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The U.S. - Korea Alliance: Past, Present and Future

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I. Introduction

Half a century has passed since the Republic of Korea (ROK) and the United States concluded a mutual defense treaty. Despite occasional disharmonies and even conflicts, cooperation as well as friendship has prevailed in their bilateral relations, and the alliance has proved to be one of the most successful ones in the post World War II period. However, since the advent of the George W. Bush administration in January 2001, the rift between the two allies has become highlighted to the extent that the alliance is seen as being seriously weakened or even irrevocably damaged.

Central to the "troubled alliance" lies the threat perception of the Democratic People's Republic of Korea (DPRK) or North Korea. While the Bush administration regards North Korea as one of three countries comprising "an axis of evil," threatening the peace and security in the Pacific with a nuclear development program, its South Korean counterparts, the Kim Dae-jung administration and the successive Roh Moo-hyun administration, do not necessarily agree. Moreover, some South Korean "progressive" or "left-leaning" activists supporting these two administrations suggest that the South should prefer inter-Korean rapprochement and ultimate unification to an alliance with the United States. In short, the traditional foundation of mutual alliance commitments seems to be eroding with implications that the basic character of the alliance may be changing.

At this critical juncture, what follows is an attempt to review the ROK-U.S. alliance, focusing on their mutual perception of North Korea. First, it reviews the period from October 1953, when the alliance was formally launched, to February 1998, when the Kim Young-sam administration came to an end in South Korea. In these forty-five years, the primacy of the alliance between the two over inter-Korean rapprochement was not questioned. Second, it reviews the period of the Kim Dae-jung administration from February 1998 to February 2003, when the basic assumption

underlying the alliance was challenged. It reviews the process leading to serious deterioration in their mutual relations, symbolized in a series of anti-American candlelit vigils in November-December 2002. Third, it examines the present situation unfolding after the election of Roh Moo-hyun to the South Korean presidency in December 2002 with the support of the New Millenium Democratic Party (MDP) which was initiated by Kim Dae-jung and "progressive" activists. Finally, it discusses the future of the alliance.

II. The Primacy of the U.S.-Korea Alliance over Inter-Korean Rapprochement Was Never Questioned (1953-1998)

A. The "Patron-Client Relations"

At the outset, it should be recalled that the U.S.-Korea alliance was a by-product of the cold war in general and the Korean War in particular. With the outbreak of the Korean War on June 25, 1950, the Truman administration decided to help the Syngman Rhee administration in South Korea resist North Korean aggression. This was because North Korean aggression was interpreted as the opening shot in Stalin's campaign for the conquest of the world.

However, with the progress of the truce talks after June 1951, South Korea-U.S. relations began to reveal sharp disagreements. It was because, while the Truman administration sought an armistice under the condition of the restoration of the *status quo ante bellum,* the Rhee administration attempted to continue the war until the final military conquest of the North. The dissonance became more vociferous after April 1953, for President Rhee publicly announced that he would never consent to any agreement that did not reunify the peninsula under the ROK. Soon, the Eisenhower administration agreed to conclude a mutual defense pact in exchange for his not obstructing an armistice. Accordingly, the Korean truce agreement was signed on July 27, 1953, and the ROK-U.S. mutual defense treaty was concluded on October 1, 1953.

Notwithstanding, the discord between the two administrations continued. Firstly, starting in early 1954, President Rhee urged the United States to support a massive counter-attack on China, preceded by a blockade of the China coast. His proposal, however, met a negative response from the President, Congress, and the press. It was a time when Washington had decided not to

intervene in the Indochinese conflict out of fear that it might bring about a war against China. Secondly, the Eisenhower administration put pressure on President Rhee to establish diplomatic relations with his erstwhile enemy, thereby forming an anti-Communist alignment supported by the U.S. in the Far East. Rhee, who had fought against Japanese colonialism, was reluctant to do so.

Thirdly, President Rhee's increasing authoritarian rule made the U.S. furious. When his Liberal Party passed, in December 1958, the new National Security Law to allow public security authorities to exercise arbitrary power against anti-government elements, Washington recalled its ambassador, expressing its regret. In a similar vein, in April 1960, when students staged a series of demonstrations against the Rhee government's rigging of the presidential election in March, the Eisenhower administration made public its support of the South Korean demonstrators. Moreover, it declared that if Rhee refused to rectify the irregularities done during the presidential election, the continued supply of American weapons to Korea might be cancelled with the resultant withdrawal of all American forces. Within a few days Rhee resigned, and his government fell. However, those events neither reflected nor caused a change in the fundamental nature of the alliance between the two countries.

Four months after Rhee's resignation, the Chang My on administration was inaugurated as a result of the July 1960 congressional elections. At the outset, it adopted a pro-America policy. A representative and infamous example was its support of the unequal ROK-U.S. Economic and Technical Agreement, which passed Congress in February 1961. The Chang administration's pro-America stance was immediately challenged by the leftists or the "unorthodox opposition forces," which had been suppressed under the strict anti-Communist Rhee government. Sensing the Chang administration's "softness," they organized leftist or socialist parties, heightening their anti-U.S. voices. Soon they intensified their opposition to the stationing of American troops in South Korea and their support for inter-Korean cooperation. Although South Korean voters rejected their proposals for the congressional elections of July 1960, the leftist movement led by the "unorthodox opposition forces" remerged in the 1980s.

Against this backdrop, on May 16, 1961, Major General

Pak Chung-hee staged a coup against the Chang government and established a military government, pledging that it would pursue an anti-Communist policy. Although the military junta openly announced its pro-America stance, the U.S. Embassy in Seoul issued a public statement, condemning the mutiny and stressing its support of the constitutional government. However, three days later, the Kennedy administration recognized, albeit reluctantly, the coup as a fait accompli. When President Kennedy received Pak in November 1961 at the White House, the U.S. finally and formally recognized Pak's leadership in South Korea. In return, Kennedy exacted a promise from Pak that he would restore civilian government in South Korea in the foreseeable future.

Dating from that time, the U.S. Embassy in Seoul became preoccupied with two serious issues. The most troublesome was restoring civilian rule. The embassy stressed that to renege on this pledge might entail unfortunate consequences to South Korea, hinting that American military and economic aid to Seoul might be sharply decreased. Pak bowed to Washington and thenceforth announced that the general elections for the President and the National Assembly would be held the ensuing fall. The other issue related to the Communist past of Pak and his entourage. The U.S. Embassy's concern was well summarized in its November 23, 1963, report to Washington, which stated that "there is extensive evidence that the core group of the Korean military government is under the predominant influence of former leftists." It added that "the present [South Korean military] government is, despite protestations of friendship for the United States, [...] more critical of the U.S. than any post World War II government of Korea. […]." As a result, the report continued, "there is an atmosphere of mutual distrust which has never before permeated Korean-American relations, not even, to the same extent, in the final period of the Rhee regime."

In the presidential election in October 1963, Pak posed as a "nationalist" resisting the pressure from a big power. His "nationalist appeal" helped his campaign, and, despite tacit American support for the conservative, pro-U.S. candidate from the opposition party, Pak won the election. However, the popular support for this nascent administration was not solid. In order to strengthen its power base, President Pak first attempted to cleanse rightist (and American) doubts about his ideological orientation. One example was the enactment of the draconian Anti-Communist

Law under which anybody who termed South Korea "an American colony" or defined the U.S. "an imperialist country" was punishable.

B. South Korea as a Junior Partner in the Alliance

More important was the Pak administration's accommodation of demands from successive U.S. administrations. For example, despite strong domestic opposition, it concluded the Treaty of Basic Relations with Japan in 1965. Since the treaty provided South Korea with an opportunity to receive an economic loan and aid from Japan, it significantly reduced South Korea's economic dependence on the U.S.

In 1966, the Pak administration went one step further by sending its combat troops to South Vietnam, not as an ally of South Vietnam but as an ally of the U.S. The Johnson administration appreciated Pak's decision. Immediately, it rewarded Seoul with a substantial verbal upgrading of the U.S. military commitment to South Korea and a visit by President Johnson in late 1966. Furthermore, the U.S. did not reduce its troop levels in South Korea until 1971. At the same time, it rewarded Pak's government with the conclusion of the Status of [United States Armed] Forces Agreement (SOFA) in 1966 which gave to South Korea "exclusive jurisdiction" over U.S. forces with respect to criminal offenses "except during hostilities and martial law." Throughout these events, the government-to-government relationship between Seoul and Washington solidified.

South Korea's military involvement in the Vietnam War naturally led to economic and technical activities in South Vietnam with a resultant "special economic Vietnamese boom," which in turn contributed to South Korean economic growth. Based on its military involvement and the subsequent "special economic boom", South Korea increased its assertiveness toward the U.S. One indication of its increased bargaining power was its extraordinary success in obtaining large sums of military aid during the years following the dispatch of combat troops to South Vietnam.

South Korea's assertiveness was again expressed in late January 1968, when North Korea launched an abortive commando raid on the presidential mansion in Seoul and seized the *U.S.S. Pueblo.* The Pak administration insisted to Johnson that the North Korean commando attack on the presidential mansion be regarded as "an external armed attack upon the ROK" as stipulated in the ROK-U.S. Mutual Defense Treaty. An acceptance of this insistence

would mean a South Korea-U.S. joint retaliation upon North Korea in accordance with the provisions of the treaty. The South Korean government actually urged the U.S. to retaliate first upon North Korea and then to take preemptive action against one or several of North Korea's staging bases in order to cope with future aggression. President Johnson sent his special assistant, Cyrus Vance, to Seoul to prevent Pak from "invading" North Korea.[1] Vance made it clear that his government refused to meet South Korean demands. When the South Korean government asked that the ROK-U.S. Mutual Defense Treaty be revised so that the U.S. would automatically intervene in "an external armed attack upon the ROK," he also refused.

However, Vance agreed to issue a joint statement with the South Korean government, pledging America's immediate cooperation against any future North Korean aggression against South Korea and America's continuous military as well as economic assistance for the modernization of the South Korean military. In April, President Johnson invited President Pak to Honolulu to ensure the American military commitment to South Korea. In the following month, the first Security Consultative Meeting between defense ministers of the two countries was held in Washington D.C. This annual meeting has continued until today. It seemed that South Korea had clearly become a junior partner in the South Korea-U.S. alliance.

With the inauguration of the Republican administration of President Richard Nixon in January 1969 and Nixon's declaration of the Nixon Doctrine at Guam in July 1969, the U.S.-Korea alliance revealed tensions again. The major reason stemmed from the basic character of the new doctrine, which called for a diminished American military role in Asia. Nixon's promise to President Pak in August 1969 at San Francisco that the U.S. would continue its military commitment to South Korea relieved Pak of his anxiety about the security of South Korea. However, in March 1970, the Nixon administration notified the Pak administration of its intention to reduce the number of American troops in South Korea. By June 1971, the U.S. intended to withdraw twenty thousand, or almost one-third, of its forces. The U.S. went on to reduce its economic support to South Korea as well. After 1971, American economic aid to South Korea was switched from grants to loans, the size of which declined to a marginal level after 1974. At the same

time, American grant-type military assistance to South Korea was changed to loan-type aid under the U.S. Foreign Military Sales Program. As one South Korean observer put it, "the United States acted less like a protector, and South Korea less like a dependant."[2]

In the process, South Korea became increasingly distrustful of the U.S., and the South Koreans openly voiced their feeling that the Americans had betrayed them. In particular, the announcement by the Nixon administration of impending troop withdrawals sparked an angry public reaction in South Korea, all the more so because the announcement had been made without prior consultation with Seoul. In response, the American media expressed displeasure at such South Korean reactions. Against this background, President Pak established the Agency for Defense Development and the secret Weapons Exploitation Committee in late 1970. Their primary aims were to develop missile and nuclear weapons for "self-reliant national defense."

South Korea's confidence in the U.S. was further jolted by the announcement in July 1971 that President Nixon was planning to visit the People's Republic of China (PRC). As it turned out, Nixon had held no prior discussions with any allies of the U.S., including South Korea. The announcement was particularly surprising to the South Koreans, who felt that because the PRC had been a belligerent against South Korea in the Korean War, the unilateral American move was an act of betrayal. Furthermore, the shift in American policy toward North Korea greatly embarrassed South Korea, which had pursued a strict "policy of nonrecognition" towards North Korea. The U.S., however, now advised South Korea to change its policy of not recognizing the North Korean regime, to initiate dialogue with North Korea, and to seek simultaneous admittance to the UN for both North and South Korea. The change in American policy toward North Korea was manifested in the Richard Nixon - Chou Enlai joint communique at Shanghai on February 27, 1972. The communique expressed support for "increased communication in the Korean peninsula." It further suggested that a solution to the Korean problem be sought, not through the UN but through inter-Korean talks. This was an utterly, radical change from South Korea's standpoint.

South Korea had reached the stage where it needed to reexamine its foreign policy and especially its anticommunist stance. President Pak considered it desirable to improve relations with the

Soviet Union, one of the world's two nuclear superpowers. At the National Assembly in August 1971, his foreign minister revealed his government's willingness to establish diplomatic relations with the Soviet Union and the People's Republic of China. At the same time, South Korea opened a series of talks with North Korea, which in turn culminated in the North-South joint communique announced on July 4, 1972. Through the communique, the two Koreas pledged to pursue unification based on three principles of national independence, peace, and grand national unity.

President Pak soon capitalized on this historic event. Claiming that, in the turbulent period of realignment among major powers, South Korea must concentrate its national resources more effectively for "self-reliant national defense" through a Korean way of democracy, he adopted the Yushin ("revitalization") constitution under emergency martial law. The constitution made him a lifelong dictatorial president over three branches of government.

Republican administrations under both Presidents Nixon and Gerald Ford did not denounce the undemocratic Yushin regime openly, thus showing its diplomacy to be realistic. Rather, the U.S. intended to develop South Korea as an American strong point against the Soviet Union in East Asia. Ford's Defense Secretary James R. Schlessinger was confident that South Korea, with its own strong military and industrial capacity bolstered by American aid, would be quite capable of playing such a role. However, the Ford administration put heavy pressure upon the Pak administration to give up its secret nuclear development project as well as its missile development project. Although Pak initially resisted the American pressure, he finally surrendered. In early 1975, he convinced the Ford administration that he would not seek to become a nuclear power any longer as long as the U.S. continued to extend its nuclear umbrella to South Korea. As for the missile project, a compromise was reached to the effect that South Korea would be allowed to develop a missile with an estimated range of one hundred and eighty kilometers. In November 1978, the U.S.-Korea Combined Forces Command was officially activated, enabling top South Korean military officers to participate in operational decision-making. As a result, these new arrangements replaced President Rhee's agreement with the U.S. of July 1950 under which the entire South Korean armed forces had operated under the control of an American commander.

C. The Period of "Uncomfortable Relations"

With the advent of a Democratic administration in the U.S. in January 1977, U.S.-South Korea alliance entered a period of "uncomfortable relations." First of all, upon his inauguration, President Jimmy Carter announced his intention of withdrawing all American ground troops from South Korea by 1982. Although a complete withdrawal plan was subsequently dropped, American ground forces in South Korea were reduced by six thousand men. The troop reduction drew increasingly sharp criticism from South Korea. Along with its troop reduction plan, the Carter administration eased the American hard-line policy toward North Korea by recategorizing it as a nonhostile country and allowing American citizens to visit it. This policy shift aroused the suspicion of the South Korean government that the U.S. was moving toward the establishment of formal relations with North Korea.

Then came the so-called Koreagate incident, *i.e.,* the South Korean lobbying scandal, which exacerbated the discord between South Korea and the U.S. When U.S. investigators attempted to confirm that the lobbying in question had been carried out under the direction of the Pak government, the latter was reluctant to comply with American requests. The Seoul media made frequent and heated criticism of the American attitude toward South Korea, and even officials of the South Korean government denounced the handling of the Korean question by Congress and the American press, calling it an exercise in "big powerism" or "imperialism." The Carter administration's human rights policy which denounced openly the undemocratic character of the Yushin regime also provoked criticism from the South Korean government and pro-government circles. This unprecedented discord between South Korea and the U.S. was finally brought to an end by Carter's visit to Seoul in late June - early July 1979; discussions during this visit led to agreements on a number of major issues, thus officially terminating the "uncomfortable relations."

However, South Korea's domestic situation was worsening, due to President Pak's sharply increasing suppression of human rights. When Kim Young-sam, president of the major opposition New Democratic Party, told the *New York Times* on September 16, 1979, that "the time has come for the U.S. to make a clear choice between a basically dictatorial regime [...] and the majority who

aspire to democracy," the Pak administration ousted him from the National Assembly. The Carter administration demonstrated its opposition by recalling its ambassador. In the wake of subsequent massive demonstrations against the Yushin regime, KCIA Director Kim Jae-kyu killed President Pak on October 26, 1979.

D. The Period of "Consolidated Alliance"

Immediately, Prime Minister Choi Kyu-ha, a pro-U.S. career diplomat, assumed the presidency. However, on December 12, 1979, a "new military junta" led by Major Generals Chun Doo-hwan and Roh Tae-woo staged a coup and took control of South Korea's military power, making Choi their "stooge." The opposition forces led by Kim Young-sam and Kim Dae-jung demanded the restoration of democracy in general and a holding of a popular presidential election as early as possible. However, on May 18, 1980, the "new military junta" usurped the state power through its bloody suppression of the democratization movement at Kwangju.

Both in the "double twelve mutiny" and the "massacre at Kwangju," the U.S. was seen by most South Koreans as a collaborator of the "new military junta." This was because South Korean troops, mobilized in the two instances, operated ultimately under the U.S. commander of the U.S.-Korea Combined Forces. Moreover, when Chun was elected president by the electoral college in January 1981, the Republican administration of President Ronald Reagan invited him to be the first foreign head of state to visit the White House, thus giving special recognition to him. The U.S. President's move made the existing South Korean perception all the more credible.

Reagan's decision underscored the fact that his administration would put its policy priority on security rather than the democratization of South Korea. In fact, throughout his eight-year tenure (January 1981-January 1989), President Reagan always stressed the primacy of the security relationship between the two countries. Hence came the period of "consolidated alliance" at the government-to-government level.

However, the U.S. policy disappointed and even alienated most South Korean dissidents, including university students. The American pressure for the South to open its markets more extensively, which was usually called the "trade friction," fueled

anti-American sentiment. There emerged a strong trend of anti-Americanism among dissenting youths in South Korea. The first, clear manifestation of anti-Americanism was the burning of the U.S. Cultural Center at Pusan by university students in March 1982. A number of incidents demonstrating increased anti-Americanism among university students and intellectuals followed. Based on a series of anti-American movements, the "unorthodox opposition" forces became stronger. Now it became popular among them to demand publicly the termination of the South Korea-U.S. alliance as well as American troop withdrawal and rapprochement with "our brethren" in the North.

However, after 1987 when South Korea's democratization movement became irreversible, the Reagan administration attempted to cope with anti-Americanism in South Korea. A public speech by Gaston Sigur, Assistant Secretary of State for East Asian and Pacific Affairs, in February 1987, advocating the restoration of civil rule in South Korea was one undeniable sign. Although it made the Chun administration uncomfortable, it encouraged South Korean resistance against the Chun administration which culminated in the "popular uprising of June" 1987. The result was a June 29 Declaration read by Roh Tae-woo, presidential candidate of Chun's Democratic Justice Party, which promised a direct presidential election. Three months later, President Reagan received Roh at the White House, elevating his image as a new national leader. In December, Roh defeated Kim Young-sam and Kim Dae-jung, veteran opposition leaders who ran separately, thus splitting the opposition forces.

Roh's election made him the first president elected by a popular vote since 1972 when the popular presidential election system had been abolished, thus enhancing his legitimacy. Accordingly, when he was inaugurated in February 1988, thus launching the Sixth Republic, he could be more assertive in dealing with external as well as internal affairs. Successfully hosting the Summer Olympic Games at Seoul in 1988 also boosted his prestige. Therefore, he could pursue energetically his own "northern diplomacy" whose primary aim was to expand South Korea's foreign relations with socialist countries, including the Soviet Union and the PRC, and to achieve reconciliation with North Korea. It was natural that the U.S. would feel uneasy about what it considered South Korea's flirtation with the Eastern bloc countries. To allay

any doubts in the U.S. about South Korean determination to keep the alliance strong, President Roh met President Reagan in Washington, D.C. in October 1988. On this occasion, Roh agreed that, beginning in 1989, South Korea would share the cost of the U.S. forces stationed in South Korea. Four months later, the newly-inaugurated President George Bush of the Republican Party visited South Korea, reaffirming the U.S. security commitment to South Korea. Roh reciprocated in October by conferring with Bush at the White House. Despite a continuous (but diminishing) anti-America movement at some university campuses, relations between the two countries in general and relations between the two governments in particular were restored to full friendliness to the extent that they termed their relationship "partners for progress." "Another honeymoon" in relations between Seoul and Washington thus boosted South Korean confidence in dealing with the U.S. Therefore, when U.S. Defense Secretary Richard Cheney announced in February 1990 a plan to withdraw five thousand more American troops by 1993 and to close several American airbases in South Korea, the Roh administration reacted in an increasingly self-confident and accommodating manner.[3]

The fall of socialist regimes in Europe between 1989 and 1991 also helped President Roh. Taking advantage of such dramatic changes in international relations, he could establish diplomatic relations with all East European countries and the Soviet Union. In 1991, he concluded with the North the Inter-Korean Agreement of Reconciliation, Nonaggression, Exchanges and Cooperation. In the process, the Roh administration kept in close contact with the Bush administration. For example, immediately after Roh's first meeting with Soviet President Mikhail Gorbachev at San Francisco in June 1990, Bush received Roh at the White House. In the same spirit, the two allies amicably concluded the Wartime Host Nation Support (WHNS) Agreement and agreed to transfer peace-time operational control over the South Korean armed forces to the South Korean president in 1991. When Roh succeeded in establishing diplomatic relations between South Korea and the PRC in 1992, the Bush administration also praised its action publicly.

Presidents Roh and Bush also cooperated in their approach to North Korea's nuclear development project under the mountainous areas at Yongbyon near Pyongyang. In the same vein,

when Bush announced on September 27, 1991, that the U.S. would reduce nuclear weapons throughout the world, Roh responded quickly by announcing a far-reaching initiative calling for a nonnuclear Korean peninsula. In December, Roh specified that South Korea would not manufacture, possess, store, deploy, or use nuclear weapons. He went one step further by declaring that "there do not exist any nuclear weapons whatsoever, anywhere in the Republic of Korea." Immediately, the Bush administration concurred with Roh's statement.

North Korea responded quickly by promising that it would also sign the International Atomic Energy Agency (IAEA) safeguards agreement. On December 31, 1991, Pyongyang signed with its southern counterpart the Joint Declaration for the Denuclearization of the Korean Peninsula. Then, in early January 1992, Presidents Roh and Bush formally offered to cancel the 1992 South Korea-U.S. joint military exercise against North Korea, called Team Spirit. In response, North Korea initialed the IAEA safeguards accord in Vienna.

E. Friction between President Kim Young-sam's Hard-Line and President Clinton's Soft-Line

In January 1993, Bill Clinton of the Democratic Party was inaugurated as President of the U.S. A month later, Kim Young-sam was inaugurated as the President of the ROK. Immediately Kim showed a conciliatory gesture towards North Korea by repatriating a North Korean partisan who had served a thirty-four-year imprisonment term in the South. However, when pressured either to accommodate a full inspection of sites suspected to be nuclear facilities or to face measures beyond that by the IAEA, North Korea announced in March its intention to withdraw from the Nuclear Nonproliferation Treaty (NPT), thus becoming the first country in NPT history to make such a declaration.

The full analysis of the subsequent "nuclear crisis" and negotiations among countries concerned is beyond the scope of this study. Suffice it is to note that it occasionally caused tensions between South Korea and the U.S. The major reason was that the Clinton administration engaged in a series of bilateral negotiations with North Korea at the exclusion of South Korea. Nevertheless, a "thorough and broad approach" in solving the nuclear issue once and for all was agreed upon at the Kim-Clinton talks in Washington,

D.C. in November 1993.

Accordingly, the U.S. commenced with a practical approach when it informed North Korea of the nature of discussions between Presidents Clinton and Kim. However, serious disagreements between the U.S. and North Korea and between the IAEA and North Korea continued, thus not only heightening military tensions but also increasing the probability of a second war on the peninsula. At this critical juncture, former U.S. President Jimmy Carter visited Pyongyang as well as Seoul and helped broker on June 18 an agreement to hold the first-ever inter-Korean summit talks at Pyongyang on July 25-27, 1994. However, the unexpected death of Kim Il-song on July 8 aborted the summit. Clinton expressed his immediate condolences, stating that "On behalf of the people of the United States, I extend sincere condolences to the people of North Korea on the death of President Kim Il-song. We appreciate his leadership in resuming the talks between our governments." There was no consultation about this statement with South Korea, a fact that prompted anger in some circles in Seoul.

North Korea under the new leadership of Kim Jong-il, the first child of Kim Il-song, praised Clinton's condolences and resumed the bilateral talks with the U.S. in Geneva. President Kim openly objected to the talks nearing completion, contending that "North Korea faces the danger of imminent political and economic collapse" and that "any compromise [at this point] with North Korea will only help prolong its survival." However, he finally accepted the American explanations. On October 21, 1994, the United States and North Korea concluded the "Agreed Framework" under which North Korea would freeze all nuclear activity and comply with the IAEA in return for an international consortium's offer of light-water reactors by 2003, and the two countries would take steps toward the eventual full normalization of relations.

Soon there occurred the accident that would make the Kim administration nervous. In later December, the United States engaged in a series of negotiations with the North at the exclusion of the South for the release of an American copilot captured by the North. When he was released, President Clinton telephoned President Kim to reassure him that the negotiations had not opened a new U.S. channel or line of policy toward Pyongyang. The telephone call was deemed necessary because President Kim was critical of the negotiations.

What was discernible from this case was a substantial difference in the respective North Korea policies of the two allies: While the Clinton administration sought a "soft landing" policy or "engagement policy," the Kim Young-sam administration took a hard-line with the expectation that it would bring about North Korea's early collapse. Such a difference became more manifest in September 1996, when North Korea's submarine incursion of the East Coast of South Korea was discovered. From the beginning, the Clinton administration stressed the primacy of patience and moderation, proposing that the two antagonists avoid further provocative steps. However, terming the U.S. policy an "appeasement policy," the Kim administration began to study military retaliation against twelve strategic targets in the North in case of further provocation. The Clinton administration was shocked. A series of negotiations between Seoul and Washington as well as Pyongyang and Washington followed. At the summit of the Asia Pacific Economic Cooperation (APEC) forum in Manila on November 24, 1996, Presidents Kim and Clinton agreed on the joint statement that called on the North "to take acceptable steps" to resolve the submarine incident, reduce tension, and avoid provocation in the future. In late December, North Korea issued a statement of "deep regret" for the submarine incursion and a pledge that "such an incident will not recur."

III. Inter-Korean Rapprochement Preferred to U.S.-Korea Alliance (1998 - 2003)

A. President Kim Dae-jung's "Sunshine Policy" in Harmony with President Clinton's "Engagement Policy"

In December 1997, Kim Dae-jung won the presidential election, defeating Lee Hoi-chang of the Grand National Party (GNP) and Lee In-jae of the New National Party, both from Kim Young-sam's New Korea Party. Like Kim Young-sam, Kim Dae-jung was a senior congressman renowned for anti-dictatorship tendencies since the Pak Chong-hee government. However, between the two Kims, there was a sharp difference. While Kim Young-sam was undeniably anti-Communist and representing the "orthodox opposition forces," Kim Dae-jung took the stance of pro-rapprochement with the North and received the full support from the "unorthodox opposition forces." In this vein, a significant

portion of conservative voters tended to regard him a "pro-North leftist," despite his repeated open pledge that he would value liberal democracy, the principles of a market economy and South Korea's alliance with the United States. His opponents cited his affiliation with the leftist party and organization in his twenties as evidence supporting their suspicions. The alignment with archconservative Kim Jong-pil, who was promised the position of premiership, helped some hesitant conservative voters cast their ballots for him.

In this context, it was natural that in contrast to President Kim Young-sam who had maintained a hard-line stance towards the North, President Kim Dae-jung advocated a policy of reconciliation and cooperation towards the North, one which he termed the "sunshine policy." Quoting Aesop's fables in which the sunshine and not the storm takes off one's clothes, he contended that such a policy of benevolence, or "sunshine," could considerably reduce the North's fears, mistrust and hostility towards the South. On the basis of mutual confidence through phased cooperation, he argued that the two Koreas would move toward replacement of the existing armistice agreement with a permanent peace treaty. His concept was that the two Koreas would conclude a peace treaty, and the U.S. and China would endorse it. By doing so, the Cold War structure on the Korean peninsula would be dissolved. Then, the two Koreas would enter a period of North-South confederation which would lead first to a North-South federation, then ultimately to one unified Korea.[4]

One may immediately sense that President Kim Dae-jung's "sunshine policy" was in harmony with President Clinton's policy of "engagement" with North Korea. However, when President Kim's "sunshine policy" was translated into more concrete programs and actions, some disagreements between the two administrations appeared. The most salient difference was on the North Korean nuclear and missile development projects. While the Clinton administration, based on the new findings by spy satellites, warned the Kim administration that North Korea intended to build a new reactor and reprocessing center under the remote mountainous site at Kumchangri, about twenty-five miles northwest of Yongbyon, South Korean officials played down the finding. The Clinton administration also took the North Korean project of developing and selling missiles abroad very seriously. But the Kim administration argued that the primary objective of the project might be to earn

foreign currencies through their limited sales to Middle East countries. In this vein, Kim proposed to Clinton in June 1998 that the U.S. lift its economic sanctions against North Korea. He argued that U.S. sanctions were counterproductive, driving the fearful North Korean leadership further into isolation and alienation. But Clinton merely replied that easing sanctions would require congressional approval.[5]

The North Korean missile tests, *i.e.,* firing of Taepodong 1 over Japan and into the Pacific Ocean, on August 31, 1998, justified Clinton's reservations. Soon he went one step further by openly comparing North Korea to Iraq, saying that it was "also a major concern" because of its chemical and biological weapons. Despite his hard-line approach to North Korea, Clinton was criticized in the Republican-dominated Congress for letting his policy drift. In response, in late November 1998, he appointed William J. Perry, who had dealt directly with the North Korean nuclear crisis as deputy defense secretary in 1993 and in the Geneva agreements as defense secretary in 1994, to review American policy on North Korea. Soon there spread wild speculation that Perry would recommend a hard line North Korea policy to Clinton and that the Clinton administration might initiate preemptive operations against suspected sites. In such a chilling environment, Perry engaged in four rounds of negotiations with North Korea, starting in mid-March 1999. The result was an agreement under which the U.S. would give an additional 400,000 tons of food aid to North Korea in exchange for America's inspection of the suspected site. In May, American investigators discovered that "an underground site [...] is a huge empty tunnel."[6]

In the meantime, from March to September 1999, Lim Tong-won, national security advisor to President Kim, met Perry six times. President Kim also received Perry on March 9 at his presidential office. The message to Perry was simple: Since the two Koreas were seriously discussing a holding of an inter-Korean summit through a secret channel and the chances for the first-ever summit was comparatively high, don't torpedo the chance. The implication was that Perry should recommend a mild North Korea policy option to the White House and the Congress. According to Seoul sources, Perry became sympathetic to President Kim, thus postponing the submission of his report to Congress until September 1999, allowing South Korea sufficient time enough to continue her

secret negotiations with the North.[7] Moreover, central to the report was a peace agreement: the normalization of U.S.-North Korea relations in return for a freeze on North Korea's programs to develop and export weapons of mass destruction, such as nuclear bombs and long-range missiles. This approach was designed to supplement the Agreed Framework concluded in 1994 at Geneva. Immediately, North Korea publicly confirmed that it would extend its suspension of tests of long-range missiles like the Taepodong-1 missile to 2003. Encouraged, President Kim publicly announced on March 9, 2000, at Berlin that he would help North Korea recover its wrecked economy through proposed talks with Kim Jong-il. The result was the inter-Korean joint announcement of April 10, 2000, that "President Kim Dae-jung will visit Pyongyang from 12 to 14 June 2000 and will meet Chairman Kim Jong-il." In actuality, the first-ever inter-Korean summit was held on June 13-15, 2000, at Pyongyang and on the last day, "Kim Dae-jung, President of the ROK, and Kim Jong-il, Chairman of the DPRK National Defense Commission" issued a historic five-point joint declaration.

A detailed analysis of the secret inter-Korean negotiations leading to the April 10 announcement is beyond the scope of this study. Suffice it is to point out that these events incurred some disagreement, friction and even suspicion in South Korea-U.S. relations. Above all, when the South Korean National Intelligence Service (NIS), the successor to the CIA, informed the American CIA that the North-South accord to hold an inter-Korean summit would be publicly announced just thirty-six hours later, it was known that both the White House and the State Department were embarrassed and resented the South's short notice.

More important was the general tone underlying the joint declaration, which was clearly oriented to reconciliation between the two Koreas. From the American viewpoint, central to the declaration was Article 1 which declared that the two Koreas agreed to pursue national unification based on the principle of independence. "Independence" meant "national autonomy" or "self reliance." Given this fact, the Clinton administration worried that this item might stimulate serious controversies on the rationality of the continuous stationing of the American troops in the South. As if to allay worries from the U.S. (as well as from a sizable conservative bloc in South Korea), President Kim publicly stated that Kim Jong-il had assured him that the North would recognize

the stationing of the American troops in the South. However, the North never officially responded to that statement. Then, a week after President Kim's return to Seoul, Secretary of State Madeleine Albright visited Seoul, meeting President Kim to receive full explanations.

Growing anti-American demonstrations following the joint declaration also received serious attention from the Clinton administration. Indeed, as if influenced by the "peaceful unification euphoria," the number of anti-American demonstrations increased. While some protesters demanded that the U.S. revise the SOFA to allow South Korea greater jurisdiction over American soldiers in criminal cases and that numerous massacre cases of South Korean civilians by the U.S. forces during the Korean War be investigated thoroughly, other protesters demanded that the U.S. withdraw its troops from South Korea.

However, the Clinton administration soon officially supported the summit and sought an improvement in U.S. relations with North Korea. As a result, on October 12, 2000, the two countries agreed to turn their hitherto hostile relations into friendly ones and to convert the armistice agreement into a "peace arrangement." While North Korea renounced terrorism and pledged not to launch long-range missiles of any kind while talks continued on the American demands for a permanent freeze on missile tests, Clinton agreed to visit Pyongyang before his term ended. To organize Clinton's trip, Secretary Albright made a historic visit to Pyongyang and met Kim Jong-il on October 23-24. The two exchanged ideas on how to solve the North Korean missile development question. It became more apparent than ever that North Korea was working feverishly to engineer its removal from Washington's terror list, which would help it qualify for financial aid from international organizations like the World Bank.

B. President's Kim and Bush in Substantive Disagreements

The election of Republican George W. Bush in November 2000 changed the picture. Clinton decided not to visit North Korea and the Clinton team's diplomatic push fell short. With the inauguration of the Republican administration in January 2001, signs of uneasiness multiplied in Seoul concerning a possible change in direction in Washington's policy toward North Korea. This was because many of Bush's senior diplomatic and security

advisers advocated policies toward North Korea that contrasted sharply with the strategy of the Clinton administration. Although Secretary of State Colin L. Powell and his supporters defended Clinton's "engagement policy," hard-liners led by Defense Secretary Donald Rumsfeld and National Security Advisor Condoleezza Rice urged that North Korea be isolated and, if possible, pushed to the brink of collapse. Bush himself signaled a tough posture by declining to continue Clinton's talks with North Korea, saying negotiations would not resume anytime soon. He added he wanted time to review the past talks and U.S. policy.

At this point, one may discuss a report entitled "A Comprehensive Approach to North Korea" which had been issued in March 1999 by the Institute of National Strategic Studies. This report was based on the findings of a study group on Korea policy led by Richard Armitage and Paul Wolfowitz. Since the former was appointed deputy secretary of state and the latter, deputy defense secretary in the Bush administration, the report merits serious attention.

First, the report argued that the 1994 Agreed Framework had done little to facilitate a "soft landing" in North Korea. Then, it called for accelerating the process for resolving site questions as raised in the Agreed Framework. On missiles, it called for a near-term end to testing and exports, and, over the long term, for the North's acceptance of the Missile Technology Control Regime (MTCR). On conventional forces, it recommended the U.S. table confidence-building proposals that would begin a process leading to conventional forces reduction, while at the same time cautioning that any new peace mechanism should be linked to the reduction of the conventional threat. As for economic assistance, efforts were to be aimed at helping North Korean restructuring and support given to actions that opened its economy to market forces. South Korean approval of large-scale investment was to be tied to this process.

South Korean officials expressed alarm that the Bush administration was rushing ahead with plans to develop a missile shield or MD (Missile Defense) system before seriously testing North Korea's willingness to abandon its long- and medium-range missile programs, recalling that North Korea's development of medium- and long-range missiles was commonly cited as the leading justification for the Bush administration's antimissile program. South Korean officials also expressed concern that

Washington would not seek to engage North Korea on other issues, and, moreover, that the new administration would try to discourage South Korea from providing increasing amounts of economic aid to the North.

Then occurred "a diplomatic blunder" which strained the relations between Seoul and Washington. In late February 2001, President Kim held talks with Russian President Vladmir V. Putin at Seoul and publicly suggested that he shared Russia's distaste for President Bush's plans for a missile shield, saying that the 1972 Antiballistic Missile Treaty(ABM) was "a cornerstone of strategic stability" around the world. This angered the Bush administration, which was attempting its substantial revision. Its protests to the Kim administration led to a half-hearted retraction of the statement as soon as Putin had left Seoul.

From a sense of urgency that he should coordinate North Korea policies with the U.S., President Kim hurriedly went to Washington on March 6. Senior officials of the Bush administration indicated that they continued to view North Korea as a major threat as well as a "rogue state" and that they were clearly wary that President Kim's peace initiative had moved too fast with too few concessions from the North. The result was a disaster for Kim. In sum, he suffered a setback as President Bush cast doubt on North Korea's trustworthiness.

On the other hand, the advent of the Bush administration encouraged South Korean conservative forces, including the major opposition Grand National Party led by Lee Hoi-chang, who had been narrowly defeated by Kim Dae-jung in the 1997 presidential election. These opponents had great doubts about Kim Dae-jung in general and his North Korea policy in particular. It should be recalled that Lee had openly opposed Clinton's projected visit to Pyongyang, arguing that it would encourage the Stalinist dictator.

Three months after the Kim-Bush summit, President Bush announced on June 6 that his government would restart negotiations with North Korea on a broad range of issues, including that nation's production and export of missiles and its deploying of soldiers on the South Korean border. He also said one of his goals was to allow North Korea to "demonstrate the seriousness of its desire for improved relations." According to a senior American official, this phrase intended to telegraph the fact that he was not interested in rewarding "bad behavior." Soon North Korea responded negatively.

