Managing U.S.-ROK Cooperation on Relations with China

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Foreword

The New Asia Research Institute and the Pacific Forum CSIS were pleased to convene the eighth U.S.-ROK bilateral security dialogue April 14-17, 2004. This year's meeting, like last year's, focused on managing relations with China.

The U.S.-ROK relationship is vital to Northeast Asian security and stability. The bilateral alliance has helped maintain peace on the Korean Peninsula and has provided a foundation for changes within South Korea itself. That evolution within the South, the changing balance of power on the Peninsula, and changes within Northeast Asia all pose challenges to the future of the relationship. Our meetings have examined the forces at work on the U.S.-ROK alliance and tried to anticipate how best to deal with them. Since our meetings commenced, there have been dramatic changes in the Northeast Asia security environment. U.S. and ROK relations with Russia and China have improved significantly; it has become increasingly doubtful that either of Pyongyang's long-time allies would support Kim Jong-il's military adventurism. For a period, the threat from the North also appeared to diminish, especially after the June 2000 North-South summit. Against this backdrop, we began to think of post-unification security arrangements. What kind of alliance system should South Korea pursue to further stabilize the security environment? Would a multilateral arrangement be more desirable? How should both countries readjust to accommodate the new balance of power?

While these questions remain, they have been joined by a new set of challenges, prompted by the discovery of a clandestine uranium-based nuclear weapons program in the North and a serious ideological split in the South between "progressives" and "conservatives." The ideological cleavage directly affects the ROK government's foreign policy as well as its North Korea policy. At times, disparate elements in the South have seemed more tolerant of North Korea's stance on weapons of mass destruction than they are of the alliance. Clearly, the alliance must adapt to survive; we hope this dialogue will facilitate that process. The report that follows provides some insight into our discussions and we hope will encourage more scrutiny of these issues. We will continue our discussions next year, when we will bring Japan back into the meetings to assess the quadrilateral U.S.-ROK-China-Japan context.

More than 40 participants joined the discussions this year on Maui, including several participants from the PRC who provided valuable insight into Chinese perspectives. Our thanks go out to all who attended. We are grateful to all of the participants for taking the time to join us. Their insights, analysis, and ideas for the future made this conference a success.

Rhee Sang-woo
President/Chairman
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Executive Summary

Trilateral relations among the United States, the Republic of Korea, and the People's Republic of China are becoming an increasingly important focus within Northeast Asia. To better understand the dynamics of this three-way relationship and their impact on the U.S.-ROK alliance, on April 14-17, 2004 the Pacific Forum CSIS and the New Asia Research Institute held the eighth in a series of U.S-ROK bilateral security dialogues and the second that examined China's role and impact on their relationship.

This emerging triangle is the product of a broader strategic shift within Northeast Asia. In many ways, this region remains locked in the Cold War status quo. The security architecture set in place at the end of the Korean War remains largely intact. At the same time, there has been a gradual but significant shift in the balance of power on the Korean Peninsula. The U.S. has been equally affected by changes in the international security environment. Strategic priorities have shifted after Sept. 11, which, when combined with new defense capabilities, have powerful implications for defense posture and planning on the Korean Peninsula. An integral part of these changes – both reflecting them and influencing their evolution – is China's emergence as a key strategic player in East Asia. Its economic development has given Beijing influence unprecedented in modern Asian history. The key challenge for the U.S.-ROK alliance is adapting to this new environment. Washington and Seoul must make their alliance relevant to new security challenges, without needlessly antagonizing China in the process. This balancing act is especially acute for the ROK, as it must weigh relations with its alliance partner of the last 50 years against "strategic accommodation" with its traditional, pre-20th century patron, China. All three countries should work to ensure that no "two against one" arrangements occur, no matter how formulated. Neither should Seoul be tugged between two competing poles.

The foundation of the trilateral relationship is the interests shared by the three countries. They include: maintenance of a peaceful and stable status quo; a peace treaty that ends the current military confrontation on the Korean Peninsula and leads to an era of peaceful coexistence; a stable, nuclear-weapons-free Korean Peninsula; and having East Asia remain at peace in order to facilitate trade and economic development. There are considerable differences among the three as well. The most important appears to concern relations with North Korea.

There was a broad consensus that the six-party talks have made modest progress: the talks were continuing, a working-level group had been established, and there is general agreement on the goal of a nuclear-weapons-free Korean Peninsula. It is important to recognize, however, that different approaches to those multilateral negotiations reflect much more than tactical differences. The questions surrounding the six-party talks are the broader questions that will have to be addressed as China continues its economic development and becomes a more powerful nation within East Asia. Washington appears more ready than Beijing or Seoul to try to confront or isolate North Korea in the event of a diplomatic breakdown. China and South Korea seem more willing to see flexibility in North Korea's position, although the U.S. appears to understand that

this is as much a public relations battle as it is a strategic challenge and the U.S. must be perceived as ready to work for a solution. While Washington, Seoul, and Beijing share a variety of concerns, the U.S. tends to see the crisis foremost as a weapons of mass destruction problem, the ROK looks first at North-South issues and the prospects for reunification, while China places a premium on regional stability. These diverging priorities underscore the difficulties in the success or realization of the goal of CVID, the "complete, verifiable, irreversible dismantlement" of North Korea's nuclear programs. The possibility that the six-party talks could evolve into a more permanent regional security mechanism provides hope for future regional cooperation, but it is also a potential source of concern: As doubts grow in South Korea about the utility of the alliance, the U.S. must be careful that talk of multilateralism does not encourage alliance opponents and agnostics in the ROK.

Doubts about the alliance reflect changes in domestic politics. The maturation of a younger generation in South Korea has altered that country's political consensus; that evolution was most visible in the results of the April 15 parliamentary elections that brought the Uri Party to power. This generation has different views of North Korea and the United States, and this will have an impact on Seoul's alliance with Washington. Korean participants stressed the need for political management of public opinion and careful attention to the anti-American sentiment that seems to be blossoming in that country. At the same time, it is important to recognize that debates in South Korea are the healthy expression of a maturing democracy. The U.S. must be careful to avoid either ignoring or overreacting to these changes.

Trade and investment between the United States, South Korea, and China is also changing and this reflects a new regional dynamic: the rise of China. The U.S. still plays a critical role for the region, but now it is a final destination for many Asian goods that are first assembled in China. Chinese economic growth is beneficial to its neighbors, but it raises questions about the influence that it confers on Beijing and how it will use that leverage. Political and economic cooperation reduces conflict, and policy coordination helps create understanding. China's growing economic influence will naturally give rise to multiple lines of communication with South Korea and the U.S., while trade agreements will continue to yield more sophisticated dispute settlement mechanisms, such as those already in existence between the U.S. and South Korea.

Several principles should guide relations among the three countries. First, Washington should not try to compel Seoul to see relations between it and Beijing as a zero-sum equation. Seoul should not be tugged between two competing poles. Second, the U.S. must be sensitive to the changes that are taking place in South Korean society. South Koreans must do their part as well. Supporters of the U.S.-ROK alliance in South Korea must speak up more forcefully on behalf of the alliance. When dealing with China, the U.S. must be equally forthright: it must explain to Chinese decision-makers and elites that cooperation with the U.S. is not based on quid pro quos, but on shared interests and objectives. Indeed, that is the overarching lesson of our meeting. The three governments can accomplish a great deal if they work together. A failure to cooperate will make those objectives difficult, if not impossible, to achieve.

Managing U.S.-ROK Cooperation on Relations with China

There are triangular relationships aplenty in East Asia. The U.S.-Japan-China, the U.S.-Japan-ROK, and the U.S.-China-Taiwan triangles come immediately to mind and are the most strategically significant. Trilateral relations among the United States, the Republic of Korea, and the People's Republic of China are comparatively less studied but are becoming an increasingly important focus within Northeast Asia. To better understand the dynamics of this three-way relationship and their impact on the U.S.-ROK alliance, on April 14-17, 2004 the Pacific Forum CSIS and the New Asia Research Institute held the eighth in a series of U.S-ROK bilateral security dialogues and the second that examined China's role and impact on their relationship.

This emerging triangle is the product of a broader strategic shift within Northeast Asia. In many ways, this region remains locked in the Cold War status quo. The security architecture set in place at the end of the Korean War remains largely intact. At the same time, there has been a slow shift in the balance of power on the Korean Peninsula. Seoul's development, coupled with the North's economic stagnation and decline, has transformed relations between the two countries. The maturation of a new, younger generation in South Korea has altered that country's political consensus. This generation has no memory of the Korean War; as a result, it has different views of North Korea and the United States, and this will have an impact on Seoul's alliance with Washington. Internal political change is mirrored by changes in the international security environment in the post-Sept. 11 world: new defense capabilities and new security threats have also altered the strategic calculus.

United States has been equally affected by changes in the international security environment. Strategic priorities have shifted after Sept. 11, which when combined with new defense capabilities, has powerful implications for defense posture and planning on the Korean Peninsula.

An integral part of these changes – both reflecting them and influencing their evolution – is the rise of China. China is steadily emerging as a key strategic player in East Asia. Its economic development has given Beijing influence unprecedented in modern Asian history. Thus, as Chung Min Lee argues in his paper, "the question for South Korea in the beginning of the 21st century is whether it should strive to prolonged, strengthen, and modernize its maritime alliance with United States or strive to seek 'strategic accommodation' with its traditional, pre-20th century patron, China."

Adapting the U.S.-ROK Alliance

The challenge for the United States and South Korea is to adapt their alliance to this new strategic environment. Lee argues that "out of area contingencies" will become increasingly important for both countries and the focus of alliance planning. He astutely points out that this poses a dilemma for South Korea. "If the ROK-U.S. alliance becomes increasingly associated with subregional issues, then it is nearly inevitable that greater clashes with the PRC will ensue unless South Korea assumes 'virtual neutrality' on issues that are of critical concern to its major ally, the United States."

During our discussion, Chinese speakers tried to assuage concerns about China's rise and its impact on East Asian foreign policy. They were quick to acknowledge that the U.S. is part of the region with distinct interests in Asia. They accept that it can play "a positive and constructive role"; one even noted that a U.S. "decline" would have negative consequences for the entire world. While China opposes alliances in principle, our Chinese participants acknowledged "the positive role of the U.S.-ROK alliance." They noted that changes in the broader strategic environment raised the possibility of a "dual track" regional security framework in which the traditional bilateral alliance relationships existed alongside new multilateral institutions.

Some Americans questioned those assertions, countering that China had pushed for an Asian dialogue among Asians that excluded the United States. Our discussion framed the importance of two phrases: "Asia for Asians," a catch phrase of the '60s that was synonymous with "Yankee go home," and "the Asia-Pacific community," a formulation that implicitly acknowledges the U.S. (and Canadian) role in the region. It also provides a conceptual foundation upon which the three nations can work together

Finding Shared Interests

Michael McDevitt, director of the Center for Strategic Studies at the CNA Corporation, providing an intellectual framework for our discussions, arguing that the U.S.-ROK-PRC trilateral relationship is a relatively new feature in the "triangulation of relationships" in this region, an inevitable result of the rise of China. The foundation of this trilateral relationship is the interests shared by the three countries. McDevitt identified several. They include: the continuing division of the two Koreas, or, more properly, that South Korea continue as an independent sovereign entity; the maintenance of a peaceful and stable status quo and that there be no second Korean War; a peace treaty that ends the current military confrontation and leads to an era of peaceful coexistence; a stable, nuclear-weapon-free Korean Peninsula; overcoming the scourge of fanatical Islamist terrorism; and having East Asia remain at peace in order to facilitate trade and economic development.

There are important divergences among the three, however. First, the three do not share views of democracy and human rights. China does not appear interested in creating multiparty democracy or regimes that favor free speech and other basic rights. (History suggests that different attitudes toward democracy need not be an impediment to

improved relations.) Views of alliances are also a dividing line between Washington and Seoul (on one side) and Beijing. There's also a difference of opinion about the near-term fate of North Korea: neither China nor South Korea wants to see a sudden collapse in the North. While this is consistent with stated U.S. policy, at times, Washington seems to welcome this outcome. This creates another point of divergence, namely dealing with North Korea.

While Washington, Seoul, and Beijing share a variety of concerns, the U.S. tends to see the crisis foremost as a weapons of mass destruction problem, the ROK looks first at North-South issues and the prospects for reunification, while China places a premium on regional stability. These differing priorities have important implications for the six-party talks. It is important to recognize, however, that different approaches to those multilateral negotiations reflect much more than tactical differences. The questions surrounding the six-party talks are the broader questions that will have to be addressed as China continues its economic development and becomes a more powerful nation within East Asia. Seoul in particular faces strategic dilemmas: it is allied to a distant nation yet has a potential adversary on its very doorstep.

Much of our discussion focused on the possible contours of a multilateral framework in Northeast Asia. There has been much speculation of the evolution of the six-party talks, and they have triggered suggestions that they could serve as the starting point for a regional security dialogue. Korean participants at our meeting pointed out that several South Korean presidents had called for such a Northeast Asian dialogue. Kim Young Sam endorsed this in 1994, but he envisioned it as a supplement to the U.S.-ROK alliance. South Korean participants warned that changing views in South Korea meant that the United States had to be especially sensitive about the signals it sends about such dialogue. As doubts about the utility of the alliance grow in both countries, Washington has to be careful that it does not encourage alliance agnostics and opponents in the ROK. It was suggested that the U.S. distinguish between a multilateral approach to specific issues and multilateralism more generally.

U.S. participants also called on the three countries to be attuned to Japanese sensitivities. They highlighted the need to ensure that Japan did not feel isolated or left out of regional dialogues or discussions. (In this regard, next year's gathering will be quadrilateral, with Japan re-joining the series – several years of trilateral U.S.-Korea-Japan discussions preceded the current China-centric dialogue.)

Throughout our discussions, participants from all three countries stressed the need to carefully calibrate the trilateral equilibrium. All our participants warned against creating a two-against-one equation, no matter how formulated. Others cautioned against seeing the trilateral relationship as a continuum with Seoul tugged between two competing poles. That advice is relevant to Asia as a whole. A Chinese participant counseled Washington to not force Asians to choose between some sense of a regional identity and good relations with the U.S.

Hanging over this discussion, and many others throughout our meetings, was the issue of Taiwan. The cross-Strait dimension is a permanent feature of the Chinese strategic calculus. Beijing's involvement in regional discussions invariably elicits considerations of how a particular position either privileges or penalizes China vis-à-vis Taiwan. For example, and unlike our discussions last year, it was implied that Beijing's involvement in Korean Peninsula negotiations created a credit in its favor when it comes to dealing with Taiwan. Our Chinese participants considered modernization and revitalization of the U.S.-ROK alliance to be all right as long as the result does not increase the likelihood of intervention in a cross-Strait crisis or could change the outcome of such a crisis. In addition, Chinese participants suggested that the U.S. and China study crisis management mechanisms that could cover a range of contingencies.

KEDO's Role

The discussion then turned to the Korean Peninsula Energy Development Organization, KEDO, set up to implement the 1994 Agreed Framework. KEDO is currently in suspension so that it can, in the words of one participant, "get out of the way of diplomacy." There has been substantial mythologizing of the KEDO history, and especially over the Agreed Framework. Governments that initially were suspicious of, or less than enthusiastic in their support for, the U.S.-DPRK bilateral agreement, such as those in South Korea and Japan (who were not accorded a seat at the negotiating table), have become more committed to it as it has come under increasing attack in the U.S. Meanwhile, North Korea, which at times has gone to great lengths to impede KEDO's workings, now appears to view this mechanism as a template for future multilateral agreements.

There was support in our discussions for keeping the organization alive. Changes will be required as KEDO adapts to the new strategic realities outlined at the beginning of this report. But while the Agreed Framework called for the provision of light-water reactors, that is only one option in a wide menu of energy options. Any deal that results from the six-party talks may have room for KEDO to oversee the dismantling of North Korea's nuclear programs or to administer its energy component. There were even suggestions that it could play a role in regional efforts to deal with problems associated with the growing use of nuclear energy in Northeast Asia, such as growing supplies of nuclear waste or the management of spent fuel.

Tracking the Six-Party Talks

Our third session focused on the six-party talks. Presentations examined the history of the talks and an ROK perspective on their progress. There was a broad consensus that the discussions have made modest progress: the talks were continuing, a working level group had been established, and there is general agreement on the goal of a nuclear-weapons-free Korean Peninsula. Yet, within the trilateral context, it appears that the United States is the outlier. Washington appears more ready than Beijing or Seoul to try to confront or isolate North Korea in the event of a diplomatic breakdown. China and South Korea seem more willing to see flexibility in North Korea's position, although the

U.S. appears to understand that this is as much a public relations battle as it is a strategic challenge and the U.S. must be perceived as ready to work for a solution.

Our discussions underscored the divergent interpretations of the environment in which the six-party talks take place. We repeatedly asked the simplest question – "whose side is time on?" – but we were unable to come up with a convincing answer. With neither Washington nor Pyongyang seemingly eager to make a deal, it appears that each thinks that time is on its side. Pyongyang is waiting to see how the U.S. presidential election develops. There's speculation that if Bush is ahead by the end of summer, then the North will be eager to strike a deal. If challenger John Kerry is ahead, then the North might hold out in anticipation of a better outcome with a different president. Either way, the North has more time to work on its nuclear weapons program, and to up the ante for any eventual deal.

