The Koreas in 1999: Between Confrontation and Engagement
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## Contents

Major Issues ......................................................................................................................... i  
Introduction .......................................................................................................................... 1  
The Korean Peninsula and the 'two Koreas' .............................................................................. 2  
  South Korea under Kim Dae-jung ...................................................................................... 3  
  North Korea under Kim Jong-il ....................................................................................... 3  
Engineering Engagement with North Korea ............................................................................ 6  
  The 1992–94 Crisis ......................................................................................................... 6  
  The Agreed Framework .................................................................................................. 8  
  New Mechanisms for Dispute Resolution? .................................................................... 8  
  The Satellite/Missile Controversy .................................................................................. 11  
  Four Party and Bilateral Initiatives ............................................................................... 14  
The Australian Interest ......................................................................................................... 15  
Conclusion ........................................................................................................................... 16  
Endnotes ............................................................................................................................... 17
List of Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANZUS</td>
<td>Australia-New Zealand-United States</td>
</tr>
<tr>
<td>CPEEC</td>
<td>Committee for the Promotion of External Economic Corporation</td>
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<td>DMZ</td>
<td>Demilitarised Zone</td>
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<tr>
<td>DPRK</td>
<td>Democratic People's Republic of Korea</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>EURATOM</td>
<td>European Atomic Energy Community</td>
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<tr>
<td>HFO</td>
<td>Heavy Fuel Oil</td>
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<tr>
<td>IAEA</td>
<td>International Atomic Energy Agency</td>
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<td>KEDO</td>
<td>Korean Peninsula Energy Development Organisation</td>
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<tr>
<td>KWP</td>
<td>Korean Workers' Party</td>
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<tr>
<td>LWR</td>
<td>Light Water Reactors</td>
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<td>NPT</td>
<td>Non-Proliferation Treaty</td>
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<tr>
<td>ROK</td>
<td>Republic of Korea</td>
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<tr>
<td>SPA</td>
<td>Supreme People's Assembly</td>
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<tr>
<td>TMD</td>
<td>Theatre Missile Defence</td>
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<td>UNDP</td>
<td>United Nations Development Program</td>
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Source: United States Central Intelligence Agency, Map no. 802191(R00141)7-98.
Major Issues

This paper examines the current troubled state of inter-Korean relations and their significance for the Asia-Pacific region and for Australia's interests.

While South Korea under the administration of President Kim Dae-jung is pursuing a 'sunshine policy' of seeking improved relations with North Korea, the Kim Jong-il leadership in Pyongyang has not so far committed itself to comprehensive engagement with its neighbours. In addition, the North has refused to pursue major economic reform and has suffered from severe famine conditions since the early 1990s, which have necessitated substantial international food aid (of about $US 1.8 billion since 1996).

Nevertheless, since 1994 institutions have been constructed which could facilitate a lasting improvement in inter-Korean relations. In particular, the US-DPRK Agreed Framework—potentially the most important initiative taken in Korea since the war (1950-53)—and the establishment of the Korean Peninsula Energy Development Organisation (KEDO) have laid the initial foundations for a possible peace regime in the region. So far, KEDO has begun construction of a new Light Water Reactor for the North and it has served as a catalyst for the development of other links, including air sharing traffic information and telephone links between the two countries.

For this agenda to be advanced further, progress must be made in the 'Four-Party Talks'—involving the two Koreas, the United States and the People's Republic of China. Here there are many problems to overcome, and recent missile tests by North Korea (particularly the test of a missile in August 1998 which overflew Japan) have increased anxieties in Washington and in Tokyo as well as in Seoul. There are some pressures in the United States to adopt a contrary policy. There have been considerable pressures within the Republican-controlled Congress to abandon the Agreed Framework and to reappraise US policies towards North Korea altogether. However, continued engagement by all interested parties with North Korea through these initiatives continues to offer the best hope for peace and security in Northeast Asia. Some observers have suggested that KEDO may even prove a model for resolving other similarly complex international problems.

At the present time the regional security map still lacks some essential components. These include the extension of North/South Korean dialogue, the need for innovative responses to economic difficulties and political uncertainty in the North, and the recognition of regime longevity as a key objective of North Korean policy. The paper asserts that a more comprehensive program of economic cooperation, as well as continued support for
multilateral initiatives by the US and other Asia-Pacific states are essential if the Korean issue is not to revert to a situation of crisis.

However, continued brinkmanship on the part of the North Korean leadership, and its own checkered record in domestic policy raise real doubts as to whether North Korea has the capacity to change its ways sufficiently to deal with the root causes of the continued confrontation on the peninsula. For some critics North Korea is playing for time, and sooner or later the North’s contradictory policies will eventually lead South Korea and the United States to decide that engagement cannot bear real fruit. North Korea must perform, or threaten all that has been gained in the way of tension reduction and assistance since 1994. In particular, the country’s missile program must be restrained, and US suspicions on the North Korean nuclear problem must be assuaged.

Australia has had a longstanding interest in the security of the Korean peninsula ever since its contribution to the United Nations forces during the Korean War. The significance of South Korea as a major trading partner has given Australia an additional strong basis for interest in stability on the peninsula. Australia has supported the work of KEDO and has also contributed to the international program of food aid to North Korea. In the context of ongoing efforts to promote dialogue with North Korea, particularly those being pursued by the US, Australia could consider further food aid to the DPRK and could also consider assistance to longer term programs of agricultural reconstruction.
Introduction

In the post Cold War environment in East Asia, the situation on the Korean peninsula continues to be one of the most significant sources of tension and potential confrontation. South Korea's process of economic growth since the early 1960s has, in the 1990s, also been accompanied by substantial progress towards political liberalisation which in 1998 enabled a longstanding opposition figure, Kim Dae-jung, to be elected President. The South's economy has been affected severely by the Asian financial crisis but a recovery and reform program are underway. North Korea, in contrast, continues to be ruled by a highly personalised and autocratic Communist regime which has remained largely isolated internationally and which has refused so far to pursue any substantial economic reforms: since the early 1990s, the North has also been experiencing widespread famine conditions. North Korea's maintenance of large-scale armed forces, including an apparently expanding missile program, the state of continuing military confrontation with South Korea and the absence of any formal agreement to end the state of hostilities between the two states, continue to make the situation on the Korean peninsula a source of major potential instability.

