

## U.S.-Korea Relations: Progress on All Fronts

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This past quarter began with the signing of a U.S.-ROK missile deal and ended with a new Status of Forces Agreement (SOFA), effectively resolving two highly contentious alliance issues. The U.S. and North Korea also achieved a major diplomatic breakthrough with an exchange of high-level visits. An ultimate agreement on missiles nevertheless eluded U.S. and North Korean negotiators, as the Clinton administration drew to a close. Meanwhile, despite doubts about the sustainability of détente between South and North Korea following the June 15 summit, Seoul and Pyongyang made significant progress during the past three months on diplomatic, economic, and military issues. Looking ahead, the main question remains President-elect Bush's Korea policy: will the new administration attempt to finalize an agreement on missiles with the DPRK and support the inter-Korean dialogue or take a harder line policy approach toward North Korea?

### U.S.-South Korea Relations

Two highly contentious alliance issues--an agreement on extending the range of ROK missiles and a new U.S.-ROK Status of Forces Agreement--were settled during the past quarter. Some progress was also made in defusing sensitive ROK-U.S. differences over what transpired at Nogun-ri a half century ago. Meanwhile, bilateral trade relations remained relatively stable.

***U.S.-ROK Missile Talks.*** After several years of difficult negotiations, the U.S. and South Korea reached agreement in mid-October on extending the range and payload of South Korea's missiles. Previously, by agreement, the U.S. had limited the range of South Korean missiles to 180 km. The new pact set the ceiling at a range of 300 km with a payload of 500 kg. The new agreement also carried with it U.S. support for South Korea's entry into the Missile Technology Control Regime, which will allow greater access to missile technology in the future.

***Status of Forces Agreement.*** At the end of December, the U.S. and South Korea reached final agreement on revisions to the U.S. SOFA governing U.S. forces in the ROK. Under the old 1991 accord, U.S. soldiers accused of a crime remained in U.S. military custody until the completion of the Korean judicial process. The new accord provides that U.S. soldiers who are accused of serious crimes (such as murder, rape, and drug trafficking)

will be placed in South Korean legal custody after indictment. The South Korean government, in turn, agreed to strengthen the rights of accused soldiers to question witnesses or their accusers face-to-face. The revised SOFA agreement also includes a new provision calling for U.S. military facilities to respect ROK environmental regulations.

***Nogun-ri.*** Separate U.S. and South Korean investigating teams spent the last year gathering evidence and analyzing the events that occurred a month after the Korean War broke out at Nogun-ri in central South Korea. The U.S. Army team concluded that panicked soldiers shot and killed a number of civilians, but discerned no conclusive proof that they acted under orders. The Korean investigators, on the other hand, believed the testimony of witnesses that an army headquarters unit ordered the soldiers to fire on civilians (among whom were believed to be North Korean soldiers and sympathizers).

At meetings during this quarter, the two sides found it difficult to agree on a single version of events. Neither could they find common ground on demands by victims and their families for U.S. compensation. Nevertheless, at the strong request of the South Korean government, President Clinton was reported to be planning an official statement of regret for the actions of U.S. soldiers at Nogun-ri. This action would help to mollify Korean public opinion--and impede growing anti-Americanism--while not giving ground on the basic facts in dispute.

***U.S.-ROK Trade Relations.*** Bilateral trade relations were relatively stable during the quarter. In December, South Korea revised its law on the protection of computer software, incorporating many demands from U.S. industry. Nevertheless, the U.S. continued to express dissatisfaction over South Korea's inadequate enforcement of laws protecting intellectual property, especially in the computer sector.

Automobiles continued to be a point of friction, largely because of the overwhelming trade disparity: in 2000, South Korea exported approximately 500,000 autos to the U.S., while U.S. auto-makers sold approximately 1,500 cars in Korea during the same period. With the U.S. automobile sector undergoing a slowdown, it appeared that industry might push for a harder line U.S. approach to market opening in the new Bush administration.

At the end of the quarter, U.S. Trade Representative Charlene Barshefsky positively appraised the overall U.S.-South Korea trade relationship: "today, we see a Korean market that is more open than it was eight years ago, and a trade relationship that is larger and in many ways healthier." She noted, in particular, that Korean tariffs on average have dropped by fifty percent, and have been eliminated entirely on semiconductors, computers, and other IT products.

## **U.S.-North Korea Relations**

There has also been a decided upswing in U.S.-North Korea relations during the last quarter. October 9-12, North Korea's leading military official, General Jo Myong-rok, visited Washington for talks that included both Secretary of State Albright and President Clinton. The choice of General Jo to head the North Korean delegation significantly impressed administration foreign policy officials, since it indicated a serious North Korean willingness to address critical military issues.