A North Korean foreign ministry spokesman accused Bush of setting the agenda for the talks unilaterally. He said the U.S. must remove its troops from South Korea before any discussions of North Korean troop deployments would be possible, adding that "with the American request to include conventional arms in the talks, we cannot construe this otherwise than an American attempt to disarm the DPRK through negotiations."[8] Soon, the basic position of the Bush administration worked out after an intensive review became concrete and clear. To put it bluntly, it was that "an accord that focuses on missiles is no longer sufficient." Administration officials elaborated: "Only a comprehensive program to limit North Korea's military potential can serve as a foundation for improved relations with the West. So North Korea must make simultaneous concessions on nuclear issues and conventional arms, and any missile agreement must be subject to extensive verification."[9] The Bush administration's proposal to discuss conventional troop deployments in its talks with North Korea marked a significant departure from the policy of the Clinton administration. Previous efforts had focused almost exclusively on eliminating the threat of nuclear weapons production in the North and ending the testing and sale of North Korean ballistic missiles.

Then, on August 4, 2001, in a joint declaration issued at Moscow, Kim Jong-il demanded that American troops be withdrawn from South Korea, saying it would speed reunification talks on the peninsula. President Putin expressed "understanding" of the North Korean position. Since President Kim Dae-jung repeated that at the Pyongyang summit his northern counterpart had promised that he would not object if the American troops stayed on, the joint declaration placed President Kim in an awkward position. Immediately, GNP President Lee commented that the declaration showed that Kim had lied to the people or had been deceived by the North on American troop withdrawal. Notwithstanding, on August 15, 2001, Kim called on the U.S. to make its best efforts to resume talks with North Korea.

C. Presidents Kim and Bush after the September 11 Terror Attacks

The terror attacks in New York and Washington on September 11, 2001, by Al Qaeda had an immediate and radical impact upon American relations with the rest of the world,

including the two Koreas. Since the Bush administration intended to warn states or organizations which shielded or encouraged terrorists, many observers naturally looked to North Korea, which was on the American list of state-sponsors of terrorism. At first, North Korea seemed to try not to irritate the United States. A day after the terror attacks, its foreign ministry announced that it opposed terrorism and sponsorship of any kind of organized or official terrorism. Its caution was again expressed two days after the U.S. initiation of attacks against the Taliban regime of Afghanistan, shielding bin Laden and Al Qaeda terrorists, on October 7, 2001. However, such actions did not mollify the Bush administration.

Recognizing this fact, North Korea soon changed its attitude. First, it not only cancelled previously-scheduled reunions of separated families but also refused a South Korean proposal to issue a North-South joint declaration opposing terrorism. Secondly, it sharpened its tone toward the Bush administration. Then, on October 16, President Bush referred to Kim Jong-il as "being so suspicious, so secretive" during a news conference with Asian editors. Immediately, a North Korean foreign ministry spokesman characterized Bush's remarks as not being diplomatic and being beyond common sense. However, he left room for future negotiations between North Korea and the U.S. by saying that "we are not against resuming dialogue with the U.S. and favor improved relations." Bush's response remained negative. At his second meeting with President Kim in Shanghai, the venue of the ninth summit talks among the Asia-Pacific Economic Cooperation (APEC) member countries, on October 19, he warned against threats from North Korea, saying that "we will be prepared to defend and stand side by side with our longtime friend, the South Korean people." Five days later, North Korea responded by saying that "our people are determined to make Mr. Bush pay dearly for his remarks." However, it should be pointed out that North Korea expressed its intent to participate in the international anti-terror coalition by signing both the International Convention for the Suppression of Terrorist Financing and the International Convention against the Taking of Hostages on November 12. This action seemed to reflect its expectations for future improvement in its relations with the U.S.

Still the Bush administration did not show any change in its

stance towards North Korea. Rather, it went one step further by publicly announcing that "North Korea, Iraq, Iran, Libya and Syria are developing germ weapons." The Bush administration's public accusation against North Korea immediately incurred wild speculations that Pyongyang might become a target for the U.S. military after the Taliban. Although "there is no link to Al Qaeda and no evidence of active proliferation of weapons since September 11," one senior administration said, "you can't say you are serious about neutralizing weapons of mass destruction and ignore Kim Jong-il."[10]

As implied above, the Afghan War naturally placed President Kim Dae-jung in an awkward position between his policy of reconciliation with North Korea and Bush's policy of confrontation with North Korea. At first, he attempted to pursue both goals simultaneously: to demonstrate South Korean support of the U.S. war against terrorism, on the one hand, and to reactivate inter-Korean relations. Accordingly, he said in his special address to the nation on October 8, 2001, that he fully supported the U.S. military campaign against the Taliban government of Afghanistan. Immediately, he met GNP President Lee and announced in a joint statement with Lee that the two parties would support the U.S.-led war against terrorism. As a result, the Kim Dae-jung administration could send four hundred fifty noncombat troops without igniting any serious controversy within South Korea. At the same time, he reiterated his proposals to the North for an expansion of inter-Korean cooperation. However, when North Korea declared that war in Afghanistan could not be justified under any circumstances, it seemed that President Kim's effort to satisfy both the United States and North Korea was destined to fail.

This point became clearer when the Afghan War deepened the differences between the United States and North Korea. The former underscored the need to verify North Korean missile production as well as the research and development of nuclear warheads. North Korea responded that it "had done what she was obliged to do to combat terrorism." Some South Korean analysts defended North Korea by arguing that its intent to develop missiles was not to use them for attacks upon other countries but to earn foreign currencies through their sales. The unification minister also defended North Korea by publicly stating that its leaders might be under "a sense of crisis" as a result of the seemingly hard-line

American position. In the new year news conference on January 14, 2002, President Kim called for "a face-saving formula for North Korea," hinting that he hoped President Bush would not exacerbate tensions with North Korea by publicly criticizing it.

D. President Bush's Union Message on North Korea and Talks with President Kim

Relations between South Korea and the United States as well as North Korea and the United States entered a new phase on January 29, 2002, when President Bush included North Korea along with Iran and Iraq as belonging to "an axis of evil," arming to threaten the peace of the world, in his state of the union message. As for North Korea, he termed it "a regime aiming with missiles and weapons of mass destruction, while starving its citizens." He continued: "The United States of America will not permit the world's most dangerous regimes to threaten us with the world's most destructive weapons." Two days later American Ambassador to Seoul Thomas Hubbard said that President Bush discounted President Kim's desire "to find a way to save face for North Korea." "Saving one's face is not the American way of thinking at least when it comes to North Korea. It is the American style to engage in dialogue in a pragmatic and straightforward manner," he stressed.

North Korea's reaction was immediate. On February 1, its foreign ministry spokesman stated that "there has been no precedent in the modern history of DPRK-U.S. relations for the U.S. president's policy speech in which he made undisguised threats of aggression against the DPRK, an independent and sovereign state. This is, in fact, little short of a declaration of war against the DPRK." The Kim Dae-jung administration seemed to be embarrassed, since President Bush's remarks questioned the validity of President Kim's policy of lenience with North Korea. Accordingly, the Kim administration expressed its concerns that Bush's remarks could destabilize the Korean peninsula. Its unification minister even argued openly that the North Korean weapons pointed out by Bush "are not for the purpose of attacking the South, but to serve as a bargaining chip when negotiating with powerful countries." He added "even if the North does possess nuclear weapons, she would be reluctant to make use of them in the small Korean peninsula."

As the Bush administration's policy of toughness towards

the North became crystal clear, the opposition forces representing a sizable conservative bloc heightened their criticism against the Kim Dae-jung administration. They criticized the administration for its "easygoing judgment" on the "grave situation" with regards to the North Korean missile development project as well as nuclear, biological and chemical warfare programs. They also worried that "President Kim's unrealistic approach to North Korea disregarding her offensive intent armed with weapons of mass destruction results in conflict with President Bush's policy." In conclusion, they warned that President Kim's policy might weaken the South Korea-U.S. alliance. Then, some "progressive" civic organizations or supporters of President Kim's "sunshine policy" branded them "anti-nation, anti-peace forces." It became clear that Bush's remarks on North Korea had ignited serious controversies within the South Korean society, making for "partisan political warfare".

Now it became evident that very real differences or substantive disagreements existed between the Kim and Bush administrations on North Korea. According to some critics, President Bush's warning that North Korea was part of an "axis of evil," prior to the February 20 South Korea-U.S. summit, served as a warning to President Kim's policy of lenience with the North as well. They argued that Seoul's differences with Washington would only get worse if the Bush administration chose to eliminate weapons of mass destruction as the second stage of its war on terrorism. At this juncture, President Kim replaced his foreign minister on February 4 with Choi Sung-hong, deputy foreign minister and former ambassador to United Kingdom, who had little diplomatic experience with the U.S. Some local analysts interpreted this move as a demonstration of Kim's displeasure with Bush. At the same time, his MDP openly criticized Bush on the rationale that his "tough policy, which has made us recall the anachronistic cold war period," might endanger the peace and security on the Korean peninsula. Several "progressive" congressmen visited the U.S. Embassy at Seoul to deliver their protests against Bush's remarks.

The situation became more complex when the dismissed foreign minister, Han, said publicly that he could cite reasons for Bush's remarks. He elaborated that U.S. foreign policy in general and North Korea policy in particular had changed sharply since the September 11 episode. However, some ruling party congressmen and "progressive" activists argued that Bush's remarks were

calculated to induce South Korea to purchase from the U.S. F-15K jets from the Boeing Company for South Korea's next-generation fighter program, code-named "F-X." (Some opposition GNP congressmen also agreed on this point.) Boeing was one of four foreign bidders for South Korea's multi billion-dollar arms procurement program. From this assumption, they insisted that since Bush's remarks had emanated from a conspiracy within the U.S. military-industrial complex, the Kim Dae-jung administration should not surrender to the Bush administration's pressure.[11] "At the crossroad between U.S. policy of war against North Korea and inter-Korean rapprochement policy," they recommended that the Kim administration should choose the latter. The North Korean official media praised anti-U.S. activities in the South.

Recognizing the seriousness of the issue, President Kim Dae-jung began to show his hope of moderating policy differences between Seoul and Washington. Admitting for the first time that there was a gap between the two administrations over dealing with the North, the president stressed on February 7 that "the U.S.-South Korea security alliance that has existed since the Korean War is the most important thing for us now." While ordering action by officials to narrow policy differences with the Bush administration over North Korea before meeting Bush on February 20, he warned against "excessive criticism in our society against the U.S. due to its attitude toward North Korea."

Against this backdrop, the two Presidents had their third summit talks on February 20 at the Blue House, the South Korean version of the American White House. At the joint press conference after a fifty-nine-minute meeting, both presidents described the summit as "frank and open," indicating that differences remained over North Korea. Bush addressed South Korean anxiety over his "axis of evil," remarks, saying that "I made the remark because I love freedom. I am troubled by a regime that starves its people, that is closed and untransparent; and 1 am deeply concerned about the people of North Korea." On the other hand, his assurance that the U.S. had no intention of invading North Korea and that the U.S. would observe its commitment to a firm South Korea-U.S. alliance as well as his agreement to address diplomatically WMD seemed to have allayed South Korean worries over the political instability on the peninsula that had been heightened by Bush's labeling of North Korea as part of an "axis of

evil." However, when the White House published *The National Security Strategy of the United States of America,* on September 17, 2002, a policy which advocated a preemptive strike against North Korea, the Kim administration and its supporters denounced it, arguing that it might ignite a second Korean War.

IV. Bilateral Readjustment in the Alliance? (2003 - present)

A. The Changed Domestic Structure in South Korea's Foreign Policy and the Election of Roh Moo-hyun to be President

What has been written thus far has indicated that the domestic structure in South Korea's foreign policy has substantially changed. Anti-Americanism expanded rapidly after the early 1980s and took root in the traditionally conservative South Korean society. In a poll conducted **by** the Seoul-based *Naeilsinmun* [Tomorrow Newspaper] in August 2000, 58.3% of the respondents showed negative attitudes towards the U.S. troops in the South. While 42.6% agreed that they were stationed in the South for the sake of their country's own interest, only 26.5% agreed that they were stationed for South Korea's security. In a poll conducted by *Wolkan Chosun* [Monthly Korea] which was published in its January 2002 issue, the United States was ranked as the second most disliked country, just after Japan, by the South Korean people.

Anti-Americanism was easily linked to support for inter-Korean rapprochement, thanks to South Korea's rising nationalistic sentiment, which had been ignited by the June 2000 inter-Korean summitry and fanned by the superb performance of the national soccer team in the 2002 World Cup.[12] It was also matched with a changed South Korean perception of the North Korean military threat. In the 2002 Gallup-Korea poll published in July 28, 2003 *Chosun Ibo* [Korea Daily], only 33% of the respondents agreed that there existed danger from North Korean aggression. It was a sharp decline from the 1992 Gallup-Korea poll in which 69% of the respondents had shared the same view. Hence spread the simplified slogan, "inter-Korean cooperation rather than Korean-American cooperation," among a significant sector of the youth and left-leaning intellectuals.

In such a changed socio-psychological milieu, a tragedy ignited a massive anti-American campaign. On June 13, 2002, two middle-school girls, Sin Hyo-soon and Sim Mi-sun, were crushed to

death by an armored vehicle operated by two American soldiers at Uijongbu, a city belonging to the Province of Kyonggi. When a U.S. military jury cleared the soldiers of negligent homicide charges on November 21 and 22, it touched off a public outcry for an amendment to the SOFA, which dictates the legal status of 37,000 American soldiers stationed in South Korea. Beginning November 30, a growing number of South Koreans took part in a daily candlelit vigil in Kwanghwamun, the heart of central Seoul, to mourn the two girls. Soon the candlelit vigils were expanded to other major cities, culminating in the middle of December when about 70,000 demonstrators took the streets in and around sixty cities and localities across the nation. The participants were not always anti-America. However, a series of candlelit vigils, organized by "unorthodox opposition" leaders were seen as anti-America, when some protesters tore apart several American flags.

The incident and subsequent events influenced the presidential election held on December 19, 2002. They clearly solidified "unorthodox opposition forces" that tended to favor Roh Moo-hyun from the MDP, who proudly confessed that "I have never visited the United States." He added, "If elected, I will deal with the Bush administration with national assertiveness. I will not *kowtow* to Washington. The ROK-U.S. alliance should be transformed into horizontal relations," *i.e.,* "equal partnership." He also criticized the Bush administration's policy towards the North, arguing that the U.S. should not corner the North and proposing that the South should continue its economic assistance to the North. On the issue of the North's nuclear development project, he made it clear that the North should give it up immediately and totally. However, he left the strong impression that he was skeptical of what the Bush administration's high-ranking officials said on this issue. For example, James Kelly, Assistant Secretary of State for East Asian and Pacific Affairs, had notified the Kim Dae-jung administration on October 5, 2002, after returning from a three-day visit to Pyongyang, that there was suspicion that North Korea was developing nuclear weapons through the highly enriched uranium (HEU) program. To such important remarks, Kim did not comment at all. He even suggested that South Korea should play the role of mediator between North Korea and the United States, arguing that the North Korean nuclear issue should be solved only by peaceful means through dialogues between North Korea and the United

States. This position was in accordance with the North Korean position. It was no surprise that the Bush administration showed displeasure, since it advocated that the issue should be solved within the framework of multilateral talks including at least China and South Korea, while not precluding the use of military force on North Korea, mainly through preemptive strikes.

Lee Hoi-chang, the GNP candidate, criticized Roh. But Roh's campaign managers attempted to portray Lee as an "anti-national, archconservative politician representing outdated cold war forces." By a slim margin, Roh won the election. Political analysts attributed the margin to the solid and concentrated voting for Roh from young Koreans in their twenties and thirties. In the *Dong-A Ibo* poll published in its April 1, 2003 edition, 47.3% of the respondents in their twenties and 33.5% of the respondents in their thirties expressed their dislike of the United States, while 20.1% in their twenties and 14.8% in their thirties expressed their dislike of North Korea.

B. President Roh's Attempts at Readjustment

Roh's views did not change after the election. Rather, he openly raised the possibility of a U.S. troop withdrawal from South Korea. Soon his envoy to the Bush administration was reported to have said that many of South Korean youths would rather see North Korea develop nuclear weapons than collapse. Indeed, some South Koreans tended to believe that the North would aim its nuclear weapons, assuming it had any, at Americans or Japanese, not its southern "brethren."

Roh's views on the North and his disagreement with Bush were well expressed in his interview with *Newsweek* on February 19, 2003, six days before his inauguration. He said: "I want to stress that North Korea was opening up and that it is already changing. If we give them what they desperately want - regime security, normal treatment and economic assistance - they will be willing to give up their nuclear ambitions. We should not, therefore, treat them as criminals but as counterparts for dialogue." Against this backdrop, the interviewers of *Newsweek* wrote that "Factoring in Roh's reputation as a left-leaning social activist, commentators in Washington have begun to question Seoul's loyalty as an ally, and to wonder whether America's best option on the Korean Peninsula isn't to beat a hasty retreat."[13] Such American mistrust was

partially revealed in an article contributed by William Satire, a leading conservative columnist, to the *New York Times* on March 10, 2003. Satire regarded South Korea not as an American ally but one of the "neutrals" like Indonesia, proposing that "America's strategic interest in this [...] era is to let the strong South defend its territory."

President Roh's soft views on the North were reiterated in his interview with *The Times* published on March 3, 2003, two days after an incident in which "four North Korean MIG fighters tailed and [...] came within 50 feet of an unarmed American RC-135 surveillance plane over international waters" in the East Sea. Far from condemning the North, he advised the United States "not to go too far" in its dealings with the North. He continued: "It was a very predictable chain of events. . . . [because] the United States had increased its aerial surveillance of North Korea's reopened nuclear facilities." Repeating his often-expressed view that only direct talks between the United States and North Korea could resolve their nuclear standoff, he said: "When I meet President Bush, I will convince him by saying that although North Korea does not meet the values of the United States and may not be likeable from their standpoint, there is a possibility to improve their relationship."

A week later, President Roh reiterated the idea that his administration should take an "independent and autonomous line" in dealing with North Korea. In as much as the positions of his administration and the Bush administration differed on the North Korean nuclear issue, he said, we must choose between glossing over our differences and making them public. "I have concluded that the latter option is better from the standpoint of appealing to world public opinion," he added.[14]

On the other hand, President Roh also began to show "change" in his views. In his inaugural speech on February 25, 2003, although he proposed that the South Korea-U.S. alliance "mature into a more reciprocal and equitable relationship," he stressed that the alliance "has made a significant contribution in guaranteeing our security and economic development. The Korean people are deeply grateful for this. We will foster and develop this cherished alliance." Two weeks later he repeated his statement on the alliance's value: "The staunch Korea-U.S. combined defense arrangement is greatly contributing to our national security. The solid alliance should be maintained even more so. There can be no

change whatsoever in that principle." Soon, he agreed with the Bush administration that talks between Washington and Pyongyang needed to occur within a multilateral framework. Foreign Minister Yoon Young-kwan indicated that it would be in the North's interest to accept a multilateral framework.[15]

Then, the issue of redeployment or even withdrawal of U.S. troops to areas south of the Han River became increasingly salient, with the strong implication that the U.S. would not be responsible for immediate and direct deterrence in case of the North's provocation against the South. President Roh responded with remarks, stressing the importance of the alliance between the two countries. In his speech at the 59th commencement ceremony of the Korea Military Academy delivered on March 11, he pledged that his administration would "discuss all matters related to the U.S. forces under principles laid out by the firm alliance between the two countries." Next day, he assured Bush by telephone that his foreign and North Korean policies would be in full accordance with those of the United States and that he would value the ROK-U.S. alliance more than anything else. Moreover, despite strong opposition from his "left-leaning" supporters during the presidential election, in early April he finally decided to support the U.S.-led war against Iraq, by sending troops, albeit non-combat ones.

President Roh's readjustment became even clearer during his visit to the United States from May 13 to 17, 2003. He attempted to strike a conciliatory note toward the United States, which was seen by most news media as a marked change from his past reputation. For example, he said, "I have envied the values of freedom and human rights that the United States pursues. My own civic activity and politics were aimed at such American values." He went one step further by saying, "although the United States and its people are still skeptical about South Korea and its president, the summit will completely resolve such doubts." Such a dramatic turnaround bewildered both his supporters and critics. On May 14, he held a summit conference with President Bush. The following "Korea-U.S. Joint Statement" showed that Roh agreed with Bush on the North Korean issue. Although they agreed to pursue a peaceful resolution of the North Korean nuclear crisis, they did not exclude using economic pressure or military forces as final options. Moreover, they declared that they would "not tolerate" atomic weapons in North Korea and would consider "further steps" in case

North Korea increased its threats to peace and stability on the peninsula. They also vowed to work with international allies, including Japan, China and Russia to eliminate its nuclear arms "completely, verifiably and irreversibly." Particularly, President Roh pledged that "future inter-Korean exchanges and cooperation will be conducted in light of developments on the North Korean nuclear issue."[16] In late July, he decided that the ROK troops should join the Stabilization Force to be stationed in Iraq under the leadership of the United States.

What motivated President Roh to readjust his stance? One factor was the sharply-increasing criticism of the "sunshine policy" in South Korea. About this time, a series of investigations led by special prosecutors under the newly-enacted law passed by the GNP-led National Assembly revealed evidence that Kim Dae-jung had "bought" a summit with Kim Jong-il, giving the North Korean leader a huge sum of U.S. dollars in advance. Revelations of the "cash-for-summit scandal" weakened the summit's historic stature and caused damage to Roh's administration, which pledged to continue Kim Dae-jung's generous policies towards the North. Moreover, if the money had been spent on weapons, it could have shaken the engagement policy to its base. He also came to understand that continuous conflict with the Bush administration might severely hurt his leadership in light of the fact that a conservative backlash was increasingly evident in South Korea.

The final factor was his realistic reassessment of a time when the U.S.-centered world order would be strengthened by the U.S. victory in Iraq. Moreover, if the United States were to withdraw its military forces, South Korea would be forced to increase its defense expenditures astronomically.

President Roh was partially rewarded for his turnabout. At the third round of the "Future of the ROK-U.S. Alliance Policy Initiative" talks held in Honolulu on July 22-23, 2003, the two sides pledged to strengthen the alliance further, to improve its combined defense capabilities, and to provide a stable long-term stationing environment for the U.S. Forces Korea (USFK). The United States also reaffirmed its commitment to the maintenance of security on the peninsula. On the other hand, the ROK had to acquiesce to the U.S. schedule for the accelerated transfer of some military missions. This included Seoul's sole responsibility for guarding the Joint Security Area (JSA) within the DMZ, from the USFK to the ROK

as early as 2004, as well as an early redeployment plan for the Yongsan Garrison and the U.S. Second Infantry Division to the south of the Han River. This would now take place in a two-phased process by the target year of 2006, instead of 2009 as initially desired by Seoul. At the same time, the two sides decided to paper over the extremely sensitive issue of the ROK-U.S. combined command relationship and postponed its substantive deliberations until 2005.[17]

V. Conclusion

As shown above, the South Korea-U.S. alliance has experienced three distinctive periods. In the first, the two allies regarded North Korea as their common enemy and the raison d'etre of the alliance was to deter aggression from the North. In other words, the alliance in general and the stationing of the American troops in particular were regarded as essential for the security and national survival of the ROK. In this regard, there was a broad national consensus in South Korea, although after the 1980s the anti-American sentiment grew steadily.

In reviewing the alliance in this first period, one may differentiate three sub-periods, although the periodization is not always clear-cut. Since its inception in the mid-1960s when it concluded a basic treaty with Japan and sent its troops to South Vietnam, South Korea was a client of the American patron, who played the role of paternalistic protector. Politically, diplomatically, economically, and militarily, South Korea depended heavily upon the United States. In this context, one termed the relations between the two countries "an unequal alliance," "a protectorate alliance," "an asymmetrical alliance," or "a one-sided alliance."

The period between the mid-1960s and the mid-1970s (or the late 1970s) was transitory. In this period, two important events deeply affected the alliance between the two countries and formed a basis of a new relationship. One was South Korea's diplomatic "normalization" with Japan (1965), and the other was its involvement in the Vietnam War (1965-1973). The two events played major roles in South Korea's economic growth which was defined in 1976 by the World Bank as "one of the outstanding success stories of international development." Because of its economic growth, the South Korean economy, termed one of "Newly Industrialized Economies (NIEs)," could become less

dependent on aid from the U.S. Accordingly, the South could play the role of a junior partner in the alliance.

Dating from the mid-1970s (or the late 1970s), South Korea-U.S. relations began to turn to "transpacific alliance with regard to the 'alliance of reciprocity'" or "partners." This point was particularly true in economic relations. It should be remembered that South Korea, whose GDP ranks between the eleventh (in 1997) and the thirteenth (in 2000) among one hundred seventy-six countries, was the sixth trade partner to the U.S., while the U.S. was the first trade partner for South Korea. This made relations between the two countries interdependent. However, it should be remembered that the basic characteristics of the military relationship between the two countries did not change.

The advent of the Kim Dae-jung administration, in accordance with a shift in the domestic structure of South Korea's foreign policy, changed the whole picture. Seoul now tended to regard North Korea not as an enemy which threatened the ROK's security but as a partner entitled to pursue national cooperation and ultimate unification with the South. North Korea was seen as defensive when facing the South Korea-U.S. alliance. Even the North Korean nuclear development project was seen as a bargaining chip in its dealings with the United States. As long as the Clinton administration adopted the engagement policy towards North Korea, there appeared no substantial conflict between the two. However, upon the inauguration of the Bush administration, sharp disagreements on North Korea marked the relations between the two administrations.

It is important to note that conflict between the two allies is unique in the history of their alliance. In the past, there had occurred disputes whenever the United States attempted to improve its relations with North Korea, since South Korea did not want such a change. In this sense, a keen Korea observer wrote that "The U.S. and South Korea have always been a bit like spouses as well as allies, and Seoul's basic demand of Washington has been for diplomatic fidelity: thou shalt not commit adultery with North Korea."[18] But the case became, in fact, just the opposite. South Korea wanted to pursue rapprochement with the North, and the United States opposed that policy.

What will be the future of the alliance? A few activists have advocated a unified Korean peninsula through neutralization at

the exclusion of an alliance with any foreign countries, including the United States. Other analysts foresee that the alliance will become a much looser arrangement than in the past. For example, Professor Hong Hyun-ik has suggested that "Over the long term, the ROK-U.S. alliance could gradually evolve into a limited military alliance primarily for joint military exercises, and finally move towards a political alliance rather than towards a regional bilateral security alliance, because the latter will cost much more than the former and could give rise to distrust from China." He believes that "this transformation should coincide with the birth of a multilateral cooperative security system."[19]

In the similar context, Professor Kim Sung-han has proposed that "After the threats from North Korea disappear, the existing military alliance between South Korea and the United States should be expanded into a regional alliance." Its aim would be to head off the regional rivalry between China and Japan, and to safeguard the sea lines linking Northeast Asia and the Middle East, the source of energy for Korea, China and Japan." He continues: Korea, which has historically been perceived as a recipient of U.S. security policies, would become a provider of regional stability by hosting a U.S. regional force based in Korea. The United States will likely seek a new form of alliance in Northeast Asia, moving from the current bilateral alliance with South Korea aimed at checking the North Korean threat toward a more regional focus for ensuing stability in Northeast Asia. Under the assumption that both countries will want to maintain their bilateral alliance, they should adjust the basic thrust of the current alliance while reworking priorities to promote a broader regional security network.[20]

In sum, the alliance between the two countries has developed "complex interdependence" or "multi-dimensional interdependence." Therefore, although one may foresee ups and downs in the alliance, one may also conclude with caution that the alliance will not be easily eroded or even dismantled. Despite the continuation of anti-American sentiment, there still remains a strong hope that the alliance will contribute to peace, stability and prosperity, not only on the Korean peninsula and Northeast Asia but also in the Asia-Pacific region. In this context, one may expect that a "comprehensive and dynamic ROK-U.S. alliance" as expressed in the Roh-Bush Joint Statement will materialize. However, the two allies should pay more attention to the trends of South Korean

public opinion in particular. The most recent Gallup-Korea poll published in the July 28, 2003, Chosun Ibo showed that 44% of the respondents in their twenties and 49% of the respondents who are college students regard the United States as "the most threatening country" to ROK security. The poll showed that 32% of all respondents shared the same view. Without considering domestic public sentiment, it would become harder for any South Korean administration to handle the issue of alliance with the United States in a rational and satisfactory way.

Notes

The views expressed in this paper are the writer's own and do not represent those of the *Dong-A Ilbo* ("East Asia Daily Newspaper"), Seoul. Most information and data related to speeches, talks and events quoted in this paper are from the *Dong-A Ilbo, New York Times, Washington Post and International Hearld Tribune.*

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Chinese-North Korean Relations at a Crossroads[1]

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I. The Emerging Double Paradox

At the locus of the "last glacier of the Cold War," there is a double paradox at work on the Korean peninsula, structured and symbolized by two competing alliances forged during the heyday of the Cold War: North Korea with China (1961) and South Korea with the United States (1954). The peninsula is currently experiencing an unprecedented crisis of alliance maintenance, even survival. For better or worse, the Democratic People's Republic of Korea (DPRK), or North Korea, is the only country with which the People's Republic of China (PRC) "maintains"—whether in name or in practice—its 1961 Cold-War pact. Yet amidst Chinese worries that the U.S.-DPRK nuclear confrontation may spiral out of control, in March 2003 Beijing established a leading Group on the North Korean Crisis (LGNKC), headed by President Hu Jintao. The LGNKC's mission is to improve assessment of the intelligence "black hole" over Pyongyang's nuclear capabilities and intentions and to formulate a cost-effective conflict management strategy.[1]

Meanwhile, the half-century-old alliance between the U.S. and the Republic of Korea (ROK) has recently been mired in unprecedented disarray, especially since the inauguration of the hard-line Bush administration in 2001. However, Sino-ROK relations in political, economic, cultural, and perceptual terms have grown by leaps and bounds over the past decade. According to a major public opinion survey conducted by the ROK Ministry of Information in 1996, 47.1 percent of South Koreans chose China as Korea's "closest partner for the year 2006," in striking contrast to the 24.8 percent selecting the United States.[2] In a multinational citizens' opinion survey jointly sponsored by Dong-a Ilbo (Seoul) and Asahi Shinbun (Tokyo) and conducted in the fall of 2000, 52.6 percent of South Korean respondents predicted China to be the most influential Asian power in ten years, compared to only 23.3 percent for Japan and 8.1 percent for the United States.[3] Similarly, according to the Beijing Area Study's "feeling thermometer" (0-100 degrees), the mean degree of positive feeling toward South Korea

was 58 degrees, in contrast to 47 degrees for the United States and 35 degrees for Japan.[4]

Against the backdrop of rising anti-Americanism—more accurately anti-Bushism—in recent years there has also been a "China vogue" (Hanfeng) underway in South Korea, just as there is an "ROK wave" (Hanliu) in China. In the context of the unfolding second nuclear crisis on the Korean Peninsula, Beijing is moving closer to Seoul than to Pyongyang or Washington, just as Seoul is moving closer to Beijing than to its superpower ally in Washington or to Pyongyang. To some Chinese pundits, Seoul's proactive engagement stand is rational and sensible, constituting one of the biggest safeguards preventing the U.S.-DPRK nuclear confrontation from escalating into war.

II. Managing Asymmetric Security Interdependence

A brief retrospect of the creation of the complex and evolving Beijing-Pyongyang-Seoul triangle clearly shows that the shift from a one-Korea to a two-Koreas policy is one of the most momentous changes in China's post-Cold War policy. In contrast with China's 1950 decision to intervene in the Korean War, however, the Joint Communique of 1992 that normalized China-South Korea relations lacked all the hallmarks of a foreign-policy crisis. By fits and starts, Beijing's Korea policy in the long Deng decade evolved through several phases—from the familiar one-Korea (pro-Pyongyang) policy to a one-Korea de jure/two-Koreas de facto policy and finally to a policy of two-Koreas de facto and de jure. The normalization decision was the culmination of a process of balancing and adjusting post-Mao foreign policy to the logic of changing domestic, regional, and global situations.[5]

The single greatest challenge to smooth management of the new Beijing-Pyongyang-Seoul relationship has remained Pyongyang's "security" behavior, which has varied from nuclear brinkmanship to missile-coercive diplomacy. The North Korean security predicament, along with the question of how to manage it in a cost-effective way, has remained one of the most daunting geopolitical challenges confronting China's foreign relations in the post-Cold War world. An unstable North Korea with inordinate potential to destabilize Northeast Asia with the threat of its conventional and non-conventional military capabilities has extraordinary refractory ramifications for China's foreign policy in

general and its two-Koreas policy in particular. Whether Beijing likes it or not, Pyongyang's nuclear brinkmanship has already become an important security issue in regional and global politics, especially in America's East Asian policy and in Sino-American relations.

Although Beijing's relations with North Korea began to be renormalized in recent years (1999-2001), due in no small part to shared threat perceptions emanating from the America-led Kosovo war, there remains just beneath the surface a highly asymmetrical interdependence in all political, military, and economic issue areas. This is still a fragile relationship of strategic convenience fraught with the underlying tensions and asymmetries of mutual expectations and interests. Thanks to growing enmeshment in the global community, China's concept and practice of security have experienced considerable modification and refinement in the post-Mao era of reform and opening, while North Korea remains an insecure but resolute garrison state, a country with seemingly fatal contradictions on the verge of explosion or implosion.

What then explains the paradox of North Korea's survival as it continues to muddle through with China as its only formal ally, even as Beijing finds Pyongyang increasingly difficult to deal with, if it is not openly hostile to it? This is partly because of geography—North Korea's occupying China's strategic cordon sanitaire—and partly because of the threat of potential armed conflict between the U.S. and the DPRK. Indeed, the single greatest challenge confronting Beijing is the danger of Pyongyang's nuclear brinkmanship combining with Washington's rogue-state strangulation strategy in an escalation into war—a war that would bring massive direct and collateral damage to Chinese geopolitical and geoeconomic interests.

III. Stability versus Survival

Faced with the realities of asymmetrical interdependence on the ground, Beijing seeks to achieve multiple, mutually competing goals on several fronts. These goals include maintaining peace and stability on the Korean peninsula, promoting economic exchange and cooperation with South Korea, helping North Korea's regime survive, halting the flow of North Korean refugees into Jilin Province, stopping the rise of ethnonationalism among ethnic Chinese-Koreans, and enhancing China's influence in Korean

affairs. In other words, China's foreign-policy wish list with respect to its northeast neighbor includes at least five "no's": no instability, no collapse, no nukes, no refugees or defectors, and no conflict escalation.

Nonetheless, China's Korea policy must also be understood in a larger context of grand strategic goals and practical means of international conduct that Chinese leaders have adopted and pursued. China's foreign policy forms a double triangulation: domestic, regional, and global levels interact in the pursuit of three overarching demands and goals. The first is economic development, with an eye to enhancing domestic stability and legitimacy. The second is promotion of a peaceful and secure external environment free from threats to China's sovereignty and territorial integrity in Asia. And the third overarching goal is the cultivation of its status as a responsible great power in global politics.

For the DPRK, however, the most critical challenge is how to survive in a post-Cold War, post-communist, globalizing world by seeking more aid as an external life-support system, without triggering a cataclysmic system collapse. During the long Cold War years, geopolitics and ideology combined to make it possible for Pyongyang to extract maximum economic, military, and security benefits from China and the Soviet Union and to claim that the North Korean system was a socialist success. But the so-called juche-based self-reliant economy, which lived in essence on disguised aid from the Soviet Union and China,[7] has been exposed as a mirage in the post-Cold War era of globalization, and "our style socialism" is a poor substitute ideology to cope with the deepening crisis.

One of the most telling paradoxes of North Korean foreign policy is the extent to which Pyongyang has successfully managed to have its juche cake and eat it too. As an appealing legitimating principle, juche has often been turned on its head to conceal a high degree of dependence on Soviet and Chinese aid. Thus, the DPRK contorted juche to obscure the aid sent by the USSR and the PRC. Between 1948 and 1984, Moscow and Beijing were Pyongyang's first and second most important patrons, supplying $2.2 billion and $900 million in aid, respectively.[8] Thanks to the East-West and Sino-Soviet rivalries during the Cold War, Pyongyang was allowed to practice such concealed mendicant diplomacy. The end of the Cold War, the demise of the Soviet Union, and the end of Sino-

Soviet rivalry transformed both the context and the condition for maintaining such aid-dependent relations with Moscow and the traditional "lips-to-teeth" strategic ties with Beijing.

Still, North Korea has earned a reputation for employing "the power of the weak," creating and using crises to extract concessions to compensate for growing domestic failings. Indeed, North Korean nuclear and missile brinkmanship serves as a fungible instrument of security and survival strategy, as was made manifest in the 1994 U.S.-DPRK Agreed Framework (now on its death bed) and a recent "package of solutions" deal advanced by North Korea in the six-party talks in Beijing (August 27—29, 2003). With continuing asymmetries of need and expectation, Beijing's foreign-policy interests and objectives coalesce, clash, or compete with those of Pyongyang in situation-specific ways.

IV. Managing Asymmetric Socioeconomic Interdependence

From the perspective of post-Mao reform, the South Korean economy has represented opportunities to be more fully exploited by China, whereas North Korea's economic troubles have posed a burden the PRC wants to lessen without damaging geopolitical ties or causing system collapse. In the wake of the 1990 Soviet-ROK normalization, China's status as North Korea's biggest trading partner and principal economic patron has become a mixed blessing. In the process of the geopolitical and geoeconomic transformations of the early post-Cold War years, a highly asymmetric Beijing-Pyongyang-Seoul triangular economic relationship has emerged.

China's economic relations with the DPRK over the years are notable in several respects. First, Sino-DPRK trade seems closely keyed to and determined by turbulent political trajectories. Second, North Korea's trade deficits with China have been chronic and substantial, amounting to a cumulative total of $4.45 billion between 1990 and 2002—the DPRK imported $6.1 billion worth of goods from China and only exported $1.7 billion worth of goods to China. While China remained North Korea's largest trade partner in the 1990s in terms of total value, Beijing has allowed Pyongyang to run average annual deficits of approximately $358 million since 1995. China's role in the DPRK's trade is even larger if barter transactions and aid are factored into these figures. In contrast, South Korea's trade with China in 2002 amounted to more than $41

billion—56 times greater than that of North Korea—with a huge trade surplus for the ROK of about $10.3 billion.[9] In 2002, for the first time since the collapse of Sinocentric order in East Asia in the late 19th century, China reasserted its historic role as the largest trading partner of the Korean peninsula as a whole.

The third notable characteristic of PRC-DPRK economic relations is that Beijing's aid in the form of food and energy supplies is an integral part of Pyongyang's external life-support system. North Korea's dependency on China for aid has grown unabated and has even intensified in the face of Washington's rogue-state sanctions strategy. Although the exact amount of China's aid remains unknown, support for North Korea is generally estimated at one-quarter to one-third of China's overall foreign aid. Recent estimates of China's aid are in the range of 1 million tons of wheat and rice and 500,000 tons of heavy-fuel oil per annum, accounting for 70 to 90 percent of North Korea's fuel imports and about one-third of its total food imports. With the cessation of America's heavy-fuel oil delivery in December 2002, China's oil aid and exports may now be approaching nearly 100 percent of North Korea's energy imports.[10] As a way of enticing Pyongyang to the six-party talks in late August 2003, President Hu Jintao promised Kim Jong II greater economic aid than in previous years (see below). In short, Beijing has become more deeply involved, playing a crucial role year to year in the politics of regime survival by providing more aid in a wider variety of forms: direct government-to-government aid, subsidized cross-border trade, and private barter transactions.