The Korean Peninsula in the 1990s has also been the focus of one of the most important international agreements of the post Cold War environment. In 1994, the United States and North Korea concluded an agreement, the 'Agreed Framework', aimed at reducing the threat which had been seen to be posed by the North's development of a nuclear program which seemed likely to give it a capacity to produce and deploy nuclear weapons. Implementation of the terms of the Agreed Framework has proven difficult but the Framework continues to be vital to prospects for security both on the peninsula and in the Asia-Pacific region.

Australia has had a substantial interest in the stability of the Korean peninsula since Australian forces participated in the United Nations commitment in the Korean war (1950-53). Since the early 1960s, South Korea's remarkable process of economic growth has made it Australia's fifth largest trading partner overall, and third largest destination for exports. Australia thus has a major interest in the prospects for peaceful change on the peninsula.

This paper assesses the current troubled state of inter-Korean relations and examines the prospects for further dialogue and detente. The paper begins by reviewing recent developments and changes in the two Korean states. In South Korea under the administration of Kim Dae-jung, there has been some attempt to develop a new policy
towards North Korea. The dynamics of North Korea under Kim Jong-il, who formally occupied the country's leadership in September 1998, are then considered. The 1994 'Agreed Framework' between the United States and North Korea is then analysed to determine whether it has laid the foundation for more comprehensive confidence building on the Korean peninsula. The paper argues that the uncertain response of North Korea towards policies of 'engagement' is still hampering the prospects for improved relations in the region.

The Korean Peninsula and the 'two Koreas'

With the inability, following World War II, of the US and the USSR to agree on the constituting of a unified Korean government, domestic political movements aligned with each of these powers established separate regimes in Seoul and Pyongyang; the Republic of Korea (ROK) and the Democratic People's Republic of Korea (DPRK). The subsequent war involving these Korean states from June 1950 was a bloody conflict in which as many as four million Koreans died. Though the war came to an end with the signing of an armistice agreement in 1953, the antagonism of the status quo remained. As a consequence, there was widespread dissatisfaction with the war's outcome and a precarious peace ensued with both sides deploying large military forces along the Demilitarised Zone (DMZ) between the two countries. In the case of South Korea, and as a result of the security alliance with Washington, the armaments deployed in the Korean theatre included the basing of US nuclear weapons. Although the US later officially withdrew these nuclear weapons in September 1991, the withdrawal created a security dilemma for the North Korean side which constrained their ability to craft a confident and credible foreign policy. Consequently, the Korean peninsula has repeatedly been described as a major military flashpoint and one of the last frontiers of Cold War politics.

In June 1965, the DPRK took delivery of a small nuclear reactor from the USSR. In 1971, the ROK responded with a secret nuclear program of their own. However, the ROK later modified their program under pressure from the US, and ratified the Non-Proliferation Treaty (NPT) in 1975. Shortly afterwards, North Korea entered into a 'safeguards' agreement with the International Atomic Energy Agency (IAEA) in 1977, and the original reactor was then inspected under this arrangement. By the mid-1980s, North Korea began to develop a sizeable nuclear facility at Yongbyon (north of Pyongyang) with Soviet assistance. Security analysts have maintained that China also trained some North Korean nuclear specialists at this time. During the early stages of perestroika in 1985 the USSR managed to persuade North Korea to sign the NPT. North Korea then conducted negotiations with the IAEA to formulate a comprehensive regime of nuclear safeguards. Despite these positive initiatives the nuclear situation on the peninsula remained a crucial issue complicated by relations between the Koreans, and the Asia-Pacific's great powers—the US, China, Russia and Japan.
Before discussing the recent evolution of the nuclear issue, and of attempts to promote bilateral and multilateral dialogue, it is useful to review recent developments and pressures for change in the two very different states which share the Korean peninsula.

South Korea under Kim Dae-jung

Kim Dae-jung’s assumption of office as President of South Korea in February 1998 was something of a watershed. Kim had been running for the office in one form or another since 1971, and was regarded as an outsider by many of the Seoul bureaucratic and business establishments. His predecessor Kim Young-sam, though also a long time oppositionist, had compromised with the remnants of the old authoritarian order through a political alliance in 1990, and the last year of his term was clouded by allegations of corruption and failure to deal with the effects of the regional financial crisis.

President Kim Dae-jung announced that his would be an era of 'new politics', though the fact that in order to win a tight electoral contest he was forced into an alliance with figures from the past, notably Kim Jong-pil—one of the military coup leaders of 1961, and a former prime minister under the old order—led to some doubts that he was capable of a genuinely new beginning. In his approach towards North Korea, Kim asserted that he would pursue a 'sunshine policy' seeking reconciliation and contact, and to that end would avoid mutual recrimination and open the way for private individuals and businesses from the South to have dealings with the North without fear of penalty.

In particular, Kim undertook to support the 1994 'Agreed Framework' and the work of the Korean Peninsula Energy Development Organisation (KEDO), both of which were the product of an agreement between the United States and North Korea designed to contain and ultimately reverse North Korea’s nuclear weapons program. Other attempts by South Korea to engage the North—through the reuniting of families divided by the war of 1950–53, and through programs of relief aid and agricultural construction—have not however been successful. In South Korea, as in the United States, debate continues on the extent to which Pyongyang intends or is capable of reconciliation with its neighbour. It is necessary therefore to consider the dynamics, obscure though they are, of the North Korean system.