In Washington, the two governments issued a joint communiqué stressing "no hostile intent" and a desire to reduce tensions on the Korean Peninsula. This communiqué had actually been negotiated some time earlier, since a high-level visit by North Korean officials--in response to former Defense Secretary Perry's May 1999 trip to Pyongyang--was sought and expected by the U.S. for over a year.

During the talks with General Jo, Washington underscored its eagerness to end the medium and long-range missile threat posed by North Korea to Japan and the U.S. North Korea had its own demands, however; General Jo said North Korea desired security assurances from the United States guaranteeing North Korea's territorial integrity and protection against military attack.

Shortly after General Jo's visit improved the atmospherics between Pyongyang and Washington, Secretary of State Albright traveled to North Korea in late October, the highest level official visit by a U.S. official to that country. Albright engaged in serious discussions of security issues with North Korean leader Kim Jong-il and later said she was impressed by his seriousness as an interlocutor. The only apparent shortcoming of the Albright trip occurred when Albright attended a celebration commemorating the 55<sup>th</sup> anniversary of the Korean Workers' Party in Pyongyang as Kim Jong-il's guest. U.S. media subsequently criticized her for falling prey to a North Korean propaganda ploy.

Albright's visit--with the ostensible goal of preparing for a trip to North Korea by President Clinton--was followed-up ten days later by a meeting of U.S. and North Korean missile non-proliferation experts in Kuala Lumpur, Malaysia. The U.S. side, led by Assistant Secretary of State Robert Einhorn, attempted to negotiate an end to North Korea's development of medium and long-range missiles, as well as a ban on all North Korean missile exports. For its part, North Korea sought financial compensation for the costs it claimed such actions would entail. From a public standpoint, it appeared that the talks ended inconclusively. Later reports made clear, however, that North Korea gave a serious offer to curtail its missile programs in seeking the U.S. president's visit to Pyongyang.

The critical and perhaps last question on North Korea for the Clinton administration was whether to close a deal on missiles in return for the President's visit. In mid-December, Republican congressional leaders wrote a letter strongly opposing the move, although President-elect Bush himself said he would "not oppose" a trip if Clinton decided to go ahead.

A number of factors appear to have influenced the president's decision not to travel to Pyongyang. Among them were insufficient time to finalize provisions in a new "agreed framework" on missiles regarding verification and destruction of existing stocks, Bush's non-committal stance on supporting a new agreement, difficulty in reaching closure with Pyongyang because of mutual distrust and suspicion, and competing demands on presidential time from the Middle East peace negotiations.

### **North-South Relations**

Entering this quarter, the most significant issue on the Peninsula was whether the momentum in North-South reconciliation could be maintained. The defense ministers of both Koreas met on Cheju Island during late September where they publicly called for easing tensions and making new efforts to eliminate the risk of war. Besides providing the compelling symbolism of jointly planning for peace, the ministers agreed to create a working-level military commission to facilitate the new rail and highway project through the DMZ.

North and South Korea also agreed in late September to establish a new joint consultative body to address pressing economic issues. Among the subjects for the committee were legal guarantees of the safety of investments, protection against double taxation, and establishing a dispute settlement mechanism for investors. Without agreement on such measures, the likelihood of attracting any significant degree of foreign investment to North Korea would be low.

President Kim Dae-jung's policy of reconciliation toward North Korea achieved the highest international endorsement in mid-October when he was awarded the Nobel Peace Prize. The awarding committee not only highlighted Kim's "Sunshine Policy" which culminated in the June 15 North-South summit, but also underscored his longtime support for democracy in Korea and the personal suffering he had endured in asserting his political views.

The president's increased international prestige was in evidence at the ASEM (Asia-Europe Meeting) during October in Seoul, which served to underscore the importance of North Korea joining the international community. During this conference that brought an unprecedented number of European and Asian leaders to South Korea, several countries--including Britain, Germany, the Netherlands, and Spain--announced that they would establish diplomatic relations with North Korea. On its last day, ASEM passed a resolution that expressed general support for the improvement in North-South relations.

Despite these expressions of international support for President Kim's policies, he ran into increased resistance at home from the conservative opposition party. Critics claimed that President Kim used the government-owned media to manipulate public opinion and squelch expressions of opposition to his Sunshine Policy. They argued that while he advocated democracy in theory, he acted in an authoritarian manner as a matter of personal political style.

