

# International Journal of Korean Unification Studies

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*The Next U.S. Administration and its Policies toward  
East Asia and the Korean Peninsula:  
A Chinese Perspective\**

*Wu Chunsi*

**Abstract**

The U.S. presidential election of 2008 was actually a great debate on the U.S. world view and its strategy. The new thinking which is taking an upper hand over neo-conservatism accepts that globalization is the future of the world and therefore the U.S. has to change its view on major issues and challenges. It seems that the U.S. in the future will take multilateral and cooperative measures to push forward its global and regional agenda. Applying the changes of the U.S. world view to East Asia, the policy priority and strategy of the U.S. in East Asia are likely to be different from the previous approach. There have been many calls for the U.S. to be more actively involved in the regional affairs of East Asia, although, at first, the Iraq and Middle East issues may occupy a lot of time and attention of the U.S. The construction of a regional security institution has been the goal of East Asian states for many years. The new developments in the international environment may provide a new chance to consider fresh options and new practices in this area.

**Key Words:** 2008 U.S. election, U.S. foreign policy, Obama administration, East Asia, Korean peninsula

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\* The arguments in the paper only represent the author's individual rather than official or institutional opinions.

Although it became clear after the outbreak of the massive financial crisis in mid-September that Senator Barack Obama would win the election, it still surprised many observers and researchers in China that the Democratic Party swept into power in the election. According to a CNN report up to November 19, 2008, the Democratic Party not only took over the highest administrative positions with an advantage of 192 electoral votes (365 vs. 173) and 7 percent of public votes (53% vs. 46%), but also simultaneously controlled the U.S. Senate with 58 vs. 40 seats (2 seats still undecided) and the House of Representatives with 255 vs. 175 seats (5 seats still undecided). In addition, the Democrats won 7 of the 11 state governorships elected this year. It seems that the Democrats are really getting a chance to push forward their ideas without substantial objections from the opposition party.

The elections certainly made American history because it gave birth to the first African-American President, who, it is believed by the whole world, represents the progress of the U.S. civil rights movement and will further encourage the minorities in the U.S. society to pursue their rights and dreams. On the other hand, whether the overwhelming victory of the Democratic Party means a substantial change of the conservative nature of U.S. society is still an open question. It is true that the unpopularity of the Bush administration tied the Republican candidates down, but it will be an over-simplification to attribute the failure of the Republicans to the tactical issues such as third-term disease or the bad organizational work. The election actually was a great debate on the U.S. strategy for the future. The Americans reflected upon the strategy taken by the Bush administration in the past eight years and became more and more skeptical about it. By giving so many powers to the Democrats, the U.S. is seeking to re-orient its strategy and it may bring about important changes to U.S. foreign policy and its policy to East Asia.

On the base of the above observations, the paper attempts to discuss the possible changes the election brought to U.S. foreign strategy, to U.S. policy to East Asia, and to the Korean peninsula. The paper is composed of three major parts: (1) strategy debates and changes on U.S. foreign strategy; (2) new tendencies in U.S. policy to East Asia; and (3) implications for the Korean peninsula. In general, the paper argues that the U.S. foreign policy makers and their advisors recognize the importance of East Asia, but the U.S. needs more time to re-schedule its agenda and transfer its attention from Iraq and Middle Eastern affairs. There are some new tendencies in the proposals of President-elect Obama, to which East Asian countries shall pay great attention and prepare themselves in advance.

### **Strategy Debates and Changes in U.S. Foreign Strategy**

The authority of the Bush administration was even questioned at the beginning of the administration since President Bush in the 2000 presidential election actually lost in public votes to his Democratic opponent Al Gore and entered the White House through the intervention of the U.S. Supreme Court. During a short period of time after the September 11 terrorist attacks on the U.S., the criticism of the Bush administration decreased to show the determination and unity of the whole country on striking back against the provocation of the terrorists. The concert, however, was soon dissolved with the launching of the Iraq war by the Bush administration. The Bush administration tried to justify the war by the brutality of Saddam Hussein and it did overthrow the Saddam regime and had Saddam executed by hanging, but the war did not proceed and did not end as the Bush administration expected. The situation in Iraq was deteriorating, the casualties of U.S. soldiers and Iraqi innocents were increasing, and all of those caused more and more doubts, criticisms, and even anger over the Iraq war, which finally and inevitably led to challenges

to the very rationale of Neo-conservatism, the doctrine underlying the military action.

### ***Rise and Fall of the Neo-Conservatism***

The Neo-conservatism, just as Dr. Zbigniew Brzezinski says in his latest book *Second Chance: Three Presidents and the Crisis of American Superpower*, is one of the major American outlooks on global affairs which emerged after the end of the Cold War.<sup>1</sup> It turned from a school of thought into policy practice with President George W. Bush entering the White House, because many neo-conservatism proponents and believers, such as Vice President Richard Cheney, former Secretary of Defense Donald Rumsfeld, former Deputy Secretary of Defense Paul Wolfowitz, and former Under Secretary of State John Bolton, took high official positions in the Bush administration and actively pushed forward the strategies based on the ideas of neo-conservatism.

As a doctrine combining extreme ideas from both idealism and realism, neo-conservatism characterizes itself with an outstanding preference for the use of military force, the unilateral flexibility of actions, and the enforcement of democracy in other countries and regions. The Bush administration, coming into office with an attitude of taking anything-but-Clinton, exhibited from the beginning an intentional and substantial shift from the foreign policy taken by its predecessors. The world and the proponents of liberal internationalism in the U.S. alertly watched the changes, but it was the Iraq war that finally mobilized a serious debate in the U.S. accounting for the rationality of Neo-conservatism and its application to foreign policy. The Iraq war, as a typical neo-conservative practice in foreign and security affairs, brought about rather negative impacts upon U.S. soft and hard

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<sup>1</sup>- Zbigniew Brzezinski, *Second Chance: Three Presidents and the Crisis of American Superpower* (New York, NY: Basic Books, 2007).

power. It divided the U.S. from its major allies such as Germany and France, increased U.S. casualties in Iraq, distracted its attention of countering terrorism from Osama bin Laden and Al Qaeda, and further destabilized the situation in the Middle East. On the whole, the Iraq war trapped U.S. forces in the Middle East and restrained U.S. strategic options. Therefore, insightful strategists of the U.S. recognized that the U.S. had to go beyond Iraq and in the background a bipartisan commission mandated by the U.S. Congress and co-chaired by James A. Baker III and Lee H. Hamilton put together the Iraq Study Report in December 2006.<sup>2</sup>

The Bush administration, however, appeared to have difficulties accepting some key points from the 96-page report, for example the suggestion of launching a diplomatic offensive to constructively engage Syria and Iran in the process.<sup>3</sup> As a response, the Bush administration announced “a new strategy” in Iraq in January 2007. It might to some degree decrease the pressure on the Iraq issue and balance the influence of the Iraq Study Report, but it exposed further the political division and polarization within the U.S., while the Iraq Study Group actually believes a domestic consensus is critical for the U.S. to escape from this strategic stalemate.<sup>4</sup>

In the second-term President Bush, the administration’s foreign policy was believed to be moving gradually back from the extremes represented by the neo-conservatism to be more realistic, with some neo-conservatism proponents leaving their important positions in the administration and the frustrations the U.S. met in international affairs. The Bush administration’s attitude to the Iraq Study Report, however, shows that it was a far more difficult and complicated issue than expected for the

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2- The Report can be found at [http://www.usip.org/isg/iraq\\_study\\_group\\_report/report/1206/iraq\\_study\\_group\\_report.pdf](http://www.usip.org/isg/iraq_study_group_report/report/1206/iraq_study_group_report.pdf) on October 20, 2008.

3- Peter Baker and Robin Wright, “Bush Appears Cool to Key Points of Report on Iraq,” *The Washington Post*, December 8, 2006, p. A01.

4- About U.S. domestic division and its impacts on foreign policy, please see Charles A. Kupchan and Peter L. Trubowitz, “Dead Center: The Demise of Liberal Internationalism in the United States,” *International Security*, Vol. 32, No. 2 (Fall 2007).

U.S. to give up its preference to unilateralism and military actions. The behavior mode of the Bush administration reflects a kind of judgment on the U.S. position in the world and can only be changed if the basic assumptions of this world view are proved to be wrong.

### ***New Thinking***

In the heated debate on Iraq, a different view on the world, on the U.S. position in the world, and on the big powers' relations gradually makes itself coherent in theory building and policy recommendation. To some degree it goes beyond the traditional category of international relations theory such as realism or even liberalism, which puts their basic focus on states and therefore lets rivalry become the nature of big powers' relations.

This new world view takes seriously the influence of the non-state actors in the international system. Just as Dr. Richard N. Haass says in his paper in *Foreign Affairs*, nation-states are challenged from different sides, for example, from above by regional and global organizations, from below by militias and from the side by a variety of non-governmental organizations and corporations. Since "nation-states have lost their monopoly on power and in some domains their preeminence as well,"<sup>5</sup> we are entering into an age of non-polarity, which means the increasing distribution of rather than concentration of power. It indicates that leading U.S. scholars may substantially change their views on the nature of the international system.

A logical deduction from the judgment on the nature of the international system is that the U.S. may re-define the most urgent threats it faces in the near future. If the major feature of today's world is globalization, the major challenges then should derive from globalization,<sup>6</sup> not the

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5- Richard N. Haass, "The Age of Non-polarity: What Will Follow U.S. Dominance," *Foreign Affairs*, May/June 2008.

6- Statement of Richard N. Haass, President of Council on Foreign Relations before the Committee on Foreign Relations, United States Senate, on U.S.-China Relations in the Era of

geopolitical or ideological competitions and conflicts among the big powers. Therefore, in many papers proposing new strategies for the next U.S. President, the issues such as the energy dependency of the U.S., climate change, pathogens, financial vulnerability, anti-terrorism, and prevention of weapons of mass destruction (WMD) from being proliferated to terrorist groups or irresponsible countries are given prior considerations.<sup>7</sup> Those issues all display obvious features which can be characterized as global public affairs. They cannot be resolved by any country alone even if the country is as powerful as the U.S., or in other words the solution of these problems requires global cooperation.

The re-definition of the major challenges the U.S. faces will directly influence big powers' relations. On those global public affairs, big powers have more common rather than conflicting interests, because compared with their relations with non-state actors, big powers have more common ground among them, since they all run on the basis of sovereignty. The world view defining the main challenges as those of globalization means that in the common interests dealing with non-state or cross-state problems, big powers can broaden and consolidate the base of their collaboration. One of the presumptions for cooperation, of course, is that the rising or pivotal powers are jockeying for position,<sup>8</sup> in other words, they do not and will not challenge the existing international system dominated by the U.S.

Despite the victory of the Democrats showing that new thinking has taken the upper hand in U.S. foreign strategy debate, it must be pointed out that it is not that easy for U.S. society to accept the reality of globalization

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Globalization, May 15, 2008. See at <http://foreign.senate.gov/testimony/2008/HaassTestimony080515p.pdf>. Accessed on October 20, 2008.

7- Richard Holbrooke, "The Next President: Mastering a Daunting Agenda," *Foreign Affairs*, September/October 2008; Nina Hachigian and Mona Sutphen, "Strategic Collaboration: How the United States Can Thrive as Other Powers Rise," *The Washington Quarterly*, Autumn 2008.

8- Nina Hachigian and Mona Sutphen, "Strategic Collaboration: How the United States Can Thrive as Other Powers Rise," *The Washington Quarterly*, Autumn 2008.

and to use it as a foundation to develop its foreign policy. It took about eight years for the U.S. to recognize the flaws and mistakes of neo-conservatism, because the public, especially those who suffered from globalization, do not want to accept the reality that globalization is the inevitable trend of the world development and neo-conservatism creates an illusion that the U.S. can be an exception to history. Even after eight-year complaints on the governance of the Bush administration, globalization does not win decisively in the fight with the neo-conservatism. The Republican presidential candidate, Senator John McCain, did not totally lose his chance to be the next President until the outbreak of the severe financial crisis in September. It is still hard to judge the importance of this issue because of the changes of the world view or just because the poor economic situation encouraged many swinging states and voters to turn to Mr. Obama and the Democratic Party. This kind of observation about the U.S. election should further caution the world. It will be safer to take a more realistic position when it comes to the possible changes on U.S. foreign and security strategy.

### ***Changes in U.S. Foreign Strategy***

Based on the new thinking about the world and on the major challenges the U.S. faces, the next U.S. administration shows the following tendencies in its foreign and security strategy.

**FREEING ITSELF FROM THE IRAQ WAR** No matter what new strategy approach the U.S. tries to take in the next administration, it has to firstly get free from the strategic constraints of the Iraq war, although it is much easier to say this than to do so. The Democratic Party, although it wants to show its toughness on national security issues, does not believe the current administration's arguments that the Iraq war will end in victory and the war on terrorism should be conducted in this way. President-elect Obama opposed the Iraq war from the beginning, which is believed to be one of the

major reasons that he beat Senator Hillary Clinton in the primary, and clearly proposed to withdraw U.S. troops from Iraq. There are doubts on the feasibility of the Obama's withdrawal plan and it is true that to some degree the timetable of the U.S. withdrawal will have to adapt to the security situation in Iraq. But a more important message delivered here is that the next U.S. administration will transfer its focus of countering terrorism from Iraq to Afghanistan and to the area along the Afghanistan-Pakistan border. After reducing its involvement in Iraq, will the U.S. invest more resources and energy in other regions such as East Asia? This is really the question that many countries including China want to know.

THE ARC OF CRISIS AND FRAGILE STATES     President-elect Obama's proposal to transfer U.S. attention from Iraq to Afghanistan does not mean that countering terrorism has totally lost its priority on the U.S. security agenda, despite the fact that the concept "War on Terrorism" symbolizing the Bush administration's policy in this regard may lose its attractiveness to the new administration. Terrorism probably is the only force in the current world that has the intention and determination to threaten the dominance and even the survival of the United States. U.S. policy makers, advisors, and intellectuals do concern themselves very much over terrorism and especially the combination of terrorism and WMD. Therefore, the responsible withdrawal from Iraq proposed by Senator Obama definitely is not a simple end of U.S. fight against terrorism, but an endeavor to focus U.S. attention more on the real heart of terrorism — the mountainous areas along the border of Afghanistan and Pakistan and the so-called "arc of crisis."<sup>9</sup> Therefore, it seems that at least in the first few years, the new U.S. administration cannot re-direct its strategic gravity from anti-terrorism and the Middle East to East Asian affairs, let alone say that the U.S. is in addition facing a difficult

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<sup>9</sup> - Richard Holbrooke, "The Next President: Mastering a Daunting Agenda," *Foreign Affairs*, September/October 2008.

situation because of the economic crisis and related domestic issues.

**DIPLOMACY AND MULTILATERALISM** Another important criticism stimulated by the Iraq war is the arbitrary style of the Bush administration in dealing with foreign affairs. The Democratic Party, on the contrary, has a good reputation of supporting international institutions and respecting multilateral cooperation. President-elect Obama showed a much more open attitude in the campaign on the issue of direct contacts with Iran and North Korea. In addition, the Democratic administration may make efforts to recover U.S. global leadership damaged by the Bush administration's unilateralism. It can try to fix and re-build existing international institutions and can also initiate some new multilateral proposals in global affairs. In the current environment, at least four areas are calling for urgent global cooperation. They are firstly the global financial market, secondly energy cooperation, thirdly climate change, and fourthly non-proliferation of WMD. All of these items are closely related to world security and prosperity and none of them cannot be achieved by any country alone.

**ALLIANCES AND COALITIONS OF THE WILLING** There are two major groups that the U.S. will have to unite if it really wants to change its modus operandi from unilateralism to multilateralism. One is composed of allies of the U.S. and the other is other major powers in international or regional affairs. It is clear that the U.S. trust in its allies, even the "old European"<sup>10</sup> France and Germany, is much higher than that of other powers, and therefore it can be expected that the U.S. would like to depend more on its allies on hard security issues. For other major powers which are

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<sup>10</sup> The term was firstly used by then-U.S. Secretary of Defense Donald Rumsfeld on January 22, 2003, when answering a question from Charles Groenhuijsen, a Dutch journalist, about the potential U.S. invasion in Iraq. See the news transcript at <http://www.defenselink.mil/transcripts/transcript.aspx?transcriptid=1330>. Accessed on October 20, 2008.

indispensable in dealing with global and regional affairs, their influence may be more emphasized on so-called “soft” issues, such as the financial crisis, climate change, and energy shortages, etc. In addition, the U.S. tends to cooperate with different powers on different problems. For example when it comes to protecting tropical forests and the important issues related to global climate change, it may discuss the issue with Brazil, but it may approach to Russia and China on issues like non-proliferation of WMD. This is to say that the U.S. would like the major powers to play their roles in specific areas, but does not want to provide a chance for the major powers to deepen their cooperation.

### **New Tendencies in U.S. East Asia Strategy**

After having discussed the evolution of U.S. thinking on its foreign and security strategy and the possible adjustment of U.S. priorities and modes of behavior, a direct question we will meet is how the changes will influence the next U.S. administration’s policy in East Asia? East Asia is one of the few places where the Bush administration’s policy received praise.<sup>11</sup> It is widely believed that the Bush administration skillfully handled its ties with regional powers in East Asia and successfully pushed forward its relations with China, Japan, and India at the same time, something which was not easy to do from a casual reading of East Asian history. The Bush administration performed well in East Asia, and will the next U.S. administration keep the East Asia policy of the Bush administration? Will something change in Bush’s East Asia policy and if so, what?

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<sup>11</sup> - Fareed Zakaria, “What Bush Got Right,” *Newsweek*, August 18/August 25, 2008.

### ***Leadership in Regional Cooperation***

While the Bush administration received a good deal of credit for its bilateral policies, it is criticized for lacking a strategy for the region, in other words, that the Bush administration couldn't match the development of East Asian regionalism.

For many years, the people of East Asia looked for a type of security mechanism in the region. A basic understanding here is that the security mechanism in Europe works for maintaining regional peace and stability, and East Asia with many potential conflicts should learn from Europe and set up a type of multilateral institution to build up a more reliable base for regional security and stability. The process of formulating a structure covering the whole region, however, proved to be very difficult and time consuming, but East Asian countries have never given up on the idea.

After decades' worth of efforts, East Asian regionalism has made some important progress. The first and foremost development of course is the ASEAN+ process. Gradually recovering from the 1997 Financial Crisis, East Asian countries feel it even more necessary and urgent to push forward regional cooperation, and, as a result, started the mechanism of ASEAN+3. The East Asian countries, however, did not stop their regionalization efforts. In 2005, another remarkable mechanism--The East Asia Summit (EAS)--was established and up to now there have been three summits of its 16 member states. In addition to the ASEAN+ process, there has also been important progress on the construction of sub-regional mechanisms in East Asia. For example, in Northeast Asia, the six-party talks, established to deal with the nuclear issue of the Democratic People's Republic of Korea (DPRK), have set up five working groups to discuss economy and energy cooperation, Northeast Asia peace and security mechanism, denuclearization of the Korean peninsula, and the normalization of DPRK-U.S. and DPRK-Japan relations respectively. In Central Asia, the Shanghai Cooperation Organization (SCO), built up during the resolution of the five

countries' border disputes, is playing a substantial role on anti-terrorism, anti-separatism, and anti-extremism and will expand their cooperation into the economic and energy areas. Therefore, multilateral cooperation and managing regional affairs institutionally are favored by most East Asian countries. Quite different from the attitudes of the local people, the Bush administration seems cool to the development of regionalism in East Asia.

The Bush administration, on one hand, calls for regionalism as a warning to East Asian countries not to exclude the U.S. from the regional integration. But on the other hand, it seems lacking in seriousness when it comes to being prepared to join in the process under the leadership of ASEAN. The U.S. is not a member of the EAS; its Secretary of States missed several meetings of the ASEAN Regional Forum (ARF), and its President did not attend the U.S.-ASEAN summit which specially arranged for celebrating the 30<sup>th</sup> anniversary of U.S.-ASEAN relations. It is widely believed that, in regional affairs, the U.S. favored the Asia-Pacific Economic Cooperation (APEC) forum more than the ASEAN process. But even in terms of APEC, President Bush also cut short his attendance at the 2007 Australian summit.

A popular explanation of the Bush administration's neglect over East Asia is that the administration's attention and time were totally occupied by the war on terror and the Iraq situation.<sup>12</sup> It is true that the U.S. President and his Secretary of State changed their East Asia visits to deal with Middle Eastern Affairs, but it should be pointed out that the U.S. showed its inaction to East Asia even in 1997. Thus, the Iraq war may not be a sufficient reason to explain the U.S. attitude to multilateral cooperation in East Asia.

Differing with the ASEAN's plan to build up a regional architecture

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<sup>12</sup>-Yoichi Funabashi, "Keeping Up With Asia: America and the New Balance of Power," *Foreign Affairs*, Vol. 87, No. 5.

under the leadership of the organization, the U.S. thinks that its alliance system should be the foundation of any future regional institution in East Asia. It argues that only the alliance can deter or defend against hard security threats, while multilateral cooperation is more suitable in dealing with soft problems. Therefore, the U.S. is constrained by the thinking that bilateral alliances and multilateral cooperation cannot share a common form of leadership with each other. It seems difficult for the U.S. to change its attitude to regionalization in East Asia.

The next U.S. administration, however, will have to engage more with East Asia for muting the repeated complaints from its allies and friends in the region and to deal with domestic criticism.<sup>13</sup> President-elect Obama does say, "We need an inclusive infrastructure with the countries in East Asia that can promote stability and prosperity and help confront transnational threats from terrorist cells in the Philippines to avian flu in Indonesia."<sup>14</sup> Though the situation in Iraq and Middle East still will occupy most American energy, it actually is not that difficult for the U.S. to be involved in multilateral cooperation in East Asia. For example, for the Treaty of Amity and Cooperation (TAC) in Southeast Asia, the pre-condition of joining in the EAS, the U.S. in fact does not have substantial obstacles to signing up to it, because three major allies of the U.S.--Australia, Japan, and South Korea--signed the Treaty and the U.S., as a member of the ARF, has accepted the principles of the Treaty. Therefore, the U.S. hesitation to participate in the EAS is more due to psychological reasons or the lack of political will. If the next U.S. administration makes a decision to change its attitude to the TAC and EAS, it can do so quickly.

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<sup>13</sup>- "U.S. Asia Pacific Council Warns of Danger of Ignoring East Asia Regionalization," The East-West Center, *Observer*, Fall 2005.

<sup>14</sup>- Barack Obama, "Reviewing American Leadership," *Foreign Affairs*, July/August 2007.

### *Strengthening Alliances*

There is a widely accepted argument in East Asia saying that a Republican President of the U.S. attaches more importance to its allies than his Democratic counterpart does, because the Republicans in general care more about strategic and security issues.<sup>15</sup> However, if we look back to the history after the Cold War, we may find that this impression is not totally correct.

With the end of the Cold War, the United States became the only superpower in the world, and at the same time, the U.S. almost habitually began to reduce its overseas military presence. For at least a short period of time, the U.S. military troops and bases in East Asia were reduced, attributed to the U.S. tradition of isolationism, the decline of the U.S. economy, and the requirements of U.S. allies in East Asia. In addition, U.S.-Japan relations were in tension in the early 1990s. The two allies quarreled with each other on trade and Okinawa military base issues. The U.S. alliance system in East Asia was facing many problems in the mid-1990s, but it gradually changed in the Clinton administration. It was former President Clinton that re-affirmed the strategic importance of Asia Pacific, and began to re-adjust and strengthen U.S. military alliances in East Asia.

On April 17, 1996, U.S. President William Clinton and his Japanese counterpart Prime Minister Ryutaro Hashimoto said in the Joint Declaration on Security that “they reaffirmed that the Japan-U.S. security relationship, based on the Treaty of Mutual Cooperation and Security..., remains the cornerstone for achieving common security objectives, and for maintaining a stable and prosperous environment for the Asia-Pacific region as we enter the 21<sup>st</sup> century.”<sup>16</sup> Since then, the U.S. and Japan have not only stabilized

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<sup>15</sup>- Yoichi Funabashi, “Keeping Up With Asia: America and the New Balance of Power,” *Foreign Affairs*, Vol. 87, No. 5.

<sup>16</sup>- “Text: U.S.-Japan Joint Declaration on Security,” see at <http://www.fas.org/news/japan/11318448-11333165.htm>. Accessed on October 20, 2008.

their policy coordination, but also begun to expand the role of the alliance from the narrow security of Japan to “the situations that may emerge in the areas surrounding Japan and which will have an important influence on the peace and security of Japan.” Therefore, some U.S. scholars called the summit “historic.”<sup>17</sup>

The George W. Bush administration, with a pre-occupied perception that China is the “strategic competitor” of the U.S., highly emphasized the core position of the U.S.-Japan alliance in its East Asia policy, just as was suggested by the first Armitage Report.<sup>18</sup> The U.S. National Strategy released in September 2002 reiterated that the U.S. “looks to Japan to continue forging a leading role in regional and global affairs.”<sup>19</sup> Under the encouragement from the U.S., Japan joined the U.S. in deploying theater missile defenses in East Asia, which will integrate Japan command and control systems with the U.S., and began to assist the U.S. in its military actions in Afghanistan and Iraq after the September 11 attacks. It is obvious that the U.S. regards Japan as the key stronghold in Asia Pacific. But on the other hand, a key position or a leading role in practice means more responsibilities, or in other words, sharing more burdens in the alliance system. Burden sharing is the same reason behind the Bush and the Clinton administrations’ intentions on expanding the roles of U.S. allies in military cooperation.

An interesting phenomenon in the readjustment of the U.S. alliance in East Asia is that the U.S. seems to have difficulties in simultaneously strengthening the U.S.-Japan and the U.S.-ROK alliance. While the

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<sup>17</sup>- Patrick M. Cronin, “U.S.-Japan Alliance Redefined,” *Strategic Forum*, No. 75, May 1996. See at [http://www.ndu.edu/inss/Strforum/SF\\_75/forum75.html](http://www.ndu.edu/inss/Strforum/SF_75/forum75.html). Accessed on October 20, 2008.

<sup>18</sup>- Richard L. Armitage and Joseph S. Nye, *The United States and Japan: Advancing Toward a Mature Partnership*, *INSS Special Report*, October 11, 2004, [www.ndu.edu/inss/strforum/SR\\_01/SFJAPAN.pdf](http://www.ndu.edu/inss/strforum/SR_01/SFJAPAN.pdf). Accessed on October 20, 2008.

<sup>19</sup>- *The National Security Strategy of the United States of America*, September 2002, p. 26, <http://www.whitehouse.gov/nsc/nss.pdf>.