North Korea under Kim Jong-il

North Korea has always aspired to autarchy, and in its quest for developed status (and despite strategic Soviet and Chinese aid) it came closer to that goal than any other system. In the 1980s the North Korean model had already run into serious problems; the collapse of the USSR and China’s turn to the market exacerbated those problems. Now natural disasters, continued confrontation (despite the 'Agreed Framework') with the US and South Korea, and internal policy inflexibility (or incapacity) have brought that system to the brink
The Koreas in 1999: Between Confrontation and Engagement

of collapse. Important developments over the past 12 months have made clearer the nature of the regime and its program.7

For more than four years from the death of Kim Il-sung in July 1994, North Korea was without a head of state. The 'election' of the Supreme People's Assembly (SPA) in September 1998 brought this extraordinary phase to a close. But Kim Jong-il, while already (since October 1997) Korean Workers' Party (KWP) Secretary-General, did not assume his father's old position. Instead, the constitution was changed, to reinstate (albeit only in a formal sense) the arrangement prior to 1972, with the chair of the Standing Committee of the SPA (former Foreign Minister Kim Yong-nam) serving as the head of state. At the same time, however, the status of the National Defence Commission was elevated in such a way as to give it equal precedence with the SPA Standing Committee. Confirmed as its Chairman was Kim Jong-il, who was described as being in charge of party, state and military. Noteworthy also has been the doubling of army representation in the SPA. With the abandonment of the executive presidency, the state cabinet has been augmented in status as the top executive body, and its membership and structures have simplified. Its direct links with the Local People's Committees in the towns and provinces have also been strengthened.

Seen in context, these developments show that all power has been concentrated in the hands of Kim Jong-il in a fashion without precedent even in Stalinist systems. First, the KWP has not functioned normally for many years. A full Congress has not been convened since 1980, the Central Committee has not met in plenary sessions since 1993, and Kim Jong-il's endorsement as KWP leader was not even decided at such a plenum. The KWP constitution, therefore, has been comprehensively violated. Second, the military hierarchy seems to be functioning largely independently of the KWP, and military bodies have assumed an authority never seen before. Formerly the regime's most senior leaders were the members of the KWP Politburo. Now, National Defence Commission members are ranked (though there is some overlap of actual membership) in such a way as to show that they have precedence. Further, Kim Jong-il is most usually seen in the company of senior military figures, and most of his reported engagements involve military units. He seems to have fostered the army as a counterweight to the KWP, making his own role as the bridge linking the (inevitably competitive structures of) KWP, army and state, indispensable. These developments are also a sure sign of the extent of North Korea's economic difficulties. Kim has also built strong links with the army as the only sure foundation for his rule, at a time of endemic food shortage and plummeting public morale.

In the absence of explicit debate, decoding the current state of policy in North Korea is a complex task. In 1998 the state constitution was amended not only to incorporate the leadership changes already discussed, but also to include references to new forms of ownership and economic activity as well as accounting standards. These can be read as endorsing the more 'liberal' practices of the period from 1991, including the right of 'social cooperative entities' as well as the state to own property, trade, and retain profits. Similarly, there is some evidence that a liberalisation of the 'socialist' framework of
The Koreas in 1999: Between Confrontation and Engagement

agriculture is underway. In selected localities, the size of the 'private plots' in which personal cultivation by the peasantry is permitted has been increased (from 150 m\(^2\) to 2100 m\(^2\), according to some reports), some households have been freed from their normal obligations to the collective, and regular 'farmers' markets' are convened.

But other changes are far less encouraging to those who would perceive a reforming drift in official policy. With the failure of the Seven Year Plan which concluded in 1993, North Korea introduced a temporary program of measures to attempt to revive the economy and deal with increasing shortages. This program identified three priorities: international trade, agriculture and light industry. From 1997, however, official pronouncements returned to their accustomed emphasis on autarchy and heavy industry, and foreign trade was no longer given prominence. A number of trading entities that had been established by Pyongyang were closed down.

The constitutional changes of 1998 also indicated that the regime was clinging to its old habits. From 1992 the Committee for the Promotion of External Economic Cooperation (CPEEC) had become the premier body dealing with such opening and trade policies as were permitted, in particular assuming control of the Rajin-Sonbong Free Economic and Trade Zone (in the Northeast of the country). The CPEEC was abolished in the streamlining of the administration that was carried through. Earlier in 1998 a purge of military and state officials had been effected. Some of these were individuals who had been associated with defector Hwang Jang-yop, and others were military figures, but among them was then CPEEC Chair Kim Jong-u, who was criticised for corruption and mismanagement. Some sources reported that Kim was actually executed. This undoubtedly sent a chilling message to economic managers, especially given that Kim was no ordinary technocrat but actually a member of Kim Il-sung's extended family (and thus one of the country's ruling caste). The Rajin experiment continues—though now no longer a 'free economic and trade zone'—but within a highly constrained economic regime.

The reality, of course, is something of a mixture. The system is hardening while the scope of its control, especially in the more remote districts, has weakened. Formerly the tightly managed food and amenities distribution system kept ordinary people under control. Its collapse in many areas, while it has generated immense misery has also undermined the purchase of the regime. Changes in the agriculture sector are a real sign of desperation—it should be recalled that the younger Kim wrote his graduation thesis (at Kim Il-sung University) on the principles of socialist agricultural organisation. Thus, while North Korea is not introducing 'reforms' in the strict sense—and Kim Jong-il is reported to scorn such reforms, and to have referred to foreign loans as 'opium'—in districts remote from the capital the inhabitants have come to enjoy both heightened misery and increased freedom. Models of the North Korean economy indicate that without comprehensive reforms, the country will never wholly stabilise its food supply, therefore any other course can only be a makeshift strategy.

Therefore, the extraordinary development that has seen the Hyundai group organise tourist voyages to the Kungangsan area of North Korea is probably a sign of the regime's
desperation and its pressing need for hard currency. Meanwhile for three harvest seasons now, North Korea has been dependent upon international food aid to feed its starving population. Estimates of the impact of the famine conditions vary but it is thought that at least one million and possibly up to three million North Koreans have died since the mid 1990s. Inadequate food supplies have interacted with a collapsing public health system to leave many North Koreans vulnerable to disease and slow starvation. Grain production is still seriously in deficit—between 1.6 and 2.6 million tonnes—and a recent Chinese report quoted a North Korean statement that about 2.8 million people had died as a result of famine in the country since 1996. In all, North Korea has received around $1.8 billion in food aid from that time. Political priorities and the centrally managed commodity supply system have kept the capital city and key military units in reasonable sufficiency, but there has been terrible privation elsewhere. The awful irony of the current slogan, that North Korea should strive to be 'a Strong and Prosperous Nation' cannot be lost on many in the population. The refugee influx into neighbouring parts of China is now a real problem.

