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Reinvigorating the Partnership**

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CONTENTS

Preface	vii
The United States and South Korea: An Alliance under Stress	
Reality and Image of the U.S.-Korea Relationship Choi Jang-jip	1
From Collective Defense to Security Co-Management Park Tong-whan	13
The United States and North Korea: Containment or Engagement?	
The U.S.-D.P.R.K. Nuclear Standoff Samuel S. Kim	41
Coping with the North Korean Quagmire Moon Chung-in	65
U.S.-South Korea Economic Relations	
The Strategic Importance of U.S.-Korea Economic Relations Marcus Noland	79
Korea-U.S. Economic Relations Bark Tae-ho	103
Seoul: Regional Realities and Global Ambitions Eric Heikkila	139
Silicon Valley and South Korea: Deepening the High Tech Partnership	
Prospects for Korean Start-up Companies and Cooperation with Silicon Valley Seong So-mi	159
Anti-Americanism in Korea: Myth and Reality	
The Roots of Anti-Americanism in Korean Society Lee Sook-jong	183
“Anti-Americanism” in the Republic of Korea Bruce Cumings	205
Commentary Kim Won-ho	230
U.S.-Korea Relations: Where Do We Go from Here?	
George Shultz	233
Ahn Choong-yong	241
Keynote Speech	
Ahn Choong-yong	249

KOREA: TIME FOR THE END GAME

*George P. Shultz and Henry S. Rowen**

CONTENTS

- I. Introduction
- II. The Economic Situation in the North
- III. The South
- IV. U.S. Aims and Options
- V. We Need to Work on an End Game

** George P. Shultz has served as U.S. Secretary of Labor, U.S. Secretary of the Treasury, and, from 1982 until 1989, as U.S. Secretary of State; he is currently the Thomas W. and Susan B. Ford Distinguished Fellow at the Hoover Institution, Stanford, California. Henry S. Rowen served as Assistant Secretary of Defense for International Security Affairs in the U.S. Department of Defense from 1989 to 1991, and as President of the RAND Corporation; he is currently Senior Fellow at the Hoover Institution and Director Emeritus of the Asia Pacific Research Center, Stanford University.*

I. Introduction

We need to change our way of thinking about the Korean peninsula. The highly dangerous situation created by North Korea's nuclear resources and ambitions must be dealt with decisively, but we will be mistaken if we approach that problem simply on its own terms.

Changes in both Koreas, but most particularly the North, will mean that the tense stalemate of the last half century is over. The dynamic is too strong. We will handle the emerging flow of threats and events best if we think in terms of where we should be heading. The time has come to work hard and creatively on an end to the division of the Korean peninsula.

Kim Jong-il's current game is to gain enough resources to stay in power. Despite an economy that is so dysfunctional that it has caused the death of perhaps one million people, this game has worked well enough that he is still there. He has chosen the path of extortion. The result is a regime whose margin of survival comes from foreign subsidies. Why these tactics? They have worked. Their essence is nuclear weapons.

The weapons program apparently started in the late 1970s and has continued ever since despite several international commitments to stop, every one of which has been violated. The obvious reason for starting the program (in the late 1970s) was to alter the military balance on the Korean peninsula. The North's economy was relatively stronger than it is now, and the conventional-forces balance on the peninsula was closer than it is now. U.S. nuclear weapons were then in the South, so North Korean nuclear weapons were likely seen as neutralizing ours. In 1991, however, the United States took nuclear weapons out of Korea as part of a denuclearization agreement between North and South—one of the very many agreements violated by North Korea.

Pyongyang's claim that the Bush administration's hostility is the reason for the newer, uranium-based program does not stand up. U.S. intelligence told the Clinton administration in 1999 that North Korea had a covert uranium enrichment program, probably with Pakistan's help. Recently it has been reported that Pakistan's transactions started in the early 1990s. In early 2001, President Bush suspended the dialogue under way at the end of the Clinton administration. In late 2001 the administration signaled a willingness to resume talks but proposed to add conventional forces to the agenda. Although criticisms of the 1994 Agreed Framework were being voiced, including the plan to build two large nuclear reactors, President Bush had not ended it when the North revealed its second nuclear program in October 2002. Since its economy cannot produce many exports (with missiles being a major item), and with meaningful economic liberalization so far ruled out, outside financial support induced by threats is what's left.

