name in the same provision of the treaty.

Japanese-Korean Dispute on Dokdo/Takeshima

After January 18, 1952, the Japanese government repeatedly protested not only the "Rhee Line" but also South Korea's occupation of Dokdo. In a series of diplomatic notes verbale exchanged with South Korea from January 1952 to September 1953, Japan attempted to justify Tokyo's claim that Dokdo/Takeshima belonged to Japan.[64]

First, Japan contended that it had incorporated Dokdo/Takeshima, for it was a *terra nullius* and administered as part of the Japan proper from 1905 to 1945.[65] Japan also maintained that "literature, old maps, etc. clearly show that the present Takeshima was known to Japan in olden times by the name of Matsushima, and considered as an integral part of her territory."[66] Unlike Korea, which was annexed in 1910 and governed by the colonial administration headed by the Japanese Governor-General in Korea, Dokdo/Takeshima was administered by Shimane prefecture from 1905 to 1945. However, such a contention was clearly self-contradictory. If Dokdo/Takeshima was "an integral part of her territory" from the "olden times," why or how could Japan incorporate Dokdo/Takeshima as a *terra nullius* in 1905?[67] This is probably the reason the Japanese Foreign Ministry's website no longer carries the passage contending that the incorporation of Dokdo/Takeshima was a *terra nullius* in 1905.[68]

Second, Japan also maintained in the notes verbale sent to South Korea that SCAPIN No. 677, which "directed the Japanese government to suspend its exercise of, or the attempt to exercise, the political or administrative authority over Takeshima," did not "exclude the island from the Japanese territory," for it stated that "Northing in this directive shall be construed to indicate the policy of the Allied Powers concerning the final decision on the small islands as referred to in Article 8 of the Potsdam Declaration."[69]

Third, regarding Article 2 (a) of the Peace Treaty, Japan maintained that it "recognizes the independence of Korea," meaning Japan "recognized the separation and independence from Japan of Korea as it existed before the annexation," but "does not contain the slightest implication that the land which was part of the Japanese territory before the annexation be ceded to the newly independent Korea."[70] It went on to say that Takeshima had been "placed under the jurisdiction of Shimane Prefecture prior to the annexation of Korea" and, as such, was not "placed under the jurisdiction of the Government-General of Korea." According to Japan, it was therefore "indisputable" that Takeshima "is a part of the Japanese territory."[71]

Fourth, Tokyo also maintained that "the above interpretation" of the Peace Treaty has been taken for granted" by the U.S., "the chief signatory to the San Francisco Peace Treaty." Thus, the U.S. sought and got permission from Japan to use Dokdo/Takeshima as a bombing range for the U.S. Air Force on July 26, 1952.[72]

In its several notes verbale to Japan from 1952 to 1953, South Korea responded to Japan's claims. First, Seoul pointed out that Japan's incorporation of Dokdo/Takeshima in 1905 was illegal, because the island was under the Korean jurisdiction, not a *terra nullius.* Japan did not announce its intention to incorporate Dokdo or get Korea's consent in incorporating Dokdo/Takeshima. In addition, Japan did not even announce the incorporation of Dokdo/Takeshima neither in the official government gazette nor in communiqués to any other foreign powers. It simply announced the fact in the Shimane prefecture bulletin. According to South Korea, "Such a mere notice by one of Japan's local governments does not affect by any means Korea's sovereignty over the islets."[73] Thus, the island remained Korean territory when Japan annexed Korea in 1910, "because there had been no legal facts about extinction of Korea's territorial ownership of the island thus far."[74]

Second, following Japan's unconditional surrender in August 1945, the Allied Powers through SCAPIN No. 677 "explicitly excluded the islets from the territorial possession of Japan," and stated that "the Peace Treaty with Japan did not provide any article contradictory to the article of the SCAPIN so far as the issue on the Japanese territory was concerned." South Korea contended further that "the Peace Treaty confirmed SCAP's disposition on this matter without making substantial change at all."[75]

Third, South Korea rejected further Japan's contention that Article 2 (a) of the Peace Treaty with Japan "does not specify that Dokdo is a part of the Korean territory like Chejudo (Qualpart), Kumundo (Port Hamilton) and Ullengdo (Dagelet)." According to Seoul, "the enumeration of these three islands is by no means intended to exclude other hundreds of islands on the Korean coasts from Korea's possession."[76] It went on to say that "If Japan's interpretation on this matter were followed, hundreds of islets off the western and southern coasts of Korea besides those three islands would not belong to Korea, but to Japan."

Finally, South Korea also rejected Japan's contention that the U.S. recognized Dokdo/Takeshima as a Japanese island on the grounds that

Dokdo/Takeshima was designated by the U.S.-Japan Joint Committee as a bombing range for the U.S. air force in 1952 and then the same committee excluded it from such a range in 1953. According to Seoul, the U.S. decision to terminate bombing practices on Dokdo was taken in response to a "protest lodged by the Government of the Republic of Korea." Upon South Korea's protest, the commanding general of the U.S. Air Force officially notified South Korea that "Dokdo was to be excluded from the designated maneuver grounds for the U.S. air force on February 27, 1953.[77]

Meanwhile, Japan also attempted to secure its control over Dokdo/Takeshima by dispatching Japanese crews to erect its landmark on the island. In July 1953, crews of two Japanese coast guard vessels drove Koreans out of one of Dokdo's two islets and erected a Japanese territorial marker on the shore of Dokdo. It was followed the next month by three Japanese patrol boats which arrived to stage a show of force. Under mortar fire from the Korean garrison on Dokdo, the Japanese lost at least one of the three boats and incurred 16 casualties, including several deaths. A similar incident occurred in August 1954. The Japanese Foreign Ministry not only denounced the Korean actions but also demanded an apology from Seoul and the removal of the Korean coast guard from the island.[78] However, South Korea refused to accommodate Japan's request. Rather, it decided to station a permanent garrison squad on Dokdo in addition to building a light house there.

Japan also attempted to establish its control of Dokdo by enlisting the support of the United States. For example, on July 26, 1952, a U.S.-Japan joint committee in connection with implementing the U.S.-Japan Security Treaty designated Takeshima/Dokdo as a U.S. military training area under Article 2 of the U.S.-Japan administrative agreement. Such a move was designed to strengthen Japan's claim to Dokdo/Takeshima.[79] Thus, the Japanese attempted to publicize their claim that "the U.S. recognized it [Takeshima/Dokdo] as Japanese territory.[80] However, such a claim became meaningless following the U.S. Air Force's decision to exclude Takeshima/Dokdo from its training areas on February 27, 1953.[81] That decision was announced following the South Korea's protest to the U.S. Fifth Air Force for bombing practices on the island, for such activities had endangered the lives of Koreans on and around Dokdo.

When these efforts failed to dislodge South Korea from Dokdo, Japan tried to enlist the U.S. in regaining the control of

Takeshima/Dokdo by invoking the U.S.-Japan Security Treaty. Since the U.S. tended to side with Japan on the Takeshima/Dokdo issue, even though it did not reveal to Japan the existence of U.S. Assistant Secretary of State Dean Rusk's letter of August 9, 1951, to South Korea.[82] Japanese officials seemed to have assumed that the U.S. would accommodate Japan's request for help in gaining control over Dokdo/Takeshima. However, on December 9, 1953, Secretary of State John Foster Dulles rejected the Japanese request in a cable dispatched to the U.S. Embassy in Tokyo, saying in part that "such an idea . . . cannot be construed as a legitimate claim for US action under the U.S.-Japan security treaty."[83] Furthermore, Dulles pointed out that "US view re Takeshima is simply that of one of many signatories to the treaty. The U.S. is not obligated to 'protect Japan' from Korean 'pretensions' to Dokdo. . ."[84] He therefore recommended that Japan seek a peaceful solution with South Korea. Since then, the U.S. has maintained a neutral stance on the Japanese-Korean territorial dispute on Dokdo/Takeshima.

Why did the U.S. to take a neutral position on the Dokdo/Takeshima issue? Among other things, it can be pointed out that the U.S. had decided to sign a treaty of alliance with South Korea in October 1953, a treaty which went into effect in November 1954. As South Korea became a U.S. ally, it became a political liability for the U.S. to side either with Japan or South Korea on the Dokdo/Takeshima dispute. As a result, the U.S. urged both Japan and South Korea to settle the territorial dispute through peaceful bilateral negotiations, or by referring the matter to the International Court of Justice (ICJ). In fact, Japan did request South Korea take the matter to the International Court of Justice in 1954. However, South Korea refused to comply with the request, for it did not see any merit in referring the matter to the ICJ.

Conclusion

From the foregoing analysis, a few basic conclusions can be drawn. First, the territorial dispute over Dokdo/Takeshima was created largely due to the inconsistent U.S. policy toward Dokdo/Takeshima from 1945 to 1952. The U.S. initially adopted the policy of returning the island to Korea, because it was part of the Korean territory that Japan had acquired by the use of illegal means in 1905 and as such needed to be returned to the lawful owner (Korea) in accordance with the Cairo and Potsdam Declarations. In accepting the terms of surrender stipulated in the Potsdam Declaration, Japan agreed to return all the territories it had

acquired from other countries after 1895. In the directives issued by the Supreme Commander of the Allied Powers (SCAP) General Douglas MacArthur, specifically SCAPIN No. 677 and SCAPIN No. 1033, the U.S. not only excluded Dokdo/Takeshima from Japan's jurisdiction but also prohibited the Japanese and their ships from approaching within twelve miles of Dokdo island in 1946. In addition, several different drafts of the peace treaty with Japan prepared by the U.S. State Department from 1947 to November 1949 also stipulated the return of Dokdo to Korea. These initial decisions were made on the basis of extensive studies carried out by the U.S. State, War and Navy departments in connection with the implementation of the Cairo and Potsdam Declarations.

Second, in the face of the intensification of the Cold War, the U.S. occupation policy toward Japan underwent a major change after 1948. The U.S. did not want to implement punitive policies toward Japan. Rather, it wanted to help Japan recover and reconstruct its economy. At the same time, the U.S. began to reconsider its position on the return of Dokdo to South Korea in view of the deteriorating security situation on the Korean Peninsula after the 1949 Communist victory in China as well as the strategic location of the island. By December 1949, the U.S. accepted Japan's claims on Dokdo/Takeshima, influenced by William Sebald, and replaced the provision stipulating the return of Dokdo to Korea with a new provision recognizing Japan's claims over the island. However, Sebald's view was not based on history. Rather, his view simply reflected the Japanese government's view.

Third, under the leadership of John Foster Dulles, the U.S. decided to delete Dokdo/Takeshima from the text of the peace treaty and maintain silence on the issue. The San Francisco Peace Treaty of September 8, 1951, contained no provision pertaining to Dokdo/Takeshima. Japan interpreted this omission to mean that the peace treaty recognized Japan's claim, because it did not stipulate a return of Dokdo to Korea. South Korea, on the other hand, emphasized that although Article II (a) did not list Dokdo with the other three large islands to be returned to Korea, it did not explicitly exclude Dokdo from Korea's minor offshore islands. Over one thousand such islands were returned to Korea together with three major islands listed in Article 2 (a). In addition, read together with Article 19 (d) of the San Francisco Peace Treaty, in which Japan recognized "the validity of all acts and omissions done during the period of occupation under or consequences of directives of the occupation

authorities. . . " it seemed clear that Japan accepted the validity of the actions taken under SCAP directives, such as SCAPIN No. 677.[85] Since SCAP did not issue any new orders nullifying or rescinding SCAPIN No. 677, the separation of Dokdo from the Japanese jurisdictions remained valid. Such a view seems to be justified especially in view of the fact that the San Francisco Peace Treaty is completely silent on Liancourt Rocks. Accordingly, South Korea proclaimed the "Rhee Line" on January 18, 1952, placing Dokdo within the protected waters of South Korea. Since then, South Korea has effectively controlled the island in spite of Japan's protests.

Fourth, it is also significant to note that the U.S. did not attempt to intervene on behalf of Japan to compel South Korea to return the island to Japan. In 1953, when Japan requested U.S. help to regain control of Dokdo/Takeshima, Secretary of State Dulles replied that the U.S. was one of the forty-eight signatories of the San Francisco Peace Treaty and, as such, its view on Dokdo/Takeshima weighed no more than that of any other Allied signatories. Dulles' statement made it untenable for Japan to equate the U.S. view on Dokdo/Takeshima with the general consensus of the 48 Allied powers on the Dokdo issue. Also, Dulles' statement made it futile for Japan to bolster its claim to the island by publicizing the U.S.-Japan joint committee's decision on designating Dokdo/Takeshima as a bombing range in 1952. At any rate, the U.S. decided to take a neutral position on the Dokdo/Takeshima issue by maintaining that the U.S.-Japan security treaty could not be invoked to deal with the Dokdo problem, while advising Japan to settle the dispute over Dokdo/Takeshima amicably with South Korea, either through bilateral negotiations or referring the matter to the International Court of Justice. Since then, the U.S. has maintained a neutral stance in dealing with the Dokdo issue.