Engineering Engagement with North Korea

Having sketched the trend of policy and political changes in North Korea, this paper will now review the background to the 'engagement' strategy by which the United States and South Korea have sought to defuse tensions on the Korean peninsula.

The 1992–94 Crisis

Although the 'cold peace' on the peninsula has seen occasional crises and incidents during the past 50 years, one of the more dangerous phases was initiated in 1993. Between 1991 and 1992 a number of positive developments had begun to take place, including the removal by the US of nuclear weapons and cancellation of the annual Team Spirit military exercises. In response, the North Koreans signed an IAEA safeguards agreement after furnishing the Agency with extensive information as to its nuclear facilities and program. North Korea also signed the Agreement on Reconciliation, Non-Aggression, Exchanges and Cooperation with the ROK (popularly known as the 'South–North Basic Agreement'), and the Joint Declaration with the ROK on De-nuclearisation of the Korean Peninsula. The latter pledged the DPRK to abandon any program it might have to reprocess spent nuclear fuel with the intention of building a weapons capability.

But the South–North accord did not produce the transparency mechanisms that were intended. At the same time, the implementation of the IAEA inspection regime produced first dispute and then impasse. By 1993 a nuclear crisis loomed on the Korean peninsula.

The DPRK had begun construction of a large scale reprocessing plant in order to reprocess plutonium from spent fuel rods produced by the country's Soviet-designed graphite–moderated reactor. Two larger graphite reactors were also under construction. These
reactors were based on dated Soviet technology, and international experts believed them to pose significant safety hazards. More importantly, they were capable of producing sufficient plutonium to enable North Korea to acquire a sizeable nuclear arsenal within the space of a few years.\(^{12}\)

Although the DPRK had signed the NPT in 1985, and in keeping with its treaty obligations a nuclear safeguards agreement with the IAEA in 1992, inspections under this agreement had indicated that, contrary to their original statements, the North Koreans had apparently separated a quantity of plutonium, possibly on multiple occasions. US intelligence assets were used to convince the IAEA of the need for a more intrusive approach to North Korea's facilities. However, North Korea refused proposed 'special inspections' which would clarify the issue. While IAEA inspections were in abeyance, North Korea announced that the 'defuelling' of the Yongbyon reactor would occur. Unilateral and unsupervised refuelling raised the prospect that the history of the reactor—including to what extent, if at all, its fuel rods had been used as a source for plutonium separation—would thereby be obscured. The IAEA stated that 'inconsistencies between the DPRK's declaration of nuclear material...have led the Agency to conclude that additional, undeclared plutonium must exist in the DPRK—whether in grams or kilograms, we do not know' (emphasis added).\(^{13}\) Whilst doubt persists concerning the precise amount or destination of the material which was produced, one South Korean analyst has recently claimed that North Korea was able to extract up to 40 kg of plutonium from its Yongbyon reactor prior to IAEA monitoring in 1992, enough to construct approximately ten nuclear warheads.\(^{14}\) On the other hand, North Korean officials, while admitting that some plutonium had been isolated, characterised their previous activity as a very small scale experiment.

As a response to international condemnation and criticism by the IAEA, the DPRK in March 1993 announced its withdrawal from the NPT. The UN Security Council advised the North of its responsibilities under the NPT, and raised the possibility of economic sanctions. By the end of 1993, these factors had culminated in an extremely tense situation on the Korean Peninsula, with the collapse of North–South contacts, and the placement of military forces on high alert.\(^{15}\) On 17 November 1993, US Secretary of State Warren Christopher warned North Korea that the US had options 'other than negotiation' and was prepared to resolve the issue of proliferation on the Korean peninsula if necessary by forcible means. The US Secretary of Defence has since confirmed that preventative air strikes against North Korea's reactors were actively considered.\(^{16}\) Eventually however, the US administration came to realise the futility of a military response.\(^{17}\) Fortunately, a visit by former US President Carter to the DPRK in June 1994 succeeded in averting the crisis by forestalling the imposition of economic sanctions, and a negotiated solution was eventually agreed upon.\(^{18}\) This solution became known as the 1994 United States–DPRK Agreed Framework.\(^{19}\)
The Koreas in 1999: Between Confrontation and Engagement

The Agreed Framework

The Agreed Framework was potentially the most important initiative taken in Korea since the events of 1950–53. Under its terms, in return for a suspension of Pyongyang's nuclear program, the United States undertook to help organise a consortium which agreed to build two modern, safe, proliferation-resistant light water reactors (LWRs) in the DPRK. Furthermore, the United States agreed to make arrangements to offset the energy foregone by the North, with 500,000 metric tonnes of heavy fuel oil (HFO) per year for approximately ten years. The consortium which comprised the United States, Japan and South Korea became known as the Korean Peninsula Energy Development Organisation (KEDO). The organisation was later joined by the European Atomic Energy Community (EURATOM). Its major objectives have been to implement both the LWR and HFO aspects of the Agreed Framework.

KEDO subsequently negotiated a supply agreement with the DPRK for the LWR project, as well as several protocols and instruments dealing with implementation arrangements for the LWR and HFO aspects of the Framework. Both South Korea and Japan assumed responsibility for the estimated $4.6 billion LWR project. South Korea pledged to fund 70 percent of the project, and Japan agreed to provide $1 billion. KEDO subsequently commenced work on the project, and construction of the LWRs has begun. Following completion of the first LWR containment building, and its electrical generating equipment—but before delivery of the nuclear components of the plant—North Korea has undertaken to comply with the full-scope of the NPT IAEA safeguards agreement. Once these safeguards are implemented, the IAEA will be permitted to inspect all the DPRK's nuclear facilities and materials.

The implementation also carries with it a number of associated benefits in the nuclear area, many of which were not envisaged at the time of its signing. US and North Korean nuclear technicians are working together in an attempt to foster an independent nuclear regulator for the LWRs, as well as a general nuclear 'safety culture' that might not otherwise exist. 20

The Agreed Framework has thus become more than simply a nuclear accord, but is now undoubtedly the cornerstone of confidence building and threat reduction on the Korean Peninsula. 21 By facilitating communication, the Agreed Framework now provides a unique opportunity for dialogue with North Korea. This dialogue was instrumental in producing the Four Party Talks, as well as subsequent negotiations on missile technology transfer and sales, terrorism and other concerns.