U.S.-Japan alliance developed quickly in the Bush administration, the U.S. met big problems in its ties with the Republic of Korea (ROK), another important ally of the U.S. in East Asia, for the highest-level leadership of the two countries lacked mutual trust. Now, with Mr. Lee Myung-bak entering into the Blue House (Cheong Wa Dae), the expectations for the improvement of the U.S.-ROK relationship are rising. But on the other hand, the U.S. finds that Japan goes back to its domestic political division, which may complicate the prospects of expanding Japan's roles in U.S. overseas military actions. Furthermore, a financial crisis, which is exerting its negative influence globally, must be considered here too. Burden sharing is not a slogan if it is to be implemented. With the uncertain prospects of the financial crisis, it is a real question whether the Japanese and the ROK governments will be willing to spend more on the alliance.

Therefore, the strengthening and readjustment of the U.S. alliance in East Asia is an issue more complicating than appears at first glance. There is some continuity in the U.S. policy, for example, keeping the alliance as a useful and effective tool for pursuing U.S. interests. But on the other hand, the evolution of the U.S. alliance system will also be influenced by the surroundings and the political willingness of U.S. allies, etc. The second Armitage Report, published last year, showed obvious differences from the first one.<sup>20</sup> The second Report seems to pay more attention to a more balanced regional order, in which the U.S.-Japan alliance of course is important but its nature of non-exclusiveness is emphasized. The second Armitage Report continues the stress the common values between the U.S. and its allies, which reminds the world of the need to keep their attention on the influence of the ideological element to U.S. foreign policy, although leading U.S. scholars do not believe that concepts such as a "league of

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<sup>20</sup>-Richard L. Armitage and Joseph S. Nye, "The U.S.-Japan Alliance: Getting Asia Right through 2020," [http://www.csis.org/media/isis/pubs/070216\\_asia2020.pdf](http://www.csis.org/media/isis/pubs/070216_asia2020.pdf). Accessed on October 20, 2008.

democracies” can be really implemented in practice.<sup>21</sup>

### ***Cooperation with Major Powers***

In addition to more actively involving itself in constructing regional architecture and further adjusting and strengthening its alliance system in East Asia, the next U.S. administration seems to take a positive attitude to cooperation with other major powers in the region. The tendency of U.S. East Asia policy is directly related to the assessment of the major challenges that the U.S. is facing. Since most concerns of the U.S. at present are the problems derived from globalization and so-called non-traditional threats, such as anti-terrorism, climate change, natural disasters, human rights, and drug trafficking, etc., the U.S. sees many common interests in cooperating with regional powers, especially in terms of China in East China.

China-U.S. relations have remained good on the whole in the past seven years, and in the election, China again avoided being a major topic. The U.S. “neglect” is regarded by most of Chinese researchers as good for China-U.S. relations, and they believe that the outstandingly stable development of China-U.S. relations in past years cannot be simply explained by “fortune.” There are at least three aspects critical to support the stable development of these bilateral relations.

The first is that China and the U.S., after a period of conflict in the early period of the George W. Bush administration, reached important agreement on their common interests. The common interests not only refer to economic interdependence between the two, or the cooperation between the two on regional and global issues such as on the nuclear issue of the DPRK and on anti-terrorism, but also mean that the two

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<sup>21</sup>- Statement of Richard N. Haass, President of Council on Foreign Relations before the Committee on Foreign Relations, United States Senate, on U.S.-China Relations in the Era of Globalization, May 15, 2008. See at <http://foreign.senate.gov/testimony/2008/HaassTestimony080515p.pdf>. Accessed on October 20, 2008.

countries recognize that they both basically support the existing system. The concept of “responsible stakeholder” raised by former U.S. Deputy Secretary of State Robert Zoellick is a sign showing the U.S. was changing its definition of China’s role in the system.<sup>22</sup> And this is the important basis for China and the U.S. to keep their relations in good shape.

Secondly, there are some important institutions established between the two countries, which are very helpful in stabilizing the bilateral relations. Those institutions include the highest-level summits, the working-level exchanges and negotiations between the governmental officials, and more importantly, the two strategic dialogues on foreign and security issues as well as on economic issues. These frequent and timely contacts with each other are useful to reduce misperceptions and to prevent disputes and conflicts from escalating.

Thirdly, there are a huge amount of daily person-to-person exchanges between China and the U.S. for education, business, travel, and other purposes. Those people are not policy makers of the two governments, but they do have their interests in requiring their governments to keep relations good and stable. Therefore these common people have become a stabilizing force when the bilateral relations meet problems. In summary, there are many reasons to expect that China-U.S. relations will keep its currently good momentum in the future. President-elect Obama does say that he “will also encourage China to play a responsible role as a growing power--to help lead in addressing the common problems of the 21<sup>st</sup> century. We will compete with China in some areas and cooperate in others. Our essential challenge is to build a relationship that broadens cooperation while strengthening our ability to compete.”<sup>23</sup>

China-U.S. relations, however, face some uncertainties too. For

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<sup>22</sup>- “Deputy Secretary Zoellick Statement on Conclusion of the Second U.S.-China Senior Dialogue,” Office of Spokesman, U.S. Department of State, <http://www.state.gov/t/pa/prs/ps/2005/57822.htm>. Accessed on October 20, 2008.

<sup>23</sup>- Barack Obama, “Reviewing American Leadership,” *Foreign Affairs*, July/August 2007.

example, in the economic and trade area, China concerns itself over “protectionism” in the U.S., because Senator Obama talked a lot in the campaign about the unfairness of the Chinese market and the currency practices of China.<sup>24</sup> Secondly, there is a concern from the Chinese side that a Democratic administration and a strong Democratic Congress will over-emphasize human rights differences between the two countries. China does not want to see the whole relationship and the strategic cooperation between the two becomes a hostage of the disputes in this regard. Thirdly, the U.S. side is very suspicious of the military modernization of China, although China has on many occasions assured everyone that its strategy is of peaceful development. The last but not least are the important Taiwan and Tibet issues, which directly relate to China’s sovereignty. Therefore, there are problems between China and the U.S., but the mainstream of the bilateral relations is good and most Chinese researchers do not believe the differences in the near future will overthrow the current framework of China-U.S. relations, which is also consistently accepted by both the political parties of the U.S.

Thus, in the new administration of the U.S., East Asia may maintain its peace and progress on the whole, and it is expected that countries in the region will carry out more cooperation in the economic area and on non-traditional issues.

## **Implications for the Korean Peninsula**

Against the background that the new U.S. administration may pay more attention to economic problems and non-traditional threats, some questions may also be asked of Korean peninsula issues.

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<sup>24</sup> - Barack Obama, “U.S.-China Policy under an Obama Administration,” AMCHAN-China’s *China Brief*, October 2008.

### ***Will the DPRK Nuclear Issue Still be at the Top of the U.S. East Asia Agenda?***

Usually, it is taken for granted that Northeast Asia is a source of concern for the world, because the region hosts almost all the major powers in East Asia and there are hot spots in the region and potential conflicts amongst the big powers. However, this kind of routine perception of East Asia may be challenged in the future, because the major powers' relations are improving, the urgent concerns of the U.S. are different, and more importantly, the DPRK nuclear issues have shown some degree of stability in the past few years.

It has been more than six years since the current round of DPRK nuclear-related problems broke out in October 2002. Although the DPRK nuclear issue is full of ups and downs, generally, the issue is becoming more manageable and controllable. There have been six rounds of the six-party talks and some progress was achieved during the process especially the reaching of the September 19 Joint Statement in the Fourth Round of the Six-Party Talks in 2005, the February 13 document of Initial Actions for the Implementation of the Joint Statement, and the October 3 Agreement on North Korean Nuclear Program in 2007. If the agreements can be respected and implemented in the future, the nature of the DPRK nuclear issue may change from reacting to a crisis to more detail work on verification. There still will be back and forth movement on the DPRK nuclear issue, but at least we have the six-party talks, a mechanism including all of major powers in the region, to deal with the problems,<sup>25</sup> and the six-party talks can also play a very important role in monitoring and safeguarding the implementation of the agreements and the verification of the DPRK nuclear program. In addition, Mr. Obama showed in the campaign that he takes a more

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<sup>25</sup> - The advantages of the six-party talks are summarized in Wu Chunsi, "The Six-Party Talks: A Good Platform for Broader Security Cooperation in Northeast Asia," *Korean Journal of Security Affairs*, Vol. 12, No. 2, December 2007.

moderate attitude to the DPRK nuclear issue. Therefore, it is not impossible that the DPRK issue will remain stable to some degree in near future.

If there really is a period of stability on the DPRK nuclear issue, then the new U.S. administration's attention may be drawn to other issues in East Asia. Considering the U.S. concerns over the current financial and economic crisis, the preference of the Democratic Party on human rights and non-traditional security, and the urgent need of the new government to recover U.S. leadership in the region, it seems possible that the U.S. will greatly refocus its attention on Southeast Asia, the sub-region which is more closely connected with anti-terrorism, holds an important sea line of oil delivery, and contains some countries of concern such as Myanmar. Therefore, whether Northeast Asia or the DPRK nuclear issue is still on the top of the agenda is an open question which can be asked.

### ***What is the Main Topic of Relevance to the Korean Peninsula?***

The question above begs the further question as to whether the Korean peninsula will have no position on the U.S. foreign and security agenda? The answer, of course, is that it will be on the agenda. The basic reason here is that there are still some uncertainties on the Korean peninsula.

Recently, there were many reports and stories in western media about the health of DPRK's supreme leader Kim Jong-il. No matter that the reports were based on solid facts or were totally groundless as suggested by the DPRK, the phenomenon itself indicates that the U.S. and many other countries still attach attention to the Korean peninsula, but in a more general context of security and stability. It means that even if the DPRK nuclear issue looks not that urgent in the future, the Korean peninsula is still an important topic to the U.S.

The more general issue related to the Korean peninsula in terms of security and stability may be addressed on two levels. The first is within the Korean peninsula. That is, the issue is one of constructing a peace

mechanism on the Korean peninsula. Since the DPRK has many reasons to pursue its nuclear weapons program, the international community should consider some institutional arrangement to totally eliminate the motivation behind the DPRK nuclear weapon program. Constructing a peace mechanism on the Korean peninsula, which includes a peace treaty to replace the more than five-decades-old Armistice Agreement, the normalization of the relations between related states and the arrangements guaranteeing long-time peace in the Peninsula may be helpful for this purpose.

Secondly, Northeast Asian countries should consider some institutional arrangements in the sub-region too. Currently, there is some institutional cooperation among Northeast Asian countries under the framework of the six-party talks, but that kind of cooperation and communication are far from sufficient. Major powers in the region have many disputes between them. They need more opportunities and institutions to exchange their views and to reduce mutual suspicion and increase mutual trust. For example, the ROK, Japan, and China, the three important states located in the region, have historical and territory disputes with each other and they may form some kind of trilateral dialogues to seek more common understandings on regional security cooperation. In addition, how to accommodate both the U.S. alliance system and other powers into one security mechanism is another important subject related to regional security. The U.S., its allies, and China may one day have to sit together to discuss it.

All of these indicate that the main topic on the Korean peninsula may be a little different from those of the past seven years. Institution construction should be given a higher priority.

### ***What are the U.S. Goals on the Korean Peninsula?***

With possible changes in U.S. policy priorities in terms of the Korean peninsula, the goal of the U.S. in the region becomes a question worthy of being asked.

Firstly, it has been for many years that the international community has cast doubts on the real bottom line of the U.S. policy on the DPRK nuclear issue. Will it be a complete denuclearization of the DPRK nuclear program or just non-proliferating nuclear weapons, materials, and technologies to other countries or non-state actors? With the change of the U.S. government and the more flexible attitude the next U.S. administration will possibly take on the issue, the question is being floated again. As U.S. allies in Northeast Asia--The ROK and Japan-- take a relatively firm attitude to the denuclearization of the DPRK, how the U.S. will coordinate its position with its allies is worth considering.

Secondly, the U.S. supports President Lee Myung-bak in his rejection of the "Sunshine" policy proposed by former ROK President Kim Dae-jung and takes a more hard-line approach in its relations with the DPRK. On the other side, the U.S. is gradually withdrawing from its hard position on the DPRK. President-elect Obama says he will enhance coordination with allies, but the question here is: Will the kind of cooperation pattern between the ROK and the U.S. on the DPRK issue be beneficial to the ROK? The recent developments on ROK-DPRK relations do not seem good for the ROK.

Thirdly, partly because of the rare mention of East Asian affairs in the election, the Obama administration's views on the architectures of the Korean peninsula and Northeast Asia are not very clear. It seems that the U.S. has interest in discussing with interested countries the situation within the DPRK and the general issue of stability on the Korean peninsula. But these discussions will be difficult if the U.S. cannot give interested countries a clearer picture of its policy and goals.

In conclusion, there are many uncertainties on the Korean peninsula.

We shall not take for granted the assumption that the DPRK nuclear issue will always be the number one topic on the East Asian security and foreign agenda. We must realize that the world is changing and the newly-elected President of the U.S. promises to bring changes to the U.S.

## Conclusion

This year's U.S. general election shows a great change in U.S. mainstream world view. The new thinking differs with previous neo-conservatism in that it re-defines major challenges and threats the U.S. facing and this may provide more opportunities for big power cooperation. In East Asia, the new U.S. administration probably will carry forward the merits of the Bush administration, for example, the relatively balanced relations with all regional major powers, and further correct what the Bush administration did not do very well, for example, neglecting the development of regionalism in East Asia. Of course, it will be much easier to speak on these matters than to put them into practice. However, since these changes will have an important impact on East Asian and Korean peninsula security, East Asian countries including the ROK and China shall watch them closely and prepare themselves in advance.

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*Obama's Asia Policy: A Look Back at the  
Presidential Race to Understand  
America's Next Steps in Asia\**

*Dennis Shorts & Vincent Min*

**Abstract**

This paper assesses the probable Asia policies of the incoming Barack Obama administration. It analyzes the President-elect's announced policies, public statements, and his close Asia advisors' writings in order to extrapolate what Asia policies he may implement as President of the United States. This paper examines Obama's Asia policy in terms of five subject areas: a general approach to East Asia, the North Korean problem, South Korea, free trade, and China. In order to better understand the context of Obama's Asia policy, this paper compares the President-elect's likely posture on Asian affairs with the objectives of his former rival for the presidency: John McCain. This comparative analysis shows that Obama's foreign policy in East Asia will tend to be realist and pragmatic in nature, advocate more direct diplomacy with North Korea, and be wary of free trade promotion. In contrast, McCain would have been more ally-centric in executing his foreign policy in Asia, more hawkish on North Korea, and ardently support free trade in the region. On China and South Korea, Obama and McCain have similar policy approaches.

**Key Words:** Barack Obama, Asia policy, China, North Korea, South Korea

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\* The views expressed in this paper are those of the authors and do not reflect the official policy or position of Booz Allen Hamilton or the U.S. government.

## **Introduction**

The American people have chosen Barack Obama to be the next the President of the United States. The Obama administration has a daunting task ahead of it as the public remains anxious about the continuing financial crisis, instability in the Middle East, taxes, and health care. While such issues dominate the airwaves, there has been very little media coverage on Obama's policies toward Asia. However, the next President of the United States will face major policy challenges in the region: a rising China, a nuclear North Korea, alliance turbulence with South Korea, the future role of Japan, and free trade issues. This paper analyzes the President-elect's announced policies, public statements, and his close Asia advisors' writings in order to extrapolate what Asia policies he may implement as President of the United States. Obama's likely Asia policy is examined in terms of five subject areas: a general approach to East Asia, the North Korean problem, South Korea, free trade, and China. In order to better understand the context of Obama's Asia policy, this paper compares the President-elect's likely posture on Asian affairs with the objectives of his former rival for the presidency. This comparison is not meant as a simple "alternative future" exercise. Instead, this format is used to help differentiate and highlight the features of Obama's Asia policy by establishing a baseline of analysis.

This comparative analysis shows that Obama's foreign policy in East Asia will tend to be realist and pragmatic in nature, advocate more direct diplomacy with North Korea, and be wary of free trade promotion. In contrast, McCain would have been more ally-centric in executing his foreign policy in Asia, more hawkish on North Korea, and more ardently support free trade in the region. On China and South Korea, Obama and McCain seem to have surprisingly similar policy approaches.

## General Approach

A distinguishing feature of Barack Obama's Asia policy may be its nuanced and pragmatic approach. In many ways, "Obama seems — unusually for a modern day Democrat — highly respectful of the realist tradition."<sup>1</sup> While there were reportedly conflicts among McCain's foreign policy staff on the topic of a League of Democracies, there is little argument that the language of the Republicans has shifted in recent years to a more moralistic orientation: "Ironically, the Republicans now seem to be the foreign-policy idealists."<sup>2</sup> Obama might still enlist idealist tones in his speeches, but it is a tone more balanced. This might be the fundamental difference between the two candidates when put side-by-side: a realist-leaning Democrat focused more on calculations involving America's core national security interests and an idealistic Republican who seems to put more stock into a value-based approach premised on a coalition of liberal democracies against global dangers.

Obama sees a need to take a more active role in Asia "to build on our strong bilateral relations and informal arrangements like the six-party talks."<sup>3</sup> One of the President-elect's senior foreign policy advisors, Anthony Lake, has reiterated Japan's central role for U.S. security interests in the region. However, this sentiment is tempered by calls for Japan to "move cautiously in revising Article 9 of its postwar constitution and to do so only in tandem with a new multilateral framework through which it can consult and reassure South Korea and China."<sup>4</sup> This statement

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1- Fareed Zakaria, "Obama, Foreign Policy Realist," *Post Global*. Accessed at [http://newsweek.washingtonpost.com/postglobal/fareed\\_zakaria/2008/07/obama\\_foreign\\_policy\\_realist.html](http://newsweek.washingtonpost.com/postglobal/fareed_zakaria/2008/07/obama_foreign_policy_realist.html).

2- *Ibid.*

3- *Ibid.*

4- G. John Ikenberry and Anne-Marie Slaughter (Anthony Lake Co-Chair), "Forging A World of Liberty Under Law: U.S. National Security in the 21<sup>st</sup> Century," *Final Report of the Princeton Project on National Security*, p. 50.

underscores Obama's nuanced approach to the region: cautious and incremental with a focus on stability.

In contrast, McCain had a strong values-based approach in which allies played a central role. John McCain wrote in *Foreign Affairs* that the key to managing challenges in Asia is an increase in cooperation with U.S. allies.<sup>5</sup> Japan would have been the centerpiece of this strategy. *The Daily Yomiuri* reports, "[McCain] will consider Japan to be a vital ally if he takes office."<sup>6</sup> *The Straits Times* quotes a McCain campaign expert who said, "He does see China as a competitor in Asia-Pacific and would want traditional ally Japan at the center of his Asia policy."<sup>7</sup> McCain's Asia advisors confirm this approach.<sup>8</sup> McCain's prominent Asia advisor, Richard Armitage, former Deputy Secretary of State during George W. Bush's first term, wrote in a think tank publication: "The [U.S.-Japan] alliance can and should remain at the core the United States' Asia strategy."<sup>9</sup> Randall Schriver, another Asia advisor for McCain, also revealed a firm Japan-centric approach to Asia. "Japan is our most important relationship in Asia and this should be demonstrated in word and deed," he said.<sup>10</sup> Hence, Japan would have

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5- John McCain, "An Enduring Peace Built on Freedom: Securing America's Future," *Foreign Affairs*, November/December 2007.

6- "Japan to remain axis of U.S. policy on Asia," *The Daily Yomiuri*, June 21, 2008.

7- "The Gurus: With foreign policy seen as key campaign issue, Barack Obama and John McCain are seeking expert advice here," *The Straits Times*, August 23, 2008.

8- According to several sources, McCain's Asia advisors include Richard Armitage, former Deputy Secretary of State, Randall Schriver, Chief of Staff and Senior Policy Advisor to Deputy Secretary of State Richard Armitage, and Michael Green, former Senior Director for Asian affairs at the National Security Council (NSC). "The Gurus: With foreign policy seen as key campaign issue, Barack Obama and John McCain are seeking expert advice here," *The Straits Times*, August 23, 2008, <http://www.washingtonpost.com/wp-srv/opinions/documents/the-war-over-the-wonks.html>; <http://www.thomasrampton.com/china/obama-mccain-advisors-for-china-and-asia-know-them/>; <http://www.connectusfund.org/mccain>.

9- Richard L. Armitage and Joseph S. Nye, "The U.S.-Japan Alliance: Getting Asia Right through 2020," *The Center for Strategic and International Studies (CSIS)*, February 2007, p. 15.

10- Joint interview with Randall G. Schriver and Michael Schiffer, Senior Advisors to U.S. Presidential Candidates, Sen. John McCain (R, AZ) and Sen. Barack Obama (D, IL),

played a vital role for McCain's approach to Asia.

While Japan would have been the linchpin in McCain's Asia strategy, the "ally-first" approach would have included other U.S. allies in Asia. McCain called for strengthened partnerships with Australia, South Korea, India, and Indonesia.<sup>11</sup> He also sought to institutionalize a "quadrilateral security partnership" among Asia-Pacific democracies that consists of Australia, India, Japan, and the United States.<sup>12</sup> In response to an interview question on how the United States would engage in the Asian region, Schriver said, "Senator McCain has often noted that our policies should be informed first and foremost through our alliances."<sup>13</sup> This indicates a general approach that would place a premium on allies as a way to face challenges in the region. This is in contrast to the Clinton administration's approach, which favored direct bilateral engagement with the country concerned. The 1997-1998 U.S. Presidential summit meetings with China and the 1994 Agreed Framework negotiations with North Korea are both examples that reflect this direct bilateral approach.

Despite McCain's evident preference for ally consultation, a key question was how McCain's proposal for a worldwide League of Democracies would affect his Asia policy. McCain described the League of Democracies as an organization of "like-minded nations working together for peace and liberty."<sup>14</sup> According to McCain, this group would act when the United Nations falters on issues such as the crisis in Darfur, HIV/AIDS in Africa, and "tyrants" in Burma.<sup>15</sup> Robert Kagan, McCain's foreign policy advisor who originated this idea, argues that this would be a way for democracies to "stick together" in a "world increasingly divided along democratic and autocratic

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*East-West Center/USAPC Washington Report*, September 2008.

<sup>11</sup> - McCain, "An Enduring Peace Built on Freedom: Securing America's Future."

<sup>12</sup> - *Ibid.*

<sup>13</sup> - Joint interview, *East-West Center/USAPC Washington Report*.

<sup>14</sup> - McCain, "An Enduring Peace Built on Freedom: Securing America's Future."

<sup>15</sup> - *Ibid.*

lines.”<sup>16</sup> In practice, this would formally pit U.S. allies such as Japan and South Korea against a non-democratic China.

In sum, a comparison of Obama and McCain's approach toward Asia may be about how much each administration would weigh policy means and policy ends. For McCain, policy means are just as important, if not more important, than policy ends – this explains why an “ally-first” approach was crucial for McCain. Obama does not appear as bound by policy means as McCain. This explains why Obama does not pronounce a strong ally-first approach or endorse the creation of the League of Democracies even though he favors consultation with allies and an advancement of democracies.

## North Korea

Nowhere is Obama's embrace of flexible policy means more pronounced than in his willingness to seek direct diplomacy with North Korea in order to achieve denuclearization. During the Democratic Primary last July, Obama boldly stated that he would meet with the leader of North Korea – as well as leaders of other “rogue nations” – within the first year of his presidency. Afterwards, he and his foreign policy advisers sought to clarify this statement to defend against critics who saw signs of a dangerous naïveté. However, the crux of the statement indicates a commitment to direct engagement on foreign policy issues: “I reserve the right as president of the United States to meet with anybody at a time and place of my choosing if I think it's going to keep America safe.”<sup>17</sup> This is a real departure from McCain's diplomatic policy that falls more in line with the orientation in Bush's first term where multilateral engagement was the only policy

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<sup>16</sup> - Robert Kagan, *The Return of History and The End of Dreams* (New York: Alfred A. Knopf, 2008), p. 98.

<sup>17</sup> - Kathy Kiehly and David Jackson, “Rivals Diverge on Economy, War,” *USA Today*, September 27, 2008. Accessed at [http://www.usatoday.com/news/politics/election2008/2008-09-26-debate\\_N.htm](http://www.usatoday.com/news/politics/election2008/2008-09-26-debate_N.htm).

(and direct dialogue shunned). Obama, although not taking military options off the table for North Korea, has stated that “our first measure must be sustained, direct, and aggressive diplomacy—the kind that the Bush administration has been unable and unwilling to use.”<sup>18</sup> This sentiment is emphasized by Senator Obama’s key foreign policy advisor, Michael Schiffer:

[T]he bottom line is that President Bush’s approach—an approach advocated by Senator McCain in 2000 and 2003... made the United States and our friends and allies less safe and secure. Only after the president changed course and authorized direct dialogue in December 2006 did the North shut down its reactor...<sup>19</sup>

It is clear that Obama and his team value direct engagement on tough foreign policy issues such as North Korea. His pick of Frank Jannuzzi as the administration’s policy chief for Korean affairs drives home this point. Jannuzzi has criticized the former Republican contender for his opposition to direct talks saying, “he [McCain] doesn’t apparently understand the way the decision making works inside North Korea. You need to get to the top.”<sup>20</sup>

While the McCain team sees value in addressing the gamut of North Korean sins outside of nuclear weapons development, the Obama team is likely to take the pragmatic approach that seeks to address the nuclear program first and then move toward other issues later. This methodology seems to track along the framework as laid out by former Defense Secretary William Perry—who also advises Obama—during his comprehensive North Korea policy review (the so-called “Perry Process”). In reference to

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<sup>18</sup>- Barack Obama, “Renewing American Leadership,” *Foreign Affairs*, July/August 2007.

<sup>19</sup>- Joint interview, *East-West Center/USAPC Washington Report*.

<sup>20</sup>- “U.S. presidential advisors debate Asian foreign policy,” *Radio Australia*, Australian Broadcasting Corporation, September 25, 2008. Accessed at <http://www.radioaustralia.net.au/programguide/stories/200809/s2374693.htm>.

broadening North Korea policy to include a variety of other issues to be addressed simultaneously, Secretary Perry's report states that this type of push for reform would cause North Korea to "[view it as indistinguishable from a policy of undermining. A policy of reforming... would also take time — more time than it would take the DPRK to proceed with its nuclear weapons and ballistic missile programs."<sup>21</sup> Furthermore, a key finding in the Perry Report states:

If stability can be preserved through the cooperative ending of the DPRK nuclear weapons- and long-range missile-related activities, *the U.S. should be prepared to establish more normal diplomatic relations with the DPRK and join in the ROK's policy of engagement and peaceful coexistence.* (emphasis added)<sup>22</sup>

Given the Bush administration's recent actions — namely, the delisting of North Korea from the State Sponsors of Terrorism List — this statement might be coming to fruition (albeit, in a small but significant way).