Fifth, insofar as the legal effects of the U.S. decisions concerning the disposition of Dokdo/Takeshima (i.e., SCAPIN No. 677) during the Allied occupation of Japan are concerned, Korea's interpretation is far superior and stronger than Japan's. Since the U.S. has not rescinded its initial decision stipulated in the SCAPIN No. 677 by issuing a new SCAP directive or by signing a new treaty nullifying its 1946 decision on Dokdo/Takeshima, it is clear that the validity of the initial U.S. decision to exclude Dokdo/Takeshima from Japan's jurisdictions remains intact without being affected by the San Francisco Peace Treaty, which is completely silent on the disposition of the Dokdo/Takeshima.

Notes:

[1] For a detailed analysis of pre-1905 era documents supporting Korea's claim to Dokdo/Takeshima, see Hideki Kajimura, "The Question of Takeshima/Tokdo," *Korea Observer,*Vol. XXVIII, No. 3, Autumn 1997, pp. 428-456. See also, Seichu Naito, "Takeshima wa Nihon koyu ryodo ka," *Sekai*, June 2005, pp. 57-58; and Yong-Ha Shin, "A Historical Study of Korea's Title to Tokdo," *Korea Observer,*Vol. XXVIII, No.3, Autumn 1997, pp. 333-358. For pre-1905 era maps (both Japanese and Korean), see Kazuo Hori, "Japan's Incorporation of Takeshima into Its Territory in 1905," *Korea Observer,* Vol. XXVIII, No. 3, Autumn 1997, pp. 479-488. According to Prof. Hori of Kyoto University, Dokdo was treated as a Korean territory in a number of Japanese maps published from 1778 to 1897, including *Nihon yochirotei zenzu (1793); Nippon rotei yochizu* (1778); *Tainippon enkai yochi zenzu* (1821); and the Japanese Navy's *Chosen suiroshi* (1894 & 1897).

[2] Naito, *op. cit.*, pp. 56-57. See also, Hori, *op. cit.*, p. 486.

[3] Naito, *op. cit.*,pp. 58-59. The document was signed and approved by Minister of the Right Iwakura Tomomi, Vice Minister Okuma Shigenobu, Terajima Munenori, and Okui Takato. Hori, *op. cit.*, pp. 490-491.

[4] *Ibid.*, pp. 490 & 511-514. See also, Naito *op. cit.*, p. 60.

[5] *Ibid*, pp. 61-62.

[6] *Ibid.*

[7] *Ibid.*, p.59. See also, Shin, *op. cit.*, pp. 349-350.

[8] Naito, *op. cit.*,pp. 59-60.

[9] Hori, *op. cit.*, pp. 519-520. See also, Naito, *op. cit.*, p. 61.

[10] Hori, *op. cit.*, p. 520. See also, Shin, *op. cit.*, p.353.

[11] Naito, *op. cit.*, pp. 59-60. See also, Hori, *op. cit.*, pp. 520-523; and Shin, *op. cit.*, pp. 354-356.

[12] *Ibid.*, p. 356. See also, Kajimura, *op. cit., p. 457; and Hori,* op. cit., pp. 520-524; and Kajimura, o*p. cit.*, p. *457.*

[13] Kenneth Scott Latourette, *A Short History of the Far East* (New York: MacMillan Co., 1957), p. 627.

[14] For the text of the Cairo Declaration, see Theodore McNelly (ed.), *Sources in Modern East Asian History and Politics* (New York: Appleton-Century-Crofts, 1967), p. 154.

[15] For the text of the Potsdam Declaration, see *ibid.*, pp. 166-168.

[16] Fred Greene, *The Far East* (New York: Holt, Rinehart and Winston, 1957), p. 262.

[17] For the text of SCAPIN No. 677 ("Governmental and Administrative Separation of Certain Outlying Areas from Japan"), see mhtml:file://F:\SCAP Instructions Pertaining to Dokdo.mht (retrieved on November 2, 2008).

[18] *Ibid.*

[19] For the text of SCAPIN No. 1033 ("Areas Authorized for Japanese Fishing and Whaling"), which established the "MacArthur Line," see mhtml: file://F:\SCAPIN 1033.mht (retrieved on November 23, 2008).

[20] For example, the July 1946 SWNCC study had stated that Takeshima was one of the islands considered "historically and administratively part of Korea." See Kimie Hara, *Cold War Frontiers in the Asia Pacific: Divided Territories in the San Francisco System* (New York: Routledge, 2007), p. 32.

[21] *Ibid.* p.44.

[22] Shin, *op. cit.*, p. 357.

[23] *Ibid.* Immediately after the establishment of the Republic of Korea on August 15, 1948, the South Korean government extended its administrative authority to the island by registering it as "No. 1, Todong, Nam-myon, Ullung-gun, Kyongsang-puto province. " See Kajimura, *op. cit.*, pp. 462-463.

[24] Mark S. Lovmo, "The Territorial Dispute Over Dokdo." http://www.geocities.com/mlovmo/page4.html. (retrieved on July 18, 2008).

[25] *Ibid.*

[26] For the text, see Yongha-Ha Shin, *Dokdo Yeongyukwon Jaryo eui Tamgu (*Seoul: Dokdo Yeonku Bojon Hyuphoe, 2000), Vol. 3, p. 286.

[27] *Ibid.*, p. 290.

[28] "Memorandum by Mr. John P. Davis, Jr., of Policy Planning Staff to the Director of the Staff (Kennan)," August 11, 1947, in United States Department of State, *Foreign Relations of the United States (*cited hereafter *FRUS) 1947*, Vol. VI, pp. 485-486.

[29] *Ibid.*, p. 486, footnote 21.

[30] Hara, *op. cit.*, p. 28.

[31] For the text of Article 4 of the January 1948 draft treaty, see Shin, *op. cit.*, pp. 292-293.

[32] Hara, op. cit., *p. 28.*

[33] United States Department of State, *FRUS 1948*, Vol. VI, pp. 691-719.

[34] Robert D. Eldridge, "George F. Kennan, PPS to Okinawa," *Kokusai Seiji*, Vol. 120, February 1999, p. 44.

[35] Hara, *op. cit.*, pp. 29-30.

[36] For the text of Article 6 of the November 2 (1949) draft, see Shin, *op. cit.*, p. 300.

[37] For Sebald's detailed commentary sent to the U.S. State Department, see Shin, *op. cit.*, pp.305-311. See also United States Department of State, *FRUS 1949*, Vol. VII, p. 900.

[38] Hara, *op. cit.*, p. 32.

[39] For a detailed analysis on Sebald's role in the making of the peace treaty with Japan, see Byung Joon Jung, "William J. Sebald and the Dokdo Territorial Dispute," *Korea Focus*, July-August 2005, pp. 55-81, esp. 72-73.

[40] Donald F. Lach and Edmund S. Wehrle, *International Politics in East Asia since World War II* (New York: Praeger Publishers, 1975), p. 88.

[41] For the text of Article 6 of the December 1949 draft, see Shin, *op. cit.*, p.315.

[42] *Ibid.*, p.1267.

[43] For the text of relevant chapters of the treaty draft, see Shin, *op.cit.*, pp. 317-319. See also, Hara, *op. cit.*, p. 34.

[44] *Ibid.*, p. 36.

[45] United States Department of State, *FRUS 1950*, Vol. VI, pp. 1297-1303.

[46] *Ibid.*, p.1296.

[47] *Ibid.*, p. 1330.

[48] For the text of the March 23, 1951 draft, see United States Department of State, *FRUS 1951, Vol. VI*, pp.944-945. See also Hara, *op. cit.*, p. 39.

[49] For the text of relevant articles of the third British draft, see Shin, *op .cit.*, pp. 339-344.

[50] Hara, op. cit., p. 39.

[51] For the text of the relevant articles of the May 3, 1951 "Joint U.S. – United Kingdom Draft Prepared During the Discussions in Washington, April-May 1951," see Shin, op. it., pp. 348-350. For the U.S. State Department's "Working Draft and Commentary" on the May 3, 1951 U.S.-U.K joint draft (dated June 1,

1951), see i*bid,* pp. 351-353. For the full text, see United States Department of State, *FRUS 1951, Vol. VI,* Part I, pp.1058-1061.

[52] United States Department of State, *FRUS 1951,* Vol. VI, Part 1, p. 1061.

[53] For the text of Chapter II, Article 2(a) of the U.S.-U.K. joint draft of June 14, 1951, see *Foreign Relations of the United States 1951,* Vol. VI, pp. 1119-1121.

[54] United States, Department of State, *FRUS 1951,* Vol. VI, Part 1, pp. 1206-1207.

[55] *Ibid*, p. 1203.

[56] For the text of Rusk's reply, see Shin, *op. cit.*, pp. 379-381, esp. 379-380.

[57] Hara, *op. cit.* p. 46.

[58] *Ibid.*, p. 46.

[59] United States Department of State, *FRUS 1951,* Vol. VI, Part 1, p. 1205.

[60] For the text of the "Presidential Declaration of Sovereignty over Adjacent Seas," see Shin, *op. cit.*, pp. 397-400.

[61] See "Comments on Korean Note Regarding U.S. Treaty Draft (SECRET) (May 9, 1951)," in Shin, *op. cit.*, pp. 360-364, esp. 362-363. See also, "Memorandum of Conversation [between Ambassador You-Chan Yang and Ambassador John Foster Dulles on July 9, 1951], by the Officer in Charge of Korean Affairs in Office of Northeast Asian Affairs (Emmons) (SECRET)," in Shin, *op.cit.*, pp. 364-369, esp. pp. 366-368.

[62] Mark Lovmo, "The United States' Involvement with Dokdo Island (Liancourt Rocks): A Timeline of the Occupation and Korean War Era." (http://www.geocities.com/mlovmo/page9.html, retrieved on October 2, 2009).

[63] *Ibid.*

[64] For the texts of these notes verbale, see Yongha Shin, *Dokdo Youngyukwon Charyo eui Tamku (Seoul: Dokdo Yeonku Bojon Hyuphae, 2000),* Vol. 3, pp. 400-402 (Japan's note verbale dated January 28, 1952); pp.405-407 (Japan's note verbale dated April 25, 1952); pp. 408-409 (Japan's note verbale dated June 22, 1953); pp. 414-421 (Japan's note verbale dated July 13, 1953); pp. 425-426 (Japan's note verbale dated August 8, 1953); and p. 428 (Japan's note verbale dated August 31, 1953). For the Korean Foreign Ministry's notes verbale, see *ibid., pp.* 402-405 (for the note verbale dated February 12, 1952);pp. 409-410 (for the note verbale dated June 26, 1953); pp. 421-424 (for the note verbale dated August 4, 1953); pp. 426-428 (for the note verbale dated, August 22,

1953); pp. 432-442 (for the note verbale dated September 9, 1953); and pp. 442-443 (for the note verbaledated September 26, 1953).

[65] Seichu Naito, "Takeshima momondai no shiteki kensho," in Seichu Naito & Byong-Sup Park, eds., *Takeshima=Dokdo Ronso: Rekishi shiryo kara kangaeru (*Tokyo: Shinkansha, 2007), pp. 184-185.

[66] See Japanese Foreign Ministry's Note Verbale (No. 186/A2) dated July 13, 1953 in *Ibid. pp. 414*-421, esp. 418.

[67] Naito, *loc.cit.*.

[68] Ministry of Foreign Affairs of Japan, "Outline of Takeshima Issue." (http://www.mofa.go.jp/region/asia-paci/takeshima/position.html, retrieved on October 9, 2009).

[69] Shin, *op.cit., p.* 419.

[70] *Ibid.*, p. 420.

[71] *Ibid.*

[72] *Ibid.*

[73] *Ibid.*, p. 438.

[74] *Ibid.*, p.439.

[75] *Ibid*., p.440.

[76] *Ibid.*, p. 441.

[77] *Ibid.*, p .442.

[78] Hideki Kajimura, "The Question of Takeshima/Dokdo," *Korea Observer*,Vol. XXVIII, No. 3, Autumn 1997, pp. 464-465. According to Mark Lovmo, "on June 27, 1953, crews of the two Japanese coast guard vessels, led by Tomizo Sawa and Nobuo Igawa, drove six of the Korean coast guards from their base on the East islet to the West islet, landed on the island, and erected a Japanese territorial marker on the shore." See Novmo, *op. cit.* Furthermore, on July 12, 1953, three Japanese patrol boats arrived to stage their "typical show of force." However, upon arriving at Dokdo the Japanese ships came under mortar fire from the Korean forces on Dokdo." The Japanese ships returned fire, but the Japanese lost one boat and suffered 16 casualties, including several deaths. For details, see *ibid.*

[79] See, for example, Japanese Vice-Minister of Foreign Affairs Ishihara's testimony before the Foreign Affairs committee of the House of Representatives (shugiin) on May 23, 1952.