New Mechanisms for Dispute Resolution?

In April 1996, the US and the ROK presented a proposal for Four Party talks—between the two Koreas, the United States and China—to discuss the issue of a permanent peace settlement on the peninsula. 22 Although North Korea had proposed a peace treaty with the
US since 1974, it renewed the offer during 1994. However, the offer lapsed following attempts by the DPRK to dispute the continued role of the Military Armistice Commission. The talks were further jeopardised following an incident in which a North Korean submarine ran aground on the South Korean coast during September 1996. Following a series of complex diplomatic manoeuvres, the DPRK eventually apologised for the incident which had heightened tensions on the peninsula and delayed the dialogue process. One of the possible reasons for North Korea's unprecedented public apology was its need for food aid, and its desire to see the relaxation of economic sanctions. Poor harvests, and several years of floods and drought have produced serious food shortages, impelling North Korea to seek extensive foreign assistance. Following the apology over the submarine incident by the DPRK, the US issued an export licence to enable the export of half a million tons of grain to the North Koreans, who also agreed to participate in the US–ROK Joint Briefing on the Four Party talks.

The expansion of diplomatic contacts, and the prospect of abandoning economic sanctions on the DPRK were now a possibility. The US has confirmed guarantees to North Korea against nuclear attack. The DPRK has promised to pursue further negotiations with the South, not to renounce the NPT, and ultimately to allow in IAEA inspectors. Although, one of the shortcomings of the Agreement is that the accord allows the North to maintain its current nuclear status until the completion of the Light Water Reactors, regular contacts between the North and South Koreans have increased dramatically particularly at the LWR site. Indeed, at the height of the LWR project it is anticipated that over 7000 people will be working at the project site, including several thousand North Korean experts and labourers. So far, KEDO has transported almost 100 experts and workers, along with 9000 tons of equipment to the project site. Both sides have also taken steps to cooperate on other issues, including air traffic, and telephone links between the two countries. Although progress has been slow in many areas, these efforts are gradually making progress towards reducing tension on the Korean Peninsula.

There is also some hope that these ties between the two countries will lead not only to greater mutual contacts, but also to the gradual amelioration of political and economic conditions in the DPRK, perhaps even paving the way for peaceful unification. By late 1997, preliminary briefings for the Four Party talks having been held, the two Koreas also initiated contacts on the possibility of direct tourist transport between their two territories, and on the convening of Red Cross talks to initiate food relief for the North.

Recently however, some analysts have called for a more proactive policy of engagement with North Korea in order to seize the initiative and convince North Korea of its advantages. One of the major appeals of such engagement is that it might provide an opportunity for Japan to play a positive and supportive role by using its economic power to bolster regional and international security. However, if peaceful unification of the Korean peninsula is the long term objective, then stability is an essential precondition. Therefore, the South will need to emphasise to the government in Pyongyang that it does
The Koreas in 1999: Between Confrontation and Engagement

not seek its collapse, but rather is attempting to make a gradual transformation, by building an economic base for integration with the North.\(^3\)

So far, the Agreed Framework has been a qualified success. North Korea's indigenous nuclear program at its Yongbyon nuclear plant remains frozen, having halted operation of its 5 MW reactor, and ceased construction of two larger reactors.\(^3\) The 'canning' of the DPRK's spent fuel is under IAEA seal, as are the reprocessing plant and reactors, and Pyongyang has remained a party to the NPT. North Korea has also acknowledged that it must eventually dismantle all the elements of its nuclear program and allow for its existing spent nuclear fuel to be transported outside the country. However, despite these accomplishments the resolution of the Korean nuclear crisis is far from assured.

One troublesome aspect of the Agreed Framework which has persistently come under threat is the provision of funding, especially for HFO. In meeting this responsibility the United States government has extended the process by seeking assistance from other countries. United States officials have made a number of high level approaches to many countries as well as to the European Union for HFO funding. Those countries with a vested interest in the peace and stability of Northeast Asia have been especially targeted.\(^3\)

One of the important reasons for the US attempting to share the burden of funding, was a blowout in costs of the program. In testimony before a congressional committee in 1995, the then Secretary of State Warren Christopher estimated that annual United States contributions to KEDO would be US$20–30 million. This estimate was based on a belief that further funds could be raised abroad. Unfortunately, the costs of the HFO commitment have expanded significantly, and because of depressed economic circumstances many countries have declined further funding.

However some countries including Australia, have continued to make substantial contributions.\(^3\) For example, the European Union has contributed $34.7 million, and some additional EU contributions are anticipated. Japan has also made available a collateral fund of $19 million for the HFO program. Altogether, 22 countries and the EU have made contributions to the HFO program amounting to $52 million. The US has contributed approximately $80 million for HFO out of a total of $118.5 million for Agreed Framework–related expenses, including for the canning of spent fuel.\(^3\)

Clearly, the full implementation of the Agreed Framework is only possible if KEDO remains financially healthy and able to carry out its mission. Charles Kartman, the US Special Envoy for the Korean Peace Process and US Representative to KEDO testified on the issue of funding before a hostile Congress on 24 September 1998 arguing that:

Money is now dangerously short, and we must find a way for KEDO to deliver on our Agreed Framework commitments. Otherwise ... the US and our allies would lose irretrievably our best means of ending North Korea's program to develop and proliferate weapons of mass destruction. We would provide Pyongyang with a clear pretext for reneging on its Agreed Framework commitments, and the resulting collapse ... would move us back to the crisis days of 1993–94 or worse.\(^3\)
Unfortunately, there has been considerable pressure within the Republican Congress to block funding for HFO deliveries, to abandon the Agreed Framework, and to reappraise US policy toward the DPRK altogether. There has also been an energetic debate in the US press. The subject became even more hotly debated following the launch by the North Koreans on 31 August 1998 of a satellite carrying rocket, which the United States and Japan originally believed might have been a prototype for an intermediate range ballistic missile. 37