Some diplomatic and security experts even point out that recent efforts by the Bush administration seem to mirror Obama's foreign policy principles. "On a range of major foreign policy issues over the past year, Bush has pursued strategies and actions very much along the lines of what Sen. Obama has advocated," reported *The Washington Post*.<sup>23</sup> This might be especially true in terms of recent negotiations with North Korea. There is little doubt that Christopher Hill, in comparison with his predecessors, has been given much more leeway in terms of his direct contacts with his North Korean interlocutors. And, while many might point to a variety of factors

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<sup>21</sup> - "Review of the United States Policy Toward North Korea: Findings and Recommendations," *Unclassified Report by Dr. William J. Perry, U.S. North Korea Policy Coordinator and Special Advisor to the President and Secretary of State*, Washington, DC, October 12, 1999.

<sup>22</sup> - *Ibid.*

<sup>23</sup> - Dan Eggen, "Bush's Overseas Policies Begin Resembling Obama's," *The Washington Post*, September 15, 2008, p. 2.

that have put Pyongyang's disablement back on track,<sup>24</sup> Assistant Secretary Hill's ability to engage in direct talks that are less encumbered by strict protocols that bar direct contact has surely contributed to recent positive steps. As his infamous debate statement conveys, Obama is much more likely to see value in enabling this type of direct engagement with North Korea when necessary.

In contrast, McCain would have most likely continued Bush's first-term policy of seeking North Korean denuclearization using only multilateral forums. When U.S. intelligence provided evidence that North Korea proliferated to Syria, McCain's April 2008 press statement still called for "meaningful multilateral pressure."<sup>25</sup> This is in marked contrast to the Bush administration's response in 2002 when North Korea revealed to James Kelly, then-Assistant Secretary of State for East Asian and Pacific affairs, the existence of a covert Highly Enriched Uranium (HEU) program. This discovery led to an immediate breakdown in talks. McCain's press statement, in contrast, states that the Syrian nuclear program's connection with North Korea is "very troubling, but not surprising" and refers to North Korea's lack of compliance with the six-party agreement in February 2007 (to disclose the full details of its nuclear program).<sup>26</sup> There was no call to end the six-party talks or to cease multilateral engagement.

Although McCain would have adhered to a multilateral engagement policy, there is every indication that he would have been tougher at the negotiation table. McCain writes in *Foreign Affairs* that verifiable denuclearization and a full accounting of all nuclear material and facilities are two necessary steps before "any lasting diplomatic agreement."<sup>27</sup> With this in mind, it is difficult to imagine that a McCain administration would

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<sup>24</sup> - As of October 14, 2008.

<sup>25</sup> - Statement by John McCain on Syria and North Korea, April 25, 2008. Accessed at [www.johnmccain.com](http://www.johnmccain.com).

<sup>26</sup> - *Ibid.*

<sup>27</sup> - McCain, "An Enduring Peace Built on Freedom: Securing America's Future."

have made efforts to remove North Korea from the State Sponsors of Terrorism list as Bush has done (because North Korea has still not accounted for its alleged HEU program). According to David Straub, former Director of the Office of Korean Affairs at the U.S. State Department, McCain is dissatisfied with Bush's approach and would "seek to restore a tougher policy platform."<sup>28</sup> According to Schriver, McCain would not only have returned to the "core principles of denuclearization," McCain would have broadened the North Korea policy goals to include human rights, illicit activities, economic and political reform, and proliferation and reduction of the conventional military threat.<sup>29</sup> This expansion of policy aims goes much further than the current Bush administration's North Korea objectives and would mandate tougher negotiation demands.

Although this comparison demonstrates that Obama would feel free to employ a direct approach to denuclearize North Korea in contrast to McCain's hawkish multilateral-only posture, key uncertainties remain. For instance, how would an Obama administration respond to either North Korean provocations or a regime collapse? If North Korea fires long-range missiles, conducts additional nuclear tests, or is caught proliferating nuclear material/technology, how will an Obama administration respond? Would the United States use military force? This is difficult to predict: while the Bush administration has been accused of a militant foreign policy, it was the Clinton administration that was close to ordering a military strike on the Yongbyon nuclear facility in 1994.<sup>30</sup> Another scenario would entail a North Korean collapse – which has increased relevance given recent reports of Kim Jong-il's stroke.

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<sup>28</sup>- "McCain Tougher Than Bush on N. Korea," *Korea Times*, August 31, 2008.

<sup>29</sup>- Joint interview, *East-West Center/USAPC Washington Report*.

<sup>30</sup>- Joel S. Wit, Daniel B. Poneman, and Robert L. Gallucci, *Going Critical: The First North Korea Nuclear Crisis* (Washington, DC: Brookings Institution Press, 2004), pp. 210, 211, 220.

## South Korea

With regard to Seoul, Obama and his foreign policy advisors signal no major policy differences with their Republican counterparts.<sup>31</sup> Obama acknowledges the strategic importance of this longstanding Asian ally. In all likelihood, the schedule for transfer of wartime operational control back to South Korea would remain on track under the Obama administration. President Obama would see the bolstering of indigenous military capabilities in South Korea as a positive development. With U.S. forces stretched by ongoing operations in Iraq and Afghanistan, an added benefit of this transfer would be the reduction of U.S. military forces (mostly ground units) on the peninsula. There will be those South Koreans who see this reduction as an abandonment of sorts; a diminishment of the U.S.-South Korean alliance. However, this sentiment will be allayed by a variety of factors to include movement toward final congressional approval for the upgrading of Seoul's Foreign Military Sales (FMS) status.<sup>32</sup> Moreover, the changing nature of U.S. deployments in South Korea also sends a signal: "Perhaps the most telling indicator of a continuing U.S. commitment, American military people will be allowed to bring their families with them for three-year tours of duty..."<sup>33</sup> This so-called "tour normalization" will keep American service members and their families in longer, more stable assignments in South Korea.

The Obama administration may also bring an increased sensitivity for inter-Korean affairs to its Asian foreign policy. It is no insignificant thing that Obama, after five years of real alliance challenges under the presidency of Roh Moo-hyun, would state that "In Asia, we have belittled

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<sup>31</sup> - Free trade, however, is a notable exception (to be discussed in a later section).

<sup>32</sup> - Jon Grevatt, "House of Representatives Approves Legislation to Raise South Korea's FMS Status," *Jane's Defence Industry*, September 24, 2008.

<sup>33</sup> - Richard Halloran, "Changing Mission for U.S. Forces in South Korea," *Real Clear Politics*, May 11, 2008. Accessed at [http://www.realclearpolitics.com/articles/2008/05/changing\\_mission\\_for\\_us\\_forces.html](http://www.realclearpolitics.com/articles/2008/05/changing_mission_for_us_forces.html).

South Korean efforts to improve relations with the North.”<sup>34</sup> The North Korean threat perception gap between the U.S. and South Korea in recent years was, at times, stark. Moreover, a whole host of issues had caused tension between Seoul and Washington in the last eight years: President Bush’s “axis of evil” designation for Pyongyang, a U.S. convoy accident in 2002 that led to the deaths of two middle schoolgirls, the decision to invade Iraq, and most recently, the import of U.S. beef. Alliance turbulence is nothing new, but handling the often competing demands of supporting efforts to foment inter-Korean peace while deterring North Korean aggression will be a true test of Obama’s (and his advisors’) foreign policy skills.

A look back into McCain and his advisors’ statements show that McCain would have also sought to strengthen the ROK-U.S. alliance. In line with McCain’s “ally-first” approach, the Arizona Senator would have sought to improve relations with South Korea. He wrote in *Foreign Affairs*, “I will seek to rebuild our frayed partnership with South Korea by emphasizing economic and security cooperation.”<sup>35</sup> Michael Green, former Bush official and McCain’s Asia advisor, also argued that the next administration needs to pay particular attention to ROK-U.S. alliance given its strategic importance to the region.<sup>36</sup> According to *The Korea Times*, McCain emphasized the alliance as a “crucial element” for U.S. diplomacy in Asia and beyond.<sup>37</sup>

McCain’s advisors suggest that the policy to strengthen the ROK-U.S. alliance would mean an increasing South Korean role in the bilateral, regional, and global environment. According to Armitage, “South Korea will play a leading role and the United States a supporting role in the alliance of the future.”<sup>38</sup> He states that the force structure and command arrangement

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<sup>34</sup>– Barack Obama, “Renewing American Leadership,” *Foreign Affairs*, July/August 2007.

<sup>35</sup>– McCain, “An Enduring Peace Built on Freedom: Securing America’s Future.”

<sup>36</sup>– Green, “Constructing a Successful China Strategy: Promote Balance and Democratic Ideals in Asia,” p. 8.

<sup>37</sup>– “Obama, McCain Differ on Korea Policy,” *Korea Times*, June 4, 2008.

<sup>38</sup>– Armitage and Nye, “The U.S.-Japan Alliance: Getting Asia Right through 2020,” p. 8.

in Korea will reflect this role reversal. Mr. Schriver goes even further to argue South Korea's potential as a global ally. "Senator McCain believes our alliance with South Korea can modernize and evolve into a truly global alliance with a global orientation."<sup>39</sup>

This comparison reveals that an effort to improve U.S.-South Korean ties would have been underway regardless of the individual winning the presidency – this is one issue area where there were no significant differences in fundamental policies between Obama and McCain. Nevertheless, there are two key dynamics that will affect Obama's Korea policy: one positive and one negative. Since Obama is not from the incumbent party, he has the advantage of a fresh start, where McCain – deservedly or not – may have inherited some Korean resentment toward President Bush's policies. However, the negative dynamic involves Obama's stated opposition to the Free Trade Agreement (FTA) with South Korea, a pact that the current South Korean President Lee Myung-bak has strongly advocated.

## Free Trade

Although Barack Obama has repeatedly criticized unfettered free trade, it is not entirely certain that he will be as anti-free trade as some critics claim. Last spring, Obama sent a letter to President Bush on the topic of the South Korean FTA:

Like many members of Congress, I oppose the U.S.-Korea FTA, which I believe is badly flawed. In particular, the terms of the agreement fall well short of assuring effective, enforceable market access for American exports of manufactured goods and many agricultural products.<sup>40</sup>

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<sup>39</sup>-Joint interview, *East-West Center/USAPC Washington Report*.

<sup>40</sup>- "Obama Speaks Out Against Korea-U.S. FTA," *Chosun Ilbo*, May 26, 2008.

Hailing from a state and a political party strongly influenced by labor unions, it is not surprising that Obama would strike this tone on the potential FTA. He couches his opposition to the FTA in terms of protecting American workers and opposes entering trade agreements without offering “meaningful help to working Americans burdened by the dislocations of the global economy.”<sup>41</sup> However, as with many issues swirling about in a heated presidential race, it can be difficult to discern what proclamations the candidates make actually constitute planned policies. In an infamous event involving a Canadian government representative, it is alleged that Obama’s chief economic advisor assured an embassy official “that Obama’s NAFTA<sup>42</sup>-bashing ‘should be viewed as more about political positioning than a clear articulation of policy plans.’”<sup>43</sup> The campaign denied the statement, but it is not hard to imagine that calculations might have been made to woo certain portions of the electorate.

In the end, Obama’s take on free trade during the presidential campaign hews along traditional Democratic lines. However, it is important to note that the last Democratic president to inhabit the White House created NAFTA, arguably one of the largest free trade areas in the world.<sup>44</sup> So, while Obama’s opposition to the Korea FTA might provoke consternation from free trade promoters in Seoul and Washington, one should not rush to the conclusion that Asia would see a more protectionist U.S. market under an Obama administration. In fact, members of Obama’s economic team are considered centrist and market-oriented.<sup>45</sup>

There is no surprise that Senator John McCain was a staunch advocate of free trade, and would have pursued a free trade agenda for Asia: “The

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<sup>41</sup>-Barack Obama, “Renewing American Leadership,” *Foreign Affairs*, July/August 2007.

<sup>42</sup>-North American Free Trade Agreement.

<sup>43</sup>-Bonnie Goldstein, “Canada’s Obama NAFTA Memo,” *Slate*, March 4, 2008.

<sup>44</sup>-“Bill Clinton’s Economic Legacy,” *BBC News*, January 15, 2001.

<sup>45</sup>-Michael A. Fletcher, “A Market-Oriented Economic Team,” *Washington Post*, November 25, 2008.

United States should set the standard for trade liberalization in Asia.”<sup>46</sup> He specifies that he supports free trade agreements with Malaysia, Thailand, South Korea and “institutionalizing” economic partnership with India and Indonesia as part of “an ambitious Pacific-wide effort to liberalize trade.”<sup>47</sup> Of these efforts, the current free trade agreement with South Korea looms as a significant U.S. policy issue because this agreement would reportedly be the second-largest free trade agreement after NAFTA.

McCain defends the Korea-U.S. FTA on both economic and strategic grounds. *The Korea Times* quotes a McCain’s official website statement which read: “We have negotiated a trade agreement with South Korea that will expand American exports and create American jobs.”<sup>48</sup> In an address to the National Restaurant Association in Chicago, he contrasted his position with Senator Obama as he said, “Senator Obama calls that agreement, ‘bad for American workers’ – never mind the workers right here in Illinois who made the 750 million dollars in goods exported to Korea last year.”<sup>49</sup> McCain argues that an FTA with Korea would advance the economic interest of the United States.

McCain goes beyond economic benefits, however, and argues that this agreement is a key alliance issue. He told the same audience:

And he [Obama] doesn’t have much at all to say about the profound strategic importance of our relationship with South Korea, or how that partnership in a dangerous part of the world could be harmed by casting aside our trade agreement with South Korea.<sup>50</sup>

While this remark is directed as an attack against his opponent, the

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<sup>46</sup>– McCain, “An Enduring Peace Built on Freedom: Securing America’s Future.”

<sup>47</sup>– *Ibid.*

<sup>48</sup>– “Obama, McCain Differ on Korea Policy,” *Korea Times*.

<sup>49</sup>– “McCain Throws Weight Behind KORUS FTA,” *Chosun Ilbo*, May 21, 2008.

<sup>50</sup>– “McCain criticizes Obama for opposing Korea FTA,” *Yonhap*, May 20, 2008.

statement also reveals that McCain finds geostrategic value in the FTA.

Although Obama and McCain appear to have their greatest policy divergence on free trade, ironically, the political outcome may have turned out to be the same. Despite McCain's predictable support for free trade agreements, he would have faced difficulty in their ratification. The Democrat-controlled Congress is opposed to the FTA with Korea and is likely to reject ratification. Key figures in Congress, to include House Speaker Nancy Pelosi, have voiced opposition to the FTA with Korea.<sup>51</sup> Similarly, ratification from the Korean government may also face insurmountable obstacles given the South Korean public's sensitivities. Recent mass protests in Korea over the resumption of U.S. beef imports demonstrate the volatility of FTA-related issues.

## China

Obama and his advisors have acknowledged the complexities involved in future U.S. relations with China. Obama writes in *Foreign Affairs*, "We will compete with China in some areas and cooperate in others. Our essential challenge is to build a relationship that broadens cooperation while strengthening our ability to compete."<sup>52</sup> Jeffrey Bader, Obama's principal China advisor, has analyzed the region in structural terms, pointing out that "history has never seen a strong China and strong Japan at the same time," and that Washington has not put enough effort into understanding the strategic challenges posed by this impending Sino-Japanese rivalry.<sup>53</sup> This structural view once again highlights the somewhat realist orientation Obama's foreign policy might take in Asia, especially in terms of China.

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<sup>51</sup> - *Ibid.*

<sup>52</sup> - Barack Obama, "Renewing American Leadership," *Foreign Affairs*, July/August 2007.

<sup>53</sup> - Jeffrey Bader and Matthew Goodman, "Urgent Tasks for Bush Ahead of the APEC Summit," *The Financial Times*, November 14, 2005.

Moreover, Obama – with Bader at the helm – will most likely be more mindful of the Asian conception of “face” in his dealings with China. Bader encouraged the avoidance of negative statements in terms of policy differences with Beijing. For example, he points out that “China’s human rights are best advanced through discrete encouragement, not negative sound bites.”<sup>54</sup> More importantly, Bader discouraged presidential hopefuls from talking tough on China because it usually resulted in a period of ineffective engagement once they came into office. Again, Bader invokes a realist frame of reference for U.S. China policy when he states, “[c]ooperating with Beijing may challenge U.S. values, but the bond between nations improves global equanimity.”<sup>55</sup> While not a clear statement advocating a value-neutral approach, there is a real implication that the U.S. should deal with China on footing based more on pragmatism than ideology.

McCain views China as neither friend nor enemy, but as an emerging power that the United States must both engage with and hedge against. McCain’s speech to a committee of Chinese Americans reflects this duality:

The old debate about whether to engage China or contain it seems to me a bit stale. Yes, we should engage China. But we should not only engage; we also need to hedge.<sup>56</sup>

Green, his Asia advisor, echoes a similar argument that the U.S. policy should attempt to shape a “positive role” for China while “hedging” against the possibility that China will pursue a “negative path.”<sup>57</sup> McCain explains

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<sup>54</sup>-Jeffery Bader, “White House Contenders: Avoid Negative Sound Bites on Beijing,” *The Sacramento Bee*, July 29, 2008.

<sup>55</sup>-*Ibid.*

<sup>56</sup>-“Sen. McCain addresses Committee of 100 Annual Dinner,” *Hindustan Times*, April 11, 2005.

<sup>57</sup>-Green, “Constructing a Successful China Strategy: Promote Balance and Democratic Ideals in Asia,” p. 1.

how the United States would hedge: maintain a military presence in East Asia, strengthen alliance relations, and work with regional organizations.<sup>58</sup> Green also recommends a multi-layered approach to China that consists of bilateral engagement and a regional strategy, with a focus on strengthened allied partnerships. In the end, McCain's China strategy would most likely have been a moderate policy that neither embraced China as a partner in the region nor contained it as a mounting threat.

## Conclusion

No battle plan survives contact with the enemy, according to a famous quote. This will probably hold true, to some extent, with regard to President Obama's Asia policies once his administration faces the multitude of challenges in the region. Nevertheless, the Obama administration will hew to defined policy preferences. It is helpful, therefore, to put these policy approaches into context by understanding what his presidential rival, John McCain, had proposed. This comparative analysis sought to shed light on Obama's potential Asia policies. In general, Obama seems to emphasize pragmatism—even if that means direct dialogue with leaders of “rogue states.” McCain identified himself as a “realist idealist” and was a staunch advocate of a partnership among liberal democracies. For North Korea, Obama's approach might involve sending a high-level envoy for direct diplomacy, whereas McCain may have relied on allies to build multilateral pressure against Pyongyang. On free trade, Obama will likely ensure that caveats and conditions are in place to govern deals. McCain was a rigorous free trade promoter. In other areas, McCain and Obama's policies are indistinguishable. Both would work to strengthen the alliance with South Korea; both would cooperate and compete with China.

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<sup>58</sup>- “Sen. McCain addresses Committee of 100 Annual Dinner,” *Hindustan Times*, April 11, 2005.

As a way of better understanding the future U.S. posture in East Asia, it is instructive to look back at the policy differences between Obama and McCain during the presidential race. However, it is Barack Obama who has won the privilege to sit in the oval office as commander-in-chief. Although the occupant of the White House has changed, the elements that remain constant are America's responsibilities in East Asia: the maintenance of positive American influence, the strengthening of alliance ties, the deterring of aggressors, and the fomenting of regional peace and stability. Asia will soon discover how President Obama will seek to carry out these responsibilities.

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## *Prospects for the U.S.-DPRK Normalization and Economic Transition Effects*

*Eul-Chul Lim*

### **Abstract**

This article examines various legal restrictions imposed upon the DPRK by the United States, which precludes the DPRK from actively participating in the international community. The article also examines the potential outcomes of an improved U.S.-North Korea relationship following the denuclearization of the North, such as the country's removal from the U.S. State Department's list of state sponsors of terrorism and this action's subsequent contribution to the marketization of the DPRK. At the same time, the article envisions the approach the United States will take toward the DPRK—as it will no doubt be different from the approach taken with Vietnam. Based on these assessments, the article seeks to understand the interactive relationship between the normalization of the U.S.-North Korea relationship and North Korea's structural transformation toward a market economy. In terms of legal aspects, the DPRK's relationship with the United States is expected to make procedural progress. Therefore, a rapid, pragmatic economic change is unlikely to occur in the near future. The DPRK's normalization with the United States signifies that the United States recognizes the DPRK as a legitimate member of the international community. The international community will perceive the DPRK as a legitimate trade and investment partner in the long term if normalization with the United States can be achieved.

**Key Words:** the United States-DPRK normalization, transformation, legal restrictions, the United States-Vietnam normalization, state sponsor of terrorism

## **Introduction**

This article examines various legal restrictions imposed upon the Democratic People's Republic of Korea (DPRK or North Korea) by the United States, which precludes North Korea from actively participating in the international community. The article also examines the potential outcomes of an improved U.S.-North Korea relationship following the denuclearization of the North, such as the country's removal from the U.S. State Department's list of state sponsors of terrorism and this action's subsequent contribution to the marketization of the DPRK. The article first discusses North Korea's status in relation to U.S. legal sanctions, with particular focus on the legal conflicts that have arisen as a result of North Korea's presence on the list. The label of "state sponsor of terrorism" (SST) has functioned effectively as a means to impose economic sanctions and restrictions on North Korea. As a consequence, the country has been unable to effectively engage in foreign aid, trade, investment or financial exchanges. Therefore, even though its immediate impact on North Korea's economy is expected to be limited, the removal of North Korea from the list has the symbolic importance of ushering the country into the international community and normalizing North Korea with the rest of the world.

The article assesses the U.S.-North Korea relationship from a perspective of legal structures in order to discover the road to making improvements in the relationship and possible obstacles that might emerge along the way. The legal restrictions and related documents created by the State Department were primarily examined. Also, in order to analyze North Korea's potential economic advancements as a result of the improved U.S.-DPRK relationship, a future scenario was created based on a case study of the U.S.-Vietnam relationship. At the same time, the article envisions the approach the United States will take toward North Korea—as it will no doubt be different from the approach taken with Vietnam. Based on these assessments, the article seeks to understand the interactive relationship

between the normalization of the U.S.-North Korea relationship and North Korea's structural transformation toward a market economy.

### **North Korea's Legal Status and Obstacles in the U.S. Laws**

North Korea's legal status with regards to U.S. laws is defined by the Trading with the Enemy Act, Export Administration Act, Foreign Assistance Act, International Financial Institutions Act, North Korean Human Rights Act, and others. Also, North Korea's legal status in relation to the United States may be assessed using the State Department's annual publications of the Country Reports on Human Rights Practices and Report on International Religious Freedom. There are four economic sanctions placed upon North Korea by the United States. The United States classifies the North Korean government as an authoritative, communist, and repressive regime that undermines the U.S. values including liberty, human rights, democracy, and economic freedom. Specific examples of the DPRK's legal status will be provided in following paragraphs.

First, the U.S. government implemented both the Trading with the Enemy Act and National Emergency Act against the DPRK as the country was considered a threat to U.S. national security. Both laws were legal sanctions central to the U.S. national defense. Since their implementation in 1950, these laws have frozen North Korean assets in the United States and have banned U.S. entities from trading or doing financial exchanges with North Korea. Second, North Korea has been placed on the list of "state sponsors of terrorism" for the bombing of a Korean Airline on January 20, 1987. Moreover, North Korea was also designated as a "non-cooperative country" in the U.S. effort of terrorism prevention in 1996, which was renewed in May 2002. The 1979 Export Administration Act (EAA) is the central legal obstacle. Third, North Korea is subject to sanctions as outlined in the Export-Import Bank Act of 1945, because it has been designated as

a communist country. Fourth, North Korea is classified as a proliferator of weapons of mass destruction (WMD) and missiles according to the Arms Export Control Act, Export Administration Act of 1979, and Iran Proliferation Act of 2000. Also, the George W. Bush administration labeled North Korea as one of the three countries that engage in biological weapons development. Finally, the North Korean regime is recognized as a regime that violates the human rights of its people. In the 2007 Human Rights Report published by the U.S. State Department, the DPRK is designated as one of the most notorious violators of human rights. In the report, the U.S. State Department criticizes the fact that power is concentrated in the hands of an irresponsible leadership, putting it into the same category as Myanmar and Iran. The report also accuses the DPRK of structuralizing human rights abuse, making the country one of the worst in the world.<sup>1</sup> Also in the annual report on international religious freedom published by the State Department, the DPRK is designated as a “country of particular concern” for its complete lack of religious freedom.

The U.S. legal sanctions on the DPRK hamper improvement in the U.S.-DPRK relationship. To be specific, North Korea’s status as a state sponsor of terrorism is the greatest obstacle to ameliorating the relationship. Generally, when a country is listed as a SST, the United States applies its main economic sanctions—including the Export Administration Act, Foreign Assistance Act, and Arms Export Control Act—on the country. Overall, the State Department exerts on the DPRK a wide scope of economic restrictions encompassing controlling imports and exports of technology and other material goods, preventing economic assistance, and withholding private properties.

Once labeled by the United States as a state sponsor of terrorism, a

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<sup>1</sup>-U.S. Department of State, “Korea, Democratic People’s Republic of, Country Reports on Human Rights Practices,” 2007. Released by the Bureau of Democracy, Human Rights, and Labor, March 11, 2008.

country becomes a target of the rigorous export controls, especially regarding dual-use materials and technologies. All sales of military supplies are strictly banned.<sup>2</sup> The Export Administration Act requires a certain license when exporting restricted materials and technologies to those countries. To obtain the license, the Secretaries of the U.S. Department of Treasury and State Department must report to the House Committee on Foreign Affairs, Senate Committee on Banking, Housing, and Urban Affairs, and Senate Committee on Foreign Relations.

Another set of sanctions is imposed under the authority of several United Nations resolutions.<sup>3</sup> Around the time of the DPRK's nuclear experiment in 2006, in order to exert pressure on North Korea to give up its nuclear activities, the United States enacted UN resolutions that impose specific sanctions on certain materials. Financial restraints attacked the DPRK's most vulnerable spot, while the export ban on luxury goods effectively weakened North Korean elites' ability to rule. Designating Banco Delta Asia (BDA) as North Korea's partner in crime (i.e., of doing illegal transactions with the North, including money laundering and forgery), pursuant to section 311 of the Patriotic Act, effectively suspended all international financial transactions of the DPRK.