[80] Kajimura, *op. cit.*, p. 464.

[81] *Ibid.*

[82] See John Foster Dulles' telegram dated December 9, 1953.

[83] For the text of Secretary of State Dulles' cable, see Lovmo, "The United States' Involvement with Dokdo Island (Liancourt Rocks)…" *op. cit.*.

[84] *Ibid.*

[85] Myung-Ki Kim, "Sovereignty over Tok-do island and interpretation of Article 2 of the Peace Treaty between Korea and Japan: Review of the Principle of Integration," *East Asian Review*,Vol. 18, No. 2, Summer 2006, pp. 70-81, esp. 76-80.

The Global Financial Crisis and U.S.-Korea Trade and Investment: A Perspective

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ABSTRACT

The global financial crisis of 2008-2009 that began in the United States quickly spread to other countries of the world, including South Korea. As the crisis progressed through four overlapping phases, each country has pursued policies to counter the worst effects. Phase I was to contain the contagion and strengthen financial sectors. This was done primarily by monetary policy lowering interest rates, rescuing troubled banks and other financial institutions, and, in Korea's case, providing foreign currency to companies with short-term debt owed in dollars. Phase II has been to cope with the economic effects as the crisis spread from the financial to real sectors. In phase III, regulatory and financial market reform has been carried out. In the international coordination of regulatory reform, the G-20 (Group of Twenty Nations) is playing a key role. Phase IV is to deal with the political effects and protectionism generated by the crisis. As the epicenter of the crisis, but the United States remains an indispensible nation in efforts to find solutions to the crisis. South Korea's global position appears to have been enhanced as evidenced by its being chosen as host of the G-20 Summit in 2010. Extreme protectionism has been kept at bay by the rules of the World Trade Organization, but in the United States, in particular, the "Buy America" clause in its stimulus package and various anti-dumping measures threaten to trigger a trade spat with countries such as China.

Keywords: global financial crisis, Korean trade and investment, U.S. trade and investment, won depreciation, safe haven, protectionism.

What began as a bursting of the U.S. housing market bubble and a rise in foreclosures suddenly ballooned into a global financial crisis that soon spread to the real economic sectors. Some of the largest and most venerable banks, investment houses, and insurance companies either declared bankruptcy or had to be rescued financially. In October 2008, following the bankruptcy of Lehman Brothers, credit flows froze across the United States and Europe, lender confidence dropped, and one after another countries around the world dipped toward recession. Fears of another Great Depression quickly spread, and both companies and consumers cut back on spending. In this turmoil, international trade and investment was whipsawed like the tail of a marauding dragon.

Economic shock waves emanated from the United States as policymakers stepped into one "black hole" after another. They had to make quick multibillion dollar decisions in uncharted territory and with what seemed to be entire economies at stake. Long cherished rules and practices were thrown out the window as the paramount motivating factor became economic survival. In the United States, privatization and the people's aversion to socialism, particularly government ownership of private companies, quickly became secondary to the role of government as the lender of last resort and the financier with the deepest pockets.

In 2009, as economies began to recover from the "Great Recession," the world seemed to divide into the rich countries in Europe, North America, and Northeast Asia which appeared to be bottoming out and starting to recover; the rapidly recovering middle-income or dynamic countries such as China, India, and those in Latin America and Southeast Asia with higher growth rates (with some exceptions); and less developed countries that seemed to be bypassed by the worst effects of the crisis. Even though most economies have turned toward recovery, the possibility remains of a double-dip recession following the termination of government fiscal stimulus programs and the unwinding of lending and monetary injections by central banks and monetary authorities. The key for policymakers is to time the withdrawal of public emergency support programs to coincide with the uptick in private economic activity.

The financial turmoil and sharp contraction of the global economy that began in 2008 and accelerated in the first quarter of 2009 similarly caused international trade and investment to shrink. In July 2009, the World Trade Organization projected that the trading volumes of developed economies was expected to contract by 14% in 2009 instead

of the 10% forecast just three months previously while trade for developing economies was expected to decline by 7%, rather than the earlier forecast 2-3%. Global foreign direct investment (FDI) flows, which fell by 14% in 2008, were projected to fall by an additional 30-40% in 2009. Turmoil in the financial sector had spread to the real economic sectors.

Four Phases of the Global Financial Crisis

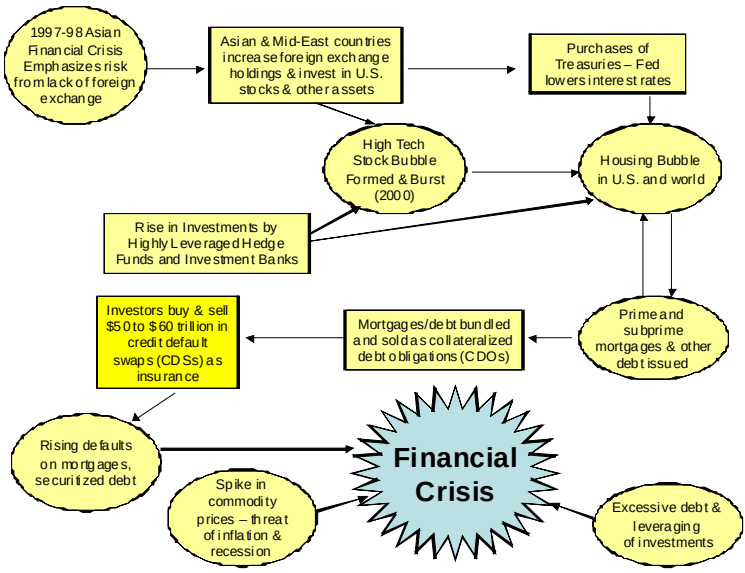
The global financial crisis as it has played out in countries across the globe has been manifest in four overlapping phases. Although each phase has a policy focus, each phase of the crisis affects the others, and, until the crisis has passed, no phase seems to have a clear end point.

Phase I: Contain the Contagion and Strengthen Financial Sectors

The global financial crisis in its first phase exploded onto the world stage in September 2008. The road to the crisis is depicted in **Figure 1.** It can be traced to the aftermath of the 1997-98 Asian financial crises when countries determined that they need larger accumulations of foreign exchange reserves as a hedge against runs on their currencies. These holdings of foreign exchange reserves, particularly by China, Japan, the Gulf nations, and South Korea, were invested back into dollar-denominated assets. At the same time, hedge funds and investment banks began to borrow extensively to fund investments. Funds flowed into stocks and U.S. Treasury securities, lowering interest rates and ultimately leading to bubbles in high technology stocks in 2000 and to a housing bubble in the United States, Europe, and other countries of the world. The U.S. housing bubble, however, was fed by questionable mortgages that were packaged as collateralized debt securities and sold to investors. Wary investors bought insurance against credit defaults called credit default swaps issued by companies, such as AIG, outside of normal insurance regulation. Any company could bet on a credit default by any other company, even though the buyer of the insurance did not hold any of the credit in question. The enterprise became more of a betting match than legitimate hedging of risk until the nominal value of all credit default swaps grew nearly to these sizes of global gross domestic product, yet they had been issued by a small number of companies. As defaults began to appear in subprime mortgages, several issuers of credit default swaps and holders of collateralized obligations could not generate the liquid funds needed to meet their obligations. The

house of cards built on debt, questionable credit ratings of that debt, and underlying mortgages and other credit that was beyond the borrowers to repay quickly collapsed. A financial crisis of unbelievable magnitude hit the world.

Figure 1. The Road to the Global Financial Crisis

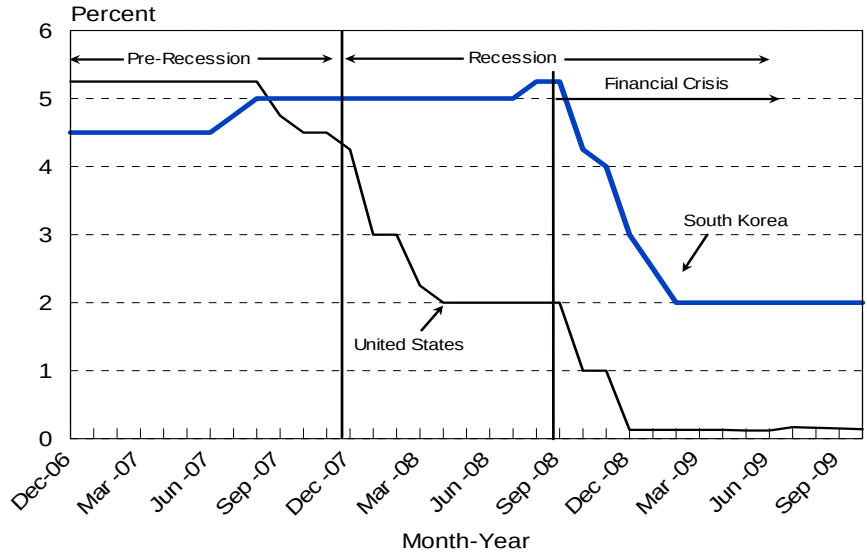


The policy response centered on trying to comprehend the magnitude of the situation, containing the contagion, and strengthening or rescuing financial institutions. On a macroeconomic level, this included policy actions such as lowering interest rates, expanding the money supply, quantitative (monetary) easing, and actions to restart and restore confidence in credit markets. On a microeconomic level, this entailed actions to resolve the immediate problems and effects of the crisis including financial rescue packages for ailing firms, guaranteeing deposits at banks, injections of capital, disposing of toxic assets, and restructuring debt. The policy actions involved decisive (and, in cases, unprecedented) measures in terms of scope, cost, and extent of government reach. Actions taken included the rescue of financial institutions considered to be "too big to fail" (including government

takeovers of certain of them), government facilitation of mergers and acquisitions, and government purchases of "toxic" financial assets. Nearly every industrialized country and many developing and emerging market countries pursued some or all of these actions.

The "panic" phase of containing the contagion continued well into 2009. As shown in **Figure 2**, in the United States, traditional monetary policy almost reached its limit as the Federal Reserve lowered its discount rate to 0.5% and maintained a target for the federal funds rate of 0.0 to 0.25%. The Bank of Korea, likewise, dropped its policy interest rate from more than 5% to 2%.

Figure 2. Policy Interest Rates in the United States and South Korea Under the Global Financial Crisis



Source: Data from Global Insight

These low interest rates were both a policy tool aimed at the financial crisis and generated by the crisis itself. On one hand, authorities in both countries used the low rates as part of their monetary policy to stimulate economic activity and to generate profits for financial and other institutions under duress. In the United States, however, the low rates resulted partly from the flood of investment capital that flowed

into the country seeking a safe haven. As the crisis destroyed nearly a third of the world's financial wealth, investors around the world withdrew funds from markets in countries perceived to be at risk and moved the money into "safer" investments such as U.S. Treasury securities. These inflows of capital also strengthened the dollar, even though the United States was the epicenter of the financial crisis. Despite the crisis conditions in U.S. financial markets, the situation elsewhere looked worse. In the Korean case, as will be seen later in this article, the strengthened dollar and concomitant weakened Korean won played a large role in determining the level of exports and imports between the two countries.