The Satellite/Missile Controversy

On 31 August 1998, the DPRK fired the rocket into the Western Pacific, ostensibly to launch a satellite though perhaps as a demonstration to potential buyers from the Middle East. 38 The Taepo-Dong I, a modified multi-stage variant of the Soviet developed SCUD missile is believed to have passed over Japan, and landed in the sea off the coast of northeastern Japan some 1380 kms from the North Korean coast. The launch occurred against a backdrop of recent strong criticism of the North's missile exports which, according to some reports, have included the sale of medium range ballistic missile equipment and technology to countries such as Egypt, Syria, Iran and Pakistan. 39 The DPRK later indicated to the US on 4 September 1998 that the sale of missiles is a crucial source of foreign exchange, and it would only be prepared to cease exports to the Middle East if compensation of about $500 million were forthcoming. 40

The launch undermined talks which were taking place in New York between the DPRK and the US over the normalisation of relations, and food aid issues. Shipments of HFO under the KEDO program were already suspended, and resumption before the end of the year: had been one of Pyongyang's key negotiating objectives as is the eventual removal of economic sanctions. Again, it is noteworthy that the US and the DPRK have had a series of contacts in 1998 on missile developments and proliferation, though the most recent talks on 1 October were hampered by the missile/satellite launch. Moreover critics, including some members of the US Congress, have renewed their concern over construction of new underground facilities, concerned that they are secret nuclear installations.

The launch of the missile was met with a vehement reaction by senior observers in the US. Notable amongst these was former Secretary of State James Baker, who stated that US policy toward North Korea was an 'abject failure', and that the 'framework agreement is about to fall apart' because it is based on trust of a regime that doesn't understand 'accommodation, negotiation and compromise'. 41 The possibility that the Agreed Framework may soon fall apart was also raised recently by L. Gordon Flake, Associate Director, Program on Conflict Resolution at the Atlantic Council of the United States. However, Flake reaches a different conclusion. He argues that the 1994 Geneva Agreed Framework is at risk of falling apart because of differing political perspectives on what the agreement sets out to achieve. Whilst the US has concentrated on the nuclear 'freeze'
aspects of the agreement, the DPRK sees the agreement more as a general 'framework' for improving relations across the board. He suggests that North Korean frustration at a lack of progress on areas covered under the Agreed Framework is the real cause of recent militant statements by the DPRK. Accordingly, he highlights the need for both the US administration and Congress to work together to ensure that the US lives up to its financial obligations under the agreement.42

Peter Hayes from the Nautilus Institute has been particularly scathing of the reaction in Washington to these issues, stating that:

the political posturing to wreck the Agreed Framework is irresponsible in the extreme. It makes it much harder to engage them cooperatively, to test their will to work cooperatively with the US, instead of having to rely solely on conventional military threats and nuclear extortion as its means of communicating with the US. Dumping KEDO sounds smart until you examine the alternatives. When the Republicans look over the precipice, they will conclude that jumping over cliffs is bad for your health.43

Shortly after the satellite missile firing, the US Congress summoned a number of key personnel involved in the North Korean issue, as well as several foreign policy insiders, to provide testimony before the House of Representatives International Relations Committee. The array of testimony before the committee clearly demonstrated the extent of opposition to the Agreed Framework and the KEDO process. Advisers from a number of conservative think tanks which exert considerable influence in Congress have persistently argued for a more aggressive stance towards the DPRK44, or have advocated the isolation of the DPRK in an attempt to accelerate the country's economic decline, in the hope that economic failure will discredit the political regime in Pyongyang.45 In this connection, there is some evidence to suggest that policy making in the United States is in a state of some disarray, with interests aligned to the intelligence community taking the lead in pursuing the issue of North Korea's underground constructions, thus seeking to take the initiative from those who would prefer to push forward with the realisation of the commitments embodied in the Agreed Framework.46

In responding to these concerns the chairman of the committee stated that the process was deeply flawed, concluding that 'we are paying for bad behaviour by rewarding North Korean brinkmanship with benefits'.47 Shortly after, the House voted to block $35 million for HFO deliveries to the DPRK. However, on 30 September 1998 the White House announced that President Clinton had used his presidential authority to commit $15 million toward the purchase of HFO.48 These developments bring into question the larger issue of funding for the cost of construction of the LWRs. The global total increased to some $5.18 billion (before the financial crisis had the effect of reducing it to around $4.6 billion), and therefore future funding must still be uncertain.49 As Young Whan Kihl argues, 'the obvious challenge today is to pay for the huge price–tag that is attached to the expensive project of the light–water reactor construction'.50
The Koreas in 1999: Between Confrontation and Engagement

News of the firing also created a strident reaction from both Tokyo and Seoul. The reaction in Japan was one of outrage, and the Japanese government immediately signalled their concern by freezing their contribution to the LWR project, and suspending food aid and its offer to resume normalisation talks.\(^{51}\) Although positive meetings between Japan's Prime Minister Obuchi and South Korean Defence Minister Cheon Yong-taek agreed on improving bilateral consultations to promote peace and stability in the region, the Japanese have also signalled they will begin to develop a theatre missile defence (TMD) system in cooperation with the US.\(^{52}\) The firing has also strengthened attempts by Republicans in the US Congress to accelerate development of a domestic missile defence system, via the American Missile Protection Act. Although the bill failed to pass the US Senate by one vote, it is strongly supported in the House of Representatives.\(^{53}\)

Unfortunately, these developments are likely to upset the Chinese, who have been staunch critics of TMD believing that the US may help install the system in Taiwan, or that the Japanese may use the system for offensive purposes.\(^{54}\) Clearly, the TMD issue might even erode the recent improvements in US–China relations made during President Clinton's visit in June 1998, thereby adding to instability in the region. As Jim Richardson has observed, sensitive cultivation of the long term relationship between these two major powers is particularly crucial to Asia-Pacific security, and demands an enormous amount of cultural, and diplomatic sensitivity.\(^{55}\)