At the international level, the UN Security Council enacted Resolutions 1540, 1695, and 1718, authorized under chapter 17 of the UN Charter (action with respect to threats to the peace, breaches of the peace, and acts of aggression), and pursuant to Article 25 of the UN Charter, all member countries are legally bound to adhere to the resolutions. In particular, Resolution 1540—unlike previous multilateral trade agreements—expands the World Trade Organization (WTO) non-proliferation obligations to all UN member countries. As an international standard, the management and

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<sup>2</sup>- Timothy Clinton, Export Policy Analyst, "Catch-All Controls," U.S. Department of Commerce, June 18, 2003.

<sup>3</sup>- KOTRA, "Basis, Restrictions, and Procedure of the designation as a State Sponsor of Terrorism by the U.S.," *KOTRA North Korea Economic Report*, June 11, 2007.

administration of the implementation of the resolutions is run directly by the UN. Resolution 1540 also deviates from other established multilateral exports regulations by mandating the responsibility to all member countries to prohibit financial assistance or funding for development of WMD. Resolutions 1695 and 1718 impose the responsibility to all member nations to prohibit exporting outdated weapons, nuclear weapons, short-range ballistic missiles, WMD, and other related materials to the DPRK.<sup>4</sup>

Additionally, North Korea's attempt to acquire membership in international financial institutions (IFIs) and financial assistance is also prohibited. Section 1621 of the International Financial Institutions Act regulates the Secretary of Treasury to order all U.S. representatives in international financial institutions to oppose any financial assistance or use of funds for state sponsors of terrorism, pursuant to the Export Administration Act of 1979 and Foreign Assistance Act.

Another related legal sanction is the Anti-Terrorism and Effective Death Penalty Act of 1996, which dictates that the Secretary of Treasury must order U.S. representatives at IFIs to oppose providing loans or other forms of assistance to SSTs designated by the Secretary of State. Even though the law does not directly prevent SSTs from earning membership into international financial institutions, the opposition of U.S. representatives is interpreted as an opposition of the country's membership itself. Thus U.S. policy is understood preferably as such.<sup>5</sup>

Moreover, the DPRK could no longer get external assistance. Enacted in 1962, the Foreign Assistance Act of 1961 prohibits providing aid to communist countries, including North Korea.<sup>6</sup> Removal of the sanctions

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4- Ex-Con Research Center, The Institute of Legal Studies, Kyung Hee University, "Recent Trends in Export Control," *Security Commerce Studies* (Korean Association of Security and Trade, in Korean), Vol. 1, No. 1 (March 2007).

5- An Gwang Myung, "International Cooperation Assignment for North Korean Economic Development," p. 177.

6- The U.S. laws regarding food assistance include 1) PL 480 (Agricultural Trade Development and Assistance Act of 1954), 2) Section 416(b) of the Agricultural Act of

requires amendment by the Congress. The law also prohibits direct economic assistance, loan, insurance, and credits by the Export-Import Bank. North Korea is also disqualified to participate in the debt relief program designated for the poorest of countries. As a result, U.S. NGOs that supported the DPRK were put under severe restrictions compared to those in Europe and South Korea. U.S. NGOs that assist the DPRK are restricted in terms of government funding distribution, amount, and uses. Due to these restrictions, a vast majority of North Korean food assistance was channeled through the World Food Program.<sup>7</sup>

Being a communist country also restricted the DPRK from gaining most favored nation (MFN) or normal trade relations (NTR) status. Pursuant to section 402, Title IV of the 1974 Trade Law, all communist and non-market economy nations are denied MFN/NTR status.<sup>8</sup> Known as the Jackson-Vanik Amendment, the law denies the two following trade benefits from all “non-market economy nations that violate the citizens’ right to the freedom of emigration”: export credit of the Export-Import Bank of Washington and investment of Overseas Private Investment Corporation (OPIC).<sup>9</sup>

The Import-Export Bank Act, enacted on October 15, 1986, prohibits guaranteeing insurance and loans from the Import-Export Bank to any Marxist-Leninist nation.<sup>10</sup> Currently, the DPRK and Cuba are the only

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1949, 3) Food for Progress Act of 1985, and 4) Farm Security and Rural Investment Act of 2002, PL 107-171.

7- Scott Snyder, “American Religious NGOs in North Korea: A Paradoxical Relationship,” *Ethics & International Affairs*, Vol. 21, No. 4 (Winter 2007).

8- Normal Trade Relations (NTR) replaced Most Favored Nation (MFN) in 1998 by a U.S. law. However the word MFN is still used in WTO and international trade agreements. William H. Cooper, “The Jackson-Vanik Amendment and Candidate Countries for WTO Accession: Issues for Congress,” *CRS Report for Congress*, March 14, 2006, p. 2.

9- Vladimir N. Pregelj, “The Jackson-Vanik Amendment: A Survey,” *CRS Report for Congress*, updated August 1, 2005.

10- Socialist countries refer to nations with centralized authoritarian rule following the Marxist-Leninist ideology. Determination whether or not a country is socialistic comes under Presidential authority, pursuant to the Export-Import Bank law (12 USC 635(b) (2)).

nations that are not given MFN/NTR status. The DPRK is also automatically excluded from the Generalized System of Preferences (GSP) benefits which apply only to MFN or NTR nations.<sup>11</sup> Due to North Korea's status as a SST and a potential proliferator of WMD, the U.S. imposes a very high rate of tariff on North Korea, equivalent to the "column 2" tariff rate. The tariff is also imposed on the DPRK pursuant to the Trading with the Enemy Act. North Korea's competitiveness as an export country is greatly impaired due to the "column 2" tariff rate, which is as high as 110 times more expensive at its worst.<sup>12</sup>

The United States also enacted a law related to North Korean human rights. The North Korean Human Rights Law, HR 4011 (PL 108-333), was passed in the fall 2004 by the 108<sup>th</sup> Congress and signed by President George W. Bush.<sup>13</sup> Based on the law, a UN special envoy on human rights in North Korea was appointed and legal immigration of North Korean refugees to the United States began. Also, the legislation declared that U.S. assistance for North Korea depends largely on the North's achievement of autonomous and substantial progress, especially on transparency, external monitoring,

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<sup>11</sup>- Importing goods produced in the DPRK into the United States was banned under the TWEA and FACR. DPRK's moratorium of missile launch contributed to the relaxation of economic sanctions against the North, after September 17, 1999. However, the missile launch and nuclear experiment in July and October of 2006, respectively, led to fortification of the restraints.

<sup>12</sup>- North Korea is at a disadvantage compared with other developing countries because the EU and Japan do not extend GSP benefits to North Korea and exert higher rate of tariff. On the other hand, former communist countries such as China and Russia, as well as Southwestern Asian and Middle Eastern countries are not imposing any particular sanctions on the DPRK. See Shim Seung Geun, "Control over Import and Export of Strategic Materials by Corporations in the Gaesung Industrial Complex," *National Economy* (Seoul: KDI, December 2003), p. 72 and Kim Sam Shik, "Securing Markets for Good Produced at the Gaesung Industrial Complex Produced Goods," *21<sup>st</sup> Century Northeast Asian Countries' Cooperation with the Two Koreas* (Seoul, KOTRA, 2003), pp. 69-88, for export environments of DPRK goods to the EU, Japan, and the U.S. and comparisons of tariff rates in each country.

<sup>13</sup>- The U.S. Congress adopted the legislation that extends North Korean Human Rights Reauthorization Act of 2008 which extends the former North Korean Human Rights Law of 2004 until 2012.

and approachability. The law also demands that USAID report all its humanitarian assistance activities in the North, including support for North Korean refugees in China, to the Congress. The DPRK publicly denounces the law as anti-North Korea legislation.<sup>14</sup>

There were also several sanctions imposed on the North following the State Department's designation of the DPRK as a "state of concern" in its annual report on religious freedom and human rights. The International Law of Religious Freedom is a part of U.S. foreign policy. It was enacted on October, 27, 1998 to protect religious freedom of people all around the world. The U.S. supports religious freedom of all individuals pursuant to its own Constitution and international law. These laws mandate imposing specific legal sanctions on countries in violation of religious freedom.

However, amendments to the law remarkably reduced its practical influence by allowing the U.S. president to give waivers to noncompliant countries should the President determine that doing so better serves the national interest of the United States.

North Korea is currently designated as a "country of particular concern" by the U.S. Committee of Religious Freedom. Religious freedom practically does not exist in North Korea and its government severely oppresses the religious. North Korean Christians are the most prominent target of oppression, including torture, imprisonment, and other forms of violence. Christians are also targets of structural violence, because they are socially marginalized in terms of education, opportunities, and food distribution.

Pursuant to the Law of International Religious Freedom, the U.S. government is responsible for conducting annual research on the state of religious oppression to determine which of the 15 sanctions stated in section 405 should be imposed on the violator country. These laws regarding

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<sup>14</sup>- Mark E. Manyin, "U.S. Assistance to North Korea: Fact Sheet," *CRS Report for Congress*, January 19, 2006.

DPRK's religious freedom and human rights will be imposed throughout the changing course of the U.S.-DPRK relationship. Thus, making substantial progress in these issues remains as an important assignment for the government of DPRK.<sup>15</sup>

## **Future Prospects for the Normalization of U.S.-DPRK Relations**

This chapter proposes a road map for the normalization of relations between the United States and the DPRK. Recently, North Korea was removed from the list of a state sponsor of terrorism, which is the central legal obstacle to improving the U.S.-DPRK relationship.<sup>16</sup> The next chapter will explore the normalization's impact and significance on the North's economic transition.

### ***Case Study: Normalization of Relations between the U.S. and Vietnam***

U.S. economic sanctions on Vietnam were first imposed in 1964, and were expanded in May 1975 with the defeat of the U.S. military in the Vietnam War and consequent collapse and communization of South Vietnam. These sanctions on Vietnam were mostly based on the Trading with the Enemy Act, as Vietnam was not designated as a SST. The United States had begun export controls against North Vietnam in 1954, then banned trade or financial exchanges in 1964. The United States then

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<sup>15</sup> - U.S. Department of State, "Remarks on the State Department's 2007 Country Reports on Human Rights Practices by Jonathan Farrar, Acting Assistance Secretary of the Bureau of Democracy, Human Rights, and Labor," Washington, DC, March 11, 2008.

<sup>16</sup> - According to the joint document II-1 produced at the 6<sup>th</sup> session of the second phase of the six-party talks which were held in Beijing (October 3, 2007), the U.S. and the DPRK commit themselves to improve their relationship and diplomatically normalize. Also, both countries are to increase exchanges and deepen mutual trust while implementing a process to remove the DPRK from the list of SSTs and cease application of TWEA to the DPRK. The U.S. will remain committed to all these agreements while using the consensus from the U.S.-DPRK normalization conference as a basis for future guidance.

extended application of these sanctions to the entire country in 1975.

U.S. opposition in international financial institutions' assistance to Vietnam at the time was evaluated as the most severe obstacle to growth of the Vietnamese economy, because it prevented flow of capital from other capitalist countries into Vietnam.<sup>17</sup>

The U.S. imposed Foreign Assets Control Regulation through the Trading with the Enemy Act, while imposing other sanctions through section 40 of the Arms Export Control Act and section 6 of the Export Administration Act. When Vietnam invaded Cambodia in 1978, Western countries began to participate in economic sanctions against Vietnam, which practically suspended all forms of assistance to Vietnam. Assistance from the World Bank, International Monetary Fund (IMF), and Asian Development Bank (ADB) were halted as well, leading to great difficulty in the rebuilding of Vietnam and Vietnamese economic reconstruction after the unification.

The U.S.-Vietnam relationship began to improve in the 1980s after the opening up of Vietnam. The Vietnamese reform that built the foundation for the U.S.-Vietnam normalization had already begun since the Doi-Moi Reform of 1986, which imitated China's reform. The withdrawal of Vietnamese troops from Cambodia in 1989 also provided a turning point for the U.S.-Vietnamese relationship. The Paris Peace Treaty of October 27, 1991 officially normalized the relationship and contributed to a rapid reform via progresses made in diplomatic relationship with China and ASEAN countries.<sup>18</sup>

The United States reinitiated dialogues with Vietnam in 1990 and announced its intention to resolve the conflict in Cambodia. The plan dealt with resolving the Cambodian situation and U.S. prisoners of war (POW)

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<sup>17</sup>-Do Duc Dinh, *Vietnam-United States Economic Relations* (Hanoi: Gioi Publishers, 2000), pp. 103-107.

<sup>18</sup>-Douglas Pike, "Vietnam in 1991: The Turning Point," *Asian Survey*, Vol. 32, No. 1 (January 1992), pp. 74-82.

from the Vietnam War. In 1993, the Bill Clinton administration began to provide development assistance to Vietnam via the IMF and World Bank. Vietnam made a continuous effort to repatriate the ashes of U.S. prisoners of war, which by 1995 led it to better diplomatic relations with the United States.

In response, President Clinton rescinded the Trading with the Enemy Act against Vietnam on February 3, 1994 and established liaisons office a year later in Hanoi and Washington, DC. Clinton explained that these actions were taken to facilitate cooperation with Vietnam to bring home the U.S. POWs and those missing in action (MIA). The United States had a great interest in gathering information regarding the MIAs, demanding continuous cooperative field observation, third-party investigation in Laos Border Cases, repatriation of war remains, and literature studies to locate American MIAs and war remains. Simultaneously, the U.S. recognized the need to negotiate with the oppressive Vietnamese government to improve conditions regarding human rights, freedom of the press, and drug issues.<sup>19</sup>

**Table 1. Road Map of the U.S.–Vietnam Normalization<sup>20</sup>**

U.S. Action	Vietnam Action	Outcome
Extinction of diplomatic relationship and imposition of economic sanctions (April 1975)		
	<ul style="list-style-type: none"> <li>• Invasion to Cambodia (December 1978)</li> <li>• Withdrawal from Cambodia (September 1989)</li> </ul>	

<sup>19</sup>- The U.S. Department of Defense, “United States Security Strategy for the East Asia-Pacific Region,” (Washington, DC: USGPO, 1995).

<sup>20</sup>- Mark E. Manyin, “The Vietnam-U.S. Bilateral Trade Agreement,” *CRS Report*, RL30416 (2001), IB98033 (2005), RS21834 (2007); Mark E. Manyin, William H. Cooper, and Bernard A. Gelb, “Vietnam PNTR Status and WTO Accession: Issues and Implications for the United States,” *CRS Report*, RL33490 (2006).

U.S. Action	Vietnam Action	Outcome
Proposed a road map for improvement in the U.S.-Vietnam relationship (April 1991)		<ul style="list-style-type: none"> <li>• Signed Cambodia Peace Treaty (October 1991)</li> <li>• Joint investigation committee formed to locate missing American soldiers (February 1992)</li> </ul>
Authorized re-initiation of assistance to Vietnam by IMF and World Bank (July 1993)		
Terminated trade ban on Vietnam (July 1993)	Submitted application for WTO membership (December 1994)	<ul style="list-style-type: none"> <li>• Installed a liaison office in Vietnam (January 1995)</li> <li>• Declaration of normalization of diplomatic relationship and installation of embassies (July 1995)</li> </ul>
Proposed a blueprint bilateral trade agreement with Vietnam (June 1996)		The first U.S. ambassador to Vietnam was appointed (April 1997)
<ul style="list-style-type: none"> <li>• Waiver of application of the Jackson-Vanik Amendment to Vietnam</li> <li>• Permitted Import-Export Bank to trade with and invest in Vietnam (March 1998)</li> </ul>		
		Signed a bilateral trade agreement with the U.S. (July 2000)
President Clinton visited Vietnam (November 2001)		
		The U.S. upper house declared trade negotiation with Vietnam and gave conditional NTR
		Agreement on textile and clothing (July 2003)
	<ul style="list-style-type: none"> <li>• Initiated negotiation over Vietnam's membership into WTO (October 2004)</li> <li>• Completed the negotiation (March 2006)</li> </ul>	WTO accepted Vietnam (November 2006)

U.S. Action	Vietnam Action	Outcome
Congress passed the legislation giving PNTR to Vietnam (December 2006)		Vietnam became a member of the WTO (December 2006)
	Signed the U.S.-Vietnam trade and investment agreement framework (June 2007)	

As shown in the chart above, political normalization of the U.S.-Vietnam relationship corresponds with the normalization of finance and investment interactions between the two countries. The softening of U.S. economic sanctions (step 1), waiver of the Jackson-Vanik Amendment of the U.S. Trade Act (step 2), establishment of a bilateral trade relationship (step 3), establishment of Permanent Normal Trade Relations (PNTR) and membership into the WTO (step 4), and granting of GSP (step 5) led to the complete normalization of U.S.-Vietnam relations. Steps two to five are the necessary process which all post-communist or transitional countries must go through. As observed in the case of Vietnam, the process requires establishing separate negotiations aside from the establishment of formal relations.<sup>21</sup>

### Prospects for Normalization of the U.S.-DPRK Relationship

According to the September 19, 2005 Joint Statement, February 13, 2007 Agreement, and October 4, 2007 Agreement of the Six-Party Talks, the first steps that need to be taken toward normalization of the U.S.-DPRK relationship are removing North Korea from the list of SSTs, terminating application of Trading with the Enemy Act with respect to

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<sup>21</sup>- Kim Seok Jin, "Prospects for Trade Normalization of DPRK Using the Vietnam Case Study," p. 26.

the DPRK, and ultimately achieving a complete normalization once the corresponding denuclearization process has taken place (simultaneously) in North Korea.

The prospects for the U.S.-DPRK normalization may follow a similar scenario as the case of the U.S. and Vietnam, consecutively carrying out denuclearization (step 1), removal from the list of SSTs (step 2), and providing development assistance and normalization of trade and investment (step 3). The U.S. Congress regards such procedures positively. In fact, the Congress suggested a potential of initiating dialogues to establish a U.S.-DPRK trade agreement that incorporates North Korean goods and services as well as investments, using the U.S.-Vietnam bilateral trade agreement of 2001 as a model.<sup>22</sup> Congressman Mark Kirk (Rep. IL) emphasized that the DPRK may improve its economy and the living standards of its people without destabilizing the government authority, if the DPRK embraces the Vietnam case as a model.<sup>23</sup>

To normalize the U.S.-DPRK trade and investment relationship, the following requirements must be fulfilled:

- Reinstate the Non-proliferation Treaty (NPT) for the denuclearization of the Korean peninsula;
- Adhere to the International Atomic Energy Agency (IAEA) safeguard standards;
- Begin DPRK policy reform that corresponds to international norms and practice.

The above requirements must be fulfilled for the DPRK to be freed from economic sanctions imposed under UNSC Resolutions 1540 (enacted

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<sup>22</sup> - Dick K. Nanto, "The North Korean Economy: Overview and Policy Analysis," updated April 18, 2007.

<sup>23</sup> - Interview with RFA, July 28, 2007.

on April 28, 2004) and 1718 (enacted on October 4, 2006).<sup>24</sup> UNSC Resolution 1718 states that its sanctions will remain effective until the DPRK accepts international supervision against the DPRK's possession of nuclear weapons and faithfully completes the denuclearization process.<sup>25</sup> The statement is interpreted as the commitment of the United Nations and its member nations to completely denuclearize the DPRK and cease all its nuclear activities. The following is a predication of the future for North Korea, with the precondition that the above process is carried out.

### ***Development Assistance***

Once the legal sanctions imposed by the Foreign Assistance Act and the DPRK's status as a SST are removed, government- or NGO-sponsored humanitarian as well as development aid to North Korea is expected to increase. Assistances with humanitarian purposes have been comparably free from legal or practical restrictions. To alleviate the chronic food shortage of the DPRK, the U.S. provided about \$0.7 billion between 1996 and 2005, via the World Food Program. Also, the United States agreed to sponsor 500,000 tons of grains to the DPRK as a part of the denuclearization procedure agreed in the six-party talks. Since 2002, over 90 percent of all U.S. food assistance to the DPRK came under the supervision of the USAID, pursuant to chapter 2 of the 1954 Food for Peace Program.

The Bush administration as well as other members of the bureaucracy stated that progress in the denuclearization process will lead to

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<sup>24</sup> UNSC Resolution 1718 prohibits all member nations from exporting conventional weapons, nuclear weapons, ballistic missiles, WMD, and other strategic materials to North Korea, as a part of economic sanctions against the North following its nuclear experiment.

<sup>25</sup> Speech of Patricia McNerney, Senior Advisor to the Under Secretary of State for Arms Control and International Security Affairs, *Daily NK*, July 4, 2008.

development assistance.<sup>26</sup> Therefore, development assistance is expected to intensify especially in the agriculture, health, medical, and energy sectors. However, in the North Korean Human Rights Law (HR4011, PL 108-333) that was passed by the 108<sup>th</sup> Congress in 2004 demands rigorously that the DPRK show substantial progress in issues regarding human rights, such as enhancing the level of transparency, monitoring, and approachability.<sup>27</sup>

The U.S. food assistance to North Korea has various purposes, including humanitarian aid, development, advancement of democracy, and expansion of market for American agricultural exports. The following table compares humanitarian and development purposes of aid programs in the DPRK.

**Table 2. The Purposes of U.S. Humanitarian and Development Assistance**

Institution and Assistance Program		Humanitarian Purpose	Development Purpose
Public Law 480	Title I (USDA)	Terminate hunger, malnutrition, and their causes	A wide range of sustainable development including agricultural development
	Title II (USAID)	Provide emergency aid to pregnant women and children	<ul style="list-style-type: none"> <li>• Develop economic society</li> <li>• Promote transparent environment projects</li> </ul>
	Title III (USAID)	Terminate hunger, malnutrition, and their causes	Use profit from sale of food assistance as a resource for economic development
Food for Progress (USDA)			Expand liberal role of corporations in agricultural development

<sup>26</sup> - President Bush mentioned that he will examine assisting the North with energy and food including agricultural development assistance in a “bold initiative” if the North gives up all its nuclear programs in a verifiable way while terminates the U.S. security concerns regarding North Korean conventional weapons and ballistic missiles issues as well (January 2003).

<sup>27</sup> - Mark E. Manyin, “U.S. Assistance to North Korea: Fact Sheet,” *CRS Report for Congress*, updated January 31, 2006, pp. 4-6.

Institution and Assistance Program	Humanitarian Purpose	Development Purpose
Food for Education & Children Nutrition, Farm Bill of 2002 (Presidential appointment)	Secure food supply and reduce hunger for pregnant women, infants, and children enrolled in schools.	Terminate illiteracy among female children, improve primary education by implementing kindergarten and other schooling programs
Section 416(b) (USDA)	PL 480 II, III, Food for Progress	PL 480 II, III, Food for Progress

Source: USGAO (2002).

Though all these programs aim to enhance both the humanitarian situation and development in the DPRK, the “Food for Progress” has a particular emphasis on the latter.

Table 3. U.S. Food Assistance Programs

Assistance Program		Contents	Institution
Public Law 480	Title I (USDA)	Sales of agricultural products	Government, civilian organizations
	Title II (USAID)	<ul style="list-style-type: none"> <li>• Assistance for countries at an emergency crisis without charge</li> <li>• Recipient countries may resell the supplied materials domestically.</li> </ul>	Government, public organizations, PVOs (public voluntary organizations), unions, international organizations
	Title III (USAID)	<ul style="list-style-type: none"> <li>• Material assistance for the poorest nations without charge</li> <li>• Assistance based on inter-governmental agreements</li> </ul>	Government
Food for Progress (USDA)		Material or loan assistance for democratizing or transitory countries	Government, agricultural trade corporations, international organizations, PVOs, unions
Food for Education & Children Nutrition, Farm Bill of 2002 (Presidential appointment)		Material, financial, and technical assistance for foreign nations	Government, civilian organizations, international organizations
Section 416(b) (USDA)		Providing CCC (surplus articles) without charge pursuant to PL 480 II, PL 480 III, and Food for Progress programs	Government, agricultural trade corporations, public organizations, civilian organizations, international organizations, PVOs, unions

Source: USGAO (2002).

### ***Normalization of Trade***

Once removed from the list of SSTs, the DPRK will be classified as a “group D” nation, which is subject to less severe restrictions in comparison with the export-controlled nations of group E (Cuba, Iran, DPRK, Sudan, Syria). However, EAR restrictions will continue as long as the DPRK remains on the list of D-1, D-2, D-3, or D-4 countries.<sup>28</sup> According to the policy toward North Korea published by the State Department, sanctions imposed due to human rights abuses and nuclear proliferation activities will continue despite the removal from the list of state sponsors of terrorism. Export license fee will also remain in place regarding all materials controlled by the authority of EAR, technology, software, and hardware, with the exception of food and medicine.<sup>29</sup>

Therefore, the DPRK must become a member of multilateral international financial institutions such as WA, MTCR, AF, and NSH in order to finally engage in trade of dual items, and thus be able to freely engage in trade with dual-purposes materials, technology, and high-technology materials. The *de minimis* provisions regard strategic materials and technology development exports will be mitigated from 10 to 25 percent. The measure will allow foreign-produced goods that have “entry ratio” below 25 percent to be re-exported without permission from the U.S. government to the DPRK.

Following the removal, whether the DPRK receives NTR status (MFN and GSP) will become an important policy issue. NTR status and acquisition of NTR necessitate bilateral negotiation with the United States. A U.S. *CRS Report*<sup>30</sup> had suggested a free trade agreement between the U.S. and the

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<sup>28</sup> U.S. Department of Commerce, Q & A on the Rescission of North Korea from the State Sponsor of Terrorism List (Date of Access: July 17, 2008).

<sup>29</sup> U.S. government declared that there are still many legal sanctions imposed on the North besides removal of the North from the list of SSTs and termination of TWEA application to the North, in an interview with *Weekly Standard, Chosun Ilbo* (Seoul), May 30, 2008.

<sup>30</sup> Dick K. Nanto, “The North Korean Economy: Overview and Policy Analysis,” *CRS Report for Congress*, updated April 18, 2007.