We tried to better understand China's view of the six-party process, but we still have more questions than answers. Does Beijing see its role as that of the traditional facilitator-mediator or as a more active participant in the process? Will it use its leverage to encourage flexibility in the North Korean position? Beijing has demonstrated a willingness to motivate North Korea with both sticks (cutting off fuel oil) and carrots (offering economic aid), but it remains unclear just how far Beijing will go.

Our Chinese participants bluntly stated that China does not support regime change in Pyongyang and would not assist efforts to bring that about. They do not feel that North Korea is an imminent threat to regional security and they believe that Pyongyang's nuclear weapons program is designed only to develop a deterrent. They view this as a fundamentally bilateral dispute, and noted that stability was China's paramount goal; the non-nuclear status of the Korean Peninsula is a secondary consideration. Still, Beijing's efforts to facilitate the six-party negotiations had, reported a Korean participant, positively influenced South Korean perceptions of China.

These diverging views underscore the difficulties in the success or realization of the goal of CVID, the "complete, verifiable, irreversible dismantlement" of North Korea's nuclear programs. Our discussions highlighted the disagreements on virtually every term in the CVID formula.

Making Sense of April 15

We next turned to an assessment of the ROK elections. Our meeting took place on the eve of the historical April 15 parliamentary vote in South Korea. When the results were in, the five-month old Uri Party had shocked the old guard in South Korea by winning an absolute majority in the 299-seat National Assembly. The vote was in many ways a referendum on President Roh Moo-hyun. Weeks before the election, he had been impeached by the opposition Grand National Party (GNP) and the Millennium Democratic Party (MDP) for comments that were said to violate the national election law. Even though President Roh has not enjoyed widespread support for his policies, most South Koreans viewed the impeachment bid as a blatant attempt to overreach and they

punished the parties behind the move. Other factors in the election were corruption, close and shady ties between the business and political worlds, the inability of the GNP to offer a new image to a changing South Korea electorate (despite the selection of Park Keun-hye, the daughter of former strongman Park Chun Hee, as GNP president, in an attempt to put a new face on a stodgy organization). Some Korean participants also credited North Korean efforts to mobilize sympathizers in the South as contributing to the outcome.

The impact of the election is unclear. As a new party, Uri's policies and priorities are still being formed. For the first time in Korean history, however, the National Assembly and the presidency are controlled by progressives. Our participants were not pessimistic about the impact of that development. There was hope that this will encourage both branches of government to be more responsible. Until now, the conservative GNP had controlled the Parliament, a situation that created gridlock and encouraged both sides to be maximalists, secure in the knowledge that neither's policies would prevail. Now they can no longer afford that indulgence; the new ruling party in particular must take responsibility for its policies. More immediately, the vote is likely to influence the thinking of the Constitutional Court, which must ratify the impeachment of the president. It is unlikely to do so after he has received an overwhelming popular mandate.

The Impact of Domestic Politics

Our discussion of the elections introduced a more wide-ranging discussion of domestic politics within the three countries. Key features included the generational change in South Korea highlighted in the election results. Korean participants stressed the need for political management of public opinion and careful attention to the anti-American sentiment that seems to be blossoming in that country. In fact, anti-Americanism is a complex and variegated phenomenon. It is composed of many strands and has many causes; simplistic analysis is to be avoided. Ironically, it was Americans who cautioned against blowing anti-Americanism out of proportion and who characterized the debates in South Korea as the healthy expression of a maturing democracy. One noted that a new study of ROK attitudes shows that Koreans are dissatisfied with U.S. *policies* rather than the U.S. military or Americans more generally. In other words, a rebound is possible and the doom and gloom is probably exaggerated. Friction in the bilateral relationship is more the product of "messy domestic politics" rather than inherent strains in the alliance.

Our Korean participants stressed the need for elites, who are generally supportive of the alliance, to more effectively interject their views into public discourse. Their failure has allowed those who oppose relations with the U.S. and the bilateral security alliance to dominate the discussion. Our Korean participants faulted the GNP for its inability to adapt to new political realities; its failure to articulate a continuing rationale for the alliance has meant that there is no middle ground between "yesterday's" conservatives and the "forward-thinking" of the progressives and this has contributed to the polarization of views in the ROK.

There is room for criticism of the United States as well. In his paper, Richard Halloran notes the traditional American preference for isolationism and wonders whether the U.S. might retrench in the future. Others countered that the current administration's views provided little grounds for speculation about an eventual U.S. withdrawal and anticipated even greater intervention in the future. It was noted that U.S. views of South Korea currently range from indifference to hostility. While a lot of attention has been given to the generational change in South Korea, it should be remembered that memories are fading in the U.S., too. The Korean War was fought over a half-century ago. Today, there is increasing sentiment in Congress that South Korea is "ungrateful" for the sacrifices that Americans have made on its behalf. (An ROK participant rightly noted that the ROK has fought along side the U.S. in virtually every conflict since then; some debts are not forgotten….) It is fair to ask if the U.S.-ROK relationship is still a "special" one or just another alliance.

U.S. views of China remain deeply divided. While there are common interests and areas of common concern, many are wary of China's long-term intentions and worry that Beijing will eventually compete with Washington predominance for preeminence within the region. Our Chinese participants tried to reassure us that China's long-term intentions were no threat. The new leadership is nonideological, technocratic, and pragmatic. Since economic development remains its paramount priority, it will also put a premium on peace and stability to facilitate that development.

A critical factor, if not a test case, remains Taiwan. As noted earlier, Taiwan hung over our discussions. Many Chinese apparently see a link or quid pro quo between Taiwan and China's role in the six-party talks: there is no explicit "trade" of North Korea for Taiwan, but there seems to be an expectation that Washington will somehow keep Taipei in a box and prevent any concrete steps toward independence in return for China's efforts to broker a deal between Washington and Pyongyang. U.S. participants tried to disabuse the Chinese of the validity of that thinking, arguing that it is in China's national interest that the Korean Peninsula be nuclear weapons free; it is a coincidence of views and objectives, not quid pro quos, that lays at the base of Sino-U.S. cooperation vis-à-vis North Korea.

Changing Economic Dynamics

Our fourth session examined the economic dimensions of trilateral relations. A great deal of the discussion focused on the changing nature of trade and investment between the United States, South Korea, and China. In her paper, Christine Brown of the Korea Economic Institute of America, attributes this shift to the opening of the Chinese market and the normalization of ties between Korea in China. "There is a new dynamic at work in the region that suggests the [U.S.-ROK] relationship could be approaching a turning point. This new factor is the rise of China."

On the whole, the U.S. remains South Korea's number one trade partner. Total trade between the two countries reached $61.1 billion in 2003, with U.S. exports to South Korea totaling $24.1 billion while the U.S. imported $37 billion of South Korean goods

and services. U.S. foreign direct investment in the South Korean banking, manufacturing, and wholesale sectors reached $12.2 billion in 2002. Yet over the last decade, both the United States and South Korea have seen a steady increase in trade with China. In 1991, China took about 1 percent of South Korean exports; by 2001, China's share of ROK exports had reached 12 percent. During the same period, the U.S. share of ROK exports fell by a third, from 30 percent to 20 percent. South Korean trade with China continues to rise, and by 2003 it reached $57 billion, nearly as much as ROK trade with the U.S.

But these bilateral shifts must be considered within a broader context. China's rise has not displaced the U.S. within the South Korean economic equation. It has merely shifted it. Jongkyou Jeon, of the Korea Institute for International Economic Policy, points out in his paper that more than 50 percent of China's trade is related to assembly work. He notes that 70 percent of ROK exports from China are destined for third country markets, and 40 percent go to the U.S. This poses particular challenges for companies investing in China. Although foreign investors are likely to retain a technological edge for another decade, technology and knowledge are being transferred, and indigenous Chinese companies are closing the gap. The challenge for South Korea and other countries that invest in China, including the U.S., is figuring out how to continue to reap the benefits of investment in Chinese manufacturing while maintaining that edge.

A substantial part of our discussion focused on regional economic cooperation. There was widespread agreement that this is the best means to ensure economic growth and political security in the region, although there were disagreements about the form this cooperation might take. One popular mechanism is the free trade agreement (FTA). As in the growing number of strategic triangles, FTAs are proliferating too. Participants offered up a China-Japan-Korea FTA, a U.S.-ROK FTA, an East Asian FTA, and ROK-Japan and ROK-China FTAs. In his paper, Jeon lays out the thinking behind several of these arrangements; it is worth noting that in several cases, the logic reflects political/strategic considerations as much as economic ones.

The issue of regionwide or more distinctly "Asian" FTAs raised again the question of the U.S. role in the region. One speaker pointed out that ensuring U.S. access to the Asian market has been a pillar of U.S. foreign policy for over 150 years. Our economically minded participants argued that any arrangement that excluded the U.S. was inefficient and unlikely to emerge. The U.S. share of manufacturing goods trade may be decreasing, but it remains a key player in the trade of high-tech goods and new services and the provision of capital. While the U.S. might not be a founding or direct member of some of the FTA formulations, it could participate through bilateral deals with particular FTA members. In this, as in any other economic deal, politics poses considerable obstacles. Korean participants favored a U.S.-ROK FTA, but cautioned against unrealistic expectations. They suggested that particularly thorny areas, such as agriculture, receive "special consideration." A Korean participant offered that the newly elected Uri Party believes in and supports a market economy, and will most likely seek to continue South Korea's policy of expanding trade and opening its markets to maintain competitiveness.

While some Chinese participants expressed concern about the political impact of rising U.S. trade deficits with China – and argued against their significance – most participants marveled at the absence of "China bashing" in the American business community. Given the U.S. focus on removing trade barriers in Asia and the notion that economic development will lead to the rise of more democratic forces, the silence is not surprising. However, with election year politics beginning to heat up in the U.S., the sounds of silence may not be heard much longer. Debates over trade deficits, currency revaluation, and out-sourcing could cast China in a negative light.

The economists in the group reminded us that Chinese economic growth is beneficial to its neighbors, and that Beijing views economic ties as a means to lubricate political ties with its neighbors and with the U.S. Political and economic cooperation reduce conflict, and policy coordination helps create understanding. China's growing economic influence will naturally give rise to multiple lines of communication with South Korea and the U.S. and trade agreements will continue to yield more sophisticated dispute settlement mechanisms, such as those already in existence between the U.S. and South Korea.

Summary and Conclusions

Our discussions shed considerable light on the nature of the trilateral relationship among the U.S., South Korea, and China. Even though that triangle is continuing to evolve, we discerned several principles that should guide relations among the three countries. First, Washington should not try to compel Seoul to see relations between it and Beijing as a zero-sum equation. There are unalterable strategic realities that oblige South Korea to give China a weight in its policy making. The U.S. must be sensitive to this fact and act accordingly. Seoul should not be tugged between two competing poles. (This advice is good for Asia as a whole.) Second, the U.S. must be sensitive to the changes that are taking place in South Korean society. That means acknowledging the changing worldview of young South Koreans, addressing their concerns, and forging a relationship that responds to it. Of course, South Koreans must do their part as well. Supporters of the U.S.-ROK alliance in South Korea must speak up more forcefully on behalf of the alliance. The silent majority has been silent too long. When dealing with China, the U.S. must be equally forthright: it must explain to Chinese decision-makers and elites that cooperation with the U.S. is not based on quid pro quos – i.e., Chinese cooperation on the Korean Peninsula in return for U.S. cooperation vis-à-vis Taiwan – but on shared interests and objectives. Indeed, that is the overarching lesson of our meeting. Despite considerable changes in the international security environment and in domestic politics in each of these countries, the three nations have common interests and objectives. The three governments can accomplish a great deal if they work together. A failure to cooperate will make those objectives difficult, if not impossible, to achieve.

APPENDIX A

New Asia Research Institute
Pacific Forum CSIS

Managing ROK-U.S. Cooperation on Relations with China

April 14-16, 2004
Royal Lahaina Hotel, Maui

AGENDA

Thursday April 15

9:00AM *HALE PIILANI ROOM*
Opening Remarks by Ralph COSSA and RHEE Sang-woo

9:15AM **Session I: Strategic and Military Dimensions of Trilateral Relations**
Presenters: LEE Chung-min, RAdm. Michael McDEVITT
Discussant: XU Weidi

Topics: Cooperation in the war on terrorism, including Iraq; trilateral approaches/policies toward WMD nonproliferation; rationale and sustainability of U.S.-China coordination for regional security; U.S. force restructuring in the ROK and globally; future of bilateral and multilateral security relations in Northeast Asia.

10:30AM Break

10:45AM Session resumes

11:30AM **KEDO Update by Ambassador Charles KARTMAN**

12:00PM Lunch – *ROYAL OCEAN TERRACE*

1:15PM **Session II: Mutual and Divergent Interests in Solving the North Korea Crisis**
Presenters: KIM Sung-han, Amb. Charles "Jack" PRITCHARD
Discussant: SUN Ru

Topics: Status of and prospects for six-party talks; key issues and players concerning resolution of the nuclear issue (security guarantees, nuclear inspection, comprehensive package deals, and follow-up measures); dual modes of dealing with North Korea (further steps and incentives); possible military contingencies; North Korean refugee issues.

3:15PM Break

3:30PM **Korean Election Update (Hon. LEE Dong-bok)**

3:45PM **Session III: Domestic Political Dimension of Trilateral Relations**
Presenters: KIM Woosang/KIM Tae-hyo, Richard HALLORAN
Discussant: YU Bin

Topics: Political leadership approaches toward foreign policy; role of domestic politics, including opposition parties and civil society, in shaping foreign policies; prospects of South Korean general election and U.S. presidential election and their impact on U.S.-ROK relations and North Korea policy; impact of Chinese leadership transition.

5:30PM Session adjourns

Friday April 16

9:00AM *HALE PIILANI ROOM*
Session IV: Economic Dimension of Trilateral Relations
Presenters: JEON Jong-kyou, Christine BROWN
Discussant: TAO Wenzhao

Topics: Factors affecting regional and global economic relations; nature of bilateral economic relations between the U.S., PRC, Japan, and ROK, including FTAs; economic factors concerning USFK transformation; future of defense burden-sharing between the U.S. and ROK; China's economic diplomacy.

10:45AM Break

11:00AM **Wrap-up discussion and closing remarks**
Chairs: RHEE Sang-woo and Ralph COSSA

11:45PM Meeting adjourns

APPENDIX B

New Asia Research Institute
Pacific Forum CSIS

Managing ROK-U.S. Cooperation on Relations with China

April 14-16, 2004
Royal Lahaina Hotel, Maui

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APPENDIX C

Session 1
Strategic and Military Dimensions of Trilateral Relations

by Chung Min Lee
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I. Coping with the Post-Status Quo Northeast Asia

For much of the post-Cold War era and despite sporadic attempts to rethink the strategic equation, one is struck by the seeming dominance of the status quo in Northeast Asia since the collapse of communism in the early 1990s. From the outside looking in, the security architecture that was set in place incrementally following the end of the Korean War remains largely intact today: a mixture of forward deployment of U.S. forces, bilateral security webs, and the primacy of maintaining strategic stability. Compared to NATO's post-Cold War transformation, including the latest membership expansion in early April, events would seem to suggest that only marginal changes have transpired in key bilateral alliances in the Asia-Pacific region. And yet, if one looks beneath the surface, significant transformations have begun to take shape in Northeast Asia including the potential for the most drastic restructuring of U.S. forces since the end of the Korean conflict more than half a century ago.

The scope of South Korea's security policies has expanded considerably over the past decade, including the growing need to consider the China factor – strategic, economic, political, and social – as issues become increasingly multifaceted and complex. No major security issue today or even into the foreseeable future can be understood, much less resolved, without an interdisciplinary approach and the fusion of strategies and resources. China is but another example. All core issues affecting the future prosperity and security of the ROK hinges to one degree or another on Chinese responses and corresponding strategies. How North Korea evolves over the next five to ten years, the ability of the Kim Jong-il regime to survive and to emulate Chinese reforms, and China's potentially divergent interests and goals compared to these of the United States all have one thing in common; whether China will respect the status quo or strive to maximize what it may claim to be its "rightful" strategic heritage as the dominant power in the Northeast Asian power constellation.