Paradoxically, Pyongyang's growing dependence on Beijing for economic and political survival has led to mutual distrust and resentment. Just as Mao demanded and resented Soviet aid for China's nuclear development, first Kim II Sung and now Kim Jong II have demanded but also resented Chinese aid. Indeed, Pyongyang's seeming inability to reconstruct its national identity in the face of a changing geopolitical context has engendered intense behind-the-scenes bargaining amidst an atmosphere of mutual suspicion. In every high-level meeting between the two governments, North Korean requests for economic aid dominate the agenda.[11] Nonetheless, Beijing continues to provide minimal necessary survival aid in order to lessen the flow of refugees into China, to delay a potential North Korean collapse, and to enhance

China's own leverage in both Pyongyang and Seoul. However, since the North Korean regime realizes that China's aid is given for Beijing's own self-interest, it has not greatly increased China's leverage with Pyongyang, much to Beijing's growing chagrin and frustration.

The rapid growth of Sino-Korean interactions at all levels involving political, economic, educational, religious, and humanitarian actors has also created a mixture of emerging challenges for identity politics in the complex web of asymmetrical interdependence. There has already emerged a Pyongyang-Beijing-Seoul triangle of human movements, involving flows of some 200,000 to 300,000 refugees from North Korea to northeast China, more than 400,000 Chinese middle-class tourists to South Korea, about 135,000 Chinese-Korean (chosonjok) illegal migrant workers from China to South Korea, and almost a million South Korean tourists to China in 2000, reaching 1.72 million visitors in 2002. In 2001, South Korea saw for the first time more Chinese visitors (some 444,000) than American tourists. Against this backdrop, the North Korean refugee question, hitherto a much ignored potential time bomb for both Koreas, has brought into sharp relief Beijing's abiding concerns about the possibility of a North Korean collapse leading to Korean reunification by Southern absorption.

V. Avoiding a Nuclear Apocalypse

Beijing's uncharacteristically proactive conflict-management role in the latest (second) U.S.-DPRK nuclear standoff suggests a changing strategic calculus on China's part and a reprioritization of competing interests and goals. At least until the end of 2002, China maintained a "who me?" posture, trying hard to keep out of harm's way with a strategy of calculated ambiguity and equidistance. As a way of maximizing its influence over Korean affairs, China often sought to be all things to all parties, which raises questions about the regime's true intentions. In short, Beijing followed Deng's foreign-policy axiom of "hiding its light under a bushel" by not placing itself on the front lines of the Korean conflict, especially in the 1993-1994 U.S.-DPRK nuclear standoff, playing neither a mediator nor peacemaker role for fear it might get burned if something went wrong.

All of this has changed in the heat of the second nuclear crisis on the Korean peninsula, in several dramatic and unprecedented

ways. In the first quarter of 2003, Beijing was busy at long-distance telephone diplomacy, reportedly having passed over fifty messages back and forth between Pyongyang and Washington. Further, Beijing successfully initiated and hosted, for the first time, a round of trilateral talks involving the United States, the DPRK, and China in Beijing (April 23-25, 2003). Despite or perhaps because of the inconclusive ending of the three-party Beijing talks, China's sudden burst of conflict-management activity in the form of jet-setting preventive diplomacy then accelerated. In July 2003, Beijing dispatched its top troubleshooter—Deputy Foreign Minister Dai Bingquo—to Moscow, Pyongyang, and Washington to seek ways of "finding common ground while preserving differences" (qiutong cunyi).

Despite the recurring and somewhat nebulous reassurance that China seeks a denuclearized Korean peninsula and that the crisis must be solved peacefully, it is becoming increasingly obvious that China's status-quo-seeking diplomacy is no longer tenable because the status quo on the ground is rapidly changing in dangerous directions. One small but still inconclusive example of China's changing geostrategic calculus on the Korean peninsula is that in the spring of 2003 some Chinese analysts were openly beginning to question, with American interlocutors, the strategic value of the Sino-DPRK alliance while others were espousing the need for a new thinking, a new strategy, and a new preventive diplomacy.[12]

Nonetheless, the major catalyst for Beijing's hands-on preventive diplomacy is growing security concerns about possible U.S. recklessness in trying to resolve the North Korean nuclear crisis through military means. Some Chinese analysts argue that the Bush administration is more interested in resolving the North Korean nuclear crisis with smart weapons than with dialogue and negotiations.[13] The conventional wisdom that the second U.S.-DPRK nuclear crisis began in October 2002, when Pyongyang admitted the existence of a secret highly-enriched-uranium (HEU) program, is only partly right. In fact, this crisis was long in the making. In June 2000, the Clinton administration announced its decision to expunge the term "rogue state" from the U.S. foreign policy lexicon, explaining that the category had already outlived its usefulness. Yet candidate Bush continued to use the term "rogue state" to refer to North Korea, Iran, and Iraq. Then, in his January

2002 State of the Union Address, President Bush used the phrase "axis of evil," upgrading the rogue-state strategy to the evil-state strategy. It became increasingly evident that this was more than rhetorical posturing, as shown by a series of radical shifts in America's military doctrine (e.g., the Quadrennial Defense Review that called for a paradigm shift from threat-based to capability-based models, the Nuclear Posture Review lowering the threshold of use or tactical nukes, and the Bush doctrine of preemption).

From Beijing's perspective, the perverse and self-defeating consequences of the evil-state strategy are seen as aiding and abetting hard-liners in Pyongyang and fueling the compensatory brinkmanship/breakdown/breakthrough (BBB) behavior of the first U.S.-DPRK nuclear standoff in 1994. Perceiving a clear and present danger, and facing the U.S. decision to stop sending monthly heavy fuel supplies as per the 1994 U.S.-DPRK Agreed Framework, Pyongyang did what most countries under similar circumstances would do; it reactivated the nuclear bargaining chip. What particularly unnerved Chinese leaders was the news in April 2003 that Defense Secretary Donald Rumsfeld had circulated a memorandum proposing that the United States ally itself with China to isolate and bring about a collapse of the North Korean regime. [14] China's "cooperative behavior"—to go along with America's regime-change strategy—became the litmus test for enhanced Sino-American cooperation. Beijing's proactive preventive diplomacy seems designed to preempt America's evil-state coercive strategy. After all, "evil" is something to be destroyed, not something to negotiate with.[15] Indeed, the Bush administration policy has tended to box itself—and North Korea—into a corner, and China has had to look for ways around this.

The Chinese leadership, faced with these harsh realities, is giving the crisis the highest priority. As Pyongyang continues to command what former Commander of United States Forces in Korea Gen. John H. Tilelli, Jr., called "tyranny of proximity,"[16] in early 2003 President Bush shifted gears toward non sequitur diplomacy—he is willing to talk but never negotiate. Meanwhile, Pentagon hawks have been working overtime concocting all kinds of strangulation strategies, such as Rumsfeld's Operations Plan 5030 and the eleven-nation Proliferation Security Initiative (PSI) to establish an air and naval blockade/sanctions regime.[17] China's challenge, therefore, is to navigate between the Scylla of allied

abandonment, with the potential for instability and/or collapse in North Korea, and the Charybdis of allied entrapment, with the continuing danger of being caught in escalating conflict not of its own making.

VI. China's Conflict Management Role

The U.S.-DPRK nuclear standoff has triggered an agonizing reappraisal of the strategic value of the Sino-DPRK allied relationship. Some Chinese scholars have now begun to discuss whether Pyongyang is an asset or liability in China's grand strategic calculus, in comparison to the costs and benefits of enhanced cooperation with Washington. While, according to Shi Yinhong of Renmin (People's) University, both Pyongyang and Washington, are to blame for the current terrible and dangerous situation on the Korean peninsula, the former holds more direct responsibility as the originator of the second nuclear crisis. In early 2003, Shi prognosticated three worst-case scenarios looming over the North Korean issue: (1) North Korean nuclear blackmail directed at China; (2) Japan going nuclear; and, (3) a U.S.-DPRK war. The conclusion was that China must, therefore, move away from tactical maneuvering toward grand strategic restructuring and reprioritization, breaking free from moral constraints to seek and supplement diplomatic mediation efforts with economic sanctions.[18]

The question for Chinese leaders and policy analysts is still whether the costs of dramatic change—refugees, possible war on the peninsula, and the loss of a strategic buffer, among others—sufficiently outweighs the benefits of regime change in the North. To date, China's official position remains the same: it is opposed to any coercive sanctions measures, since they only lead to more provocative and potentially destabilizing countermeasures. China certainly is more committed to the immediate challenge of maintaining stability than it is to pursuing its long-term objective of nuclear disarmament on the Korean peninsula.

Regardless of China's desire to maximize its leverage as a balancer, it faces great danger from two alternative possibilities: conflict and collapse. China's junior socialist ally in the strategic buffer zone could feel so cornered that it fights back, triggering a full-blown armed conflagration. Alternatively, economic sanctions could work so well as to produce another collapsing socialist regime on China's borders, with huge political, economic, and social consequences for Chinese domestic politics. Beijing's realpolitik

logic here seems clear enough. To abandon or rebuke Pyongyang publicly, especially during a crisis situation, would be to follow the Soviet fallacy of premature allied abandonment, losing whatever leverage it may still have in the politics of a divided Korea.

Moreover, Beijing believes, as do many North Korea experts, that Pyongyang's HEU program may have started as a hedge or a strategic "ace in the hole" but was accelerated in response to the perceived ratcheting-up of hostile attitudes by the Bush administration. The logic of Beijing's proactive preventive diplomacy is to avert the crystallization of conditions under which Pyongyang could calculate lashing out—to preempt America's preventive strike, as it were—to be a rational course of action, even if victory were impossible.

It has recently come to light that the six-party talks in Beijing (August 27-29, 2003) were the hard-earned outcome of President Hu Jintao's behind-the-scenes diplomatic efforts. Hu is said to have selected and sent Dai to Pyongyang to carry Hu's letter to Kim Jong II in the official capacity of special envoy, because Dai has had the most meetings with Kim Jong II and is the closest to Kim Jong II among all Chinese officials. In his letter, Hu is said to have made three key promises: (1) China is willing to help resolve the crisis by mediating and facilitating negotiations with the greatest sincerity; (2) China is willing to offer the DPRK greater economic aid than in previous years, although the latter did not mention specific numbers or amounts; and, (3) China is willing to persuade the United States to make a promise of non-aggression against the DPRK in exchange for the denuclearization of the Korean Peninsula. In the course of a six-hour-long conversation, Kim Jong II told Dai that he was willing to accept China's viewpoint and proposal to reopen talks with the United States in a multilateral setting while at the same time insisting that one-on-one negotiation would be his bottom line. In the end, however, thanks to Beijing's jawboning diplomacy, Kim Jong IPs bottom line was not unchangeable.[19]

China's preferred solution is now advanced in the form of a comprehensive package deal stressing three key elements: (1) restarting diplomatic dialogue and negotiations in an bi-multilateral framework (i.e., a multilateral framework providing a venue for bilateral talks on the sidelines); (2) avoiding any hostile or provocative rhetoric and actions; and, (3) specifying security assurances and economic aid in exchange for dismantling the

nuclear program, thus reviving and revising the 1994 Agreed Framework. Yet such a comprehensive but flexible proposal is easier proposed than accepted, let alone implemented.

Certainly Beijing is better situated than any other regional power to help both Pyongyang and Washington think outside the box of their mutual making. Thanks to President Hu's jawboning diplomacy, Pyongyang was persuaded to give up, or at least put in abeyance, its often-stated position of holding bilateral talks only with United States, restrained from walking out halfway through the six-party talks, and convinced to advance a "package of solutions" proposal to be discussed within a timeframe. This was all despite the fact that Washington maintained a hardline stand of demanding that North Korea unconditionally end its nuclear weapons program before any benefits—such as a U.S. security guarantee or economic aid—would even be considered. On September 3, 2003, five days after the inconclusive ending of the six-party talks in Beijing, China expressed dissatisfaction with the inflexible position Washington had taken on North Korea's nuclear weapons program during the six-party talks and openly criticized the United States as the "main obstacle" to the peaceful settlement of the nuclear issue.[20]

Even China's foremost hardliner, Shi Yinhong, who is often singled out by Western journalists in China as the leading advocate of regime change in North Korea, had to admit that "the DPRK, no matter what its motives were, at least raised detailed proposals to be discussed . . . , and these proposals were rational. In other words, the DPRK got the upper hand in this round of DPRK-U.S. diplomatic rivalry."[21] On September 9, 2003, Jack Pritchard, the Bush administration's former top negotiator with North Korea, offered a blunt assessment and sharp critique of the administration's hard-nosed policy toward North Korea, asserting that Pyongyang will not relinquish its nuclear weapons programs without more active U.S. engagement: "The idea that in a short period of time you can resolve this problem" in talks where diplomats from six countries sit down with twenty-four interpreters and try to make a deal without private consultations is "ludicrous."[22]

Despite the considerable success in bringing Pyongyang back to the six-party talks, there are least three major constraints on China's leverage in the resolution of the U.S.-DPRK nuclear confrontation. First, China does not have as much influence over North Korea's security behavior as Washington believes. China's

primary leverage is food and oil aid, but, because of the fear of refugees, this is a double-edge sword, so Beijing is cautious to a fault for fear of provoking and/or causing collapse in the North, with all the social, economic, and political destabilizing consequences. Paradoxically, China's leverage is also its vulnerability. Pyongyang, strategically located at the vortex of Northeast Asian security—indeed, the most important strategic nexus of the Asia-Pacific region—could potentially entrap China and/or all other regional powers in a spiral of conflict escalation.

Second, China's leverage in reshaping the Bush administration's rogue-state strategy ranges from very modest to virtually nil. With China's generating a trade surplus with the United States of over $103 billion in 2002 (by U.S. calculations), the United States is the one country that can help or hinder China's march to great power status. However, the Bush administration's relentless pressure on China to exercise its leverage, mainly through economic sanctions, may well exceed the price that Beijing is willing or able to pay in pushing Pyongyang in potentially-dangerous directions.

Third is the often-overlooked question of nuclear fairness and justice. If nuclear weapons are necessary for China's security, or if Israel, India, and Pakistan can get away with building a weapons program by dint of not signing the Nuclear Non-proliferation Treaty, why is the same not true for North Korea? Pyongyang asserts as much in its repeated statements that if missile development is permissible for the United States, China, Russia, and Japan, then it is surely permissible for the DPRK. In short, as the world's third largest nuclear power, Beijing cannot capture the high moral ground in pushing too vigorously for unilateral nuclear disarmament of an insecure hermit kingdom in its strategic buffer zone.

VII. Conclusion

The interplay of a rising China and a declining North Korea in the post-Cold War world is complex and often confusing, with paradoxical expectations and consequences. On the one hand, contrary to conventional realist wisdom, China usually behaves as a largely conservative status quo power, more satisfied with its born-again national status and security than at any time since the founding of the People's Republic in 1949. On the other hand,

North Korea at first glance seems like a textbook case of how most Chinese dynasties collapsed under the twin blows of *neiluan* (internal disorder) and *waihuan* (external calamity). Yet the DPRK has defied all collapsist scenarios and predictions, as well as the classical realist axiom that "the strong do what they have the power to do and the weak accept what they have to accept."[23] For its own geopolitical interests and domestic and regional stability, Beijing has played a generally positive role in Korean affairs, not only providing the necessary economic support to the DPRK but also making it clear to Washington and Tokyo, if not to Seoul and Moscow, that it is now in the common interest of all to promote the peaceful coexistence of the two Korean states on the peninsula rather than having to cope with the turmoil, chaos, and probable mass exodus of refugees that would follow in the wake of a system collapse in the North.

In the early 1950s, it was common to hear the rallying cry that China needed to start a tidal wave of learning from lessons of the Soviet Union so as to make today's Soviet Union tomorrow's China. Half a century later, perhaps the greatest challenge to China's leadership in the uncertain years ahead is how to prevent tomorrow's China from becoming yesterday's Soviet Union. Many Chinese leaders and scholars have come to recognize the ineluctable Toynbeean truth that the degeneration of a large country or empire—such as the former Soviet Union and many Chinese dynasties—starts from the internal roots of ethnonational separatism, economic stagnation, or political and social chaos, and they see the need to respond to the challenge of establishing a stable, orderly, and healthy society as the top priority. There is every indication that Chinese leaders are determined not to repeat the Soviet strategic blunder of placing an unbearable defense burden on its economy by spending too much on its military forces.

On the other hand, North Korea has learned different diagnostic lessons from factors that are said to have contributed to the collapse of socialist systems in the Soviet Union and East European countries: (1) attacks on the cult of personality and Stalinism that undermined the political foundation of the strongman autocratic systems; (2) ideologically disarming concessions that were made in the area of human rights at the Helsinki Conference (the European Conference on Security and Cooperation); and, (3) Gorbachev's strategically mindless concessions in the reduction of

nuclear weapons, by which he gave up the one and only trump card Moscow had in the superpower rivalry.[24] We are told that it is with the combination of military power and the on-again, off-again threat that Pyongyang has not only gained the upper hand over the imperialist offensives that seek to crush the DPRK but has also gained economic assistance from wealthy capitalist countries due to their abiding fear of war.[25]

Herein lies Kim Jong IPs systemic Catch-22. To save the *juche* system requires reforming and deconstructing important parts of it, but any system-reforming departure from the ideological continuity of the system that Kim II Sung created is viewed not as a necessity for survival but as an ultimate betrayal of DPRK's *raison d'etat* and, indeed, the seeds of the regime's destruction.

China is arguably a more influential player in reshaping the future of the Korean peninsula than at any time since the Korean War, and more than any other peripheral power. And yet, its capacity to initiate or implement consistent policies toward the two Koreas is increasingly constrained by the norms and practices of important domestic groups and Northeast Asian regional and global regimes, as well as the United States. When all is said and done, the future of North Korea is not for China to make. China can help or hinder North Korea in taking one system-rescuing approach instead of another, but in the end no external power can determine North Korea's future.

Notes

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RUSSIA'S RESPONSE TO THE 2002-2003 NORTH KOREAN NUCLEAR CRISIS

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I. Introduction.

Since he became president of Russia, Vladimir Putin has played an active role on the Korean peninsula, pursuing ties with both North and South Korea. Putin's engagement with both Korean states has contributed to a perception by some that Russia could play an influential role in helping to resolve the second North Korean nuclear crisis that began in October 2002 when a North Korean official admitted that his country has been pursuing a secret uranium enrichment program.

What policy has Russia adopted in response to this crisis and how influential has it been? The short answer is that Moscow has proclaimed its strong opposition to North Korea's possession of nuclear weapons. But it has more in common with Seoul, Beijing and to a certain extent with Tokyo, in its analysis of the roots of the problem and the best strategy to deal with it, than it has with the George W. Bush administration in Washington.

Until recently, Moscow seemed to be playing a negligible role despite its efforts early this year to mediate an end to the crisis and its repeated assertion of its right to be part of any multilateral process. Just recently, at the very end of July 2003, Pyongyang dropped its previous strong opposition to participation in a multilateral meeting and insisted on the inclusion of Russia.

This change in Pyongyang's policy promises to allow Moscow to play a more important role than previously seemed likely. However, Washington, Beijing, Seoul and even Tokyo are likely to have more influence over the outcome than will Moscow. They have more to offer North Korea which is looking for diplomatic recognition and security guarantees from Washington and Tokyo and promises of continued food, energy, and other financial aid to keep the bankrupt Pyongyang regime afloat.

II. Brief overview of Russia's past policy.

One persistent goal of Russia's policy toward the Korean peninsula has been to be accepted as an influential participant in efforts to resolve contentious issues and problems. Moscow wants a seat at the table to have its status as a great power recognized.

In the late Gorbachev period, Soviet leaders believed that their country had a special role to play on the Korean peninsula because it was the only major power that had diplomatic relations with both Koreas. In the early 1990's, after the dissolution of the USSR, there was growing awareness in Moscow that Russia's influence over Korean affairs had declined precipitously. Gorbachev's September 1990 establishment of diplomatic relations with South Korea, and the subsequent decision to end fuel and other subsidies to the North produced a serious estrangement between Moscow and Pyongyang.

North Korean officials were further angered by Russia's decision to reinterpret the 1961 Soviet-Democratic People's Republic of Korea (DPRK) Treaty of Friendship, Cooperation and Mutual Assistance to make it clear that Russia would help defend North Korea only if it were the victim of an unprovoked attack. Before this reinterpretation, Moscow was obliged by the treaty's terms to defend the DPRK at any time it was involved in a war.

Yeltsin's reform-minded, Western oriented government was annoyed by evidence that Pyongyang had backed the August 1991 foiled conservative coup against Gorbachev. There were even suggestions that the early Yeltsin regime was not interested in improving Russian relations with North Korea because they expected the regime soon to collapse.

Growing tensions between Moscow and Pyongyang reduced Russia's importance to Seoul. Whereas the late Gorbachev *rapprochement* with South Korea was motivated on the Soviet side primarily by economic incentives, Seoul primarily was interested in using Moscow as an avenue for influence over Pyongyang. Once it became clear that Russia had lost its influence in North Korea, Seoul was much less interested in Moscow. Another reason for South Korean disenchantment was Russia's failure to begin repaying a U.S. $1.47 billion debt, money it owed Seoul for a loan extended in the late Gorbachev period. After an initial period of euphoria, South Korea's business community quickly became disenchanted with the prospects for profitable economic ties with Russia and the Russian Far East.

By the time of the first North Korean nuclear crisis in 1993-1994, the limits on Russian influence over the Korean peninsula were clear. Moscow tried to play a role in resolving this crisis by proposing the convening of an eight-party conference comprising representatives of the two Koreas, the United States, China, Japan, Russia, the United Nations (UN) and the International Atomic Energy Agency (IAEA). However, this proposal received a negative reception.

Russia played little or no role in the process leading to the October, 1994, Agreed Framework between the United States and the DPRK. According to the terms of this agreement, North Korea pledged to freeze its nuclear program in return for a promise of external fuel aid and help in building two proliferant resistant light water reactors.

Russia did not become a member of the Korean Energy Development Organization (KEDO), the body established by the United States, the Republic of Korea (ROK), Japan and the European Union (EU) to implement this agreement. KEDO did not accept Russia's offer to provide the light water reactors promised North Korea even though Pyongyang would have preferred Russian reactors to the South Korean reactors it was forced to accept. Not surprisingly, KEDO insisted on South Korean reactors both because Seoul was paying most of the cost and because North Korea would be forced to accept a major South Korean project and South Korean engineers and technicians on its soil.

Russian officials were upset by their country's exclusion from the four-party talks focusing on inter-Korean issues. These talks began in 1996 with the participation of the two Koreas, the United States and China. On numerous occasions, Moscow, sometimes with the backing of Tokyo, proposed expanding the four-party talks to a six-party format that would include Russia and Japan. But this proposal was not accepted.

Starting around 1995-1996, Russia made a serious effort to improve its relations with North Korea in order to regain some of its lost influence on the Korean peninsula. This move to a more balanced policy toward the two Koreas was facilitated by the death of Kim Il-sung in 1994 and his replacement as top North Korean leader, albeit not as president, by his son Kim Jong-il.[1] This policy change was encouraged by the January 1996 appointment of Evgenii Primakov as Russia's Foreign Minister to replace Andrei

Kozyrev. In contrast to his pro-Western predecessor, Primakov supported a more balanced foreign policy with a greater emphasis on establishing and maintaining good relations with states in Asia and the Middle East and with former Soviet states as well as with the United States and its allies.

Moscow agreed to negotiate a new friendship treaty with Pyongyang to replace the 1961 Soviet-North Korean treaty that was allowed to elapse in 1996. In March 1999, Deputy Foreign Minister Grigori Karasin visited Pyongyang and initialed the Treaty of Friendship, Good Neighborliness and Cooperation. In contrast to the 1961 treaty, this new treaty did not include a Russian security guarantee to North Korea. It committed Moscow and Pyongyang only to contact each other in the event of a crisis.[2]

III. Putin's Korea policy.

A new phase in Russian foreign policy began when Vladimir Putin succeeded Boris Yeltsin as Acting President in December 1999 and then in March 2000 as Russia's second elected president. There is significant continuity between the foreign policy conducted by Yeltsin in his second term and Putin's foreign policy. However, Putin's policy often appears to be quite different because his good physical and psychological health enables him to pursue a much more activist foreign policy.

Putin has tried to improve Russia's relations with the United States and West Europe while at the same time actively courting former Soviet states, China and so-called "rogue states" including Iran and North Korea. These states have been courted in part for economic reasons and in part because a multidirectional foreign policy is seen as giving an economically and militarily weak Russia greater perceived importance and leverage in world affairs.

Domestic politics also plays a role. Russia's top leaders, previously Yeltsin and now Putin, may understand that Russian national interests require the maintenance of good relations with the United States, the new post-cold war global hegemon. A high percent of Russia's economic ties are with Europe and the United States. However, a significant portion of the Russian foreign policy elite both within and outside official circles is viscerally anti-Western, retaining attitudes left over from Soviet days. This anti-Western bias at times may affect Russia's policy toward issues such as North Korea.

When all of this is put together, what emerges is a foreign policy that often appears incoherent and even contradictory. Putin's critics have called his foreign policy "all tactics and no strategy". In both the domestic and foreign policy realms, Putin has been described as someone who tries to be all things to all people, as someone who tailors his message to the specific audience at hand.

One reflection of Putin's increased activism is his three summit meetings with Kim Jong-il. The first meeting took place in Pyongyang in July 2000 shortly before Putin's participation in the Okinawa G-8 summit. During this visit, the first ever by a Soviet or Russian head of state, Putin and Kim Jong-il signed the Treaty on Friendship, Good Neighborliness and Cooperation that was negotiated and initialed near the end of Yeltsin's term as president. A second outcome of this meeting was Kim Jong-il's supposed agreement to abandon North Korea's long-range missile program in return for a pledge that another country would launch two or three satellites for the DPRK.

When Putin arrived at the G-8 summit with this promise in hand, the Russian president attracted much more media attention than was warranted by Russia's relatively weak economic position. Subsequently, it was reported that Kim Jong-il was only joking when he offered to give up North Korea's missile program.

This interpretation of Kim's remarks has been disputed in a recent article by Georgi Toloraya, Deputy Director-General of the First Asian Department of Russia's foreign ministry. Toloraya claims that Kim Jong-il informed South Korean journalists in August 2000 that he had told Putin "we will not develop missiles if the US would agree to launch satellites for us." He then mentioned the irony of the situation observing that the US or Japan would never seriously take him up on his offer. According to Toloraya, Kim's use of the word "irony" was later misinterpreted as "joke" by hostile media.[3]

The second summit between Putin and Kim Jong-il took place during the mid-summer of 2001 in Moscow. During this summit and the third summit in August 2002 in Vladivostok, Putin focused on promoting economic projects linking Russia with the Korean peninsula. In particular, he touted a plan to reconnect the railroad between the two Koreas and to link it to the Trans Siberian railroad. Putin hopes to capture a large share of the Asia-Europe freight that would otherwise go to China. Just before he met Kim

Jong-il in Vladivostok, Putin told Russian Far East officials: "If we do not link the railways here, it will be done anyway, in a different place, through the territory of our esteemed and dearly beloved neighbor, the People's Republic of China."[4] Putin went on to warn that "Russia's far east and parts of the trans-Siberian will simply not see those freights".[5] Putin also promoted a project to build a natural gas pipeline from East Siberia through the Korean peninsula.

Although Putin's three summits with Kim Jong-il received more attention, his administration did not neglect relations with South Korea. During a February 2001 summit with then South Korean President Kim Daejung in Seoul, Putin promoted railroad and other economic cooperation projects.

Putin and other Russian officials expressed strong support for Kim Dae Jung's "sunshine policy" aimed at improving relations with the North. One rationale for this policy is an assumption that the sudden collapse of North Korea would place too heavy a burden on the South which would have to absorb the high cost of reforming the North's economy. For this reason, Kim Daejung prefers a long-term, gradual process to allow time for reform of the North's economy and an improvement in relations between the two Koreas. Russian officials and scholars have applauded what they perceive as a process of inter-Korean reconciliation that began during the historic June 2000 summit in Pyongyang between the presidents of the two Koreas.

Russia most likely would not be concerned about reunification of the two Koreas. So long as a reunified Korea is neutral or friendly to Russia, it would not be seen as harmful to Russia's interests. But there is a widespread conviction in Russia that the process of reunification should occur peacefully and gradually.

The railroad and gas pipeline projects promoted by Moscow are seen as means to increase Russian influence on the Korean peninsula and to facilitate the process of *rapprochement* between the two Koreas and the economic integration of the Korean peninsula with Northeast Asia and Eurasia. Another important aim is to support the economic development of the sparsely populated Russian Far East and East Siberia in order to promote Russia's presence in East Asia and to reduce the vulnerability of this region to China.

IV. Russia's response to the 2002-2003 North Korean nuclear crises.

Putin's more active policy on the Korean peninsula contributed to a perception by some that Russia could play an influential role in helping to resolve the second North Korean nuclear crisis. This crisis began in October 2002 when a high level North Korean official acknowledged the validity of a U.S. allegation that his country had a secret uranium enrichment program. This program was a violation of the October 1994 Agreed Framework between the DPRK and the United States. Although the Agreed Framework's main focus was a freeze on North Korea's plutonium reprocessing program, it contained a clause confirming the validity of the 1992 denuclearization agreement between North and South Korea in which they foreswore uranium enrichment programs. The crisis was escalated by Pyongyang's subsequent renunciation of the Agreed Framework, by its late December 2002 decision to remove the seals and monitoring cameras from its nuclear laboratories and reactors at Yongbyon and to begin to remove 8,000 spent nuclear fuel rods from the casing into which they were placed in 1994, by its expulsion at the end of December of IAEA inspectors from its territory, by its announcement the same month that it intended to restart the plutonium research reactor that was shut down in 1994, by its January 2003 announcement of its intention to withdraw from the Nuclear Nonproliferation Treaty, by its February 2003 announcement that it had reopened its plutonium reprocessing facility, by its April 2003 proclamation, at a trilateral U.S.-PRC-DPRK summit in Beijing, that it already possessed nuclear weapons and had begun to make bomb grade plutonium, and by its July 2003 announcement that it had completed the reprocessing of all of the spent fuel rods by the end of the previous month.[6]

After the crisis began, the Putin administration was asked to help mediate it. During a January 2003 visit to Moscow, South Korea's deputy Foreign Minister, Kim Dang-Kyung, asked Moscow to help mediate the crisis. Kim observed: "Russia has long-standing and unique ties with North Korea and so provides an effective channel for dialogue with Pyongyang."[7] A South Korean military officer visiting the Russian Far East asked for Russia's help to build trust and to promote cooperation between the armed forces of North

and South Korea. At a January 2003 summit with Putin, Japanese Prime Minister Koizumi Junichiro observed that Russia "holds strong influence over North Korea" and "has a perspective on North Korea that Japan does not have".[9] The Director-General of the IAEA, Mohamed ElBaradei, said that Russia could play a leading role as a mediator and applauded Moscow's decision to perform this function.[10]

What policy has Russia adopted in response to this crisis and how influential has it been? To understand Moscow's response to the North Korean nuclear crisis, one needs to understand it within the context of Russia's overall objectives toward Korea. One important goal is to use the North Korean nuclear crisis as an opportunity to restore Russia's great power status by playing an important role in its resolution. Another, arguably even more important, objective is to avoid the outbreak of armed conflict on the Korean peninsula which could create massive instability and threaten the Russian Far East if nuclear radiation or refugees poured over the border. Although Russia's border with North Korea is much shorter than the Chinese-North Korean border, Russian officials still worry about a massive inflow of refugees overland or by boat into the Russian Far East. Another reason Russia wants to help resolve the nuclear crisis is that it impedes the process of inter-Korean reconciliation from which Russia hopes to derive economic benefits.[11] Still another goal is to counter proliferation of weapons of mass destruction.

On numerous occasions, Putin has expressed strong condemnation of North Korea's nuclear program. He has called on Pyongyang to abandon it. When Putin met with China's outgoing president Jiang Zemin in Beijing in early December 2002, their summit statement expressed the importance of preserving "the non-nuclear status of the Korean peninsula and the regime of non-proliferation of weapons of mass destruction".[12] At their January 2003 summit, Putin and Japanese Prime Minister Koizumi expressed "disappointment and profound concern" regarding Pyongyang's decision to withdraw from the Nuclear Nonproliferation Treaty. When Pyongyang announced in January 2003 that it was withdrawing from the Nuclear Non-Proliferation Treaty, the Russian Foreign Ministry issued a statement expressing "deep concern".[13] At the June 2003 G-8 summit in Evian, France, Putin joined the other G-8 leaders in urging North Korea "to visibly,

verifiably and irreversibly dismantle any nuclear weapons programs.

The Putin regime's strong opposition to North Korea's nuclear program is not just rhetoric. It reflects a consistent position dating back to the late Soviet period. In 1965, the USSR exported a two-megawatt IRT-2000 research reactor to North Korea and trained North Korean nuclear scientists, thereby enabling Pyongyang to start a nuclear program. By the 1980s, however, Moscow insisted that Pyongyang sign the Nuclear Nonproliferation Treaty (NPT) before it would agree to further cooperation with North Korea. After 1985, when Pyongyang signed this treaty, the USSR agreed to build a nuclear power station in North Korea. However, when Pyongyang announced its intention to withdraw from the NPT, Moscow froze nuclear cooperation with the North and refused to ship the VVER-440 reactors intended for use in the nuclear power station.[15]

U.S. intelligence officials recently reported that in the early 1990s, Russia's Foreign Intelligence Service cooperated with the U.S. Central Intelligence Agency (C.I.A.) to monitor North Korea's nuclear program. According to a January 2003 *New York Times* report, Russian intelligence officials agreed to install U.S. equipment in Russia's Pyongyang embassy to detect North Korean efforts to reprocess nuclear fuel and turn it into plutonium. The validity of this report was denied by Boris Labusov, a spokesperson for Russia's Foreign Intelligence Service. In an interview with the Interfax News Agency, Labusov said that the report was "inconsistent with reality".[16] Lobusov's denial is not all that credible. It is possible that Russia's intelligence service cooperated with the C.I.A. but now does not want its cooperation made public.

Moscow has placed restrictions on the transfer of nuclear technology and nuclear weapons materiel to North Korea. Weapons scientists have been stopped from boarding flights to Pyongyang or encouraged to return home from North Korea. Illegal weapons exports have been seized at the border.

Despite these restrictions, some Russian nuclear scientists are believed to be working in North Korea and some restricted arms and weapons materiel have reached North Korea from Russia. There is a danger that North Korean nationals working in the criminalized Russian Far East could become involved in smuggling nuclear materiel or technology.[17] Russian companies reportedly

have been among the suppliers of North Korea's nuclear program. But U.S. officials believe that the technology provided by them is less crucial than technology provided by Pakistan.[18]

Russian officials have expressed doubts that North Korea possesses any usable nuclear weapons. According to Mikhail Titarenko, Director of the Russian Academy Sciences' Institute of Far Eastern Studies, neither Russia nor the United States has reliable information that North Korea has nuclear weapons. Although North Korea has uranium and plutonium, it lacks the technology to build a bomb. Even if Pyongyang has two nuclear shells as the United States claims, Titarenko argues that this does not mean that North Korea has nuclear weapons because it has not carried out any nuclear tests.[19] Russia's Minister of Atomic Energy, Aleksandr Rumyantsev, on more than one occasion, has expressed doubts that Pyongyang possesses any nuclear weapons.[20]

While agreeing that North Korea currently does not possess nuclear weapons, Russia's intelligence community has offered a somewhat different assessment. Reportedly, Russia's intelligence community believes that Pyongyang may have one or two nuclear devices ready for detonation and that North Korea may test a device by the end of this year (2003).[21]

Russian officials have suggested that North Korea does not present a grave danger to the world. At the late October 2002 APEC (Asia Pacific Economic Cooperation) meeting in Cabo San Lucas, Mexico, Russian Prime Minister M. Kasyanov, who was attending in place of Putin, stated: "We do not have any evidence and proof that North Korea holds any threat."[22] Yevgeny Volk, director of the Heritage Foundation's Moscow branch, told AFP in January 2003, that in his view, Pyongyang's decision to expel IAEA monitors and to restart its Yongbyon nuclear complex was a bluff designed to extract large-scale Western aid.[23] In a June 2003 interview with the BBC, Putin remarked: "North Korea is now in such a state that I do not have any reasons to believe that this country has any aggressive intentions." [4]

Some Russian officials have been inclined to blame Bush administration policy for the crisis with Pyongyang. Referring to Washington's new doctrine of military preemption and Bush's January 2002 speech designating North Korea as part of an "axis of evil", Russia's Deputy Foreign Minister Georgi Mamedov suggested that "such statements may aggravate the situation and don't facilitate

constructive solution of the nonproliferation issues". Some Russian officials believe that Washington is partly to blame because of its slow implementation of commitments made in the October 1994 Agreed Framework.[26] Russia's Atomic Energy Minister, Aleksandr Rumyantsev, blamed the deterioration of relations between Washington and Pyongyang on KEDO's failure to build the two promised light water reactors.[27]

Some Russian sources suggest that the tough policy of the Bush administration has increased the incentive for North Korea to acquire nuclear weapons. Russian intelligence officials reportedly believe that officials in Pyongyang are tempted to test a nuclear device, because if they do so the United States will not dare to attack North Korea the way it attacked Iraq.[28] Yevgeniy Bazhanov, vice-principal of the Russian Foreign Ministry's Diplomatic Academy, has argued that harsh U.S. treatment increases the incentive for North Korea to acquire nuclear weapons.[29]

Russian officials have opposed the use of force to resolve the crisis. They have expressed strong support for a peaceful, negotiated solution, a position backed by China and South Korea, two of North Korea's other neighbors.[30]

Moscow has opposed the imposition of economic sanctions. Russian officials believe that sanctions could destabilize North Korea with negative effects on the region. Sanctions may even lead to war. When the IAEA Board of Governors voted in February 2003 to refer the Korean nuclear question to the UN Security Council, Moscow abstained although Beijing supported the resolution.

Subsequently, both Moscow and Beijing have opposed UN Security Council consideration of the Korean nuclear crisis. They have done their best to delay this process. When the Security Council considered the Korean problem in April 2003, the resolution proposed by Washington was watered down in large part due to resistance by China and Russia.[31] In July 2003, Moscow along with Beijing and Seoul again resisted efforts by the U.S., Britain and France to bring the North Korean issue before the U.N. Security Council. Russia's deputy permanent representative to the United Nations, Gennadi Gatloy, argued that it was "premature" to bring the North Korean issue before the Security Council.[32] There have been hints, however, that Russia may drop its opposition to sanctions if North Korea develops nuclear weapons.[33]

Russian observers argue that a harsh approach to North

Korea is likely to backfire. They have urged the adoption of a conciliatory approach. In a January 2003 interview, Deputy Foreign Minister Losyukov warned against speaking "in the language of ultimatums and strict demands". He advocated a more "delicate" approach.[34] Perceiving a harsh approach as counterproductive, Bazhanov maintained that dialogue, moves toward diplomatic recognition of North Korea and development of links with it would promote North Korean reform and opening up to the outside world and would reduce the incentive for Pyongyang to acquire nuclear weapons.[35]

Putin and other Russian officials and policy analysts have stressed the importance of providing Pyongyang with security guarantees. During his June 20, 2003, press conference, Putin affirmed his support for a nuclear-free Korean peninsula and then stated:

We think that this matter should be settled through negotiations that take into account the legitimate interests and concerns of North Korea. We should not back North Korea into a corner and aggravate the situation. If North Korea has concerns over its security and is worried that someone might try to attack it, then we should provide it with security guarantees.[36] Moscow's call for security guarantees has been backed by Beijing and Seoul.

