

U.S.-Korea Relations:
Tensions Rise Over Sticks and Carrots

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Shortly after a U.S. official briefed South Korea, Japan, and China on North Korea's clandestine sales of processed uranium to Libya, North Korea declared in early February that it possessed nuclear weapons and would indefinitely suspend its participation in the Six-Party Talks. Seeking to keep alive the nuclear negotiations, both the U.S. and South Korea downplayed Pyongyang's announcement. But in the following days, media leaks indicated that Vice President Richard Cheney pressed Seoul to turn down North Korea's request for a large quantity of fertilizer and sought to suspend Seoul's participation in a joint industrial project at Kaesong, just north of the demilitarized zone.

When South Korea resisted the U.S. request, the Bush administration called for "coordinated approaches" to North Korea, diplomatic code words for Seoul to support the U.S. position. South Korean President Roh Moo-hyun indirectly responded by emphasizing the equality of South Korea with the U.S. in their alliance relationship.

In late February, North Korea's leader Kim Jong-il told a high-level Chinese delegation that North Korea would return to the Six-Party Talks when conditions are "mature" and "suitable." Kim emphasized once again that the U.S. would have to show "no hostile intent" before it could expect Pyongyang to rejoin the negotiations.

Visiting the region in the latter part of March, U.S. Secretary of State Condoleezza Rice urged North Korea to return to the Six-Party Talks. In her bilateral meetings, she said the U.S. would pursue unspecified "other options in the international system" if Pyongyang continues to refuse to negotiate.

U.S. and South Korean defense negotiators could not reach agreement this quarter on the amount of Seoul's contribution to the cost of keeping U.S. troops in Korea. The two countries remained wide apart in their demands, with South Korea asking for a 50 percent cut in its share and the U.S. requesting a 10 percent increase.

This quarter South Korea became ranked as the 10th largest economy in the world, based on 2004 gross domestic product. Despite an ongoing dispute over South Korea's refusal to import U.S. beef, American and South Korean trade officials conducted two working-level meetings in their early efforts to conclude a bilateral free trade agreement.

North Korea Suspends Participation in the Six-Party Talks

As 2005 opened, North Korea laid down a clear diplomatic marker that it would not rejoin the Six-Party Talks without at least a rhetorical shift in U.S. policy. Fearing the dominance of Bush administration hardliners bent on “regime change” in North Korea, Pyongyang called on the U.S. to formally drop its “hostile policy.”

In part, this effort seemed to be a further delaying tactic since the U.S. had on previous occasions made clear it had no intent to attack North Korea and would provide security assurances to Pyongyang in the context of an agreement on the nuclear issue. Nevertheless, the demand betrayed North Korea’s fundamental insecurity about Washington’s intentions as well as its need for reassurance that giving up its nuclear weapons would not open it to attack.

A congressional delegation led by Rep. Curt Weldon visited North Korea for several days in mid-January. After meeting with senior officials, including Prime Minister Kim Yong-nam, Rep. Weldon announced optimistically that North Korea would rejoin the Six-Party Talks “in a matter of weeks.” The congressional delegation reportedly went to great lengths to reassure North Korean officials of U.S. intentions to resolve the nuclear dispute in a peaceful, diplomatic manner. While the discussions were said to be friendly, Rep. Weldon later revealed that North Korean officials had claimed to the visiting congressmen that North Korea possessed nuclear weapons, its most forthright acknowledgement of this capability to date.

At a confirmation hearing on Jan. 19, Secretary-designate Rice generally avoided verbal attacks on the North Korean regime in her testimony. But in discussing the Bush administration’s desire to spread freedom and democracy through its foreign policy, Rice called North Korea an “outpost of tyranny,” language that Pyongyang cited throughout the quarter as continuing evidence of Washington’s “hostile intent.”