Traditional animosity toward South Korea's "left-wing" and deep suspicion of North Korea in general underlay many of these opposition views. Critics also drew strength from increasing public concerns about the state of South Korea's economy and the growing perception that President Kim was pursuing his own vision of Korean reconciliation, whether it garnered sufficient public support or not.

In the latter half of October, these expressions of opposition coincided with what appeared to be the first real slowdown in North-South talks since the June 15 summit. North Korea either canceled or delayed several scheduled meetings and commentators wondered whether inter-Korean "reconciliation" would fall victim to underlying distrust, as it had done so often in the past. Increasing calls from South Korea's conservatives for greater "reciprocity" by North Korea toward the South dramatized a possible breakdown in North-South talks. The actual reason that North Korea attempted to slow down the North-South talks at this time may never be known. The more important point is that North-South meetings resumed their fast pace at the end of October and have kept to a demanding schedule since that time.

In mid-November, negotiators reached agreement on legal principles to ensure the protection of foreign investment in North Korea. During November and December, North and South military officials held three rounds of working-level talks (the first since 1992) under the auspices of their new military commission. They mainly discussed mine-clearance and avoidance of military confrontation in the area of the DMZ devoted to new rail and highway links between the two countries. In late November, a second round of emotional reunions between separated family members in the North and South occurred. Finally, in December, high-level economic talks took place where top officials discussed, but did not resolve, issues concerning South Korea's supply of electricity to the North as well as joint development projects such as the Kaesong industrial zone and joint flood prevention.

At the end of this quarter, one must assess that progress "on the ground" in achieving inter-Korean reconciliation *has* taken place. This progress demonstrates that the June 15 summit was not simply a "flash in the pan" but rather the beginning of a sustained diplomatic effort by the current North and South Korean governments to overcome past animosities.

## **ROK Economic Issues**

South Korea entered this quarter with unfinished business regarding corporate restructuring. Economists and government officials alike were well aware that foreign investors, and the international financial community, would only view the South Korean economy with confidence if the ROK carried out sometimes painful restructuring and downsizing efforts. Through various means, the Financial Supervisory Commission put pressure on banks to liquidate or force restructuring of poorly performing companies. The Kim administration set the end of the year as a guideline to force such actions to occur.

By early November, the urgency of the situation increased. Economic data showed a sharp drop in South Korea's industrial output and a reduction in the projection for economic growth in 2001. The most pessimistic projections indicated that economic growth could go from nine percent in 2000 to approximately four percent in 2001.

Although high worldwide oil prices contributed to the problem, many domestic critics blamed the government for not taking the negative economic developments seriously enough. Reinforced by a fallen stock market, the public feared another "IMF crisis" and prolonged recession would appear. Political opponents of President Kim Dae-jung used the perception of a coming economic crisis to bitterly criticize the president for his undue "obsession" with North Korea and lack of attention to economic issues. In this context, the president's popularity reached a new low in public opinion polls.

When Daewoo Motors filed for corporate reorganization in mid-November, and Hyundai Engineering struggled to stay out of bankruptcy court at the same, domestic observers found new reasons to voice anxieties about the ROK's economic future. Shrinking consumption and consumer confidence added to the concern.

The government responded to this situation--and kept to its own end-of-the-year timetable--by announcing in mid-December that it would force the restructuring of six "non-viable" banks. The preeminent goal was to inculcate greater financial discipline and efficiency throughout the economy. In so doing, the government sought to raise South Korea's international credit rating in general and retain the confidence of foreign investors, in particular. Instead of accolades for its efforts, however, the government was rewarded with a labor strike by workers at two affected banks. Despite causing short-term disruption, the strike failed after police broke up a demonstration and other bank unions refused to support the labor action.

While most foreign economists and financial analysts strongly underscored the importance of corporate restructuring, they were not nearly as pessimistic about South Korea's economic prospects as prevailing Korean public opinion. As the year drew to a close, new data indicated that more foreign investment flowed into the ROK in 2000 than any time in the past, as a number of foreign investors sought to purchase Korean corporations whose stock prices were depressed.

## **Future Prospects**

As this quarter comes to a close, both inter-Korean relations and U.S.-North Korea relations are in better shape than they have been for a decade. But the warming trend, which began in earnest after the North-South summit, does not yet appear “irreversible.” For that to happen, North Korea’s leader Kim Jong-il will have to pay a return visit to Seoul to sign new agreements on political relations and military threat reduction. In addition, the U.S. and North Korea will have to reach closure on a deal limiting North Korea’s missile development and missile exports.