DPRK, revealing a potential for constructive dialogues for bilateral trade partnership regarding North Korean service industry, goods, and investment. Once the United States gives NTR status to the DPRK, other countries are likely to follow the action.<sup>31</sup>

However, such a bilateral agreement requires a separate process of negotiation and consequently a longer time frame and cooperation. Such a trade agreement further requires an approval by the U.S. Congress, not to mention a highly complex bureaucratic process and preconditions. The U.S.-Vietnam bilateral trade agreement produced broad trade and investment regulations on import duties and import allocation, transparency, conflict resolution, protection of copyrights, development of service industry, economic revival, and so forth. Generally for a communist, non-market economy, acquisition of NTR status, and trade agreement with the U.S. indicates that the country has a highly advanced level of market and structural reformation. Vietnam is currently assessed as a successful case of incorporation into the international market structure for acquiring PNTR and WTO membership.<sup>32</sup>

### ***Normalization of Financial Transaction***

Once the DPRK is removed from the list of SSTs, the international financial institutions such as IMF and ADB will be able to provide loans and/or other forms of assistance without facing the opposition of the U.S. representatives within those institutions.<sup>33</sup> On the other hand, gaining

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<sup>31</sup>- Lim Eul-Chul, "Goals and Assignment for International Cooperation for North Korean Economic Development," *Recipient Economy of DPRK*, Winter 2007 (Seoul: Import-Export Bank of Korea, 2007), pp. 51-52.

<sup>32</sup>- Vietnam was given the PNTR status in December 2006, which was within 5 year after receiving NTR status from the U.S., via bilateral trade negotiations. Vietnam gained WTO membership around the time as well (gained admission by the WTO in November 2006; membership valid since January 2007). Kim Seok Jin, "Prospects for Trade Normalization of DPRK Using the Vietnam Case Study," p. 47.

<sup>33</sup>- The DPRK applied for ADB membership in 2000 and 2001, and tried to participate as an

membership in these institutions will take into consideration political progress, namely denuclearization, and the degree of North Korea's "opening up" to the international community.

Dialogues for possible DPRK membership into international financial institutions will be initiated only after substantial progress in the denuclearization process and political support is received from the international community, especially from the United States. Through these dialogues, the DPRK will be able to receive financial and technological assistances, ultimately incorporating the DPRK into the international political and market structure. These dialogues will also contribute to resolving issues such as North Korea's foreign debt, exchange rates, currency, enhancement of financial system, and assistance for stabilizing macroeconomy.

At the Bilateral Financial Working Group, which took place for two days in New York on November 19, 2007, the participants discussed basic regulations and actions that need to be understood and agreed upon before incorporating the DPRK into international financial practice. The U.S. representatives declared that the DPRK's issues regarding incorporation into the international community are fundamental problems that require a long-term process for resolution.<sup>34</sup> The DPRK will be smoothly incorporated into the international financial structure if the DPRK abandons illegal activities such as money laundry and forgery, increases transparency especially for financial exchanges and published government survey data, allows supervision of by economic evaluation team, releases a concrete plan in case of economic failure, demonstrates a faithful commitment to reformation, and vows to carry out its responsibilities as a member nation of the international community.

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observer but failed due to U.S. opposition that the North is a state sponsor of terrorism and not eligible as an observer.

<sup>34</sup> - *Yonhap News* (Seoul), November 12, 2007.

## Economic Transition and Effects

In the cases of China and Vietnam, the enhancement of their relationship with the United States played a vital role in the process of transition from communism to market economy.<sup>35</sup> In particular, Vietnam revised its legal system to adhere to international norms and standards regarding economic transition, so that Vietnam may gain WTO membership. The legal revision was a determining factor that accelerated the country's structural transformation to a market economy. Therefore, vitalizing trade, investment, and assistance with the United States preconditions fundamental reform and "opening up" of DPRK. To fully enjoy the assets of removal from the list of state sponsors of terrorism, the DPRK will have to carry out wide-ranging and pragmatic reformation.<sup>36</sup>

Vietnam is a successful example of a transition economy that transformed itself into a market economy through legal reforms in order to fully incorporate market economy with support of the United States. From a long-term perspective, negotiation with the United States is inevitable in order to acquire membership to international financial institutions, make trade deals, and gain access to the World Trade Organization, as seen in the cases of China and Vietnam. Such bilateral negotiations built structural foundations for technical support regarding legal reformation.<sup>37</sup> For a transition economy to transform itself into a market economy, not partial but whole legal reform is essential, encompassing legal system, legislative

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<sup>35</sup> -Improving the relationship with the U.S. led Korean and Taiwanese textile, general merchandise, and shoes production companies that formerly invested in Indonesia to redirect its capital to Vietnam. Because Vietnam received GSP benefits from Europe and the U.S., Vietnam became popular for its low wage and high-quality labor, and ultimately as a detour export location. According to the UNDP report, it gave permission to 6,813 foreign direct investment projects to Vietnam, which is worth 60 billion, between 1991-2006, of which 48 percent were carried out.

<sup>36</sup> -Interviews with Marcus Noland at the Peterson Institute for International Economics, *RFA*, November 14, 2007.

<sup>37</sup> -Jung Soon Won, "Studies on Legal Construction Following the Structural Adjustment of North Korea," PhD dissertation, Korea University, July 2007, pp. 105-107.

procedures, legal education, and database.

The United States is characterized by its cooperation between the government and civilian organizations to promote legal reformation in transition economies.<sup>38</sup> USAID is especially expected to play a major role once the environment is prepared for transforming the DPRK.<sup>39</sup> USAID played one of the leading roles in helping Vietnam transform by cooperating with the UN and international financial institutions. The United States provided technical assistance to Vietnam with the emphasis on overall Vietnamese trading policy, investment policy, and incorporation to the structure of the WTO. The U.S.-Vietnam Trade Council Education Forum was created specifically to facilitate Vietnam's access into the WTO by providing professional and technical support via workshops on international trade, legal conflicts in trade, and judiciary mediation of foreign investment.<sup>40</sup> The United States put particular emphasis on ensuring that Vietnam understands the perspective of U.S. trade policy, legal system, good governance, and so forth. To do so, the United States provided opportunities to Vietnamese bureaucrats to participate in workshops and seminars regarding legal structures of market economy system.<sup>41</sup>

However, the U.S. policy of foreign assistance for the past several years suggests that the direction of the DPRK's structural transition may differ from that of Vietnam. The United States is putting a particular emphasis on the importance of the recipient country's regime and public governance. The U.S. government is currently running the Millennium Challenge

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<sup>38</sup>-Refer to "Assistance for Legal Reform in Transitory Countries," by Kwon Oh Seung *et. al.*, for the various U.S. assistance for legal reformation in transitory countries.

<sup>39</sup>-USAID is making long-term contributions to transitory countries that are undertaking legal reformations through its Office of Transition Initiatives (OTI), managed under the Humanitarian Bureau since 1994.

<sup>40</sup>-U.S. Trade Council, WTO Accession Technical Assistance Program, 2005.

<sup>41</sup>-Jung Soon Won, "North Korean Economic Structural Transition and Methods for Legal Reformation," The 124<sup>th</sup> North Korean Legal Studies Monthly Presentation, January 31, 2008, p. 6.

Account (MCA) that states that progress in market economy, maturity of democracy, respect for human rights, and participation by civil society are the preconditions for U.S. foreign assistance to target countries.<sup>42</sup> Such change of U.S. policy reflects that the international community now requires inclusive legal reform based on the construction of good governance, rather than implementation of a few legislations.

As shown in the table below, the MCA selects countries eligible for funding based on 16 indicators of three sections, in which corruption control, legal governance, and effective government bureaucracy are the most important factors. The MCA has received positive feedbacks domestically and internationally. The 16 indicators are assessed dominantly as an effective tool to select countries that are able to carry out effective and transparent long-term assistance.<sup>43</sup> These standards are the assignments

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<sup>42</sup>- MCA was concretized by President Bush's speech in 2002 at the Inter-American Development Bank, Monterey, Mexico, in which the President declared the change in U.S. foreign assistance policy. Five billion USD will be invested every year to form transparent policy directions in poor countries and to invest in their economic development. The three main assistance principles are governing justly, investing in people, and encouraging economic freedom. Establishment and management of MCA symbolically show the U.S. deviation from its policy formed in the 1960s. Steve Radelet, "Will the Millennium Challenge Account Be Different?" *The Washington Quarterly*, Vol. 26, No. 2 (2003), p. 171; For effective management, bureaucratic and civilian experts compose Millennium Challenge Corporation (MCC), while committee members of the State Department, Department of Commerce, and Office of the U.S. Trade Representatives will be in charge of making key decisions. The committee chair is the Secretary of the State, and MCC chief director will be appointed directly by the President and will be held for hearings by the Senate. Countries eligible for MCA assistance are poor countries below the GNI standard of \$1,575. Countries between \$1,575 and \$3,255 are classified as middle-low income countries. In case of the F/Y 2006, the U.S. Congress sized \$21 billion for foreign assistance, of which \$1.8 billion is distributed as MCA budget (while the Bush administration asked for \$3 billion). In November 2005, the MCA board of directors selected Armenia, Mongol, Ghana, and 23 other countries as eligible for the MCA assistance, and then finally qualified 13 more countries as well. The 23 countries include Armenia, Benin, Bolivia, Burkina Faso, Cape Verde, East Timor, El Salvador, The Gambia, Georgia, Ghana, Honduras, Lesotho, Madagascar, Mali, Mongolia, Morocco, Mozambique, Namibia, Nicaragua, Senegal, Sri Lanka, Tanzania, Vanuata, etc.

<sup>43</sup>- The World Policy Council assessed the MCA as the most effective institution for development assistance and recommended to the Bush administration expand the budget. See <http://www.mcc.gov/about/index.php>. Accessed on July 15, 2008.

that the DPRK must fulfill in a long-term process in order to fully normalize with the United States and, if possible, acquire short-term MCA assistance.

**Table 4. MCA's 16 Indicators and Evaluator Institutions<sup>44</sup>**

MCA Qualification Standards	
Indicators	Institution
<b><i>I. Governing Justly</i></b>	
Civil Liberties	Freedom House
Political Rights	Freedom House
Voice and Accountability	World Bank Institute
Government Effectiveness	World Bank Institute
Rule of Law	World Bank Institute
Control of Corruption	World Bank Institute
<b><i>II. Investing in People</i></b>	
Public Primary Education Spending as Percent of GDP	World Bank Institute/National Sources
Primary Education Completion Rate	World Bank Institute/National Sources
Public Expenditures on Health as Percent of GDP	World Bank Institute/National Sources
Immunization Rates: DPT and Measles	World Bank Institute/UN/National Sources
<b><i>III. Promoting Economic Freedom</i></b>	
Country Credit Rating	Institutional Investor Magazine
Inflation	IMF
3-Year Budget Deficit	IMF/National Sources
Trade Policy	Heritage Foundation
Regulatory Quality	World Bank Institute
Days to Start a Business	World Bank

Sources: <http://www.whitehouse.gov/infocus/developingnations/millennium.html> (Date of Access: July 16, 2008); <http://www.cgdev.org> (Date of Access: December 16, 2007).

<sup>44</sup>-Shin Jong Dae and Choi Chang Yong, "Current Status and Future Assignments for U.S.-DPRK Scientific Exchanges," *North Korean Studies Review* (University of North Korean Studies, in Korean), Vol. 9, No. 3 (2006), p. 91.

## **Conclusion**

Currently, the hostile relationship between the United States and the DPRK and the designation of SST status on the latter is the most severe factor that restricts North Korea's entry into the international community. Considering the situation, this paper thus far examined obstacles in the DPRK's legal structure as well as conditions and prospects for the DPRK's successful transition to a prosperous market economy in the future.

According to the September 19, 2005 Joint Statement, the February 13, 2007 Agreement, and the October 4, 2007 Agreement (all of which were produced at the six-party talks), the first step that needs to be taken for the normalization of U.S.-DPRK relations is completion of the denuclearization process and subsequent removal of the DPRK from the list of state sponsors of terrorism, and a halt to the application of the Trading with the Enemy Act with respect to the DPRK.

The normalization of U.S.-Vietnam relations offers a pattern in which the United States and the DPRK may follow, such as progress in denuclearization (step 1), removal from the list of state sponsors of terrorism (step 2), and finally development assistance and normalization of trade and investment (step 3). Vietnam carried out various legal reformation regarding economic structure that adheres to international standards and norms so that it might acquire acceptance into international financial institutions, a bilateral trade partnership with the United States, and access into the WTO. Likewise, the legal reformation accelerated Vietnam's transition into a market economy. The case of Vietnam's transition demonstrates (to North Korea) that vitalizing trade, investment, and assistance from the United States necessitates fundamental reformation and opening up. A wide-ranging as well as pragmatic reform is inevitable for the DPRK to fully enjoy the assets that will follow its removal from the list of state sponsors of terrorism.

Once a substantial improvement takes place in the environments for assistance, trade, and investment in the DPRK, the country will inevitably be put under enormous internal and external pressure to transform into a market economy, which will maximize the effect of all the external assistance and other inputs. A majority of assistance to transitory countries focuses on creating suitable environment for market economy. Democratization, stability of macroeconomy, structural adjustment, privatization, and legal reformation will follow such assistances.<sup>45</sup> Therefore, normalization of relations with the United States may bring opportunities or threats to the DPRK in the context of maintaining its government's legitimacy.

From the internal perspective of the DPRK, the U.S. preconditions such as social, political, and economic reforms will be perceived as unfavorable political interventions. Especially since the U.S. policy of foreign assistance embedded in the MCA system necessitates DPRK's structural reformation, it is highly unlikely that the DPRK would embrace MCA requirements. Though the possibility that the DPRK would satisfy the short-term MCA assistance requirements is quite minimal, any progress made concerning the MCA will be worth observing because the MCA clearly states the assignments the DPRK must fulfill in order to normalize with the United States.

In terms of legal aspects, the DPRK's relationship with the United States is expected to make procedural progress. Therefore, a rapid, pragmatic economic change is unlikely to occur in the near future. The DPRK's normalization with the United States signifies that the United States recognizes the DPRK as a legitimate member of the international community. Thus, normalization with the United States will create a favorable environment for foreign investment to North Korea. Though the softening economic restrictions on the DPRK is unlikely to bring dramatic

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<sup>45</sup> Stanley Fischer and Alan Gelb, "Issues in Socialist Economy Reform," *Journal of Economic Perspectives*, Vol. 5 (Fall 1991), pp. 91-105.

changes in the short term, the international community will perceive the DPRK as a legitimate trade and investment partner in the long term if normalization with the United States can be achieved.

The United States is a leader of international financial institutions as well as the overall international economic structure. The success and failure of North Korea's reform depends on its relationship with the United States because the reform relies on external assistance of capital and technology. Access to the international community and normalization of trade as well as investment will have a positive and pragmatic impact on the DPRK's economic revival only if the country achieves internal reformation along with an "opening up" to the outside world.

Normalizing relations with the United States signals the fundamental transition of the DPRK's economic structure. Therefore, the process of normalization with the United States must accompany internal reformation of the DPRK. Assistance by the MCA, including loans or development funds from international financial institutions, is provided only when the target country confirms its commitment to development and progress. Therefore, North Korea must recognize the need for technical assistance and voluntarily advertise its demand for reformation to the international community.

Simultaneously, North Korea must actually pursue structural adjustment that adheres to international standards and norms. The DPRK will be able to create a favorable environment for reformation through incorporation into the international system by restoring support and trust from the international community, and by simultaneously carrying out economic reformation and political normalization with the United States and the world.

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## *New Geo-economic Thinking on North Korea in Japan*

*Masahiro Matsumura*

### **Abstract**

Japan's North Korea policy is currently based on solid strategic calculation, and Tokyo will most likely adhere to the six-party talks process for the resolution of the nuclear, ballistic missile, and abduction issues. However, adherence to this policy is neither static nor permanent. Tokyo will be forced to reformulate a new approach if the talks process makes significant progress, or if the Pyongyang regime collapses abruptly, replaced by a new one satiated with the status quo that involves lowering the tensions centered on North Korea. This paper analyzes major factors pushing the Japanese government to their adoption of a geo-economic approach to North Korea, something which represents a major shift from the current thinking and policy approach. The Japanese public has recently been exposed to an alternative perspective, critical of U.S. North Korea policy, particularly in regard to the recent u-turn in policy toward appeasement and the growing skepticism of the U.S. allegation regarding Pyongyang's counterfeiting activities. The Japanese public has also become gradually aware of growing U.S.-European competition in direct investment in North Korean underground resources and of the latent Japanese edge in that competition. This paper discusses the prospects for a geo-economic regional power game and an evolving Japanese geo-economic policy approach.

**Key Words:** Japan's North Korea policy, geo-economics, counterfeit activities, underground resources, U.S.-European competition in direct investment

In the face of Pyongyang's military-diplomatic brinkmanship, Japan remains highly vulnerable to North Korean nuclear ballistic missiles due to her geographical proximity to the rogue state. However, Tokyo has pursued the concurrent resolution of the issues of Pyongyang's nuclear weaponization, ballistic missile development, and the abduction of Japanese nationals, at least in terms of an eventual policy goal. As a result, Tokyo has occasionally stood alone in the six-party talks processes, given that the other participating states have placed a top priority on the nuclear issue. Tokyo sees both the nuclear and abduction issues as firmly embedded in the tyrannical nature of Pyongyang's dictatorship: the regime is struggling to survive international isolation caused by its grave human rights violations by relying on the power of nuclear weapons. From this perspective, it may be possible to separate the two issues in analysis, but not in any meaningful manner as a policy matter.

Driven by growing concerns with the above three issues, Japan's North Korea policy has been framed in the evolving regional strategic context in which Japan's national security is being redefined in large part by the changing power balance between a rising China and the United States, deeply troubled as it is with the global war on terrorism, now centered on the Middle East. The six-party talks are a major institutional instrument of the great power game between the United States, China, Japan, and Russia, with the significant participation of South Korea as a middle power, through which to articulate their geopolitical interests in maintaining the stability of regional security order. Japan will most likely adhere to such an approach as long as geopolitics dictates Tokyo's calculations.

However, there is now an emerging Japanese stream of geo-economic thinking that emphasizes the centrality of dynamic competition over rare metals and other mineral resources in North Korea, a significant long-term factor shaping the region's international distribution of power and, consequently, the regional security order. Geopolitical interaction occurs in

a given international distribution of power. In contrast, geo-economic interaction transforms such a distribution over time, which alters the patterns of strategic interaction in favor of a nation that succeeds in aggrandizing its power. In this case, a geo-economic power game will be characterized by a power struggle among nations pursuing wealth.

In the framework of the six-party talks, Pyongyang has already been compelled to accept, at least in principle, the total abandonment of nuclear power, marked by the initial disablement of three nuclear facilities at Yongbyon and the eventual dismantlement of all the nuclear programs. While Pyongyang has sought regime survival through the negotiation tactics of procrastination on the strength of the existing embryonic nuclear power, Pyongyang's free hand in the negotiations has been considerably narrowed and constrained. As a result, Korean unification is now dimly on the horizon, even though the world may have to coexist with Pyongyang's rudimentary nuclear arsenals for an extended period of time. Certainly, the Japanese government, pressured by the public opinion, has recently supported a hard-line approach to the abduction issue, a surge in the support due in large part to highly effective campaigns by the abductees' rapidly aging parents and relatives that will not be sustainable in the long run. However, this support will surely wane over time, and the six-party talks will most likely make limited but significant progresses of the nuclear issue. Then, at a point of time in the future, Japan's North Korea policy will inescapably shift from the current geopolitical approach to a geo-economic one. Should the Pyongyang's regime collapse abruptly, replaced by a new one satiated with the status quo, such a shift would come unexpectedly earlier.

This paper will discuss some important factors directing the mainstream Japanese strategic thinking toward geo-economics centered on U.S.-European competition in finance and direct investment over underground resources in North Korea. First, the paper will analyze the growing

Japanese discontent about the recent U.S. North Korea policy of ignoring the abduction issue; the public is now aware that Tokyo may need to take a more independent line in policy matters. Second, the study will examine emerging Japanese incredulity of the U.S. allegation that Pyongyang has printed and circulated extremely sophisticated yet counterfeit US\$100 bank note, known as “supernotes,” on a massive scale. This involves a sense of caution that Tokyo’s hard-line policy toward Pyongyang might have been manipulated by U.S. disinformation. Third, the analysis will look into some significant cases of European direct investment in North Korea’s rare metal and other mineral resources and the related infrastructure building, which may be in conflict with U.S. commercial interests under the government’s longtime economic sanctions against the rogue state. The paper will discuss the prospects for the gradual evolution of a Japanese “geo-economics first” approach to North Korea. For this purpose, the analysis will be based primarily on Japanese sources, complemented by non-Japanese materials cited or referred in those Japanese sources.

The current work will follow an investigative approach to U.S. assertions on the intentions and key facts as related to its North Korea policy, as found in the official proclamations and other publicized statements. Thus, the study will rather constitute a novel inductive feedback to the existing mainstream literature that is prone to accepting the assertions as assumptions or presumptions for policy analysis on North Korea’s brinkmanship and the related regional international relations. Novel and/or alternative factual findings, as fully explored in the following analysis, will necessitate a completely different analytical perspective and then make it feasible to reformulate a distinct research question.

## Japanese Disillusionment with the Bush Administration

On June 26, 2008, President Bush, in his attempt to accelerate the six-party talks process, proclaimed the removal of North Korea from the U.S. list of state sponsors of terrorism, entailing the lifting of U.S. economic sanctions imposed on North Korea as key policy aims.<sup>1</sup> This sharp, if not abrupt, turn in U.S. North Korea policy has appalled the Japanese public and Japanese leaders deeply concerned over the fate of Japanese abductees long held in North Korea. The change was in fact expected because the Bush administration's negotiation tactics after February 2007, marked by the U.S.-DPRK bilateral talks held in Berlin, increasingly tilted toward appeasement vis-à-vis Pyongyang. Surprisingly, however, the Bush administration made a sudden turn in policy without ensuring Pyongyang's unequivocal commitment to the complete, verifiable, and irreversible dismantlement (CVID) of all the nuclear programs, a series of concessions that were premature, unilateral, and excessive in favor of Pyongyang.

Consequently, Japan's hard-line policy, in tandem with the uncompromising Bush administration's approach theretofore, became isolated in the six-party talks process. Japan's approach found itself besieged by the about-face made by the United States and the other participating states in their now conciliatory approach to Pyongyang. In reaction to Pyongyang's ballistic missile test in July 2006 and its subsequent nuclear test in October 2006, the Abe administration (September 2006-September 2007) led the UN Security Council to pass a resolution imposing economic sanctions on North Korea in October 2006 (UNSC Resolution 1718). The resolution was a fruit of close Japanese-U.S. diplomatic coordination, centered on the

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<sup>1</sup>- According to the U.S. Trading with Enemy Act, the removal of sanctions was scheduled to be effectual on August 11, 2008, 45 days after the president's notification to the Congress. On October 11, 2008, the Bush administration effectuated the removal without reaching an unequivocal agreement with Pyongyang that obligates it to implement necessary measures for nuclear disablement.

Security Council. Prime Minister Abe also placed additional unilateral sanctions, featured by the freezing of North Korean financial assets in Japan, the banning of financial transactions between Japanese financial institutions and North Korean entities, and the prohibition of North Korean vessels entering Japanese ports. Abe's approach, followed by the Fukuda administration (September 2007-September 2008), is in sharp contrast to Prime Minister Koizumi's approach (April 2001-September 2006), which was very much independent of the then hard-line Bush's North Korea policy. In September 2002, Koizumi and Kim Jong-il signed the Pyongyang Declaration in which Tokyo agreed in principle to normalize the diplomatic relationship with Pyongyang and to extend huge economic assistance to North Korea, when and only when a series of conditions are met.

Once U.S. sanctions against North Korea are lifted, existing Japan's unilateral sanction measures will inevitably become far less effective. On the contrary, Tokyo will be urged to lift these measures and may even be pressed to offer economic assistance to North Korea, including heavy oil, in exchange for Pyongyang's implementation of limited disablement of the nuclear facilities or merely its firm commitment to such implementation. Under estranged Japanese-U.S. relations, the new South Korean administration under Lee Myung-bak may be forced as well to restart a policy of appeasement in the form of huge financial assistance to Pyongyang. Lee has so far suspended various economic aid commitments to North Korea, amounting to US\$2 billion, that the former radical-left Kim Dae-jung and Roh Moo-hyun administrations extended over several years. By lifting U.S. sanctions, therefore, the Bush administration would be able to have Japan and South Korea shouldering a significant part of the burden of economic aid to North Korea.

Looking closely, however, it was the Fukuda administration that first announced that it would undertake a symbolic partial waiver of the unilateral sanctions against North Korea prior to Bush's proclamation on

June 26, 2008. On June 13, 2008, Foreign Minister Koumura announced that the waiver was intended to reciprocate the North Korean delegation's expression of intent to resume another "investigation" into Japanese abductees held within the rogue state, at the Japanese-DPRK bilateral talks in Beijing.<sup>2</sup> Such reciprocation was premature, unilateral, and excessive because Pyongyang had simply made a verbal commitment.

Aoyama Shigeharu provides us with intriguing facts that are crucial to analyze the above Fukuda administration's inscrutable turn in North Korea policy.<sup>3</sup> A seasoned journalist and the founder and CEO of a think-tank, Aoyama has established a reputation for his in-depth analysis based on unidentified insider information from the Japanese government. Referring to the leaked information from the Office of the Prime Minister, he relates the Washington-Tokyo policy interaction having led to this inscrutable turn.

The first fact of note is that President Bush continually urged the Prime Minister to first lift part of Japan's unilateral sanction against North Korea,<sup>4</sup> so that the President could justify, vis-à-vis the Congress and the American public, the dramatic removal of the rogue state from the U.S. list of state sponsors of terrorism and the subsequent lifting of economic sanctions to the state. This means that the President had to avoid damaging the stability of the U.S.-Japan alliance by ignoring the abduction issue. This could only be done by pretending to follow the initiative taken by the Japanese government which had the toughest policy stance against Pyongyang due to the abduction issue. Given the remaining term of his office and the ongoing presidential election cycle, President Bush had to take action by the

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<sup>2</sup> - AFP-BB News, June 13, 2008, <http://www.afpbb.com/article/politics/2404909/3030238>.

<sup>3</sup> - Aoyama Shigeharu, Anchor, the Kansai Television (KTV), Osaka, Japan, July 2, 2008. The transcription is available from <http://kukkuri.blog58.fc2.com/blog-entry-369.html>. A similar view is expressed by a leading Japanese North Korea hand, Shigemura Toshimitsu, *Kim Seinichi no Shoutai* [Kim Jong-il's real colors], (Tokyo: Koudansha, 2008), p. 14.

<sup>4</sup> - *Ibid.*

end of June so that he can make a breakthrough before a new president-elect was decided upon. By so doing, the President can leave his legacy to U.S. foreign and security policy by removing North Korea from the list of state sponsors of terrorism and in doing so, reducing their number. Otherwise, his administration would have been characterized by imprudent military adventurism and total disaster as demonstrated by the current quagmires in Iraq and Afghanistan.