From a macro perspective, Korea's alliance with the United States over the past half century has been a singularly unique departure from Korea's traditional security paradigm. Centuries of suzerainty under China were shattered by the bitter legacy of Japanese colonialism only to be met with national partition. But for the southern half of Korea, five decades of unprecedented linkages and ties with the predominant maritime power has brought about a sea-change in Korean security, economic, and political

perceptions. Thus, the question for South Korea in the beginning of the 21st century is whether it should strive to prolong, strengthen, and modernize its maritime alliance with the United States or strive to seek "strategic accommodation" with its traditional, pre-20th century patron, China. To be sure, such a debate is only a small part of the on-going deliberations in Seoul but South Korea not only has to contemplate future paths in North Korea, it has to also take a long and hard look at its core security options and attendant consequences for at least the next two to three decades. This is the principal challenge confronting South Korea today, but the task is complicated in the short to mid-term by the following dimensions of the ROK-U.S. alliance:

1. ***Post-Sept.-11 Strategic Priorities.*** Although the attacks of September 11 did not completely reorient the global strategic picture, they did result in the most fundamental reassessment of U.S. strategic priorities arguably since World War II. By extension, reconfiguring key footprints in Northeast Asia including the USFK can no longer be seen primarily in the context of intra-peninsular or even sub-regional forces. Thus, notwithstanding the continuing need for a robust defense and deterrent presence on the Korean Peninsula, global security requirements have already affected the ROK-U.S. alliance. Whether it's the war on terrorism (WOT), weapons of mass destruction (WMD) proliferation initiatives, transnational threats, etc., the ROK-U.S. alliance is going to be increasingly affected by changing strategic priorities of the United States in the post-Sept.-11 era. Should the alliance become more regionally based rather than peninsular-based as it is today, such a transformation would entail significant political, military, and economic transitions on both sides.

2. ***Realignment of U.S. Forces Korea.*** Ever since Jimmy Carter announced and then ultimately rescinded his decision to withdraw U.S. ground forces from South Korea, both sides have largely assumed the virtual permanence of the USFK. In part, such a view is premised on the continuing military threat from the North, a threat that has been exacerbated since the early 1990s due to Pyongyang's WMD and nuclear weapons programs. That said, Seoul and Washington agreed in January 2004 (reaffirmed in April) through the so-called "Future of the ROK-U.S. Alliance Policy Initiative" (FOTA) that were begun in 2003 to implement the redeployment of the 2nd Infantry Division south of Seoul by 2008. Secretary of Defense Donald Rumsfeld and other senior U.S. officials have argued over the past 12 months that the U.S. footprint in Seoul has to be reduced significantly in order to account for new political and strategic realities. Whatever the root causes for the redeployment of the USFK and despite arguments to the contrary, some type of a force reduction is virtually unavoidable, including the potential withdrawal of the 2nd Infantry Division.

3. ***New Domestic Political Forces.*** As evinced by the rise in anti-Americanism and rethinking of South Korea's core strategic linkages preceding and following the inauguration of the Roh Moo-hyun government in February 2003, the alliance has been buffeted by unprecedented political turmoil since its inception in the mid-1950s. Even during the height of alliance discord in the 1970s during the Park

Chung-hee era, there was a wide-ranging consensus within South Korea to sustain the alliance. Although the majority of the South Korean public continues to perceive the critical need for a U.S. military presence, a growing segment of South Koreans also believes that South Korea should sharply redefine its alliance with the United States. For its part, the Roh government has fueled the strategic debate in the South by advocating a security policy that can perhaps be described as "alliance lite" by advocating a more robust self-reliant defense posture on the part of the South while retaining central elements of the alliance. Regardless of the outcome of the April 15 National Assembly election, however, the alliance will no longer be immune from the polarization of the security consensus in South Korea.

While much of the attention over the past two years have focused on newly emerging political forces and perceptions in South Korea, it is equally significant to mention the rise of new perceptions in the United States vis-à-vis the ROK-U.S. alliance. Granted that public attitudes and perceptions in the United States towards South Korea cannot be compared to South Korean attitudes and perceptions towards the United States given the intrinsically asymmetrical nature of the alliance, it is also true that traditional perceptions of the ROK as one of the most dependable and trustworthy allies in the Asia-Pacific region have changed on the heels of anti-Americanism, the rise to the fore of new political leaders in South Korea, and the increasingly potent role of the media in shaping public attitudes in Seoul as well as Washington.

4. ***Reconfiguring the Alliance for the 21st Century.*** Ever since the mid-1990s, Seoul and Washington have undertaken a number of official and semi-official studies on revamping the alliance for the 21st century. But a fundamental rethinking of the alliance is likely to be shaped by a confluence of forces that are still emerging, e.g., future paths in North Korea including variations of collapse scenarios and other possible volatile transitions, domestic political forces in South Korea including the emergence of the left as a potent pillar in South Korean politics with attendant repercussions for the alliance, wrenching subregional crises and transformations such as developments in the Taiwan Strait or even mainland China, the resurgence of major power competition in the region (unlikely as it may seem today) including the reemergence of Sino-Russian rivalry in East Asia, and the emergence of Japan as the "newest normal" military power in the region with the outside possibility of incrementally aggressive Sino-Japanese strategic competition. These and other factors would certainly affect the future scope and makeup of the ROK-U.S. alliance but it is going to be increasingly unlikely that the alliance will continue to retain a peninsular-dominant role.

II. Roles and Missions Beyond Deterrence

Among the core alliances that were formed in the post-World War II era, perhaps the ROK-U.S. alliance stands out as the one with the most inelastic mission, or in other words, the one with one of the most focused missions. Although the rationale for

maintaining a credible deterrence and defense posture remains unchanged some five decades after the end of the Korean War, the political and strategic requirements have changed considerably over the past several years. Commensurate with South Korea's economic development and significant military capabilities, it has been compelled in recent years to address so-called "out-of-area" missions such as limited U.N. Peacekeeping Operations (such as East Timor), support for U.S.-led operations (Afghanistan, Iraq, the global war on terrorism), and humanitarian assistance. Of these operations, South Korea's 3,000-strong contingent that will be deployed to Iraq and the degree of success or failure of that deployment is going to become the decisive benchmark for future out-of-area missions.

From the mid-1960s until the early 1970s, the ROK sent up to 4 infantry divisions to South Vietnam and while public debate was muted and officially discouraged, the decision to send additional combat and non-combat personnel to postwar Iraq resulted in an unprecedented public debate over the pros and cons of deployment in a war that most South Koreans believe was not justified. Beyond hot button issue of additional deployments to Iraq, South Korea has to consider a range of issues that were traditionally either off limits for political, technical, or financial reasons or did not really register on the security menu of either the United States or the ROK. Since the end of the Cold War, however, South Korea has continued to participate in non-traditional military operations such as U.N. Peacekeeping Operations, but, of more importance, Seoul has begun to deal with out-of-area missions and issues that were not in its traditional security domain.

For example, the advent of the North Korean nuclear crisis in March 1993 and more recently in October 2002 with the disclosure that Pyongyang was working on a clandestine Highly Enriched Uranium (HEU) nuclear weapons program have spurred South Korea to cope with the North Korean nuclear issue at five levels: (1) as a core threat to its overall national security; (2) in the inter-Korean context while containing potential fallout or collateral damage in overall South-North relations; (3) in the context of alliance management with the United States and Japan; (4) in the context of global or multilateral diplomacy such as the United Nations and the IAEA; and (5) in the context of regional policy coordination vis-à-vis China and Russia.

Owing to a confluence of political forces, however, Seoul has chosen to delimit its participation in key nonproliferation initiatives such as the U.S.-led Proliferation Security Initiative (PSI) and in the aftermath of Japan's recent decision to formally take part in a U.S.-led missile defense (MD) program. In part, South Korea's cautious approach to both MD and the PSI probably stems from its desire not to rock the boat vis-à-vis China given Beijing's long-standing opposition to any regional MD system as well as U.S.-led counterproliferation policies such as PSI. If the North Korean nuclear issue aptly illustrates South Korea's *Catch-22,* it is likely to get progressively more difficult and politically more burdensome as South Korea may be forced to cope with even more volatile issues, such as volatile transitions in the North, partial military clashes in the Taiwan Strait, etc. If the ROK-U.S. alliance becomes increasingly associated with sub-regional issues, then it is nearly inevitable that greater clashes with the PRC will ensue

unless South Korea assumes "virtual neutrality" on issues that are of critical concern to its major ally, the United States.

New Missions for the ROK Armed Forces

Mission	**Major Activity**	**Consequences**
UN PKO	UN mandated operations	Minimal political fallout
Out of Area Operations	Postwar reconstruction but with potential combat operations	Casualties could result in unprecedented political fallout and policy discord
Nonproliferation and Counterproliferation	Defensive/offensive measures, unilateral/multilateral initiatives (e.g., PSI)	Tension between alliance management dynamics and domestic political opposition (e.g., participation in PSI, regional MD system, etc,)
Arms Control and Inter-Korean CBMs	Incremental negotiations along the lines of the CFE Treaty model	Potential conflict between deterrence/defense rationale and comprehensive arms control/force reductions; Also USFK issue has to be tackled before any meaningful progress is forthcoming on inter-Korean arms control
Regional security coordination	Bilateral and potential multilateral CSBMs with the possible infusion of the OSCE model	Limited political fallout but greater attention to "regional" versus "alliance" initiatives
Crisis management	Ensuring stability throughout the phase of potential volatile transformations in North Korea or in the event of a major regional crisis	Possible friction and limited clashes in the event of third party intervention in a protracted North Korean crisis

In summary, the traditional security calculus for South Korea that could be described as relatively uniform, almost unidimensional, and relatively clear-cut in terms of political or strategic fallout no longer warrants serious attention in the early parts of the 21st century. Not unlike the choices it was forced to make more than a century ago, South Korea has to think long and hard about its core security options and alternatives. Despite the attention that is being paid to the changing dimensions of the ROK-U.S. alliance (an issue that is extremely important), it is equally true that the choices the ROK makes today and in the foreseeable future will lay the groundwork well into the second half of the 21st century.

Session 1
Strategic and Military Dimension

of Trilateral Relations

by Michael McDevitt
The CNA Corporation

Introduction – So Many Triangles

When thinking about the many trilateral relationships in Northeast Asia, the China-ROK-U.S. triangle does not come immediately to mind. Trilateral relationships fall into one of two categories – either all united in seeking a common policy, or two versus one in trying change, forestall or deter an outcome that the other party seeks.

Over the past 10 years, U.S. policy makers, strategists, and security experts have spent a great deal of effort on analyzing and facilitating the U.S.-ROK-Japan relationship. This "work in progress" aims to closely integrate America's long-time treaty allies into a virtual alliance that would provide a hedge against regional instability while dampening the lingering historical grievances between Seoul and Tokyo.

Of continued currency, the China-Taiwan-U.S. relationship has been a major feature in the security landscape of East Asia for over 50 years. It remains today, an uneasy two against one relationship associated with preventing a violent conclusion to the Chinese civil war. As a result the "black cloud" of war hangs over relations between the United States and China.

Quite a lot of effort over the past 12 or so years has been invested in trying to transform the U.S.-Japan–Russia triangle from its Cold War confrontational basis into one that could yield an official end to WWII between Tokyo and Moscow. Ideally, a peace treaty would then facilitate a resolution to the lingering territorial issue between Japan and Russia of the "Northern Islands."

More recently the U.S.-China-North Korean triangle is much in the news as Washington increasingly depends on Beijing to persuade Pyongyang to be sensible about curtailing its nuclear weapons program. This particular triangle also has roots that stretch all the way back to the onset on the Cold War in Asia in 1950.

So does the U.S.-South Korea-North Korea triangle, yet another example of the lingering Cold War "two vs. one" relationships in Northeast Asia.

Compared to these more "traditional" Northeast Asian triangles, the China-ROK-U.S. relationship is a new feature in the "triangulation of relationships." This is perhaps inevitable as strategists and pundits try to make sense of how the nations of Asia, and more particularly in this situation, the Republic of Korea, are accommodating themselves to the rise of China.

A Basis for Trilateral Relationships – Shared Interests

In this particular case, the triangular, as opposed to bilateral, connections between Beijing, Seoul, and Washington are not obvious. Therefore a useful starting point in understanding this relationship – if one exists at all – is an assessment of interests that all three share.

Before doing that, it is a point of historic interest to point out that 54 years ago this trilateral relationship got off to a rocky start. In 1950, the U.S. military intervened after North Korea's invasion and prevented Korea from being united under Pyongyang's suzerainty; just months later the People's Liberation Army (or as it soldiers were called, the Chinese Peoples Volunteers) intervened to prevent Korea from being reunited under Seoul's leadership.

Both Washington and Beijing have played a decisive role in keeping Korea divided. For that matter so has Seoul, since it has never been willing to acquiesce to the rule of Kim Il-sung and his successor. Both Seoul and the U.S. continue to hold the line at the 38th parallel to ensure that reunification by force cannot take place today or in the future. Interestingly, since Beijing's recognition of Seoul a decade ago, that apparently is also China's wish.

So here, then, is the first shared interest; that the ROK continue as an independent sovereign entity and *that North Korea not win the Korean civil war.* (The other side of this coin, that the ROK win, is NOT necessarily a shared interest. This will be addressed.) We can conclude, therefore, that all three parties have played a decisive role in creating today's strategic situation on the Korean Peninsula.

We can also state with confidence that all three parties share an interest in ensuring that today's status quo remain peaceful and the extant geopolitical status quo not be changed by force. In other words, that there be no second Korean War.

At a minimum, all three capitals would like to see a peace treaty bring an end to the current military confrontation, and lead to an era of peaceful coexistence on the Korean Peninsula.

Because the Bush administration has diagnosed the North Korean regime as evil, it is reasonable to be skeptical about this assertion. Does the Bush administration really seek as a policy objective peaceful coexistence with the "House of Kim?" The answer is yes. After much deliberation, Washington has concluded it is not wise is to seek regime change in the North. By definition then, a diplomatic solution will result in the

perpetuation of a Pyongyang regime. Therefore peaceful coexistence is by definition an implied policy objective, if not permanently, then as a way station on the way to reunification.

Another interest all three parties share is a concern about Pyongyang's conclusion that it requires a nuclear deterrent. All three parties have an interest in bringing an end to the nuclear program because all three believe it introduces a very destabilizing element into what heretofore had been the relatively stable conventional standoff along the 38th parallel. All three are on record of wanting a nuclear-weapon free Korean Peninsula.

All three in their own way also share the interest in overcoming the scourge of fanatical Islamist terrorism. Both the U.S. and China have suffered at the hands of these sorts of terrorists. While South Korea has not suffered from Islamist terrorism, it has been the repeated victim of state-sponsored terrorism. It is an active participant in the global war on terrorism by contributing to the stability and democratization of Iraq.

More broadly, all three share the interest in having East Asia remain at peace in order to facilitate trade and economic development. While all three see economic development is an inherent good in its own right the United States, and perhaps to a lesser degree Korea, also, advocate economic development as a means to facilitate political development and change leading to a growth in the number of democratic Asian regimes. China is at the head of this list.

It is on this point that the interests among the three begin to diverge.

Interests that are not Shared – Will Triangulation Help Mitigate Them?

China certainly does not have the goal of evolving to a multi-party, free political speech regime. Whether the Chinese Communist Party will be the engine of change in bringing a uniquely Chinese form of free political discourse to China remains to be seem – but if they were interested in a gradual evolution in that direction, then Beijing's policies toward Hong Kong's democratic evolution would be very different.

While all three parties do not have the same attitude toward democracy that has not been a huge impediment to improved relations. One can conclude that while democracy is not a shared interest, it has not been an impediment to the pursuit of shared interests. But as the Tiananmen massacres of 1989 illustrated, democracy has the potential to become a very disruptive issue. As the U.S. is being reminded by events in the ROK, public opinion in a democracy does matter, and does have influence on foreign and security policies.

Another issue in which the three parties do not share a common interest is military alliances. China continues to be against bilateral military alliances because they fear that they will be aimed against them. An exception to this general policy orientation seems to be the U.S.-ROK alliance.

Clearly so long as a military confrontation exists on the Korean Peninsula, Beijing recognizes that the U.S.-ROK alliance is not aimed at them, and appreciates that it has contributed to stability in Korea. But Beijing also recognizes that attempts to evolve the U.S.-ROK alliance toward a model more like the U.S.-Japan alliance, giving it an off-Peninsula mission of regional stability, could be counter to China interests.

China also opposes America's military alliances in principle because they really are relics of the Cold War and were put in place to contain "Red China," and could conceivably be used in that role once again. China also doesn't like them because it is America's alliance-based security architecture that permits the U.S. to maintain a sizable military presence in East Asia, a presence that could not be maintained without alliance-enabled bases that now host U.S. forces or routinely provide them access.

So far, this issue is largely a debate being waged between Beijing and Washington via defense white papers, and has not directly impacted the ROK-China portion of the triangle. But almost certainly it will if the current "future of the alliance" initiative between Seoul and Washington gives the impression of changing the military focus of the alliance away from deterring a North Korean invasion.

A significant difference of opinion among the three exists over the near-term fate of the North Korean regime. Neither the ROK nor China would welcome a sudden collapse of the Pyongyang regime. The deleterious economic impact of a Northern collapse horrifies Seoul. They have spent years studying German reunification and, given the even more primitive state of North Korea when compared to East Germany, realize how painful having to deal with this problem would be.

Neither does China want North Korea to collapse. They worry about a flood of North Koreans pouring across their frontier. Also, so long as Taiwan remains an issue that could lead to conflict Beijing does not like the possibility of a U.S. military in a united Korea directly on its boarder. The buffer of a militarily intimidating North Korean regime keeps the U.S. from a single-minded focus on a Taiwan scenario in East Asia.