In Seoul, Kim Dae-jung's 'sunshine' policy of dialogue with the DPRK has also come under threat. Opposition parties are insisting that food aid and contacts with Pyongyang be severed until North Korea modifies its stance. The situation in relation to KEDO and the financing of the LWRs under the Agreed Framework is already complicated by a number of looming financial challenges in South Korea.\(^{56}\) The need to pay off its huge foreign debt, the issue of bad loans by the banking sector, as well as the potential cost of unification and increasing food aid to the DPRK, will all place major strains on the North–South relationship and the achievement of peace and stability in coming years.\(^{57}\)

North Korea has adopted a forthright position in relation to future missile launches. According to an article in the official Minju Chason newspaper carried by the Korean Central News Agency (the North's foreign news outlet), 'we make it clear that we will launch another artificial satellite when we think it necessary, no matter what anyone may say...[as] this is our inviolable sovereign right'.\(^{58}\) According to some observers, the breakdown in diplomacy associated with the missile/satellite launch provides evidence of some disagreement between the military and civilians within the DPRK.\(^{59}\) In North Korea, where the longevity of the system is clearly an open question, the security of the regime itself is likely to condition both domestic and international behaviour.\(^{60}\)

The issue of regime longevity raises a number of interesting questions in relation to peace and stability on the peninsula. In a recent issue of Foreign Policy, George Perkovich the Director of the Secure World Program at the W. Alton Jones Foundation explains that the recent nuclear tests by India and Pakistan were motivated much more by political pressures than by security interests. Domestic political manoeuvre was an obvious
component of proliferation by these states. Clearly, the nuclear option has a number of benefits to regimes whose political survival is under threat, and numerous factors beyond security drive the acquisition of nuclear weapons. These factors include 'the quest for national grandeur, prestige, and independence', the ambition and persuasiveness of scientists and military cohorts attracted by the technological challenge, and the desire to display personal and national prowess, and may be important impulses to proliferation.

It is evident that many of these same political pressures are evident in Korean politics. The issue of regime longevity has become critical in both states, and is clearly exacerbated by the famine, and the economic difficulties being experienced by the North. Accordingly, the government of Kim Dae-jung recognises that any policy toward the North must be premised on the continued existence of the Pyongyang regime before a policy of reconciliation and conflict resolution can succeed. Therefore, as far as security is concerned, the central issue may be seen as one of both domestic and international political survival. As Alagappa has observed, concerns relating to political survival constitute the core of the security definitions and practices of Asian states, and dominate and inform all other concerns. The problem of political survival is a major preoccupation for North Korea, as is evident from statements complaining that external powers are endeavouring to suppress the country's unique political style. Over the longer term, it is these political issues that the US and other supporters must accommodate in trying to avoid the spread of nuclear weapons.

In the interim however, funding issues will continue to confront all KEDO member states. The cost of delivering HFO to North Korea has only been achieved because of financing underwritten by the Japanese government. With both South Korea, and Japan suffering from the impact of the Asian financial crisis, it remains to be seen whether the Japanese Diet and South Korean National Assembly will be able to resolve these cost-sharing problems, especially in light of the DPRK's resolute adherence to its right to develop and test missile systems.

Four Party and Bilateral Initiatives

The Four Party talks which had convened in full session in March and December 1997 made little progress. In 1998, the 21–24 October session, however, produced a new formula for advancing the peace agenda. Up to that time, differing negotiation strategies had prevented the parties from advancing beyond statements of their security concerns. The bottom line was that while North Korea maintained its wish to discuss the withdrawal of US troops from the peninsula, Washington was not prepared to adopt this proposal as part of a working agenda. The new formula established two subcommittees, one of which will consider possible mechanisms for a permanent peace on the peninsula, while the other develops proposals for confidence building and tension reduction. A further round of the talks, convened under the new structure, met in Geneva 18–20 January 1999. These developments hold out the prospect that some means might yet be found to deal with the
'easier' (if not 'easy') issues, before moving to replace the 1953 armistice with a permanent peace mechanism.

In the same time as the progress in Geneva, the US Congress belatedly made available a further $35 million for KEDO and HFO purposes. In the context of the controversies reported above, the Senate Bill appropriating these funds incorporates some restrictions upon their use. The President may only draw on these monies if he can report to the Congress that progress has been made not only on achieving the goals established in the Agreed Framework, but also on addressing a range of US security concerns, most notably reducing the threat from North Korea's ballistic missiles and missile proliferation. In a related development, Ambassador Charles Kartman visited the DPRK on 16 November, to discuss US concerns on the underground construction underway in the Yongbyon area, initiating a process of negotiation which continued into 1999. Progress appeared to be made in these negotiations when an agreement was reached on 16 March 1999 allowing US inspectors access to the underground site from May 1999. The agreement was accompanied by an additional US commitment of food aid and will clearly be an important issue for consideration in the review of US policies towards North Korea being conducted by former Secretary of Defense William Perry: Dr Perry is expected to submit his report in early June 1999. In another significant recent development, Japan reversed an earlier decision when it announced on 21 October 1998 that payments to KEDO, suspended as a result of the missile/satellite launch, would be resumed. And there were reports that China was considering a $1 billion aid package for the DPRK.

Meanwhile, North–South relations exhibited some positive signs, after the disappointing food aid/fertiliser negotiations which broke up in Beijing in April 1998 without result. The visit of Hyundai Honorary Chairman Chung Ju-yung to Pyongyang in October, and the initiative of the Hyundai group to stage tourist visits to Kumgangsan, indicated that some new thinking was in evidence on mutual relations. At the official level, North and South Korea have now conducted three meetings in Beijing through 1998 in an attempt to negotiate a pact governing fishing in their waters. Finally, on the multilateral front, a United Nations Development Program (UNDP) initiative was launched to fund reconstruction of North Korea's agricultural infrastructure, thus addressing the longer term food needs of the population. North Korea received aid worth $950 million from other countries and international organisations—including $342 million from South Korean sources—between 1995 and 1998, but a reconstruction effort will be needed for the causes of this crisis to be remedied. The World Food Program has reported that North Korea faces a further shortfall in its food supply for the 1998–99 growing season.