In the United States, the Treasury, Federal Reserve, Federal Deposit Insurance Corporation, Office of Thrift Supervision, and Comptroller of the Currency were compelled to present a united front in attempting to contain the contagion. Together they committed about $12.5 trillion (88% of GDP) to protect the economy from the crisis. Of this (through September 2009), $2 trillion was actually expended, while the remainder was primarily guarantees or financial backing.[2] Under the $700 billion Troubled Asset Relief Program (TARP) and Federal Reserve programs, the U.S. government invested billions of dollars in weakened financial institutions. Suddenly, Washington became the owner or major shareholder of AIG (American International Group), Fannie Mae (Federal National Mortgage Association), and Freddie Mac (Federal Home Loan Mortgage Corporation) as well as numerous banks, General Motors,[3] and Chrysler. The corporate investments generally were in the form of loans and preferred stock that paid quarterly dividends. The list of financial institutions that had to be merged or "bailed out" by the U.S. Treasury and Federal Reserve became longer and longer. As of August 2009, $204 billion in funds under the TARP had been disbursed to 671 banks. Among these, 465 banks received less than $25 million, but six banks received between $10 billion and $45 billion.[4] Even with the support, however, between September 2008 and October 6, 2009, 114 U.S. banks had failed

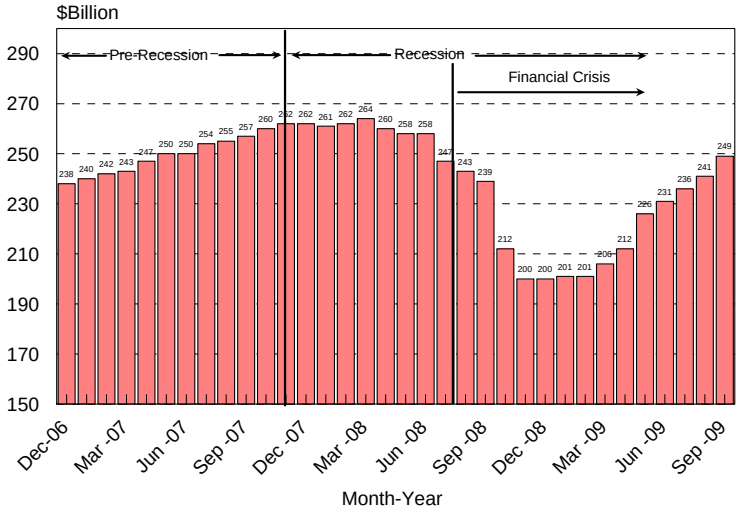
As part of the U.S. government's rescue operations, the Federal Reserve conducted about $1.2 trillion in emergency commitments to stabilize the U.S. financial sector. Its interventions included a safety net for commercial banks, financing for the merger of J.P. Morgan and Bear Stearns, a lending facility for investment banks and brokerages, loans for money-market assets and commercial article, and purchases of

securitized loans and lending to businesses and consumers for purchases of asset-backed securities.[5]

South Korea faced a dual problem. Not only was the financial crisis hitting its financial institutions, but as a major trading nation, its currency came under attack. In response, the Bank of Korea provided liquidity to sectors badly affected by the credit crisis through its open market operations and lending facilities. One measure was to provide a state guarantee (US$100 billion) for up to five years for borrowing by banks in foreign currencies. The program applied equally to local and foreign banks constituted under Korean Law. At the same time, it actively provided foreign-currency liquidity to domestic financial institutions through channels, such as the swap market, in order to stabilize the foreign exchange market.

Following the Asian financial crisis, countries in Asia set out to accumulate stocks of foreign exchange reserves as a hedge against a future crisis. South Korea followed this policy with a vengeance. As shown in **Figure 3**, by the beginning of 2007, Korea's foreign exchange reserves totaled $240 billion and peaked at $264 billion in March 2008. As the financial crisis developed, the reserves dropped to $200 billion but from mid-2009 have been recovering and were at $249 billion in September 2009. It is apparent that the Bank of Korea was not willing to exhaust its foreign exchange reserves in defending the value of the won against the appreciating dollar. Combined with Japan's $1 trillion and China's $2 trillion in foreign exchange reserves, it seems that the current financial crisis has only served to reinforce the desire of monetary authorities to maintain a cushion of reserves to cope with future crises and to give them flexibility in policy. These currency reserves are generated primarily by running trade surpluses with the United States and other trade deficit countries, so this does not bode well for the United States in its attempt to bring more balance into its macroeconomy and to further liberalize trade.

Figure 3. South Korea's Foreign Exchange Reserves



Source: Data from Bank of Korea

The harsh reality, however, is that if Korea had accumulated only $60 billion in foreign exchange reserves at the onset of the worst of the financial crisis, it would have run short on foreign exchange and would have been in the same situation as it was during the Asian financial crisis. This time, however, the Bank of Korea had entered into currency swap arrangements with the central banks of the United States, Japan, and China.[6] These arrangements enabled the Bank of Korea to borrow foreign exchange during a crisis. As of December 31, 2008, Korea had borrowed $10 billion from the U.S. Federal Reserve under the currency swap arrangement. By August 26, 2009, the outstanding amount had been reduced to $6 billion.

On the domestic side, since March 2009, South Korea has been operating a 20 trillion won ($14.3 billion) Bank Recapitalization Fund aimed at helping banks strengthen their capital base. The Fund is managed by the Bank Recapitalization Fund Oversight Committee and operated through the state-run Korea Development Bank and Korea Asset Management Corporation. It purchases hybrids and subordinate bonds from banks. Banks that participate in the scheme are required to sign a memorandum of understanding that includes commitments to support the real economy, notably small- and medium-sized enterprises, and corporate restructuring.[7] Korea also established a Restructuring

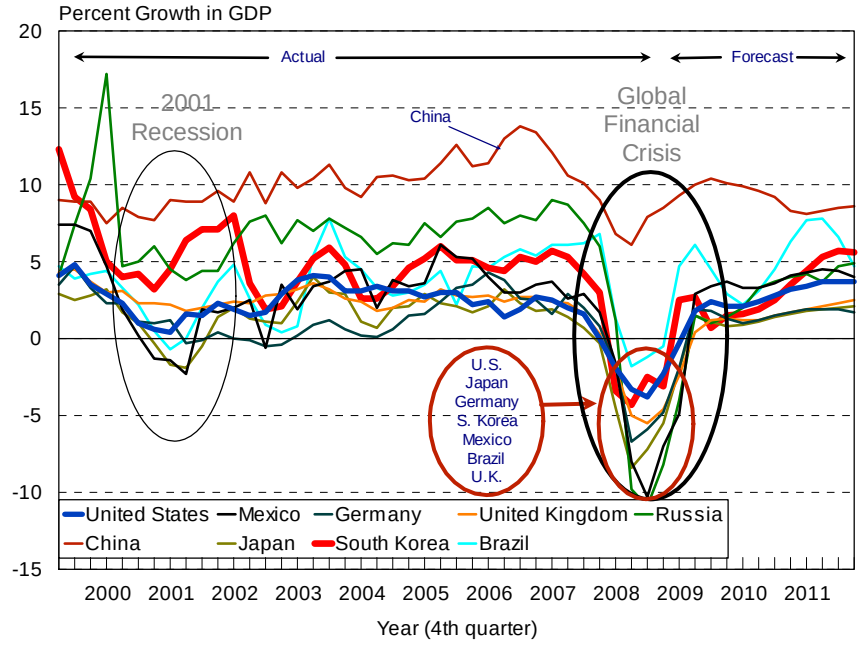
Fund to operate from May 13, 2009 to 2014 and is administered by the Korea Asset Management Corporation. The Fund purchases non-performing loans from financial institutions and assets of the companies that undergo restructuring. It may dispose of up to 40 trillion won ($32 billion) through government-guaranteed bonds.[8]

Phase II: Coping with Economic Effects

The second phase of this financial crisis resembles any recessionary segment of a business cycle except for the severity of the economic downturn that has confronted countries around the world. The financial crisis quickly spread from banking, securities, and insurance markets to the real economic sectors. The chaos on Wall Street soon engulfed Main Street. Before long, production, firms, investors, households, and whole economies were pulled down by the uncertainty, drops in consumption, ever widening flight of capital, and by falling exports and commodity prices. In this phase, governments turned to traditional fiscal, trade, and employment policies along with direct intervention to save companies in order to deal with the recession, declining tax revenues, and rising unemployment.

Figure 4 shows the effect of the financial crisis on economic growth rates (annualized changes in real GDP by quarter) in selected nations of the world. The figure shows the difference between the 2001 recession that was confined primarily to countries such as the United States, Mexico, and Japan and the current financial crisis that has pulled down growth rates in a variety of countries. This recession has been global. The synchronous nature of the recession is clearly visible. Even China experienced a "growth recession." The implications of this synchronous drop in growth rates have been that neither the United States nor other nations that depend on the U.S. and European markets have been able to export their way out of the recession. Those countries that have pushed exports have done so only by taking market share from other exporting countries. Countries with high export dependency, such as South Korea, either had to gain market share in the United States or depend more on exports to countries that were still growing, such as China.

Figure 4. Quarterly (Annualized) Economic Growth Rates for Selected Countries



Source: Congressional Research Service. Data and forecasts (October 15, 2009) by Global Insight.

In response to the recession, many countries adopted fiscal stimulus packages designed to induce economic recovery or at least keep conditions from worsening. These included packages by the United States ($787 billion), China ($586 billion), the European Union ($256 billion), Japan ($396 billion), Mexico ($54 billion), and South Korea ($52.5 billion). The global total for stimulus packages exceeded $2 trillion, but some of the packages included measures that extend into subsequent years, so the total did not translate into immediate government spending.

The stimulus packages by definition were to be fiscal measures (government spending or tax cuts) but some packages included measures aimed at stabilizing banks and other financial institutions that usually are categorized as bank rescue or financial assistance packages. The $2 trillion total in stimulus packages amounted to approximately 3% of world gross domestic product, an amount that exceeded the call by the

International Monetary Fund for fiscal stimulus totaling 2% of global GDP to counter worsening economic conditions worldwide.[9] If only new fiscal stimulus measures launched in 2009 are counted, however, the total and the percent of global GDP figures would be considerably lower. An analysis of the stimulus measures by the European Community for 2009 found that such measures amounted to an estimated 1.32% of European Community GDP.[10] The IMF estimated that as of January 2009, the U.S. fiscal stimulus packages as a percent of GDP in 2009 would amount to 1.9%, for the euro area 0.9%, for Japan 1.4%, for Asia excluding Japan 1.5%, and for the rest of the G-20 countries 1.1%.[11]

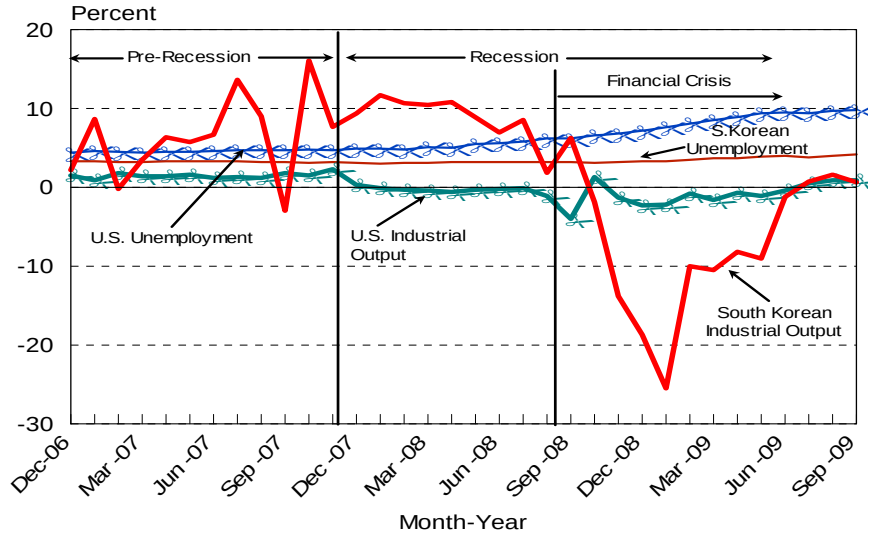
The U.S. stimulus package included a "cash for clunkers" program that provided a consumer subsidy of between $2,500 and $4,500 to U.S. residents to purchase a new, more fuel efficient vehicle when trading in a less fuel efficient vehicle. The program ran between July 1 and August 24, 2009, until the $3 billion in funds were exhausted and was promoted as providing stimulus to the economy by boosting auto sales, while putting cleaner and more fuel-efficient vehicles on the highways. Of the 690,114 vehicles purchased under the program, Toyota came out on top with 19.4%. General Motors had 17.6%, Ford 14.4%, Honda 13.0%, Nissan 8.7%, Hyundai 7.2%, Chrysler 6.6%, and Kia 4.3%.[12] Hyundai and Kia clearly benefitted from the subsidized sales.

Relative to the size of the GDP, South Korea's fiscal stimulus package was large at 6.1% of 2008 GDP, and it played an important role in limiting employment losses. The OECD Employment Outlook for 2009 has projected that the fiscal stimulus package will increase employment by between 148,000 and 326,000 workers in 2010. These amounts are net of leakage of stimulus spending into the purchase of imports rather than domestic production.[13] Korea also implemented its version of "cash for clunkers" beginning in May 2009. It provided for a 70% cut in the individual consumption tax and acquisition/registration tax for new automobiles (local and imported) purchased to replace old automobiles.

The Korean government has also initiated a shipping fund to purchase vessels from shipping companies as part of its efforts to facilitate restructuring of the shipping industry. The shipping fund was established through contributions from private investors and financial institutions as well as from the government's $32 billion Restructuring Fund. As of August 28, 2009, 191.2 billion won ($152 million) had been used for the purchase of ships.