The United States, on the other hand, would be delighted if the Pyongyang regime collapsed.

Dealing directly with the North Korean regime is another point of contention between the three. Clearly Seoul and Beijing believe that engaging North Korea, as the Perry-process inspired policies of the Clinton administration did, is the best way to deal with Pyongyang. Just as clearly the Bush administration does not share a belief in engagement with the North. Until the North stops trying to force Washington to engage by threats and international bad behavior, Washington is not going to engage.

Not unreasonably, Washington expects Pyongyang to permanently and verifiably undo its proliferation of nuclear weapons, before embarking on an engagement policy that will help the Kim regime to survive.

The jury is still out on whether this will work or not, but clearly Seoul and Beijing would prefer that Washington engage North Korea directly on this issue. I believe both Beijing and Seoul would happily walk away from the six-party process if the U.S. changed its approach. While both realize potential advantages from the six-party process, I believe defusing the nuclear issue is more important to both.

Since it is unlikely that the Bush administration would do this they are both making the best of the ongoing process.

Is the Six-Party Process a Shared Interest?

The process itself is an interesting element of this triangle. Over the years, a number of different South Korean regimes have called for some sort of a multinational approach to Northeast Asian security. The six-party talks certainly fit within this conceptual framework.

Since, the mid-1990's Beijing has embraced multilateral approaches to security with the zeal of the converted. It fits comfortably into their "New Concept of Security for Asia."

In Washington enthusiasm for multinational security structures in Asia, especially Northeast Asia, has waxed and waned depending on whether Democrats or Republicans were in office. Democrats generally were willing to explore multilateral possibilities, whereas the Republicans were not willing to risk undermining the U.S. alliance-based architecture by pursuing approaches that experts have long claimed were not suitable for Asia.

However, the Bush administration, at least its State Department, has recently indicated that it can foresee the possibility of the six-party process becoming some sort of broader regional security "dialogue."

One can tentatively conclude therefore that all three see value in the six-party process that transcends the North Korean nuclear issue.

Concluding Thoughts

It would seem that this new triangle between China, the Republic of Korea, and the United States shares interests on the big security issues, i.e., peace on the Peninsula, no North Korean nuclear weapons, the value of some sort of multinational security framework or dialogue for Northeast Asia. So long as North Korea remains a threat to regional stability this coincidence of interests is likely to remain true.

Clearly, there are differences among the three over the best tactics to pursue in achieving these objectives with the North, just as there are differences over the desirability of an "unassisted" North Korean regime collapse.

When the North Korean threat eventually goes away, and it will someday, that is when the relationships will become more difficult, especially for Seoul, which will be faced with rationalizing the U.S.-ROK alliance in a way that China does not find threatening. This will be at the center of internal discussions in Korea over the best strategic course to pursue to optimize Korean security.

Seoul will always live in the shadow of China. But it has been several hundred years since that shadow was cast by a united, economically vibrant, militarily competent China that is an economic engine of the region and may have the ambition of being the arbiter of security in East Asia. That will be a new experience for modern Korea, as it will be for every other country in the region.

But unlike other close U.S. allies in the region, a united Korea will share a border with China. That means that if China wants to exert military influence on the Peninsula it need only walk or drive to the frontier, a much easier task than if it had to cross a body of water or a third nation.

This geostrategic fact means Seoul will have to reach a strategic accommodation with China, or about China with other neighbors and friends, that allows it to live with some sense of tranquility. This sense of tranquility will be greatly enhanced if China eventually moves toward a democratic form of government.

It is important that U.S. policy makers recognize the security dilemmas that Seoul faces and empathize with the difficulties the future holds for them. In the meantime they can greatly help the overall security situation in the region by making sure that the on-going transformation of U.S. forces in Korea remains focused on the North Korea threat, or on freeing Army troops for service in the Middle East and not on regional contingencies, especially Taiwan.

While there are many shared interests that make this a promising mutually cooperative triangle. There are also many differences that could easily result in a two against one relationship. The region doesn't need any more of these.

Session II
Mutual and Divergent Interests in Solving the North Korea Crisis

Coping with the North Korean Nuclear Crisis

by Kim Sung-han
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I. 2nd Round of Six-Party Talks

General Assessment: The 2nd round of the six-party talks made modest progress in that the six parties expressed their commitment to a nuclear weapons-free Korean Peninsula and willingness to coexist peacefully, and agreed to set up a working group for detailed discussions before the next round of talks is resumed in the second quarter of this year. However, North Korea did not meet our expectations that it would admit HEU, while the U.S. did not provide any detailed roadmap after North Korea accepts CVID.

North Korea and U.S. Calculations: North Korea is expecting the "regime change" in Washington and is thus trying to buy time until the U.S. presidential elections of November. (It expects John Kerry will show flexibility in discussing "compensations.") It seems President Bush has made one step backward for two steps forward in the future by raising hands of the moderates who are expected to be exhausting diplomatic solutions until he is reelected. He believes that the time is in the side of the United States as long as Dr. Khan has confessed about his HEU linkage with North Korea and about the black market network of nuclear materials. Once reelected, President Bush would not tolerate any kind of "muddling through" either from Washington or from Pyongyang by accelerating "comprehensive pressure" on North Korea with respect to all issues including nukes and human rights. (Even John Kerry would not allow himself to negotiate directly with North Korea who still denies HEU and improves its nuclear capability after he is elected.)

Stop Muddling Through: We should be thus alarmed to continue to persuade North Korea to make a "breakthrough" in the upcoming working group meetings as well as in the 3rd round of the six-party talks rather than relieved to see that both the Bush administration and Kim Jong-il's North Korea are muddling through. We also need to ask the Bush administration – which is demanding North Korea to abandon its so-called "civil" and "peaceful" nuclear programs and to permit the removal of all critical items (irreversibility) – to provide a practical alternative to LWRs.

II. North Korean Motives and Strategies

Advantages: From the North Korean point of view, the situation today should be seen as much more advantageous to its caper than a decade ago. In addition to being so close to having all the pieces together for manufacturing nuclear weapons, it has the United States preoccupied with Iraq; a South Korean government which is indulgent toward North Korea; seeming friction in the alliance between the United States and South Korea; and the benefit of the "lessons" it learned from the 1993-1994 experience, especially the lesson that you need to make the stakes as high and any deal as hard and concrete as possible.

Disadvantages: North Korea faces certain disadvantages today over the last time around. For one thing, the current administration in Washington is less amenable than the previous one to a deal. Secondly, North Korea is much more economically dependent and therefore vulnerable to economic pressure from other countries, including South Korea, Japan, and China as well as the United States. But, North Korea may have concluded that any temporary loss in economic assistance from the outside would be worth the wait and the risk, after which it can expect to land a much larger and more lucrative deal.

Strategies: North Korea may very well believe that it can "have cake and eat it too" if it makes the needed sacrifice for the time being. It is likely to think that it can make its status as a nuclear state a fait accompli, or in the worst case it can trade away its nuclear state status after achieving it at a far higher price than from any other deals it can expect. In the best case, North Korea may expect to maintain its nuclear status and still make a profitable deal with the outside world, in particular the United States.

Why Security Assurance?: We should look at why North Korea insists on signing a non-aggression treaty with the U.S. or demand security assurance from the U.S. One could easily wonder since when North Korea has so much trust in the United States as to believe that a non-aggression pact (security assurance) would actually be a firm guarantee for its security and survival. It does not seem likely that a non-aggression pact with the United States would be of such high value to North Korea that it would give up its nuclear program to get it. Then, why does North Korea insist on the pact (security assurance)? Probably the non-aggression pact (security assurance) is the starting point of a negotiation rather than the end product of it. North Korea will want to use the non-aggression pact (security assurance) as an opening for the end to U.S. military presence, economic assistance, and diplomatic normalization. Furthermore, North Korea will likely further escalate the stakes each time there is a snag in the negotiation.

III. Role of China

Two Variables in China's Korean Peninsula Policy: 1) China needs to avoid confrontation with the U.S. over Korean Peninsula issues so that it can maintain continued economic growth; and 2) China needs to keep its strategic leverage over North Korea and it thus sends the message to the U.S. that the U.S.-N.K. relationship, even if normalized, should not replace the China-N.K. special relationship and that China instead

would not seek the China-ROK relationship as a substitute for the U.S.-ROK alliance relationship.

Questions: 1) To what extent does China have influence over North Korea?; 2) Does China want ultimate resolution of the North Korean nuclear issue or just try to "manage" it?; 3) Is the U.S.-China cooperation over the North Korean nuclear issue strategic or tactical?; and 4) Is the North Korean issue coupled with the Taiwan issue from the perspective of the U.S.-China bilateral relationship?

IV. North Korean Human Rights & Nukes

2003 State of the Union Address: "On the Korean Peninsula, an oppressive regime rules a people living in fear and starvation…We now know that that regime was deceiving the world… And today the North Korean regime is using its nuclear program to incite fear and seek concessions. America and the world will not be blackmailed." This is what President George W. Bush said in his 2003 State of the Union address. He distinguished the North Korean regime from the North Korean people, through which he has been urging the North Korean regime to conduct CVID of its nuclear programs while continuing to provide the humanitarian assistance to the North Korean people.

North Korean Freedom Act of 2003: In October, nine months after the presidential speech, the Capitol Hill was bustling with the hearings on North Korean human rights, in which Senators and Representatives were carefully listening to the testimonies by North Korean defectors, human rights experts and activists. This was followed by the introduction in November of a bill entitled "the North Korean Freedom Act of 2003" to both houses of the U.S. Congress. Interestingly, the bill enumerated its purposes as follows. It is the policy of the United States (a) to end the development, sale, and transfer of weapons of mass destruction and related delivery systems, materials, and technologies in and from the Korean Peninsula; (b) to assist in the reunification of the Korean Peninsula under a democratic system of government; and (c) to achieve respect for and protection of human rights in North Korea in accordance with United Nations conventions. This means that the bipartisan bill of the North Korean Freedom Act sees human rights in North Korea under the broader context of non-proliferation of WMDs and Korean reunification. It is thus unrealistic for us to single out the North Korean human rights issue that is intertwined with other hardcore security issues.

North Korean Human Rights Act: The International Relations Committee of the U.S. House of Representatives passed March 31 the North Korean Human Rights Act of 2004, legislation aimed at promoting international cooperation on human rights and refugee protection and increasing transparency in the provision of humanitarian assistance to the people of North Korea. Congressman James Leach, Republican of Iowa and chairman of that committee's subcommittee for East Asian and Pacific affairs, said the bill underscores the importance of human rights issues in future negotiations with North Korea and authorizes $2 million per year for programs to promote human rights, democracy, rule of law, and a market economy. It also authorizes a similar amount to increase the availability of information sources not controlled by the North Korean

government, and it urges additional North Korea-specific attention by appropriate U.N. human rights authorities. The bill also offers more U.S. assistance to help defray the costs associated with the North Korean refugee presence in China when Beijing "begins fulfilling its obligations as a party to the 1951 U.N. Refugee Convention."

What if U.S. Patience Ends? It seems that U.S. lawmakers, particularly who introduced the above bills, tend to believe that three key issues on the Korean Peninsula, namely, the nuclear problem, human rights, and the Korean reunification, will not be resolved unless the North Korean regime transforms itself or is replaced by the better one. If North Korea does not make any concession on the nuclear issue, the next U.S. administration, whether Republican or Democratic, will try to implement most of the contents of the North Korean Freedom Act as well as the North Korean Human Rights Act.

Session II
Mutual and Divergent Interests in Solving the North Korea Crisis

by Charles L. (Jack) Pritchard
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When the United States confronted North Korea in October 2002 over its covert High Enriched Uranium (HEU) program, Pyongyang's initial reaction was to declare that the issue was bilateral in nature and required exclusively bilateral negotiations between the United States and the DPRK to resolve it. For its part, the Bush administration rejected the idea of a bilateral dialogue and insisted on a multilateral approach, in part because it viewed one of the major weaknesses of the 1994 Agreed Framework as lacking appropriate participation in its development by Seoul and Tokyo. This was a welcome development for Seoul and Tokyo, which were burdened with the vast majority of the financial obligations of the Agreed Framework without the benefit of having participated in the negotiations.

When Pyongyang removed IAEA inspectors in December 2002 and withdrew from the NPT in January 2003, Secretary Powell responded by suggesting ten-party talks, the so-called P5 (Plus-5). In that initial formula Seoul was a primary player. When Pyongyang rejected out of hand that proposal, Powell turned to Beijing. Enroute to Roh Moo-hyun's inauguration in February 2003, Powell suggested to his Beijing counterpart that Beijing was uniquely situated to propose and host five-party talks that would include Seoul, Tokyo, Beijing, Washington, and Pyongyang.

In early March 2003 Beijing sent former Vice Premier Qian Qichen to Pyongyang to float the idea of five-party talks. When Pyongyang again rejected the idea of a multilateral dialogue to discuss the emerging nuclear crisis, Beijing altered its proposal without discussing it with Washington or anyone else. Beijing strongly suggested that Pyongyang should consider three-party talks involving Washington, Beijing, and Pyongyang leaving out Tokyo and Seoul. In the interim period between Beijing's tripartite proposal and Pyongyang's acceptance, ROK Foreign Minister Yoon Young-kwan met with his Chinese counterpart, Li Zhaoxing and agreed to work together to persuade North Korea to join talks. Yoon was talking about a truly multilateral dialogue while Li was hedging his bets, suggesting that the specific format should not limit potential opportunities for talks.[*]

Yoon had been forewarned in a late March meeting with Secretary Powell, prior to his visit to Beijing, that Beijing had proposed trilateral talks. The ROK chose to try work Beijing quietly in hopes that Seoul could be included. When that failed and the

[*] Seoul, *Yonhap,* April 10, 2003.

three-party proposal was accepted by Pyongyang, Seoul tried to put the best possible face on the situation, saying Seoul accepted the proposal, considering the "seriousness of the situation at that time." Yoon went on to say that he thought it would be wiser to let dialogue begin and to seek South Korea's participation later than to object to the idea and let such talks fail to take place. Yoon promised the ROK public that Seoul's inclusion in the talks would be one of the key topics and suggested that substantial progress would not be made without Seoul's eventual participation.[†]

The criticism that followed was both expected and sharp. President Roh had to try to soothe a national pride that was visibly injured. His National Security Advisor, Ra Jong-il, promised Seoul would not foot the bill for a potential resolution without being part of the discussions and decision-making process. In an effort to stake out its future participation as a prerequisite, an ROK official said publicly, "Washington has pledged not to proceed with the three-way dialogue if we are not allowed to take part in substantial discussions. We are determined to take part in the multilateral dialogue and the United States shares our position."[‡] Likewise, the State Department spokesman made clear that it was a top priority for the United States to seek both Seoul's and Tokyo's inclusion in the process as soon as possible.[§]

The U.S. administration was in a difficult position. Having established that part of the rationale for requiring a multilateral solution was the necessity of having all the primary players represented, and Seoul was clearly the 'primary' of primary players when it came to the Korean Peninsula, it had to make a choice: reject on principle the exclusion of Seoul and perhaps lose the critical leadership and involvement of Beijing, or accept an initial tripartite meeting and press for expanded membership at the earliest possible date. Washington chose Beijing over Seoul as more important in the short-term, counting on Seoul's understanding and patience. This choice was replayed after the failure of the initial three-party talks in April when Chinese Vice Premier Dai Bingguo came to Washington to plead for a repeat of the three-party formula, citing Pyongyang's inevitable rejection of an expansion of the process. Washington again chose Beijing over Seoul and Tokyo, but with a compromise that suggested that an expansion to include Seoul, Tokyo, and Moscow should immediately follow a three-party session. Fortunately, Pyongyang rejected that complication and agreed to move directly to six-party talks, relieving Seoul and Washington of having to explain a second exclusion of key allies.

If Seoul did not agree on two basic points, the relationship between Washington and a new Roh administration would have been severely tested. First, Seoul wanted a peaceful, diplomatic solution to the emerging nuclear crisis, so getting Washington engaged in a dialogue with Pyongyang was more important than being involved in that dialogue at its inception. Second, Seoul fully understood the importance of the role of China in a peaceful resolution and was, likewise, prepared to play an initial supporting role rather than a leading role. Some may argue that Seoul had little choice in the matter,

[†] Seoul, *Yonhap,* April 16, 2003.
[‡] Seoul, *Yonhap,* April 17, 2003.
[§] Hong Kong, *AFP*, April 17, 2003.

but given the "anti-Americanism" that helped propel Roh Moo-hyun to the Presidency just a few months earlier, an equally strong case could be made that Seoul could have just as easily refused to go along with a three-party formula that excluded it. History may well view Seoul's "selfless" act in positive terms, particularly if its recent strong role in the February 2004 six-party talks is any indication of its ultimate part in a resolution.