Possibly out of impatience with North Korea’s delaying tactics or simply to strengthen the resolve of its negotiating partners, the Bush administration, in early February, dispatched National Security Council senior Asia director Michael Green to brief Japanese, South Korean, and Chinese officials on new and disturbing intelligence findings. As revealed by *The New York Times*, Green informed these officials of evidence that North Korea had previously exported processed (though not highly enriched) uranium to Libya. Green apparently sought to show that Pyongyang had crossed a critical red line in U.S. policy by supplying materials for building nuclear weapons to a third country. The Bush administration reportedly decided in the fall of 2004 that such actions could justify either United Nations sanctions or even a punitive U.S. military response.

The leaked intelligence report on North Korean sales of processed uranium to Libya instigated two reactions that shaped overall diplomacy on the nuclear issue through the end of the quarter. Following the report, North Korea declared officially that it possessed nuclear weapons and would indefinitely suspend its participation in the Six-Party Talks.

For its part, the U.S. pressed South Korea to suspend aid and a joint industrial project with North Korea in Kaesong as a form of sanction. When South Korea resisted U.S. pressure, it created new and significant tension in alliance relations.

Immediately following North Korea's startling announcement, both the U.S. and South Korea tried to downplay its significance. White House spokesman Scott McClellan said "we've heard this kind of rhetoric from North Korea before; it's not the first time." Secretary Rice emphasized the need to consult with allies and restated that North Korea would receive multilateral security assurances if it gave up its nuclear weapon program.

South Korea's foreign minister, Ban Ki-moon, stressed his government still did not have a "clear picture" of Pyongyang's nuclear capabilities and Unification Minister Chung Dong-young said it was "too early" to call North Korea a nuclear weapons state.

Although Washington and Seoul offered similar public commentaries on North Korea's announcement, they apparently differed significantly on whether to bring new pressures to bear on Pyongyang. From media leaks, it appears that the Bush administration, and Vice President Cheney in particular, wanted South Korea to refuse Pyongyang's recent request for 500,000 tons of fertilizer and suspend construction at the Kaesong industrial zone inside North Korea. (At the Kaesong site, not far north of the demilitarized zone, approximately 15 South Korean companies are currently establishing operations, the first phase in a development that will ultimately involve hundreds of firms).

South Korea took the position, however, that it should proceed with the fertilizer shipment on a "humanitarian" basis and that the Kaesong project should continue normal operations. Foreign Minister Ban made clear Seoul's calculations when he said "the pilot program for the Kaesong project will go on unless the situation deteriorates further. We have a settled policy of seeking solutions to the nuclear issue and developing inter-Korean relations at the same time." Ban allowed that Seoul might consider unspecified followup measures if the situation became worse.

Tensions in the Alliance

Seoul's decision to rebuff the U.S. request to put pressure on North Korea gave rise to tensions between the allies that continued through the quarter. U.S. policymakers questioned the seriousness of Seoul's commitment to eliminating North Korea's nuclear capability. They believed Seoul was now prepared to undercut the common alliance interest in countering this nuclear threat if this was necessary to keep inter-Korean reconciliation on track. They resented the notion that South Korea had apparently put its good relationship with Pyongyang on par with its alliance obligations to the United States.

For its part, South Korea reached its decision to avoid putting pressure on Pyongyang by using a policy framework of "balancing" the nuclear issue with inter-Korean reconciliation. Foreign Minister Ban and President Roh explicitly referred to this balancing process in their public statements. After the U.S. called for "coordinated

approaches” with South Korea on dealing with Pyongyang (in effect, seeking South Korea’s support for the U.S. position), President Roh stressed that South Korea and the U.S. should be on “equal footing” in the alliance, implying that South Korea would continue to maintain a view at odds with the U.S. position.

Some South Korean officials, such as Speaker of the National Assembly Kim Won-ki, tried to cover the differences with the U.S. by saying the allies agreed on the same policy end – a nonnuclear North Korea – but had different views on how to achieve that goal. Speaker Kim and others asserted that putting pressure on North Korea was the equivalent of a hardline policy at odds with the efforts to achieve a “peaceful, diplomatic solution” to the nuclear crisis.