Figure 5 shows U.S. and South Korean rates of unemployment and changes in industrial production by month from the corresponding month in the previous year. The size of the U.S. economy and the large proportion of the economy represented by services has meant that industrial production dropped approximately in line with changes in the whole economy. The largest decline was in October 2008 when industrial production dropped 4% below that of the previous year. However, certain regions with a heavy manufacturing presence, such as Michigan with its large concentration of motor vehicle manufacturers, experienced large declines in industrial production. The country as a whole, though, experienced moderate, although relatively large, contractions in such activity.

Figure 5. U.S. and South Korean Rates of Unemployment and Change in Industrial Production from a Year Previous Under the Global Financial Crisis



Source: Underlying data from U.S. Department of Commerce

South Korean industrial production was whipsawed by the financial crisis. Since exports comprise 40% of the Korean economy, the decline in global trade hit Korea hard. In January 2009, industrial production had dropped by 25% from the previous year. However, the depreciation of the won combined with the government's stimulus programs spurred

demand, and by mid-2009 industrial production began to recover fairly rapidly.

As shown in **Figure 5**, the decline in industrial activity pushed up the rate of unemployment in both countries. South Korea's unemployment rate rose a whole percentage point from 3.2% in September 2008 to 4.2% in September 2009. This was considerably below the 7% in 1998 in the midst of the Asian Financial Crisis, but it was a level not seen since the recession of 2001. In the United States, labor markets also were severely impacted by the financial crisis. The rate of unemployment at 4.9% in December 2007 began to rise as the United States dropped into recession. When the worst of the financial crisis erupted in September 2008, unemployment already was at 6.2%, and it continued to rise to 9.8% by September 2009 with some 15 million people actively seeking work. During the Asian financial crisis, U.S. unemployment actually declined to 4.5%.

Phase III: Regulatory and Financial Market Reform

The third phase of the global financial crisis—to decide what changes may be needed in the financial system—is underway in a halting manner. Neither the United States nor South Korea, however, can be a regulatory island among competing nations of the world. The international marketplace consists of multinational corporations, instant transfers of wealth, lightning fast communications, and globalized trading systems for equities and securities. If domestic regulations are anomalous or significantly more "burdensome" than those in other industrialized nations, business and transactions will migrate toward other markets. Hence, many have emphasized the need to coordinate regulatory changes among nations. The vehicle for forming an international consensus on measures to be taken by individual countries is the G-20 (Group of Twenty) along with the International Monetary Fund and new Financial Stability Board[14] (based in Switzerland), although some developing nations prefer the more inclusive G-30.

In order to coordinate reforms in national regulatory systems and give such proposals political backing, world leaders began a series of international meetings to address changes in policy, regulations, oversight, and enforcement. Some are characterizing these meetings as Bretton Woods II. The G-20 Leaders' Summit on Financial Markets and the World Economy that met on November 15, 2008, in Washington, DC, was the first of a series of summits to address these issues. The second

was the G-20 Leader's Summit on April 2, 2009, in London, and the third was the Pittsburgh Summit on September 24-25, 2009, with the U.S. President as the host. In 2010, Canada will host the fourth meeting in June, and Korea will host the fifth in November. The choice of South Korea for the 2010 G-20 summit reflects the country's growing presence in global financial and economic circles. However, it also places pressure on Seoul's financial authorities to follow through on the G-20 reforms and to push through on the G-20 goal of completing the Doha Round of Multilateral Trade Negotiations under the WTO.

In this third phase, the immediate issues to be addressed by the United States and other nations center on "fixing the system" and preventing future crises from occurring. Much of this involves the technicalities of regulation and oversight of financial markets, derivatives, and hedging activity, as well as standards for capital adequacy and a schema for funding and conducting future financial interventions, if necessary. An important question is what to do with companies that are deemed "too big to fail" in order to prevent their failure and actions to take if they do fail. In the United States, lawmakers have faced immense inertial forces when attempting to make changes in the financial oversight and regulatory system. Entrenched interests are strong, and other issues, such as health care, the wars in Afghanistan and Iraq, and nuclear non-proliferation are commanding the attention of the U.S. Congress, particularly as global economic conditions improve.

Measures proposed by both the U.S. Treasury and the G-20 have included the following:

- Systemic Risk: All systemically important financial institutions should be subject to an appropriate degree of regulation. Use of stress testing by financial institutions should be more rigorous.
- Capital Standards: Large complex systemically-important financial institutions should be subject to more stringent capital regulation than other firms. Capital decisions by regulators and firms should make greater provision against liquidity risk.
- Hedge Funds: Hedge funds should be required to register with a national securities regulator. Systemically-important hedge funds should be subject to prudential regulation.

Hedge funds should provide information on a confidential basis to regulators about their strategies and positions.

- Over-the-Counter Derivatives: Credit default swaps should be processed through a regulated centralized counterparty or clearing house.
- Tax Havens: Minimum international standards—a regulatory floor—should apply in all countries, including tax havens and offshore banking centers.

The United States also has approved additional funding and a larger role for the International Monetary fund in dealing with macroprudential oversight (systemic risk). The U.S. Congress also has been considering legislation that would establish a Consumer Financial Protection Agency, provide for additional regulation of credit rating agencies and a systemic risk monitor, deal with firms that are too big to fail, protect investors, require registration by private fund advisors, and provide for greater shareholder voice in determining and eliminating perverse incentives relative to executive compensation.

Phase IV: Dealing with Political Effects and Protectionism

The fourth phase of the financial crisis is in dealing with the political effects of the financial turmoil and pressures to protect favored industries. These are secondary impacts that relate to the roles of the United States and South Korea on the world stage, the strength of ruling regimes, and policies to deal with industries in distress.

During the early phase of the crisis, European leaders (particularly British Prime Minister Gordon Brown, French President Nicolas Sarkozy, and German Chancellor Angela Merkel) played a major role in crafting international mechanisms and policies to deal with the initial adverse effects of the crisis as well as proposing long-term solutions. The U.S. presidency was in transition. Under the Obama Administration, the United States has emerged as an "indispensible nation." Even though the United States is at the center of the blame for the crisis, and some see it as yet another of the excesses of a country that emerged as the sole superpower in a unipolar world following the end of the Cold War, countries recognize that the United States is still one of a scant few that can bring other nations along and induce them to take actions outside of their political comfort zone. The combination of U.S. military power, extensive economic and financial clout, its diplomatic clout, its veto

power in the IMF puts the United States at the center of any resolution to the global financial turmoil.

South Korea still is a newcomer to the club of rich nations, but it has been on a steady ascent. The financial crisis has provided both an opportunity to lead and to gain recognition for its high quality products. This recognition, in combination with events such as hosting the G-20 summit in 2010, has caused expectations to rise that Korea can provide more leadership (much as it already does in the United Nations) on financial and economic matters. Ultimately, this may require more sacrifices by the Korean people in areas such as opening its agricultural sector to import competition in order to move forward the Doha Round of multilateral trade negotiations under the World Trade Organization.

A large effect of the crisis has been to accelerate the rise of China on the world stage. Some have referred to the necessity of the G-2 (the United States and China) to take the lead in resolving imbalances in the global economy. Not only has China been called upon to provide funds for the IMF and currency swaps for countries under duress, but it has taken full advantage of its position as a creditor nation to lecture the United States on its "profligacy" and excessively leveraged markets. While China is not able to take the initiative on issues of regulation, its high rates of growth mean that countries, such as Korea, depend more and more on China for trade and regional leadership out of recession.

The financial crisis has also worked on political leadership and regimes within countries. Discontent among citizens who are losing jobs, seeing businesses go bankrupt, losing wealth both in financial and real assets, and facing declining prices for their products often result in public opposition to the existing establishment. In some cases it can foment extremist movements, particularly in poorer countries where large numbers of unemployed young people may become susceptible to religious radicalism that demonizes Western industrialized society and encourages terrorist activity.

In the United States, the global financial crisis and poor economic conditions joined with existing public discontent with the George W. Bush Administration to help propel Barrack Obama into office. As will be discussed later in this article, this has had a significant impact on U.S. trade policy overall and particularly the Korea-U.S. Free Trade Agreement. In Korea, President Lee Myung-bak's approval ratings already were dismally low in mid-2008 (less than 20%) and actually improved during the worst of the financial crisis.

The financial crisis also works on ruling regimes through the actions of existing governments, both to stay in power and to deal with the adverse effects of the crisis. Most nations view the current financial crisis as having been created by the financial elite in New York and London in cooperation with their increasingly laissez faire governments. By blaming the industrialized West, particularly the United States, for their economic woes, governments can stoke the fires of nationalism and seek support for themselves. As nationalist sentiments rise and economic conditions worsen, citizens look to governments as rescuers of last resort. Political authorities can take actions, ostensibly to counter the effects of the crisis, but often consolidating their power and preserving their own positions.

Such activity is less apparent in the United States and South Korea than in, for example, the former communist countries in Eastern Europe. Still, the focus of governments on economic recovery, the ability of legislators to channel stimulus funds toward favored political interests, and the adverse effects of the financial crisis on industrial sectors and specific regions place constraints on governments and generate pressures to protect favored industries. In the United States, this can be seen, for instance, in pressures to protect industries, anti-dumping actions, and the postponement of any Congressional consideration of the KORUS FTA.

In the basic economic philosophies that guide policy, expediency seems to be trumping free-market ideologies in many countries. The crisis may hasten the already declining economic neoliberalism that began with President Ronald Reagan and British Prime Minister Margaret Thatcher. Although the market-based structure of most of the world economies is likely to continue, the basic philosophy of deregulation, non-governmental intervention in the private sector, and free and open markets for goods, services, and capital seem to be subsumed by the need to increase regulation of new financial products, increased government intervention, and some pull-back from further reductions in trade barriers.

State capitalism, in which governments either nationalize or own shares of companies and intervene to direct parts of their operations, has been rising, not only in countries such as Russia, but in the United States, Asia, and Europe. Nationalization of banks, insurance companies, and other financial institutions, as well as government capital injections for and loans to private corporations, have become parts of rescue and stimulus packages and have brought politicians and bureaucrats directly

into economic decision-making at the company level. Who would have thought that the United States would appoint a "Pay Czar" to monitor and approve executive compensation in companies receiving government help?

In the United States, the government ownership interest in companies, such as AIG, General Motors, and Chrysler, has raised questions relative to efficiency and the distribution of profits, and it also poses policy dilemmas dealing with equity (government favoring one company over another) and the use of scarce government resources in the oversight and management of companies. When taxpayer funds have been used to invest in a company, the public has acquired an interest in its operations and profitability and has an incentive to protect the government investment in the company, e.g. by protecting it from foreign competition or by enacting programs to increase purchases of its products.

In the G-20 and other meetings, world representatives have been vocal in calling for countries to avoid protectionism as they try to stimulate their own economies. Still, whether it be provisions to buy domestic products instead of imports, financial assistance to domestic producers, or export incentives, countries have been attempting to protect national companies, often at the expense of those that are foreign. Overt attempts to restrict imports, promote exports, or impose restrictions on trade are limited by the rules of the World Trade Organization (WTO), but there is ample scope for increases in trade barriers that are consistent with the rules and obligations of the WTO. These include raising applied tariffs to higher levels as well as actions to impose countervailing duties or to take antidumping measures. Moreover, there are opportunities to favor domestic producers at the expense of foreign producers through industry-specific relief or subsidy programs, broad fiscal stimulus programs, or currency depreciation.

In July, 2009, the WTO reported that in the previous three-month period, there had been "further slippage towards more trade-restricting and distorting policies" but no resorting to high intensity protectionist measures. Some countries had taken some trade-liberalizing and facilitating measures despite the global recession. However, the WTO pointed out that a variety of new trade-restricting and distorting measures had been introduced, including a further increase in the initiation of trade remedy investigations (anti-dumping and safeguards) and an increase in the number of new tariffs and new non-tariff measures (non-automatic

licenses, reference prices, etc.) affecting merchandise trade. According to the WTO, new trade and trade-related policy measures that had been taken since September 2008[15] in Korea included incentives to purchase new cars, establishment of a fund to purchase ships and lease them back to their previous owners, and a reduction in the number of work permits for unskilled and semi-skilled foreign workers. The Korean government, however, also took some trade-liberating measures, including loosening limits on certain educational and medical services and allowing U.S. and other foreign laboratories to conduct safety tests on lithium-ion batteries used in portable devices.