II. The Economic Situation in the North

The phasing out of Soviet Union/Russian subsidies with only their partial replacement by China has contributed to a severe economic decline in North Korea. Between 1994 and 1999 economic output declined by one-half, foreign trade in 1999 was one-third that of 1990, and a food shortage of 2 million tons a year developed. There cannot be many regimes in history that have survived such a catastrophic economic decline.

Why had Kim not emulated China in moving toward a market system as the key to staying in power? Kim and his core supporters evidently perceived—perhaps correctly—their authority as being more fragile than China's.

Kim's core supporters get a large share of the country's meager supply of goods. Some numbers—which are approximations—suggest the scale of the problem. Per capita gross domestic product (GDP) is about \$700 per capita, for a national total of \$16 billion. The military apparently absorbs about one-fourth, \$4 billion. Allowing for sustaining the other part of the core, perhaps around \$10 billion is left for 20-plus million people, \$500 per person per year, an amount available for such little investment as occurs as well as personal consumption. No wonder many people are at the margin of survival.

At long last, reforms launched in late 2002 have helped small-scale retailing and other kinds of trading. It is too early to know how far this process will go, but two observations are salient: one is that liberalization must come if the country is to move from being a basket case; the other is that liberalization sooner or later will undermine the regime.

III. The South

The South's economy is about 25 times as large as the North's and it could, without U.S. forces, dominate the peninsula militarily (nuclear weapons aside). The U.S. alliance and force presence, with its trip-wire function, has allowed the South to stop short of acquiring that dominance.

The South Korean people are divided on the North. On the one hand, it is seen as less of a threat than in the past (although capable of inflicting great damage on Seoul), and there is empathy for suffering fellow Koreans. On the other hand, it is seen as a repressive and cruel regime. Kim Dae-jung's Sunshine Policy of subsidizing the North has been controversial. Nonetheless, there is a strong sense of kinship among Koreans and a belief that someday there will be a unified and strong Korea.

However, the South is fearful that a sudden collapse of the North's regime, or even the transition to peace on the peninsula, would put a huge economic burden on the South. This comes partly from a misreading of the German experience in unification, but there are objective reasons to worry. These reasons motivate the Sunshine Policy to keep the North afloat.

The 2002 presidential election revealed a division among Korean voters, with younger ones (who tended to vote for Roh Moo-hyun) being less suspicious of the North and more hostile to the United States. Roh's view of the North builds on that of Kim Dae-jung, who departed from the hostility to the North of his predecessors. Roh in the past has also questioned the desirability of the U.S. connection. It is too early to know how the responsibilities of power will affect his decisions, but his record suggests that the Sunshine Policy will continue.

IV. U.S. Aims and Options

The United States is a quandary. We are mobilizing support for a nuclear-free Korean peninsula. It is reported that North Korea has two nuclear bombs, can now make five to six more bombs within a few months from plutonium in the spent fuel just removed from International Atomic Energy Agency (IAEA) monitoring, and can produce enough plutonium for about one bomb a year in its restarted reactor. And it has its second, uranium, program.

We face three large problems:

The first is timing. The North will soon have enough plutonium for the sale of some of it to be plausible. Bad news, real bad news.

The second is our leverage. The key nuclear materials seem to be impossible to target; moreover, their destruction would spread radioactive materials widely. And Seoul is vulnerable. The administration has mentioned the use of "tailored sanctions" (with "tailored" presumably meaning exempting food). Given the North's dire situation, such a policy might have an impact, but it was opposed by former President Kim Dae-jung and is not likely to be supported by the current Korean government or the Chinese one.

The third is the high likelihood of violations of any agreement. Aside from the North's evident determination to possess nuclear weapons, the required scale of inspections to produce confidence on compliance would be incompatible with the regime's need for total control and isolation.

