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# THE HONORABLE JAMES KELLY

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PROCEEDINGS

CARLOS PASCUAL: [in progress] and a huge contribution, and then, just as important as those who have sponsored the event, the event simply could not exist, if it were not for the Korean and American delegates and speakers who are here.

Your thoughtfulness, your creativity, your willingness to think seriously about the issues in advance, to share them frankly, in a constructive environment, I think has been a tremendous contribution already this morning and will continue as we proceed with the conference.

For me, it's always fascinating to think about the role that Korea is playing in today's world, in today's Asia. I think about when I was in graduate school, and, at that point was studying international economic development, and I remember, very clearly, a statement from one of my professors who said that in 1960, Korea and Ghana had exactly the same gross national product per capita.

In fact at that time, the bets were that Ghana would develop much more quickly because they had inherited a very strong education system from the British. The fact that today, we have Korean foundations and institutes and think-tanks engaged in this kind of international activity is a real tribute to the Korean people and we thank you very much and you should be very proud of what you have achieved.

As our keynote speaker today at lunchtime I have the pleasure of introducing Jim Kelly. Jim was a colleague of mine in the State Department and someone whom I had an opportunity to watch and admire in his performance of diplomacy throughout Asia.

He was the assistant secretary of state for East Asia and Pacific Affairs from 2001 to 2005, and, indeed, I would say that Jim has probably had at least four distinct careers in his life.

One was a career in government, as a senior official in government, as assistant secretary. During the first Bush administration and the Reagan administration, in the National Security Council as a senior director and a special assistant to the president on Asian Affairs, as well as the role that he played in the Department of Defense on Asian policy issues.

He also played an important role on Asia in the think-tank world, and from 1994 to 2001, he was president of the Pacific Forum of the Center for Strategic and International Studies in Honolulu, where he played a very key role in formulating creative ideas about political security and economic change in the Asia region.

He has played a very distinct role in Asia as a businessman. From 1989 to 1994, he was president of EAP Associates and was responsible for generating business opportunities.

And then, as many of you know, he was also a military officer, serving with the U.S. Navy, with distinction, for 23 years.

So we're very lucky to have with us today somebody who can bring in those various perspectives, as an individual who saw this region as a young man, and into his middle years as a officer in the military who thought about these issues from a security perspective, as a policy analyst, as a businessman seeking to promote economic activity, and as a strategic thinker, and today, Jim, we're going to ask you to dwell on all four of those.

Thanks very much for joining us.

JAMES KELLY: Thank you very much, Carlos, for credibly overdoing my introduction. But also thanks to President Talbott, President Baek of The Sejong Institute, and President Kwon of The Korea Foundation. I did run a think-tank once and I certainly knew the route to call on The Korea Foundation when it was about discussing serious questions.

I have to begin my comments on my views on the situation in the Korean Peninsula with an emphasis on the nuclear weapons issue by an anecdote that happened to me a few days ago in Seoul.

A dear friend got a severe back injury and we had to cancel a dinner we'd planned, that was going to be at a place where the food was too expensive, and perhaps too elegant for conversation. So my friend and colleague, an American investment gentleman, who hadn't been to Korea for some 18 years or so, and I, headed for a local area just to try an ordinary Korean restaurant, and we found one and we had a fantastic meal, and three great big bottles of beer for 25,000 Won.

A lot of Koreans were in the restaurant enjoying themselves, and quite a few young people were there, and towards the end of our meal, this young man came over to the table and he said, “I think we know you.” And I thought, "Well, my fame precedes me." He said, "Aren't you John Bolton?"

[Laughter]

MR. KELLY: So the fleeting celebrity certainly is something that was reaffirmed with me before, and my friend did tell him who I was but I don't think he was impressed.

I think John Bolton has visited Korea a few times, three or four, but I've probably been there a hundred times more frequently. But in the minds of the public, sometimes, it's the intensity of what is said rather than the specifics.

The other point I would add was that there were big crowds in the 2002 period when Dave Asher and I would arrive at airports, and they are fortunately much fewer now, and the reason, and what will certainly be an accomplishment of the six-party talks, is the direct involvement of the Republic of Korea, hands on, face to face, in matters that involve the Korean Peninsula.

This is so basic but it could not be the case, certainly, in the mid 1990's, and it very much represents progress in the direction I think of solving our problem.

My view of the situation on the Korean Peninsula of course is that it is serious with respect to nuclear weapons, somewhat controlled, with new elements of risk and danger, but also I think some possibilities of new opportunity.

The probability or likelihood of war breaking out in an environment of some 60 years of varied but uninterrupted tensions is relatively low, but such a prospect would be terrible, indeed, and continued and persistent efforts towards resolution are essential.

North Korea suggests that it is waiting just to have the right mix of incentives, rewards, and security assurances for it to give up nuclear weapons but this is far from certain and doubted by many.

We must be mindful that North Korea is a very old problem with many dangerous aspects that go beyond the nuclear weapons.

Conventional forces of course are still large, seven times the manpower of Japan's army, and more numerous by more than twice of the U.S. Army worldwide, and of course very close to Seoul along the DMZ.