U.S. diplomats seeking just such a peaceful outcome reacted by questioning South Korea’s willingness to achieve a diplomatic resolution of the nuclear issue. They pointed out that any diplomatic negotiation requires both incentives and disincentives – carrots and sticks – for success, and Seoul’s reluctance to suffer a short-term setback in inter-Korean relations made a diplomatic approach extremely difficult. They noted the irony that Seoul was hobbling the very diplomatic process it claimed was necessary for a peaceful solution, opening the way for U.S. hardliners to insist on imposing tougher measures on Pyongyang. In the end, they argued, Seoul’s “misguided” balancing efforts could result in complete policy failure – acquiescing to a nuclear North Korea, significantly ramping up the tensions on the Korean Peninsula through the imposition of international sanctions, and weakening the U.S.-South Korea alliance.

When South Korea’s conservative opposition leader Park Geun-hye later visited the U.S., she called for Seoul to put additional pressure on Pyongyang to return to the Six-Party Talks (in line with the prevailing U.S. position), but coupled her view with a request that the U.S. also offer “bold incentives” to Pyongyang. Park highlighted what many observers, both in the U.S. and South Korea, saw as the biggest shortcoming in Bush administration policy – an unwillingness to offer significant incentives to Pyongyang for fear of seeming to “appease” the North Korean regime. This administration reluctance (largely driven by domestic U.S. politics) clashed with the widely accepted view among professional diplomats in the U.S., Japan, South Korea, China, and Russia that significant incentives were necessary to strike a deal with Pyongyang on eliminating its nuclear program.

Despite the tension between Seoul and Washington over the best way to bring North Korea back to the talks, both agreed on the importance of China’s role. As early as mid-February, Seoul pressed Beijing to offer “additional incentives” to Pyongyang, and the U.S. reportedly asked China to assert its significant leverage against the recalcitrant regime. When a high-level Chinese delegation visited North Korea in late February, Kim Jong-il reportedly said his country would return to the Six-Party Talks when conditions are “mature” and “suitable.” It was later reported that North Korea’s leader laid down several requirements before this could occur, most notably that the U.S. declare it has “no hostile intent” toward Pyongyang.

During their late February trilateral meeting on the nuclear issue, delegates from the U.S., South Korea, and Japan discussed but did not resolve their differences on the right mix of pressures and incentives to use with North Korea. At the meeting, South Korea achieved a minor victory of sorts by persuading the U.S. to agree to upgrade its bilateral contacts with North Korea in the Six-Party Talks to more substantial bilateral discussions. North Korea has long preferred to negotiate a bilateral resolution of the nuclear issue with the United States, but the Bush administration has rejected this approach in favor of a multilateral negotiation. Later in March, Foreign Minister Ban underscored the significance of this procedural change by stressing the U.S. would treat Pyongyang as an “equal partner” at the next round of talks. North Korea did not indicate during the quarter whether it found this subtle shift in diplomatic posture meaningful.

Trilateral relations were potentially complicated in mid-March when a dispute over the ownership of two tiny islands arose between Japan and South Korea. After a Japanese provincial council declared the islands (known as Tokdo to Korea and Takeshima to Japan) were Japanese territory, Korean nationalists led emotional public demonstrations protesting this claim. President Roh’s popularity rose as he pledged South Korea would defend the islands, a position that effectively strengthened his standing in advance of important National Assembly elections in April. Although the governments of Japan and South Korea said they would insulate their discussions on North Korea from the Tokdo/Takeshima controversy, it was by no means clear they could do so because of inflamed public opinion in both countries.

Secretary Rice’s Visit to Northeast Asia

Toward the end of March, Secretary of State Rice visited Japan, South Korea, and China to discuss a variety of bilateral and regional issues, including how to bring North Korea back to the Six-Party Talks and make progress on the nuclear issue. Rice never publicly mentioned her earlier confirmation hearing testimony when she called North Korea an “outpost of tyranny” and instead went to some pains to call North Korea a “sovereign state,” presumably to show a greater measure of respect and improve the diplomatic atmosphere with Pyongyang. She said once again that the U.S. would give North Korea security assurances in exchange for committing to a process of dismantling its nuclear facilities.