The United States has taken a number of measures aimed at protecting domestic producers. The Buy America provision in the February 2009 stimulus package[16] has been widely criticized, even though the provision applies only to steel, iron, and manufactured goods used in government funded construction projects. Also, the law included language that the provision "shall be applied in a manner consistent with United States obligations under international agreements." Nevertheless, many nations have protested the Buy America language as "protectionist"[17] and as one of several U.S. actions against imports and a step down the slippery slope that could lead to trade retaliation and a cycle of "beggar-thy-neighbor" trade policies. The Obama Administration also halted progress in allowing cross-border trucking by Mexico and was instrumental in GM's decision to produce some new subcompact cars in the United States instead of China (included in the GM rescue package). The Administration, however, has not named China as a currency manipulator in its report by the U.S. Treasury.[18]

The government has also imposed additional attestation requirements for certain employers that received funds from the Troubled Assets Relief Program in hiring H 1B visa workers, imposed import tariffs (10%) on softwood lumber from four Canadian Provinces, reintroduced subsidies for exports of certain dairy products, and imposed anti-dumping duties on imports of car and light truck tires from China. The anti-dumping duties on tires has triggered several counter actions by China. It also has emboldened other industries to file similar petitions for import relief. The fear is that this may be the beginning of a cycle of trade retaliation.

International Trade and Exchange Rates

U.S. Trade Policy

For both the Obama Administration and Congress, international trade policy has become a casualty of the global recession, the debate over health care, and the electoral sweep by the Democratic Party in Congress in 2006 and in the White House in 2008. This confluence of events has worked to stymie movement in Washington toward articulating a trade policy for the United States.

The health care debate pushed aside other issues waiting for consideration, particularly those remaining unresolved from the Bush Administration, such as the pending free-trade agreements with Panama, Columbia, and Korea. For the Democratic Party, a failure in health care could embolden the opposition, jeopardize the Democratic majority in Congress, and seriously impair the ability of President Obama to lead on other contentious issues. The policy focus in the fall of 2009 has been on health care legislation and the global financial crisis.

The global recession also means that budgets are tight, unemployment is high, and Americans have become more risk averse. Globalization and international trade are increasingly being viewed as merely helping countries like China accumulate wealth and as the source of huge job losses in manufacturing industries. Labor unions, in particular, who gave considerable support to Democratic Party candidates in the 2008 election now, have a larger voice in policy, and they oppose further trade liberalization.

In late 2009, therefore, U.S. trade policy tended to be *ad hoc* and moving forward by the application of existing law (particularly that providing for trade remedies), in response to political exigencies, and through the actions of Congress. Under the U.S. Constitution, the Congress, not the Administration, is given authority over trade policy, and increasingly Congress is reclaiming some of the authority that it had given the President. The Administration's *2009 Trade Policy Agenda and 2008 Annual Report* stated that it will conduct extensive outreach and discourse with the public on whether the various free trade agreements appropriately advance the interests of the United States and U.S. trading partners. In particular, the Administration stated that it will promptly, but responsibly; address the issues surrounding the Colombia, Korea and Panama Free Trade Agreements.[19] In essence, this translates into a review of KORUS FTA, particularly with respect to its provisions

related to the automobile industry, labor, and the environment. Officials from the office of the U.S. Trade Representative, however, reportedly have stated their desire to address the Administration's concerns without renegotiating the agreement.[20]

In Congress, most Republicans tend to favor the KORUS FTA while Democrats are deeply divided. On the Senate side, Max Baucus, a Democrat and Chair of the Senate Finance Committee along with Charles E. Grassley, the ranking Republican on the committee, wrote to President Obama stating: "The greatest challenge and opportunity in our bilateral economic relationship (with Korea) is the pending U.S.-Korea Free Trade Agreement (FTA). We have long supported a bilateral trade agreement with Korea, and we strongly believe an agreement would provide tremendous benefits to American workers, farmers, and ranchers. . . . A U.S.-Korea FTA would not only secure American exporters broad access to a dynamic economy, but it would also anchor our economic presence in Asia.[21]

On the House side, however, Congressman Sandy Levin, a Democrat from Michigan who chairs the Trade Subcommittee of the House Ways and Means Committee, made this statement. "The problems with the Korea FTA are clear – in particular, a long history of erecting a series of non-tariff barriers to severely limit U.S. exports of automobiles and other key industrial goods. It remains to be seen whether Korea is willing to resolve these issues. In 2008, Korea exported more than 600,000 cars and light trucks to the United States; the United States exported just over 10,000 to Korea. And the U.S. auto industry is not alone in its concerns with the Korean automotive market. European automakers also vigorously oppose an unbalanced trade agreement with Korea. In March 2007, 15 Democrats and Republicans offered a very specific proposal to address these issues. The proposal, which was sent to President Bush, would, among other things: (1) phase out the 2.5% U.S. tariff on autos over 15 years, but give duty free entry to a specified number of Korean cars every year based on the number of cars above a baseline that the U.S. exports to South Korea; and, (2) establish a Non-tariff Barrier dispute settlement mechanism, which would include a reverse burden of proof."[22]

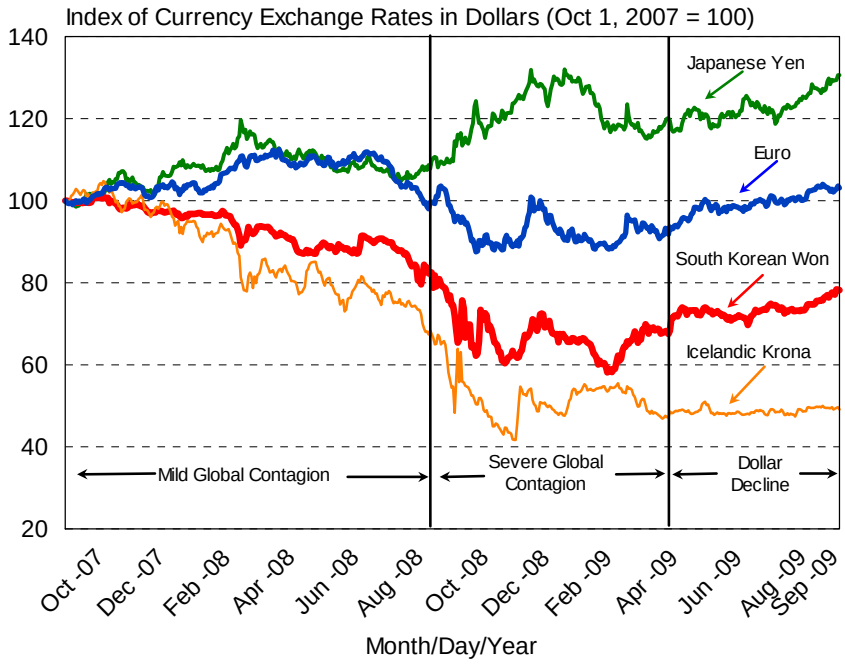
The outlook, therefore, for consideration of the KORUS FTA in the near future is dim. Once the health care debate is over, the Congress may take up the Panama and Columbia FTAs (possibly in spring 2010 before campaigning for mid-term elections intensifies). But even these FTAs

are contentious, and any reduction in tariff revenue will have to be offset by either increasing revenues or cutting spending elsewhere in the U.S. budget. This is extremely difficult during a time of U.S. budget deficits in the $1 trillion range.

The Won and Bilateral Trade

The global financial crisis has had a severe impact on international trade flows. During the early months of the crisis, trade declined at a faster rate than at any time since the Great Depression. Exchange rates turned out to be a major transmitting mechanism for the crisis. Global exchange markets, like other financial markets, responded almost instantaneously to market disruptions. Since the crisis began in financial sectors, the initial impact was on financial indicators, such as exchange rates. **Figure 6** shows indexes of exchange rate values for the Korean won, Euro, Japanese yen, and Icelandic Krona relative to the U.S. dollar. These four currencies roughly represent the range of response by currencies during the crisis. Note that while most currencies were weakened as investors sought the safe haven of the United States during a time when virtually all investments lost value. Japan was an exception as it, too, was viewed as a safe haven. The yen carry trade also began to unwind; bringing funds that had been borrowed in yen at low rates of interest and invested in higher-interest countries back into the yen. The euro had appreciated during 2008, but it soon lost strength as countries of the European Union too were battered by the financial crisis. The Korean won had been steadily depreciating during 2008 and then dramatically dropped in value in the fall of 2008. One of the worst cases can be seen in the Icelandic Krona. As Iceland, itself, faced bankruptcy, and the government was compelled to take over all its major banks, the value of its currency shrank in half and has stayed at that low level. In April 2009, however, as the first signs of recovery appeared and stock markets began to recover, the value of the dollar began to erode and gains were recorded by the won, euro, and yen. As a side note, during this time the Chinese renminbi appreciated slightly against the dollar but has remained fairly stable since September 2009. It was 7.0 RMB per dollar in May 2008 and 6.83 RMB in October 2009.

Figure 6. Indexes of Exchange Rate Values for the Korean Won, Euro, Japanese Yen, and Icelandic Krona Relative to the U.S. Dollar



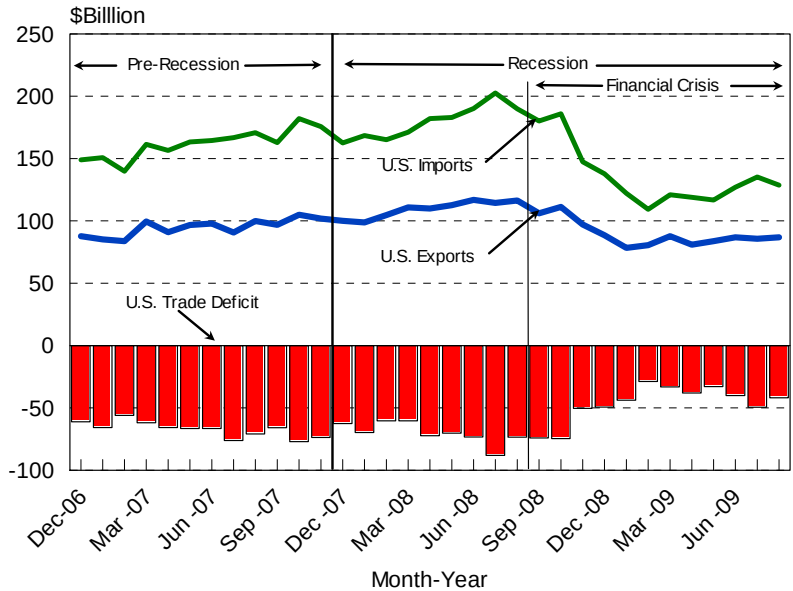
Source: Data from PACIFIC Exchange Rate Service, University of British Columbia.

For Americans, the sharp depreciation in the value of the won while the dollar was appreciating was reminiscent of, but not quite as dramatic as, the decline in the value of the won during the 1997-98 Asian financial crisis. At that time the won dropped by 91% from 893 won per dollar in July 1997 to 1707 won per dollar by January 1998. From September 2008 to March 2009, the won depreciated by 56% from 928 won to 1450 won per dollar. This depreciation gave South Korean exports a decided advantage in U.S. markets and U.S. exports a huge handicap in South Korean markets.

In the United States, as the worst of the financial crisis hit, both imports and exports fell. Of the two, however, imports fell faster and reduced the U.S. merchandise trade deficit from about $70 billion per month in mid-2008 to as low as $29 billion per month in February 2009.

(See **Figure 7**.) As the U.S. economy stabilized in mid-2009, however, the monthly trade deficit began to rise again. By July 2009, when compared with January 2008, U.S. imports of consumer goods had regained their previous level. Motor vehicles were still down by $6 billion or 25%; capital goods were beginning to recover slightly (still down $4 billion), but industrial supplies were down by a third or more than $20 billion. Clearly, recessionary business conditions were affecting industrial production and the need for imports of industrial supplies.