Seoul's decision to allow Beijing's proposed three-party formula to proceed had a broader dimension just as Washington's did. For Washington, getting Beijing's buy-in to help resolve the nuclear crisis went beyond nuclear and non-proliferation concerns. It had everything to do with a positively developing relationship between Beijing and Washington. Following the disastrous start of relations at the beginning of the Bush Administration involving the collision of an U.S. P-3 aircraft and a Chinese MiG (that crashed and killed the pilot), the prospects of Washington-Beijing diplomatic cooperation had an undeniable lure that transcended the exigencies of the current situation. For Seoul, the situation had a certain parallel. Economic relations with China since 1992 were growing at a tremendous rate and for a Roh Moo-hyun government that envisioned Seoul as a regional hub of economic activity, relations with China were extremely important. It did not hurt that Beijing was cooperating with Seoul (albeit quietly) on the transit of defectors and 'refugees' along the China-North Korean border.[**] Neither Washington nor Seoul made decisions about the initial tripartite talks in absolute terms. But in the end, the importance of the alliance dictated that Washington needed Seoul's positive acceptance of three-party formula that excluded the ROK. That took the form of a telephone call between President Bush and President Roh on April 4, 2003.[††]

Areas of divergence between Washington and Seoul are both real and superficial. Washington perceives that Seoul would be unwilling, under almost any circumstance, to support a confrontation with Pyongyang that might lead to conflict on the Peninsula. That perception is exemplified in Washington's decision not to ask Seoul to join Proliferation Security Initiative activities. In May 2003, in a speech in Poland, President Bush announced the Proliferation Security Initiative designed to use existing national laws to thwart the transfer of dangerous, illegal cargo. It was an initiative that relied on attracting like-minded nations, willing to cooperate and flex a little national muscle to prevent WMD from being transshipped to or from certain nations (i.e., North Korea) or non-state players. Washington invited Tokyo to join as a charter member of the PSI club, but not Seoul. Seoul was probably relieved that it was not asked and did not have to turn Washington down.

One of the purposes of PSI, should diplomacy fail, would be to isolate North Korea to the point, perhaps, of regime change. However, Seoul is not likely to join Washington in any serious confrontation of Pyongyang. In an opinion piece in the London *Financial Times*, January 22 2004, Marcus Noland points out: "No coercive plan can succeed without Seoul's support. South Korean resources could frustrate any effort to strangle the North economically and, if Seoul withheld political support for such a scheme, it would give China and others the diplomatic cover to defect. Today a

[**] Seoul, *Yonhap,* April 9, 2003.
[††] Seoul, *The Korea Times,* April 19, 2003.

growing majority of South Koreans, having lived for decades in the shadow of its forward-deployed artillery, do not regard North Korea as a serious threat. In marked contrast to the North's isolation and penury, the South's growing prosperity and confidence have transformed fear and loathing into pity and forbearance. Instead, it is the U.S., an ocean away, that regards the North and its nuclear program with alarm. While Washington has focused on the nuclear program, its South Korean ally has observed the North's nascent economic reforms and heard its talk of conventional forces reduction – and the gap in the two countries' respective assessments of the North Korean threat has patently widened. In these circumstances, a prerequisite for a U.S.-led strategy of multilateral coercive diplomacy should be to convince South Korea's government and public of the correctness of its case."

In the six-party talks process, Seoul has attempted to get out ahead of Washington on a couple of issues in hopes of steering Washington toward a more moderate position. One example of this was the speed with which Foreign Minister Yoon welcomed Pyongyang's *second* offer to freeze its nuclear program, most likely in an effort to solidify Secretary Powell's almost simultaneous remarks indicating Pyongyang's proposal as positive. This occurred against a background of President Bush having dismissed Pyongyang's initial offer to freeze it nuclear program a month earlier.[‡‡]

It will be interesting to see what the behind-the-scenes interplay between the United States and the ROK was prior to and during the February 2004 six-party talks at which Seoul proposed that Beijing and Seoul could provide Pyongyang energy assistance under certain circumstances. Either Washington determined that Pyongyang would not meet the requirements for energy assistance and thus the offer was meaningless except as a sop to Seoul, or Seoul exerted itself at the displeasure of Washington in an effort to move diplomacy forward. Time will tell.

[‡‡] *Tokyo Kyodo World Service,* January 7, 2004.

Session III
Domestic Political Dimension of Trilateral Relations

Between Revolution and Evolution

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Domestic Politics and Alliance Policy

Recent studies on alliances have shown that during the 19th and 20th centuries only about 75 percent of alliance commitments were fulfilled. Those commitments not honored were usually ones that were signed a long time before. During that time, changes in regime type and power occur and they affect the relationships among the alliance members. When a previously autocratic state democratizes, or a previously democratic state experiences an autocratic takeover, changes in foreign policy may be expected. When a new system of governance emerges, state leaders may not feel bound by the commitments of their predecessors and thus call previously secure alliance commitments into question. Or a democratized leadership may pay more attention and be more accountable to the public if public opinion views the existing alliance relationship as not necessary.

When a weaker party becomes stronger, it may think that it is in less need of a strong party's support and come to value the existing alliance less. In addition, when perceptions of common threat among alliance partners are different, the change of power in a weaker side may have a significant influence on the existing asymmetric alliance.

Domestic politicization of the existing alliance relationship is likely to damage an alliance. First, demographic and generational changes in the society could undermine its traditional commitment. Second, an existing alliance may be jeopardized if influential elites decide that they can improve their internal positions by attacking the alliance itself. Third, when regime or leadership change occurs and consequently, the basic nature, identity or ideology of the regime changes, then the alliance is likely to be dissolved.

There is a perception gap between the U.S. and South Korea on North Korea. The common perception that North Korea represented a serious security threat was the glue that bound their alliance together. But, that is changing North Korea. That is, recently

many South Koreans tend to think that North Korea has changed and they believe the possibility of war between the two Koreas has disappeared. There is also a difference over how to deal with the North Korean nuclear weapons crisis between the alliance partners. These changing perceptions of threat and the policy gap may cause the ROK-U.S. alliance relationship to deteriorate.

Korean society is experiencing changes in its demographic and generational composition, especially in the elites and leadership groups. Together with the advent of the Roh Moo-Hyun administration, the younger generations in their 20s and 30s, especially the so-called 386 generation, have become the key players in domestic political and foreign policy decision-making processes as well as in the opinion formulation processes. In general, they are ideologically more progressive and liberal compared to the older generations, and their values and objectives in relation to many important issues, including the alliance issue, may be very different from the older generation leaders who have vested interests in the status quo. In fact, widespread anti-American sentiment among the younger generations right before the 2002 presidential election had a significant influence on the election result. As is suggested by alliance theorists, the existing alliance may be jeopardized if elites decide that they can improve their domestic political positions by criticizing the existing alliance relationship.

When an alliance is already as close as possible, any change in the alliance relationship will cause the alliance partners to move away from each other and consequently, the existing alliance relationship may be in danger of drifting apart. The 50-year long ROK-U.S. alliance has survived many changes in domestic and security environments. It seems natural for the existing alliance to be in a shaky condition after 50 years. As long as both alliance partners share common interests in keeping the alliance and have the willingness to strengthen the alliance, they can successfully manage to do so. Given the changing environments, it is time to review the relationship and readjust it to suit current circumstances.

The hegemonic power has its own role to play in strengthening the shaky alliance. The U.S. could show its willingness to pay special attention to South Korean concerns about issues related to sporadic anti-American sentiment. Protests or demonstrations against U.S. policy or unilateral positions by Koreans may be the weaker partner's prerogative. Through protests and demonstrations, Koreans can alert Americans to the growing differences between the two sides and give the two governments chances to adjust and resolve the problems before they get out of control. By showing its willingness to remedy problems and misunderstandings at the right moment, the U.S. can promote pro-American sentiment in Korea. If Americans correctly interpret and respond to the psychology and cultural connotations of the Korean people, they could find effective and easy measures to improve their relationship with them.

Some Koreans criticize U.S. unilateralism and worry about a U.S. preemptive strike against North Korea without consultation with the South Korean government. They tend to think that the U.S. force restructuring on the Peninsula has something to do with the U.S. strategic plan for a preemptive strike against North Korea. To tackle this

mistaken misunderstanding it may be a good idea to issue a new joint declaration on the ROK-U.S. alliance in the 21st century or new guidelines between the ROK and the U.S. on how to readjust and strengthen the alliance in a changing environment and how to deal with potential crises around the Korean Peninsula, including the North Korean nuclear weapons problem. Since institutionalization is supposed to be helpful in strengthening the alliance, a new joint declaration or a new set of guidelines will provide a good opportunity for reviewing the 50-year old Mutual Defense Treaty and to increase the level of the institutionalization of the alliance.

Managing Public Relations Policy amid Domestic Political Reform

Here, public opinion factors in again. The public's view differs with policymakers' strategic choices and may cause tension in the decision-making process; alternatively, state leaders may attempt to manipulate public opinion so that the people will become supportive of their policies. One thing that must be avoided is taking advantage of public opinion to further a political agenda.

Often, responses in Korean public opinion polls tend to be based on historical animosity or anecdotal incidents that may have occurred right before polls are taken, which implies that following public opinion does not necessarily assure accuracy. It is hard to generalize and say when public opinion changes, under any circumstances, but it always constitutes a sensible adjustment to the new conditions and new information communicated to the public. This implies that public opinion's coherence, stability, and sensibility can be expected only in a pluralistic democracy where the transparent exchange of opinion is practical and dynamic consensus-building mechanisms are effectively utilized.

At a critical stage such as now, public opinion could easily be polarized. In South Korea, those who seriously think about the importance of the ROK-U.S. alliance for South Korean security protection worry very much about the potential for deterioration of the alliance, due to recent events and Korean social mobilization. The large-scale candlelight rallies, for example, can be seen and understood very differently by different groups of people who have different concerns or knowledge of related issues. And many may be misled by mass media or aggressive NGO campaigns. The drastic increase in South Korean people's negative impressions toward the U.S. since the first candlelight vigil on Nov. 20, 2002 is believed to have critically contributed to the eventual victory of Roh Moo-hyun in the presidential election in the following month. Also, the broadcast media's one-sided coverage condemning the impeachment procedure on March 12, 2004 that was led by the two opposition parties, followed by more candlelight rallies organized by influential NGOs, have bestowed overwhelming public support on the ruling party and may probably grant a decisive win to it at the April 15 general election. [Editor's note: As did occur.]

The unusually high anti-American feeling in December 2002 and the unusually high support rate for the ruling party in Spring 2004 seem to reflect the social atmosphere during this particular period, but we have to observe that the political power of the

younger generation has been growing for the past several years. What is worrisome is the scenario in which supporters of radical views openly express their opinions and fervently defend their views. Opponents may begin to feel left out, and they withdraw from the public scene and become silent. Then there is fertile ground for misconceptions that the views receiving vocal support are stronger than they really are and that the opposing views are weaker. The "spiral of silence" leads to one view dominating the public scene and the other disappearing from public awareness. The spiral of silence may manifest itself when newspapers, television, and online media (the ubiquity factor) voice one opinion to the exclusion of other opinions (the consonance factor) in a redundant manner (the accumulation factor).

Taken together, our position is that domestic public opinion should be appropriately guided and set when necessary, according to the government's "correct" reading of the international environment and by formulating the "best" policy options available to the country. For public opinion not to become "single frame," the flow of information and communication on national foreign policy issues between the government and the public should be more transparent and dynamic. In particular, the government needs to establish close and regular communication channels with major opinion leaders, including journalists, intellectuals, and NGO leaders, in order to deliver accurate information and share a grand vision of national policy toward the United States.

Fortunately, Korean interest and zeal for participating in anti-American demonstrations have waned significantly and a majority of the people still value the ROK-U.S. alliance. On the other hand, however, it is uncertain how ROK foreign policy will be affected by the changed balance of power in the Parliament after the April 15 general election. The good news is that it was the people's desire for political reform, not a change in its current foreign policy, that changed the axis of power in South Korea. But a worrisome scenario is that the newly empowered party will also fail to show meaningful progress in political and economic reform, disappointing the people who simply chose it as an alternative. And the possible worst nightmare for South Korea will be that an extremely well-organized progressive group will come out and claim the driver's seat and turn the direction of the country's security policy from evolutionary cruise to revolutionary adventurism.

The U.S. vs. PRC: Not Exclusive but Supplementary Choice

A series of recent survey results indicate that Koreans somehow feel comfortable and closer to China given other options such as the United States, Japan, and Russia. Moreover, the pro-Chinese group in South Korean society is growing and its favorable opinion toward China is mainly based on historical and cultural bonds. Although these views could be adjusted by education, the growing tendency toward a pro-Chinese atmosphere in South Korean society is a very important point.

However, results of every major survey indicate that the majority of Korean leaders who directly or indirectly exert influence on national foreign policy still believe that the ROK-U.S. alliance relationship is the most important security mechanism and

that the U.S. forward deployment on the Korean Peninsula continues to play a critical role for regional stability. A general finding is that although more people support a gradual adjustment in the size and location of the U.S. troop presence, the elite group is more supportive than the public of a continued U.S. military presence after unification.

The ROK-U.S. alliance has been a cornerstone of peace and security on the Korean Peninsula, and it will continue to play a central role in the peaceful unification process. A robust ROK-U.S. alliance not only contributes to deter North Korean military adventurism, but it also restrains potential regional power competition among China, Russia, and Japan. Nevertheless, possible changes in North-South relations, U.S.-North Korea relations, and public opinion both in South Korea and the United States demand that the ROK-U.S. alliance adjust to the changing internal and external environments.

As long as elite groups in both societies see the national interest as requiring maintenance of the ROK-U.S. alliance, they should make efforts to provide proper information about the role of the alliance and let citizens understand its importance through proper deliberations and public education. Also, that the enduring necessity of the ROK-U.S. alliance will not necessarily threaten PRC security interests should be confirmed to the citizens of the two countries. The "China threat" image still prevails, mainly arising from its socialist political system, but Chinese views of the DPRK and its security perception have been changing.

Unlike the previous North Korea crisis in the early-1990s, PRC's leaders appear to be taking North Korea's nuclear technology and zeal to acquire WMD much more seriously. An unstable Northeast Asia coupled with a possible nuclear domino effect triggered by a nuclearized North Korea will seriously aggravate China's economic progress and social reform. The problem now is that North Korea's nuclear weapons may be more of a threat to China than are U.S. troops in South Korea. If a unified Korea, still allied with the United States, will not pursue a hostile policy toward the PRC, and if a unified Korea and China will become economically more interdependent and find more common interests in Northeast Asia, there will be no reason for the PRC to be afraid of seeing a unified democratic and market-oriented Korea. U.S. forces stationed in Japan and Korea should serve to maintain stability of the region, and their mission will evolve from a bilateral to a trilateral basis among the United States, Japan, and Korea. Moreover, bilateralism in Northeast Asia should be developed to a multilateral collective security mechanism in which the PRC participates and plays a constructive role.

Since the U.S. Forces in Korea may gradually be adjusted to reflect the changing security environment in Northeast Asia and that there remains a salient rationale for ROK-U.S. security cooperation given neighboring great powers, the ROK-U.S. alliance will remain a win-win strategic option for both countries. How and in what capacity the two allies will coordinate on the North Korean nuclear crisis will be the litmus test that will show the direction of the ROK-U.S. alliance for the next years.

ROK Perception of the North Korean Nuclear Issue: Balancing Alliance and Unification

For South Korea, domestic public opinion regarding the North Korean nuclear issue should be counted as one of the crucial factors affecting the country's negotiating position, because it has recently become a powerful element in the foreign policy-making process and public opinion is divided between pro-American and pro-North Korean stances. The central debate hinges on conflicting interpretations of North Korean intentions regarding its nuclear program.

One school of thought in South Korea argues that North Korea's ultimate aim is to join the "nuclear club" if the international atmosphere develops favorably. This school strongly doubts that North Korea will voluntarily dismantle the nuclear program and accept comprehensive verification procedures. They support further pressure such as economic sanctions on North Korea if peaceful dialogue cannot produce an agreement.

An opposing school posits that Pyongyang will agree to discard its nuclear program when the U.S. softens its hardline stance against North Korea and the list of promised rewards (mainly from the U.S.) meets North Korean expectations. Its already serious economic condition is worsening due to U.S.-led political and economic sanctions, and it is believed that North Korean leaders will ultimately compromise if they are convinced that Washington's North Korea policy has fundamentally changed. They believe that it is international society, rather than North Korea, that should make more efforts to solve the problem peacefully.

The South Korean government has consistently objected to North Korea's development of nuclear weapons, while actively pursuing a more constructive role at the six-party talks. At the May 2003 summit meeting between Presidents George W. Bush and Roh Moo-hyun, the two countries reached agreement on measures to be applied; according to the Joint Statement between the two countries, "increased threats to peace and stability on the Peninsula would require consideration of further steps" and "future inter-Korean exchanges and cooperation will be conducted in light of developments on the North Korean nuclear issue.

However, the U.S. and the ROK do not seem to agree on what constitutes further steps and what would be the most desirable strategy to induce North Korea to give up the nuclear program. Washington seems to include economic sanctions and political pressure in the category of peaceful measures, while Seoul believes that economic assistance should first be provided to North Korea to persuade Kim Jong-il to freeze the nuclear program.