Rice reportedly stressed to South Korean, Japanese, and Chinese officials that the U.S. would seek to put additional pressure on North Korea by using “other options in the international system,” if it does not return to the Six-Party Talks. Her reference to “other options” underscored Washington’s intention to seek UN sanctions against North Korea or to strengthen the Proliferation Security Initiative (PSI) for monitoring North Korean trade if the six-party negotiations remain stalemated.

Rice offered no public comment on a *Washington Post* report in late March that the U.S. had passed misleading intelligence to its negotiating partners, earlier in the quarter, on North Korea’s alleged sales of processed uranium to Pakistan. According to the *Post* article, the intelligence revealed only that North Korea sold the material to Pakistan, a

close U.S. ally in the war on terrorism, and that Pakistan then transferred it to Libya. After this story appeared, South Korean newspapers sharply criticized the U.S. for providing false information designed to show Pyongyang had crossed a diplomatic “red line” by transferring nuclear material to a Libya, a one-time rogue state.

Defense Burden-Sharing

Although U.S. and South Korean negotiators met several times during the quarter to discuss Seoul’s contribution to the cost of keeping U.S. troops in Korea, they were unable to reach agreement. Last year, South Korea paid \$623 million to support U.S. troops, but Seoul has currently proposed a smaller amount due to the redeployment and phased reduction of U.S. forces in Korea. For its part, the Pentagon is seeking a 10 percent increase in South Korea’s contribution, based on the cost of modernizing the joint command, control, communications, and computer systems.

One of the few issues on which both the ruling and opposition parties in South Korea wholeheartedly agree is that there should be a “50 percent cut” in South Korea’s burden-sharing obligations for U.S. troops. They argue that Seoul is providing more substantial support for U.S. forces than Japan and Germany. American negotiators cite the case of Japan as justifying their call for South Korea to finance 75 percent of the cost of keeping U.S. troops in the country. As of mid-March, U.S. and South Korean negotiators were reportedly far from an agreement on this issue but hoped to resolve it in the near future.

Economy and Trade

Despite a weak domestic economy now just beginning to recover from a two-year downturn, in this quarter South Korea for the first time became ranked as the world’s 10th largest economy based on its 2004 gross domestic product. With a GDP of \$667.4 billion in 2004, South Korea surpassed Mexico which had an estimated \$663.1 billion GDP. A report from South Korea’s Ministry of Commerce, Industry and Energy showed that the country’s economic growth in 2004 was led by a number of key industries – semiconductors, shipbuilding, steel, information technology, automobiles, and petrochemicals – which successfully raised their global competitiveness.

South Korean and U.S. trade negotiators held two working-level meetings this quarter – the first in February and the second at the end of March – to discuss provisions of a free trade agreement (FTA). The initial obstacle they face is the ongoing inability of the two countries to reach agreement on a Bilateral Investment Treaty (BIT), which the U.S. considers a precondition to a FTA. Conclusion of a BIT has been held up for several years by South Korea’s unwillingness to modify a “screen quota” that protects the Korean movie industry from the competition of Hollywood films.

The only contentious trade issue that drew attention this quarter concerned South Korea’s refusal to resume importing beef from the United States until the meat is proven free of mad cow disease. After Japan announced it was considering reopening its market to U.S. beef before the summer, pressure grew on Korean trade negotiators to follow suit.

President George W. Bush and Canadian Prime Minister Paul Martin have reportedly agreed to work together to push South Korea and Japan to resume beef imports as soon as possible.

Prospects

As the quarter ended, the U.S. upped the ante for Pyongyang by implicitly threatening sanctions against the North Korean regime if it failed to return to the Six-Party Talks. China and South Korea took the opposite tack by focusing on new and more generous incentives Pyongyang would receive in exchange for dismantling its nuclear program. The effect of the combined measures on North Korea's thinking is not yet known but "realists" in Pyongyang may well prevail in arguing that North Korea has nothing to lose by merely continuing negotiations, while remaining away from the talks would only intensify the country's isolation.