Russia has tried to play a mediating role in the crisis. So far, its efforts have not been successful. In January 2003 Russian Deputy Foreign Minister Aleksandr Losyukov visited Pyongyang and held six hours of talks with Kim Jong-il. However, these talks did not produce any significant positive result.

Moscow's ability to mediate the crisis is impeded by Pyongyang's desire to deal directly with Washington and not through a mediator. Losyukov tried to assuage North Korean sensitivities by avoiding the use of the word "mediator". Instead, he affirmed that the aim of his mission was to "promote dialogue between the United States and North Korea".[37]

Another barrier is Russian ignorance about Pyongyang's aims and about what is happening inside North Korea. In January 2003, Vladimir Tkachenko, director of the Russian Academy of Science's Center for Korean Studies told *Agence France-Presse (AFP):* Pyongyang does not consult with us, we are absolutely in the dark. We don't know what North Korea wants, it's a very isolated country and we have no idea what they are doing in these

nuclear installations.

Tkachenko's remarks and similar comments by other Russian policy analysts reflect the limits on their ability to analyze North Korean capabilities and intentions.

Russia's leverage over Pyongyang is limited by its inability to provide the large scale economic assistance needed to help the North Korean regime survive.[39] Russia's annual bilateral trade with North Korea now is approximately U.S.$115 million, far less than North Korea's annual trade with South Korea or China. In recent years, China, the United States, South Korea, and Japan have provided most of the food aid sent to North Korea.

Until this past fall, the United States, under the terms of the Agreed Framework, provided North Korea annually with 500 metric tons of fuel oil. In October 2002, KEDO members decided to stop these shipments in retaliation for North Korea's cheating on its obligations under the Agreed Framework. At a KEDO meeting in October 2002, representatives of the United States, South Korea, Japan and the EU decided to allow the October fuel oil shipment to go through but stopped future shipments.

By many accounts, Beijing has been the main provider of fuel and food assistance to North Korea. China continues to provide North Korea with fuel oil, but the exact amount is not made public. Perhaps to pressure Pyongyang to agree to attend a trilateral U.S.-China-North Korea meeting in Beijing in April, China on a pretext cut off these fuel oil shipments for a few days in March.

Japan also is a much more important current and prospective source of funding for North Korea than is Russia. Remittances sent by Koreans living in Japan have been a major source of funding for North Korea. Recently, Japan has taken some steps to reduce this transfer of funds. But substantial sums continue to flow, much of it in illegal transfers from pachinko parlors and credit unions associated with Japan's Korean community. Pyongyang considers Japan to be an attractive prospective source of official credits and private investment.[40]

Another reason for the failure of Losyukov's mediation effort is that he presented a package proposal with terms that were unacceptable to Washington. According to Toloraya, the proposal envisaged about a dozen synchronized steps. Initially, North Korea would freeze its nuclear program in return for U.S. readiness to resume fuel deliveries. In the next stage, Pyongyang and

Washington would discuss the current status of the Agreed Framework and decide what to do with it. Subsequently, North Korea and the United States would exchange lists of concerns and demands. Possibly with the help of Russia and China and perhaps also of South Korea and Japan, Washington and Pyongyang would decide what was reasonable and what was not, what was worth pursuing now and what should be left to the future. The bottom line, according to Toloraya, was that Pyongyang would have to renounce nuclear weapons and return to the Nuclear Non-Proliferation Treaty and Washington would have to give firm guarantees that it would not infringe on North Korea's sovereignty and security.[41]

Losyukov's proposal was perceived in Washington as too favorable to North Korea. Washington was demanding the complete, irreversible, and verifiable dismantlement of North Korea's nuclear program and also an end to its missile program and a reduction in its conventional forces. The Bush administration was insisting that these demands be met before it would consider extending security guarantees or other benefits to Pyongyang.[42]

Losyukov's open ended mediation proposal came under fire in Russia as well. Vladimir Lukin, a Duma deputy and former ambassador to Washington, suggested in an analytical program on Russian television that if this package proposal were accepted, the lessons to rogue states could be very dangerous. Lukin warned that it could set off a chain reaction by states trying to solve their problems by blackmailing big countries.[43] A June 2003 article in *Kommersant* warned that Russia's talk about multilateral guarantees sent the wrong signal to Pyongyang, encouraging it to intensify its nuclear blackmail.[44]

In the months after Losyukov's failed mediation effort, it appeared that Russia was going to play a very minor role in resolving the North Korean nuclear crisis. In April 2003, Beijing hosted trilateral talks among the United States, North Korea and China to discuss the nuclear crisis. The trilateral format allowed Washington to pretend that Pyongyang had conceded to its demand for multilateral, rather than bilateral talks. A statement by China's Ambassador to Beijing in advance of the talks indicating that his country would play the role of host, referee or middleman[45] was intended to assuage Pyongyang, which previously had insisted that it would agree only to bilateral talks with Washington.

Although Russian officials were disappointed that their

country was excluded from these talks, they said that the fact that talks were taking place was more important than the format. It is likely that their expression of support was sincere.

Unfortunately, the Beijing talks did not produce a positive result. A North Korean representative announced in the middle of the talks that his country already possessed nuclear weapons and might test or export them. This announcement upset Beijing, which had convened the talks with the aim of persuading Pyongyang to renounce its nuclear program.

In the spring and early summer of 2003, Russian comments on the nuclear crisis reflected a heightened sense of urgency. There was growing concern that the seemingly unbridgeable gap between the North Korean and U.S. positions might lead to war. Losyukov announced that civil defense officials in the Russian Far East had been ordered to make emergency preparations in case hostilities broke out on the Korean peninsula and radioactive fallout or refugees spilled over onto Russian territory.[46]

In this period, there was a concerted effort by China, Russia and other countries to bring North Korea back to the bargaining table. There was speculation about what form the negotiations would take. At least publicly, North Korea still was insisting that it would agree only to bilateral talks with the United States. Washington was holding out for a multilateral format.

Until the end of July, the most frequent speculation was that a new round of trilateral talks would be held in Beijing with the participation of the United States, North Korea, and China. When U.S. officials spoke about their preference for multilateral talks with more than three participants, they usually mentioned their desire to include South Korea and Japan and sometimes added "and possibly Russia."

It thus seemed likely that the next round of talks on the North Korean nuclear crisis and possibly future rounds might exclude Russia. This perception changed dramatically in late July when North Korea's Ambassador to Moscow, Pak Ui Chun, said that Pyongyang had agreed to multilateral talks to discuss the crisis with the participation of six countries including North Korea, the United States, China, South Korea, Japan and Russia.[47]

One can only speculate as to why Pyongyang agreed to multilateral talks and insisted on the inclusion of Russia. The unexpectedly fast U.S. victory in Iraq and North Korea's

deteriorating economic situation may have alarmed its leaders. Pyongyang may have insisted on Russia's inclusion in the talks to make it more likely that there would be one more country supporting its position on contentious issues. Pyongyang may feel more affinity with the Putin administration than with Beijing. It recently was reported that Pyongyang initially proposed holding the six-party talks in Moscow, not Beijing. However, the Putin administration refused out of concern that accepting Pyongyang's proposal could hurt Russia's relations with China. [8]

In the weeks leading up to the six-party talks, the Putin administration tried to facilitate efforts to find a solution to the crisis. Russia persuaded Seoul and Pyongyang to send representatives to Moscow for talks. When they arrived there, the representatives of South and North Korea agreed to meet with Russian officials separately. But there were no three-party talks.[49]

Moscow and Beijing stressed the importance of providing Pyongyang with security guarantees.[50] Russia and China offered to provide their own guarantees of North Korea's security. But Pyongyang rebuffed their offer, insisting that it would be satisfied only by a security guarantee from the United States. Washington refused Pyongyang's demand that it sign a nonaggression treaty to be approved by the Senate. But U.S. Secretary of State Colin Powell suggested that if Pyongyang agreed to the complete, verifiable and irreversible dismantlement of its nuclear program, Washington might be willing to provide it with some written security guarantees, albeit not in the form of a treaty.

The limits of Russian influence in Pyongyang were made clear when North Korea refused to send an observer to large scale military exercises off Russia's Pacific coast. Shortly before the six-party talks began, Russia conducted these exercises with the participation of naval forces from South Korea and Japan in some of the drills. U.S. forces were supposed to participate as well, but bad weather delayed their arrival.

These exercises were planned long before the six-party talks were scheduled. But the very fact that these exercises were taking place with the planned participation of South Korean, Japanese and U.S. forces showed how far Russia had moved away from its cold war alliance with North Korea and toward improving relations with the militaries of three former adversaries.

When the six-party talks were held in Beijing in late

August, 2003, the stark differences between the U.S. and North Korean positions were highlighted. Pyongyang proposed a package settlement that envisaged North Korean dismantlement of its nuclear program but only after Washington provided security guarantees and economic assistance. Washington reiterated its demand for the complete, irreversible and verifiable dismantlement of North Korea's nuclear program. Bush administration officials hinted that some reward might be offered to North Korea if it took these steps. But they were unwilling to promise anything concrete to avoid the appearance that they were succumbing to blackmail.

At the talks, Russia adopted a position that suggested the need for compromise by both Pyongyang and Washington. Russia's representative, Losyukov, called for denuclearization of the Korean peninsula. At the same time, he stressed the need for the U.S. to provide security guarantees and financial aid as a condition for North Korea's agreement to dismantle its nuclear program.

Losyukov claimed that North Korea's delegate at the six-party conference had announced that his country did not possess nuclear weapons and had "no plans to develop them". This assertion was disputed by delegates from the United States, South Korea and Japan who said that North Korea's delegate, Deputy Foreign Minister Kim Yong-il, had made no such statement.[51]

Since the talks, the Bush administration has relaxed its previously rigid policy toward North Korea. Bush administration officials have suggested that they would be willing to offer some concessions to Pyongyang before it completely and verifiably abandons its nuclear program. There is speculation that this new position reflects the growing influence of Secretary of State Colin Powell and other moderates within the sharply divided Bush administration. Bush administration hard liners have been losing influence, in part because the U.S. has been facing unprecedented military and political problems in its occupation of Iraq.

In the case of policy toward the Korean peninsula, outside pressure may have contributed to the change in the U.S. position. Washington failed to gain external support for its hard line position, not only from Moscow but even more importantly from Seoul and Beijing. Washington pushed to convene multilateral talks with the expectation that they would persuade Pyongyang to make a concession. As it has turned out, the six-party talks also have put pressure on Washington.

After the six-party talks, Putin urged North Korea not to take any provocative steps that might aggravate the crisis. This message was in a personal letter from Putin that Konstantin Pulikovsky, Putin's representative in the Russian Far East, delivered to Kim Jong-il.[52]

So far, Pyongyang has not tested a nuclear weapon, despite speculation that a test might be held on September 9, 2003, the fifty-fifth anniversary of the regime's founding. Pyongyang has agreed to participate in a new round of six-party talks.

V. Prospects and conclusions.

Before the outbreak of the North Korean nuclear crisis, the Putin regime was pursuing a contradictory foreign policy. Putin was pushing to improve Russia's relations with the United States and West Europe, while at the same time courting Pyongyang and other so-called rogue states.

In the case of North Korea, Putin was able to get away with this policy while this issue was not at the center of global attention. However, once the North Korean nuclear crisis erupted, there was a risk that U.S.-Russian relations would be badly damaged if Moscow opposed the Bush administration's hard line position. Some analysts expressed concern that Moscow's failure to support Washington would further hurt the post September 11 U.S.-Russian *rapprochement* that already was badly undermined by Moscow's opposition to the U.S. war in Iraq.

Although Moscow has adopted a position toward the North Korean nuclear crisis that is substantially different from that of Washington, the damage to U.S.-Russian relations so far has been limited. Moscow has opposed economic sanctions. It has encouraged the United States to offer security guarantees and financial aid to North Korea as a condition for its renunciation of nuclear weapons. But it has not been alone in advocating these views. Beijing and Seoul have opposed the Bush administration's hard line position. Their opposition has been more critical in pushing the Bush administration to adopt a more flexible policy.

It is hard to gauge Russia's ability to influence Pyongyang. Pyongyang has advocated Moscow's participation in the six-party talks, giving Moscow a seat at the table and an opportunity to reaffirm its great power status. However, it is doubtful that Pyongyang is willing to listen to Moscow on issues where it feels its survival is at stake. Putin and other Russian leaders have made it

clear that they are opposed to North Korea's development of nuclear weapons. If North Korean leaders strongly believe that they need nuclear weapons, not only as a bargaining chip but also as a deterrent, then they are not likely to abandon their nuclear program. At the very least, Pyongyang will want to preserve some ambiguity so it will resist Washington's demands for a complete and verifiable end to its nuclear program.

If the North Korean nuclear crisis is peacefully resolved and the process of interKorean reconciliation regains momentum, Moscow could reap significant economic and strategic benefits. The nuclear crisis is not the only obstacle to the expansion of economic ties between the two Koreas and Russia. But it is a major impediment. Without resolution of the crisis, the gas pipeline and railroad projects proposed by Moscow will not be implemented. With a resolution, these projects stand a better chance of going forward, although they still will have to overcome a number of serious obstacles. If these projects are successfully implemented, they could help develop the Russian Far East, making it less vulnerable to outside domination by China or any other country.

If the nuclear crisis is not peacefully resolved, Russia's interests will suffer. There will be an increased chance of instability and armed conflict in a neighboring country. If Pyongyang develops nuclear weapons, there will be a greater incentive for Japan and South Korea to do the same.

Russia thus has a large stake in the outcome of the North Korean nuclear crisis. But its ability to influence Washington and Pyongyang is at best limited.

Notes

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49. "Russia May Provide North Korea Guarantees if US Guarantees Prove Insufficient," *ITAR-TASS,* Aug. 12, 2003, in *FBIS.DR,* Aug. 12, 2003.

50. In early August 2003, Russia's Deputy Foreign Minister Yuriy Fedotov stressed the importance of providing Pyongyang with security guarantees and economic aid in return for a guarantee that North Korea's nuclear program is totally peaceful.

51. "Russian Deputy Minister Warns Breakdown of North Korea Talks Could Lead to 'Hot Conflict'," *ITAR-TASS,* Aug. 27, 2003, in *FBIS.DR,* Aug. 27, 2003; Andrei Kirillov, "Conflicting Reports on NK Talks," *Moscow News,* Sept. 3-9, 2003, in *CDI Russia Weekly,* No. 272, Sept. 3, 2003; Agence France-Presse, "North Korea Rejects US Charge on Enriched Uranium," Aug. 27, 2003 in *Napsnet Daily Report,* Aug. 28, 2003.

52. Pulikovsky was in Pyongyang to attend the September 9, 2003 55th anniversary celebrations of the founding of the North Korean regime.

Nuclear Issues in U.S.-Korea Relations: An Uncertain Security Future

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I. Introduction

The security dynamics on the Korean peninsula are changing with the uncertain future associated with the North Korean claim that it now has nuclear weapons and an active program of building a "powerful deterrence force".[1] This dramatic reversal of Pyongyang's nuclear stance, which is more than rhetorical but action-driven, followed its announced withdrawal from the Nuclear Nonproliferation Treaty early in 2003 and its nullification of the 1992 North-South Korean non-nuclear agreement.

Following the six-party Beijing talks in late August, the North Korean Foreign Ministry spokesperson claimed that his country no longer had "interest or expectations" for future talks on its nuclear program.[2] North Korea's rubber-stamp parliament, the Supreme People's Assembly also approved the government's decision to increase its "nuclear deterrence force" in angry reaction to what it called a hostile U.S. Policy.[3] The Agreed Framework that provided the basis of U.S.-DPRK relations afterl994 was no longer viable, because Pyongyang was found to pursue a clandestine program of HEU (highly enriched uranium) nuclear weapons development. United States relations with the Republic of Korea (ROK) have also become strained, in large part over basic differences on how to deal with North Korea and its nuclear threat.

This article addresses the varying perceptions and approaches between Seoul and Washington toward North Korea's nuclear brinkmanship and its strategic implications for the future of U.S.-ROK alliance relations. The latest episode of North Korea's nuclear controversy erupted while South Korea's Sixth Republic was undergoing electoral campaigns for the sixteenth presidential election of December 19, 2002. The saga of North Korea's nuclear threat has continued with the launching of the new Roh Moo Hyun administration in February 2003. Therefore, the foreign policy issues like the nuclear controversy and U.S.-Korea alliances are intricately inter-related with the context of a nation's domestic

politics in both the U.S. and South Korea.

II. Countering Nuclear Brinkmanship and Benign Anti-Americanism

The 2002 presidential election has left the country deeply divided over the pressing policy issues of the nuclear threat from the North and the future of U.S.-Korea relations. During the election campaign the candidate Roh Moo Hyun was portrayed by the media as riding on anti-American sentiment and holding a pro-North Korean stance toward the nuclear issues. This popular perception subsequently proved to be misleading because, since his electoral victory, Roh Moo Hyun has worked closely with the U.S. George W. Bush administration to seek a common ground in checkmating the North Korean brinkmanship.

A widening gap of perception developed between the older and the younger generations over the question of collective identity. The new generation of leadership has overtaken the older Koreans, and these new leaders have little memory and no first-hand experience of the Korean War (1950-53) tragedy. The difference of perception is over the question of how to relate to communist North Korea and the traditional ally of the United States. The younger generation desires an equal partnership with the United States on critical bilateral alliance matters like the Status of Force agreement regarding the U.S. troop presence in the South. Nevertheless, these and other policy issues must be addressed, via an open dialogue and consensus-building style of leadership, if South Korea's new democracy is to make any headway in the next five years.

The atmosphere of reconciliation between Seoul and Pyongyang faced its biggest setback in December when North Korea announced the reprocessing of 8,000 fuel rods that touched off an uneasy standoff with the United States. When the Bush administration began moving to orchestrate international pressure, including economic sanctions focused on the North, this strategy was opposed by both out-going President Kim Dae Jung and his successor, president-elect Roh Moo Hyun. The Korean leaders called for a dialogue and a peaceful solution to the North's nuclear issues rather than a policy involving political isolation and economic sanctions.

Bush administration officials floated an idea of "tailored containment" of North Korea, or a ring of economic sanctions

deployed by its neighbors. The primary goal of this policy was to bring about the abandonment of Pyongyang's nuclear weapons development by isolating the North through economic channels. But South Korea's president, Kim Dae Jung, expressed his opposition, noting that four decades of economic sanctions had failed to bring down the Communist government in Cuba. Nevertheless, President Kim continued to emphasize that "through a solid military alliance with the U.S., South Korea's national security has become stronger" and that Korea's relationship with the United States was "a win-win situation that is beneficial for both states" whereby America became Korea's "biggest client as well as biggest investor"[4]

President-elect Roh Moo Hyun also expressed his skepticism that this policy of "tailored containment" was "an effective means to control or impose a surrender on North Korea." Roh added that "success or failure of a U.S. policy toward North Korea isn't too big a deal to the American people, but it is a life-or-death matter for South Korea" and "therefore, any U.S. move should fully consider South Korea's opinion." Hearing this objection, the Bush administration has backed away from the sanctions idea, as noted by the State Department spokesman at a subsequent news briefing.[5]

Continuous anti-American demonstrations and protests in South Korea also prompted talks in the United States, in Congress and on newspaper op-ed pages—that the U.S.-ROK alliance should be reviewed. If South Korea, a democracy, did not want the American troops stationed in Korea, it might be time to start withdrawals. During the fall presidential campaign, candidate Roh said he wanted the American troops to stay in Korea, thereby distancing himself from statements he had made a decade earlier when he wanted the Americans to go home. As President-elect, however, Roh was quoted as bringing up the possibility of American troop withdrawals during a meeting with South Korea's top military commanders, by saying: "I wanted to ask whether you have a long-term plan on how the South Korean military could make up for a possible reduction" in U.S. troops.[6]

South Korea's president-elect was operating under a new strategic vision that "If the U.S. and North Korea start a war, we will stop it," a statement he made during the presidential campaign in downtown Seoul. This led to an eleventh hour withdrawal of political support by his campaign partner, the National Alliance 21

leader, Chung Mong-joon, on the grounds that the United States was South Korea's ally and that there was no reason the U.S. would start a war against North Korea. Trained as a lawyer, Roh seems to think that Seoul could mediate disputes between Washington and Pyongyang and that a compromise settlement could be worked out between the parties in conflict. This is why Roh suggested that diplomacy and dialogue instead of confrontation and containment should be the approach to settling conflict on the Korean peninsula.

Choosing diplomacy through dialogue over the threat of force sounded good and reasonable, in theory, but Seoul must also realize that its leverage and role as an intermediary are severely limited. Seoul was not only caught in the nuclear cross-fire between Pyongyang and Washington but was also kept as a hostage by the nuclear-ambitious Stalinist North Korean regime of Kim Jong II. Moreover, an emphasis on diplomacy over force must be accompanied by a recognition that diplomacy alone does not always work in international politics. Countering North Korea's nuclear brinkmanship, which itself was an act of political strategy on the part of Pyongyang, would require appropriate strategic responses by the U.S. and its allies. These may entail combining both diplomatic negotiation and military preparedness, in order to be made credible, because Pyongyang has been playing a high-risk game in nuclear deterrence.

Pyongyang's act of nuclear brinkmanship was intended to get the attention of the outside world focused on its grievances. Pyongyang's demands on political and security issues included the guarantee by the U.S. not to launch an attack and the negotiation of a U.S.-DPRK non-aggression pact.

When North Korea broke the nuclear moratorium and violated the legal obligations associated with the 1994 Geneva Agreed Framework and the IAEA imposed safeguards, the U.S. Bush administration decided not to react by launching a pre-emptive attack against the North as it did against Saddam Hussein's Iraq but to keep the doors open for an eventual diplomatic solution to the latest controversy. The official U.S. position was that the North's bad behavior should not be rewarded and that the DPRK had to first express its willingness to renounce its nuclear program.[7]

The candidate Roh Moo Hyun rode to political power on the wave of massive anti-Americanism, but after his electoral victory Roh chose the high road of restoring the damaged U.S.-

ROK alliance. The means to accomplish this policy goal for the Roh administration was to seek a common ground with the Bush administration in confronting North Korea's nuclear issue and evolving a workable strategy for denuclearization of the Korean peninsula.

III. Continuing Saga of North Korea's Brinkmanship

In his inaugural address, Roh Moo Hyun urged North Korea to abandon its nuclear weapons ambitions, spelling out the benefits Pyongyang could expect to receive in international recognition, support, and aid if it renounced its weapons drive. North Korea dismissed this plea. Instead, Pyongyang launched an anti-ship missile into the Sea of Japan (East Asia) on the eve of Roh's inauguration, thereby causing the rattling of the Asian financial market.

The new Roh Moo Hyun administration has learned quickly how to reconcile the security and the welfare needs of Korea's new democracy. There exists a delicate balance and trade-offs between the two competing sets of values called security and welfare. Security is like air that one takes it for granted. Security is oxygen that one needs and inhales to live. Without air the life of an organism cannot sustain itself. It is when one starts to lose oxygen that one realizes how invaluable the security is as an essential ingredient for sustaining freedom and democracy that people often take for granted in South Korea today.

Although the DPRK is a failing state economically, and its population is starving due to food shortages and the mismanaging of its economic resources, North Korea has acquired an ambitious program of obtaining Weapons of Mass Destruction (WMD). After expelling two on-site monitors from the IAEA on New Year's Eve in 2002, North Korea announced that it was restarting its nuclear fuel reprocessing laboratory that would supply them with weapons-grade plutonium. Once North Korea was allowed to attain its nuclear weapon's capability, the Korean peninsula would no longer be nuclear-free because a nuclear-armed North Korea would lead to South Korea's and Japan's eventually acquiring their own nuclear weapons capability. In order to forestall such an eventuality, it was deemed imperative that all the parties concerned, including the two Koreas and the major powers with an active interest in Korean security, begin to address the ways of defusing the tensions and

promoting confidence-building measures through discussions on arms control and disarmament.

North Korea blamed the United States for its decision to restart the nuclear program, calling it an act of self-defense in reaction to American aggression and hostile policy. Its decisions were necessary, they argued, because the U.S. President called North Korea an "axis of evil" country, together with Iraq and Iran, and made threatening statements toward them with a halt in the delivery of much-needed fuel oil. Pyongyang also criticized the Bush administration for recruiting Russia and China to pressure North Korea, saying that the crisis could and should be solved by the United States and North Korea directly without outside interference with the two agreeing to sign the non-aggression pact.[8]

Speaking to American troops at Fort Hood, Texas, U.S. President Bush said, "In the case of North Korea, the world must continue to speak with one voice to turn that regime away from its nuclear ambitions." Tensions between Washington and Pyongyang intensified in October 2002, when U.S. officials said North Korea had admitted to the visiting American delegation to Pyongyang that it had maintained a clandestine nuclear weapons program of enriching uranium. Ironically, what began as a fact-finding mission to resume long-stalled talks with the reclusive Stalinist North Korea turned into unproductive and failed diplomacy.

North Korea raised the stakes drastically in late December by announcing that it would reopen a nuclear complex in Yongbyon that had been mothballed under a 1994 Agreed Framework to prevent the DPRK from developing nuclear weapons. In exchange for this nuclear moratorium, North Korea was to receive two light-water reactors (LWRs), constructed by an international consortium including South Korea, Japan, and the United States, and 500,000 tons of fuel oil annually until one of the two LWRs was ready and turned over to North Korea in due course. But the shipments of fuel oil were halted in December when the U.S. learned about Pyongyang's clandestine HEU nuclear weapons program.[9]

This nuclear dispute and brinkmanship by North Korea triggered a series of diplomatic moves and international counter measures by IAEA. Seoul dispatched envoys to Beijing and Moscow to exchange views on how to stop Pyongyang from reactivating nuclear facilities, thereby forestalling the looming crisis that could reprocess spent fuel rods into weapon-grade plutonium. If

the 8,000 fuel rods temporarily stored away under the agreement were reprocessed, according to one analysis, the North could have enough plutonium to make three to six weapons within a month or two. One agenda of diplomacy for President Roh Moo Hyun during his state visits to the United States in May 2003, followed by similar visits to Japan and to China in the subsequent months, was to seek a common ground with its neighbors for defusing the issue of North Korea's nuclear brinkmanship.

Not surprisingly, the IAEA called for an emergency meeting of its 35-member governing council. The U.N. nuclear agency passed a resolution, on January 6, condemning North Korea's latest efforts to resume its nuclear program and giving Pyongyang an opportunity to come back into compliance with international non-proliferation agreements that it had signed. The IAEA resolution "deplores in the strongest terms North Korea's unilateral acts to impede the functioning of containment and surveillance equipment at its nuclear facilities and the nuclear material contained therein." The IAEA subsequently filed its report to the U.N. Security Council but the latter has not deliberated on the matter of the DPRK withdrawal from the NPT because of the lack of consensus among the five permanent members of the Security Council.

To defuse the escalation and confrontational atmosphere over the nuclear standoff, the trilateral coordination and oversight group (TCOG) held a meeting in Washington, D.C., attended by high-ranking diplomats from its member countries of the U.S., South Korea, and Japan. The two-day conference agreed on a common negotiation strategy vis-a-vis the DPRK by seeking immediate dialogue with North Korea to address the common and mutual concerns.[10]

A statement of about 800 words noted, "there is no security rationale for North Korea to possess nuclear weapons" and endorsed dialogue with North Korea as a "useful vehicle for resolving serious issues." The U.S. delegation explained that the United States was "willing to talk to North Korea about how it will meet its obligations to the international community... [while stressing that] the United States will not provide quid pro quos to North Korea to live up to its existing obligations." President Bush also noted that "diplomacy will work" and he had no intention of invading North Korea.

Instead of seizing the opportunity for diplomatic settlement of its nuclear issue, Pyongyang continued to accuse the United States of spreading a "false rumor" about its nuclear program. "There is an increasing danger of a nuclear war on the Korean peninsula due to the U.S. criminal policy toward the DPRK," according to a statement released from Pyongyang's Korean Central News Agency. "The U.S. is deliberately spreading a false rumor about the DPRK's 'nuclear issue', in particular, in a bid to vitiate the atmosphere of inter-Korean reconciliation and unity and foster confrontation among Koreans," the statement insisted.[11] This accusation was followed by a bombshell, on January 10, that the DPRK was declaring "an automatic and immediate" withdrawal from the NPT and, one day later, that North Korea might end its self-imposed moratorium on ballistic missile tests.[12]

Pyongyang defended the withdrawal decision on the grounds of safeguarding the sovereignty, dignity, and the right to its existence. It charged that the U.S. "instigated the IAEA to adopt another 'resolution' against the DPRK" and "the NPT was being used as a tool for implementing the U.S. hostile policy toward the DPRK ... aimed to disarm and destroy the DPRK by force." Insisting that its withdrawal was "a legitimate and self-defensive measure" the statement added that the DPRK had "no intention to produce nuclear weapons" and its "nuclear activities at this stage [would] be confined only to peaceful purposes, such as the production of electricity."

Foreseeing the IAEA reporting on the matter to the U.N. Security Council for further action, the DPRK insisted that its withdrawal from the NPT was "totally free from the binding force of the safeguards accord with the IAEA under its Article 3." If the U.N. Security Council decides to impose sanctions against the DPRK withdrawal from the NPT, Pyongyang would consider such measures as tantamount to "an act of war" and as leading to "a holy war" and even "World War HI" they insisted.

When the IAEA governing board voted, on February 12, to cite Pyongyang for defying U.N. nuclear safeguards, and sending the issue to the Security Council, Pyongyang accused the IAEA of being "America's lapdog" and urged it to investigate instead "the illegal U.S. behavior that brought a nuclear crisis to the Korean peninsula." Since North Korea already withdrew from the NPT in January, the DPRK had no legal obligations on the IAEA safeguard,

the official KCNA news agency insisted. It also noted "discussing the nuclear issue through the IAEA was an act of interference in internal affairs."[13] The U.S. move to entice the U.N. Security Council to deliberate on the IAEA report on North Korea's withdrawal from the NPT was tabled when Washington learned that Russia and China were inclined to oppose such a move by the Security Council.

IV. Mending U.S.-ROK Alliance Relations under Stress

Fortunately for the United States, the Roh government's expression of its desire to strengthen the ROK alliance ties with the United States was a positive development. Upon his appointment Prime Minister Goh Kun made it known that Seoul was opposed to the scaling down of the U.S. troop presence in Korea, including a reported change in a trip wire role by the U.S. infantry division along the DMZ. The U.S.-ROK joint military exercise, Foal Eagle, was successfully launched as the new Roh administration was taking office in March.

Roh's cabinet also endorsed a plan to contribute a token number of ROK troops to the U.S.-led war on Iraq and urged the National Assembly passage of such a bill. Roh announced his support for dispatching a non-combat engineering unit of 600 soldiers and about 100 medical personnel to support coalition forces and for taking part in post-war rehabilitation efforts. Roh himself made an official state visit to meet with U.S. President George W. Bush early in May 2003, although a planned visit of U.S. Vice President Dick Cheney to Seoul in April was postponed because of the on-going Iraqi war.

Roh's Foreign Minister Yoon Young-kwan made a four-day visit to Washington for laying the groundwork for President Roh's first summit with U.S. President George W. Bush. Yoon's visit was also intended to clear some outstanding doubts between the two governments and to set the table for constructive dialogue between their leaders. Roh's agonizing decision on sending South Korea's non-combat troops to Iraq was well received by Washington.

During Foreign Minister Yoon's meeting with U.S. Secretary of State Colin Powell, Seoul reportedly presented to Washington a "road map" for a diplomatic solution to the dangerous nuclear standoff between the United States and North Korea. Yoon

subsequently explained to reporters that the plan described "step-by-step items" that may be taken to draw the North into multilateral talks. Powell said similar ideas were already on his table, and he would study it. The warm reception Yoon received in Washington was due largely to Roh's promise to support the U.S.-led coalition against Iraq. By making a timely promise of his "active support" for the unpopular war, Roh was betting on the chance to rescue the damaged U.S.-Korea alliance that he regarded as indispensable, not only to deter another devastating war on the peninsula but also to pursue inter-Korean reconciliation.

On his way back from the U.S. trip Foreign Minister Yoon Young-kwan stopped in Tokyo to pay a courtesy call on Japan's Prime Minister Junichiro Koizumi. Yoon held talks with Japanese Foreign Minister Yoriko Kawaguchi, and they pledged to continue joint efforts to peacefully resolve North Korea's nuclear issue. In the meantime, Roh's top national security aide Ra Jong-yil began a four-day visit to Russia and China to discuss ways to resolve the North Korean nuclear issue. The dispatch of Ra and Yoon to the four nations could be seen as representing Roh Moo Hyun's forward looking views and optimistic approach to ending the on-going nuclear standoff between North Korea and the United States.

The legislative voting on the troop dispatch bill was the first serious measure that turned out to be highly controversial due to anti-Iraq War popular protests, and voting on the bill was delayed twice in the National Assembly. In the end the bill received an overwhelming endorsement, with 179 in favor, 68 against, and 9 abstentions. This was a major victory for President Roh, who had told parliament that sending the troops would strengthen ties with Washington. He argued that it was essential for a peaceful solution to the DPRK nuclear crisis. Roh acknowledged, during his first address to the National Assembly, that many in the country were opposed to war in Iraq but said that "regretfully, international politics are swayed by the power of reality, not by principles." Seoul also announced plans to donate $10 million to assist war refugees in Iraq through various U.N. agencies, including the World Heath Organization and the World Food Program. In this way Roh defended his foreign policy decision on pragmatic grounds as driven by the "forces of reality."

Roh's first meeting with U.S. President George W. Bush in the White House on May 13 went well, although they were "vague

on North Korea strategy." Appearing in the Rose Garden President Bush said "We're making good progress toward achieving that peaceful resolution of the issue of the Korean Peninsula in regards to North Korea." This vague wording seems to reflect more differing approaches to the problem within the two countries. Roh told the reporters afterward: "When I left Korea, I had both concerns and hopes in my mind. Now, after having talked to President Bush, I have gotten rid of all my concerns".[14] A surprising thing was that the South Korean media and opposition made no big "fuss" over what seemed to have been a low (kow-tow) posture of Roh's diplomacy.

V. Policy Implications and Lessons

What are the policy implications and lessons of the unfolding drama related to the North Korean nuclear ambitions over the future of U.S.-Korea alliance and democracy in South Korea? The latest standoff between Pyongyang and Washington reflects the long-standing clash (over the inconclusive ending of the Korean War fifty years ago) and the perceptual gap between the two sides regarding Korean security and the nuclear issue. Whereas North Korea believes that the U.S. is seeking "regime change" by characterizing them as part of the "Axis of Evil," the United States is reacting angrily to North Korea's bad behavior of acquiring the WMD capability, such as a HEU program, in violation of the 1994 Agreed Framework.

Depending on how the current nuclear controversy is addressed and managed, there exists a distinct danger of North Korea's overblown rhetoric of threat and retaliation coming true as a "self-fulfilling prophesy." As of July 2003, Pyongyang seems to have crossed the red-line of the U.S. defense parameter by announcing that it is going nuclear. The possibility is now greater that the new national security strategy of the Bush administration, proclaimed in order to defeat global terrorism in the post-911 security environment, will be put into effect against Kim Jong II's North Korea.

Defense Secretary Donald H. Rumsfeld also said North Korea might pose a bigger threat as "a supplier of nuclear weapons" and as "the world's greatest proliferator of missile technology."[15] The literal application of the Bush's national security strategy to North Korea, especially invoking the doctrine of preemptive war,

may end up with greater tragedy of leading to Korean War II when directed to the belligerent and bellicose North Korean regime of Kim Jong II. An outbreak of the Korean War will need to be avoided by all means; it will not only undermine the economic foundation but also destroy the fragile peace sustaining the burgeoning political and civil societies of Korea's new democracy.

Clearly, the U.S. and the DPRK are locked in high-stakes diplomacy by playing the game of nuclear brinkmanship and standoff. While the U.S. was preoccupied with a war against Saddam Hussein's Iraq, so as to disarm its WMD program, the Kim Jong II regime of North Korea refuses to be intimidated by the Bush administration's call for unilateral and preemptive, even preventive, use of force by choosing to confront the Bush administration in a nuclear showdown.

As pointed out by the U.S. Institute of Peace in May 2003, the U.S. options under the circumstances were rather severely restricted: (1) do nothing; (2) try to destroy North Korea's WMD, through surgical air strike of its nuclear installation at Yongbyon and elsewhere; (3) impose economic sanctions and international pressure, through the U.N. and support by its allies and friends; (4) seek negotiated settlements, directly with the North along the lines of the framework agreement of October 1994; and, (5) seeks a bi-multilateral formula for addressing the Korean peninsula security issue and a comprehensive resolution of the Korean War issue once and for all. Since the timing was ill suited for the U.S. and favorable to North Korea, as a result of the U.S. involvement in the Iraqi War and the post-war operations in 2003, the last two choices of a quid-pro-quo settlement of the dispute between the two sides directly (the position of Pyongyang) or through a multilateral forum (the position of the Bush administration) seemed to be the only viable and workable approaches in the short run.

U.S. Secretary of State Colin Powell told Congress on February 13 that the DPRK had turned down a U.S. proposal to include the PRC, Russia and the ROK in talks over the DPRK's nuclear weapons programs. However, the subsequent Beijing talks in April 2003 hosted by China were a clear sign that the bi-multilateral alternative for problem-solving mentioned above can bear fruit, although the result of the first talks in April 2003 was not too encouraging.

Under this circumstance the U.S. unilateral move of redeploying U.S. ground troops away from the DMZ represents a more realistic scenario. Despite objections by Seoul, Washington has announced the U.S. Department of Defense plans to pull American troops away from the DMZ and to redeploy them in several locations in the south of the Han River. This will mean that South Korea will lose the front-line protection of the so-called tripwire role of the U.S. forces, providing the physical defense of the South against the Northern invasion since signing the armistice agreement ending the Korean War on July 27, 1953. North Korea's forward deployment of its massive troop strength, an implicit recognition of the strategic and deterrence value of the tripwire, will also affected by the U.S. strategic move.

In a new twist, North Korea now fears that if the United States rolls up its human tripwire of 14,000 American troops, it will free the United States to bomb nuclear sites near Pyongyang.[16] North Korea's Central News Agency claimed that "Our army and people will answer the U.S. arms buildup with a corresponding powerful deterrent force and its pre-emptive attack with a prompt retaliation to destroy it at the initial stage of war."

In the military chess game on the Korean Peninsula, the United States gained a strategic advantage by moving American troops out of range of North Korea's border artillery, which could kill large numbers of American soldiers. Instead North Korea will opt to resume its threatening posture of turning Seoul into a "sea of fire." If the current nuclear standoff is not settled in the short-run, an uncertain security future for South Korea's will exert negative and harmful effects upon its fragile path toward economic growth and prosperity.