V. We Need to Work on an End Game

Is there any way of breaking out of this dangerous situation? The U.S. role on the Korean peninsula was set 50 years ago and urgently needs rethinking. Dangers from the North along with its precarious condition imply that we should be working on an end game for the peninsula.

Start by examining sources of leverage. Hard currency is crucial to the regime because hard currency is controlled by the center and it enables the regime to buy critical items abroad. Such revenues (including goods in kind) come from six main categories: exports of raw materials, gifts from Koreans in Japan, fuel oil earlier supplied under the Agreed Framework, other support from South Korea (e.g., via the Mount Kumgang project for South Korean tourists) and from China, the export of weapons and drugs, and gifts of food. These revenues probably approach \$2 billion a year (with a net gain of less than this amount because domestic resources are used to generate the exports). Press stories suggest some improvement in food supply in the past few years, perhaps largely reflecting shipments from abroad. But what matters most is the supply of resources for the core, and that might be on the verge of inadequate.

The obvious point is that a multinational approach is essential: China, Japan, and South Korea are essential players, and Russia could be very helpful. We need to discuss with these countries different ways—including radical ones—of solving the problem.

If we can agree that the situation is inherently unstable, then we probably will come to the conclusion that the time for the end game has arrived.

The end position sought could be the following:

- A unified and democratic Korea without nuclear weapons;
- An exit for the North's top leaders;
- Help in the economic construction of the North after unification (especially in the event of its sudden collapse);
- The departure of U.S. forces.

This end position might be compatible with a period in which the regime in the North remains, but that would not be a stable position. An open, liberalizing, non-nuclear DPRK is an oxymoron.

How might this end position be seen by the main participants?

United States: The primary reason for our forces being there would have disappeared with a unified, democratic and non-nuclear Korea. Our share of the resource cost in helping to build the northern part of a unified Korea (with private funds playing a large role) would be small relative to the benefits. The wider regional consequences would likely be far more favorable than other outcomes.

South Korea: This outcome would be embraced. Its ideas and support on the transition from the Kim Jong-il regime would be crucial.

China: Its position would also be crucial. Its leaders would not want to see the removal of a communist regime; and they might believe that the United States is inexorably on the way out of Korea, so why pay a price? But, realistically, we aren't likely to leave soon, and they might see the present trend as becoming increasingly dangerous. The main reason—and a reason of overwhelming importance—for China to support this transition would be the fear that North Korea's programs will trigger Japanese missiles and nuclear weapons in response.

Japan: Many Japanese would not welcome a unified Korea nor their own country as the only remaining host for U.S. forces in the region, but the positives would be weighty.

Russia: It would agree but would not be a major player.

North Korea: The people would be strongly in favor. So might many of the core supporters and the million-man army, especially if this end position offered the prospect of safety and higher incomes. (Judging from the Russian and Chinese experiences, many insiders could end up being rich capitalists.) A challenge for the transition is the fate of Kim Jong-il and his immediate supporters. Could they be allowed to stay in power at all or should a haven be found for them? China or possibly Russia are best positioned to work this issue.

It hardly needs to be said that engineering such a radical change would be a large challenge. The change should be phased over several years, but at some point, perhaps right away, there could be a sudden collapse in the North, accompanied by a flood of refugees heading for the South and for China. These contingencies should be anticipated. But with agreement among the key governments, all this could likely be managed.

A start could be made by promoting economic integration between the two Koreas as a transition to political integration. This would require an economic opening by the North, something that Kim Jong-il has so far rejected. The closest he has come to

doing this is fumbling with the idea of special economic zones. In 2002 he proposed one in the Northwest on the Chinese border, but he neglected to consult the Chinese, so they promptly jailed the person Kim chose to head the undertaking. There is a more promising one proposed for Kaesong, north of the DMZ, but it moves slowly.

There is nothing mysterious about how to open the North's economy. It could go in stages, with or without special economic zones. The main caution is to avoid the Kim Dae-jung policy of supplying gifts to the North with no quids for the quos. That would weaken the incentive for it to open up.

If you know where you are going, you have the best chance of getting there. The situation is dangerous but fluid.