The Australian Interest

As this paper has noted, Australia has been a strong supporter of the work of KEDO. Australia's financial contribution has so far amounted to A$12 million. It would be fair to say that the motives for taking this action have been mixed. The Korean problem poses challenges to regional security and to the global regimes which are the foundation of post-
Cold War international order, as well as to some specific Australian interests. A North Korean nuclear weapons program, were it to bear fruit, would be a highly destabilising force in Northeast Asia and would disturb region wide confidence building which has taken a generation to develop. In addition, if the Korean nuclear crisis leads to the departure of North Korea from the NPT, a major hole will have been punched in the NPT vessel which might cause her to founder entirely. And Australia's security commitment to Korea, which has a history stretching back to 1950 and which was the occasion for the formation of ANZUS, continues to be taken seriously in Canberra. Moreover, a serious confrontation on the Korean peninsula might well be economically damaging to Australia, given South Korea's importance as a trading partner, and in light of the likelihood that such a confrontation would draw in the other regional powers who are also vital markets and sources of investment capital.

Can Australia make a further contribution to stability on the Korean peninsula? At the present time, US policy makers are considering various possible expedients to resolve outstanding sources of tension. One possibility is that a linkage may be provided between further food aid to North Korea, and inspections of suspect sites, along with restraint in missile development. If this linkage is established, Australia could contribute additional food aid to Pyongyang (Australia's contributions so far total $A10.1 million). In such a more positive climate, Australia then might consider some form of assistance with agricultural reconstruction, since North Korea's farming sector needs radical reform if the general population is to be properly provided with food. In the past Australia has funded some modest training support for specialists from North Korea, not only in this area but also in commerce and education. A modest but strategic package offering benefits of this kind might be appropriate either bilaterally or through existing UNDP programs.

Conclusion

The engagement policy that South Korea and the United States have pursued with North Korea since 1994 has been designed to coax the regime in Pyongyang towards the beginnings of confidence building while containing the North Korean nuclear program and simultaneously offering the country a form of development assistance. The alternative to such a policy would be quarantine and confrontation, which were ruled out in 1994 as posing too high a risk for the population of South Korea, who would suffer devastation as a result of any miscalculation. However, continued brinkmanship on the part of the North Korean leadership, and its own checkered record in domestic policy raise real doubts as to whether North Korea has the capacity or preparedness to changes its ways sufficiently to deal with the root causes of the continued confrontation on the peninsula. For some critics—predominantly in the US, though this position is sometimes seen in Seoul—the North Korean idea of engagement is to use nuclear, missile and military capabilities, and even humanitarian issues, as leverage to acquire food aid, fertiliser, finance and breathing space. On this view, North Korea is playing for time, and sooner or later contradictory policies will eventually lead South Korea and the United States to decide that engagement cannot bear
real fruit. While the opacity of the North Korean system renders such judgements less than definitive, there can be little doubt that North Korea must perform or threaten all that has been gained in the way of tension reduction and assistance since 1994. In particular, the country’s missile program must be restrained, and fears of clandestine nuclear activities must be addressed. The coming year will test both the capacity and the resolve of the North Korean leadership to meet these requirements.

Endnotes

1. Parts of this paper draw on an unpublished study written with Bill Meldrum, 'The US-DPRK Agreed Framework, Korean Peninsula Energy Development Organisation (KEDO), and 'Four-Party Talks'—the Vicissitudes of Engagement'. His assistance in drafting this material is acknowledged.


4. Typically, conflict assessments centred on Northeast Asia anticipate a variety of explosive scenarios, see for example Andrew Mack, ed., Asian Flashpoint: Security and the Korean Peninsula, Sydney: Allen & Unwin, 1993. However, some analysts argue that accommodation is more likely. For an argument to this effect, see Young-Bae Hwang and Jacek Kugler, The Likelihood of Major War in East Asia and the Transition on the Korean Peninsula, Asian Perspective, vol. 21, no. 3, Winter, 1997, pp. 41–62.


13. For this statement, and other difficulties confronting the IAEA's verification missions within the DPRK, see the Statement by Director General of IAEA to the Board of Governors on the DPRK, June 1994. Available at http://www.iaea.org/worldatom/infresource/bgspeeches/dgbg1994n01.html [5 Oct 98].


15. For a discussion of this period and the attendant difficulties which confronted policy makers, see James Cotton, 'Mixed Signals on Korean Security', Contemporary Southeast Asia, vol. 18, no. 4, March, 1997, pp. 400–16.


18. For a comprehensive account of these circumstances including the Carter visit, see Leon Sigal 1998, Disarming Strangers: Nuclear Diplomacy with North Korea, Princeton: Princeton University Press.


23. ibid, p. 16.

24. ibid, p. 17.


28. It is worth adding however, that there is criticism on the more general question of US nonproliferation policy, see for example Michael J. Mazarr, *North Korea and the Bomb*, St Martin's Press, New York, 1995, pp. 205–234.


35. For information on KEDO funding, see endnote 5.


37. Initial intelligence assessments provided to Congress incorrectly identified the nature of the missile which was launched. Although the CIA was later criticised over this assessment by a


The Koreas in 1999: Between Confrontation and Engagement


52. The security relationship between the ROK and Japan is described as somewhat ambivalent. For a discussion of this see Hong-suk Park, 'Trilateral Concert in Northeast Asia toward the Korean Peninsula', *Korea and World Affairs*, vol. 21, No.1, Spring, 1997, p. 25. On the possibility that this relationship is changing, see press releases by Japan's Ministry of Foreign Affairs at [http://www.mofa.go.jp/whats/index](http://www.mofa.go.jp/whats/index) [11 Oct 98] regarding several recent ground breaking agreements negotiated during the visit by President Kim Dae Jung to Japan on 8 October 1998.


56. For a recent discussion, see Michael J. Mazarr, 'Korea: A Time to be Bold?', *The National Interest*, vol. 51, Spring, 1998, pp. 91–7.

57. See Mazarr 1998, ibid, p. 91.


69. For example, the Minister for Defence, Mr. McLaughlin on 27 April 1997 referred specifically to the Korean Peninsula as an area of ongoing concern in the context of Australia's potential defence interests; see transcript of 'Meet the Press', Network TEN, 27 April 1997.