VI. The Politics of the Six-Party Beijing Talks on the Nuclear Crisis

All politics, including international politics and foreign policy, focused on the North Korean nuclear issue are based on considerations of power, perception, and preference. In this sense all politics are local and the politician's desire and need to stay in power and hold office will dictate the preferences on foreign policy options and policymaking. The U.S. and ROK alliance and their common strategy toward North Korea's nuclear brinkmanship will be no exception to the rule in this regard.

The respective leadership and foreign policy stance of the ROK President Roh Moo Hyun and U.S. President George W. Bush are motivated by considerations of power in domestic politics. Whereas Roh is focused on winning next year's April general election and making his party emerge as a majority in the National Assembly, Bush is focused on winning the November 2004 presidential and congressional elections in the hope of assuring Republican Party dominance in U.S. domestic politics.

In this battle for an electoral victory the perception of how each administration (in Seoul and in Washington, D.C.) is doing in domestic politics by its electoral constituency is critical for the outcome. Policy preferences, including those associated with resolving North Korea's nuclear issue, will be determined in the final analysis by the strategic calculation that will maximize the chances for electoral victory in the forthcoming national elections in 2004. The leadership of DPRK's Kim Jong II in nuclear brinkmanship, although he is not running for election, is likewise influenced by his concern for regime survival and related political strategy and calculus.

Given the fact that U.S. domestic politics is heating up as it gets close to the 2004 presidential and congressional elections, no bold and risky policy initiatives are likely to be launched by the Bush administration in dealing with the nuclear issue on the Korean peninsula. Low war risk policy options will be sought rather than radical changes in approach toward Korean security dilemma. This will mean that in the short run a formula for a peaceful and diplomatic settlement of the nuclear issue will underscore American policy rather than a forceful and confrontational approach to solving the nuclear crisis of the Korean peninsula.

The leadership in both Seoul and Washington must be cognizant of the fact, however, that Pyongyang's Kim Jong II has his own strategic plan to deny Seoul and Washington a win. Pyongyang will seek to influence and undermine the domestic political situation in the South so as to foster public perception favorable to the North. In a way, the latest move of the North in agreeing to accept six-party talks in Beijing on the nuclear issue reflects this strategic calculus on the part of North Korea's Kim Jong II.

So far, the Bush administration has been reluctant to characterize the North Korean provocation as a "crisis" that would

pose serious security threat on the Korean peninsula. In so doing, the Bush administration has resisted partisan pressure by the Democratic Party leaders to make the North Korean nuclear issue a more pressing and imminent danger to the U.S. than the Iraqi regime of Saddam Hussein. The Bush administration carefully resisted calls for repudiating the security threat posed by the North Korean brinkmanship as tantamount to "crisis" and escalatory tensions on the Korean peninsula.

In its diplomacy, the Bush administration has tried to downplay the "high stakes and high risk" nature of the North Korean provocation and escalation. But the decision time is rapidly dwindling and an element of surprise is increasingly undermined by the North Korean strategy of openness in its escalation and provocation. Unlike Saddam Hussein's "deceit and concealment" of a WMD program, Kim Jong Il's North Korea is more "open and public" in its posture and approach to using hyperbole and vocal pronouncement of its intentions.

Finally, Kim's strategy of nuclear brinkmanship and risk-taking seems to have born the initial, intended fruit of enticing the U.S. to a face-to-face meeting within the framework of six-party multilateral talks to be held in Beijing on North Korea's nuclear issue. This gathering of interested parties of the United States and the DPRK under the auspices of China as the host nation, participated in by the three neighboring countries of South Korea, Japan and Russia, will give a face-saving devise for launching a bi-multilateral forum for international agenda setting and for possible problem-solving on the Korean peninsula security. That effort may eventually lead to a six-power conference on overcoming the legacy of an inconclusive Korean War (1950-53) a half-century ago.

In preparation for the six-party talks on North Korea's nuclear issue, a flury of diplomatic maneuvers and consultations took place among the interested parties in the region. Chinese Vice Foreign Minister Wang Yi traveled to Pyongyang to meet with North Korean officials to finalize the setting and timing of the six-party talks in Beijing. Chinese Foreign Minister Li Zhaoxing during his visit to Tokyo told the reporters that the talks would be held in Beijing August 26. Whereas the Russian diplomat was in Beijing, South Korea's Vice Foreign Minister visited Moscow to meet with Russian Deputy Foreign Minister Alexander Losyukov who, in turn, was expected to meet with a North Korean Foreign Ministry envoy

few days later. U.S., South Korean and Japanese officials were scheduled to meet in Washington for further consultation and policy coordination.

The U.S. Bush administration hoisted a trial balloon ahead of the forthcoming six-party talks in Beijing. On August 7, Secretary of State Colin Powell sent a "subtle signal" to Pyongyang that the United States might be prepared to compromise on a top North Korean demand—a written security guarantee that the United States would not attack it. Powell said that there could be a way to "capture assurances to the North Koreans … that there is no hostile intent" and added that "there are ways that Congress can take note of it without being a treaty or some kind of pact." A senior State Department official said that this is "not an entirely new formulation".[17]

The six-party Beijing talks are a classic example of a two-level diplomacy game played out in global political arena involving both formal and informal channels. All delegates presented their government's official policy positions at the meeting, while they were also open for and susceptible to informal channels of communication face to face. It was no surprise, therefore, to see that on the first day of the six-party talks on August 27, Assistant Secretary of State James Kelly emphasized in his formal presentation that the U.S. goal was a "complete, verifiable and irreversible" end to North Korea's nuclear weapons program, without spelling out a "road map" to achieve this goal. Kelly also emphasized that President Bush had said the U.S. has no intention of attacking or invading North Korea, while stressing that the U.S. would not accept Pyongyang's demand for a non-aggression treaty. He did say, however, that Washington was open to exploring other options.

In an informal bilateral session with the North Korean delegation later on the same day, the North Koreans repeated that they did possess nuclear weapons, and raised the new possibility both of conducting a nuclear test to prove they did indeed have such weapons, and also to show they had the means to deliver a bomb. The North Koreans said they had been forced to go nuclear because of the "hostile policy" of the U.S. In response, Kelly said that this was a very serious matter and that the U.S. would share this information with the other participants. On the second day, August 28, the North Koreans made a long presentation to the entire

gathering, and repeated the same points they had made privately to Kelly, to the distress of the other participants.[18]

Despite these unfriendly exchanges between the U.S. and North Korean delegates, Washington was reportedly 'pleased' with the outcome of the six-party Beijing talks. "We have a long, long way to go. But the U.S. delegation is recommending that the U.S. stay the course" in continuing the six-nation negotiation process. "We know that the North Koreans are the most difficult interlocutors, but we are committed to the process" and policy direction set by the president. In fact, U.S. officials said they were "pleased by the chemistry of the talks, not between Washington and Pyongyang, but among the other participants: the U.S., China, Russia, South Korea and Japan".[19] The three day meeting, from the U.S. points of view, had led to a situation where the other nations, except for North Korea, no longer saw the nuclear issue as just a problem between Washington and Pyongyang.

The Beijing talks were also a nuclear poker game with six players at the table, where negotiators played cards that ranged from strong to weak hands. While the first round of the six-party Beijing talks in August was largely unproductive, China was confident that it had impressed the global community, particularly the United States, with its clout with Pyongyang. Despite its vocal rhetoric, claiming nuclear deterrence as a legitimate tool of self-defense, there are signs that Pyongyang might be ready for some form of a climb-down. Pyongyang did not carry out its threat of testing potent weapons, such as a nuclear bomb or a medium range missile test-firing, on the day of the 55th anniversary of the founding of the DPRK on September 5.[20] It was reported that China had told North Korea to halt its "constant war-preparation" and to concentrate instead on building up its feeble economy. Chinese President Hu Jintao allegedly offered three suggestions to the North Korean leader Kim Jong Il, while making it clear that Pyongyang must dismantle its nuclear weapons program: (a) work towards attaining economic self-sufficiency; (b) try out a Chinese-style open-door policy; and, (c) improve relations with neighboring countries after halting its WMD program.[21] If true, this is a clear case of strong-arm diplomatic tactics by China toward North Korea in exchange for continuing China's close ties with Pyongyang and also China's desire to improve its future relations with the United States.

VII. Concluding Remarks

The outcome of this diplomatic gathering will impact U.S.-ROK relations as to the future course of action and will focus new direction on alliance relations in the years to come. North Korea's "secretly developing a nuclear weapons program" was a key justification for the U.S. Bush administration policy imposing economic sanctions and directing efforts toward further political isolation and regime change in the North. It has also led to the U.S. administration's seeking (a) a new theatre missile defense system; (b) increased military spending; and, (c) continued U.S. troop presence in Asia and in South Korea. The 9-11 attack on America and the Bush administration resolve to address the transnational terrorism threat to U.S. security has added complexity to an otherwise familiar and conventional episode of the latest nuclear controversy over North Korea.

These and related policies of the U.S. administration will be affected by the proposed six-party talks on North Korea's nuclear issue. Under the regionalization strategy pursued by the Bush administration, the North Korean nuclear issue will become a multi-lateral agenda to accommodate the changing security dynamics alluded to above. Clearly, the Roh Moo Hyun administration policy on inter-Korean relations will be impacted by the (a) outcome of the April 2004 parliamentary elections and (b) the results of the November 2004 U.S. presidential election that will determine whether the current Bush administration will be re-elected. An uncertain security future awaits the Roh Moo Hyun administration in the days ahead.

Notes

1. Pyongyang's official position is that the DPRK exercises its "sovereign right to develop nuclear power for peaceful purposes." Its acquiring nuclear capability for generating electricity, however, is only partially correct. In June 2003 Pyongyang indirectly admitted for the first time its true intention of acquiring the nuclear weapons capability for deterrence against the U.S. (David E. Sanger, "North Korea Says It Seeks to Develop Nuclear Arms," ***The New York Times,*** June 10, 2003). Pyongyang also considers nuclear weapons as a guarantor of its regime survival, when its foreign ministry said, on April 18,

2003, that 'The Iraqi war teaches a lesson that in order to prevent war and defend the security of a country and the sovereignty of a nation, it is necessary to have a powerful deterrent force only."

2. Joseph Kahn, "North Korea Says It is Against More Talks," ***The New York Times,*** September 1, 2003.

3. "North Korea parliament backs nuke build-up," CNN.Com, September 3, 2003.

4. "President Kim Emphasizes US Alliance," ***Digital Chosunilbo,*** December 31, 2002.

5. James Brooke, "South Opposes Pressuring North Korea," ***The New York Times,*** January 1, 2003.

6. Ibid.

7. David E. Sanger, "U.S. Eases Threat on Nuclear Arms for North Korea," ***The New York Times,*** December 30, 2002.

8. Elizabeth Rosenthal, "North Korea Defends Decision to Restart Nuclear Program," ***The New York Times,*** January 3,2003.

9. Pyongyang denied a U.S. State Department delegation claim that it had admitted the existence of highly enriched uranium (HEU) program. However, the North Korean negotiator told the U.S. delegate, during their first Beijing talks in April 2003, that it indeed had already acquired nuclear bombs.

10. Steven R. Weisman, "U.S., in a Shift, Is Willing to Talk with North Korea About A-Arms," ***The New York Times,*** January 8, 2003.

11. "N. Korea slams U.S. 'Criminal Policy'" ***CNN.com,*** January 8, 2000.

12. North Korea had once threatened to withdraw in 1993, but reversed its stance three months later after obtaining an agreement with the U.S. Clinton Administration to defuse the nuclear standoff in June.

13. "North Korea Accuses Nuke Agency of Meddling," ***The Associated Press,*** Seoul, February 14, 2003.

14. David E. Sanger, "Bush and New President of South Korea Are Vague on North Korea Strategy," ***The New York Times,*** May 15, 2003.

15. Powell Says North Korea Rejects U.S. Proposal Talk," ***The Associated Press,*** Washington, DC, February 14, 2003.

16. James Brook, "DMZ Twist: U.S. Retreat Unsettles North Korea," ***The New York Times,*** June 16, 2003.

17. Andrea Koppel, "U.S. lays ground forN. Korea meet," CNN.com, August 9, 2003.

18. John King, "North Korea 'ready to show' nuke capability," CNN.com, August 29, 2003.

19. Mike Chinoy, "Washington 'pleased' with talks," CNN.com, August 29, 2003.

20. Willy Wo-Lap Lam, "China seeks payback forN. Korea efforts," CNN.com, September 16, 2003.

21. Willy Wo-Lap Lam, "Time to act, China tells N. Korea," CNN.com, August 25, 2003.

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Brain Drain and Economic Development in the Context of U.S.-Korea Alliance

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I. Introduction

Most people would acknowledge that the military and economic alliance between the U.S. and South Korea (Korea hereafter) has played a very important role in shaping the modern history in Korea. Among other things, many have pointed out that Korea's savings in military spending in order to deal with the North Korean threat since the Korean War is one of the major benefits of the strong alliance, because the savings that should have been diverted to military expense could be invested for improved economic development.[1] Also, under this security arrangement, Korea has successfully implemented the strategy of export-as-an-engine-for-economic-growth by borrowing heavily from the international financial market. Without the U.S.'s security guarantee, international borrowing would have been much more costly. Another important aspect of the strong alliance is that the U.S. has been the major market for Korean exports for several decades.[2]

In explaining Korea's successful economic development experience since 1960, economists usually point to several reasons. The rapid expansion of production capacity through heavy investment in capital goods and social infrastructure, stable governments, high domestic savings rates, a disciplined Confucian work ethic, and well-timed government-led economic policies have been often cited as the major determinants of Korea's high growth rates.[3] However, the accumulation of Korea's human capital has been mostly ignored in discussions of Korea's successful economic development process. This article, focuses on the role of human resources, particularly highly trained professionals, which will be referred to as "brains" hereafter, in the economic development process from the perspective of the U.S.-Korea alliance.

II. Role of Human Resources in the Rapid Economic Development of Korea

Many scholars date Chung-Hee Park's industrial policy of export promotion as the beginning of Korea's success story. However, one often overlooked fact is that when Park started to implement this policy, Korea was already prepared with quite substantial human resources as a result of more than a decade of intensive human capital investment by the previous administration. Immediately after independence, the Rhee administration pushed for universal primary school education under the guidance of American education planners.[4] Although seriously jeopardized by the outbreak of the Korean War, the successful post-war implementation of universal primary schooling increased the primary school enrollment from 1.37 million students in 1945 to 2.27 million in 1947 to 4.94 million in 1965. Despite substantial foreign aid provided by the U.S., Rhee's government failed to establish a peaceful and prosperous economy, mainly due to widespread corruption among its political elite. But, its legacy of expanding universal education paid off handsomely several years later. The number of teachers increased from 20,000 in 1945 to 79,000 in 1965. By 1965, the goal of universal primary school education had been more or less achieved, and the human resources for Park's export promotion policies were already in place.[5]

The second important aspect of human capital resources in that era was the availability of brains that assumed leadership roles in Korean economy. Most of these people received advanced degrees in the U.S. As the U.S. was heavily in the Korean War and the reconstruction efforts afterwards, many Korean brains went to the U.S. for advanced study. Although the Korean government did not pursue the systematic policy of "learning from the West" that the Meiji government of Japan adopted in the middle of the nineteenth century, substantial numbers of brains came to the U.S. to pursue further education and training by taking advantage of the patron-client relationship between the U.S. and Korea.[6] Also, a strong alliance between the two countries enabled many others to come to the U.S. with private funding after the war. In any case, by the early 1960s, there was a substantial number of U.S.-educated and trained brains that could be tapped by the government, universities and the private sector.

It has been widely recognized that the cooperation between

the government technocrats in the Korea Economic Planning Board, and the government-sponsored think tank, Korea Development Institute, successfully charted a roadmap of economic transformation to transform Korea from a poor, backward, agrarian economy to a productive industrial one.[7] Most of the intellectual group that led this initiative had been trained in the U.S., and had extensive contacts in the U.S. These American contacts also contributed to successful economic development planning.[8] And this successful cooperation by Korean technocrats and American experts has been a direct result of the strong U.S.-Korea alliance under the Park administration.

III. Influx of Korean Students to the U.S.: Brain Drain or Import of Graduate Education?

Throughout the history of the Republic of Korea, domestic education opportunities have expanded. Compared to the dire condition immediately after independence, the current educational situation is nothing short of a miracle. In 1945, the enrollment rate for primary school was less than 60%, and less than 3% of college-aged children attended higher education establishments. As of 2003, schooling through grade 9 has become free and mandatory, high school (grades 10-12) is more-or-less universally attended with modest fees, and about 70% of high school graduates advance to higher education institutions. In terms of the number of college students to their age cohort, Korea ranked the first in the world in 2003.[9]

Unfortunately, the rapid expansion of educational opportunities in Korea has not been accompanied by quality improvements. Even though government's expenditure on primary and secondary schools has increased tremendously over the years, dissatisfaction over the high cost of private tutoring and fierce competition to enter universities have been a perennial social problems.[10] The lack of improvement in quality has been particularly evident in higher education which relies least on government funds. When the Park administration implemented the equalization policies that eliminated competitive student selection by primary and secondary schools in exchange for government subsidies, the Korean government had to increase its support for public funding for primary and secondary education substantially. As the government put more resources into primary and secondary

education, the higher education sector had to rely heavily on private finances. While competitive student selection procedures to primary and secondary schools have been eliminated, universities have maintained competitive entrance examinations. Because of the strong demand for higher education, Korean universities have no strong incentives to improve the quality of instruction in order to attract more students. Also, as its revenue relies heavily on students' tuition payments, the universities have been more interested in increasing the number of students. There is no strong incentive to invest in research activities that are costly and do not yield immediate return to the university. In short, the Korean higher education system is characterized by high levels of college attendance, private funding, low quality instruction, and fierce entrance examinations. At the same time, the primary and secondary schooling system can be characterized as mediocre, supplemented with costly but effective for-the-exam, private tutoring activities.[11]

In particular, the quality of graduate education in Korea has not improved very much over the last several decades. Since the 1960s, more and more faculty positions, particularly in science, engineering, and business disciplines are filled by returning students with foreign Ph.D.s, a majority of whom are from the U.S. Following their favorite professors' advice, the brightest students who aspire to obtain advanced degrees go abroad, and the U.S. has been the most popular destination. The strong U.S.-Korea economic and intellectual alliance helps to sustain this cycle.

Table 1 shows the dramatic increase in the number of Ph.D.s received by Korean students since 1975. Notice that most of this increase is due to the increase of students with temporary visas (student or exchange scholar visas). The bonanza of obtaining U.S. Ph.D.s culminated in 1993-94. In those years, more than 6% of the total Ph.D.s granted in U.S. institutions were awarded to Koreans. Since then, it has started to decline quite rapidly. In the year 2000, the number of science and engineering Ph.D.s received by Koreans has decreased by a third compared to the peak years.[1] Natural science and engineering disciplines traditionally had the largest share, and the share of social sciences has decreased substantially since 1985, while that of the humanities and professional studies has increased. It is quite clear that more and more students have been supported by personal means since 1985.[13]

Table 1. Statistical Profiles of Korean Doctorates Received in the US.

Classification	1975	1980	1985	1990	1995	2000
Total number of Ph.Ds earned	190	158	392	1,259	1,306	1,048
Natural Science and Engineering (%)	59.5	55.0	64.2	60.9	52.4	53.2
Social Science including Psychology (%)	21.6	28.5	18.7	16.9	24.6	18.0
Humanities, Education, and Professional (%)	18.9	16.5	17.1	22.2	23.0	28.8
Some personal financial support (%)	44.2	53.8	79.7	72.4	74.1	96.5
With permanent visa (%)	36.3	21.5	12.0	5.6	10.0	9.7
Intend to stay in the U.S.(%)	46.8	48.5	33.5	31.5	38.7	64.1
Firm Plans to Stay in the U.S. (%)	37.7	40.9	25.8	23.0	20.9	42.9

Source: Jean M. Johnson, *Statistical Profiles of Foreign Doctoral Recipients in Science and Engineering: Plans to Stay in the United States,* NSF-99304, Arlington, VA: National Science Foundation, 1998. Year 2000 is from unpublished special tabulation. Note: * Only for science and engineering (including social sciences).

Because of substantial living standard differences between the U.S. and Korea, there was a substantial brain drain during this period. Many bright Korean students who finished their advanced degree in the U.S. ended up settling down in the U.S. This phenomenon was particularly keen in the science and engineering fields, where scholarships for graduate students and employment opportunities for graduates were abundant. At the same time, quite

a few medical doctors migrated to the U.S. during the 1960s and 1970s after the Kennedy administration started to accept the immigration of foreign doctors. The brain drain of professionals from low income countries to high income countries has been widely observed in many countries.[4] According to a U.S. National Science Foundation report, 63% of foreign-born students who earned science and engineering doctorates from U.S. institutions between 1988 and 1996 said they planned to locate in the U.S. Two-thirds of those who planned to stay had firm plans for further study or employment.[15] The number was substantially lower for Koreans: among the science and engineering doctoral recipients during the period of 1988-96, about a third wanted to stay in the U.S., and about two thirds of them had firm plans to stay (see Figure 1).

Figure 1. Plans of Korean Science and Engineering Doctoral Recipients at Degree Conferral: 1988-1996

<table>
<tr><td rowspan="2">Permanent visa
8.1%</td><td rowspan="5">Total number of Ph.D.s
8,851</td><td rowspan="4">Plans to stay in the U.S.
36.1%</td><td rowspan="2">Firm plan to stay in the U.S.
63%</td><td>Post-doc
47.1%</td></tr>
<tr><td rowspan="4">Non-permanent visa
91.9%</td><td>Employment
15.6%</td></tr>
<tr><td rowspan="2">Seeking to stay in the U.S.
37%</td><td>Post-doc
23.5%</td></tr>
<tr><td>Employment
12.6%</td></tr>
<tr><td colspan="3">No plans to stay in the U.S.
63.9%</td></tr>
</table>

Source: Jean M. Johnson, *op. cit.*

In the case of Korea, the concern over the brain drain turned out to be brain savings to some extent. As economic opportunities for Korean talents, particularly in business and engineering, expanded in Korea during the 1980s and 1990s, a substantial number of those who settled in the U.S. returned to Korea. Even if they did not return to the U.S. permanently, many served as resource persons in academia and industry, when such

Korean organizations sought occasional help for technical expertise.

Until the early 1990s, despite a large gap in earning potential between the U.S. and Korea, many U.S.-educated brains gladly chose a career in Korea because the jobs there tended to be higher in status with more responsibility. Korean jobs also tended to be more stressful and with longer hours, but they could be more fulfilling as they came with more responsibility. Between 1965 and 1995, the Korean economy grew rapidly, and there was a strong demand for such brains in leadership positions. Most of the U.S. educated brains were able to take up such positions.

Therefore, it is safe to conclude that until the mid-1990s, Korea did relatively well in minimizing the brain drain. Compared to other Asian countries such as China and India, the percentage of brains who intended to stay in the U.S. was substantially lower. In this regard, the large influx of Korean students during this period can be regarded as an effective mechanism for training high level human resources without much domestic investment, and the strong alliance between the U.S. and Korea was one of the most important determinants of this success story.

IV. Role of U.S.-Educated Ph.D.s in Korea

Currently in Korea, the U.S. educated Ph.D.s are the major component of high level human resources. In 1999, 40.1 percent of full time faculty in Korean universities had earned Ph.D.s from abroad, with 67.2% of them from the U.S.[16] This ratio would undoubtedly be higher among younger faculty members. Among the 22,133 foreign doctoral recipients registered in the Korea Research Foundation in 2001, 12,824 (about 58%) had received their degrees from the U.S. In the top ranking research universities, such as Seoul National University, Yonsei University, Korea University, Korea Advanced Institute of Science and Technology (KAIST), and Pohang University of Science and Technology (POSTECH), most faculty had received their Ph.D.s from major U.S. universities.

Most university students in the 1970s and 1980s recognized the high rewards for U.S. Ph.D.s. Consequently, much talent came to the U.S. for higher degrees, and a majority returned to Korea. However, the process could not be sustained in the long run. In the Korean labor market, an advanced degree has been regarded as more of a credential, and the credential has been more important

than the performance of an individual worker in determining the labor market outcome. For example, professors are granted de facto tenure when they are hired, and the determination of salaries and promotions is hardly affected by individual performances after the hire. Even in private firms, loyalty and the length of the job tenure are regarded as more important in determining the fate of the worker. However, as enrollment in higher education in Korea increased dramatically and foreign Ph.D.s grew dramatically, the return to college and post-graduate education started to decrease substantially.[17] The Korean system, relying that on credentials rather than competitive pressure for resource allocation, created an increasing excess supply of talents and wasteful rent-seeking activities over time.

Table 2. Doctoral Degrees awarded in Korea

Year	Number of Ph.D.s	Ratio (%)*
1970	407	n.a.
1975	994	19.1
1980	528	29.9
1985	1,400	28.0
1990	2,747	45.8
1995	4,469	29.5
2000	6,558	13.9
2002	7,623	n.a

Source: Number of Ph.D.s - Korea Ministry of Education and Human Resources, *Education Statistics Yearbook,* various years.

Ratio of U.S. Ph.D.s to Korean Ph.D.s in percent is calculated by authors, n.a.: not available

During the late 1980s and early 1990s, it became evident that the job prospect for U.S.-educated Ph.D.s had dimmed as the number of U.S.-educated Ph.D.s grew rapidly. More graduate students then wanted to stay in Korea for their Ph.D. in order not to

lose contact with the professors who could be helpful in securing teaching positions. Also, the quality of faculty and graduate education in Korea improved substantially, thanks to the quality of the new faculty and the establishment of graduate and research-oriented universities. Consequently, the relative attractiveness of pursuing a PhX). in Korea increased substantially over time. At the same time, the Korean government provided military service exemptions to those pursuing graduate education in Korea. Because of all these factors, the number of graduate students and Ph.D.s awarded in Korea rose rapidly after 1985. As shown in Table 2, the number of Ph.D.s awarded in Korea was only about 400 in 1970. In 2002, the number of Ph.D.s awarded in Korea was 7,623, quite high compared to other nations. The last column in the Table is the ratio of number of Ph.D.s awarded in the U.S. to the number of Ph.D.s awarded in Korea for that year. Between 1975 and 1990, the ratio has increased rapidly, but decreased suddenly after 1990, reflecting both the desire of graduate students to pursue Ph.D.s in Korea and the rise and fall of the popularity of the U.S. Ph.D.s.

The glut of Ph.D.s produced domestically and abroad has made the job market for Ph.D.s extremely tight. It has been reported that one third of the Ph.D.s do not have meaningful employment, and the situation is likely to become worse. A peculiar trap for this excess supply Ph.D.s is the under-employed "part-time instructor". Most Korean universities, particularly private universities under strong incentives to reduce expenditures for teaching personnel, have relied heavily on cheap part-time instructors.[1] The number of part-time instructors in 2003 is estimated at more than 50,000, and is more than the number of full time instructors. After investing so many years earning their Ph.D.s, part-time instructors struggle with low earnings for many years, hoping eventually to secure full time teaching positions.[19] Because of the slow turnover of the regular professorial positions and the sluggish expansion of new positions, the wait becomes longer every year.

Although there have been examples of world class research universities (e.g., KAIST and POSTECH), most of the Ph.D. programs in Korean universities remain weak. As Korea enters into a more knowledge-based economy, the role of research and development becomes more important. Consequently, there has been a rising concern related to the quality of university education

in Korea. For example, Korea ranks almost at the bottom of all major countries ranked by the IMD criteria as to whether the university system meets the needs of a competitive economy.[20] However, it is fair to say that the effort to upgrade Korea's higher education system emphasizing the supply side has not been very successful, while the labor demand for brain in Korean economy has not grown substantially.

V. Increasing Supply and Decreasing Demand of Talents in Korea: Large Scale Brain Drain?

According to a recent study done by the Korea Trade Association, the number of Korean students seeking degrees or language training abroad is about 350,000. The amount they spent in one year has been estimated at about 4.6 billion U.S. dollars, which is about a quarter of the budget of the Korea Ministry of Education and Human Resources.[21] There has been a steep increase in these numbers. Currently, there are about 150,000 Korean students enrolled in higher learning institutions abroad. Out of these students, about 60,000 (40%) are in the U.S. Other popular destinations are other English speaking countries, such as Canada and Australia, which take an additional 30,000 students.

In 2002, there were about 500,000 foreign students in U.S. higher education institutions.[22] Korea ranks third in total numbers, following China and India. Roughly speaking, Korean students make up about 10% of the total of foreign students in the U.S. Since India and China have much bigger populations than Korea, Korea's presence in American universities is quite substantial. With the educational opportunity in Korea improving substantially, why are so many Korean students choosing to study in the U.S. and other countries? As this article indicates, the answer is primarily related to job market conditions in Korea.

Since the late 1980s, the composition of students going abroad to study has changed substantially. Instead of graduate students, more and more undergraduate students have gone to the U.S. The phenomenon has been driven by the following factors. One is that rising incomes have enabled middle class students without any outside scholarship to attend foreign universities. The second factor is that the emerging global economy in Korea has awarded additional benefits to job applicants with better foreign language skills (particularly English). Many college students have

taken a semester or even a year off, and headed for study abroad to sharpen their language skills. The third reason is that the search for exchange at the secondary school level has been compromised by the goal of equality in education.

Besides the brain drain that started in the 1970s, (i.e., Korean nationals who receive advanced degrees in the U.S. staying in the States), there are new trends of even more extensive brain drains out of Korea. Many professionals who returned to Korea in earlier years, have migrated back (return-return-migration) to the U.S. for various reasons (unsuccessful career development in Korea, family problems such as difficulties in raising children, and so on). However, the current economic difficulty in Korea, rising nationalism (and anti-Americanism), and security uncertainty created by the North Korean nuclear weapons program are also major contributing factors to this return. Moreover, more and more talented Koreans who are already out of Korea wish to stay out of Korea.[23] The earlier wisdom that they can lead more fulfilling professional careers in Korea is no longer accepted. As the senior positions in Korean government, university teaching positions, and private sectors for expatriates has shrunk, the prospects for such jobs in Korea has also.

The shifting paradigm of personnel policies since the financial crisis of 1997-98 has contributed to a new brain drain. Many Korean professionals have started to view jobs in Korea as no longer life-time employment. Most mid-career workers have begun to think that, unless they upgrade themselves continuously, they face the danger of losing their jobs. For career development purposes, therefore, many young professionals have viewed American and other foreign jobs that have emphasized individual performance and improvement as more suitable than Korean jobs that have emphasized organizational harmony and loyalty.[24] There has been an additional social consideration for younger workers. Unlike their older colleagues who grew up in tougher economic situations, the new generation has enjoyed more comfortable material lives, and has tended to be more individualistic and value quality of family life over a more fulfilling career. Many of these people have viewed the high pressure of working conditions in Korea less favorably than the American situations.

At the same time, the number of primary and secondary school students who have gone abroad to study has grown rapidly.

The number in 2001 was estimated at about 16,000. Most of these students have been children of upper-middle- and upper- income households with strong ties to foreign countries, such as professionals who had studied in the U.S. earlier, or cultivated business affiliations abroad. Quite often, the burden of private tutoring, the pressure of college entrance examinations, and the poor quality of schools in Korea have been cited as the major reasons for study abroad. It is likely that the students who have left Korea at a young age will be more likely to work and stay abroad in the future.

VI. Exit or Voice? The Choice of the Korean Brains

One may wonder why the anti-U.S. sentiment, particularly among young people, is growing in Korea while the number of Koreans who come to the U.S. to study is also growing more rapidly than ever. Common expectations, as expressed by U.S. State Department officials are that the more foreign students experience American culture, the more favorable their impressions will be towards the U.S. Several factors would seem to contribute to this phenomenon. Some are directly related to American foreign policy toward the two Koreas, while others are purely domestic in nature. First, the young generation has not experienced the uncertainties of the Korean War. Consequently, their security concerns about North Korea are much weaker than that of older generation. Also, the young people have grown up in a more affluent environment in which Korea is portrayed as a sizable factor in the international arena (member of OECD, successful sponsor for international events such as Olympic Games and World Cup, and so on). In this regard, young people would like to assert their national pride, and the assertion is sometimes expressed as more independence from the U.S. in various areas, including military, political, diplomatic, economic, and social spheres.

Second, the political coalition that successfully elected President Rho was based on resistance to people in power including big corporations, conservative opinion leaders in the mass media, universities, and government bureaucracies. Because the democratization of Korean politics put these forces into the main stream, the movements are beginning to be considered as a force for political freedom for oppressed minorities. As the Rho government is reluctant to discourage its political supporters, these opinions (e.g., anti-U.S. slogans) expressed in mass rallies have been

accepted as the major opinion.

Third, the North Korean government has successfully played an important role in driving a wedge between the nationalistic movement sponsored by Rho government and anti-North Korean political forces. For years, North Korean openly criticized the Grand National Party and the conservative media (Chosun Daily Newspaper in particular) as U.S. puppets and a betrayer of the Korean people against unification. A recent example is that the anti-North Korea rally by conservative civic organizations that included the burning of the North Korean flag and Kim Jong H's portrait caused the North Korean team not to attend the 22nd Universiade Games in Daegu. However, North Korea reversed its decision after President Rho expressed regret about the incident. Though it is not clear how divided younger generations are dealing with North Korea, people with strong nationalist sentiments are clearly more vocal under the current administration.

Fourth, the wave of strong labor activities and North Korea's nuclear threat have been major stumbling blocks to foreign investment in Korea. Despite strong efforts to promote foreign investments by the Kim Dae Jung and Rho Moo Hyun governments, the current political and economic environment is regarded as not hospitable to active direct foreign investment. The lack of growth in employment in the midst of the continuing supply of college graduates in Korea has created a tight job market for college graduates and young professionals. Recent college graduates have been frustrated by this tight job market, as the dream of social mobility and secure jobs through more education have not been realized. With newly found national pride in the young generation, this frustration is often directed at the U.S.

The inability to create jobs, particularly high paying professional jobs, is the major weakness of the current Korean economy. For the last three decades of economic growth, the Korean economy has relied on the manufacturing sector. Although several manufacturing industries, including ship building, automobile, and electronics, are strong in Korea, the manufacturing sector in general is not likely to create a great number of jobs. Moreover, there is a serious mismatch between current job openings and the emerging labor force. Although labor shortages and high wages are reported in manufacturing and blue collar jobs, college-

educated workers are not willing to take such jobs. This tendency is likely to continue in the future.

Given this serious mismatch between the demand and supply of labor, it seems that a stronger U.S.-Korea alliance could create more professional jobs in Korea. Currently, almost one-half of employment opportunities in Korea are in the informal sector. Although most of these informal sector jobs are in services, they tend to be low-paying-low-productivity-dead-end jobs. As the Korean economy matures, it is quite likely that professional service sector jobs could be the engine of economic growth of Korea in the coming decades.

A common response to the ineffective education system and tight professional job market is that talented younger brains are leaving Korea. They are typically children of upper class and middle class parents with professional jobs. Many of them are educated in the U.S., and some were born as American citizens. In the case of males, most took advantage of the exemption of mandatory Korean military service. More and more resources are being devoted to educating these children, and unless the U.S.-Korea alliance becomes stronger, they are unlikely to return to Korea for meaningful careers. In this regard, this brain drain will likely be permanent.

In our view, the effect of the eroding U.S.-Korea alliance on bi-lateral trade will not be very significant as long as both parties have something to gain by the trade. Even if trade sanctions are imposed for political reasons, they will likely be removed quickly, as the competing political party or the interest groups losing because of the sanctions will vigorously oppose them. Even with the ardent anti-U.S. sentiment, Korea will continue to import American aircraft and food, while the U.S. will import cell phones and semi-conductors from Korea. However, an eroding alliance will deter direct U.S. investment in Korea, which is vital to job creation in the professional service sector and to the transfer of competitive management skills and technologies. Moreover, it will increase the brain drain from Korea to the U.S., resulting in the reduction of the growth potential in the future Korean economy. It is ironic that the younger generation which has been most vocal against the U.S. in recent years will be the biggest victim of the eroding U.S.-Korea alliance.

Notes

1. In 2003, Korea spends less than 3% of GDP for military purposes, whereas North Korea is estimated to spend about 25% of its GDP in the same category. Although the short run economic impact of defense spending is controversial, the heavy burden on military spending surely has a negative effect on long term economic growth. See Addur Chowdhury, "A Causal Analysis of Defense Spending and Economic Growth," *Journal of Conflict Resolution* 35, 80-97; Saadet Deger, "Human Resources, Government Education Expenditure, and the Military Burden in Less Developed Countires," *Journal of Developing Areas* 20, 37-48; Emil Benoit, *Defense and Economic Growth in Developing Countries,* Lexington, MA: Lexington Books, 1973; and James E. Payne and Sahu P. Anandi, *Defense Spending and Economic Growth,* Boulder, CO: Westview Press, 1993.

2. U.S. has been the number one trading partner for the Korean economy until 1999 (IMF, *Direction of Trade Statistics,* various years).

3. See, for example, Alice H. Amsden, *Asia's Next Giant: South Korea and Late Industrialization,* New York: Oxford University Press, 1989; or Byung-Nak Song, *The Rise of the Korean Economy,* New York, NY: Oxford University Press, 1997.

4. Noel F. McGinn, et al., *Education and Development in Korea,* Cambridge, MA: Harvard University Press, 1980.

5. See Korean Ministry of Education, *50 Years of Education History* (in Korean), 1998, for detailed descriptions of Korean education policies.

6. For example, asubstantial number of brains came to the U.S. under the auspicious of Fulbright Scholarship Programs, East-West Center Fellowship Programs, Minnesota-Seoul National University Exchange Scholars Program, Ford Foundation, U.S. International Cooperation Administration, and so on.

7. For a critical evaluation of recent roles of U.S. trained Korean economists in the economic policy makings, see Alice H. Amsden, "The Specter of Anglo-Saxonization is Haunting South Korea," in *Korea's Political Economy: An Institutional Perspective,* edited by Lee-Jay Cho and Yoon-Hyun Kim, Boulder, CO: Westview Press, 1994.

8. In Yung Chung, *Economic Brains in the Hongnung Forest* (in Korean), Seoul: KDI Press, 2002.

9. Sunwoong Kim and Ju-Ho Lee, "Changing Facets of Higher Education in Korea: Market Competition and the Role of the State," paper presented in the Workshop on Upgrading Korean Education in the Age of Knowledge Economy: Context and Issues, sponsored by Korea Development Institute and the World Bank, October 16-17, 2002, Seoul, Korea.

10. For more detailed information on current problems and issues, consult Se-U Park, et al., editors, *Transition of Primary and Secondary Education in Korea: Enhancing Autonomy and Accountability* (in Korean), Seoul: Korea Development Institute, 2002.

11. Ju-Ho Lee and Sunwoong Kim, "Economic Analysis of School Policy and Private Tutoring (in Korean)," *Economic Analysis of Korean Economy* (in Korean) 2(2), 2002.

12. Susan T. Hill, *Science and Engineering Doctorate Awards: 2000,* NSF 01-314, Arlington, VA: N.S.F., 2001.

13. These figures include any partial support by the University or the government.

14. See Vinod B. Agarwal, "Immigration of Engineers, Scientists, and Physician and the U.S. High Technology Renaissance - A comment," *Social Science Quarterly 1* (1), 196-98.

15. Jean M. Johnson, *Statistical Profiles of Foreign Doctoral Recipients in Science and Engineering: Plans to Stay in the United States,* NSF-99304, Arlington, VA: National Science Foundation, 1998.