The second fact is that Prime Minister Fukuda had already made the decision to lift a part of the economic sanctions before the Japanese-DPRK bilateral talks were held in Beijing on June 13: the decision was not at all a part of Tokyo's reaction to Pyongyang's proposal to carry out another "investigation" into Japanese abductees. Rather, it was Japan that had approached North Korea through the back channels of bilateral negotiation, so that Pyongyang appeared to have made the proposal to Tokyo, not vice versa.<sup>5</sup>

The third fact is that the Fukuda administration had a hidden schedule to lift unilateral sanctions on June 20, a week after the initial announcement. The administration planned to permit chartered North Korean vessels to enter Japanese ports, involving some limited bi-directional traffic of Japanese and North Korean nationals.<sup>6</sup> The Japanese public saw this as contradictory to the then-established hard-line policy against Pyongyang, and the public's outcry against the lifting ensued instantaneously. As a result, the administration failed to implement the waiver in the end.

The above analysis begs the question as to why President Bush has converted from a hard-liner to an appeaser in North Korea policy, just at the point where an impoverished Pyongyang would be compelled to fully dismantle its nuclear capability, sooner rather than later, as long as the

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<sup>5</sup> - *Ibid.*

<sup>6</sup> - *Ibid.*

hard-line approach involving no economic aids continued. Certainly, Pyongyang may resort to another round of extreme behavior and brinksmanship, but it is cornered. Neither Pyongyang, Washington nor Tokyo, is forced to compromise in the six-party talks. A mainstream view is that President Bush has done this in order to leave a legacy to U.S. history. However, the disillusioned Japanese public is now increasingly aware of the need to develop an independent strategic approach, based on hardheaded analysis and calculation, while acknowledging the significant net utility of the U.S.-Japan alliance for macro-national security. In this context, it is noteworthy to see an emerging Japanese perspective that the mainstream view does not fully account for Bush's underlying motive, instead attaching great importance to a power game over material interests focused on North Korea.

### **Incredulous U.S. Allegations: The North Korean “Supernote”**

With a growing sense of realism among the public, some Japanese analysts have warned of the danger of simplemindedly following the American lead concerning specific policy measures against Pyongyang. This warning is particularly relevant when the Japanese government and the public do not have independent sources to either deny or confirm the authenticity of U.S. policy intelligence and are thus susceptible to biased U.S. intelligence at least or manipulation at worst in making crucial policy decisions.

A former Japanese career diplomat, Harada Takeo, affirms that the U.S. law enforcement policy against the Macau-based commercial bank, *Banco Delta Asia* (BDA), is a point in case.<sup>7</sup> The Bush administration, as its

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7-Harada Takeo, *Kitachousen vs. Amerika – Nise-beidoru Jiken to Taikoku no Pawaa: EGaimu* [North Korea vs. The United States – Counterfeit U.S. Bank Notes and a Great Power Game], (Tokyo: Chikuma Shobo, 2008).

North Korea policy shifted from a hard line to one of appeasement, first employed the enforcement fully as a major stick against Pyongyang and then withdrew the stick without adequate explanation. Tokyo was buffeted and possibly manipulated by the Bush administration, using the BDA case to attest to Pyongyang's roguishness, a major factor that induced Tokyo to impose the toughest economic sanctions against North Korea.

Taken in accordance with the Patriot Act, the U.S. measures against the BDA effectively suspended financial transactions between all the U.S. financial institutions and North Korean entities *via* the bank in Macau that the Bush administration alleged was engaged in money-laundering, thereby cutting off Pyongyang from the international networks of financial transaction. The Bush administration was initially tenacious in imposing these measures on Pyongyang, claiming that they were a form of law enforcement authorized under the law of the land, not a form of economic sanction according to international law. Thereafter, however, the administration unhesitatingly terminated the measures as the allegations of Pyongyang's money-laundering became unsustainable due to solid circumstantial counter-evidence. For instance, a report of the Swiss federal counterfeit police, released in May 2007,<sup>8</sup> presented the following analysis:

According to the U.S. Secret Service, \$50 million worth of 'super-fakes' were confiscated worldwide over the past 16 years, only a small portion of them within the United States. Measures against the U.S. annual counterfeit damage of \$200 million, the damage from \$50 million worth of 'super-fakes' is not that significant. The Federal Reserve Bank produces genuine \$100 dollar bills mainly for the foreign market. On their return to the U.S., the issuing bank after examination can easily distinguish the 'supernotes' from originals using banknote testing equipment, due to altered infrared characteristics. For this reason, the United States over the years has hardly suffered economic damage due to the 'super dollar.'

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<sup>8</sup> - Bundeskriminalpolizei Kommissariat Falschgeld, *Falschgeldmeldungen Schweizer Franken Ausländisch Währungen Allegemines 2004/2005*, May 2007.

A (banknote) printing press like one in North Korea can produce \$50 million worth of bills in a few hours. Using its printing presses dating back to the 1970's, North Korea is today printing its own currency in such poor quality that one automatically wonders whether this country would even be in a position to manufacture the high-quality 'supernotes.' The enormous effort put into the making of the 19 different 'super-fakes' that we know of is unusual. Only a (criminal) government organization can afford such an effort. What defies logic is the limited or even controlled amounts of 'exclusive' fakes that have appeared over the years. The organization could easily circulate tenfold that amount without raising suspicions.<sup>9</sup>

Based on the above report and Klaus W. Bender's article published in *Frankfurter Allgemeine Sonntagszeitung* on January 9, 2007,<sup>10</sup> Harada points out that "supernotes" can only be printed by the Intaglio-Stichtiefdruck process, a technology that only the Lausanne-based Swiss company, KBA-GIORI possesses, and also needs to be printed with the ink that the U.S. Bureau of Engraving and Printing blends in an unknown method with the ink exclusively produced by the Lausanne-based company, SICPA.<sup>11</sup> Thus the printing machinery, paper, and ink used to print U.S. currency are highly regulated, made through exclusive contracts with these Swiss companies, and are not available on the open markets. This reflects the fact that the Swiss high-tech security printing industry predominates the international markets in this field.

On the other hand, as Bender writes, there is a consensus among representatives of the security printing industry and counterfeit investigators that North Korea's capacity for printing banknotes is extremely limited.<sup>12</sup> The consensus is consistent with the finding of the Swiss federal

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<sup>9</sup> - Kevin G. Hall, "Swiss authorities question U.S. counterfeit charges against North Korea," *Knight Ridder Tribune News Service*, May 22, 2007.

<sup>10</sup> - Klaus W. Bender, "Das Geheimnis der gefälschten Dollarmoten," *Frankfurter Allgemeine Sonntagszeitung*, January 9, 2007. An English translation is available at <http://watchingamerica.com/frankfurterallgemeine000009.shtml>.

<sup>11</sup> - Harada, *Kitachousen vs. Amerika*, *op.cit.*, p. 37 and pp. 80-84.

<sup>12</sup> - Bender, *op.cit.*

counterfeit police that “supernotes” are most likely printed and circulated somewhere other than the Far East. This is a fairly certain finding because the police has confiscated five percent of “supernotes” ever seized across the world.<sup>13</sup> Harada wonders why “supernotes” are limited in circulation, should Pyongyang possess this high-tech counterfeit capability. He even sees the possibility that Pyongyang may have relegated Beijing to print North Korean notes.<sup>14</sup>

As unsubstantiated as the U.S. allegations against Pyongyang are, Harada alleges that the CIA, not North Korea, is counterfeiting U.S. bills. Kevin Hall reported that the Secret Service, the Federal Reserve Board, and the Treasury Department all declined his repeated requests for interviews about the allegation.<sup>15</sup>

In his essay published in one of the popular Japanese weekly journals, Harada even asserts that the CIA has spent “supernotes” as a major source of slush funds for its covert operations to support African countries under pro-U.S. dictatorships in competition with major West European powers and China, a main stream view that he claims is held in European financial circles. He then conjectures that these African states may have spent “supernotes” to purchase arms made in North Korea, the reason why Pyongyang possesses the counterfeit bills in its foreign currency reserves.<sup>16</sup>

To sum up, the Japanese public is now becoming exposed to alternative policy intelligence that is not based on U.S. data-collection and analyses, possibly distorted with biases and/or manipulations. In the context of this paper, it is not crucial to either deny or confirm the allegations if the United States, not North Korea, is counterfeiting U.S. bills. In fact,

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<sup>13</sup>- Harada, *op.cit.*, pp. 34-35.

<sup>14</sup>- *Ibid.*, p. 82.

<sup>15</sup>- Kevin G. Hall, “U.S. counterfeiting charges against North Korea based on shaky evidence,” *McClatchy—Tribune News Service*, January 9, 2008.

<sup>16</sup>- Harada Takeo, “Kitachousensei ‘Nisedorusatsu’ wa CIA ga Tsuku’teita! [The CIA has counterfeited U.S. bills],” *Shuukan Gendai*, February 9, 2008.

neither the allegations against Washington nor those against Pyongyang have been substantiated, and will remain so for the foreseeable future. However, it is quite significant to see that the Japanese public will soon be developing an independent strategic mind-set and then demand that the government conduct a proactive foreign policy in pursuit of Japanese material national interests. In particular, it is noteworthy to realize that the “supernote” issue has had the Japanese public to become increasingly aware of the U.S.-Europe power game over North Korea.

### Direct Investment in North Korea

Before the sanctions were imposed, Chinese and South Koreans used to be prime traders and direct-investors vis-à-vis North Korea,<sup>17</sup> followed by Japanese traders exporting industrial goods essential for the North Korean economy and importing some perishable goods. The state of affairs has changed due to UN and other additional unilateral sanctions against the rogue state in reaction to the ballistic missile and nuclear tests in 2006. Chinese and South Koreans have reinforced their economic positions vis-à-vis North Korea, taking advantage of their governments’ reluctance to execute the stringent sanction measures. This is in marked contrast to the Japanese government that has interrupted all the economic and financial transactions with North Korea,<sup>18</sup> including the regular services of the North Korean cargo-passenger vessel, *Mangyobon*. In fact, the government has diminished Japanese economic leverage vis-à-vis the regime in Pyongyang.

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<sup>17</sup> - *Trade Statistics Yearbook of Democratic People’s Republic of Korea* (Tokyo: World Trade Service, various years).

<sup>18</sup> - Japanese Ministry of Economy, Trade, and Industry, Trade and Economic Cooperation Bureau, “Tai-kitachosuen no Yunyuu-kinshi-sochi-keizoku nitsuite [On the continuation of economic sanctions against North Korea],” mimeo, May 24, 2007, <http://www.meti.go.jp/policy/anpo/kanri/catch-all/shingikai/dai9wg/siryou2.pdf#search=%27%E5%8C%97%E6%9C%9D%E9%AE%AE%20%E8%B2%BF%E6%98%93%E7%B5%B1%E8%A8%88%27>.

West Europeans, not to mention Americans whose government has imposed stringent economic sanctions on North Korea, do not have significant economic relations with North Korea. However, the lack of their visible engagement does not necessarily mean their indifference to the evolving business opportunities in North Korea. To the contrary, as analyzed below, West Europeans have increasingly become eager to build their solid economic presence in the country, particularly in the rare metal and other mineral sectors, in competition with Chinese and South Koreans who had concluded a series of large concessions or signed joint venture project agreements with the regime in Pyongyang,<sup>19</sup> the full development and exploitation of which may lead to the de facto Chinese colonization of North Korea.<sup>20</sup> However, these Chinese plans and activities have so far seriously faltered due to funding and political problems, particularly differing expectations between Beijing and Pyongyang.<sup>21</sup> As a result, while the Chinese presence tends to be overrated, European involvement has been totally underestimated.

As early as in May 2001, the European Union sent a high-ranking delegation to Pyongyang, comprised of the Swedish Prime Minister Göran Persson, Commissioner for External Affairs Chris Patten, and High Representative Javier Solana in charge of the EU's common foreign and security policy. During the visit, these European leaders and Kim Jong-il agreed to launch the process of EU-DPRK economic cooperation, particularly Pyongyang's economic reform through European economic engagement that would most likely include direct investment. In return, as a part of the process, Pyongyang in March 2002 sent a mission of senior economic officials to Brussels, led by Foreign Trade Minister Ri Gwang-gun,

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<sup>19</sup>- ARC Report, *Democratic People's Republic of Korea* (Tokyo: World Economic Information Service, 2007), pp. 54-55.

<sup>20</sup>- Matsumura Masahiro, "Chugoku niyoru Kitachosen no 'Shokuminchika' [China's colonization of North Korea]," *Jiji Top Confidential*, September 5, 2006.

<sup>21</sup>- ARC Report, *op.cit.*, p. 56.

and the mission met EU Commission officials, representatives of the European Parliament, the European Investment Bank, and the World Bank.<sup>22</sup> Commissioner Patten said:

At the Stockholm European Council last spring, we agreed to enhance the role of the EU in supporting peace, security, and freedom in North Korea. I welcome this week's opportunity for dialogue between Brussels and Pyongyang. The EU is already one of the largest donors of humanitarian aid to DPRK, we have begun exploratory talks on human rights, and now I hope we can help North Korea build for a more prosperous future.<sup>23</sup>

It is obvious that Brussels has gradually developed solid ties with Pyongyang, demonstrated by another high-ranking delegation sent to Pyongyang that included High Representative Solana and German Foreign Minister Frank-Walter Steinmyer at a time in which the country served as chair of the European Council. They met Kim Jong-il at the very moment when U.S.-DPRK bilateral talks were being held in New York and Japanese-DPRK talks were being held in Hanoi.<sup>24</sup>

In October 2007, the then-South Korean President Roh Moo-hyun and North Korean leader Kim Jong-il held a summit meeting in Pyongyang and signed a declaration stressing the need to conclude a peace treaty involving the legal termination of the Korean War. They also reached an accord over further economic cooperation, including the issues of a new special economic zone on the North's west coast, infrastructure improvements, and natural resource development.<sup>25</sup>

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22- "EU/North Korean Relations: Trade Minister Leads Visit to Brussels," The European Union Press Release, IP-02-352, March 4, 2002, <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/02/352&format=HTML&aged=0&language=EN&guiLanguage=en>.

23- *Ibid.*

24- "EU no Daihyodan, Kitachousen wo Houmon [The EU delegation visited Pyongyang]," The EU Press Release (the Japanese language edition), [http://www.deljpn.ec.europa.eu/home/news\\_jp\\_newsobj2117.php](http://www.deljpn.ec.europa.eu/home/news_jp_newsobj2117.php).

25- Declaration on the Advancement of South-North Korean Relations, Peace, and Prosperity, available at <http://www.pcusa.org/worldwide/pdf/nkorea.pdf>.

Just after the summit, Guenter Verheugen, European Union's Industry and Enterprise Commissioner, demonstrated strong and growing European interest in direct investment in North Korea.<sup>26</sup> He was convinced that the North would be able to turn its economic potential to significant growth and development, if political conditions were met: "The regulatory environment is completely unpredictable and it's no certainty that rules are applied in a nondiscriminatory way."<sup>27</sup>

The so-called London-Pyongyang connection exemplifies such European efforts to grasp business opportunities in North Korea. The connection extends into longtime German business contacts with North Korea, dating back to the era of the former East German state. It is often forgotten that today's Germany has inherited the annexed East's legacy that involved diplomatic, economic, and inter-personal relations with North Korea; for example, a Goethe Institute, the German government's cultural exchange organ, is located in Pyongyang and serves as an uncommon window, open for broad information based on a Western and, particularly, European perspective. Grounded in the personal statement of Stanley Au, chairman of the Delta Asia Financial Group, in reaction to the U.S. law enforcement against its affiliate Banco Delta Asia located in Macau, Harada argues that, in the late 1990s, the bank undertook to deal with North Korean gold sales on the international markets in London through the intermediary of a major U.K. commercial bank, Midland Bank. Midland has been successful particularly since 1980 when it acquired a German private banking firm, Trinkaus & Burkhart KGaA. Midland itself was later acquired by the Hong Kong Shanghai Bank (HSKB), part of the prominent international financial holdings of Rothschild.<sup>28</sup>

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<sup>26</sup> - "EU industry commissioner says that North Korea must reform to win European investment," *The International Herald Tribune*, October 5, 2007, <http://www.iht.com/articles/ap/2007/10/06/business/AS-FIN-Koreas-Economy-EU.php>.

<sup>27</sup> - *Ibid.*

<sup>28</sup> - Harada, *Kitachousen vs. Amerika*, *op.cit.*, pp. 53-54.

As a pivotal hub of these connections, the London-based Chosun Development and Investment Fund was created in September 2006, one month before Pyongyang's nuclear test, and got ready to raise \$100 million for the funds, primarily from large investors in Europe and China. Its business focuses on prospective direct investment in North Korean mining, financial, and energy sectors, so that the Kim Jong-il-owned mining companies can obtain facilities and equipment essential to exploit gold, silver, zinc, magnesite, copper, uranium, and platinum; the profit-making is enabled through product-sharing agreements, not the repayment of loans. The Fund is controlled by Colin McAskil, a 67-year-old British businessman who has had business with North Korea since the late 1970s, including his experience as a consultant to North Korean banks on debt negotiations and as a broker in the sale of North Korean gold in London. McAskil is assisted by three directors of Anglo-Sino Capital which operates the Fund; this fund-managing firm is subjected to the supervision of the U.K.'s Financial Service Authority (FSA). In May 2006, McAskil obtained the FSA's regulatory approval for the Fund to make direct investment in North Korean mining, financial, and energy sectors.<sup>29</sup>

McAskil also serves as the chairman of the Hong Kong-based firm, Koryo Asia. This firm controls the banking license of a sole small North Korean joint venture bank with foreign capital, Daedong Credit Bank (DCB), and a 70 percent stake owned by British investors through a Virgin Islands registered company, Phoenix Commercial Ventures. McAskil maintains that the DCB's operation has been profitable for the last 12 years, dealing with some 200 foreign-invested joint ventures, foreign

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<sup>29</sup> Tamura Hideo, "Taikita-toushi Faundo Anyaku [The fund operating actively behind the scenes: The Case of North Korea]," *Sankei Shimbun*, August, 18, 2008; Donald Greenlees, "Daedong fights U.S.-imposed sanctions on North Korea banks," *The International Herald Tribune*, March 8, 2007; Anna Fifield, "North Korean fund gets U.K. approval," *The Financial Times*, May 29, 2006.

relief organizations, and foreign individuals.<sup>30</sup>

However, McAskil suffered a major setback when the Bush administration imposed law enforcement measures against the Macau-based Banco Delta Asia, to which the DCB deposited \$7 million out of the total asset of \$10 million.<sup>31</sup> He was critical of the measures because the Bush administration did not offer any proof of DCB's wrongdoing and because he believes it was unfair and even constitutes harassment of the DCB's fully legal and legitimate business, free from any illicit practices involving product and currency counterfeiting, drug trafficking, and weapons proliferation.

Along with about 50 North Korean banks, trading companies, and individuals, Daedong Credit had its account frozen. The total amount put into "suspense accounts," according to Banco Delta Asia, was about \$25 million, with Daedong Credit accounting for the largest share. Since then, almost all foreign banks that had correspondent relations with Daedong Credit have severed contact for fear of being excluded from the U.S. financial system.<sup>32</sup>

McAskil revealed some surprising information:

One of the Treasury's main allegations against Banco Delta Asia is that it facilitated the spread of counterfeit \$100 bills. But McAskil said that Daedong Credit had put \$49 million into Banco Delta Asia in 2005 and all that money had been forwarded to HKSB for verification... Only three of the \$100 notes belonging to Daedong Credit were confiscated because they were "suspect," he said.<sup>33</sup>

In the above, McAskil blames U.S. law enforcement for acting against the Macau-based BDA. Though unsubstantiated claims, he is consistent with the aforementioned Bender's and Harada's analyses on the counterfeit

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<sup>30</sup> - Tamura, *op.cit.*; Greenlees, *op.cit.*; Fifield, *op.cit.*

<sup>31</sup> - Greenlees, *op.cit.*

<sup>32</sup> - *Ibid.*

<sup>33</sup> - *Ibid.*

“supernotes” issue. This is especially so when we consider the fact that only three \$100 notes were confiscated out of \$49 million; this corresponds fairly well with the findings of the Swiss federal counterfeit police report.

Following the above critical European views, some Japanese analysts now have come to see that the Bush administration bulldozed the law enforcement measures against the Macau-based BDA in order to tighten an American business grip on prospective investment opportunities for North Korean rare metal and other mineral resources. Hamada gathers that the Bush administration now realizes the need to keep the Kim Jong-il regime alive, so that Americans can establish their vested interests before Korean unification should ever become a reality; otherwise, Chinese and South Koreans would gain most from the underground resources in North Korea.<sup>34</sup> Similarly, Harada understands that the Bush administration has finally begun, though a little late, to wedge itself into the ongoing competition over North Korean underground resources; while the Chinese have already secured a series of important concessions and while Europeans have already launched active direct investment efforts. Harada sees that Washington has striven to bargain face-to-face with Pyongyang and made a deal to open a gate way to North Korea for American business; however, Washington has learned that North Korea needs to be removed from the U.S. list of state sponsors of terrorism for this purpose. Harada’s analysis will return to square one of the current paper’s discussion regarding the best context and framework which we must use in attempting to comprehend President Bush’s proclamation on June 28, 2008.<sup>35</sup>

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34- Hamada Kazuyuki, “Beichou-goui no Ura de Hayakumo Kanetsusuru Kitachousen ‘Rea-Metaru Riken’ Soudatsusen [Unexpectedly early intensification of competition over rare metals in North Korea behind the process of the U.S.-DPRK agreement],” *SAPIO*, July 25, 2007.

35- Harada Takeo, “Niwakani Okotsu’ta Interigensu-Buumu no Ura niha Kitachousen-riken wo Nerau Beikoku ga [The United States watches for a chance to get material interests in North Korea behind the current sudden boom of intelligence studies],” *SPA*, July 10, 2007.

## Intensifying American-European Competition

Since the early 1990s onwards, Americans and Europeans have vied head-to-head for business opportunities in North Korea. In 1991, the United Nations Development Programs formulated a development plan centered on the Tumen River, and, as a part of the plan, the North Korean government created the Rajin-Sonbong Economic Special Zone near the area where the Chinese, Russian, and North Korean borders meet. As of May 1996, the Royal Dutch Shell (a British-Dutch capital) and the Stanton Group (a U.S. firm) had contracts to make direct investments in the Zone, though the contracts did not materialize due to a series of economic sanctions in reaction to Pyongyang's brinksmanship.<sup>36</sup> Hamada understands that, in June 1998, with a grant from the Rockefeller Foundation, the U.S. National Mining Association made a field survey in North Korea, and that the Foundation and the Association paid \$5 million to obtain prospecting rights for rare metal and mineral resources from the North Korean authorities.<sup>37</sup> Without the sanctions, it was anticipated that the Clinton administration was going to authorize Stanton's contract<sup>38</sup> and the continued prospecting.

In fact, the Bush administration was once poised to give a green light to American big business to make direct investments in North Korea. James Kelly, then-Assistant Secretary of State for East Asia and Pacific Affairs, was reported to have assured that the Bush administration would not block McAskil, who planned to form the aforementioned Chosun Fund at that stage, from making direct investment in the country, as long as such investment was observant of U.S. laws and regulations. McAskil scheduled to base the Fund in the United States, but American investors withdrew from participating in the Fund shortly before its inception, when the Pyongyang's

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<sup>36</sup>-*Sankei Shimbun*, May 15, 1996.

<sup>37</sup>- Hamada, *op.cit.*

<sup>38</sup>-*Nikkei Shimbun* (the evening edition), April 18, 1997.

enriched uranium program was revealed in October 2002. McAskil was then forced to move to London. Similarly, it was also reported that big American businesses, such as Cargill (crops and mineral resources), Bechtel (construction), Goldman-Sachs, and Citigroup had demonstrated strong interest in investing in North Korea.<sup>39</sup>

For the last several years, U.S.-European competition over North Korean underground resources has become increasingly intensified under the condition of deepening globalization. Three billion peoples in the rapidly growing countries of Brazil, Russia, India, and China (the so-called BRICs) are concurrently consuming colossal amounts of natural resources and other raw materials for industrial activities, fueling skyrocketing commodity market prices that have been exacerbated by uncontrollable international speculation. For example, with oil price skyrocketing, the price of uranium ore has gone up tenfold over the last five years as a result of the boom in nuclear power generation, a major counter-measure against global warming.<sup>40</sup> North Korea possesses in underground reserves, for example, 1,000-2,000 tons of gold, 3,000-5,000 tons of silver, 2,150,000 tons of copper, 600,000 tons of tungsten, 2-4 billion tons of iron ore, 6 million tons of graphite, 100 billion tons of limestone, 30-40 thousand tons of magnesite, 11 billion tons of anthracite coal, and 26 million tons of uranium ore, as well as oil reserves estimated around 60 billion barrels.<sup>41</sup> There also exist good reserves of many major rare metals essential for high-tech products.<sup>42</sup>

With interest in North Korea growing, foreign investors have become more willing to take risks, to the extent that they dare to purchase bonds that

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<sup>39</sup> - *Sankei Shimbun*, July 6, 2008.

<sup>40</sup> - *Chosen-Ilbo* (the Japanese online edition), November 22, 2007, <http://www.chosunonline.com/article/20071122000040>.

<sup>41</sup> - *Chosen-Ilbo* (the Japanese online edition), July 9, 2007, quoted in Harada, *Kitachousen vs. Amerika ...*, *op.cit.*, p. 160; *Chosen-Ilbo*, *op.cit.*, November 22, 2007; Hamada, *op.cit.*

<sup>42</sup> - Kimura Mitsuhiko and Abe Keiji, *Kitachousen no Gunji-kougyouka – Teikoku no Sensou kara Kimu Nitsu'sei no Sensou he* [North Korea and militarization – The war of the Japanese empire to the war of Kim Jong-il], (Tokyo: Chisen Shokan, 2003).

have been secured with loans given to North Korea in the past. In July 2007, the bond's market price rose from 21 cent per unit to 26 cent, while the face value is one dollar. In March 1997, this bond was originally arranged by the Banque National de Paris (BNP), which was later merged with the Paribas to become the BNP Paribas, one of the largest financial institutions in the euro zone. The Banque secured North Korea-related loan bonds held by financial institutions across the world, into 777 million DM-worth bonds. The London-based Exotic Limited, a securities firm specializing in brokering illiquid loans, equity, and bonds, deals this financial product.<sup>43</sup>

After President Bush's proclamation on June 26, 2008, international investors, particularly Europeans and Americans, are trying to secure mining rights in North Korea prior to the actual removal of the country from the U.S. list of state sponsors of terrorism and the lifting of the sanctions against the country. This proclamation has reduced considerably a sense of the caution among American investors about the country risk and made it easier to invest in the country via London. There are accelerated efforts in London and Hong Kong to establish such funds one after another. In particular, some of them are aimed at obtaining uranium mining concessions, to the extent that John Bolton is concerned with the private sector-led natural resources development in North Korea, including uranium ore, and the related international financial channels: Pyongyang would be able to earn hard currency by producing and exporting yellow cake, involving serious nuclear proliferation.<sup>44</sup> A Washington-based investment consultant specializing in Asia sees that there will soon be growing enthusiasm in the United States to establish investment funds targeting North Korea.<sup>45</sup>

Sooner or later, the Japanese government will be forced to take a

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<sup>43</sup>-Kuroda Ryo, "Kitachousen Saiken ga Hisokana Ninki-shouhin ni [The North Korea-related loan bond has unobtrusively become a popular product]," *Nikkei Business Online*, May 8, 2007, <http://business.nikkeibp.co.jp/article/topics/20070507/124220/>.