Figure 7. U.S. Imports, Exports, and Balance of Trade Under the Financial Crisis

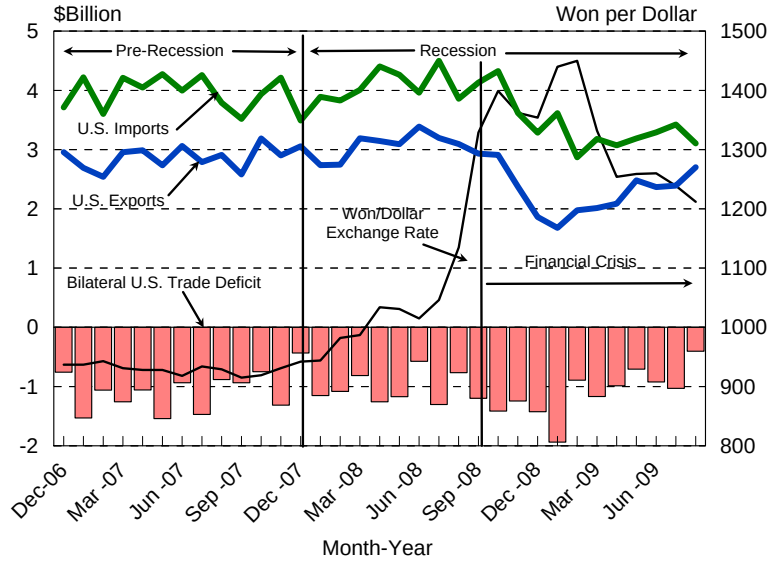


Source: Underlying data from U.S. Department of Commerce (Census Basis)

As for U.S. trade with South Korea, as can be seen in **Figure 8**, during the early part of 2008, both U.S. imports from and exports to Korea were generally rising. As the financial crisis exploded upon the scene, both U.S. imports and exports fell, but exports fell faster, with the result that the U.S. merchandise trade deficit with Korea rose sharply and peaked at $1.9 billion for the month of January 2009. This rising

bilateral trade deficit coincided with the sharp depreciation in the value of the won. The underlying story seems clear. South Korea has been able to maintain its surplus in trade with the United States primarily because of the huge depreciation in the value of the won. As the won has appreciated during later in 2009, the bilateral deficit in trade has decreased as U.S. exports began to recover.

Figure 8. U.S. -South Korean Merchandise Trade and the Won-dollar Exchange Rate

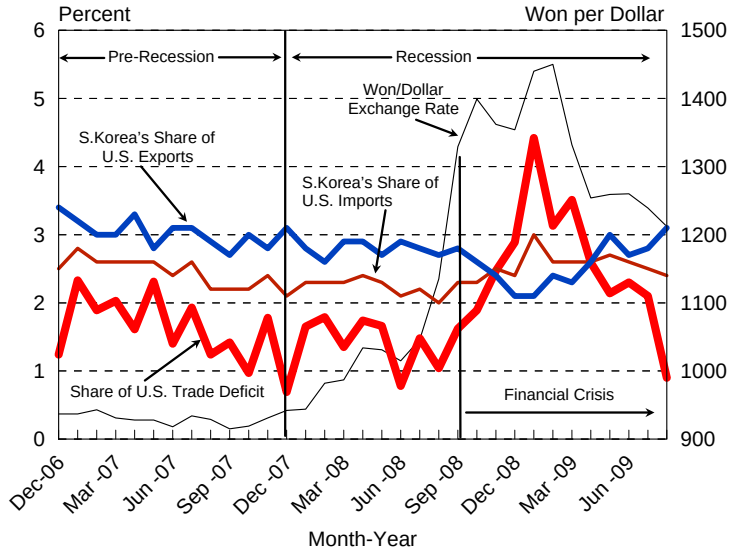


Source: Underlying data from U.S. Department of Commerce

The levels of trade between the United States and South Korea as measured by the dollar amounts in **Figure 8**, however, do not portray how Korean exports and imports fared during the crisis relative to those of other countries. **Figure 9** shows the U.S.-South Korean trading relationship in terms of shares. South Korea's share of U.S. exports (imports into Korea) declined following the outbreak of the financial crisis, but it recovered substantially by mid-2009. The Korean share of U.S. imports (Korean exports), however, rose from 2% in August 2008 to a peak of 3% in January 2009 before declining somewhat. The peak in imports contributed to a comparable peak in the share of the overall U.S.

trade deficit accounted for by Korea. Traditionally less than 2%, this share doubled in January 2009 before ebbing back to more normal levels by mid-year. The peak in the import share and the share of the overall U.S. trade deficit coincided with the large depreciation in the value of the won. As the won recovered some of its value in mid-2009, the South Korean share of the U.S. trade deficit also declined.

Figure 9. Shares of U.S. Exports, Imports, Bilateral Trade Balance With South Korea and the Won-Dollar Exchange Rate



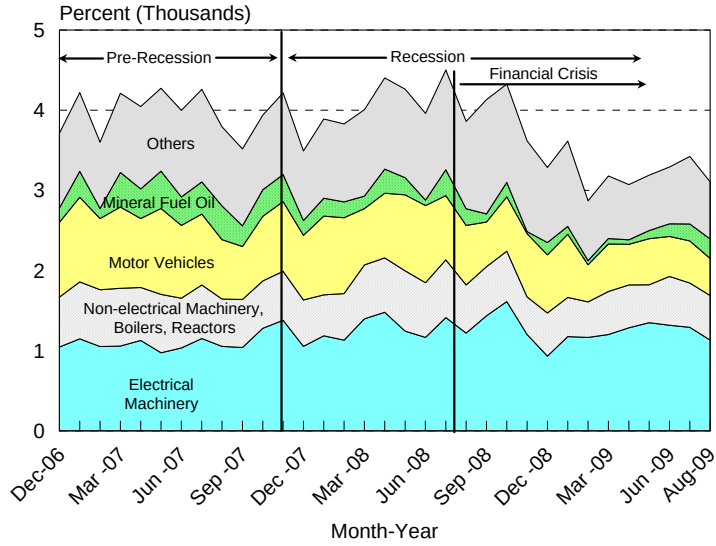
Source: Underlying data from U.S. Department of Commerce

It is clear from the data that the huge depreciation in the value of the won played a major role in the ability of South Korea to weather the downturn in international trade from the global financial crisis. The cheaper yen allowed South Korean exporters to lower their prices or offer incentives for Americans to purchase their products. At the same time, it made American products more expensive in Korea and depressed U.S. exports there.

Within the total U.S. imports from South Korea under the global financial crisis, the top four products have been electrical machinery, motor vehicles, non-electrical machinery/boilers/reactors, and mineral fuel oils. The monthly imports of these four items are shown in **Figure 10**. Under a situation in which total U.S. imports from Korea fell by a

quarter from mid-2008 to August 2009, imports of electrical machinery fell by 10%, non-electrical machinery fell by 17%, motor vehicles by 44%, and other products by 25%. Imports of fuel oil rose by 22%. Most of the imports of electrical machinery were telecommunications equipment, circuits, and video equipment. Even under recessionary conditions, demand for these products remained fairly strong in the United States. Samsung, LG, and other Korean producers have become fierce competitors in these industries.

Figure 10. Top Four Imports from South Korea into the United States



Source: Underlying data from U.S. Department of Commerce

The decline in imports of motor vehicles reflected the overall drop in sales and also production by Hyundai in its plant in the United States. Imports of automobiles from Korea peaked at $1,013 billion during the month of March 2008 (up from $650 billion in September 2007), but the monthly total declined steadily during the financial crisis to $460 billion in August 2009. As a share of U.S. imports of motor vehicles, South Korea's monthly market share rose from about 5% in December 2006 to as high as 9% in January 2009. Since then, however, the share has fallen back to around 5%.

Despite the severe downturn in automobile sales in the United States, Korean automaker Hundai/Kia has been able to take advantage of the low value of the won and the troubles of GM and Chrysler to establish itself more firmly in the U.S. market. A decade before the crisis, Hyundai had announced its 100,000-mile, 10-year, limited power train warranty, and 60,000 bumper-to-bumper warranty, but this was largely unknown to American consumers. Most Americans also were not aware how much the quality of Hyundai had improved. In 2004 Hyundai tied Honda for second place in the prestigious J.D. Power and Co. Initial Quality Survey. In 2004, Hyundai also completed its first U.S. assembly plant. During the financial crisis, Hyundai actively promoted its warranties. Then in January 2009 during the worst of the crisis, Hyundai announced its Assurance Plus program. Potential customers worried about losing their jobs, were assured that if such an event did occur during the year, the company would take a newly purchased car back without affecting a customer's credit ratings. In addition, as gasoline prices rose during the summer of 2009, Hyundai announced its Gas Lock program in which the price of gasoline for a new car purchased between July 1 and August 31, 2009, was locked at $1.49 per gallon for regular grade gasoline. In June, the price had risen to $2.64 per gallon.[23]

When Hyundai introduced the extended vehicle warranties, it recognized that if its quality did not measure up to its warranties, the warranty claims would cost a lot of money. Even though the company had steady earnings and profits of $1.15 billion in 2008 (a year when most carmakers lost money) and a cash reserve in June 2009 of nearly $4.6 billion, the warranties were a huge risk, but one that has worked well for the company. Korean automakers selling in the United States, however, were assisted greatly by the 56% depreciation in the value of the won. For cars and parts imported from the homeland, there was considerable room for profit. Hyundai could either lower prices or offer innovative incentives and advertise. It chose to offer programs to consumers that hit the major news outlets. Suddenly, American consumers became aware of this relatively new car company. Over the first eight months of 2009, Hyundai's sales in the United States rose by 0.8% while Ford's sales dropped by 25%, GM's by 35%, and even Japanese automakers saw declines of 25 to 30%. With the help of the "Cash for Clunkers" program in August, Hyundai's sales zoomed up by 47%. It is now poised to overtake Chrysler/Dodge/Jeep in U.S. sales.[24] In addition, GM's decision to terminate its Saturn brand could help

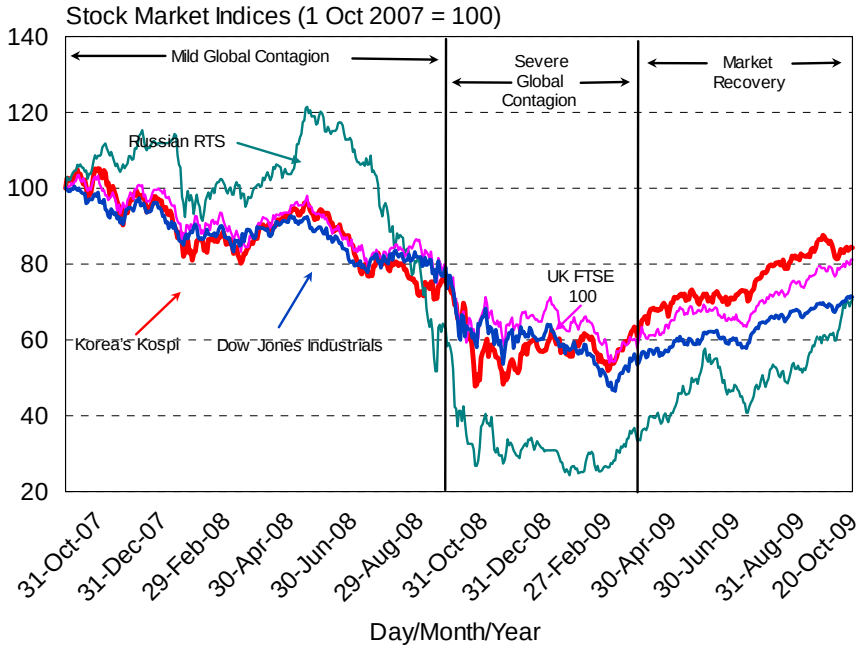
Hyundai, since Saturn was originally intended to compete head to head with imported cars from Asia, particularly those from Korea.

Investment Flows

International investment or capital flows have been greatly affected by the global financial crisis. Capital flows can be divided into portfolio investment and direct investment. Short-term portfolio investments are those in stocks, bonds, and other securities issued both by governments and private corporations for which the investor is not able to exercise control over the issuing entity. In long-term direct investments, usually referred to as (foreign) direct investment (FDI), the investor usually is establishing a subsidiary, buying a controlling interest, or engaging in a joint venture. The investor is able to exercise control over the stock issuing corporation. In general, this is interpreted to mean at least a 10% share of the voting stock. Short-term investment flows depend on a range of factors, such as relative interest rates, safety of investments, and expectations of future movements in stock and bond prices. Long-term direct investment flows also depend on a variety of factors such as the expected rate of return, the relationship between the business activities of the investor and investee, and country stability.

An immediate indicator of the rapidity and spread of the financial crisis was in stock market values. As shown in **Figure 11**, as values on the U.S. market plunged, those in other countries were swept down in the undertow. By mid-October 2008, the stock indices for the United States, U.K., South Korea, and Russia had fallen by nearly half or more relative to their levels on October 1, 2007. The downward slide reached a bottom in mid-March 2009, although there still is concern that the subsequent recovery in stock values may not be sustained. Even with the recovery in the stock markets, the major indices are still down by about a quarter from their level in the fall of 2007. The close tracking of the equities markets in the United States, South Korea, and the U.K. provides further evidence of the global nature of capital markets and the flux in international capital flows.