16. Korean Council for University Education Council, *University Education* (in Korean), Jan-Feb, 2000.

17. Kang-Shik Choi, "The Impact of Shifts in Supply of College Graduates: Repercussion of Educational Reform in Korea," *Economics of Education Review* 15, 1996, 1-9.

18. Most "part-time" instructors do not have other meaningful occupations, but teach several courses, sometimes in several schools simultaneously.

19. The plight of part-time instructors has been intensified by the suicide of a long time part-time instructor at Seoul National University in June 2003. There has been an effort to organize a labor union for part-time instructors recently. For more information, visit www.kangno.com.

20. IMD, World Competitiveness Yearbook - 2003.

21. Hankyoreh Daily Newspaper, www.hani.co.kr. February 19, 2003.

22. For more information, visit U.S. National Center for Education Statistics, www,nces.ed.gov.

23. Similar concern was expressed by the Germans, who contribute the largest number of post-docs to the U.S. in Europe. See Center for Research on Innovation and Society, German Scientists in the United States: Challenges for Higher Education and Science Policies, 2001, German Federal Ministry of Education and Research.

24. On the other hand, the breakdown, of the long-term employment system of major private companies also increased the demand for U.S. educated Koreans for their mid-manager or manager positions. In particular, those who obtained MBAs in the U.S. have been in high demands from Korean private companies after the financial crisis.

Can Neo-classical Principles be an Appropriate Paradigm for the Future Economic Development in Korea? [1]

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I. Introduction

The Korean economy experienced a dramatic transition from one of an unprecedented rate of economic growth to one under the IMF bail out package program. The recent currency crisis has vitiated in a way the success of rapid economic growth in the past, and brought about hardship and agony to Koreans as well, which they have never experienced in recent decades.

Further, some economists have raised quite skeptical views on the future of the Korean economy, although, Korea has been a symbol of the most successfully developing country. One of the most significant arguments supporting these negative views is that the ability of economic growth of Korea has reached its limit, since Korean economic development has depended excessively on increases of labor and physical capital inputs.[2] Some economists even jumped to the conclusion that the Korean miracle was a simple illusion, and thus Korean development experiences can no longer serve as a model for development plans in LDC's.

Others consider the current crisis as just a transitionary phenomenon caused by insufficient and delayed structural adjustment, and speculative foreign investors.[3] Some authors define the former as an internal factor, and the latter, an external factor. But I believe such classification does not provide any significant implications in this study.

These conservative believers try to maintain their views by pointing out strong economic fundamentals, a high rate of savings and private investments, effective human capital development, and successful implementation of sound economic policy (including export-oriented strategy, well-managed industrial policies, SOC development, promotion of development-oriented financial system, etc.).

The fact is that, as the world's 11th largest economy, Korea became a member of OECD in 1996. The inflation rate measured in

terms of GDP deflator was stabilized within 5%. There was no real concern over the government budget, since the government maintained a balanced budget over the years. A current account deficit persisted but did not seem to cause alarm. In fact, in the previous ten years it never rose above 5% of GDP until the end of 1996.[4] Any stylized macro model is not good enough to incorporate the complex structural imbalances that contributed to the breakout of the crisis. A model that focuses on key macroeconomic variables and external conditions is unlikely to be adequate to derive reasonable answers. Further, any indicator approach to forecast the possibility of another crisis loses its meaning in this sense.

The debate on this issue seems to go on for the time being. What is important at this point is, however, how to overcome diverse impacts of the currency crisis and to establish a new paradigm for the future economic development of the Korean economy. Prime interest will be put on whether the neo-classical principal can serve well to this end in Korea.

II. Causes of the Crisis

Most Koreans believed that Korea would not be contaminated by the South-East Asian countries' currency crisis. It was thus an unexpected incident to them when Korea was caught by the crisis. They thought then that it might just be the outcome of some financial mismanagement, and so it could soon be overcome. But the situation was much worse than everybody thought. In a word, it was a disaster. Since the crisis hit the country by surprise to the mind of Koreans, they got confused in proving the causes of the crisis.

We could point out some key immediate causes of the crisis such as the irrational government guarantee of deposits and loans of all financial institutions, ineffective handling of the failed Kia Motors and Hanbo Steal Corporations, the government's insistence on the strong *won* policy in times of the ASEAN crisis, rapid movement of international capital flow, etc. Many other factors have been provided such as over-lending and over-investment due to moral hazard, high growth and low profits, boom-bust cycle and asset bubble busting, poor corporate governance, overvalued exchange rates, deterioration of terms of trade, high proportion of short-term debts in total foreign debts, large government directed and connected loans, weak financial sector, poor supervision and

regulation of financial institutions by the government, lack of transparency in the financial statements of financial institutions and corporations, prevalent corruption and crony capitalism, high cost and low efficiency economy, etc.[5] But none of them alone or as a whole can provide convincing explanations.

Confused with the unexpected outbreak of the currency crisis, various and conflicting views were suggested on the causes of the crisis, although they could be basically classified into two groups. One of them is that the crisis was caused by the weakened structural fundamentals of the Korean economy. The other is that the crisis was induced rather by changes in the expectation of market participants and corresponding government reactions than market fundamentals.[6]

Before the crisis, the IMF and the World Bank had made optimistic evaluations on the future of the Korean economy, and Koreans also had a strong trust in the fundamentals of their economy. Thus, in the early stage of the crisis, the latter view received more attention than the former. They thought that the crisis simply originated from financial mismanagement and delayed structural reforms. So with some reforms, it could end soon, since it was thought to be nothing but an unfortunate short-term phenomenon.

It turned out, however, to be a disaster. It was not one that could be solved by short-term sentimental measures such as overseas sales of gold that was accumulated domestically in a nation-wide donation campaign. Nevertheless, even scholars like Jeffery Sachs and Joseph Stiglitz saw that the Korean crisis was mainly caused by sudden psychological panic in the international capital market, and thus maintained that it was caused by an accident, not by structural problems.[7]

In any case, this line of view is termed either as a 'self-fulfilling expectations model' or an 'exogenous shock hypothesis', or as an 'unexpected lightening hypothesis'. One of the leading views of this kind asserted that mismanagement of the government in times of a probable crisis aggravated the situation. In other words, even when there was an indication of an approaching crisis, the Korean government hastily opened its market for short-term capital movement, operated foreign exchange rates quite rigidly, and even made a mistake to provide guarantee with foreign loans of private firms and financial institutions. A probable accident developed into

a crisis, due to the lack of crisis anticipation as well as inappropriate counter-moves of the government. This line of view is termed as the T)ad lightening rod hypothesis', or as the 'government policy failure hypothesis'.[8]

Another line of hypothesis was formed, which was termed the 'conspiracy hypothesis' or the 'pander hypothesis'. This hypothesis maintained the view that the Southeast Asian crisis was caused mainly by malicious international speculations and/or by conspiracy of the IMF and other international financial institutions that worked for the benefit of the USA. Some people say that international capital which had fled out of the Latin American countries in times of their currency crisis, could not find proper places to invest, and thus incited Southeast Asian nations to overinvest through foreign borrowings. When investment risks were anticipated in this area, however, they suddenly pulled out their investments for the protective purpose. This was seen as a major cause of the crisis.

This view made sense in some respects, but could not provide a strong evidence that such physiological habitat of international investors alone could bring about the crisis. What is important is that an individual country should be able to foresee any sign of crisis beforehand, and develop proper measures to cope with even though a conspiracy was building up in reality. In addition, we have to admit that it is quite natural for any investors to do their best to protect their investments even through exercising their influence over their government or financial institutions.

All of the foregoing hypotheses turned out to be not so persuasive, since they put more emphasis on unfortunate environments, inappropriate counter-measures and a speculative nature of short-term investors, rather than a root cause. Further, these factors alone could not cause a crisis unless fundamentals of those countries in crisis were sound and strong. In other words, the source or the root cause of the crisis should be found from a structural weakness of the country. This line of view was termed as the 'structural weakness hypothesis' or the 'volcano eruption hypothesis'.

In short, although various views have been presented to explain the causes of the crisis, we can not deny that the root cause should be sought from the fundamental weakness of the traditional Korean economic operating system. In other words, the centralized

management economic (CME) system, which made the past success possible, provided the root cause of the crisis as well.[9]

As proved elsewhere, the CME system worked very well in accumulating enormous capital stocks and mobilizing them efficiently in the early stages of economic development. It should have, however, made appropriate adjustments to deal with changes in economic environment at home and abroad. Although some reform policies were planned and executed, but not good enough to accomplish major changes.[10]

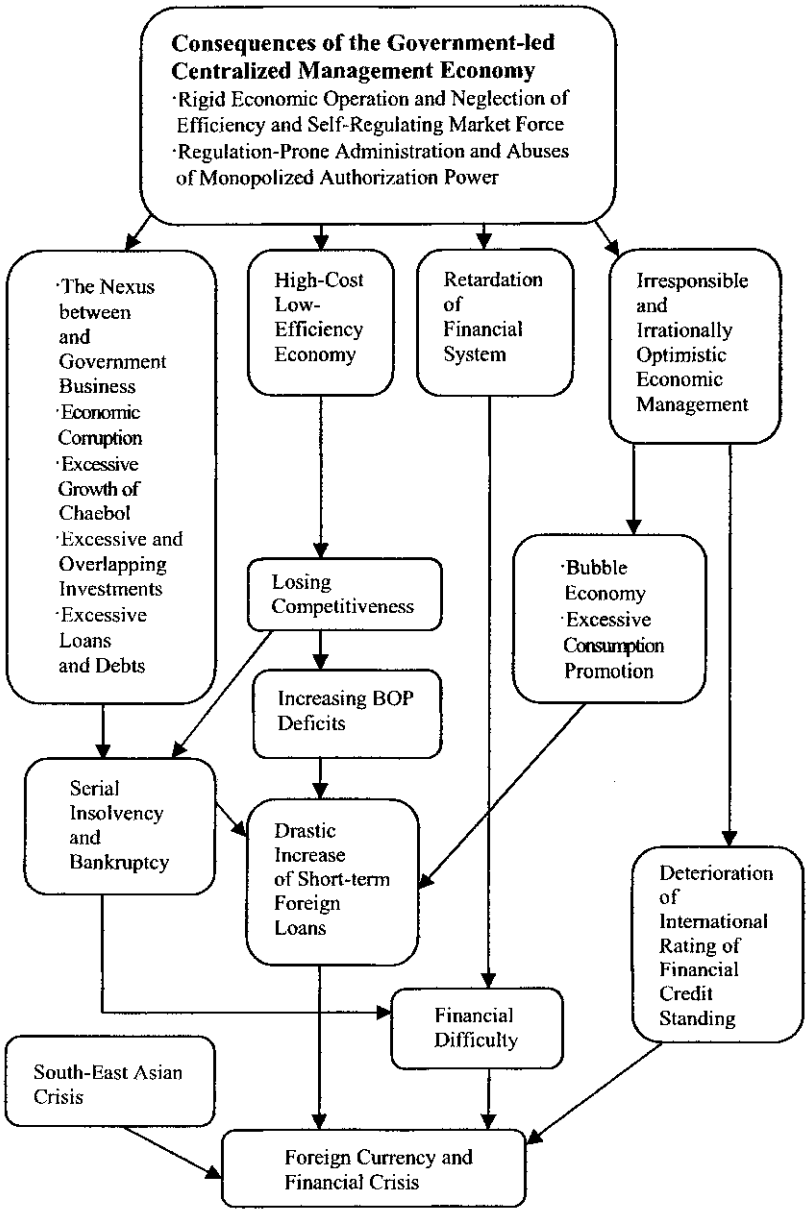
III. Success and Failure of the CME System

In a word, the government-led centralized management economic system which has characterized the economic development process of Korea, provided not only major contributing factors of success but also root causes of the economic crisis in Korea."

In the early stage of economic development, Korea adopted a strong government-led economic operating system in order to break the vicious circle of poverty, and to provide investments for SOC's and key industries. In general, economic development depends, mainly on who owns key production means (e.g. capital in a capitalistic society), and how to produce with them. Under the CME system, however, whoever the legal owner of capital is, they cannot avoid influence from the central government and bureaucrats, since the central government has been a major contributor to capital formation. This is the very reason why the central government could exercise a stronger role than legal private owners. Although privately owned, rapid and massive formation and accumulation of capital in a short period were not possible without the central government's influence. This is why this paper characterized the Korean economic development process by CME system rather than a simple government-led economic system.[2] The Korean government intervened in the private sector with an extremely centralized management system, and played a leading role in private capital formation, thereby exercising a stronger influence over the private legal ownership.

For the sake of an efficient pursuit of a government-led economic development plan, Korea established a strong bureaucratic system. For example, the Economic Planning Board (EPB) was established for economic planning and any jobs related

Figure 1. Root Cause of the Crisis



to economic planning such as the compilation and execution of the government budget, and financial support. The chief of EPB was named as vice premier, who was supposed to play a major role in coordinating economic development planning and execution. In order to consolidate a strong management system, the government went through financial reforms such as currency reform, nationalization of major commercial banks, and the creation of government-owned special banks. By so doing, the government became a sole manager of capital formation and financial assistance for leading industrial sectors.

The government became the sole responsible operator of capital ownership and management. To this end, the government had the central bank at its command. As the sole controller of the financial system, the government established the so-called policy-financing system, which was a government-directed credit rationing system.

The CME-based economic operations brought about regulation-oriented bureaucracy, abuse of monopolistic authorization for permission, licensing and certifying, and shortage in investment for the R&D and human capital sectors. Such operations created close government-business nexus, a breach of official discipline, expansion of corruption, and *chaebol-oriented* industrial policies. The CME also induced overlapping investment and excessive borrowing, which incurred insolvency and bankruptcy in later days. In addition, the government command of the financial system, paralyzed its autonomous function, while government-centered economic operations made bureaucrats indulge in an optimistic and peace-at-any-price principle. This in turn became a deterrent to normal economic transactions, and downgraded the competitiveness of government. The so-called high-cost low-efficiency economic structure was built in as a consequence of weakened competitiveness. Due to such characteristics of the CME system, the government simply tried to fill the gap by borrowing short-term foreign loans to cope with the ever-increasing trade balance deficits, and could not issue proper counter measures against the influence from the Southeast Asian crisis, but came to experience its own disastrous currency crisis.

In order to make the argument regarding the root cause of the crisis, let's make a brief review of the CME-based economic development process in Korea.

The CME system could make the Korean economy achieve unprecedented economic growth by establishing a market economic system, accumulating massive capital stocks, initiating the export-led industrialization strategies and providing sufficient financial supports for leading sectors. During 1967-1971, the real per capita GNP grew at an annual average rate of 9.6%.[13]

It was in the mid-1970's that the CME system needed some adjustment, as many undesirable consequences resulted. Some changes were planned and executed in the early 1980's. No significant changes were, however, made until economic democracy began to be pursued through the '1987 democratization declaration'. Such movement was followed by decentralization, deregulation and globalization. But the reform measures were not strong enough to accomplish improvement of national economic fundamentals and thereby prevent the upcoming financial crisis.[14]

One of the most salient features of Korea's rapid development is that extensive state intervention has been an integral part of the government development strategy. In the process of intervention, all possible policy measures were employed in such a way that incentives were provided through tax, credit, foreign exchange allowances and interest rate policies, and the domestic market was protected through trade policy, foreign direct investment policy and other forms of intervention with a plethora of regulation. Among all, the most powerful tool that was ever mobilized was the so-called policy financing. It was a government-directed credit allocation system that applied preferential interest rates for specific purposes such as exports and investments in specific target industries or projects.

State intervention could be easily justified at the initial stage of Korean economic development. Its market size was too small and too primitive to function efficiently. In addition, apparent features of underdevelopment such as lack of knowledge, technology and capital as well as pervasive inequality of international bargaining power made state intervention inevitable.[15]

Such development paradigm of state intervention was found to be quite conducive to fast economic growth in the 1960-70's. Since the 1980's, however, state intervention began to lose its efficacy, and to sow the seeds of the 1997 financial crisis in Korea. Many of the factors that were believed to contribute to the financial crisis in Korea, such as excessive and overlapped investments by

overdiversified chaebol through debt capital, an extremely inefficient financial sector, government and business nexus and a consequent lack of transparency in business operation and bureaucratic corruption, extreme regulation and consequent moral hazard, high-cost low productivity and consequent loss of international competitiveness, and rigid labor markets, originated from the strong state intervention mechanisms that were maintained too long.

Faced with a painful realization of the drawbacks of the old policy paradigm and financial crisis, it has been suggested that the policy paradigm should shift from state intervention towards a market-oriented economic system. In fact, even before the crisis, the Korean style state intervention, the CME system had begun to change, although we had to wait for major changes until the crisis.

Newly emerging policy principles were basically neo-classical. For the sake of sustainable economic development, market principles were emphasized, although economic democracy became a major issue for equitable economic development. So, the government was recommended to play a complementary role in the private sector, guarantee the freedom of the private sector and provide an environment conducive to the development of the private sector. Faced with the globalization era, transparency, accountability and competition in the private sector operation was emphasized more than ever.

By all of the foregoing discussions, it is evident that faced with ever-changing internal and external environments, the policy paradigm of Korea should make a proper adjustment. The question is, however, whether neo-classical principles can be a substitute for the old paradigm.

IV. Neo-Classical Principles and Their Limitations

Following the financial crisis, or even before the crisis, economic reform policies have been based largely on neo-classical doctrines in Korea.[16] Competition instead of government intervention and regulation, and trade and capital liberalization instead of import restrictions and protection have been suggested and pursued to promote economic efficiency through elevated competition. The liberalized and competition-based market economic system has been advised to replace the traditional development strategies of the developmental state model approach.

Chowdhury and Islam (2001), however, argued that the 'Washington consensus' could satisfactorily explain neither growth in pre-crisis Asia, nor the outbreak of the crisis. After all, Asian economies were paragons of the neo-classical principles in recent years. The 'Washington consensus' which reflected the intellectual influence of Washington-based institutions such as the U.S. Treasury, the IMF and the World Bank, advocated free markets, free flow of trade and capital across the globe. Stiglitz has led the way in criticizing conventional liberalism as development policy, and also pointed out that it misguided the East Asian Crisis.

Chowdhury and Islam even argued that the follies of the 'Washington consensus', a significant departure from the conventional Asian development model, partially contributed to the Asian crisis, and aggravated the crisis by severely constraining the macroeconomic policy mix.[17] They saw that the progressive withdrawal of governments from regulating both the real and financial sector of the economy since the mid 1980s in line with the 'Washington consensus,' drove Asian nations into a status of hostages to international financial markets. The only thing that the government could do was simply to keep foreign capital inflows to maintain economic growth.

Others like Hutson and Kearney (2001) pointed out the fact that there is a growing consensus that the international financial market and the world financial system have exhibited an increasing degree of fragility.[18] As a matter of fact, during the last two decades, we have witnessed four financial crises. The Asian crisis has been the most serious one among them. The amount of capital that has fled out of the region is estimated to be as high as 11 percent of the affected countries' combined GDP. What is worse, the crisis even threatened the stability of the international financial system, notwithstanding catastrophic damages on the affected countries.

What scared the countries directly involved in the crisis was that, the IMF forced them, in a way, to adopt its policy advice against interests of the troubled economies. There has been a growing concern that the IMF operation has been moving away from the international community, in favor of the USA. It is believed by many that international financial market failures such as information asymmetries and moral hazard, aggravated the crisis, albeit basically it may have resulted from a fundamental weakness

in the Asian economies, such as often-cited crony capitalism, poor corporate governance, inadequate financial supervision and inappropriate exchange rate policies, etc.

In any case, at least the IMF cannot avoid criticism that it has forced infected countries to accept its loan conditions which are in fact against the traditional line of macroeconomic requirements. Somehow, the IMF should have made an effort to reduce the size of its bail-outs. Furthermore, it should have assisted the rescheduling of debt repayment, instead of bailing out lenders alone. Unfortunately, the final decision was to ask Asian nations in crisis to adopt high interest rates and tightened government budget principles, which contributed to aggravation of the depression.

It is obvious that neo-classical principles may contribute to enhancing efficiency of the international market system, but we should remember that it will also widen the gap between the rich and the poor countries, since they will bring about an unfavorable atmosphere to LDC's in world trading most of the time.

In a nation, poor people can be protected by national policies such as the social safety net, health care, a pension system, etc. There are no comparable policies or systems that can work for the poor countries. It is quite predictable that the world economy will turn toward a more unstable position than now, unless some countervailing measures are prepared.[19]

V. An Alternative: The Advanced State Model Approach

What then can be an alternative to the old traditional statist model and the extreme neo-classical approach? What I intend to address at this point is that the role of the government should not be given up in LCD's, until they became a fully developed country although it should be shifted toward a new paradigm.

By establishing the CME system, Korea was able to achieve unprecedented economic growth, but came to experience the economic crisis as well just before the turn of the 20th century due to its inherent structural shortcomings. The government-led economic operations that functioned efficiently in the early stages of economic development,[20] created low-efficiency and high-cost economic structure at later stages.

Excessive government intervention, for example, deteriorated creative and responsive power of the market system. Even decisions on R&D investments were made by the government,

making private sectors more dependent on government decisions. This in turn brought about bureaucratic corruption. The government-led economic operations are in nature, inappropriate, as industrialization reaches a certain level. Excessive and overlapping investments, which stemmed from preferential government support, bought about not only business firms' but also national bankruptcy. The cause of the crisis is believed to have stemmed from the government's failure in institutional operations.

Disaster from the crisis was able to work as an opportunity for Korea to make a real change in its economic structure. In fact, Korea executed four major reform programs that were otherwise improbable to be realized in the past, and made its economy bounce back quite strongly.

As witnessed, however, in the mishap of neoclassical policy recommendations before and after the crisis, the role of the government in developing countries should not be given up, although some modification may be needed, (see the third row in Table 1)

If the neoclassical principle cannot successfully substitute for the conventional developmental state model, what then can replace the traditional approach? An alternative to be presented here is the termed 'advanced state model' approach.

The capitalistic system or the market economy is basically an efficiency-oriented system. Survival of the fittest is the name of the game. Inequality is a natural consequence. The weak or handicapped must devise their own protective measures doctrine. Government intervention is another way of making up their structural weakness and backwardness. The developmental state model or the statist model has played a leading role in this regard, especially in East Asian countries during the latter half of the 20th century.

Korea, and other neighboring East Asian countries still have a lot of structural and institutional backwardness and are thirsting for sustainable economic growth to catch up with advanced countries. Only compressed growth can make developing countries achieve further advancement in their economies. For faster growth under a less favorable economic structure East Asian nations still need appropriate government intervention in the years to come.

With all the foregoing discussions, I would like to suggest a new development model, which we may call 'the advanced state

Table 1. Economic Development Paradigms

Models / Issues	Developmental State Model for Early Stage Economic Development	Advanced State Model for Later Stage Economic Development
Internal and External Surroundings	•Pursuit of Free Trade •Favorable Attitudes toward Economic Support for the LDC's	•Globalization and Unlimiting Competition •Developed Countries' Interest -oriented International Economic Order
Development Strategies	•Government-led Economic Development Planning •CME System •Physical Capital-Oriented Quantitative Growth •Growth-First Principle •Unbalanced Growth through Export-led Industrialization	•Decentralization and Privatization •Decentralized and Liberal Economic Operations Human Capital-oriented Qualitative Growth-Stable Growth with Equity and Welfare Improvement •Upgrading of Industrial Structure and Correction of Industrial Disequilibrium
Role of Government	•Removal of Supply Bottle-neck Problems •Minor Interest in Correcting Market Failures •Neglect of Equity and Welfare Improvement	•SOC Expansion and Productivity Improvement •Major Interest in Correcting Market Failures •Equity and Welfare Improvement
Miscellaneous	•Capitalism is an efficiency-oriented system. •Proper role of government is needed to alleviate inherent drawbacks of the system and to pursue economic development. •Active and appropriate role of government is necessary for LDC's to advance their economies	

development model.' It will emphasize the role of government but in different aspects. The paradigm will simply be shifted from the old to the new, in such a way that it will suffice the new role of government for further advancement of the economy in Korea and (Asian) NIC's. The basic idea behind this model can be summarized as follows.

First of all, the new paradigm will concentrate on

sustainable and qualitative growth to reach an advanced state of economic development, replacing the early-stage economic development strategies for fast and quantitative growth.

Second, the economic operating mechanism of the government should move from the centralized management system to a decentralized one through democratization, privatization and liberalization in such a way as to improve both economic efficiency and equity.

Third, equity and welfare-oriented development principles should replace the growth-first principle. Various unhealthy consequences and disequilibrium caused by past development strategies need be corrected now.

Fourth, future development should be directed toward the establishment of a human capital-oriented, and knowledge / information-oriented society, which will definitely improve both economic efficiency and equity at the same time.[21]

Fifth, in order to accomplish the above objectives, the government should return private sector businesses to business firms and financial institutions, and concentrate on its original role for the supply of public goods (investment in SOC's and education, for example), correction of market failure and an embodiment of the welfare state, etc.

Finally, the role of the government needs adjustment depending on the development stages of a nation, but should not be given up. An active role of the government is indispensable for developing countries to move toward an advanced state.

A knowledge and information society is the one in which the status of human capital owners is elevated, and capital ownership is dispersed to many small owners. Human capital owners have an improved position over physical capital owners. Subordinate capital-labor relationships and extreme conflicts between them will fade away gradually, since cooperation between them is essential to promote efficient production in the human capital-oriented society. Capital and labor will pursue a positive sum game through cooperation.

The essence of the knowledge and information society lies at the development of human capital through investments in education, training and R&D. In particular, expansion and improvement of public education will increase the portion distributed to laborers, and thus improve social equity. In the end, a

knowledge and information society will create a win-win society and thereby enhance equity and efficiency through improving the laborer's position. This society can be the leading paradigm for the future and thus serve as a target for the future development policy agenda of the government.

One last note to make clear is that the ASD model is not necessarily against neo-classical doctrine. In fact, it incorporates many of the neo-classical and structuralist principles. It is simply focusing on proper roles of government needed for transformation toward an advanced state.

The ASD model is not necessarily against globalization either, which seems inevitable. It simply tries to point out some areas not need attention in the globalization process. Somehow, proper care and assistance should be made for LDC's, while they themselves should learn how to survive in the world of a new international economic order. The proper role of government is indispensable in this respect in LCD's. More importantly, some institutional devices need to be designed for stability of the world economy, like similar arrangements have been made domestically to alleviate structural shortcomings such as government failure, disequilibrium and unbalanced income distribution.

Notes

1. This paper was supported by the 2002 research grant that provided by The Sungkok Academic and Cultural Foundation

2. For details, see Paul R. Krugman, "The Myth of Asia's Miracle", *Foreign Affairs*, 73(6), 1994, pp. 62-78 ; Norman Flynn, *Miracle to Meltdown in Asia - Business, Government and Society*, Oxford University Press, 1999 ; Henke, Holger and Ian BoxilI(eds.) , *The End of the 'Asian Model'?*, John Benjamins Publishing Company, 1999.

3. Some people define the former as an internal factor, and the latter, an external factor. But I believe such classification does not provide any significant implications in this study.

4. Any stylized macro model is not good enough to incorporate the complex structural imbalances that contributed to the breakout of the crisis. A model that focuses on key macroeconomic variables and external conditions is unlikely to be adequate to derive reasonable answers. Further, any indicator approach to forecast the possibility of another crisis loses its meaning in this sense.

5. For details, see O. Yul Kwon, "Paradigm Shift in Korean Economic Policy

in the Wake of the 1997 Financial Crisis," in Anis Chowdhury and lyanatul Islam(eds.) *Beyond the Asian Crisis,* Edward-Elgar, 2001, pp. 75-100.

6. For details, see Jong Won Lee, Hyun-Hoon Lee and Doo Yong Yang, " Structural Reform in Korea: Its Process and Consequences," in Tran Van Hoa(ed.), *The Asia Recovery,* Edward-Elgar, 2001, pp. 15-33.

7. For details, see Joseph E. Stiglitz, "An Agenda for Development in the Twenty-First Century," in Boris Pleskovic and Joseph E. Stiglitz(eds.), *Annual World Bank Conference on Development Economies,* 1997, pp. 17-31.

8. For details, see Hyun-hoon Lee. "The IMF Rescue Program in Korea: What Went Wrong," *The Journal of the Korean Economy,* Vol. 2, No. 1 (spring 2001),pp.69-86

9. For details, see Jong Won Lee, "A Study on the Economic Development Process in Korea," *Kyong Je Hah Yon Gu,* Vol.41, No.2, 1993, pp. 335-371.

10. For details, see Jong Won Lee, *The Korean Economy,* Haenam, 2002.

11. For details, see Jong Won Lee, "Success and Failure of the Korean Economy and Its Prospect," Mimeo, 2000.

12. For more details on the CME system, see Lee (2002, op. cit., ch.2), and Lee (2003, *Sungkok Journal,* Vol.34).

13. As proved elsewhere(Jong Won Lee and Byung-Gyu Yu, "An Endogenous Growth Model Approach to the Korean Economic Growth Factors," *The Journal of the Korean Economy,* vol.8 (May 2002), pp.1-14), Korean economic growth was found, through a Romer-type endogenous technological change model estimation, to be achieved by technological development, human capital accumulation as well as accumulation of physical capital, i.e., Korean economic development was achieved not merely through more input, but through human capital and technological development as well.

14. Lee (2002) proved, by estimating a Roemer type growth model, that the degree of the centralized management of the Korean government played a positive effect on the economic growth for the 1970-1980 period, but was negative for the 1981-1996 period. In other words, the CME system was proved to have a positive influence on economic growth only in the early stage of development, but a negative influence in the later stage.

15. For details, see Alice H. Amsden, *Asia's Next Giant: South Korea and Late Industrialization,* New York: Oxford University Press, 1989 ; Chalmers Johnson, "What is the Best System of National Economic Management for Korea," in L. J. Cho and Y. H. Kim (eds.), *Korea's Political Economy: An Institutional Perspective,* San Francisco: Westview Press, 1994 ; Rodrick, D., *Growth Policy: Getting Interventions Right: How South Korea and Taiwan Grew Rich Economic Policy,* April 1995, pp. 55-107 ; Wade, R., *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization,* Princeton University Press, 1990.

16. Neo-classical principles consider physical capital accumulation as the only ultimate source of economic growth under the assumption of competitive equilibrium. In addition, the neo-classical tradition has been in favor of unlimited competition within a nation and abroad. This line of argument has been manifested in the Washington consensus. Such a doctrine may contribute to economic efficiency between advanced nations, but cause pessimism

regarding the external conditions of LDC's. In addition, it has a tendency to neglect other sources of economic development such as (1) improvement in the quality of labor through education; (2) reallocation of resources from low-productivity to higher-productivity uses; and, (3) the realization of economies of scale, and technology improvement. More importantly, neo-classical theories are based on unrealistic assumptions of perfect competition, which are far from the reality of LDC's. Neither neo-classical doctrines coupled with Washington consensus nor neo-Marxist approaches can provide appropriate guidance for the economic development problems of LDC's The ASD Model was introduced here to replace the old statist model of strong government intervention, and to substitute for the neo-classical principles for the future economic development reference in LDC's. Appropriate shift toward new roles of government, together with the establishment of knowledge and information oriented society will pave the way for future economic development for Korea and LDC's.

17. To be specific, Chowdhury and Islam put forward the following arguments: In the wake of the East Asian crisis, governments were forced by the IMF to give up policy independence. On the basis of the Washington-led international community, Asian governments were directed to win the 'confidence game' at all cost. Thus, interest rates were raised and budgets were tightened. The Keynesian compact was broken, albeit temporarily, but its inexorable logic prevailed. A prospective recession became an unescapable reality. They also said that prominent economists (for example, Corden, 1999; Krugman, 1998a, 1999; Sachs, 1998; Stiglitz, 1998b.) have conclude that the very IMF adjustment package aggravated the crisis.

18. For details, see Elaine Hutson and Colm Kearney, " The IMF and the New International Financial Architecture," in Anis Chowdhury and Iyanatul Islam (eds.), *Beyond the Asian Crisis,* Edward-Elgar, 2001, pp. 324-357; Martin Feldstein, "Refocusing the IMF," *Foreign Affairs,* March/April, 1998; Stanley Fischer, "The IMF and the Asian Crisis," IMF, March 20, 1998.

19. One more important note to make is that extreme liberalization and deregulation on the national and international level will make weak and poor small nations helpless in implementing proper stabilization policies domestically.

20. It should be noted, however, that either strong government or government intervention does not necessarily guarantee a high economic growth even in the early stages of economic development. In addition, the government-led economic operations, whether strong or not, do not necessarily imply automatic government intervention. After all, the CME system, the Korean style government-led economic operating system has been a particular one in that the government has played a more important role even than legal private owners in their capital formation.

21. For details, see Jong Won Lee, " How Can We Interpret the Knowledge and Information Society: An Economic Developmental Model Approach," *Korean Economic Review,* Vol. 26, pp. 1-16.

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U.S. Services Trade and Investment In South Korea Under The U.S.-ROK Alliance

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I. Introduction

The Republic of Korea (ROK), hereafter referred to as South Korea or simply Korea, was traumatically introduced to the modern, soon to be globalized, world as a result of the Korean War. One of the lasting effects of this forced modernization was a South Korean national imperative to develop economically as rapidly as possible. This was operationalized by the Park Chung Hee government which signed a peace treaty with Japan in 1965 after Park seized power.

Prior to 1965, the business legacy in South Korea was mixed at best. Korean business during Japanese colonial rule was one of small, local firms or economic organizations harnessed to Japanese wartime production. There did not exist the kind of international trade and business services which characterized the international/global trading system developed over several hundred years by the British and American venture capitalists. This international economic/business system was not equal, but it was global, and it rested on a series of business norms which became increasingly universal. World War II in Asia was fought in large part to insure the permanent establishment of these commercial/economic norms and prevent Japan from instituting an alternative form of modernization through an exclusive tribute system under the "co-prosperity sphere."

With the conclusion of a formal peace treaty between Japan and South Korea in 1965, the political economy of South Korea took on an increasingly "developmental state" form. Several elements often overlooked in this framework included a national security guarantee, in the case of South Korea (as in the case of Japan) provided by the U.S. military alliance. This allowed the South Korean government, by encouraging the development of *chaebols,* to undertake export-led growth. At the same time, Korean government policy maintained an orientation of nationalization or indigenousness with regard to advanced business services. Such a

policy has been widely practiced by other Asia-Pacific Rim "capitalist development states" as part of an overall development strategy, in an effort to keep these key knowledge generating activities in local hands and avoid aggressive external competition.

As a result, it is difficult to causally prove that the U.S.-Korean alliance has in and of itself changed, liberalized or "globalized" the services industries and the trade in services dimensions of the South Korean economy. Rather, the alliance, by providing a security umbrella for South Korean economic growth, may have actually retarded liberalization of advanced international business services trade. Yet, without the military/political guarantees of the U.S.-ROK alliance, an industrial economy in South Korea could not have evolved as it did, and by so doing the South Korean economy created the need for advanced business services.

Recently the *Financial Times* reinforced this point. It quoted Deputy Finance Minister Kwon Tae-shin who referred to protected markets as "selfish." He went further to say "about 70-80 percent of government officials now know the importance of opening up the service market. But the final decision is made in the Blue House."[1]

Three interrelated contradictions are at work at the same time with regard to advanced business services in South Korea. First, and most important, information technology is changing the structure of the South Korean economy. By its very nature firms of all sizes in this sector are more flexible and therefore more "open" than mainline manufacturing firms which characterized the traditional Korean *chaebol* Yet it was the *chaebol* which were responsible for the "Korean miracle" in which high quality and modestly priced manufactured goods were exported to Korea's core overseas markets of the TRIAD; Japan, Europe and North America. Additionally, firms in this new sector experienced fewer barriers to entry, so a new generation of such firms was created as part of the recovery from the Asian Financial Crisis of 1997-1998.

Second, new flexible technology companies inherently seek out niche markets and as a result need managers who can work in a flexible, global context. Thus changes in the Korean society at large, which appear to create a more equal and "in tune" society, also represent the backbone of both corporate and society change in Korean society at large and its corporations.

Most importantly, LG Group, Korea's second largest *chaebol*, has dismantled its former complex web of cross-shareholdings and reorganized most of its affiliate companies under a holding company. Actually, this change, while hailed as a major organizational shift, simply puts the *chaebol* under an early 1900's U.S. trust framework. Nevertheless, key transparent elements emerge from this arrangement, including sources of income, degrees of management control, and resulting clarity of operations, all of which have attracted more foreign capital.[2]

Finally, changes in this Korean societal culture are represented in concurrent changes in Korean corporate culture, not only in new technology-driven niche player firms, but also within all South Korean firms as well. New and more progressive forms of business interaction generally are necessary, and require a more sophisticated managerial class. Yet while all these trends are evolving, strong resistance to societal and corporate change still exists. Increased nationalism and a desire not to be "dominated" by the U.S., as well as general generational confusion regarding lifestyles, attitudes and options for life on the part of Korean young adults all point toward a stormy transition as old values continue to exist along with new ones.

II. Accounting: Important Background Information

With the enforcement of the Sarbanes-Oxley law in the U.S., the Korean Financial Supervisory Service (FSS) is currently studying the potential impact of requiring a firm listed on the Korea Stock Exchange and the KOSDAQ market to rotate all accountants and accounting firms in charge of the firm's audit every five or six years.

According to data recently passed on to lawmakers by the (FSS), 53 accounting firms earned around 50 percent of total income from consulting work during fiscal year 2001, the last year data are available. If new regulations are adopted, regulators would be able to place restrictions easily on accounting firms that try to sell non-audit services such as consulting and tax-payment strategy. Five large accounting firms, including Youngwha, Samil and Ahn Kwon & Co., have increased their revenue significantly by offering such consulting services as well as tax strategies to clients. As financial scandals have demonstrated in the U.S., clear violations of

conflict of interest norms exist when such practices exist. Yet, at the same time, such bundling of services would make sense in the Korean setting, where complex managerial challenges may establish requirements for consulting as well as normal accounting services.

Even though Korean accounting standards closely resemble U.S. standards "on paper" (i.e., from a formal and legalistic perspective), some experts in international accountancy have claimed that complex, personal and interlocking relationships between *chaebols* and accounting firms have distorted audits conducted in the past.

Example: Samjong KPMG

Based on FSS data, Samjong, Samil and Younghwa dominate the entire accounting market in South Korea with a combined market share of 70%. Samjong KPMG Inc. is a member firm of KPMG International, a Swiss non-operating association, which simply means that in compliance with Korean legal restrictions still in place concerning the activities of foreign accounting firms, the "association" can affiliate with a local firm, provide advice, but not complete openly for Korean business. The operating entities in Korea are KPMG Samjong Accounting Corp., KPMG Sehjung Tax Corp., and Samjong KPMG FAS Inc.

Samjong itself began in June 1991, with the establishment of Samjong Law Firm. In March, 1993, the Samjong Accounting Office was registered in Korea, and within the following year Samjong Accounting Corp was incorporated in Korea as well. Samjong Consulting was established in 1995, and Samjong Investment Bank was established in 1997. The year 2001 saw the establishment of Samjong KPMG, Samjong KPMG FAS (Financial Advisory Services), and KPMG Sehjung Tax Corp.