Ballistic missiles are a particular concern for Japanese.

Many missiles and kinds of missiles could reach Tokyo, including some designs that are new to North Korea.

There's a deprived population, and that came up, I thought, in a particularly vivid way, in the morning's discussion. A persistent susceptibility to starvation, unique in East Asia, and also extreme shortages of even basic drugs, and the human rights record is in fact terrible.

There are illicit activities, and I think there'll be some discussion of that this afternoon, including smuggling and drugs and counterfeiting, and for a long time, as the Japanese have so vividly emphasized, abductions.

And then of course there are weapons of destruction beyond nuclear, almost certainly chemical weapons and probably biological ones as well.

The basic question, though, that I'm often asked is, Does North Korea really have nuclear weapons? My personal assessment is that we cannot know with total certainty, but that we need to take North Korea's weapons claims very seriously.

It has had interests in nuclear weapons going back some 40 years and has had the necessary materials for nuclear weapons for almost 20 years. It has trained and capable engineers who have had association with foreign experts and it has a military first “Songun” policy.

So the primary claim on any resources belongs to the Korean People's Army, certainly including nuclear weapons programs. And this complicates negotiation.

The U.S. goal, shared by Japan, and in principle, at least, by China, Russia, and South Korea, is that all parts of North Korea's nuclear weapons programs must be verifiably ended.

I would caution that any nuclear weapons freeze, or other pause in any agreement to dismantle nuclear weapons programs, could be a false hope of which there have been many.

Any pause or freeze must be a stop toward a full solution and not the solution itself.

My personal assessment postulates three parts to the North Korea nuclear weapons program and it is far from clear whether the DPRK statements about willingness to end the program include all three.

These components, as I would just break them down, include what I would call the old plutonium. This is the dangerous fissionable material that was reprocessed from spent fuel rods in the early 1990's, and this was the issue with the International Atomic Energy Agency, that was the cause of the 1992 and 1994 crisis, and it was never resolved.

This material would be the material most likely to have been “weaponized.” Second, there is new plutonium which is that reprocessed since January 2003 from spent reactor fuel rods.

And then the third is the covert uranium enrichment effort, a shadowy, much more easily concealed method of using centrifuges to enrich uranium to fissile material for use in weapons.

It has been going on for ten years, and seriously for at least seven years, and potentially, this could yield very large quantities, every year, of fissile material, and was a item with respect to a comment, I think from the presentations this morning, is that there was a very different kind of assessment within the U.S. government in 2002 based on new information that made it clear that small efforts, fairly well-known before in the area of uranium enrichment, were in fact far larger.

Must we, some day, accept nuclear weapons in North Korea?

Delay in the solution, in my view, need not weaken resolve. We do not and must not accept North Korean nuclear weapons, even if there will be no quick solutions.

First, northeast Asia has no room for such a nuclear-armed state. North Korea's situation is neither comparable nor parallel to that of India or Pakistan, and certainly not to Israel. Its security, notwithstanding contrary claims, is, in practice, unthreatened by military attack from any power, and even if it believes itself to be at risk, security assurances have been offered and can be turned very quickly into commitments, if the DPRK chooses to give up its nuclear weapons in a meaningful way and returns to the negotiating table.

Second, North Korea’s “juche” does not bring the self-sufficiency that it hoped. It is dependent on others, especially China and South Korea, for much of its fuel, most of its food, or

much of its food and most of its fuel, and the cash its leaders need and its economy cannot efficiently produce.

Success in the six-party talks would offer an opportunity to end North Korea's isolation and improve the plight of its people.

That way will be open, if and when Mr. Kim's assessments change.

Third, the Asian way of handling issues, which I recommend to America in this case, is that persistence and unflagging determination are the answers to important but deadlocked questions.

As President Roh Moo-hyun put it, North Korea nuclear weapons are unacceptable and I do not view this as a cynical political statement. I think it is a true expression of the policy of the ROK government and the people of Korea, that nuclear weapons are trouble for the future, and therefore we can work together to do something about it.

What can we done? As almost all wish, and President Bush has certainly always maintained, a peaceful diplomatic resolution, which is by far the best approach, and I believe it's the only practical approach.

Other alternatives, including force or many kinds of strong sanctions, are highly unattractive.

It's important to note that this is a global and a regional problem of significant interest, far beyond America's Korean Peninsula deterrence of attack that's gone on now for some 53 years.

The issue will not and cannot be solved by the U.S. alone but needs to involve all members of the six party talks as well as others. There will also be in a successful solution a future role for the IAEA and room for plenty of help and support from Australia, the EU, and others.

So the notion that North Korea is an American problem is wrong, in my view. Perhaps some see it as a way to avoid the problem, ignoring risks. North Korea nuclear weapons are largely a Northeast Asia problem but they're also a global nonproliferation issue.

The U.S. has an important role and interest but so do the other members of the six-party talks, which are a promising regional model for dialogue and one very similar to that proposed by former President Kim Dae-jung in the 1990's.

It's a framework that harnesses the diplomatic leverage of the national parties most directly affected by this kind of weapons proliferation and offers the best hope for resolution.