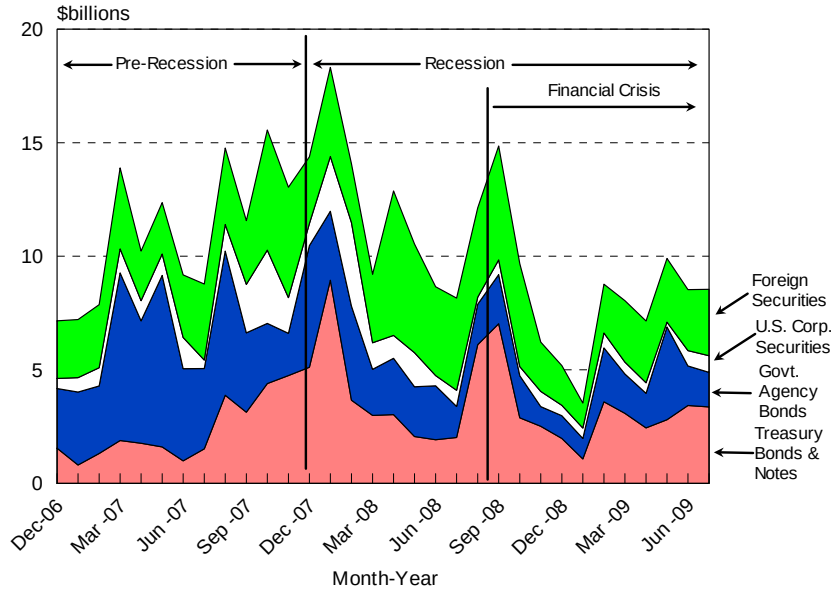
Figure 11. Selected Stock Market Indices for the United States, U.K., S. Korea, and Russia



Source: Factiva database.

Purchases by Koreans of U.S. Treasury securities, corporate stocks and bonds, and foreign stocks and bonds being sold on U.S. markets during the financial crisis fluctuated widely. As shown in **Figure 12**, As the U.S. recession began in December 2007, Korean purchases of U.S. Treasury securities spiked to $9 billion in January 2008. It spiked again when the worst of the crisis hit in September 2008 when purchases rose to $7 billion. Buying interest in U.S. Government agency bonds declined during the worst of the crisis, but it subsequently recovered somewhat in mid-2009. Purchases of U.S. corporate stocks and bonds declined considerably as the U.S. stock market tanked, but those purchases, too, are beginning to recover.

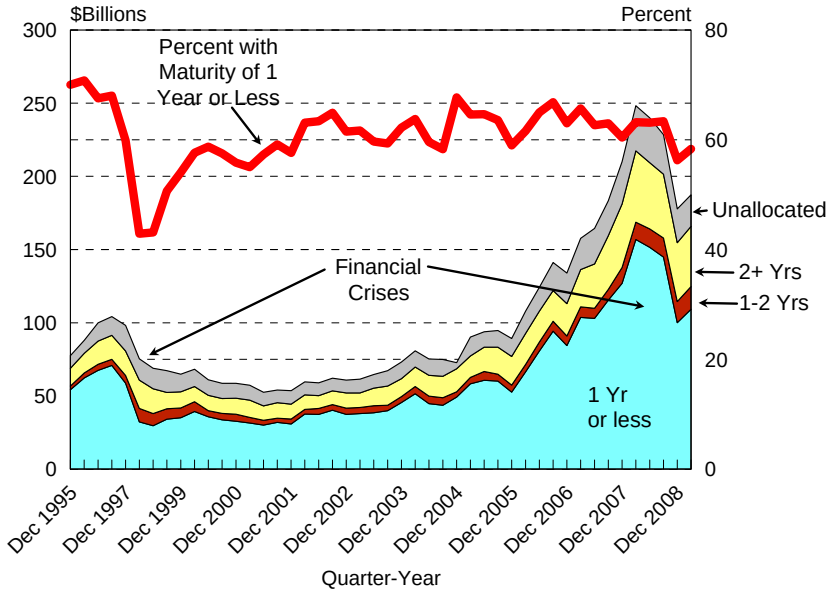
Figure 12. Korean Purchases of Treasury securities, U.S. Government Agency Bonds, U.S. Corporate Stocks and Bonds, and Foreign Stocks and Bonds under the Global Financial Crisis



Source: Underlying data from U.S. Treasury

During the 1997-98 Asian financial crisis, the Korean economy crashed because the government did not hold sufficient foreign exchange reserves to finance its short term international debt. During the period prior to the current crisis, however, Korea also had borrowed heavily using short-term debt. As shown in **Figure 13**, during the Asian financial crisis, Korea's international bank borrowings with maturity of less than one year fell from 70% in December 1995 to 42% in January 1998. During the current financial crisis, short-term Korean bank borrowing was as much as 63% of bank borrowing in September 2008. The Bank of Korea, however, had sufficient foreign exchange reserves to cover the debt service (See **Figure 2**).

Figure 13. South Korean International Bank Borrowing by Maturity Length



Source: Data from Bank for International Settlements

In terms of U.S. direct investment in Korea, as shown in **Figure 14**, at the end of 2008, the United States had invested $27.7 billion there (up slightly from $26.9 billion in 2007). This amount included about $10 billion invested in depository institutions, $3.6 billion in other financial institutions, and $9 billion in manufacturing. Since the onset of the U.S. recession, the flow of direct investment in Korea has declined. According to U.S. figures, while there was an inflow into Korea of $7.5 billion in 2006, in 2007, there was a net outflow of $445 million, and a slight recovery to an inflow of $819 million in 2008.

In May 2009, the Korean government announced some measures to promote foreign investment in the country. It would reform the current system of offering cash grants and tax breaks to foreign companies investing in South Korea as separate deals. Under the plan, both cash grants and standard tax breaks available to foreign-invested companies will be combined into a single pool with an aggregate cap. Recipient companies will be able to choose the best combination of cash and tax incentives for their purposes they want. The time line for this change

had not yet been fixed. The current FDI tax breaks have been in place for the past decade with tax holidays of three or five years, depending on the applicable FDI program, and 50% tax discounts for another two years. South Korea began offering negotiable cash grants in 2004. FDI inflow to South Korea has been stagnating in recent years, while the United States accounted for 16%, the largest share of all new foreign investments reported.[25]

Korean foreign direct investment in the United States has been increasing. It rose from $9 billion in 2006 to $15.6 billion in 2008. In 2008, however, as the financial crisis worsened, the annual flow dropped by more than 90% from 2007 levels. Because of the small number of companies involved, many of the details of this total have been suppressed by the U.S. Department of Commerce.

Conclusion

The global financial crisis showed that the U.S. and Korean economies are highly linked. The early contagion spread quickly from Wall Street to the Seoul financial district. As the ensuing recession hit, both countries suffered, but Korea was able to maintain its export market share in the United States through the depreciation of its currency and aggressive marketing by a number of companies. In many respects, the current financial crisis is similar to the 1997-98 Asian financial crisis in that it reinforced the need for countries to accumulate large stocks of foreign exchange reserves to defend their currencies against attacks on their exchange values. Once the current crisis has passed, countries are likely to continue to attempt to build their currency reserves at the same time that the United States will be trying to reduce its trade deficit, the very deficit that helped countries such as South Korea, China, and Japan to accumulate their large currency reserves. Investment flows are still down but returning somewhat back to normal levels. The role of U.S. Treasury securities as a safe haven during times of financial crisis was clearly demonstrated by Korean purchases in January 2008 and again as the crisis intensified later that year in September.

U.S. international trade policy is at a standstill until the health care issue is resolved. It is possible that Congress may consider the Panama and Columbia free trade agreements at some point in the relatively near future (perhaps in the spring of 2010), but the KORUS FTA is much more problematic with labor and other opposition. The confluence of the global financial crisis, the health care debate, and the Democratic Party

sweep of the White House and Congress makes moving ahead on liberalizing trade at this time difficult for the United States (but not impossible).

Notes:

[1] Opinions expressed in this paper are the author's and do not necessarily reflect those of the Congressional Research Service, the Library of Congress, or the U.S. Government.

[2] For details, see Amy Schoenfeld and Dylan Loeb Mcclain, "The Bailouts: An Accounting," *The New York Times*, September 14, 2009. Internet version.

[3] The U.S. government loaned a total of $19.8 billion to the General Motors Corporation in working capital funding and warranty guarantees, and an additional $30.1 billion under a debtor-in-possession financing agreement to assist the company in an orderly restructuring. GM filed bankruptcy proceedings on 1 June 2009. The new entity, General Motors Company (New GM), emerged from bankruptcy 10 July 2009, on the completion of the sale of certain GM assets to the New GM. The government converted its loans to 60.8% of the equity in the New GM, loans in the amount of $7.1 billion, and $2.1 billion in preferred stock.

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[5] Board of Governors of the Federal Reserve System, "Federal Reserve System, Monthly Report on Credit and Liquidity Programs and the Balance Sheet, September 2009.

[6] Seongtae Lee "The Global Financial Crisis and the Bank of Korea's Monetary Policy," Keynote address by the Governor of the Bank of Korea, at the Euromoney Conference, Seoul, 28 May 2009.

[7] (Korea) Financial Services Commission, "Bank Recapitalization Fund: Timetable and Operational Plan," Press Release, 25 February 2009.

[8] (Korea) Financial Services Commission, "Corporate Restructuring Progress and Financial Sector's non-performing loans," Press release, June 30, 2009.

[9] Camilla Anderson, *IMF Spells Out Need for Global Fiscal Stimulus*, International Monetary Fund, IMF Survey Magazine: Interview, Washington, DC, December 28, 2008.

[10] David Saha and Jakob von Weizsäcker, *Estimating the Size of the European Stimulus Packages for 2009*, Brugel, JVW/ DS, 12 December 2008.

[11] Charles Freedman, Michael Kumhof, Douglas Laxton, and Jaewoo Lee, *The Case for Global Fiscal Stimulus*, International Monetary Fund, IMF Staff Position Note SPN/09/03, March 6, 2009.

[12] U.S. Department of Transportation, "Cash for Clunkers Wraps up with Nearly 700,000 car sales and increased fuel efficiency, U.S. Transportation Secretary LaHood declares program "wildly successful." Press Release DOT 133-09, August 26, 2009.

[13] Organization for Economic Co-operation and Development, *Employment Outlook 2009 – How does KOREA compare?*, Paris, OECD, September 16, 2009, p. 1.

[14] The following countries and territories are represented on the Financial Stability Board: Argentina, Australia, Brazil, China, Canada, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Switzerland, Turkey, the United Kingdom, and the United States. The following institutions, standard-setting bodies and other groupings are also members of the FSB: the Bank for International Settlements, European Central Bank, European Commission, International Monetary Fund, Organization for Economic Co-operation and Development, World Bank, Basel Committee on Banking Supervision, International Accounting Standards Board, International Association of Insurance Supervisors, International Organization of Securities Commissions, Committee on the Global Financial System, and Committee on Payment and Settlement Systems.

[15] World Trade Organization, Director-General, Report to the TPRB from the Director-General on the Financial and Economic Crisis and Trade-Related Developments, Report No. WT/TPR/OV/W/2, July 15, 2009.

[16] H.R. 1 (P.L. 111-5) Sec. 1605 provides that none of the funds appropriated or otherwise made available by the act may be used for a project for the construction, alteration, maintenance, or repair of a public building or public work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States, provided that such action would not be inconsistent with the public interest, such products are not produced in the United States, and would not increase the cost of the overall project by more than 25%.

[17] "Europe Warns against 'Buy American' Clause," *Spiegel Online International*, February 3, 2009, Internet edition.

[18] Claude Barfield and Philip I. Levy, "In Search of an Obama Trade Policy," *International Economic Outlook*, (American Enterprise Institute for Policy Research), No. 1, August 2009, pp. 2-3.

[19] U.S. Trade Representative, *2009 Trade Policy Agenda and 2008 Annual Report of the President of the United States on the Trade Agreements Program*, Washington, February 2009, p. 4.

[20] "USTR Says It Intends To Address FTA Issues Without Reopening Texts," *Inside U.S. Trade*, April 10, 2009.

[21] Max Baucus and Charles Grassley. Letter to the President, April 20, 2009.

[22] Sandy Levin, "A New Trade Policy that Meets the Challenges of the Global Economic Crisis," speech before The Washington International Trade Association, March 11, 2009.

[23] "Hyundai Tackles High and Uncertain Fuel Prices with Assurance Gas Lock – $1.49 Per Gallon Guaranteed for a year," *PR Newswire*, New York, June 30, 2009. Internet edition. Paul Ingrassia. "Why Hyundai Is an American Hit," *The Wall Street Journal*, September 14, 2009., p. A13.

[24] Tim Higgins, "Hyundai Neck and Neck with Chrysler; Sales Zoom 47% in August, fueled by 'Cash for Clunkers,' *Chicago Tribune*, October 10, 2009, p. 12.

[25] "South Korea Plans to Combine Tax Breaks, Cash Grants to Promote Foreign Investment," *International Trade Reporter*, 26 ITR 789, June 11, 2009.