Samjong KPMG specializes in four lines of business:

- Financial Services—Banking & Finance, Insurance and Real Estate
- Consumer & Industrial Markets-Industrial & Automotive Products, Chemicals & Pharmaceuticals, Energy, Power and Natural Resources and Transportation, Consumer Products, Retail and Food & Beverage.
- Information, Communications & Entertainment-Software, Electronics, Communications and Media.

- International Trade Consulting~Anti-Dumping Lawsuit Defense and Countervailing Duties cases.

Samil Accounting Corporation (PricewaterhouseCoopers)

Since 1971, Samil has been the Korean affiliate of the global PricewaterhouseCoopers organization. SamiTs 83 partners and over 2,200 staff make it the largest professional services organization in Korea, more the double the size of the next largest accounting firm. For seven consecutive years, Samil has been ranked by the Financial Supervisory Service as the best accounting firm in Korea. Samil's local strength is demonstrated by the fact that it is the principal auditor of 6 of the top 10 *chaebol* conglomerates, 40 of the largest 100 Korean companies and 50% of the top-tier banks in Korea. Samil specializes in the following industries:

- Financial Services
- Technology, Information, Communications, and Entertainment
- Energy & Mining
- Service Industry
- REIT & Private Investment in Infrastructure
- Middle Market Services (essentially outsourcing service)

The People's Solidarity for Participatory Democracy (PSPD), South Korea's leading shareholder lobbying group, has recently alleged that Samil was lax in the auditing of Hyundai Engineering & Construction (HEC) from 1984-2000. PSPS claims that Samil inspected only "0.01 percent" of the construction firm's financial statements, including assets and liabilities, and then disclosed that HEC was in sound financial condition. Due to such compound lax accounting, HEC faced a financial crisis in 2000, posting 2.9 trillion won ($2.4 billion) in net losses at that time. PSPD further claimed that Samil destroyed of all of its audit records on HEC for the time period before 1998. Thus, investors and regulators could not figure out where the large amount of debt came when it suddenly/abruptly appeared in the year 2000. As a result of such multiple irregularities, in October, 2002, Samil was severely penalized by Korean securities regulators.

Ernst & Young (Youngwha)

South Korean accounting standards have come under further scrutiny this year (2003) following the discovery of a multi-billion dollar fraud at SK Global, part of the country's third-largest business group. The case was the latest in a series of accounting scandals involving Korean companies in recent years. Youngwha, the auditor for SK Global, is under investigation by regulators who are trying to find out why the firm failed to find a Won 4,380bn ($3.75bn) hole in the trading company's accounts. SK has been prominently featured in the news with the recent arrest of Chey Tae-won, the nephew of the founder of the *chaebol* and the son-in law of the former South Korean President.[3]

Deloitt & Touche

Deloitte & Touche LLC (Hana; the local name for Deloitte Touche Tohmatsu) announced in April 2002, that it has signed a Memorandum of Understanding to combine with Anjin & Co. (Andersen in Korea). The terms of the Memorandum of Understanding (MOU) provide for the transaction became final on July 1, 2002, with the final agreement subject to a due diligence review and partner approval from both organizations.

"The planned integration will support DTT's global strategies, and I hope the move will contribute to the development of the Korean financial services industry," said Robert A. Campbell, Managing Partner of DTT Asia Pacific.

"I am glad that Anjin & Co. joins the Deloitte family. I see our clients benefiting from our enhanced service capabilities particularly in the areas of audit, tax and corporate finance," said Jae Sool Lee, Managing Partner of Deloitte & Touche LLC. Lee, also added, "I expect that the integration of Anjin & Co.'s excellent client base and diversified service portfolio and the global network of DTT will generate a synergetic effect. We will combine our knowledge and experience to produce a professional service firm with creative vision and culture to cope with the rapidly developing accounting industry in Korea." Seung-Woo Yang, Country Managing Partner of Anjin & Co., said, "The synergies between the two firms should assist with a smooth transition and I expect the professionals of both groups will benefit from the opportunities the combined firm can provide."

Anjin & Co. currently has about 950 partners and

employees, while Deloitte & Touche LLC has 250. The planned integration will make Deloitte & Touche LLC become the second largest professional services firm in Korea with over 1,200 partners and employees. Once the integration is complete, Deloitte & Touche LLC plans to continue its effort to recruit both domestic and foreign professionals and provide a new combined vision to its existing partners and staff.[4]

These firms point to an industry in need of rationalization, but such fundamental transformation is difficult as long as a "developmental state" mentality exists both within the companies and in some bureaucratic circles. Most important, while U.S. accounting firms wish to expand their presence and contribute their expertise to the accounting/auditing function in Korea, it is obviously difficult to accomplish as long as they are restricted in their operations and forced to partner with local firms that have their own "agendas."

III. Issues in Insurance

The South Korean insurance industry also struggles with traditional practices and foreign competition at the same time. This reflects the continued growth and transformation of the South Korean economy, yet the persistence of both traditional patterns of business and a mixture of cultural attitudes reflecting concurrent traditional values and global processes. By the end of 2001, 40 insurance companies operated in South Korea, 23 life insurers, and 17 non-life insurers, which included various types of business insurance, a guarantee insurance company and a reinsurance company. Within this mix a process of market concentration has taken place, particularly in the life insurance section, with the three leading companies accounting for over 80% of the market's total premiums. With the decline in South Korean interest rates, profitability for all companies has increasingly become difficult, as the insurance firms could not earn a safe rate of return sufficient to pay out the guarantees to the life insurance holders (i.e. a negative spread of interest rates).

Part of the problem is a result of the uniqueness of the Korean market. Many of the sales personnel are relatively untrained, (i.e., they are "order takers") who make their sales based upon personal relationships to the customer, more like Tupperware

salespersons in the U.S., rather than on the financial needs of the customer and an evaluation of financial market conditions. Over time these sales personnel are at a disadvantage compared to college educated employees with some business background who have been recruited by the foreign insurance companies. Related to this point, better trained and educated sales personnel can use South Korea's extensive cyber-marketing and telemarketing capabilities and rely less on face to face personal selling. As a result they are more productive from a business/company perspective.

Also, most Korean insurance products are savings instruments of some type. This puts the insurance companies directly in competition with more obvious types of savings vehicles, including but not limited to banks and other types of investments. With various types of savings instruments accounting for about 85% of all insurance written, this competition put the insurance companies at a disadvantage, primarily because whole life insurance, with an accumulated cash value, is difficult to explain in the Korean context. Whole life looks like some type of "death" vehicle, rather than a savings instrument that can accumulate a cash value that can be used during one's lifetime.

Finally, Korean insurance companies have not developed the technical expertise on their own to estimate and forecast interest rate changes. This challenge is related to the point made above concerning the personal nature of selling in Korea. Without being able to forecast interest rates, it is difficult for sales people to project savings and financial returns to potential customers. At the firm level, the companies can not forecast their earnings, so their financial statements may fluctuate widely, appear unrealistic, or fail to meet investor expectations. In the area of corporate/business insurance, the major challenge to the industry is a pattern of kickbacks or an unofficial policy of setting a secret price which is lower than the published price for an insurance product. This practice is particularly common with smaller insurance companies, in their struggle to stay in competition with the larger, dominant firms. This pattern of kickbacks became more widespread after the 1997-98 financial crises and the subsequent liberalization of the Korean business climate. While deeply rooted in the Korean business culture, it offers a severe challenge to profitability and transparency in the industry as a whole. Yet by the late 1990s, foreign insurance firms showed more interest in the Korean market.

Allianz of Germany acquired First Life Insurance Co., Prudential of the United Kingdom acquired Youngpoong Life Insurance, and Met Life expressed an interest in acquiring Korea Life Insurance with its 20% Korean market share. Even though some non-Korean firms were small, their superior technical and managerial expertise made them profitable in Korea.

By mid-2003 Goldman Sachs had proposed to purchase 24% of Kyobo Life Insurance, the country's second largest life insurer. This initiative has forced the government to reexamine the ban on life insurance companies being listed on the Korean Stock Exchange. Anticipating that the purchase of Kyobo may simply be a short-term investment "play" by Goldman Sachs, which might well sell its shares in Kyobo if and when it is listed, government regulators must now decide if this example is the beginning of regulatory acceptance of international market forces. Because Kyobo is considered a well managed company, the Goldman Sachs interest indicates the profitability of well managed and relatively transparent firms in the emerging Korean economic context.[5]

IV. The Legal Profession

Exactly when Korea will fully open its legal sector to international firms remains impossible to say. While the country has committed to opening under an agreement concluded with the OECD, there appears to be little prospect of this occurring before 2004-2005, due to opposition and intransigence from certain quarters in the profession.

With regard to the opening of the legal profession in South Korea to outside (i.e., foreign) experts, there appears to be general agreement that when liberalization finally does occur, it will take the form of a Big Bang, rather than a gradual process. The government is believed to be keen not to repeat mistakes made in Japan, where a partial opening allowed foreign firms into the market but prohibited them from forming alliances with local firms or hiring Japanese lawyers, tying their hands to such an extent that they were unable to function. Big Bang or whimper, it is not yet clear whether international firms may be allowed to practice Korean law, or merely to advise their international clients from a Korean base.

In the meantime, international legal firms continue to lobby

the Korean government for full access and participation in the Korean economy, with UK firms such as Clifford Chance taking the lead. UK firms are seen as well established in Asia and particularly strong in banking, finance and capital markets work - areas where the home-ground advantage enjoyed by established Korean firms may be comparatively small. U.S. firms appear more inclined to bide their time, professing contentment with existing arrangements, although suspicious observers suggest it is a case of once bitten, twice shy, with some U.S. firms burned by the unprofitable experience of rushing into Japan after liberalization. This notwithstanding, U.S. firms may enjoy an advantage over their UK rivals when the time comes, as the Korean-American community provides a ready pool of Korean-speaking, U.S.-qualified lawyers.

While foreigners are not permitted to practice as lawyers in Korea, many Korean firms employ Westerners and internationally qualified Korean returnees as "consultants." Of the "real" foreigners, Jeffrey Jones, current president of the American Chamber of Commerce Korea, is a permanent fixture of the Seoul business community and is judged to have been instrumental in the success of Kim & Chang. However, one American with several years' service to top firms describes the general position of foreigners in Korean firms as "deeply subordinated," irrespective of their fee-earning ability. He describes a vicious circle in which, kept as back-room English-language polishers, most junior foreign lawyers often feel unable to develop their careers, and change/jump firms relatively often. High turnover rates in turn discourage the firms from granting recognition or promoting career development.

The prospect of international competition on their home turf is only one of the things currently keeping Korea's lawyers engaged in the change process. There exists at present a chronic shortage of lawyers in Korea, so the Korean Bar Association has yielded to government pressure to increase the number of law students passing the Bar Examination each year from a mere handful to 1,000. With fewer than 4,000 lawyers currently in private practice in the entire country, this represents a significant change to a hitherto exclusive profession, which will be increasingly felt as the newly qualified gain in experience and seniority. The forthcoming increase in numbers is likely to dilute the profession's exclusivity. Fees and salaries may also come under upward pressure, if clients, the managing partners of some firms, and upstart

competitors have their way. Many Korean clients have discovered the costly truth that some Korean firms tend to allocate large numbers of lawyers to a case where a handful would often be sufficient. Thus, while rates of US$200 to US$500 per hour may appear reasonable by international standards, the bill can come as a surprise to those not used to paying high legal fees for legal advice as a part of the Korean business context.

As Korea's Fair Trade Commission (FTC) becomes increasingly assertive, the volume of related legal work continues to rise. In a bid to distinguish itself as a leader in fair trade work, Shin & Kim established a Market Economy Research Institute (MERI) in April 2001. With a number of senior government officials among its ranks, including In-Ho Kim, a former director of the FTC, the MERI is seeking to influence the development of Korea's fair trade regime, deregulation and a free market economy. Of more immediate application, the MERI can also be utilized to support clients' legal positions in fair trade cases with economic arguments.

V. A Note on Korean Banking

A great deal has already been written on the relationship of Korean banks to the *chaebol,* how that relationship contributed to the 1997-98 Asian Financial Crisis, and how the restructuring of the banking sector has been an essential element in the recovery of the country. The case of Seoul First Bank has been particularly documented. More recently, the Korean government itself may be preparing to sell its 9.3 percent share of equity in Kookmin Bank, the country's largest lender. This bank is a particular model of successful banking, in that it avoided the extreme difficulties of the Asian Financial Crisis by primarily lending in the growing consumer credit market, instead of lending to overextended *chaebols.*[6]

The banking sector of the nation's overall financial services industries is the nation's most visible element, and also is the one which touches the majority of the citizens. As a result, by now most observers have come to accept the inevitability of the uncoupling of banks and their liberal loan policies to their affiliated *chaebol.* Therefore, this article has focused on other elements of financial and knowledge services which have maintained their development state and nationalistic postures during the growth and

transformation of the South Korean economy, as well as its collapse in 1997-1998.

Kim Kihwan, writing in the Korean Economic Institute's *Korea's Economy 2003,* has identified numerous macro-challenges for the Korean economy going forward, including simmering anti-Americanism.[7] But he did not mention the formation of the Seoul Financial Forum which he will chair. The goal of this organization is nothing short of paving the way for Korea to be a (or the) financial center for Northeast Asia, i.e., the now-fashionable "hub" concept which is widely discussed in South Korean business and governmental circles. In order for that to happen, the banking sector, along with financial and knowledge services generally, must move forward by allowing foreign capital participation and investment, and operating with globally understandable, transparent rules.

VI. Conclusion

The developments outlined above, while not tied directly to the ROK- U.S. alliance, are an outgrowth of the fifty-year military/political relationship between the two countries. The alliance, by setting up a military security system behind which the South Korean economy could grow and mature, allowed for globally competitively *chaebol* conglomerates to mature. However, without the concurrent internationalization of Korean advanced financial services, the Korean economy was vulnerable to the contagion effect of the Asian Financial Crisis of 1997-98. Conditions for a globalized and transparent industrial business system evolved over the fifty years of the military alliance, including increasingly technological Korean products, in part from both a reverse brain drain of educated Koreans returning from the U.S. and the Korean diaspora to the U.S., all functions of the underlying alliance relationship.

Thus, while the alliance has contributed indirectly and directly to the transformation of South Korean society and economy on the Korean peninsula, the evolution and modernization of financial services in South Korea have been retarded until the present time, when other factors emanating from the world economy and new market forces arising within South Korea began the process of forced business services liberalization. That transformation has occurred because of the external pressures of economic globalization and the South Korean economy's increased

participation in a globally interactive world. Similarly, the next step in the transformation of this economic and business sector will come from the South Korean business community itself, interacting with global counterparts from other countries and as well as non-Korean organizations and NGOs. That challenge has yet to be fully accepted and met, but the opportunities for real progress exist.

Notes

X.Financial Times, August 12, 2003, p.3.
2. *Wall Street Journal,* September 8, 2003, p. A-14.
3. *Financial Times,* July 9, 2003, p. 11.
4. http://www.deloittekorea.co.kr/pressroom/pressroom_board_sub.asp
5. *Financial Times,* September 4, 2003, p. 15.
6. *Financial Times,* September 6/7, 2003, p. 9.
7. For details, see Kim Kihwan, "A Preview of Korea's Economic Policy over the Next Five years," in *Korea's Economy 2003,* Korea Economic Institute, Vol. 19, pp. 13-20.

North Korea's Unofficial Market Economy and its Implications

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I. Introduction

Amidst the rigid command economy of North Korea, there exists an unofficial yet flourishing market economy, currently operated through *Jung Ma Dung*, or literally a market place. Of course, a market place is a common feature of even the poorest country in the world and does not require special scrutiny. Yet to North Koreans who have been hitherto completely accustomed to government rationing for all their economic necessities, an economic activity for personal *profit* is a completely new and almost revolutionary concept. More importantly, the market place in the north has been gradually developed, with strenuous public oppression at the beginning, by a dire need for physical survival of its ordinary people. Without precedence and knowledge, they established, purely through trial and error, every aspect of the market place best suited for the existing peculiarities and constraints of its economy. Now the market place is so widely and firmly established, with the participation of practically everybody in North Korea, ranging from high government officials to common soldiers, that no power, including the leadership itself, can completely shut it down without causing a major revolt, especially by starving and desperate soldiers with weapons to wield, reminiscent of the October Revolution in czarist Russia.

Currently, the market place is the only force which prevents total collapse of the North Korean economy, and it will continue to grow of its own momentum despite occasional feeble suppression by the government. Due to the complete lack of an official economic policy, the growth of the market place by its people will definitely set the future direction of North Korea's economy. Therefore, it is very important for us to monitor its progress, and if possible, render appropriate assistance for its acceleration. The existence of a reasonably well-functioning market economy in North Korea will greatly facilitate reunification of the two Koreas without an enormous cost, which is estimated to range between U.S.

$200 billion and $1 trillion, as well as a serious delay experienced in the German reunification.[1] With objectives in mind, this article attempts to analyze the current operation of the market place and the optimum external economic assistance necessary to expedite North Korea's progress toward a complete market economy.

II. Failure of North Korea's official economy

The market place of North Korea is a direct by-product of a failure of its official economy, some of the fundamental defects of which are discussed in this section. Notwithstanding the ubiquitous official slogan of *"Juche"* or economic self-sufficiency, North Korea's economy from its inception heavily relied upon economic aid from its socialist allies, especially food from China and whole industrial plants from the former U.S.S.R. These two countries provided for the total crude oil needs of North Korea at a heavily subsidized price in exchange for its raw materials and crudely processed goods. The amount of aid significantly increased after the armistice of the Korean War when the country embarked upon reconstruction of its completely devastated economy. In addition, North Korea also managed to secure from industrialized countries a large amount of long terms loans, $12 billion of which defaulted in 1998. Korean residents in Japan sympathetic to North Korea also transmitted about 60 billion *yen* annually to North Korea as an outright gift, although some sources contend that the actual amount was three times larger than that figure.[2]

As the infant industry syndrome attests, continual and substantial outside aid ruins the economy of a recipient country, mainly because the economy has to remain *under-developed* in order to receive aid. A modern example of this predicament is in southern Italy known as *Mezzogiorno,* to which the government of Italy channeled a huge and continuous economic aid after the Second World War, without any desired improvement in its economy. This dilemma coined a new word known as *Mezzogiornoism* in order to emphasize the futility of continuous economic aid.

In the case of North Korea, prolonged external aid ruined the economy principally by enabling its leadership to practice a totally irrational policy of "on the spot" economic guidance, solely on the basis of personal instinct or inspiration. That guidance is a command that must be immediately implemented even at the cost of

an interruption of other ongoing important projects. Even a slight hesitation or question on the guidance is viewed as a sign of the lack of absolute loyalty to the leadership, with grave consequences for the offender.

At the beginning of economic reconstruction with almost unlimited opportunities for worthwhile investment, any randomly selected project would have become a success, and some of the leadership's "on the spot" guidance did accomplish spectacular yet temporary economic successes. These successes reinforced a vision of the leadership's singular prowess to the people as well as to the leadership itself, and encouraged further applications of such guidance. On the other hand, if a project failed, the leadership could always appeal for more outside aid on the pretext of some natural calamities beyond its control. In fact, North Korea's reliance on external aid has become almost an integral national policy even today. During 1995 and 1998, North Korea received $1 billion of humanitarian food aid from various non-government organizations around the world, in addition to $200 million of annual food aid from China. The South Korean government also provided North Korea with a large quantity of food and fertilizer under terms of a 30 year loan with 1% annual interest, yet without any realistic expectation of repayment.[3]

We may cite two major economic blunders in North Korea. First, recent catastrophic food production in the north can be directly attributed to the leadership's earlier irrational policy. To increase the size of arable land, North Korea undertook mammoth projects known as the "Nature Remaking Projects" in 1976 and the "Four Great Nature Remaking" in 1981, which attempted to convert, through mass mobilization of the military and students, mountains and hills into arable land by cutting trees and bushes. As a consequence, almost 80% of the mountains in North Korea are now totally denuded of trees.[4]

Such terrace farming is a popular practice in countries with mild weather. In North Korea, however, rain falls most intensively during the two months of July and August, which coincide with the period of the final growth of crops. Without trees and bushes to retain water, even mild rain washed down crops, as well as dirt and even boulders, from the terraces and seriously damaged the growing crops in the farmlands below. Worse yet, after several decades of this predicament, debris from the terraces accumulated at bottoms

of rivers and agricultural reservoirs, which in turn significantly raised these bottoms and reduced their capacities to retain water. Now, even mild rain or drought causes severe flooding or a shortage of water for irrigation. As a consequence, agricultural production has steadily declined ever since the introduction of the Nature Remaking projects.[5]

The second example of a fundamental defect is the current acute shortage of electricity. For the beautification of major cities, all electric supply wires were ordered to be buried underground, as has been done in Paris. Such a major project requires a meticulous engineering plan, with comprehensive blueprints preserved for posterity. Yet in North Korea, always emphasizing speed to demonstrate maximum loyalty to the leadership, electric wires were covered simply by plastic casings and buried under the streets. Over the years, the plastic cracked and water seeped in, causing up to a 70% loss of electricity in traveling from a power plant to the final users.[6] Due to the hasty execution of the project, there does not exist any record for the exact location of the buried wires, and spot checks and repairs of damaged casings or wires are currently not possible.

This is a typical mode of operation of the North Korean bureaucracy. Once a project has been hastily completed and the person in charge is promoted and transferred to another duty, the person is no longer responsible for the earlier project and sees no need to make detailed records for posterity. On the other hand, a new person can claim innocence for any inherited errors. Thus, there is no accountability for any failure, except for failure to achieve an assigned production quota. Since the leadership, the originator of a failed policy, is presumed to be wholly infallible and cannot be held accountable, the country simply tries to mask, instead of rectifying, the existing economic defects, and over years, these defects with the resultant economic inefficiency and catastrophe simply multiply. For example, instead of replacing cracked wires and their casings, the major source of electricity loss, North Korea has simply built more power plants with aid from its allies, because replacing the buried wires attests to a failure of the leadership's policy, and no one dares to suggest that. Yet, with the current severe leakage in the supply system of electricity, building new power plants is literally the equivalent of pouring water in a bucket with a big hole.

These examples typify the general tenor of North Korea's totally uncoordinated and unscientific mode of operation from the highest to the lowest level of its economy, which the country tries to justify as "our own way of socialism."[7] Until and unless the leadership honestly admits and corrects the fundamental defects of previous economic policies, there will be no genuine improvement or progress in the official economy, especially the current dire shortage in food production. As the official economy of North Korea continues to deteriorate and recedes from the main stream, the void will be filled by the unofficial economy of the market places, and it is important therefore to monitor the future development of North Korea's market economy.

III. Operation of the market economy.

Throughout North Korea, there exist about 350 market places which currently carry out flourishing businesses devoid of government sanction yet with its tacit tolerance. With more than 500 different commodities available, it provides 90% of the daily necessities for the ordinary people, for whom the government stores have nothing but empty shelves. This predicament has coined a new phrase in North Korea that the government store is for the elite, and the market place is a true store for the ordinary.[8]

To appreciate how important the market place in North Korea's economy is, we may discuss the main sources of goods supplied to the market.

First, the largest commodity is farm products from farmers' private gardens and illicit mountain farms. To encourage food production, North Korea in 1998 permitted each farmer a private garden plot, officially known as "the land belonging to private residence," 30-40 *Pyong* in size, or about .03 acre. Outputs from these plots are the private property of individual farmers. Understandably, farmers exert major efforts, as well as part of the model seeds and fertilizer allocated to their collective farms, into their garden plots, and, consequently, outputs as well as the quality of products from these plots per given size are significantly higher than the outputs of their collective farms. In addition, the opportunity to grow food for personal *profits* has encouraged many farmers to cultivate secret farmlands hidden deep in the mountains, to which a large portion of the resources from their collective farms is diverted to grow food for personal gain. This practice is so

pervasive that still another new phrase has been coined in North Korea: "in our country, food comes from the mountains rather than from the farms."[10] Farmers sell in the market surplus food beyond their personal needs at prices 1,000 times higher than the official prices at *empty* government stores. For example, the official price of one kg of rice is 8 cents, whereas its market price is around 90 *won* (one *won* equals 100 cents), equivalent to almost the average monthly salary of a worker. This means that a worker can purchase about one kg of rice per month with his/her monthly salary alone and must therefore find other means to acquire the bare minimum amount of food for survival. Those without other means simply perish from starvation. In fact, old parents living with their offspring often voluntarily vanish in order to lighten their children's burden.

It is true that in July 2002, North Korea undertook major changes in its domestic price and wage structures to make them more realistic. The official price of rice increased from 8 cents to 44 *won*, and a workers' monthly salary was raised from 110 to 2,000 *won*.[11] At first glance, these changes may seem to have represented a significant improvement in the welfare of the average worker. This would be true only if workers could purchase their basic needs at official prices. As mentioned, government stores for ordinary workers are bare of basic necessities due to the man-made catastrophe of food production, and consumers have had to resort to the market places. Without a significant increase in domestic food production, workers with more *paper* money will simply drive up the market prices, and the disparity between the new official and the actual market prices of rice, as well as other basic necessities, will quickly revert to previous levels within a matter of months. In fact, in the former socialist economies, an excess of paper money held by average workers due to shortage of available goods at a government store was a very common phenomenon, known as "money hangover," and it contributed to an enormous inflation in black market prices.

The second source of supply at the market is various household goods sold by city dwellers in order to purchase basic necessities. They sell used household goods such as sewing machines, bicycles, blankets, clothes, or even a whole house.

When the supply of these goods is exhausted, people simply steal any marketable goods from private or public sources.

For example, there are practically no glasses on passenger trains in North Korea, because all glasses are stolen to be sold in the market. If a car, even a military vehicle, is left unattended on the street even for a short period of time, any removable parts, such as mirrors, windshield wipers, the horn, even a steering wheel, are quickly removed to be sold in the market. Due to the complete lack of new replacement parts for vehicles and machines, there is a great demand for such stolen parts. Vehicles or machines with stolen parts need other stolen parts as replacements, thus creating an endless and vicious cycle. In fact, the streets of North Korea are the cleanest in the world, simply because anything thrown away with any value at all, such as cigarette buts or a piece of paper, is quickly retrieved for personal use or for sale.[13]

Major buyers of household goods from city dwellers are farmers with surplus food. The market place with enormously inflated food prices has significantly increased farmers' incomes in recent years, while the *real* income of the urban sector has plummeted due to the stoppage of government food rationing at substantially subsidized prices. There is irony in this development. At an early stage of North Korean economy, the standard of living of the rural sector was significantly lower than that of the urban sector. Its leadership designated as a priority the improvement of farmers' incomes to a near parity with the urban sector, and, for this purpose, introduced several large-scale farm projects through the mass mobilization of students and soldiers, yet all ended in failure, as would have been expected by rational analysis.[14] As a consequence, farmers became worse off than before. On the other hand, only the total failure of the leaders' economic policy accomplished his original intention *indirectly* through the current illicit market place. One could have hoped that the current leadership, realizing an enormous advantage of farming for profit rather than for quotas, would have introduced a major reform at least in the rural sector by abolishing most of the grossly-inefficient large co-ops. Instead, the leadership has simply tolerated the introduction of piecemeal private garden plot within the co-op system, basically a bandage approach for a major wound. The third source of supply for the markets has been civilian factories and their workers. Since payment of workers' salaries by the government has been very erratic in recent years, often with a long period of complete stoppage, factory supervisors are compelled to

fill the gaps by paying the workers with goods produced in their factories as wages. The workers in turn sell these goods in the market. More enterprising factories resort to making marketable household goods, which may be totally different from their officially designated products, from any available raw materials, including the government's meager rations. In fact, this clandestine operation has been inadvertently encouraged by an earlier economic policy. In 1980s, North Korea introduced the so-called "August Third People's Consumer Goods Program." Individual factories, large or small, were mandated to recycle their discarded scrap raw materials into any type of consumer goods for their workers. Understandably, this campaign provided a considerable work incentive and was one of the very few successful economic policies of North Korea.[15] Nowadays, factories simply treat most of their raw materials as scraps to be converted into consumer goods. For example, a bicycle factory makes from its *scrap* materials iron pots and pans to be sold in the market. This practice of wage payment by goods has encouraged widespread theft by workers of the raw materials, as well as small equipment and factory machinery, to be sold in the market. This form of theft has created a specialized international trade. There are vendors who buy only factory machinery of North Korea to export to Chinese factories near the border.

The fourth source of goods for the market has been provided by a horde of small merchants, mostly housewives known as "bundle merchants." They roam around the country with their rucksacks, carrying semi-manufactured household goods from cities to distant farm households in order to barter for food, which is in turn sold profitably in urban markets. Activities of the bundle merchants have become increasingly sophisticated. On each business trip, they attempt to ascertain *what* urban goods are most wanted by farm households in any *particular* location. The merchants then try to find out, often through word of mouth rather than hard facts, which cities can supply such goods at the lowest price, and they journey to the places often on foot for weeks, or through some totally unreliable mode of transportation. Whenever they see a truck, either civilian or military, going in the general direction of their destination, they simply wave goods to be offered as fares for a ride. Examples might be several packs of cigarettes or a bottle of alcohol. If a driver feels that the goods are adequate fare,

he takes the merchants where he is going. To reach their ultimate destination, the merchants, have to repeat these acts several times, or, if unlucky, they rely solely on their feet. For the return trip to their home towns, they have to repeat the same agonizing procedure in reverse. Practically all these merchants lack official travel permits, especially for those far distant destinations from their domiciles. So either they simply bribe security personnel at each check point en route to their final destinations, or clandestinely they go around the check points. Especially at these major check points, there are several security personnel from different branches of the government and the Party. Either the merchants have to pay very hefty bribes, or, if any of the personnel is not in a mood to accommodate the merchants, often due to erratic and random directives from above, the merchants may end up in jail for months with all their goods confiscated. Thus, the activity of the roaming merchants is a very risky business, and the price of food that they bring to urban markets must be high enough to cover these potential dangers. Yet, the contribution of these housewife merchants to the survival of their families is significantly greater than the salaries earned by their husbands. Without these merchants, the amount of starvation would definitely have increased above its current levels, and therefore, these merchants play a very important role for preventing the total collapse of North Korea's economy.

The fifth supply source involves market activities directly undertaken by individual factories for the following three objectives. First, pursuant to the government's recent decree that providing food to workers is now the direct responsibility of individual organizations, many factories have designated one of their workers as "director of *rear* supply of food" in order to distinguish the person from director of government supply of food, which is almost non-existent nowadays.[16] The responsibility of the rear director is to obtain food and other daily necessities from whatever sources and means his ingenuity allows within a very fluid legal boundary that the organizations prefer not to know about. All they require are the results. The means available for the director include the utilization of the organization's vehicle with its precious gasoline as well as a travel permit normally not sanctioned for such purposes. Many individual factories, especially successful ones, conceal part of their quality products, after satisfying their production quotas with poor quality products, to be used for their workers. The rear

director clandestinely sells these products and then purchases daily necessities for his organization, often each transaction occurring at distant and different market places where prices are better. Thus, a truck with an official permit for long distance travel is a prerequisite.

A more enterprising rear director may also expand his commercial activity to organizations other than his own. The director contacts, often with significant bribes because there are many competing rear directors, heads of other organizations, including the military, in order to ascertain what surplus products they can spare and what products they wish to obtain in exchange. With this knowledge as well as a verbal contract, the director undertakes multiple transactions, either through barter or the market place, until the desired goods are obtained and delivered to individual organizations. From each transaction, the director profits either in goods or cash, most of which are used to procure daily necessities for his own organization. Yet, the director retains part of the profits, most likely clandestinely, as his own reward. As a consequence, a successful director can accumulate significant personal wealth normally unheard of in North Korea. For example, one such director, forced to defect to South Korea because of jealousy for his enormous success by other directors in his district, had several color television sets, two houses, and a large cache of hard foreign currencies which he profitably used as bribes to escape from the north.[17]

The second objective of an individual organization in participating in the market place is that the government rationing of raw materials, even to essential factories such as for armaments has not only been unreliable in recent periods but has also been totally uncoordinated and irrational when it has occurred, so that individual factories may receive raw materials completely unrelated to their main products. To acquire the proper raw materials, individual factories must exchange between themselves, either through barter or in the market place. For example, an ammunition factory was supplied with industrial diamonds not required for its product, and the diamonds were simply kept in its warehouse. At the same time a ship repair factory urgently needed diamonds but was not supplied with them. Through a middleman, the ship factory learned about the existence of the diamonds at the ammunition factory, and an exchange was arranged between the dried fish of the ship factory and the diamonds. For smaller raw materials, direct market

transactions are more common forms of exchange.[18]

The third objective is small scale foreign trade directly engaged in individual organizations. The major imports of North Korea, such as motor vehicles or construction machinery, are directly, albeit extremely inefficiently, controlled by the central government.[19] The distribution of hard currencies must have the personal approval of its leadership, which is almost impossible to obtain for individual factories, especially those far away from the capital city. Urgently needed foreign repair parts or machinery, must be imported by the individual factories themselves, which requires them to raise a sufficient amount of hard currency through market activities. At major harbors throughout North Korea, there are merchants, often foreigners, who are ready to pay hard currencies for North Korean exportable commodities. With information obtained from these merchants about the currently most desirable export commodities, individual factories convert their products into such exportable commodities either through multiple barters or market transactions. Final products are brought to the export merchants for hard currency. For example, a tire factory needed foreign replacement parts. It identified cocoons for silk as the most valuable export good. The factory arranged a barter between its tractor tires and cocoons from an agricultural co-op. The cocoons were then sold to the export merchant for hard currency.[20] Most of these transactions are carried out without official records, and thus are liable to unintentional as well as intentional errors by the middlemen.

The sixth source of goods for the market place involves goods obtained as bribes which are, in turn, sold in the market, especially luxury imported goods such as cigarettes or alcohol, the most expensive being British *Dunhill* and *Couvoisier.* The fact that there are civilian demands for these expensive luxury goods in the midst of a wide-spread dire poverty and starvation points out two undisputable facts about North Korean society. Since foreigners in North Korea can directly purchase these goods at much lower prices at special stores for foreigners, market demands for these goods must have come from the elite of North Korea. This means that the elite actively participate in market places. More importantly, since the market price of imported cigarettes is almost equivalent to a monthly salary of the average worker, *real* income distribution between the elite and the average workers in North Korea is

extremely skewed, so that the elite can afford to smoke away in one day the whole monthly salary of an average worker.

Bribery is so rampant that it is almost an accepted norm of every day activity. For example, to move by train government rationed food from a distribution center even to a privileged armament factory, bribes must be given to practically all individuals involved with the train's movement, ranging from a station master to freight car wheel inspectors. Otherwise, a delay of several weeks could and would ensue.

Even professors at the most prestigious Kim Il Sung University receive bribes from students for better grades. This practice is so pervasive that the head of the University purportedly stated, "it is much easier to count the number of professors who do not take bribes than the professors who take them."[22] This predicament has been caused by two recent developments. One is the totally unreliable government rationing of food, which has necessitated that professors purchase food in the market at exorbitantly high prices completely beyond their official salaries. The second is that students at even the most prestigious universities are selected, not because of their academic excellence but by loyal deeds to the leadership and the Party, or military heroism. These students are much older than the average college student, and many are totally unprepared for university study, yet they are fully accustomed to the system of bribery in their former positions. Since a university degree is an absolute prerequisite for their future careers, they resort to any means to get better grades, the easiest way being bribery. Ironically, this system discourages even bright students from excelling academically. After graduation, the first tier of students in terms of academic excellence is assigned to government research centers, where the possibility of bribery is minimal, and the rest are sent to universities for teaching assignments with the possibility of bribes.

Bribes are sometimes coerced by those in power from ordinary people with little money. For example, a district head of the Party approaches a person, often a merchant with limited means. The head simply invites the merchant to become an instant party member with a promise of privileges, especially for educational and occupational advantages for their children. Any blemish, even serious ones, on the merchant's personal record, which would normally disqualify him from becoming a Party member, is totally

irrelevant, because the record can be altered permanently with all negative items being expunged. If the merchant hesitates, the Party head accuses him of having insufficient confidence in the Party with possibly serious adverse effects, so the merchant acquiesces. Sometimes, the amount of bribe can be exorbitant. For example, the most desired domicile in North Korea is the capital city of Pyongyang, which is, in fact, an independent state within the state. Residence in the capital is strictly controlled by the government and is permitted only for the most elite segment of the population. Yet a bribe of U.S. $1.5 million *hard* currency, affordable mostly by Korean expatriates from Japan whose relatives in Japan are able to transmit such an amount, can obtain an instant residency in the capital city.[23] Since the government maintains a constant number of residents in the capital city, one new resident means that an old resident will be expelled from the city when the city's residents are adjusted. Thus even the privileged elite residents live in constant fear of losing their residency status. They in turn try to maintain their rights with whatever bribes they can afford. It is a vicious game of musical chairs with always heart-broken losers.

The seventh source of supply in the market is household goods brought by 94,000 Korean expatriates in Japan. Refrigerators or color television sets are often involved. To encourage further importation of such goods, the North Korean government seeks to force relatives to visit the expatriates in North Korea, accompanied by an obligatory minimum amount of hard currency. At these visits, the relatives bring newer household goods or send them later in order to replace old household goods, which are then sold in the market as semi-luxury goods. In fact, this custom has become commercially much more sophisticated. The relatives are now asked to bring or send items with highest resale values, such as wrist watch, cameras, tape recorders, color televisions, and VCRs.

The eighth source of market goods is consumer goods resold by high government officials and the military. High government officials often purchase a large quantity of consumer goods at secret government stores available only to them at extremely low prices, and resell them in the market with prices more than one thousand times higher than their original purchase prices. Or hungry foot soldiers steal items and sell military supplies in order to feed themselves and their families. Batteries for military radios, gasoline and soldiers' underwear are widely available in the

market. In fact, almost 30 to 40% goods sold in the market involve various military goods.[24]

Finally, the ninth source of supply for the market place involves large scale smuggling from the area bordering China, especially of inexpensive Chinese consumer goods such as low quality cigarettes, clothes, and shoes. This smuggling is a rather well organized activity involving the connivance of border guards on both sides.