Economic exchange between South and North Korea soared 12.9 percent to $724 million in 2003 from a year earlier, despite the nuclear crisis. The Kaesung industrial complex, the construction of which began in June 2003, is considered a turning point in economic cooperation between Seoul and Pyongyang as South Korean investors will be

able to directly invest in the North and products manufactured at the complex will be exported. Some 900 firms of the South are expected to go to the industrial park.

The spirit of the Sunshine Policy is logically compelling; it is natural that as the richer country, South Korea initiates cooperation at least partly on concessional terms to get the ball rolling. And continuously engaging North Korea keeps channels of communication open and encourages an evolution in attitudes and practices in the North, all of which are expected to ultimately lead toward unification between the two Koreas. However, the South Korean government has to be less involved in the exchanges so that the North can learn market economics through them. It should be South Korean investors, not government officials, who decide whether to invest in the North, in what projects, in what conditions, and at what scale according to normal considerations of profit.

Caught between two stubborn nations (North Korea and the U.S.) in the six-party talks, the South Korean government should realize that it cannot have it both ways. It can maintain the trust of the U.S. only by being tough on the nuclear issue, but this would aggravate inter-Korean relations. If South Korea continues to oppose any kind of "sticks" against North Korea despite a lack of progress in the six-party talks, ROK-U.S. relations will be damaged significantly. The only possible solution to this dilemma is to let Pyongyang's leadership realize that South Korea will choose the American side if the nuclear crisis cannot be resolved through dialogue.

Given the present circumstances, the most realistic and effective option available would be to promote successful bargaining between the two more powerful parties. The U.S. possesses the strongest assets in mobilizing politico-military pressure on North Korea, including UN resolutions and the Proliferation Security Initiative, and China is capable of exerting the most significant economic impact on North Korea by controlling food and oil provisions. The key here is for the two great powers to wisely integrate the strategies of pressure and accommodation, thereby orchestrating a negotiated solution that somehow induces North Korea to make compromises. However, the idea of relying on China's constructive role still creates a dilemma because China's basic stance is not to cause the disintegration of the Kim Jong-il's leadership, the fundamental source of every problem caused by North Korea in the perception of U.S. policy makers.

The multilateral dialogue becomes meaningful only when there is an agreement to exchange nuclear inspections for a security guarantee between the DPRK and the U.S., conditions for which, if it is to be a peaceful approach, can only be created through more solid and concerted influence on the DPRK. The ROK should proactively move to cultivate this condition.

Session III
Domestic Political Dimension of Trilateral Relations

The U.S. Political Dimension

by Richard Halloran

All foreign and security policy is rooted in domestic politics. Those who make, influence, or study decisions in foreign and security policy forget that at their peril. This is true in mature democracies such as that in the United States, true in developing democracies such as that in South Korea, and true in authoritarian nations such as the Peoples Republic of China where the ruling party must constantly prove its legitimacy to the Chinese people.

In the United States, long-term policies toward South Korea and China are forged on at least three levels: within the general public, in the Congress, and in the administration led by the White House.

The attitudes of Americans today toward the two Koreas and China, as reflected in polls, range from hostile to indifferent. North Korea is consistently seen as an enemy and a threat by substantial majorities of Americans. A solid majority prefers that the U.S. resolve its difficulties with North Korea through diplomacy rather than with military power – but that is favored by about one-third of the voters and taxpayers. China is viewed warily. A Gallup poll in February this year found that 54 percent of Americans had an unfavorable opinion of China. Last summer, a Harris poll said that 54 percent saw China as unfriendly or an enemy. A little more than a year ago, a Time-CNN poll found that 57 percent of those polled saw China as a very serious or moderately serious threat to the U.S. Curiously, few polls asked about attitudes toward South Korea, suggesting that the rising anti-Americanism there has not yet started to disturb Americans. Two different polls last year reported that 58 percent of Americans had a favorable view of South Korea.

That may be changing. The former American ambassador to Seoul, Donald Gregg, said in a recent paper: "The American perception of Korea has been strongly influenced by press reports of what appears to be increasingly hostile views of the U.S. held by Koreans." While the greater part of his paper was devoted to assessing anti-Americanism in South Korea, Gregg wrote that Koreans and Americans who took part in a seminar last summer on relations between the two nations "found that trust between the two countries had never been lower." Similar, a respected scholar specializing in Korean affairs, Stephen Linton, has written: "Many Americans have been surprised and angered at what appears to be a recent flare-up of anti-Americanism in the Republic of Korea over a tragic accident that took the lives of two school girls." Like Gregg, Linton primarily addressed the causes of anti-Americanism in Korea but added that, for the first time in

decades, American decision makers are speaking openly "of a complete withdrawal of American troops from the Korean Peninsula."

For several years, the Congress has shown a particular interest in American policy toward South Korea and toward China, especially on the issue of Taiwan. A bipartisan caucus on Korea was formed in January, 2003, with Rep. Michael Capuano, Democrat of Massachusetts as chairman and Rep. Vito Fossella, Republican of New York as co-chairman. The caucus, which has 56 members, is dedicated to:

- Advancing common goals of democracy with the people of the Korean Peninsula;
- Strengthening relations with South Korea and its neighbors to enhance mutual defense;
- Establishing policies on Congressional legislation relating to Korea and Korean Americans;
- Closely monitoring the North Korean refugee situation to aid those who seek political asylum; and,
- Informing members of Congress about continuing developments on the Korean Peninsula.

As an example, public pressure on the Congress and the administration erupted after the television program "60 Minutes" ran a documentary on anti-Americanism in Korea entitled "Yankee Go Home." Congressional offices were filled with letters from constituents calling for the withdrawal of U.S. troops from the Peninsula.

Congress has shown keen interest in North Korea's ambitions to acquire nuclear weapons. The United States Institute of Peace, which is funded by the Congress, arranged a background briefing for congressmen in October, 2003. Among the topics discussed off the record were:

- The challenges that North Korea's nuclear program pose for the United States;
- Strategies that could address the proliferation of weapons of mass destruction (WMD); and,
- Policy responses to Pyongyang's provocations by U.S. allies Japan and South Korea.

Speakers included Charles "Jack" Pritchard, a visiting fellow at The Brookings Institution who had been engaged in negotiations with the North Koreans; Leonard Spector, deputy director of the Monterey Institute of International Studies' Center for Nonproliferation Studies; and William Drennan, deputy director of research and studies, U.S. Institute of Peace.

Similarly, a bipartisan Congressional Caucus on Taiwan was organized in February, 2002, with 85 members. Its purpose has been to focus on U.S.-Taiwan relations and steps Congress could take to enhance economic, political, cultural, and strategic relations. The caucus also seeks to educate members on issues affecting U.S.-Taiwan relations and to monitor peaceful cross-Strait discussions between Taipei and

Beijing. Further, the caucus provides a forum in which legislators from the United States and Taiwan can exchange ideas and concerns. Lastly, the caucus intended to lead congressional oversight of the Taiwan Relations Act of 1979, which is the key legislation governing U.S. Taiwan relations. A similar caucus has been organized in the Senate.

A resolution proposed recently illuminates a favorite Congressional action in seeking to influence the foreign and security policy of the U.S. Sen. Sam Brownback, Republican of Kansas and chairman of the East Asia subcommittee of the Foreign Relations Committee, introduced a resolution seeking a declaration that the people of Hong Kong should be free to decide on democratic reforms in the former British colony that was handed over to China in 1997 with the *proviso* that it would be self-governing in all but foreign policy for 50 years. "A clear message emerges from everyone with whom I have spoken on this issue: Hong Kong is ready for full democracy," said Brownback. His resolution says the Congress should declare "that the people of Hong Kong should be free to determine the pace and scope of constitutional developments" and that anything less violates the vision of democracy as agreed upon by Britain and China. Brownback's subcommittee held a hearing recently where Martin Lee, a leading advocate of democracy in Hong Kong, testified. The Chinese consider such actions as interference in their internal affairs.

On the political level, President Bush came to office in 2001 with limited experienced in foreign affairs and was therefore more dependent than many earlier presidents on his advisers for guidance on policy concerning the two Koreas and China. The president is the arbiter in resolving the inevitable disagreements among his advisers but has relied on a small group of advisers who call themselves the Vulcans, after the Roman god of fire. James Mann, a longtime correspondent in Asia and Washington, assessed the influence of these advisers in an incisive book, "Rise of the Vulcans," published in March 2004. The Vulcans included Vice President Richard Cheney, Secretary of Defense Donald Rumsfeld, Secretary of State Colin Powell, Deputy Secretary of Defense Paul Wolfowitz, Deputy Secretary of State Richard Armitage, and the National Security Adviser, Condoleezza Rice.

President Bush's election, Mann asserted, was much more than merely a transfer of power to the Republicans from the Democrats led by President Bill Clinton. Rather, Mann wrote the Vulcans "represented an epochal change, the flowering of a new view of America's status and role in the world. The vision was that of an unchallengeable America, a United States whose military power was so awesome that it no longer needed to make compromises or accommodations (unless it chose to do so) with any other nation or groups of countries."

"The Vulcans were the military generation," Mann asserted. "Their wellspring, the common institution in their careers, was the Pentagon. The top levels of the foreign policy team that took office in 2001 included two former secretaries of defense (Cheney and Rumsfeld), one former chairman of the Joint Chiefs of Staff (Powell), one former undersecretary of defense (Wolfowitz), and one former assistant secretary of defense

(Armitage). Even Rice had started her career in Washington with a stint at the Pentagon, working for the Joint Chiefs of Staff."

North Korea and China were among the first issues to come up on the radar screens of the Vulcans. "From its first months in office," Mann said, "the new foreign policy team made clear it would deal with the world in new ways. Its style was, from the outset, at variance with the first Bush administration. During the first nine months of 2001 the new administration adopted a more confrontational approach to dealing with North Korea and with China. It quickly pressed forward with plans to develop a missile defense system, despite the uneasiness of European allies. It displayed a pronounced skepticism about the value of international agreements and treaties that it believed were not in the American interest."

Mann noted, however: "The new administration's approach for dealing with China contrasted sharply with its policy toward North Korea. With China, the administration set carefully limited goals that could be achieved without either a collapse or a capitulation of the Chinese regime. The administration was willing to negotiate directly with Beijing to try to achieve these goals. The Bush team did not refrain from dealing with China because of judgments about the unsavory nature of the Chinese regime or its leaders." Mann continued: "This differential handling of China was of course attributable in part to the fact that it was far bigger and militarily more powerful than North Korea. There was another factor as well, a desire to avoid disturbing the American business relationship with China. The Vulcans, since the earliest days of the Bush campaign, had developed a framework of ideas for China in which they would be more assertive than the Democrats on security issues and on Taiwan but would not jeopardize U.S. investment on Taiwan or trade between the two countries."

While several documents and speeches documented the thinking of the president and the Vulcans, a full exposition of their doctrine was published in the *National Security Strategy* of September, 2002, a year after the terrorist assaults in New York and Washington. The opening paragraph set the tone:

"The United States possesses unprecedented – and unequaled – strength and influence in the world. Sustained by faith in the principles of liberty, and the value of a free society, this position comes with unparalleled responsibilities, obligations, and opportunity. The great strength of this nation must be used to promote a balance of power that favors freedom."

On the two Koreas and China, the strategy said:

"When we see democratic processes take hold among our friends in Taiwan or in the Republic of Korea... we see examples of how authoritarian systems can evolve, marrying local history and traditions with the principles we all cherish."

"In the past decade, North Korea has become the world's principal purveyor of ballistic missiles, and has tested increasingly capable missiles while developing its own

WMD arsenal. Other rogue regimes seek nuclear, biological, and chemical weapons as well. These states' pursuit of, and global trade in, such weapons has become a looming threat to all nations."

"The United States seeks a constructive relationship with a changing China. We already cooperate well where our interests overlap, including the current war on terrorism and in promoting stability on the Korean peninsula."

Trips to Korea in 2003 by Deputy Secretary of Defense Wolfowitz and Secretary of Defense Rumsfeld further illuminated the thinking of the Vulcans.

Wolfowitz visited Korea in the spring to shore up the faltering alliance between the U.S. and South Korea. He urged Koreans to realize that their anti-Americanism was eroding U.S. support for Korea. The deputy secretary cautioned Koreans that the anti-American demonstrations outside U.S. posts in Korea was having a backlash: "The citizens of the United States will best support the commitment of their sons and daughters to Korea's defense only if they are confident that our plans are sound."

In the autumn, Rumsfeld's visit to South Korea should be seen as a step in a gradual disengagement of U.S. land forces from Korea and a greater reliance on sea and air power to maintain the U.S. security posture in Asia. Anti-Americanism in Korea is so widespread that moving American troops out of Seoul and positions north of the capital will ease tensions only slightly.

After a meeting with President Roh Moo-Hyun, Rumsfeld said the president had asserted that his nation "could become more self-reliant. I agree with that." Translation: South Korea is capable of defending itself and U.S. forces are needed elsewhere. President Roh returned to that theme in March 2004, saying: "Step by step, we should strengthen our independence and build our strength as an independent nation." That resonated well in the Bush administration.

In policy on China, the role of U.S. politics has been particularly apparent. Americans who think about strategy toward Beijing are divided into four groups: Demonizers, Realists, Panda Huggers, and Business Executives. Some Vulcans are Demonizers, others are Realists. None could be called a Panda Hugger. On the critical question of Taiwan, which the Chinese have said repeatedly is the most sensitive issue between China and the U.S., President Bush has vacillated, often in response to domestic politics.

The Demonizers are Cold Warriors who see China as a potential enemy. They advocate a hard line toward Beijing in almost every aspect of U.S. relations with China – political, economic, diplomatic, and military. Sometimes known as neo-conservatives, or "neo-cons," they favor a U.S. commitment to Taiwan, over which Beijing claims sovereignty. They oppose exchanges between U.S. and Chinese military leaders because they fear secrets will be given away. Among the Vulcans, Paul Wolfowitz has been the leading theoretician on China, according to Mann. During the 2000 election campaign,

he said he considered China to be "probably the single most serious foreign policy challenge of the coming decades."

The Realists are wary of China, pointing to a long list of grievances that include the Chinese fighting the U.S. in the Korean War, genocide in Tibet, the suppression of Uighurs in the western province of Xinjiang, territorial claims in the South China Sea almost to the shores of Indonesia, the 20 million Chinese who died during the Cultural Revolution, the massacre at Tienanmen, and the history of the Middle Kingdom as the would-be hegemon of Asia. At the same time, the Realists realize that China is the world's most populous nation with legitimate nationalistic goals, that its economy is experiencing the Great Leap Forward to which the revolutionary leader Mao Zedong aspired but never reached, and that it is emerging as a power in the international arena. The Realists contend that the U.S. should search for ways to engage China and damping down differences whenever possible. Secretary of State Powell and his deputy, Richard Armitage, are seen as Realists.

The Panda Huggers tend to overlook the downside of China and seek to accommodate the Chinese as much as possible. On Taiwan, for instance, the Panda Huggers would reduce support for the government in Taipei and would encourage the people of Taiwan to submit to Beijing. Like the Demonizers and Realists, Panda Huggers come from both parties and include former Secretary of State Henry Kissinger, who led the way in restoring U.S. relations with China but at times has sounded like an apologist for Beijing, and former President Clinton, who pleased the Chinese by taking a position close to theirs on Taiwan while in Shanghai in June, 1998.

The U.S. business community is, for the most part, apolitical on dealing with China. Business executives appear to lack interest in China's political, diplomatic, or military actions and are concerned primarily with opportunities for trade with and investment in China. American business executives tend to mute criticism of China, although there have been instances of sharp jabs at the Chinese for allegedly stealing intellectual property, erecting barriers to American exports, and for failure to live up to obligations within the World Trade Organization (WTO). In recent months, American business has come under fire from some labor leaders who assert that jobs are being exported jobs to China, which is also known as outsourcing.

President Bush has vacillated on China policy as seen in statements on the Taiwan issue. He told a television interviewer in 2001 that the U.S. would do "whatever it takes" to defend Taiwan. His administration has repeatedly referred to the Taiwan Relations Act of 1979 (TRA) as the core of his China policy; it was passed overwhelmingly by the Congress to rebuke President Jimmy Carter for switching U.S. diplomatic relations to Beijing from Taipei. The TRA all but commits the U.S. to help defend Taiwan against an unprovoked attack by China. Secretary of State Powell was explicit that same year: "Let all who doubt, from whatever perspective, be assured of one solid truth: We expect and demand a peaceful settlement, one acceptable to people on both sides of the Taiwan Strait."

In late 2003, however, President Bush swung toward accommodating the Chinese during the visit of Premier Wen Jiabao to Washington. Wen came to Washington thoroughly prepared to make his case but was met by President Bush and officials of his administration who were preoccupied with Iraq, the war on terror, and the Middle East, and who were divided over China policy.