<sup>44</sup>-*Sankei Shimbun*, *op.cit.*, July 6, 2008.

<sup>45</sup>-Tamura, *op.cit.*

geo-economic approach to North Korea, on the grounds that individual and institutional Japanese investors have already channeled their limited capital to the aforementioned North Korea-related bonds in pursuit of profits.<sup>46</sup> It would be no surprise if they had done so with similar investment funds. As political impediments to investing in North Korea diminish over time, the interest of Japanese investors will exponentially grow, rather than wane.

### **A Japanese Edge in the Competition**

The Japanese business community and the state have good potential to excel in international competition over North Korea, should they take full advantage of being the former suzerain status of the prewar Korea that was annexed to the Japanese Empire for 35 years. Generally speaking, a former suzerain state possesses close and inseparable links with its former colonies and dependent territories, because the former once set up the latter's political, economic, and social systems, ranging from infrastructure (railways, roads, dams, and power plants) to education to science & technology to food and culture. This applies very well to Japan's links with North Korea, and means that the Japanese also have extensive experience in organizing industrial complexes there. During the annexation era, Japanese direct investment concentrated in the North, ranging across-the-board from power generation to mining to chemical production to steel plants, among others. This was not the case in the South as the area was predominantly agrarian without any significant natural resources. (However, it is highly questionable whether Japanese investors reaped sufficient returns and profits on their investments since the Japanese rule ended much earlier than expected due to the defeat in the Great Asian War, and since then their assets in today's North Korea were all seized.)

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<sup>46</sup> - *Ibid.*

In particular, it is Japan, not the United States nor European countries nor China nor South Korea, that retains the most critically detailed information on the North's underground resources due to the legacy of the Japanese Empire. By using remote-sensing from outer space, Americans can find that there exist significant mineral resources in North Korea. However, they are unable to know which and how much of each resource exists exactly where; this is the kind of information only attainable by extensive on-site geological surveys and the mapping based on the data thereof. Over the last several years, the U.S. government has kept demanding the Japanese government release such geological maps. According to Japanese government sources, American experts, who conduct research commissioned by the U.S. Department of Defense or American corporations, have often visited the Japanese National Diet Library and the Japanese National Archives to examine geological studies carried out by the Japanese imperial authorities in the formerly annexed Korea.<sup>47</sup>

The similar prewar geological data on uranium was critically important for the early Soviet nuclear weapons programs. The Japanese imperial military processed monazite ore containing uranium at chemical plants located in the North's Hungnam area for its embryonic nuclear weapons program. The Soviet Red Army seized the plants immediately after the entry into the war against the imperial Japan, and the U.S. forces bombed the plants completely after the breakout of the Korean War. After the first nuclear test in 1949, the Soviet Union reinforced its nuclear power status by importing some 9,000 tons of uranium ore from North Korea. Stalin came to know of the North's uranium reserves after he obtained the aforementioned Japanese-compiled data in the northern part of occupied Korea after 1945. Today, Pyongyang's regime still utilizes the same uranium reserves and the legacy facilities and technologies for its own nuclear

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<sup>47</sup> - Hamada, *op.cit.*; Tamura, *op.cit.*

programs. It is known that the Japanese monazite processing technology has been inherited by a joint venture enterprise located in the same Hungnam area, established by a Kim Jong-il-owned firm and a firm related to the association of North Korean residents in Japan.<sup>48</sup>

Beyond these specific edges, the Japanese yen retains significant credit among North Koreans, despite their seemingly unflinching anti-Japanese attitude to Japan in general and Japanese imperialism in particular. The empire controlled the seigniorage of the annexed Korea for 35 years through the Bank of Korea, a leading special bank chartered by the empire as a prime instrument of its rule.<sup>49</sup> Together with the other similarly-chartered banks across the empire and beyond, Japan formed a region-wide yen-bloc centered on the empire. Inheriting this legacy, North Koreans under the postwar Stalinist regime long utilized the yen for trade with Japan and the hoard of their financial assets, certainly without its wide domestic currency. Cash and reserve holdings in yen were essential to purchase not only Japanese goods and services for the regime's elites, particularly durable consumer goods, but also dual-use industrial products extensively utilized for military purposes. An exemplar is a special operations North Korean mini-sub found aground on the South Korean coastal shallows that carried a Japanese-made GPS/chart plotter-device designed for small fishing crafts.<sup>50</sup>

Thus it is obvious that the yen will be a far stronger Japanese leverage tool once the government begins to channel massive economic aid to North Korea, involving the related bilateral trade, according to the terms and conditions of the Pyongyang Declaration signed between Prime Minister Koizumi and Kim Jong-il: Pyongyang has to resolve the nuclear, ballistic

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<sup>48</sup> - Tamura, *Ibid.*

<sup>49</sup> - Tatai Yoshio, *Chousen-Ginkou* [The Bank of Korea], (Tokyo: PHP Kenkyujyo, 2002).

<sup>50</sup> - *Scoop* (a T.V. news program), Terebi Asahi (Television Asahi), February 22, 1999. The summary is available at <http://www.tv-asahi.co.jp/scoop/>.

missile, and abduction issues.<sup>51</sup> There is an understanding that, given the adjusted value of Japanese aid to South Korea upon bilateral diplomatic normalization, the aid to the North may reach some \$9 billion, including grant aid and long-term loans with low interest.<sup>52</sup> There is no doubt that such an amount of Japanese aid will exceed those of the other members of the six-party talks and, probably, all of their aid combined. And the Japanese competitiveness over North Korea will be significantly magnified when the aid targeting infrastructure building and human resources development are combined with trade and direct investment linked with industrial production, a synergy between the government and the private sectors in aid and development. Such an approach once characterized Japanese aid policy to the developing world,<sup>53</sup> and Tokyo is certainly able to use it again.

## Conclusion

Hitherto, this paper has analyzed some major factors pushing the Japanese government to the adoption of a geo-economic approach to North Korea. First, the Japanese public has become increasingly disillusioned with the Bush administration's excessive appeasement found in the recent sharp turn in North Korea policy. Second, the Japanese public has been exposed to an alternative perspective about the U.S. allegations of North Korea's counterfeiting activities, and is becoming incredulous of the allegation. The Japanese public has a growing sense of being manipulated by the U.S. North Korea policy. Thus, the first and second factors have made the public aware of the need to secure a more independent hand in North Korea policy, while accepting the U.S.-Japan alliance as the backbone of Japan's national

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<sup>51</sup> - Japan-DPRK Pyongyang Declaration, September 12, 2002, [http://www.mofa.go.jp/region/asia-paci/n\\_korea/pmv0209/pyongyang.html](http://www.mofa.go.jp/region/asia-paci/n_korea/pmv0209/pyongyang.html).

<sup>52</sup> - *The Toukyou Shimbun*, October 26, 2000.

<sup>53</sup> - Masahiro Matsumura, *Japan and the U.S. in International Development, 1970-1989* (Osaka: St. Andrew's University Research Institute, 1997).

security. Third, North Korean underground resources have attracted growing interest of international investors, especially Europeans through the so-called London-Pyongyang connection. Fourth, Europeans and Americans investors have intensified their competition over business opportunities in North Korea. Fifth, Japanese business and the investors have a strong edge over European, American, and other competitors due to the legacy of Japan's being the North's former suzerain state. This involves possession of detailed information, extensive industrial experience, and other latent and potential economic links with the North.

Certainly, Japan's North Korea policy won't easily shift its basic thinking from geopolitics to geo-economics in the immediate future. This is because the current Japanese approach is firmly grounded on a die-hard geopolitical calculation with a primary focus on the nuclear, ballistic missile, and abduction issues. Tokyo will unquestionably adhere to the principles, terms, and conditions of the 2002 Pyongyang Declaration, and will never provide its aid unless Pyongyang satisfies these conditions. However, the approach is neither static nor permanent. The six-party talks process has forced and will constrain Pyongyang to resolve the three issues, while the current priority is placed on the nuclear issue. The process will most likely proceed in the long run, however slowly it does; it may confront Pyongyang's occasional brinkmanship and even experience serious setbacks. When the process makes significant progress and when the level of geopolitical tensions lowers significantly, Tokyo will surely attach special weight to geo-economic factors in redefining Japanese national interests and adjusting its North Korea policy accordingly. Alternatively, Tokyo will also react very similarly, should the Pyongyang regime collapse abruptly and if a new regime accepts the regional status quo. This prospect will hold unless a new regional Cold War emerges, such as one precipitated by a severe Sino-U.S. rivalry.

This paper has discussed a probable geo-economic shift in the long

run in Japan's North Korea policy. However, how the Japanese government can actually adopt, establish, and even pursue its new strategy is beyond the scope of this paper, particularly because its current strategic approach is in stalemate amidst the abduction issues. It remains to be seen whether Japanese leaders take preemptive policy initiatives or whether they are constrained to emulate the geo-economic behavior of other major powers as late comers. Thus, policy makers and analysts are advised to pay due attention to an emerging geo-economic power game centered on North Korea and an evolving Japanese geo-economic pattern of thinking that remains largely latent at this time.

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## *A Contextual Analysis of the First North Korean Nuclear Negotiations*

*Sang-Hyun Park*

### **Abstract**

This paper is an attempt to apply contextual analysis to the first U.S.-North Korean nuclear negotiations. Contextual analysis demonstrates the ways in which North Korea, in an exceptionally harsh domestic and external environment, made concerted efforts to create a favorable context for negotiations and achieved favorable negotiations outcomes. This research shows that “context creation” in the U.S.-North Korean nuclear negotiations is a key factor in the successful negotiation of a favorable outcome for North Korea in the face of a vastly superior power. North Korea created this favorable context by using an “exit” strategy, which paralyzed the influence of their other negotiating partner, South Korea, and induced the rapprochement of their less tough partner, the U.S. Many dynamic factors are part of the way a negotiation context changes. This study focuses on the “exit” strategy, which is one of the strategies used to change the context and which gave a favorable outcome to a considerably weaker participant in negotiation.

**Key Words:** asymmetric negotiation, contextual analysis, NPT, North Korea, exit

## **Introduction**

Political science has developed under the strong influence of positivism, which accounts for political phenomena in terms of law-like statements, free from occasional accidents. In order to build law-like statements, political theorists have tended to focus on constant and materialistic variables rather than relationships between and/or among actors and environments. Many International Relations (IR) theorists have also tried to find law-like statement in an anarchic international system. They have regarded studies which tend to focus on relationships as limited explanations only, and dealing with unusual phenomena. However, many empirical studies show that constant and materialistic variables are insufficient in understanding complicated international negotiations.

Gary Goerts did pioneering research to account for international politics in terms of relationship.<sup>1</sup> He conceptualizes relation-oriented study as contextual analysis. In contextual analysis, the relationship itself is regarded as an independent variable, rather than a dependent variable. The nature of relationships among actors is flexible and changeable by intentional action. The concept of flexible and changeable relations enables contextual analysis to explain dynamic development of inter-national strategic interaction. This paper is an attempt to apply contextual analysis in the context of the U.S.-North Korean nuclear negotiations. This demonstrates how North Korea, in an exceptionally harsh environment, both domestically and externally, made concerted efforts to create a favorable context, resulting in favorable negotiation outcomes.

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1-Gary Goertz, *Contexts of International Politics* (NY: Cambridge University Press, 1994).

## Methodological Arguments

### *Definition of Contextual Analysis*

While the term “context” is very familiar to social scientists, it is one which is difficult to define precisely. In this paper, context refers to the mentally or materially associated “surroundings” which consist of actors and systems.<sup>2</sup> The contextual analysis itself focuses on the relationships between (or among) entities and environments. The contextual analysis is not concerned with the separate existence of the agents and systems, but the possible relationships (or mechanisms) between (among) them. The emphasis of all contextual analysis is on the interaction not only between entities and their environments but also among entities.

In familiar terms of the dichotomy of “agent-structure” in IR theories, contextual analysis is different from structural analysis. Structure is defined either in its overall anarchic condition or in terms of the distribution of military capabilities. It infers that structure is something constant, does not vary for a considerable time period, and that it is, to some degree, beyond the capability or influence of agents. In structural analysis, structure and agent are strictly divided and their interaction is ignored. Contextual analysis considers the “agent-structure” relationship as a whole. It is indivisible. Contextual analysis focuses on the interaction between (or among) agent and environment.

### *Three Modes of Contexts*

There are three modes of context: the causal mode, the barrier mode, and the changing meaning mode. The modes of context represent three different ways of understanding agent-environment relations.

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<sup>2</sup>-For example, the Cold War context refers to the surrounding in which actors having opposite ideologies compete with each other to overcome the rival camp. Moreover, it consists of competing actors and its social, economic, and political systems.

The context mode as cause is the default mode. A cause is something that contributes to a sufficient condition for the outcome to appear. The context mode as cause is different from the causal variable or causal field, which is the set of circumstances and background conditions that are important or necessary in explaining a phenomenon. The context mode deals with the relationships that can cause the outcomes. Mode as cause may be present without producing an effect. This may be due to various reasons. The cause may increase the likelihood of the outcome but may not be enough for an outcome to occur.

Context as a barrier contrasts with context as cause because instead of producing an effect, it prevents the effect. Barriers are “counteracting” causes. If causes increase the likelihood of an outcome, then barriers decrease that likelihood. In other words, cause is normally positive in the sense of producing change, while barrier prevents or counteracts change.

The mode of context as a changing meaning in political phenomena can be compared with that of linguistic phenomena. The context influences those relationships just like contexts mediate between words and their meanings. Words mean different things because they are uttered in different sentences. Sentences mean different things when uttered in different situations. Actors in the “same situation” act differently because they have different contexts. The notion of mode of context as changing meaning argues that basic structural elements constantly change as their relationship to one another changes according to differing circumstances. In other words, the variables in a relationship are not constant, but change constantly over time and space. In sum, the meaning changes in different contexts.

### ***Dynamic Context***

One important fact suggested by the idea of “contextual analysis” is that the context is changeable. A change in context can be followed by a change in goal and the relationships between variables as indicated in the

context mode of barrier and the mode of change of meaning. Generally, the assumption of stable environments is crucial in decision-making theories. On the basis of a stable context, the process of learning or trial and error will arrive at a maximum. Contextual analysis agrees with this in that, as long as the context is stable, we can develop the standard operating procedure (SOP) which yields an optimal result. It may be quite reasonable, and even optimal, to engage in the same behavior repeatedly over time. As long as the situation (game) remains the same, the best strategy is also likely to remain the same. Contextual theory also agrees with the notion that if the cause does not change, there is no change in the outcomes. In short, they state a fairly obvious position, “same cause, and same effect” behavior does not change if the context does not. The difference between SOPs and contextual analysis is that contextual theories place a strong emphasis on a shift in focus toward the process of context change.

There are two kinds of sources for context change. One is something independent of and beyond human intention. The other is the intentional action of actors. The most important factor suggested by contextual analysis is the possibility of creating context by intentional actions. This is not to say that humans can control or easily change the environment, but intentional actions can change the context even if it is not easy to achieve. In this sense, human intention is the vital factor of dynamic context. Applying this to international negotiations, even weak states may potentially be able to create new contexts favorable to themselves by the use of sophisticated strategies.

## **The Background of U.S.-North Korean Negotiations**

The U.S.-North Korean negotiations over nuclear power and weaponry are good examples demonstrating how “context creation” can be used by a small state to defeat stronger partners. To understand the notion of North Korean “context creation,” it is necessary to recognize the basic

characteristics of these negotiations.

The first part of this section examines the characteristics of the Non-Proliferation Treaty (NPT). North Korean negotiation strategies were grounded in those characteristics and took advantage of them. The understanding of the basic characteristics of the NPT will be helpful for a fuller understanding of this paper. The basic interests of the participants will then be discussed. Finally, the three phases of this negotiation will be reviewed.

### ***Characteristics of the NPT***

The NPT has been the centerpiece of international attempts at banning nuclear proliferation. It can be characterized as a regime which is unfair, politically negotiable, and dominated by the U.S. It was initiated and put into effect on March 5, 1970 by such nuclear powers as the U.S., the USSR, Britain, etc. From its beginning, it has been criticized as an unfair agreement. It discriminates against the prospective nuclear powers in favor of the existing powers. While nuclear disarmament is not mandatory for existing nuclear powers, non-nuclear powers should forsake the possession or manufacture of nuclear arms and also should accept IAEA nuclear inspection. It results in complaints from influential non-nuclear powers.<sup>3</sup>

The NPT is a politically negotiable regime.<sup>4</sup> Its purpose is to keep the non-nuclear states non-nuclear, but it does not provide non-nuclear states any security assurance from nuclear attacks. Moreover, even if an attempt at nuclear development is discovered through inspections, judgments can result from different disciplinary measures and can leave room for mutual

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3- Ronald J. Bee, "Nuclear Proliferation: The Post-Cold War Challenge," *Headline Series No. 303* (Foreign Policy Association, 1995).

4- Michael J. Mazzar, "The U.S.-DPRK Nuclear Deal: Status and Prospects," *Korea and World Affairs* (Fall 1995), pp. 483-488; Alvin Z. Rubinstein, "North Korea's Nuclear Challenge," *Korea and World Affairs* (Spring 1994), pp. 23-41.

negotiation.

The U.S. has been one of the most powerful actors in this issue.<sup>5</sup> The U.S. has the power to prevent a suspected nation from developing nuclear weapons through surgical military attack based upon either unanimous decision by UN Security Council or upon independent decision and action by U.S. military forces. U.S. policies also have shown a number of inconsistencies in applying its norm according to its national interests. For instance, Israel was permitted to pursue a nuclear weapon program, but Pakistan was not. In the latter case, Washington used 38 F-16s to “buy-off” Islamabad’s nuclear ambitions. The NPT lacks the coercive means to accept inspection. U.S. military power has been its last resort.

### *The Basic Interests of Participants*

The Korean peninsula is the place where the interests of four super powers (U.S., Japan, China, and Russia) conflict and intersect. The nuclear crisis on the Korean peninsula demonstrated this conflict and intersection of interest.<sup>6</sup>

#### *The United States*

Two prime interests of the U.S. in this area can be summarized as peace-keeping and maintaining the status quo. The U.S. does not want any power to be dominant enough to challenge U.S. leadership and to change the status quo in the military and economic realm. The North Korean nuclear bomb was a direct threat to regional peace. This local interest looks

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<sup>5</sup>- Henry Sokolski, “The Korean Nuclear Deal: How Might it Challenge the United States?” *Comparative Strategy*, Vol. 14, pp. 443-451.

<sup>6</sup>- Larry A. Niksch, “Comprehensive Negotiations with North Korea: A Viable Alternative for a Failed U.S. Strategy,” *Korea and World Affairs* (Summer 1994), pp. 250-272; Young Sun Song, “North Korea’s Nuclear Issue and its Relationship with U.S. and Japan,” *Korea Observer*, 1992, pp. 79-100.

like being overwhelmed by a global issue, the non-proliferation of nuclear weapons. The U.S. government focused more on the negative effects of North Korean weapons than any other issue. U.S. interests converged on preventing this negative effect from encouraging the spread of nuclear weapons in other regions such as the Middle East.<sup>7</sup>

In terms of game theory, the U.S. represents the Suasion game.<sup>8</sup> In the Suasion game, the U.S. has a single dominant strategy, cooperation, regardless of the choices made by other. However, North Korea has strong tendencies to maximize its interests. The ways that the U.S. attempts to gain the compliance of North Korea were the use of threats, and bribery by using the strategy of issue-linkage.

		North Korea	
		Cooperation	Defection
U.S.	Cooperation	4, 3	3, 4
	Defection	2, 2	1, 1

Key: (x, y) = (payoff to U.S., payoff to North Korea)  
Number implies cardinal value.

### *North Korea*

After the collapse of the Soviet Block, North Korea became legitimately fearful of being isolated from international society and of feeling pressure from South Korea's superior economic and military power. Moreover, there was little hope for economic recovery in the absence of foreign assistance.

7- John C.H. Oh and Ruth M. Grubel, "The North Korean Nuclear Weapons Crisis: The United States and its Policy Options," *Korea Observer*, Vol. 26, No. 1 (Spring 1995), pp. 97-116; J.D. Crouch II, "Clinton's 'Slow Boat to Korea'," *Comparative Strategy*, Vol. 14, pp. 35-44.

8- With respect to Suasion Game see Lisa Martin, *Coercive Cooperation: Explaining Multilateral Economic Sanctions* (Princeton, NJ: Princeton University Press, 1992); Michael Mastanduno, "Trade as a Strategic Weapon: American and Alliance Export Control Policy in the Early Postwar Period," *International Organization*, Vol. 42 (Winter 1988), pp. 121-150.

This explains why Pyongyang sped up its nuclear program. North Korean leaders seemed to believe that if they did not develop a weapon which could be used to retaliate or a bargaining chip to compensate for their military and economic inferiority, their position would become steadily worse. The ultimate purpose was not only to deter nuclear attack by the U.S. by developing a local balance of nuclear power, but also to use it as a last bargaining chip in defense of its totalitarian regime.<sup>9</sup>

### *South Korea*

Given the sustained levels of confrontation, distrust, and hostility between the two Koreas, South Korea regarded the North Korean nuclear issues as a serious threat to its security. South Korea focused on resolving all North Korean nuclear suspicions. Seoul believed that “no matter how well devised and implemented, inspection alone is not enough.” That explains why South Korea has tried to engineer the situation into one of “an inter-Korean issues” and was arguably overzealous in trying to resolve nuclear issues through mutual inspection between the two Koreas.<sup>10</sup>

South Korea’s tenacious maintenance of the goal of mutual inspection can be understood as part of an effort to create “inspection devices” that can ameliorate their security dilemma. Even a perfect inspection system cannot guarantee security, but by relieving immediate worries, it provides a significant means of protecting itself against future threats.<sup>11</sup>

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<sup>9</sup>-Alexandre Y. Mansourov, “The Origins, Evolution, and Future of the North Korean Nuclear Program,” *Korea and World Affairs* (Spring 1995), pp. 40-66; Tai Sung An, “The Rise and Decline of North Korea’s Nuclear Weapons Program,” *Korea and World Affairs* (Winter 1992), pp. 670-684; Young-Ho Kim, “The Cognitive Approach to North Korean Nuclear Issue,” *Han’Kuk kwa Kuk’CheKwanche* [*Korea and World Politics*], Vol. 8, No. 1 (Spring 1991), pp. 125-145.

<sup>10</sup>- Kim Taewoo and Kim Min-Seok, “The Nuclear Issue of the Korean Peninsula,” *Korea Focus* (1994), pp. 47-70; Paul Bracken, “Nuclear Weapons and State Survival in North Korea,” *Survival*, Vol. 35, No. 3 (Autumn 1993), pp. 137-153.

<sup>11</sup>- Robert Jervis, “Cooperation under the Security Dilemma,” *World Politics*, Vol. 30 (January 1978), p. 179.

North Korean nuclear programs are also perceived as the most immediate challenge to leadership in the reunification process. South Korea had a very optimistic perspective in terms of reunification on the basis of its superior economic power. Therefore, its ultimate purpose was both to escape military conflict and to remove any nuclear suspicion hanging over North Korea.

Seoul's dilemma was that it did not have any means to achieve its goals. In the absence of effective means, the only way forward was to coordinate international pressure on North Korea.<sup>12</sup>

### ***The Three Phases of the Development of the Crisis***

The evolution of the North Korean nuclear crisis can be divided into three phases.<sup>13</sup> These divisions were caused by participants' well-calculated and rational choices on the part of participants from their negotiating positions. The inter-Korean talks were the leading negotiations in the first phase. In the second phase, the "U.S.-North Korean" talks dominated all others. The last phase involved the efforts by Seoul, which had been to some extent excluded from this issue, to reinsert its interests into the North Korea-U.S. talks.

North Korea has a long history of nuclear development. In 1985,

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<sup>12</sup>- Jin-Hyun Paik, "Nuclear Conundrum: Analysis and Assessments of Two Korea's Policy Regarding the Nuclear Issue," *Korea and World Affairs* (Winter 1993), pp. 627-647; Kap-Je Cho, "South Korea's Defense Options Regarding the North Korean Nuclear Crisis," *Korea and World Affairs* (Summer 1994), pp. 322-346; Choung-Il Chee, "Rethinking about South Korea's Security in face of North Korea's Nuclear Capability," *Korea and World Affairs* (Summer 1994), pp. 301-321; Taewoo Kim, "South Korea's Nuclear Dilemmas," *Korea and World Affairs* (Summer 1992), pp. 250-293.

<sup>13</sup>- With respect to general negotiation development, see James Cotton, "The Korea/United States Nuclear Accord: Background and Consequences," *Korea Observer*, Vol. 26, No. 3 (Autumn 1995), pp. 321-344; Young Jeh Kim, "North Korea's Nuclear Program: Problems and Prospects," *Korea Observer*, Vol. 25, No. 3 (Autumn 1994), pp. 317-340; Hakjoon Kim, "North Korea's Nuclear Development Program and Future," *Korea and World Affairs* (Summer 1994), pp. 273-300; Curtis A. Gayle, "Nuclear Non-Proliferation and Lessons from the Korean Example," *Korea and World Affairs* (Spring 1993), pp. 45-57.

North Korea joined the NPT under strong pressure from the Soviet Union, but did not permit IAEA inspections until 1992. In 1989, satellite reconnaissance systems detected a structure which looked like a plutonium reprocessing plant at Yongbyon. Concerned nations, such as the ROK, U.S., Japan, amongst others, began to harbor strong doubts about North Korean ambitions in regard to the development of nuclear weapons. This was the beginning of the nuclear crisis as it is now understood on the Korean peninsula.