IV. Conclusion.

Fortunately for us, a further expansion of these prevalent market places may afford us an unique opportunity to effect a gradual economic reform toward a complete market economy in North Korea, *without* the active participation and acknowledgement by its leadership. South Korea, in conjunction with other interested countries, may assist this transition, as the *transparency* and trust of the North will be gradually enhanced through an expansion of personal exchanges between the two Koreas.[25]

Most important for this transition is the first stage in the voluntary evolution of the North toward a market economy. For this purpose, South Korea will directly provide to the market places of the north medium-quality consumer goods beyond basic food and medicine, either as grants-in-aid or long term, low interest loans. Currently, South Korea is attempting to establish direct rail links with the North; once completed, they will greatly facilitate the direct distribution of consumer goods even to remote market places in the North.[26] These grants are fundamentally different from the current humanitarian aid to the North, because the latter is intended basically for general consumption, whereas the former is an instrument of an economic policy. Even if North Korea obliterates all traces of the South Korean origin of the goods, residents from the North are now knowledgeable enough to realize that their own economy is not capable of producing such goods and that they must have come from a market economy elsewhere. Already many ordinary North Koreans endeavor to practice clandestinely their limited knowledge of capitalism in their daily activities, as has been evidenced in a proverb that "our day is socialism, but our night is capitalism."[27] In fact, the extreme injustice in the disparity of income distribution in the North has motivated many children of the *elite* to join the North Korean version of Robin Hood, an

underground gang known as the "committee to control daily life," which attempts to steal from the rich in order to distribute the spoils free to the poor.[28]

With a relatively abundant supply of consumer goods from South Korea, some residents of the North will soon realize that the market place can be more than a mere convenience for the exchange of goods, and more specialized activities producing the better quality goods like those from the South (i.e., import substitution) can generate significant *profits.* However, this requires a new system of production and distribution drastically different from the current stale system of North Korea's command economy as well as the current inefficient market place. Enough profit incentives will impel new entrepreneurs to create this new system, clandestinely at the beginning yet with the full connivance of local authorities with their own vested economic interests. Competition will propel these participants to probe one step beyond the currently tolerated level of a market economy, and eventually, the entire country will be operating under an officially unrecognized yet sanctioned market economic system. Throughout this transition, the leadership of North Korea will gradually realize that a hybrid system involving a market economy within a socialist political framework, a la Vietnam and China to a lesser degree, is much more preferable for its own survival than the rigid command economy, and will silently condone the slow progress of this market economy, as it tolerates the current market place because of its demonstrated benefits.[29]

There are several immediate benefits accruing to North Korea from these economic reforms. First of all, without minimal reforms, international humanitarian aid, which is critically important for the regime's survival, will cease because of donor fatigue. Already, the South Korean government is criticized for its aid to the North without any substantive reciprocation. The U.S. Congress in November 1999 enacted a bill to suspend further aid to North Korea unless Pyongyang actuates visible reforms. Even the non-government organizations of the world withdrew their humanitarian aid to North Korea between 1995 and 1998 because of donor fatigue. Second, North Korea wants an infusion of capital and technology from the world. Yet, on the desirability of international joint ventures, the country is currently ranked by the United Nations at the bottom third of the 178 countries, just above Somalia and Afghanistan. Even the current meager joint ventures in North Korea

are carried out in a most inefficient manner. They are located in remote areas, far away from population centers and are enclosed by three meter high walls.[30] As a consequence, there are no spill-over effects of higher technology and management to the rest of the economy. Although the workers engaged in these joint ventures are paid higher than average wages, there are insufficient consumer goods for them to buy; thus, higher wages do not provide work incentives. The work is simply treated as another form of production quota, which is the core of the inefficiency of their socialist system.[31] Minimal economic reforms, including the provision of work incentives to workers beyond meaningless official slogans or badges, are necessary prerequisites for attracting such ventures. The current leadership of North Korea is empiric, and the benefits of each step of a change must be demonstrated before it will acquiesce to it. Yet, once persuaded, the leadership will, as it has in the past, silently participate, as it permits the Party to procure urgently needed goods from the market place.

A long period of economic cooperation between the two Koreas will ideally lead to political collaboration and the eventual unification of Korea. This will bring a slow process of unification that carries reasonable costs in terms of human lives, material, and political disturbances. More importantly, this is the unification scenario, each step of which is accomplished through learning by doing on the part of both sides, and to which the current leadership of the North will have the least objection because its intermediate steps do not threaten the demise of its regime.

Any economic policy is a double-edged sword, and there are always dangers associated with it. Even simple humanitarian aid may contain a latent danger of enhancing the military strength of a potential foe. Therefore, aid, trade, and joint ventures between the two Koreas must be carefully screened to eliminate the possibility of inadvertently aiding North Korea's military. This may mean that any products with more than 50% potential of military use may be banned. Yet it is impossible to completely separate goods with dual uses. A bicycle, for example, may become a military vehicle. Therefore, the value of an economic policy should be based on its benefits and costs. If the expected benefits significantly exceed its costs or dangers, then it is worthwhile to undertake, even at a potential risk.[32] Transforming North Korea into a market economy, and eventually producing Korean unification, has its inherent risks,

yet the benefits would seem to outpace the dangers. As mentioned, Korean unification *without* adequate preparations may cost the South anywhere between $200 billion and one trillion dollars. Transforming the North through an expansion of the market places will cost the South a fraction of those costs. The past policies towards North Korea, ranging from strict military adversary to the current policy of conciliation and accommodation, have not produced significant results. We may now initiate a new, bold policy of transforming North Korea into a market economy by strengthening its market places.

Notes

1. On the costs of the Korean unification, see Seo, Byung-Chul, "Unification on the Korean Peninsula and Lesson from German Unification," *Vantage Point*, Vol. 25, Nov. 8, August 2002, pp. 44-52. For the lessons of the German unification, see Kim, Sungwoo, "Korean Unification and Economic Policy to Abate Southward Labor Migration," in Cho, Lee-Jay and Eric Im (eds.), *North Korean Labor and Its Prospects*, Seoul, Korea: Korea Labor Institute, 2001, pp. 263-288.

2. The defaulted loan figure is from Oh, Kongdan and Ralph C. Hassig, *North Korea, through the looking glass*, Washington, D.C.: Brookings Institution Press, 2000, p. 42. The Japanese gift figure is from Sekikawa,Natsuo, *North Korea's Campaign to Sustain Human Lives* (in Japanese), Tokyo, Japan: Bungei Shynju Lts., 2001, p. 258.

3. For the NGO aid to North Korea, see Oh, Kongdon and Ralph Hassig, " North Korea between Collapse and Reform," *Asian Survey*, Vol. XXXIX, No. 2, March/April, 1999, pp. 287-309. For South Korean aid to North Korea, see Kim, Samuel S., "North Korea in 2000, Surviving through High Hopes of Summit Diplomacy," *Asian Survey*, Vol. XLI, No.l. January/February 2001, pp. 12-29.

4. This official act of denudation is further aggravated by destruction of trees by starving people in their desperate attempts to extract any edible matters from trees. See on this point Koh, Chong Son, *Kim Jong IPs Secret Arms Factories* (in Japanese,) Tokyo, Japari:Yu Nakane, 2001, p. 266.

5. For further discussion on this point, see Kim, Sungwoo, "Agricultural Policy and Grain Production in North Korea," *Journal of Social, Political and Economic Studies*, Vol. 22, No. 1, Spring 1997, pp. 23-38.

6. See Sato, Katsu Mi, *A Book for Understanding the Current North Korea* (in Japanese,) Tokyo, Japan: San Sho Books, 1999, p.54.

7. Many anecdotal evidences on this point are compiled by a Japanese visiting professor of agriculture to North Korea. See Lee, Woo Hong, *North Korea, a Very Lowly Republic* (in Japanese,) Tokyo, Japan: Asian Book, 1989.

8. See Ahn, Chul and-Park Dong Myung, *A Report on Hunger in North Korea*

(in Japanese,) Tokyo, Japan: Shogakukan, Co., 2001, p.64.

9. Oh and Hassig (2000), *ibid,* p. 46.

10. Sekikawa, *ibid,* p. 186.

11. See Chong, Bong-uk, "Reforms toward a Market Economy?" *Vantage Point,* Vol. 25, No. 8, August 2002, p. 14.

12. Ahn,ibjd, p.88.

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15. For further discussion on this point, see Kim, Sungwoo, "Recent Economic Policies of North Korea, Analysis and Recommendations," *Asian Survey,* Vol. XXXIII, No. 9, September 1993, p. 869.

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17. *ibid,* p. 17.

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19. For the fundamental inefficiency of North Korea's foreign trade, see Kim, Sungwoo, "North Korea's Foreign Trade with the World between 1980 and 1994," *World Competition,* Vol. 19, No. 4, June 1996, pp. 69-80.

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Perspectives on the Economic Role of Korea and Korean-Americans in U.S.-Korea Relations

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h Introduction

Since the end of World War II, the United States and Korea have enjoyed a very close relationship in many important areas. Such a relationship started with the liberation of Korea in 1945 by U.S. troops from the Japanese occupation of almost four decades and also included the shedding of blood by Americans for the defense of South Korea from the North Korean and Chinese invasion during the bitter Korean War of 1950-53. Most Koreans, especially those older Koreans who personally experienced the tumultuous years of the Japanese occupation and the Korean War, still harbor such goodwill and sense of gratitude towards America and Americans that perhaps no other country has earned nearly as much in Korea's long history. Even now, the United States is maintaining a significant military presence, including its ground troops, in order to assist the Korean government in repelling any potential military threats from the heavily-militarized North Korea.

Over the past several decades, however, the close relationship has extended from the military and political arenas of earlier years to the economic areas such as trade and investments. The U.S. economy is the largest in the world, with its GDP of $10.45 trillion or about one third of the world economy. In comparison, the Korean economy with its GDP of $477 billion in 2002 is less than one-twentieth of the U.S. economy. Due to the sharp depreciation of the Korean won in the aftermath of the 1997 financial crisis, the Korean per capita income had actually shrunk from $11,380 in 1996 to only $6,723 in 1998 and $8,551 in 1999 and just about $10,000 in 2002, compared to over $36,000 for the United States in 2002. The United States is also the biggest market for Korean exports, accounting for 21% of the total Korean exports in 2001 and 2002. With the total bilateral trading volume of $58.4 billion in 2002, Korea was the United States' 6th largest export market, 4th largest export market for agricultural products and 7th largest trading partner.

In recent years, the economic relationship between the two countries has extended from that of important trading partners to partners in foreign direct and portfolio investments, joint ventures, technology and management know-how transfers. As U.S.-Korea economic cooperation has intensified during the past two decades, there has been a corresponding increase in trade and other disputes between the two countries. As the 21st Century has begun, the two countries need to take stock of their current and prospective economic relationship and develop a coherent strategy to strengthen their already-strong economic relationship while minimizing any potential friction. This article will first review the bilateral economic relationship, both positive and negative and then, based on the analysis of the ongoing economic relationship, discuss the role of Korean Americans in that relationship.

II. Evolution of the U.S.-Korea Trade Relationship

The early years of the U.S.-Korea economic relationship can be characterized as those of donor-recipient, as Korea struggled to recover from the double disasters of the Second World War under the Japanese occupation and the Korean War. One can fairly characterize the 1940s and 1950s the decades of the worst deprivation for the Korean people thanks to the two wars and their after-effects. After the end of the Korean War in 1953, with the per capita income of only $67 in 1953, $87 in 1962 and $100 in 1963, Koreans were much poorer than the Filipinos and Turks in those years who were enjoying per capita incomes of $251 and $259 respectively in 1963. The United States, in addition to their military assistance during and after the Korean War, provided massive development aid to Korea both for humanitarian assistance and for postwar reconstruction efforts.

Following the political turmoil in the aftermath of the April 19 student revolution in 1960 and the May 16 military coup d'etat, the new military government led by President Park Chung Hee embarked upon an ambitious economic development plan with the main focus on a nationwide export drive to earn the necessary foreign exchange for importing both modern manufacturing plants and raw materials. From the late 1960s through 1970s, the United States served as the main export market for Korea. Korean exporters were able to exploit the relatively generous treatment by the U.S. government of most exports from developing countries,

including Korea. In the 1960s, the main Korean export items were light industrial goods such as textiles and toys. Even though Korea liberalized its import regime somewhat in the 1960s, especially around 1967 when Korea joined GATT (General Agreement on Tariffs and Trade), most of the liberalization was for raw materials and intermediate goods necessary for the new Korean factories, and the average tariff rate remained high at about 40% during the most of the decade. During the 1970s, the average tariff rate was reduced to around 30%, but other non-tariff barriers actually increased in order to protect nascent Korean industries being established with active government support and encouragement.

Table 1. Korean Trade with the United States, 1975-2002[1]
(Million dollars)

Year	*Exports to U.S.*	*Imports from U.S.*	*Balance*
1975	1,536	2,082	-546
1980	4,433	4,685	-252
1981	5,474	5,116	358
1982	6,012	5,529	483
1985	10,712	5,965	4,756
1987	17,991	8,099	9,892
1990	19,360	16,942	2,418
1991	18,608	18,904	-296
1992	18,090	18,287	-197
1993	18,138	17,928	210
1994	20,553	21,579	-1,026
1995	24,131	30,404	-6,272
1996	21,670	33,305	-11,635
1997	21,625	30,122	-8,497
1998	22,805	20,403	2,402
1999	29,600	24,943	4,657
2000	37,806	29,286	8,520
2001	31,358	22,431	8,927
2002	33,554	24,855	8,699

During the 1960s and 1970s, however, the U.S. government was especially tolerant of Korean exports, as Korea was not only such a poor country but also a strategically very important country in terms of both political and military perspectives during the Cold War. Such a generous trade posture of the United States during this period was especially important to Korean economic development, since foreign trade was truly the engine of growth for Korea, with

the total foreign trade volume equivalent to more than 60% of Korea's GDP in the 1970s. The Korean export drive started to make impact on the U.S-Korea trade balance, which underwent a reversal from the chronic trade deficits vis-a-vis the United States in the 1970s to trade surpluses beginning in 1981.

As Korean bilateral trade surpluses vis-a-vis the United States increased in the 1980s, the U.S.-Korea trade relationship attracted increasing attention from the U.S. side. During the 1960s and 1970s, Korea suffered chronic bilateral trade deficits vis-a-vis the United States. The bilateral trade volume exploded from $232 million in 1962 to $10.5 billion in 1981 to $26 billion in 1987, when the United States suffered a trade deficit of almost $10 billion. Consequently, American policymakers came under increasing pressures both to protect domestic producers from the "unfair" export practices of Korea and to open markets more widely to U.S. exports in Korea. Furthermore, there was growing alarm among some U.S. policymakers and opinion leaders that Korea might become "another Japan" which was bent on an export-focused mercantilist strategy.

Consequently, the U.S. government pressured Korea to intensify liberalization of its trade and investment policies and to remove its substantial trade barriers. The Korean response was that a confrontational approach on the part of the U.S. government could be counterproductive, and any trade friction should be resolved gradually through bilateral negotiations rather than in one lump. The Korean side argued at that time that after all the Korean bilateral trade surplus was only a relatively recent phenomenon starting in 1981 and prior to that year, Korea had suffered trade deficits vis-a-vis the United States for 25 years! Furthermore, the overall Korean current account balance had suffered from chronic deficits for decades until 1985 despite its bilateral trade surpluses vis-a-vis the United States in the 1980s, and it turned into a surplus only from 1986 through 1989. Korea's current balance account turned into deficits again continuously from 1990, except for 1993, until 1997 when Korea tumbled into its worst financial crisis.

Starting in 1991, however, the Korean trade surplus vis-a-vis the United States reversed into trade deficits, and the U.S. pressure on Korea for a blanket trade liberalization policy was replaced by sectoral trade disputes, involving such export items as automobiles and steel. In fact, economic relations between the two

countries substantially broadened in the 1990s to include not only bilateral merchandise but also trade in services, investments, capital flow, and cross-border mergers and acquisition activities. Hence, the economic policy dialogue between the two countries expanded to include this broader agenda. Such a broader policy dialogue accelerated because of the Korean financial crisis of 1997. When the Korean government negotiated during the crisis a large-scale financing package from multilateral financial institutions of the IMF, the World Bank and the Asian Development Bank, the United States as one of the dominant shareholders in these institutions exerted a crucial behind-the-scene influence to formulate stringent loan conditionality to further liberalize Korea's trade regime, to open up its financial markets to foreign investors and financial institutions, and to modernize its economic system in accordance with international best practices in such areas as corporate governance, financial regulation and supervision, and accounting and auditing standards.

The U.S. role during and after the Korean financial crisis was regarded as overly interventionist and paternalistic by some Koreans, but the overall impact was positive for the Korean economy. There is no question that for a couple of decades prior to the 1997 financial crisis, Korea was slow to adopt a policy of globalization and liberalization of its economy because of strong vested interests in the country. Its capital market was under-developed, and the banking and financial system remained relatively primitive with lack of modern credit evaluation and risk management skills. Financial regulatory and supervisory structures needed a significant improvement. Korean business firms relied too much on debt financing, resulting in dangerously-high debt-to-equity ratios, and too many enterprises were under state controls and thus inefficient and unproductive. Industries were highly concentrated among large chaebols, and the country did not nurture healthy and vibrant small and medium-scale industries. Korean accounting and auditing standards were such that most observers could not trust their veracity. In sum, Korea needed to launch a wholesale reform of its economic and financial system, and the 1997 financial crisis and the subsequent external pressure on Korea brought about much needed economic reforms. In this sense, the 1997 crisis has been a blessing in disguise. Still, reforms are far from complete, especially in the political system and the

government bureaucracy as well as the labor sector and state-owned or controlled enterprises.

III. Further Developments in Bilateral Economic Relations

The United States has been the most important trading partner for Korea during the past two decades, while Korea has been among the top ten trading partners for the United States as well. While over 99% of Korean exports to the United States are manufactured goods, 89% of U.S. exports to Korea are manufactured goods and the rest is composed of agricultural products. Over the years, Korean export items for the U.S. market shifted from clothing and other textile products and toys in the 1960s and 1970s to machinery, consumer electronics, semiconductors, and cars in the 1980s and 1990s. Main import items from the United States have not changed much, composed mainly of machinery, electric and electronic equipment, and agricultural products. In 2001, the United States was again the number one export market for Korea and the number two import source after Japan for Korean importers, while Korea was the sixth largest export market and the eight largest import source for the United States, the same ranking as in 2000.

Table 2. Trade Partner Ranking between U.S. and Korea[2]

	Korean Exports to U.S.	Korean Imports from U.S.	U.S. Exports to Korea	U.S. Imports from Korea
1980	/	*1*	75	*11*
1985	/	*1*	7	*8*
1990	*1*	*1*	*7*	*6*
1995	*1*	*1*	*5*	*8*
1998	*1*	*1*	*9*	*9*
2000	*1*	*2*	*6*	*8*
2001	*1*	*2*	*6*	*8*
2002	*1*	*2*	*6*	*7*

Even though the Korean textile industry ranks No. 5 in the world in terms of export volume, its export share in the U.S. market has experienced a steady decline: from 9.7% in 1990 to 5.7% in 1994 to only 3.8% in 2000. A similar decrease has been

experienced by Taiwanese textile exporters to the United States, while the share of Chinese textile exports in the U.S. market has declined less precipitously: from 14% in 1990 to 10.5% in 2000. On the other hand, the textile exports of the two NAFTA countries of Canada and Mexico has experienced sharp increases: from 0.7% and 2.7% respectively in 1990 to 2.9% and 14.9% in 2000. This example demonstrates the classic case of trade diversion rather than trade creation due to the formation of a regional trade bloc.

In addition to merchandise trade, there has been a significant increase in the flow of foreign direct investment between the two countries, especially after the 1997 financial crisis. Before the crisis, the Korean government did not actively promote foreign investments in Korea. In fact, a number of restrictive measures had been adopted, resulting in a relatively-closed market for foreign investors in Korea. Consequently, direct foreign investments played only a minor role in Korean industrialization. In terms of the inward FDI stock to GDP ratio, Korea lagged substantially behind the world average as well as that of Southeast Asian countries. Indeed, Korea and India were the only countries in Asia where the primary mode of U.S. investment was minority-stake joint ventures rather than majority-stake joint ventures or fully owned subsidiaries. As late as 2000, Korea ranked 23rd out of then-25 OECD member countries in stock of inward FDI as a share of GDP, besting only Japan and Iceland.

Table 3. U.S.-Korea Foreign Direct Investment Flows[3]
(Data on the FDI arrival base, not announcement base)

	U.S. FDI Flows into Korea		**Korean FDI Flows into U.S.**	
	$ Millions	***As % of Total****	***$ millions***	***As% of Total****
1990	**221**	**29.5**	**345**	**36.1**
1992	**246**	**34.2**	**346**	**28.4**
1994	**221**	**22.4**	**525**	**22.8**
1996	**393**	**17.2**	**1,568**	**36.9**
1998	**1,479**	**28.3**	**874**	**22.4**
2000	**1,687**	**16.8**	**1,132**	**30.8**

****As % of the total FDI flows into Korea or as % of total Korean outward FDI flows.***

Policy reform and market pressure encouraged an expansion of FDIs into Korea after the Asian financial crisis. As part of the IMF and World Bank loan conditionality subsequent to the 1997 financial crisis, the Korean government has agreed to remove a number of entry barriers to foreign direct investments in Korea. Among the various measures have been new steps by the government to encourage the privatization of state-owned enterprises and active cross-border M&As and to foster the entry and/or takeover of Korean firms by domestic and foreign firms. The 25% ceiling on foreign equity ownership in Korean firms was also removed in 1998 by a change in the Securities Exchange Law, and in the same year the Korean parliament enacted a new law, the Foreign Investment Promotion Act, in order to accelerate foreign direct investments in Korea.

As a result, there was a sharp increase in U.S. acquisitions and new direct investments in Korea after 1998. Some of the U.S. companies making new investments included Fairchild Semiconductor Corp., Enron Corp., Bowater, Inc., Columbia Chemicals Co., Motorola, Inc., and Ford Motor Co. Along with such manufacturing and industrial sector direct investments, foreign investment into the Korean service sector has gained greater importance in recent years. Like many European financial institutions, some American financial institutions have made substantial investments in Korea, such as Goldman Sachs' $100 million investment in Kookmin Bank (later merged with Korea Housing Bank), the takeover of Seoul Bank by Newbridge Capital, and a $50 million investment by Lake Forest Finance Co. into Chung Buk Bank. Direct investments by Korean firms in the United States were also numerous in the 1990s, including Samsung Electronics' $18 million investment in the semiconductor sector, $60 million investment by Saerom Technology in the communication field and $15 million investment by Taekwang Company in the footwear industry.

IV. Pending Issues in the U.S.-Korea Economic Relationship

As the two countries have intensified their economic relations over the years, perhaps it is inevitable that a number of bilateral economic disputes have also emerged, especially as the United States has tended to separate external economic issues from military and strategic considerations after the fall of the Berlin Wall.

Unlike its policy during the Cold War period, the U.S. government has sought to separate its economic interests from political-strategic ones. As a result, Korea can no longer expect special treatment from the U.S. government in its trade and investment disputes with the United States. Some of the important bilateral economic disputes involve automobiles, steel, intellectual property rights, and pharmaceutical products.

Table 4. U.S.-Korea Automobile Trade
(Number of passenger cars and commercial vehicles)

Year	Korean exports to U.S.	Korean imports from U.S.
1995	132,118	2,578
1998	175,510	1,227
1999	329,572	739
2000	140,357	1,268
2001	583,608	2,283
2002	650,315	4,427

The United States has been the most important market for Korean automobile exporters, but the trade imbalance in autos between the two countries has caused considerable controversy. The trade imbalance has become so severe that the total annual export volume of U.S. autos to Korea is less than 1% of the total export sale of Korean cars in the United States, 4,427 vs. 650,315 in 2002. Consequently, the U.S. government has insisted that the Korean government take a number of measures to redress such an imbalance. Such U.S. pressure has increased as the Korean share of the U.S. automobile market has increased from less than 1% in 1995 to 2.7% in 2000, 3.6% in 2001 and 3.9% in 2002, for both passenger cars and commercial vehicles. In contrast, American cars accounted for only 0.1% of the total Korean car market in 2001 and 0.27% in 2002. The U.S. government rightly pointed out that the previous Korean government measures such as taxes, tariffs and various non-tariff barriers discriminated against car imports into Korea. After many years of negotiations, the two governments signed the Automotive Memorandum of Understanding in 1998, requiring Seoul to take a number of proactive measures to increase

market access to Korea by American automobile companies. However, Korea has refused to lower its 8% tariff outside the Doha World Trade Organization negotiations and has insisted that low U.S. auto sales in Korea are due to marketing and design problems. Korea is also planning to simplify the special consumption tax in 2003 in response to a key commitment in the Automotive MOU.

Korean steel exports have also attracted U.S. attention. The United States is the third largest export market for Korean steel producers after Japan and China. Korean steel exports increased sharply from $945 million in 1996 to $1,736 million in 1998 right after the Korean financial crisis, as domestic steel demand declined because of the severe economic recession caused by the crisis. With a weakened domestic steel industry in the United States resulting in the recent bankruptcy of the second largest U.S. steel manufacturer, Bethlehem Steel, and consequent massive worker layoffs, the U.S. government has been under a growing political pressure to deal with the foreign steel imports, including those from Korea. As a result, President George W. Bush took in March 2002 the so-called safeguard measure by imposing extra tariffs of up to 30% on certain steel imports. The Korean government has requested that the United States withdraw the safeguard measure or fundamentally change it to be consistent with the WTO agreements.

The two countries have also worked on measures to strengthen the protection of intellectual property rights (IPRs) in general and especially the protection of computer software programs. Korea enacted a revised Computer Program Protection Act in 2000 in order to enhance the protection of computer software, thus correcting some of the deficiencies in its original act. As Korea has made progress on the protection of copyrighted works on the basis of Korean commitments in early 2002, the U.S. Trade Representative has downgraded Korea from the Special 301 Priority Watch List to the Watch List. The United States remains concerned with respect, among others, to the transparency of Korea's software copyright enforcement efforts.

The United States feels that market access barriers to agricultural products remain high in Korea and it has also complained that new agricultural product rules proposed by the Korean government threaten U.S. beef exports to Korea. Thus both sides have engaged in active discussions in order to resolve this trade issue important to U.S. agricultural exporters. The United

States has suggested that Korea's safety assessments for biotechnology be structured to be minimally trade distorting. The two countries have actively engaged in a series of talks to resolve trade disputes involving pharmaceuticals, dynamic random access memory (DRAM) chips, and telecom products. The two governments have also been working on a Bilateral Investment Treaty (BIT) with the view to promote further direct investment flows between the two countries. But such issues as the Korean domestic movie quota rule have clouded the prospect for concluding the BIT soon. In 2002, the two countries made no progress in the discussion of BIT or a free trade agreement (FTA) between Korea and the Untied States. As for a possible FTA between Korea and the United States, both countries are still not ready to engage in serious discussions on that subject. Korea wants to digest the implications of its first FTA, one with Chile, which has faced serious opposition from the agricultural sector. Similarly, the U.S. government does not feel that Korea is a priority case for considering an FTA.

V. Three Waves of Korean Immigrants

Among almost two million Korean-Americans reside in the United States, one can detect three distinct groups. The first wave of Korean immigrants arrived in Honolulu one hundred years ago, mostly as male laborers to work on the Hawaiian sugar cane fields, earning about $1 per day.[4] Later they were joined by Korean women, known as picture brides, brought in from Korea in order to marry those early Korean immigrant laborers.[5] The early immigrants from Korea came mostly to in search for better jobs and a new life as well as to seek political freedom from the Japanese occupation of 1909-1945. This first wave of Korean immigrants was relatively uneducated and tended to work on American farms and in factories as manual laborers, though some of the more educated immigrants were active in the liberation movement to free Korea from the Japanese occupation. Some of the most prominent leaders in the Korean independence movement, including the first South Korean president after World War II, came from this initial wave of Korean immigrants. Many independence leaders used their newly-acquired English skills and Western lobbying tactics to win the support of the American as well as the international community for Korean independence. These leaders were financially and

morally supported by the first-wave Korean immigrants, who organized many fund-raising drives to assist the Korean independence movement. Most first-wave Korean immigrants have since passed away, and their children as well as their grandchildren have been far more thoroughly assimilated into mainstream American society than any other group of Korean immigrants. In fact, many, if not most, of the descendants of the first-wave Korean immigrants do not speak Korean, and they have inter-married with persons of other ethnicities more frequently than subsequent Korean immigrant groups. They are also not active in Korean ethnic group activities, and they consider themselves more American than Korean.

The second wave of Korean immigrants comprised those who entered the U.S. after the outbreak of the Korean War of 1950-1953. While some among the second immigrant group might have been war refugees from well-to-do families with the economic and political means to obtain the American visas and to afford the substantial economic costs of relocating in America, most were young Korean men and even women who decided to come to the United States to further their advanced education which was not readily available in Korea at that time. Between the mid-1950s and early-1970s, this second wave of Korean immigrants arrived in the United States, not as immigrants like the first wave immigrants, but mostly as students seeking higher educational opportunities. Unlike the current wave of Korean students who have come to the United States even during their elementary or secondary school years, in those days almost all Korean students coming to America had obtained at least their college degrees in Korea already. As the Korean government strictly regulated the outflow of Koreans studying abroad and American officials made getting a student visa very difficult, only students who were relatively studious and had passed overseas study exams administered by the Korean government were eligible to study abroad.

The third wave of Korean immigrants to the United States arrived in the late 1960s and especially after the early and mid-1970s. In 1965, the new Hart-Celler Act abolished immigration based on national origins, allowing a significant growth in immigrant populations from non-European regions such as Asia, the Middle East, Latin America, and Africa. Many Korean immigrants took advantage of the relaxed immigrant visa requirements and

came to this country in order to take advantage of the better living conditions. This third wave of Korean immigrants crested right after the fall of South Vietnam in 1975, as many Koreans back home were scared of another potential invasion from North Korea. Many of these third wave immigrants could secure the coveted American immigrant visas (the so-called green cards) through their connections with the second-wave Korean immigrants, who sponsored family members and other relatives back home. Thus, the blood ties between the second and third wave Korean immigrants often existed. In other cases, the third-wave immigrants came to America through job quotas allocated to specialized professions such as nursing and other medical service sectors, those requiring certain technical skill sets, and other professions needed in America.

VI. Outlook for the Korea-U.S. Economic Relationship and the Role of Korean Americans

The United States and Korea have come a long way in their bilateral relationship, starting from the military and strategic cooperation and assistance in the early years to a close economic partnership in recent decades. During the past-five-and-a-half decades, Korea has evolved into the twelfth largest trading nation in the world and the thirteenth largest economy. Such remarkable progress has been possible in no small measure because of the close diplomatic and economic relationship between the two countries. The military umbrella provided by the United States has enabled Korea to concentrate on the rapid industrialization of the poor and underdeveloped economy which emerged from the Korean War, and the United States has served as the most important market for Korean exports whose success has been critical to Korea's export-led economic development policy. American companies have been important sources of technology for emerging Korean firms and U.S. financial institutions have played an important role in providing foreign capital to finance Korean investments in new industrial and infrastructure projects.

The so-called IMF crisis of 1997 has highlighted the importance of fundamental economic reforms for Korea, as half-finished reforms are worse than no reforms at all. The government can no longer fine-tune Korean economic reforms on a selective basis. One of the lessons that Korea learned after the 1997

crisis was that the liberalization of short-term capital flows only while regulating the long-term capital flows encouraged many Korean financial institutions such as commercial banks and merchant banks to borrow short-term Eurodollars abroad in massive amounts in order to speculate in questionable long-term investments such as Russian Eurobonds and long-term loans to risky South Asian companies. There are many other such examples of selective reforms resulting in quite unexpected consequences. In short, the old Korean economic policy paradigm, focusing on micromanagement of the economy by the government, has to be replaced by the global standards of market-based reforms.

In this sense, the close U.S.-Korea economic relationship can provide far more benefits than those arising from trades and investments. Closer economic cooperation in all spheres of economic activities, including trade, banking and finance, capital market activities, foreign exchange operations, joint ventures, technology transfers, and capital flows can assist Korea in the wholesale modernization and globalization of the economy. The latest report by the American Chamber of Commerce (AMCHAM) in Korea indicates that international business executives based in Asia consider Seoul the least attractive place to live and conduct business among the five Asian cities of Seoul, Tokyo, Hong Kong, Singapore and Shanghai. To prove this point, in fact, there is only one multinational company (MNC) maintaining its Asian regional headquarters in Seoul (Volvo), while the Asian regional head offices of 944 MNCs are located in Hong Kong and over 200 are in Singapore.

The decade of the 1990s for Japan demonstrates to the world that Japan can no longer be the role model for Koreans. The dynamic U.S. economy is the most important role model, providing Korea with the best business practices suitable to global standards. The Korean economy has to compete successfully in an increasingly globalized economy in order to survive and prosper. Already, the Korean economy is integrated into the world economy, not only in trade, but also in other areas of economic activities. Today's Dow Jones and NASDAQ stock price movements are immediately transmitted to the Korean stock market on the same day. Both Korean policymakers and businessmen have to behave proactively to take advantage of the many benefits of such a closer economic partnership between the two countries, while minimizing the

potential ill effects as well.

In this sense, the growing economic power of China can provide a new challenge for future Korea-U.S. economic relations. China is effectively becoming a global manufacturing base for multinational corporations, given its low land costs, low-wage labor pool (without the labor militancy common in Korea and elsewhere), and the recent entry of China into the WTO. Consequently, China has attracted huge amounts of foreign direct investments (FDIs) in recent years, averaging over $40 billion per year. In 2002, the total FDI inflows into China exceeded $50 billion. In contrast, the total FDI inflows into Korea are less than 10% of China's inflows. In fact, many Korean firms, especially the small and medium-sized enterprises (SMEs), have set up manufacturing plants in China in recent years in order to escape both the high labor costs and the frequent labor problems in Korea. Most investments by Korea firms have been located in areas of China such as Shandong, Tianjian, and Liaoning with large concentrations of ethnic Koreans. While SMEs accounted for 45% of Korea's investment in China in 1992, SMEs had increased their share to 54% compared with 39% by the large chaebol firms.

Also, American firms along with Japanese and European companies have invested heavily in China in order to penetrate the Chinese market as well as to use China as the production base for global markets. Thus, Korean exporters to the U.S. market will face an increasing competition from China, which enjoys distinct cost advantages over Korea. The only way to cope with this challenge is for Korean firms to move up the technology chain so that Korean export products maintain both the quality and technological advantages over Chinese exports.

It is estimated that 5.6 million Koreans are residing outside the Korean peninsula today, including about 2 million in the United States. In 2003, Korean-Americans celebrated a one hundred-year history of Korean immigration to the United States. Along with Korean immigrants resident in Japan, Korean immigrants in the United States form a vital part of the almost six million overseas Koreans. Korean Americans are nowadays active in a variety of professional and business areas, and they are making significant contributions to both their adopted country and their ancestral homeland. There has developed a strong bond between the Korean immigrant community and the Korean motherland, especially

because the United States and Korea have remained close political, economic and military allies. Over the years, active cultural and other exchanges have been maintained between the Korean immigrant community in America and Koreans in the motherland. Most Korean-Americans still enjoy close family ties with friends and relatives in Korea, and two-way visits between Korean Americans and homelanders have steadily increased in recent years. Frequent tour groups are organized from both sides of the Pacific Ocean, as airline links between the two countries have multiplied.

Along with cultural and social exchanges between the two sides, there has developed an increasing business and economic relationship as well. The United States has been the premier export market for Korean products during the past several decades, but most of the Korean goods have been marketed in this country by the branch offices or American subsidiaries of Korean trading and manufacturing firms headquartered in Korea, and only a small proportion of Korean exports has been sold with the assistance of Korean American business firms established in America. The main reason for such a trading pattern is that most Korean-American businesses have been small family-owned shops and stores catering to local clientele rather than a nationwide market. The very nature of Korean-American businesses has been shaped by the types of Korean American businessmen and entrepreneurs, who have been relative newcomers to this country, and, in a sense, themselves reluctant businessmen who have considered their business activities in America mainly as a means to earn a living during the transition period from their immigration to this country to the time when their children get established in the mainstream of the American society through good education and professional jobs rather than inheriting their parents' small-scale shops and businesses by themselves.

There are several ways in which the Korean Americans can play a viable and contributory role in promoting the U.S.-Korea economic relations. First, Korean American businessmen in the United States can play a catalytic role in promoting U.S.-Korea trade and investment relationship. Korean businessmen, like most Koreans in other professions, are very talented people who also know the Korean business scene and understand intimately Korean business culture and economic circumstances. They can become valuable guides, promoters, advisors, counselors, and facilitators between Korean companies and American firms. Second,

Korean-American professionals engaged in finance, economics, law, consulting, higher education and other related fields in the United States can marshal their considerable expertise for promoting and accelerating the internationalization of the Korean economy and assisting Korean business to adapt to global standards. Finally, Korean-American opinion leaders can enhance a better understanding between the two countries in various fields including the business and economic relationship.

VII. Need for a Paradigm Shift in Korean American Businesses

Up until now, Korean immigrant businesses in the United States have been mainly small-scale retail stores and family-operated shops catering to a rather limited number of local clients, either other Korean immigrants or a wider local clientele. One of the distinguishing characteristics of Korean immigrant businesses has been the fact that such businesses were started and subsequently operated by Korean immigrants simply as a means for livelihood to support their families in America. Many of the Korean immigrant businessmen started their earlier working lives in Korea, not as small shop owners or independent business people but as white-collar professionals with college degrees. Nevertheless, their lack of English proficiency, and, even more important, their lack of formal professional education in this country forced the new Korean immigrants arriving after the 1970s to seek manual jobs requiring only a bare minimum of English and no formal education.

Having been raised to adulthood in Korean society, where the societal hierarchy of the so-called Sa Nong Gong Sang (scholar mandarins, farmers, artisans and manufacturers, and merchants and traders) has been an accepted cultural legacy for centuries, the formerly white collar-turned blue collar Korean immigrant businessmen have resented their working life in this country but have coped with this humiliation through deepening their religious faith and with the expectation of a better life for their children. Thus, the hard work ethic of the immigrant parents has formed a distinguishing ethos for most first generation Korean immigrants, especially those third wave immigrants who have arrived in this country since the mid 1970s. Naturally, Korean immigrants have viewed their businesses as simply intermediate stepping-stones for a better future for their families. The shedding of many tears and the back-breaking sacrifices of the Korean immigrant merchants and

store owners have always been connected to their noble dream and sure conviction of a better and more decent life to be enjoyed later in the U.S. by their children, who are raised in the most advanced educational system of the richest and most powerful country on earth.

Hence, the first-generation Korean immigrant businesses are mostly to be utilized for earning enough money to raise their families and not regarded as some enterprises to be nurtured and cared for in order to be passed onto their offspring. Most Korean immigrant business owners want their children to pick up different professional careers such as lawyers, medical doctors, engineers, scientists, and even college professors. In this sense, most Korean immigrant businesses lack the depth and durability as business ventures, and they tend to be mostly small retail service businesses, owned and operated by transplanted white collar professionals from Korea as simple means to earn a living in their newly adopted country called America. The future challenge for the Korean business community, therefore, is to develop a new breed of Korean businessmen, who are engaged in not small retail businesses tailored to a limited local client base necessarily but in technology-oriented ventures as well as in non-technology businesses such as financial services and trading businesses but still with a global or at least national clientele with the use of Internet and other modern marketing techniques. Fortunately, there are an increasing number of new venture firms founded by the second-generation Korean immigrants who are educated in well-known colleges and universities. Indeed, this new breed of the second-generation Korean business firms should be the model for successful Korean immigrant businesses, bridging the two markets of Korea and the United States.

Notes

1. Korea Trade Information Service (KOTIS), KITA, and *Direction of Trade Statistics,* various issues, IMF.

2. IMF, *Direction of Trade Statistics,* various issues.

3. Moonsung Kang and Suyeob Na, *Economic Policy Under the Bush Administration and U.S. Economic Performance in 2001* (in Korean), KIEP,

Seoul, Korea, 2001.

4. Between 1903 and 1905, about 6,740 Korean immigrants arrived in Hawaii according to steamship passenger manifests of those years.

5. On September 20, 2002, a Korean TV channel called SBS had a special on these "picture brides," who numbered at least 500 between 1910 and 1924, according to this documentary. See "100 Years of American Immigration: Review of Picture Brides,"