Wen laid out the party line in an interview with the *Washington Post* in Beijing before leaving for Washington and signaled clearly that he intended to be taken seriously. In contrast, the White House said only that President Bush hoped to fashion "candid, constructive, and cooperative" relations with China. Perhaps the biggest flaw in the Bush posture on China was a failure to understand that China was deadly serious about the dispute over Taiwan. Pointing to Taiwan's steady movement toward independence, Wen told the *Washington Post*: "I hope the U.S. government will recognize the gravity and danger of the provocative remarks and actions taken by the leader of the Taiwan authorities." He referred to President Chen Shui-bian, who had been leading his nation toward a formal declaration of independence from mainland China. Wen wanted the U.S. to be "very straightforward" in opposing Taiwan independence and to "stop arms sales" to Taiwan. The most crucial question, he said, would be measures China might take if Taiwan declared independence. "The Chinese people," he said, "will pay any price to safeguard the unity of the motherland."

At the White House, President Bush and Premier Wen met for a total of 80 minutes, plus a private lunch. Given time for amenities and translation, that left less than 40 minutes for substantive discussion, enough to state predetermined positions but not enough to get into a searching discussion. After a meeting in the Oval Office, the president delivered a statement that pleased Premier Wen: "We oppose any unilateral decision by either China or Taiwan to change the status quo. Comments and actions made by the leader of Taiwan indicate that he may be willing to make decisions unilaterally to change the status quo, which we oppose."

The president's statements so angered some of his conservative supporters that within hours they accused him of appeasement, perhaps the most stinging charge in the American political vocabulary. Conservatives in the Project for the New American Century asserted in a statement: "Appeasement of a dictatorship simply invites further attempts at intimidation. Standing with democratic Taiwan would secure stability in East Asia. Seeming to reward Beijing's bullying will not."

Moreover, hazy briefings by the White House press secretary and two unnamed senior officials, one evidently from the National Security Council staff and the other from the State Department, left the impression of a policy in disarray. In a briefing for the press, the White House press secretary, either gave fuzzy answers or didn't have an answer or didn't understand the question. A reporter asked, for instance: "Why is the president opposing the exercise of the democratic self-determination by the people of Taiwan when he says that's a cornerstone of his policy worldwide?" McClellan said the president "made it very clear that we support the "One China" policy and the Taiwan Relations Act, which is part of the three joint communiqués." The give and take

continued for 25 minutes with McClellan repeatedly contending "our policy has not changed," which in Washington often means there is no policy. Late in the afternoon, two senior officials sought to control the damage. One emphasized: "The president did tell the Chinese in no uncertain terms that we, the United States, would have to get involved if China tried to use coercion or force to unilaterally change the status of Taiwan." "There are two separate messages here, "the unnamed official said. "One is for the Chinese that, look, you can't use force, you can't use coercion. The other one is for the Taiwanese, look, you shouldn't be moving towards independence."

President Bush swung back toward a position more supportive of Taiwan just after the March 20 election in which the initial results gave the incumbent, President Chen Shui-bian, a narrow victory. His opponents quickly challenged the results and, at this writing, the outcome is unclear. Even so, the Bush administration took the initiative in late March by issuing a statement congratulating the voters on Taiwan "on the successful conclusion" of their election. Most pointedly, the White House said: "We congratulate Mr. Chen on his victory."

In Beijing, Chinese leaders immediately saw that statement as an informal U.S. recognition that President Chen and his government were the legitimate, elected governors of Taiwan. The Chinese denounced Washington's "incorrect act" and accused the U.S. of violating the "One China" principle and "interfering in China's internal affairs."

Over the months, American conservatives, such as those associated with the Heritage Foundation and the American Enterprise Institute, have begun more vigorously to question the "One China" concept. They have argued for recognizing the government of Taiwan and establishing diplomatic relations instead of the present unofficial ties. More support for normal relations with Taiwan has come from members of Congress. Rep. Robert Andrews, Democrat of New Jersey, said recently that if the people of Taiwan rejected integration into China, "then we should recognize Taiwan as a free and independent state." Similarly, Rep. Steve Chabot, Republican of Ohio, contended: "It may be impolite to say so, but 'One China' is a fiction – and a dangerous fiction – that most of the international community has bought into in order to mollify China."

Perhaps the starkest assessment has come from the International Crisis Group of independent, non-profit researchers. It has published reports it said have "demonstrated that for all practical purposes, the 'One China' approach that has helped stabilize the region for three decades is dead."

In another segment of the political world, Sen. John Kerry of Massachusetts, presumed to be the Democratic nominee for the U.S. presidency in the November election, outlined some of these thoughts on Korea in an op-ed article in the *Washington Post* in August 2003. It said, in part:

"The administration's erratic handling of the North Korean nuclear crisis over the past year leaves it little room for error. It first ignored the threat because it was preoccupied with Iraq, then played it down – thus leading Pyongyang to think we would accept a nuclear North Korea – then proposed a dialogue, but steadfastly refused to talk directly with the North Koreans. All this served only to create confusion and put North Korea's despotic leader, Kim Jong Il, in the driver's seat."

"The Bush administration must commit itself to negotiate directly with the North Koreans – no matter who else is at the table – and have a viable negotiating strategy," Kerry said. "The threat posed by North Korea is too dangerous to allow someone else, be it our allies or China, to negotiate our interests."

"Pyongyang is not going to freeze its nuclear program without some commitment from the United States that North Korea's security will not be jeopardized. A U.S. commitment not to increase its offensive capabilities on the Korean Peninsula while Pyongyang is freezing its nuclear activities is one obvious – and, I believe, viable – way to move forward."

"We must be prepared to negotiate a comprehensive agreement that addresses the full range of issues of concern to the United States and its allies – North Korea's nuclear, chemical and missile programs, conventional force deployment, drug running, and human rights – as well as North Korea's concerns about security and economic development."

Many of these thoughts were confirmed by Kerry's national security adviser, Rand Beers, in a talk at a forum in Washington in February 2004.

Kerry has not said much about China and Taiwan but has asserted that he supports a "One China" policy, the "one China, two systems" for formula under which China has taken control of Hong Kong, and what has been known as "strategic ambiguity." Kerry addressed the Senate in 2001: "For almost 30 years, through Republican and Democrat administrations alike, the cornerstone of our approach to policy toward China and Taiwan has been the so-called 'One China' policy: There is but one China; Taiwan is a part of China, and the question of Taiwan's future must be settled peacefully."

"We have never stated what the United States would do if Beijing attempted to use force to reunify Taiwan with the mainland – until today. We have not stated it in the course of Republican and Democrat administrations alike because we understood the danger of doing so. To remove the strategic ambiguity runs the risk of decreasing Taiwan's security rather than increasing it and of eliminating the flexibility that we will need to determine how to respond in any given situation. I personally believe that on this question our interests and Taiwan's are better served by the ambiguity that has existed and would be better served by maintaining it. It not only deters a Chinese attack, but it discourages Taiwan from misreading what the United States might do.

"President Bush has said that the United States has an obligation to defend Taiwan. Certainly we want to help Taiwan preserve its thriving democracy and robust, growing economy. I have said previously that I think this is enough of a message to the Chinese, that no American president could stand idly by and watch while that democracy that has been gained is set back, by force or otherwise. Nevertheless, we need to press both Taipei and Beijing to reinvigorate the cross-Strait dialogue, without any misinterpretations about our role. The Taiwan Relations Act does not commit the United States to come to the defense of Taiwan in the event of an attack. The Taiwan Relations Act commits us to provide Taiwan with the necessary military equipment to meet its legitimate self-defense needs."

In a radio interview in January 2004, Kerry held to that position: "We are not going to permit them to declare independence, that that would be unacceptable. And I think the way we resolve it is to continue to push, as we did with Hong Kong, Macau, and other places, for a 'one-China-two system'."

To close on a speculative point, America has a deep isolationist streak that occasionally erupts to the surface. (Samuel Huntington, the Harvard don who has expounded the theory of the "clash of civilizations," says it is nationalism, not isolationism. He may be right but the consequences are the same.) After 150 years of projecting power ever farther from American shores, the U.S. may have reached its furthest point of extension in Afghanistan and Iraq. The question arises: Will there be a retraction of American power after Iraq is over, regardless of that conflict comes out, because of the costs in blood and treasure?

Sun Tzu told us 2,500 years ago: "Contributing to an army at a distance causes the people to be impoverished." More recently, Paul Kennedy of Yale published a widely acclaimed book in 1988 entitled *The Rise and Fall of the Great Powers* in which he argued that America was overextended. The Vulcans vigorously opposed that thought, but they may be forced to accept a more restrained security posture as the costs in blood and treasure become more apparent. If that is true, American attitudes toward China and the two Koreas will be affected.

Session IV
Economic Dimension of Trilateral Relations

U.S.-Korea Economic Relations and Economic Integration in East Asia

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I. U.S-Korea Economic Relations

The share of merchandise exports going to the United States fell dramatically from more than 40 percent in the late 1980s to less than 20 percent in 2003, with China surpassing the United States as Korea's number one export destination. Korea exported $34.2 billion to the U.S. market (17.7 percent of Korea's total exports) and $35.1 billion to China (18.1 percent of Korea's total exports). The third and fourth-largest export markets for Korea were the European Union and Japan in 2003. On the import side, after briefly supplanting Japan as Korea's primary supplier of imports in the late 1990s after the Asian financial crisis, the U.S. share of Korean imports decreased and in 2003, the United States supplied less than 14 percent of Korea's merchandise imports. On the other hand, Korea imported 20.3 percent of its total imports from Japan in 2003.

These trade figures seem to imply that U.S.-Korea economic relations have weakened in recent years, even though the United States is still the number one trading country for Korea as a whole. The total trading volume between Korea and the United States was $59.0 billion in 2003, taking 15.8 percent of Korea's total trade with the world. On the other hand, total trade with China was $57.0 billion in 2003, accounting for 15.3 percent of Korea's total trade last year, and it is expected that total trade with China will exceed total trade with the United States in the near future. Therefore, it seems safe to say that U.S.-Korea economic relations are weakening in the area of merchandise trade due to the rise of China as a main trading partner. Nevertheless, total trade volume between the United States and Korea has been high since 1995, indicating that the economic relations between the United States and Korea have matured.

More than half of China's trade comes from simple assembly work. China imports intermediate and capital goods from Japan and newly industrialized countries such as Korea, and then exports the final goods to the U.S. market. As a result, the United States continues to experience a trade deficit with China and China faces trade deficits with Korea and Japan. This outcome will continue as long as China's production of

export goods stays at the assembly stage. This trend will continue at least for the next five to 10 years, when China upgrades its trade structure. This implies that Korea's trade with the United States will continue to rise via China even if direct trade between the two countries falls – therefore U.S.-Korea economic relations will not weaken as much as is suggested by official trade data.

U.S.-Korea economic relations will strengthen in services trade and investment, and in recent years, the United States has been one of the largest investors in Korea (in 2002, the United States took 49.4 percent of total FDI flow into Korea). Since 1991, the U.S. share of FDI flow into Korea has been an average 30.4 percent. In this case, China can generally be factored out with regard to inward FDI into Korea.

Considering that more and more of Korea's trade with the United States will be carried out via China in the future, the characteristics of the economic relationship between the United States and Korea will change, and the U.S. role in the area of services trade, R&D and investment will grow. This helps Korea continue to increase the productivity of its economic structure and develop new sources of growth for both countries, and helps minimize the trade imbalances arising in the area of merchandise trade.

In order to promote trades in the area of service, R&D and investment, we need to have formal free trade arrangements that will eliminate inefficient barriers blocking the free flow of capital and ideas across countries. In this sense, the U.S.-Korea free trade agreement (FTA) will have special meaning for both countries, as an FTA is an institution in which the interests of the United States and Korea are most effectively guaranteed and maximized. In the East Asian region, many FTAs are now being discussed or are in negotiation, including a Japan-Korea FTA, China-Japan-Korea FTA, and even an East Asia FTA. Therefore, a U.S.-Korea FTA should also be discussed and pursued taking into account proper relations with other FTAs in East Asia.

II. Progress and Issues Surrounding FTAs in East Asia

1. Korea-Japan FTA: A substantial internal consensus in favor of a Korea-Japan FTA has been formed in Korea, and the idea that a Korea-Japan FTA can be a core force for integrating East Asian economies is spreading. Nevertheless, there are still many concerns about potential negative effects on the Korean economy, including increased economic dependence on Japan and an increased trade deficit with Japan. Moreover, there are concerns over the U.S. reaction to trade diversion caused by a Korea-Japan FTA and the course that China will take to secure its interests in Northeast Asia.

2. China-Japan-Korea FTA (CJK FTA): The review of a CJK FTA proposed by former Chinese Prime Minster Zhu Rongji in 2002 can be interpreted as a sign of China's uneasiness toward progress in the Korea-Japan FTA. China seems to have proposed a CJK FTA as a stepping stone for mid/long-term Northeast Asian regional economic integration. Rather than participating in a Korea-Japan FTA as a third member, it seems that China prefers to take the initiative for a CJK FTA, assuming the role of leader in

place of Japan. However, China has more pros than cons in launching an FTA. China has a government with strong leadership and no NGO campaigning against the FTA. Therefore, China has favorable conditions for FTAs and could see substantial results shortly after government policy is decided. China showed strong interest in the CJK FTA at the Bali CJK Leader's meeting.

Discussions on a CJK FTA and Korea-Japan FTA negotiations will be carried out simultaneously starting from 2003, but considering the current environment, the Korea-Japan FTA is likely to progress more quickly. In addition to negotiating a bilateral FTA, Korea and Japan should examine a scheme to invite China to participate in their FTA. In other words, Korea and Japan should develop their FTA as a benchmark framework for a CJK FTA in the mid-term and an East Asian FTA in the long term. Thus, when Korea and Japan form an FTA, it should be designed with China in mind – as a potential partner in the near future.

3. East Asian FTA: East Asian countries began to show interest in the launch of an FTA after the financial crisis because they have realized the limits of an export-oriented development policy that mainly targets U.S. markets. Being heavily dependent on a major export market (such as the U.S.) caused East Asia to become vulnerable to negative shocks stemming from the depression of the U.S. economy, the growing U.S. trade deficit, and a stagnating world economy. In order to prevent further exposure to such risks, East Asian countries should strive to restructure by creating domestic demand or making intra-regional demand the driving force for stable economic growth. As East Asia becomes a free market with the elimination of tariffs and nontariff barriers, businesses will be able to expand exports and enjoy economies of scale. Moreover, the creation of a huge market will bring dynamic benefits since the region will attract more FDI, which will create more jobs and facilitate the transfer of advanced technology.

In a Northeast Asian FTA, Korea is expected to gain relatively greater economic benefits compared to China or Japan. Korea is forecasted to gain relatively more from a CJK FTA than from a bilateral FTA with China or Japan. As with other FTAs, it is estimated that Korea can realize greater growth benefits due to capital accumulation effects rather than trade liberalization effects under an FTA with Japan. In addition, Korea can achieve higher economic gains under an East Asian FTA than under a CJK FTA. A larger FTA such as an East Asian FTS is preferred to other FTAs in East Asia.

Regarding an East Asian FTA, competitive regionalism can be a problem. China and Japan are pursuing FTAs competitively for securing a leadership position in East Asia. Considering the rivalry between China and Japan and Japan's reluctant position toward a FTA with China, East Asia may end up with two meaningful large-scale FTAs (the Korea-Japan FTA and China-ASEAN FTA) in the near future. Japan and China may try to strengthen their leadership positions through their own FTAs with Korea and ASEAN, respectively, rather than making efforts to form an East Asian FTA by consolidating the two large-scale FTAs. This may have unstable and destructive consequences for East Asia. This situation should be avoided. If neither Japan nor China can play a hub function, East Asian economies may suffer from Baldwin's spoke trap.

One way to avoid competitive regionalism in East Asia is to form a trilateral FTA between China, Japan, and Korea. The trilateral FTA can be an important stepping-stone for an East Asian FTA and the follow-up integration process.

East Asian countries will face many economic and non-economic obstacles while pursuing region-wide economic integration. Among the economic obstacles, there are substantial differences in stages of economic development, trade barriers, and issues of agriculture. Non-economic factors rather than economic factors might be more critical. For instance, regardless of how important a CJK FTA is in terms of economic gains and strategic aspects, the three countries have different political, social, and historical perspectives. Mutual distrust among the three countries may be the most crucial factor impeding the conclusion of an economic agreement.

Incremental Growth Impact of FTAs in East Asia

(Unit: %)

FTAs in Northeast Asia								
	China-Japan FTA		China-Korea FTA		Japan-Korea FTA		CJK FTA	
	TL	TL&CA	TL	TL&CA	TL	TL&CA	TL	TL&CA
China	0.27	1.11	0.12	0.45	-0.01	-0.03	0.34	1.29
Japan	0.05	0.12	-0.00	-0.04	0.01	0.04	0.06	0.13
Korea	-0.05	-0.26	0.76	1.76	0.22	0.92	0.94	2.45
ASEAN	-0.03	-0.36	-0.02	-0.19	-0.01	-0.08	-0.06	-0.59
ROW	-0.00	-0.06	-0.00	-0.06	-0.00	-0.02	-0.01	-0.12
FTAs in East Asia								
	ASEAN-China FTA		ASEAN-Japan FTA		ASEAN-Korea FTA		East Asian FTA	
	TL	TL&CA	TL	TL&CA	TL	TL&CA	TL	TL&CA
China	0.076	0.441	-0.02	-0.12	-0.01	-0.07	0.36	1.39
Japan	-0.007	-0.076	0.04	0.09	-0.01	-0.05	0.10	0.17
Korea	-0.025	-0.177	-0.04	-0.20	0.13	0.65	1.01	2.84
ASEAN	0.229	2.077	0.43	3.19	0.41	2.17	0.73	4.00
ROW	-0.004	-0.075	-0.01	-0.05	-0.00	-0.04	-0.02	-0.22

Source: Cheong, Inkyo, 2002, "East Asian Economic Integration: Recent Development of FTAs and Policy Implications," KIEP Research Paper, Seoul, Korea.