The Bush administration bears some responsibility for Pyongyang's withdrawal from the Six-Party Talks by publicizing the claim that North Korea sold processed uranium to Libya. It appears likely that North Korea asserted its status as a nuclear weapon state and suspended participation in the talks on Feb. 10 in response to the U.S. allegation. Even if the U.S. claim is true – which is by no means clear – the news leak forced North Korea's withdrawal to save face politically.

If North Korea continues to resist returning to the Six-Party Talks, it will be incumbent on the U.S. and South Korea to reach agreement on the kinds of incentives and pressures that are necessary for achieving diplomatic progress. If South Korea refuses to discuss possible pressures (for fear of disrupting inter-Korean cooperation) and the U.S. insists on severely limiting incentives to North Korea, this difference in views could create even more serious tension in the alliance.

To resolve this dispute, some experts recommend that South Korea and the United States try to reach an agreement on sequencing diplomatic incentives and pressures in a manner that is conceptually similar to the agreement Washington recently concluded with European Union negotiators who are attempting to eliminate Iran's nuclear program. Under the U.S.-EU understanding, Washington will support the significant incentives that the EU has offered to Iran in exchange for an EU promise to back tough measures proposed by the U.S. if the EU and Iran fail to reach agreement.

Other observers stress that the Six-Party Talks are a test of whether the parties can collectively deal with regional security concerns in Northeast Asia. Since a real promise of the talks is laying the foundation for a broader regional security forum, they believe North Korea should not be allowed to thwart this prospect by suspending its participation. These experts argue that, even in the absence of North Korea, Washington should move swiftly to convert the Six-Party Talks into a broader regional security arrangement focused on stabilizing relations among the other participants – the U.S., China, Japan, Russia, and South Korea. If North Korea chooses to end its isolation then it too would participate.

By adopting this policy, the United States would prevent dangerous balance-of-power politics from taking hold in Northeast Asia and ensure a role for itself in the region's expanding multilateral diplomacy. It would also create a lasting framework for resolving critical political and security issues on the Korean Peninsula.

Chronology of U.S.-Korea Relations January-March 2005

Jan. 1, 2005: North Korea calls for the U.S. to drop its "hostile policy."

Jan. 11, 2005: U.S. congressional delegation begins visit to North Korea.

Jan. 14, 2005: Rep. Curt Weldon says North Korea will join Six-Party Talks "in a matter of weeks," after his delegation meets with officials in Pyongyang.

Jan. 18, 2005: U.S. and South Korean negotiators conduct third round of defense burden-sharing talks in Seoul.

Jan. 19, 2005: At her confirmation hearing, Secretary of State-designate Condoleezza Rice terms North Korea an "outpost of tyranny."

Feb. 1, 2005: U.S. Embassy in Seoul institutes simplified visa procedures for South Koreans seeking to travel to the U.S.

Feb. 2, 2005: National Security Council official Michael Green meets in Seoul with Korean officials on the Six-Party Talks; *The New York Times* reveals classified U.S. intelligence report saying North Korea exported processed uranium to Libya; South Korean and U.S. trade officials conduct first negotiations on a free trade agreement.

Feb. 10, 2005: North Korea announces it has nuclear weapons and will indefinitely suspend participation in the Six-Party Talks.

Feb. 11, 2005: U.S. spokesman downplays North Korean statement on nuclear weapons and says U.S. continues to seek ways to reconvene the Six-Party Talks.

Feb. 12, 2005: South Korean FM Ban says Seoul will continue the Kaesong pilot project and its shipment of fertilizer to North Korea; denies VP Cheney made request to cut aid to Pyongyang.

Feb. 14, 2005: South Korean Unification Minister Chung says it is "too early" to call North Korea a nuclear weapons state.

Feb. 16, 2005: South Korea says China will take "additional initiatives" to persuade North Korea to return to Six-Party Talks.