Perhaps the biggest wild-card is the Bush administration’s policy toward North Korea. While Republican moderates stress the value of pursuing a diplomatic deal with North Korea, Republican conservatives are not nearly as sanguine. They publicly disparage any accommodation with North Korea as a form of “appeasement” and consider North Korea a “rogue state” that deserves harsh treatment. Only time will tell which faction will wield the greatest degree of influence over President Bush’s Korea policy--and in so doing, shape the evolution of events on the Korean Peninsula.

## **Chronology of U.S.-Korea Relations October-December 2000**

**Oct. 1, 2000:** North and South officials call for an inter-Korean economic cooperative committee and for accelerating family reunions.

**Oct. 2, 2000:** President Kim Dae-jung reiterates call for new Korean peace mechanism among the two Koreas, the U.S., and China.

**Oct. 3, 2000:** ROK Financial Supervisory Commission states that large companies with poor debt ratings are subject to “bank screening” for liquidation.

**Oct. 4, 2000:** At emergency meeting with President Kim, top economic officials in South Korea reaffirm plan to liquidate nonviable companies by end of year.

**Oct. 9-12, 2000:** North Korean Special Envoy, General Jo Myong-rok, meets with Secretary Albright and President Clinton in Washington.

**Oct. 12, 2000:** U.S. and DPRK release joint statement vowing an end to hostility.

**Oct. 13, 2000:** President Kim Dae-jung receives Nobel Peace Prize.

**Oct. 17, 2000:** U.S. and ROK reach agreement on extending the permissible range and payload of South Korean missiles.

**Oct. 20, 2000:** Britain, Germany, the Netherlands, and Spain announce that each will re-establish diplomatic ties with North Korea.

**Oct. 21, 2000:** ASEM summit in Seoul issues declaration of support for improvement in North-South relations.

**Oct. 23-24, 2000:** Secretary Albright meets with Kim Jong-il during historic two-day visit to Pyongyang.

**Oct. 25, 2000:** Foreign ministers of U.S., Japan, and South Korea meet in Seoul and pledge to “strengthen teamwork” in dealing with North Korea.

**Oct. 26, 2000:** Two U.S. fighter jets accidentally enter North Korean airspace and return without incident, drawing a protest from North Korea.

**Oct. 27, 2000:** After two weeks of slow-down in North-South talks, North Korea offers timetable for new family reunions and working-level economic talks.

**Nov. 1, 2000:** New economic figures indicate a sharp drop in South Korea’s recent industrial output as well as a drop in projected economic growth to 6.2% for 2001 from 9% in 2000.

**Nov. 3, 2000:** U.S. and North Korea end three days of missile talks in Kuala Lumpur without an agreement but after reportedly making “progress.”

**Nov. 10, 2000:** Daewoo Motor Company files for bankruptcy protection to reorganize its operations, after labor and management fail to reach compromise.

**Nov. 14, 2000:** North and South Korean negotiators reach agreement on legal principles to protect foreign investment in North Korea, including no double-taxation.

**Nov. 15, 2000:** President Kim Dae-jung urges President Clinton to visit North Korea during the mini-summit on the sidelines of the APEC Leaders’ Meeting.

**Nov. 12, 2000:** United Nations Command and North Korea sign an agreement to open a corridor through the DMZ for mine-clearance prior to rebuilding a rail link.

**Nov. 20, 2000:** Hyundai Group says it will raise \$1.14 billion to bail out Hyundai Engineering and Construction as part of self-rescue plan.

**Nov. 28, 2000:** North and South Korean military officials hold the first working-level talks since 1992 and report progress on construction of rail link through DMZ.



**Nov. 29, 2000:** U.S. and ROK begin nine days of SOFA negotiations.

**Nov. 30-Dec. 2, 2000:** North and South Korea hold the second reunion of separated families.

**Dec. 7, 2000:** American army investigators and South Korean officials fail to reach agreement on whether U.S. soldiers at Nogun-ri acted under orders in shooting civilians.

**Dec. 12, 2000:** Britain and North Korea establish diplomatic relations.

**Dec. 18, 2000:** South Korea's Financial Supervisory Commission announces financial restructuring of six nonviable banks.

**Dec. 26, 2000:** Approximately 10,000 unionized workers strike the Kookmin Bank and Housing and Commercial Bank, protesting restructuring plans.

**Dec. 28, 2000:** President Clinton indicates he will not travel to North Korea because of insufficient time to complete an agreement before the end of his term.

**Dec. 28, 2000:** U.S. and South Korea reach agreement on SOFA.

**Dec. 30, 2000:** At economic talks, North and South officials discuss joint development projects, joint flood protection, and supplying North Korea with electricity.