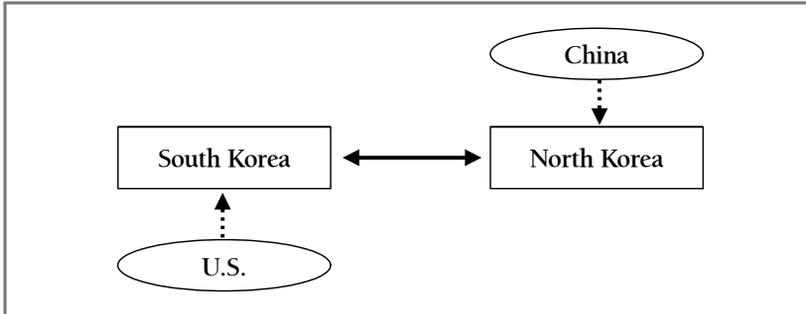
*The First Phase: The Inter-Korean Negotiations*

In the first phase, South Korea played the leading role. There were two-track talks which occurred simultaneously: the inter-Korean talks and the IAEA-North Korea talks. The leading track was the inter-Korean talks. Some fruitful progress was made by means of these talks. These talks concluded with the 'Agreement on Reconciliation, Non-Aggression, and Exchanges and Cooperation between South and North' on December 13, 1991. On December 30, 1991, North and South Korea agreed on the 'Joint Declaration on the Denuclearization of the Korean Peninsula.' On January 7, 1992, Pyongyang agreed to sign and ratify a nuclear safeguards agreement with the IAEA. In May 1992, the first international inspection team arrived at the nuclear facilities at Yongbyon.<sup>14</sup>

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<sup>14</sup> - Qu-Sub Chung, "The Change of North Korea and Inter-Korean Relations," *Han'Guk Kwa Kukche ChangCh'i* [Korea and World Politics], Vol. 8, No. 2 (Fall 1992), pp. 321-338; Michael J. Mazarr, "North Korea's Nuclear Program: The World Responds, 1989-1992," *Korea and World Affairs* (Summer 1992), pp. 294-318.

Figure 1. The First-Phase Negotiation Structure



Rectangles refer to the main actors in the negotiations.  
 Circles refer to the assistant actors in the negotiations.  
 The direction of the arrow infers the flow of influence.  
 The dotted arrow refers to the indirect flow of influence.

The stalemate in the negotiations began at the meeting of the South-North Joint Nuclear Control Commission, set up by the Joint Declaration. South Korea exclusively emphasized the need for a bilateral inspection of military bases. North Korea responded by emphasizing the need to inspect the U.S. military bases in the South. It resulted in little progress in subsequent bilateral inspection talks. At that time the U.S. government also sent several high-ranking officials to Seoul and demanded that South Korea oppose any official economic contacts until the IAEA-North Korea negotiations reached some agreement. On June 1, 1992, the South Korean government confirmed that there would be no substantial progress in inter-Korean economic, political, and cultural relations until the settlement of the nuclear issue.

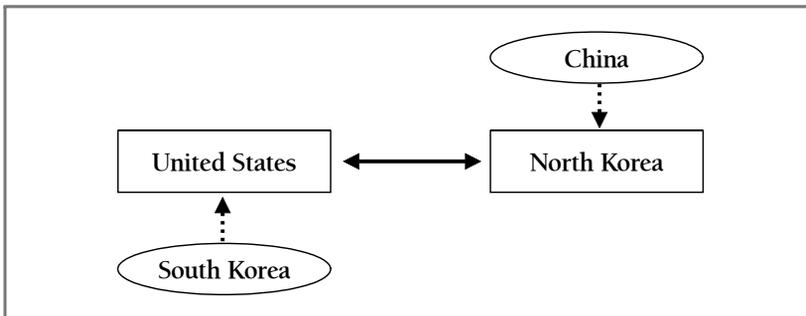
*The Second Phase: Intentional Action (Exit) and the Change of Context*

The second phase started with Pyongyang's seeking out of another route, or "exit." North Korea realized that a direct engagement with the U.S. would not only enhance its international profile, but would also provide North Korea with a chance to seize the initiative in dealing with the South.

The only way to engage the U.S. in this issue was by means of an “exit,” i.e., North Korea would have to withdraw from the NPT. After withdrawal from the NPT, North Korea asserted that a solution to the nuclear issue should be found through direct negotiations between North Korea and the United States.

The United States and the DPRK met for the so-called ‘high-level talks’ in Geneva on June 2 and from July 14 to 19, 1993. After the second meeting, the IAEA nuclear inspection team was allowed to enter North Korea. On November 12, 1993 North Korea proposed a ‘package deal’ consisting of its nuclear development program and the issue of North Korea-U.S. diplomatic exchange.

Figure 2. The Second-Phase Negotiation Structure



Rectangles refer to the main actors in the negotiations.  
 Circles refer to the assistant actors in the negotiations.  
 The direction of the arrow infers the flow of influence.  
 The dotted arrow refers to the indirect flow of influence.

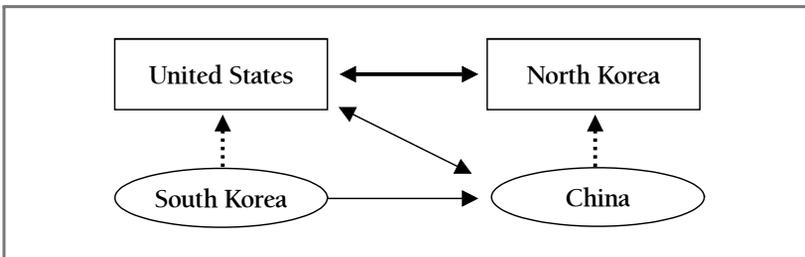
#### *The Third Phase: The Exclusion of Barriers (South Korean Power)*

The third phase began with Seoul’s complaints about the results of the U.S.-North Korea talks. During this phase, the U.S. encountered dissident opinions from South Korea. On November 23, 1993 the summit meeting between U.S. President Bill Clinton and ROK President Kim Young Sam took place. At that meeting, Seoul expressed its strong opposition to the way

the U.S. was handling the issue and asked to link the development of U.S.-North Korea talks with the development of inter-Korean talks.

After bilateral talks, the U.S. and North Korea came very close to signing a comprehensive agreement on nuclear matters in February 1994. However, the deal fell through again because of South Korean reservations. The South Korean government faced severe domestic criticism which came from conservative forces. Finally, South Korea decided not to agree to any agreement which was contrary to the interests of Korean people.

**Figure 3. The Third-Phase Negotiation Structure**



Rectangles refer to the main actors in the negotiations.  
 Circles refer to the assistant actors in the negotiations.  
 The direction of the arrow infers the flow of influence.  
 The dotted arrow refers to the indirect flow of influence.

The U.S. responded to Seoul's complaints by trying to modify the negotiations. South Korea's complaints gave rise to renewed political tensions, talk of economic sanctions, and a heightened state of military alert on the peninsula. In June, the United States, Japan, and South Korea pledged to work together to impose economic and other sanctions on Pyongyang. North Korea, however, began to threaten Japan and South Korea militarily.

In the event of international sanctions being agreed upon, North Korea announced that it would leave the NPT regime. At that point, former President Carter visited Pyongyang for talks with Kim Il Sung, and broke the impasse.

In October 1994, the North Korean nuclear crisis ended with bilateral agreements between the U.S. and North Korea.

### **The North Korean Negotiation Strategy**

With respect to the traditional concept of “power,” North Korea was a weak partner in comparison with the U.S. and South Korea. Furthermore, North Korea experienced a harsh economic and political crisis which it had not experienced before. In diplomatic terms, North Korea was isolated from international society by South Korea’s aggressive diplomatic policy. The only nation which was still friendly to North Korea was China. However, China was undergoing tremendous economic transformation and was undertaking such change as a means of survival in harsh international circumstances. China lacked any spare power to support North Korea but diplomatic support. Considering all these factors, it was almost impossible for North Korea to acquire favorable agreements. However, North Korea, in an exceptionally harsh environment, both domestically and externally, made concerted efforts to effect a favorable outcome, resulting in favorable negotiations.

This paper argues that North Korea’s exceptional benefits were obtained through its efforts to create a favorable context. North Korean efforts for “context creation” were shown in its negotiation strategies. North Korea’s strategies can be summarized by the following two strategies: exit and paralyzing the tougher negotiation partner.

#### ***Exit for Changing Context (Removing Barrier)***

The U.S. was an easier partner for North Korea to deal with than South Korea. This was the case because the U.S. was less sensitive to security issues and had difficulty in converting its sometimes unwieldy power into a form

which could be used to effectively subdue North Korea.<sup>15</sup>

The U.S. and South Korea had different priorities in dealing with the North Korean nuclear issue.<sup>16</sup> Basically, the U.S. was likely to perceive the North Korean nuclear issue as a threat to global nuclear non-proliferation, while South Korea viewed it as a fatal threat to its own physical security.<sup>17</sup>

The U.S. has certainly considered proliferation as a top issue of foreign and defense policy. It beat out such issues within the context of regional conflicts.<sup>18</sup> In this vein, the North Korean nuclear issue was an important one. However, it was not fatal to its national interests. The prospect of a North Korean nuclear bomb did not pose an immediate threat to vital U.S. national security. Despite all the exaggerated expressions over the issue, the actual danger to the U.S. and to the well-being of most Americans was neither overly pressing nor direct. Indeed this was because North Korea had few reasons to attack the U.S. without the necessary delivery means for weapons of mass destruction.

By contrast to the U.S., South Korea viewed it to be a fatal issue and a direct threat to its security. South Korea saw the crisis in the context of the Security Dilemma. Game theorists suggest that in a Security Dilemma situation, the best strategy is not to cooperate and to minimize any benefit. South Korea did its best to remove any possibility for its northern rival to build any nuclear weapon which would pose a great threat to its security. Seoul considered the nuclear issue neither as a subject of negotiation nor a

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<sup>15</sup>- With respect to the general negotiation strategy of North Korea, see Young-Woo Chun, "North Korea's Negotiating Behavior: The Case of Nuclear Weapons Development," paper presented in East Asian Institute of Columbia University, 1994.

<sup>16</sup>- Sang-Hoon Park, "North Korea and the Challenge to the U.S.-South Korean Alliance," *Survival*, Vol. 36, No. 2 (Summer 1994), pp. 78-91.

<sup>17</sup>- On the impact of North Korea's "Exit" see Young Jeh Kim, "North Korea's Nuclear Program and its Impact on Neighboring Countries," *Korea and World Affairs* (Fall 1993), pp. 478-496.

<sup>18</sup>- Mazarr, *North Korea and Bomb*, pp. 483-485. The U.S. Joint Chief of Staff's 1994 National Military Strategy identifies the spread of weapons of mass destruction as the top military threat the United States.

subject for concession.

It seemed to North Korean leaders that they could not obtain any security guarantees from the South, and that the South had no intention or right to decide directly on security matters. Facing a stalemate in the inter-Korean negotiations, North Korea tried to talk with its easy and responsible partner, the U.S.<sup>19</sup>

The strategy that North Korea chose was that of the “exit.” The North Korean “exit” from the NPT changed the context of that negotiation, in other words, it ejected the more steadfast and uncompromising South Korea and invited the U.S. into the negotiation. The withdrawal from the NPT was not an illegal action in the content of the NPT regime. North Korea had exercised a legal and sovereign right which article X (1) of the NPT provides. That article entitled a signatory country to leave the treaty after giving three-months notice to other parties in case a country decides that extraordinary events related to the subject matter of this treaty would jeopardize its supreme interests.<sup>20</sup>

North Korea became a ‘special status’ member of the NPT. Using this special status, North Korea sought direct talks with the U.S. North Korea began to emphasize its readiness to negotiate with the U.S. and to argue that the crisis could only be resolved through direct talks with the U.S. The Communist Party newspaper *Rodong Shinmun* said that “The nuclear issue can only be settled between North Korea and the U.S. because it is the U.S. that caused this problem and was standing in the way of its solution.” As the nuclear problem had only began when the U.S. brought nuclear weapons into South Korea, they argued, no third party (South Korea) could take the place of the U.S.

In security affairs, North Korea has a long history in trying to deal

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<sup>19</sup>- Jing Huang, “Why is Pyongyang so Defiant on the Nuclear Issue,” *Korea and World Affairs* (Fall 1996), pp. 380-405.

<sup>20</sup>- Samsung Lee, *The Nuclear Question and U.S. Policy on the Korean Peninsula* (Seoul: Hangil Publishing Co., 1994), pp. 54-58.

directly with the U.S. Its efforts could not be realized because of the strong opposition of South Korea.<sup>21</sup> The withdrawal from the NPT was a sure way to force the U.S. to talk with its non-recognized partner. The U.S. has been a leading player in the NPT regime and history tells us that the U.S. has participated actively when it has been faced with any challenge to the NPT.

The selection of the stronger partner as a chief opponent imposed some burden on North Korea. However, its threats of punishment from the stronger U.S. were reduced by the fact that the U.S. was unable to convert its overwhelming military power into a tool subtle enough for a relatively delicate job such as this.<sup>22</sup> There were some arguments for military action to eliminate North Korea's nuclear facilities as was undertaken in Desert Storm. The success of Desert Storm was based on the common interests among concerned states. But in the North Korean case, South Korea saw the situation differently from the United States. That is, South Korea did not want a military conflict to occur on its own territory.

The bombing of nuclear facilities in the North could spew radioactive contaminants over the peninsula. It could easily precipitate North Korean retaliation and possibly escalate into an all-out war. The political cost South Korea would have to pay would be incalculable. A "surgical attack" was not an acceptable alternative to South Korean leaders. North Korea also understood South Koreans' reluctance to use military means. In this respect, the North Korean strategy of changing partners was not as risky as first appeared.

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<sup>21</sup> - Kyung-Won Kim, "Korea and the U.S. in the Post-Cold War World," *Korea and World Affairs* (Summer 1994), pp. 213-232; Phil Williams (ed.), *Security in Korea: War, Stalemate, and Negotiation* (Westview, 1994).

<sup>22</sup> - James A. Winnefeld, *Worst-Case Planning for a Nuclear-Capable North Korea: Implication for U.S. Forces Deployments* (Santa Monica, CA: Rand, 1993). North Korea has an issue-related power in this negotiation. Issue-related power in negotiation see W.M. Habeeb, *Power and Tactics in International Negotiation: How Weak Nations Bargaining with Stronger Nations* (Baltimore, MD: Johns Hopkins University Press, 1988). On the North Korea's negotiation power, see Samuel Kim, *North Korean Foreign Relations in the Post-Cold War World* (NY: Strategic Studies Institute, 2007), pp. 81-88.

North Korea was also conscious that the U.S. was under some degree of time pressure to renew the NPT agreement. The U.S. faced the NPT Extension Conference in 1995. Before then, the U.S. had to resolve the North Korean nuclear issue. The U.S. did not want the North Korean nuclear issue to damage the NPT regime and its indefinite extension at the 1995 NPT Extension Conference.

The different priorities which existed between the U.S. and South Korea gave North Korea an alternative strategy to pursue in that it gave the option of choosing an easier partner to deal with. North Korea's withdrawal from the NPT assured U.S. direct participation and South Korea's isolation. The direct involvement of the United States marked the end of the Seoul-led united front which had so far worked so effectively. What is more, Seoul was excluded from the nuclear negotiations with North Korea. The U.S. policy shifted from emphasizing the Seoul-led united front to participating directly in order to force North Korea to fulfill its obligation to the IAEA. This shift changed the entire game and sowed the seeds for future trouble. It also made the North Korean nuclear issue a top priority in the wider U.S. non-proliferation efforts, which overrode all other issues in Korean affairs.

### ***The Creation of a New Context***

#### *The U.S.-North Korea Negotiations*

The main topic of the second and third stage of negotiation revolved around two suspicious locations. The IAEA argued that these places were where North Korea had hidden some plutonium. It insisted on the necessity for special inspections. By contrast, North Korea argued that these were military facilities, and consequently could not accept any special inspection of such places. During this stage, the main negotiation topic was the type and extent of IAEA inspections that North Korea would accept. North Korea used these two locations as a bargaining chip to win economic and political

concessions from its adversaries.<sup>23</sup>

For North Korea, the improvement of foreign relation with the U.S. was a vital policy objective. It would significantly reduce a threat to its security and would also provide an opportunity to drive a wedge between the U.S. and South Korea alliance, which until this point had restricted its political and strategic options against South Korea.

The North Korean government argued that it would talk exclusively with the U.S. only.<sup>24</sup> Conversely, the U.S. continued to maintain that negotiation with North Korea was integrally linked to the inter-Korean negotiations regarding nuclear and other issues between the two Koreas. In the same context, South Korea sought to use every channel to influence the negotiations in favor of its national interest.

In spite of North Korea's clandestine efforts to negotiate with the U.S., there were no talks between the U.S. and North Korea until June 1993. As the expiry date of North Korea's ultimatum to withdraw from the NPT was approaching, the U.S. tried to annul its decision. In June, the U.S. and North Korea began 'high-level talks' in New York. Both sides reached some agreement that the North Korean nuclear issue was a political issue that needed a political negotiation, not a legal or technical issue, contrasting to South Korean opinion. After the bilateral talks, North Korea suspended its withdrawal from NPT one day before the withdrawal was to lapse in exchange for diplomatic rewards. North Korea termed these rewards as 'political promises.'

In the July talks, the U.S. provided a commitment to the principle on assurances against the threat and use of force including nuclear weapons. The U.S. also agreed to replace North Korean nuclear reactors with systems

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<sup>23</sup> - For a discussion on the technical issue, see Man-Kwon Nam, "Verification Challenges for Korea" in *Proliferation and International Security: Converging Roles of Verification, Confidence Building, and Peacekeeping* edited by Steven Mataija (Toronto, 1993).

<sup>24</sup> - Larry A. Niksch, "North Korea's Campaign to Isolate South Korea," *Korea and World Affairs* (Spring 1995), pp. 29-39.

less prone to proliferation, that is, light water reactors (LWR). In spite of these broad U.S. concessions, North Korea only promised to resume a North-South dialogue to open the way for a summit meeting 'as soon as possible,' without any commitment in terms of date.

*South Korea's Objection to an Agreement between U.S.-North Korea*

On November 15, 1993, Secretary of State Department declared that the U.S. was ready to enter into a comprehensive dialogue with North Korea. This meant that the U.S. could trade off the North Korean nuclear issue with diplomatic, economic, and political carrots.

North Korea's political and diplomatic pay off from the accord was that it had attained its goals of a political dialogue with Washington, which someday may result in international recognition of North Korea's communist regime. Moreover, the accord was considered a step in the direction of bilateral relations between North Korea and the U.S.

Of great significance was the fact that there was no satisfying result for the South Korean government. The South Korean government curtly complained that the U.S. was trying to change its tough position without any diplomatic cooperation with Seoul. Seoul responded by trying to find a new route to insert and impose its interests in this negotiation. Its efforts were intensified by the possibility that U.S. hegemonic interests outweighed South Korean national interests. South Korea's fundamental dilemma was that it lacked any means to influence this outcome, and that it had only diplomatic action as a viable option open to it.<sup>25</sup>

Seoul lacked any independent means to respond to or deter a possible North Korean nuclear threat. Seoul could not but depend heavily upon diplomatic efforts. The first way it moved was to beef up the alliance with

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<sup>25</sup> - Jeh-Bong Lee, "The Change of U.S. Policy toward North Korea and the Problem of South Korean Reunification Policy," *Korean Political Science Review*, Vol. 30, No. 3 (Fall 1996), pp. 203-223.

the U.S. The second option was to organize international sanctions. The third option was to increase the level of military threats.

### *South Korea's Diplomatic Struggles*

As shown in Figure 3, there were two ways for South Korea to influence the negotiation process. One was to appeal to its allied nation, the U.S., and the other was to appeal to North Korea's allied nation, China.<sup>26</sup>

The South Korean President, Kim Young Sam, requested that President Clinton keep a tough position in the Seattle Summit in November.<sup>27</sup> South Korea declared that an inter-Korean dialogue was a critical means being pursued in order to guarantee the nuclear transparency of North Korea.

International sanctions seemed to be an effective means to subdue Pyongyang. However, it was difficult to organize such sanctions in the first place given the possible opposition from countries like China. China still maintained close ties with North Korea in the form of close relationships among their military leaders, rather than by providing military assistance to strengthen North Korea's war-fighting capability. China also was the main strategic source to supply staples and oil to North Korea.<sup>28</sup>

Moreover, the fact that China supported non-proliferation was clearly manifested in its full commitment to the Joint Declaration of UN Security Council Summit Meeting on January 31, 1992.<sup>29</sup> Thus, China was obliged to take appropriate actions against North Korea. South Korea tried to

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<sup>26</sup>- With respect to the diplomatic influence of small states on big states, see Robert O. Keohane, "The Big Influence of Small Allies," *Foreign Policy*, No. 2, 1971, pp. 161-182; Michael Handel, *Weak States in the International System* (London: Frank Cass, 1981).

<sup>27</sup>- *Sisa Journal*, July 22, 1993.

<sup>28</sup>- Yong-Sup Han, "China's Leverage over North Korea," *Korea and World Affairs* (Summer 1994), p. 233.

<sup>29</sup>- The Declaration says that "the proliferation of all weapons of mass destruction constitutes a threat to international peace and security. Therefore, if the IAEA notifies any case of violation of the NPT and safeguards agreement, then the members of the Security Council will take appropriate measures to tackle those problems."

persuade China to participate in international sanctions.

Nevertheless, China was not likely to link its supply of oil and staples to North Korea's change in nuclear policy, because it well understood the seriously adverse effects of such actions on North Korea. South Korea's Chinese leverage was seen as effective in this sense. South Korea realized Chinese influence was critical in influencing North Korean decision-makers to abandon the nuclear weapons program and to open its nuclear facilities to international inspection. However, China did not want to be involved in sanctions against its traditional ally, North Korea.

South Korea tried to change the Chinese diplomatic position in favor of itself. In April 1994, the South Korean President visited Beijing and persuaded the Chinese leadership to participate in international sanctions against North Korea. In the summit meeting, the South Korean President asked China to persuade North Korea to accept the IAEA's special inspection and not to veto it in the UN Security Council. It was reported that China strongly rejected South Korea's request.<sup>30</sup>

Beijing seemed to value the survival of the North Korean communist regime more than the prevention of nuclear proliferation on the part of North Korea. Its interests focused on the maintenance of peace and the stability of the Korean peninsula because it regarded this as essential for its continued economic reform and growth. China did not want to see North Korea jeopardize the status quo ante on the peninsula, which was a major reason why China had been strongly opposed to the UN Security Council's sanctions against North Korea.

China's strong resistance to the sanctions limited South Korean attempts to push forward with sanctions, thus weakening the international resolve to block North Korea's nuclear ambitions.

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<sup>30</sup>-*Sisa Journal*, April, 7, 1994, p. 8; March 3, 1994.

### *Inter-Korean Military Threats*

Seoul's other option was to increase the military pressures on North Korea. North Korea also responded with military threats. South Korea tried to resume the U.S.-South Korean military exercise, 'Team Spirit.' Moreover, South Korea tried to deploy the 'Patriot Anti-Missile' System on its territory.<sup>31</sup>

North Korea responded with further military threats against South Korean military pressure. North Korea declared that if South Korea continued to increase military tensions, Pyongyang would consider it "an act of war" and its reaction would "engulf Seoul in a sea of fire." As a result of Pyongyang's military threats, the people of Seoul rushed to food stores and supermarkets and bought emergency provisions, leaving store shelves emptied. Memories of the Korean War may have brought back fears to older citizens.<sup>32</sup>

These military pressures changed the game from that of the Prisoner's Dilemma to the Chicken Game in which it is easier to induce cooperation. That is, because the cost of war was high enough to force cooperation, the game shifted to that of the Chicken Game. In the Chicken Game, in spite of the adversary's possibility to exploit its rival, it is rational to try to find a way to cooperate because of the huge costs inherent in the alternative scenario.

Carter's visit to North Korea increased the possibility for South Korea to accept the agreement between the U.S. and North Korea. Carter brought a message from the North Korean Leader, Kim Il Sung, which stated that Kim was willing to meet the South Korean President as soon as possible in order to decrease the level of military tension between the two Koreas. Carter's message saved South Korea's face and the nuclear issue was settled.<sup>33</sup>

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<sup>31</sup>- *Sisa Journal*, March 3, 1994, pp. 36-37; *Sisa Journal*, April 14, 1994, pp. 34-36; *Sisa Journal*, April 28, 1994, pp. 30-33.

<sup>32</sup>- *Sisa Journal*, April, 7, 1994, p. 11.

<sup>33</sup>- *Sisa Journal*, June 23, 1994, p. 11.

## **Concluding Remarks**

This essay examines context creation in the U.S.-North Korean nuclear negotiations. North Korea created a favorable context by using an “exit” strategy. Moreover, North Korea paralyzed the influence of its tougher negotiation partner by military threats. It is true that a great many dynamic events influenced the negotiation results. However, this essay argues that North Korean success was based on its “exit” strategy. Their use of an “exit” strategy changed the negotiation structure and raised the profile of the less tough partner and isolated the tougher partner.

The initial phase of negotiations was dominated by the inter-Korean talks. However, South Korea perceived this issue as a Security Dilemma situation and hesitated to agree to any beneficial cooperation with its security rival. North Korea’s exit from the NPT regime excluded South Korea from the negotiation process and invited an easier partner (the U.S.) into the process whilst raising the profile of this partner at the expense of South Korea’s negotiation profile.

After North Korea’s exit, South Korea mobilized all diplomatic channels to influence the negotiation process in its favor. However, North Korea’s continuous efforts to isolate South Korea resulted in inter-Korean military threats. These mutual threats changed the structure of inter-Korean perspectives. That is, it shifted the game structure from that of Prisoner’s Dilemma into that of the Chicken Game.

The main purpose of this paper is to demonstrate that an analysis focusing on the relationship itself can explain the so-called “abnormal” phenomena of international relations more accurately and thoroughly. The case of the U.S.-North Korean negotiations over nuclear weapons development demonstrates that we can understand how a weaker partner can overcome a superior partner in international negotiations, by creating an entirely new context. North Korea created a favorable context by use of an “exit” strategy and military threats. On the basis of the analysis of the

North Korean nuclear negotiations, it can be concluded that a study focusing on the relationship itself can indeed be an entirely valid and fruitful approach.

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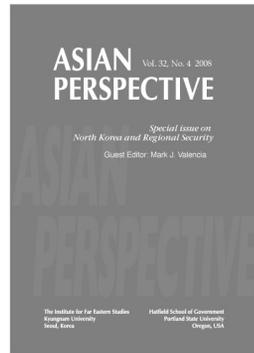
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