The United States will be concerned about economic and non-economic losses it might experience when it is excluded from East Asian FTAs. However, the United States cannot brake the movement of East Asian regionalism since it is also pursuing FTAs. The United States could support the East Asian FTA as it may benefit from improvements to the East Asian trade system owing to an East Asian FTA. In addition, the United States can put more political than economic emphasis on the movement of East Asia regionalism. If China strengthens its relations with neighboring countries through East Asian economic cooperation and integration, it could ease tensions in the region and lessen the U.S. security burden.

In particular, Northeast Asian economic integration is expected to have very positive effects on the security of the Korean Peninsula. Measures to persuade North Korea to participate in the East Asian integration process should also be examined. Considering the rapid progress being made in FTA negotiations in East Asia, it is essential for the U.S. to get involved in securing its economic and non-economic interests by launching a bilateral FTA with a Northeast Asian country since it is unlikely that the United States will join Korea-Japan FTA or CJK FTA. It remains to be seen with which country the U.S. can maximize its national interests in regards to free trade agreements.

III. The U.S.-Korea FTA

From an economic point of view, broad consensus was formed on the need for a U.S.-Korea FTA in Korea. However, there are still several problems to be resolved. Korea is concerned with minimizing the opening of the agricultural sector, and the Bilateral Investment Treaty (BIT) problem is unresolved (although the screen quota issue has become less significant recently). There are more selling points to a U.S.-Korea FTA than a U.S.-Korea BIT, as a BIT would be confined to improving the investment environment and increasing investment, whereas a U.S.-Korea FTA not only implies increased economic benefits through a unified market, but also consolidating economic alliances with the United States. A U.S.-Korea FTA is expected to contribute to the security of the Korean Peninsula, especially as the two countries need to strengthen national security and military alliances.

It seems that the U.S. view on the U.S.-Korea FTA is focused mainly on market access to Korea's agricultural sector. In addition, some U.S. industrial sectors are overly defensive. They need to acknowledge that more substantial economic benefits under a FTA can be achieved through mutual cooperation in the form of expanding intra-industry trade and strategic alliances in the corporate sector. The United States should consider a U.S.-Korea FTA as a channel to participate in Northeast Asia and East Asian economic integration. The United States should also utilize FTAs for the sake of military interests and national security in the Northeast Asia region.

Korea should overcome its disadvantageous position as a minor economic power through a U.S.-Korea FTA rather than becoming too dependent on Japan and China. The United States should take a U.S.-Korea FTA as momentum to participate in Northeast Asia's economic integration rather than being indifferent to the move, as it will be more difficult for the United States to establish FTAs with China and Japan in the short-run.

IV. Conclusion

Since FTA movements in Northeast Asia and East Asia are obviously important to both the United States and Korea, both should begin discussions on a U.S.-Korea FTA because it will take years to conclude an agreement. With regards to agriculture, a main barrier to FTAs in Korea, rather than pursuing an idealistic FTA by enacting complete market opening including the agricultural sector, it would be more effective to accept an

FTA with special consideration for less competitive sectors, making improvements afterward.

Session IV
Economic Dimension of Trilateral Relations

New Dynamics in Trilateral Economic Relations: The U.S. Perspective

by Christine P. Brown
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Since the end of the Korean War, economic and trade ties have provided an essential element of broader U.S.-Korea relations. Once deeply dependent on foreign aid, largely from the United States, to sustain its economy, Korea has developed into the world's 12th largest economy, with aspirations to be an economic hub in Northeast Asia. As Korea's economy has developed, trade with the United States has expanded. Korea is now the United States seventh largest trading partner and the fourth largest market for U.S. agricultural products. Two-way trade in 2003 totaled $61.06 billion and in the two months of 2004 totaled $10.49 billion.

New Dynamic: In spite of the strong U.S. trade, investment, and business ties in Korea, there is a new dynamic at work in Northeast Asia that suggests that the relationship could be approaching a turning point: the emergence of China. This dynamic is most evident in the shifting patterns of Korean trade, and in the approach each country is taking in regards to economic integration, particularly free trade agreements (FTA).

China-Korea Trade: Since normalizing economic and diplomatic relations in 1992, China-Korea trade has steadily increased, as one would expect given China's proximity and market potential. This trend accelerated with China's accession to the WTO and the slowdown in the U.S. and global economy. China became Korea's number one investment market in 2001, and its number one export market in 2002.[§§] In fact, Korea would have likely sunk into recession last year if it were not for its trade with China. Exports to China were up 47.8 percent in 2003. Although, China (excluding Hong Kong) has not yet overtaken the United States as Korea's number one trading partner, this may not be far off given the trends. In 2003, two-way trade between the United States and Korea amounted to $59.0 billion, while Korea-China trade was $57.5 billion.[***]

[§§] Brown, Christine, "Korean Trade: Increasingly Looking To Asia," *Korea Insight*, November 2003.
[***] Statistics from Korean International Trade Association, KOTIS, www.kita.org.

As trade between Korea and China has expanded, so has South Korean investment in China. South Korean businesses invested more in China ($4.4 billion) last year than U.S. companies, who invested $4.2 billion.[†††] The trade and investment relationship with China will likely continue to expand as Korean firms seek to take advantage of China's vast market and lower costs in order to remain globally competitive.

Expanding Regional Economic Ties: The trends in trade patterns have been matched by changes in the regional governments' trade policies. Until recently, Northeast Asia generally shunned creating formal regional or bilateral economic integration arrangements, instead choosing to focus exclusively on the multilateral trading system. China, Korea, and Japan were the last of the large economies to join the bilateral bandwagon.

In Korea, the government's trade policy has increasingly seen Northeast Asia, and especially China, as the center of its economic and trade goals. At the top of President Roh Moo-hyun's trade agenda is expanding economic ties with the region and establishing Korea as an economic and financial hub in Northeast Asia. With competition for Korean products increasing, skepticism about the Doha Development Agenda negotiations, and an explosion of other FTA negotiations, President Roh has rejuvenated his FTA policy, ratifying Korea's first FTA with Chile in February.

Japan has also added free trade agreements to its trade policy agenda, completing its first FTA with Singapore. However, that agreement was attacked for being very weak since it excluded agricultural products sensitive to Japanese farmers. China is in negotiations with ASEAN. Korea and Japan have launched negotiations for a FTA, and a Korea-Japan-China trilateral agreement has been suggested. In short, after a long period of abstinence, Asia has now become more interested in regionalism.

But the expansion of economic ties is not only taking place in the trade field. Asia is also discussing linkages for investment and currencies. On the currency front, a mechanism called the Chiang Mai Initiative, which allows central banks from 13 countries to swap foreign exchange reserves to fight speculative attacks on their currencies, has been the main accomplishment. Thus far $35 billion in bilateral swaps have been signed under this scheme, and discussions are underway to convert the bilateral arrangements into a multilateral swap agreement. While the swap agreements are significant, the funds pledged are still modest. During the Asian Financial Crisis, Korea alone needed a rescue package totaling $58 billion, roughly twice the current combined funds under all of the swap agreements. Other proposals have included adopting some form of regional currency and pegging regional currencies to the yen. Informal talks for a regional monetary fund continue, as well as proposals for stronger coordination of regional exchange rates. However, discussions, for all the attention they receive, have not progressed much over the years.

[†††] "Korea's China Play," *BusinessWeek Asia*, March 29, 2004, http://aol.businessweek.com/magazine/content/04_13/b3876012.html.

As important as these agreements are, a more important policy response to the Asian Financial Crisis was the decision by most regional governments to adopt flexible exchange rate regimes. One major exception remains China, whose currency remains rigidly pegged to the U.S. dollar.

Implications for the United States: Should the United States be concerned about growing regional economic ties?

Despite the growing interregional trade, the U.S. is still the overwhelming dominant economy for the region. The United States remains important as a market for export goods and as a source of investment, but the character of some of the bilateral relationships is changing. While U.S. dominance in merchandise trade is declining in Korea and many other countries in the region, especially relative to China, its role in the areas of services and investment are growing. As Marcus Noland has said, "In essence, the United States is losing its relative prominence in the older, more slowly growing parts of economic life and is building an increasingly prominent position in the newer, more expanding areas."[‡‡‡]

The countries in Northeast Asia have not ignored the importance of the U.S. to the region. They know that they need to anchor U.S. interests in the region since they need the U.S. security presence, U.S. technology and capital, and must accommodate their biggest customer.

Much of the change in Korea's trade with the United States reflects China's emergence as a global manufacturing and assembly hub. As firms relocate their assembly and manufacturing operations to China, China has begun to absorb the trade deficits of its neighbors, including Korea, as indirect trade with the United States via assembly on Chinese soil increases. Korean intermediate goods are exported to China, increasing China's share of Korea's exports. Then, Korean firms assemble the final product in China and export it to the United States, contributing to China's trade deficit with the United States. According to a recent KIEP study, export sales by Korean affiliates in China to third countries account for as much as 71 percent of total sales.[§§§] Choe Jung Hwa, minister for economic affairs at Korea's Embassy in Washington, said that as much as 40 percent of the goods are re-exported to the United States.[****] In this way, trade between the U.S. and China, and South Korea and China increases, while direct trade between South Korea and the U.S. decreases. This reflects a basic reality for trade in the region that is not unique to Korea. As China has become integrated into the global trading system over the past two decades, all states have shown a rising share of trade (both exports and imports) with China.

[‡‡‡] Noland, Marcus, "The Strategic Importance of U.S.-Korea Economic Relations," IIE, May 2003, http://www.iie.com/publications/pb/pb03-6.pdf.

[§§§] Yao, Shumei, Korea's FDI in China: Status and Perspectives, KIEP, CNAEC Research Series 03-01, Dec. 26, 2003, p. 22.

[****] Choe, Jung Hwa speaking at a KEI Congressional Roundtable luncheon program, April 1, 2004.

But the economic relationship does not merely exist as pairs of bilateral relationships. Given the complementarity of the three economies, natural production chains develop with the United States providing the leading edge technology, Korea the value-added manufacturing, and China the low-cost assembly. For this relationship to be sustained, Korea needs to maintain its competitive edge over China. However, questions are already being raised about how quickly China will first equal and then overtake Korea technologically. Last year, a Federation of Korean Industries (FKI) study found that China would overtake Korea (except in shipbuilding, construction, and life sciences) in 3.76 years – given that the study was released over a year ago that is now only less than three years away.[††††] A more recent report by the Trade Research Institute of the Korean International Trade Association (KITA) states that, while Korean exports will expand over the medium term (until 2007), a turning point will come in the relationship in 2008 as the advantage shifts to Chinese exports to the Korean market because of increased competitiveness of Chinese products (especially electronics), import substitution in the domestic Chinese market, and China's FTA with ASEAN.[‡‡‡‡]

Maintaining Korea's economic competitiveness is crucial to the continued functioning of the trilateral economic relationship and to Korea's goal of becoming an economic hub. Korea will have to continue to make the difficult decisions to reform its economy and make Korea an attractive, business- and investor-friendly market to stay ahead of China on the production ladder.

However, the trilateral economic relationship also raises additional concerns. As Korea becomes more invested in its regional economic relationships and roles, American technologies that are licensed to Korean firms are increasingly likely to be used in Korean investments in other countries, for example China. These developments will require new dimensions of policy coordination and potentially new areas for disputes, as U.S. trade and investment policies differ among the countries in the region.

U.S. Trade Policy: U.S. officials have said that the entrance of China into the global economic system will not automatically mean the withering of their other bilateral relationships in the region. Current U.S. policy favors a mix of multilateralism, regionalism, and bilateralism on the presumption that movement toward lower trade and investment barriers is desirable in any of those contexts. Whatever approach is likely to yield more rapid progress is worthwhile pursuing. This is seen in the Bush administration's pursuit of "competitive liberalizations." Given the plethora of agreements being negotiated by the United States, it would be hard for the U.S. government to convince other countries not to pursue the same strategy. During previous waves of regionalism, the United States had essentially vetoed groupings, such as the East Asian Economic Caucus (EAEC) and the Asian Monetary Fund, that it was not included in. Thus far, it appears that the U.S. stance on Northeast Asian regionalism has softened.

[††††] "China to Overtake Korea Before 2007," *Korea NOW*, Feb. 8 2003, p. 22.
[‡‡‡‡] "Korea-China Trade Moving Towards 'Expanded Balance'," KITA, Feb. 10, 2004, http://www.kita.org/.

That said, the United States has seemingly put little effort into expanding formal bilateral ties with the region, even though the United States faces real challenges in responding to the rapidly evolving dynamics in the region. Having ratified an FTA with Singapore and signed one with Australia, the only Asian FTA being negotiated is with Thailand. While a U.S.-Korea FTA has been studied, no formal negotiations have been initiated.

Instead, the Bush administration has said it is focusing its effort on APEC, as means to maintain its formal ties to the region. As is demonstrated by the U.S. active involvement in the study, entitled "Asia Pacific [Regional Trading Agreements] as Avenues for Achieving APEC Bogor Goals," released in October 2003. The United States was instrumental in convening a meeting of senior officials to review free trade agreements in the APEC region in May 2003. The main purpose of the meeting was to give APEC members a forum to discuss the content of the numerous FTAs being negotiated and thereby increase transparency.

Trade & Foreign Policy: Will the expanding economic ties mitigate conflict in other areas of the relationship or will economic irritants further exacerbate conflict?

Security, political, and economic considerations are not mutually exclusive. Each plays a vital role in the trilateral relationship as a whole and in the individual bilateral relationships. Even the Bush administration – for all the focus on terrorism – acknowledged the key role of economics and trade in the *National Security Strategy* of 2002. "Free trade and free markets have proven their ability to lift whole societies out of poverty – so the United States will work with individual nations, entire regions, and the entire global trading community to build a world that trades in freedom and therefore grows in prosperity."[§§§§] Although the economic elements of the *National Security Strategy* have been largely overlooked and overshadowed by the war on terror, the Bush administration continues to put at least a minimum of effort into the economic parts of its agenda, as can be seen through the administration's efforts in the Doha Development Agenda and through the various bilateral agreements, particularly the new initiative to negotiate a Middle East free trade agreement.

Marcus Noland has suggested that the "net result may well be a decoupling of relative interests that could reinforce the widening strategic differences between the two historical allies [the United States and Korea], especially if Koreans come to regard China and Japan as acting more constructively than the United States with regard to North Korea."[*****] But that does not necessarily have to be the case.

Closer economic ties do not necessarily mitigate foreign policy differences. It would be a mistake to believe that closer economic ties will resolve issues in other areas. As trade expands, there is likely to be an increase in the number of trade disputes between the countries, as can be seen in the filing of a case against China's

[§§§§] *The National Security Strategy of the United States of America,* Office of the President, September 2002, http://www.whitehouse.gov/nsc/nss.pdf.

[*****] Noland, Marcus, "The Strategic Importance of U.S.-Korea Economic Relations", IIE, May 2003, http://www.iie.com/publications/pb/pb03-6.pdf.

semiconductor value-added tax (VAT) by the U.S. in the World Trade Organization (WTO) and the restrictions placed by the Chinese government on some Korean imports, such as steel, polyester staple fiber, etc. In Washington, China is grabbing all the headlines. Discussions of international economic policy, be it outsourcing, exchange rates, or the trade deficit, gravitate toward China. While other countries in the region may relish being removed from the U.S. radar, some experts have suggested that as China dominates the discussion, the interests of other partners may be overlooked.

As much as I would like foreign policy decisions to be driven by economic considerations, this is not the case. Good politics is not always good economics. Political and security interests will continue to trump economic interests when push comes to shove.

However, the multiple lines of communication opened by broader economic ties should allow states to use other avenues to signal dissatisfaction with their trading partner. While the WTO has provided one arena to address disputes, the countries are also using other avenue, as can be seen by moves by Korean and Chinese steel companies working in collaboration with Japanese firms to create a Northeast Asian steel pact, and in the numerous bilateral consultations that are ongoing on a number of trade issues.

As the trilateral U.S.-China-South Korea relationship continues to develop and mature, there will be a number of issues that the United States, China, and Korea will have to face. Currently, the economic discussion seems to be wholly focused on China as an assembly hub, but what happens when Chinese domestic consumption begins to fulfill its potential? What will the impact be on the trilateral relationship? Much depends on what the individual bilateral relationships and the trilateral relationship as a whole looks like at that point. And that will be determined by what transpires in the interim. It is in the interest of all parties that each country remains engaged and does not allow relations to cool.

APPENDIX D

About the Authors

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