If the DPRK has a price it wants the other parties to pay, it can establish that it is ready to end all of its nuclear programs and then permit the six-party negotiators to do their work.

At the moment, and for most of the time, since 2003, North Korea refuses to meet by asserting that one or another peripheral issue prevents its return to the table.

The current six-party effort is crucial and needs to continue. Nuclear weapons in North Korea are not just a U.S./ DPRK problem. There are major regional and global implications.

Because the six-party talks include the most affected states, each significant, regionally and globally, and each with vital interests in a successful outcome, the parties' interests are not exactly the same but there is much congruence.

Each of the parties is essential and especially the Republic of Korea.

Full South Korean involvement is a new element in dealing with North Korea. I strongly believe that as the most interested party, no solution could succeed without Seoul's full participation, and it's important to note that this element, direct engagement of South and North Korea, has not been a factor of this magnitude in the past, especially in 1994.

The American goal is of course complete end to nuclear weapons programs in North Korea, in a way that can be verified and which cannot be quickly reversed.

In the six-party negotiations, the September 19th agreed principles were a serious advance, an important step toward a solution, but they were not, as we see now, a breakthrough.

Difficult negotiations remain under the best of circumstances, and the present is far from that.

Finally, there's a varying sense of urgency for the denuclearization process held by China, and in a sense, by South Korea, and this tempts the DPRK, if it is amenable to any complete solution, to set a very high price for any deal that it might make.

The United States will treat the DPRK as an equal state in international standing and has done so throughout the six-party process, and before.

Regime change may be attractive to some in Washington but it is not and has not been the administration's policy. Of course for a full solution, a significant amount of regime transformation, a change in attitude or behavior will almost certainly be a practical necessity.

What about risks? No one should be satisfied with a stretched out non-solution in which North Korea becomes an unacknowledged nuclear power.

There are risks in such a delayed nuclearization to Japan, South Korea and America, as well as to others, and they need to be kept in mind. Tragedy is not impossible and none should ignore the possibility.

Proliferation of fissionable material or even weapons outside of North Korea is possible and cannot be ignored, given the extreme lack of transparency in Pyongyang and among its military forces.

Some terrorists in the world will do absolutely anything, including setting off a nuclear explosion in a city, if they can find a way.

There is no evidence that I know of, that North Korea is working with such persons, but the risk is not zero.

Were such a terrible thing to occur it's impossible to predict the violence that might be unleashed, almost anywhere in the world.

As one example, troubling example, DPRK weapons cooperation, presumably ballistic missiles and conventional arms with Iran is troubling, and may develop some more serious implications for Northeast Asia.

But there are, as I mentioned earlier, I think some new opportunities in North Korea. Most important is the limited and uneven but large scale unleashing of several kinds of economic activity' within the DPRK.

Chinese business people, both legitimate and some, perhaps, who are a little shadowy, seem to be involved in many kinds of commercial ventures with both civilians and military.

Many civilian and military officials, that is, cadres, are involved, setting up some interesting differences in wealth and possible conflicts among cadres who are not a part of this new wealth.

Most important is the ongoing dialogue between the two Koreas. This is a marked difference from the '92 crisis and provides an opening. And although I admit that my position is not universal in Washington, I am not alarmed in any general way about the broader economic activity between North and South, including the Kaesong project. It is potentially useful and may yet prove more important in changing the conditions in North Korea.

I do believe that cash payments from South to North aimed for political postures or meetings are a mistake that may lead to dissolution and delay the prospects of resolution.

Criticism, I'll try to be even handed. China deserves credit for embracing and nurturing the six-party process, but it needs to be more than a mediator. China knows that its interests are not served by nuclear weapons in North Korea. China was helpfully active as a participant in the first rounds of 2003 but seems to be letting its goal of stability detract from the stronger role that it might be able to play.

Japan has been a fine partner in the talks, will inevitably be part of any solution. But at times, understandable domestic reactions to the abduction stories have driven an emphasis

incommensurate with the dangers that nuclear weapons present. All these issues are valid objectives.

South Korea is understandably reluctant to have tensions rise, if only for the blow that that would be to its life and economy. But it needs to be firm and patient with North Korea. Sometimes it seems that Seoul lets its desire for peaceful comity get a little ahead of the situation the ground.

For the United States, I think we are pursuing the right path in the six-party talks, and my successor, Christopher Hill, is able, experienced, and determined. But there is an unjustified fear in Washington, among some, that we should avoid direct contact with North Korea.

Such contacts, of which I had some and Ambassador Hill has had many more, are natural and in no way need to impede the multilateral process.

There seems to be a false notion in this town that America loses in any such discussions. The reality is that direct contact may be helpful or they may be neutral, but their awkward absence undercuts support among Asians and provides a handy excuse for North Korea to delay.

I must stress that the door remains open for North Korea by addressing the concerns of the international community to vastly improve the lives of its people, enhance its own security, normalize its relations with the U.S., and others, and raise its stature in the world. The U.S., working with others, remains committed to resolving the nuclear issue through peaceful, diplomatic means.

I'll throw in one gratuitous comment at this stage. I wanted to join with Don Gregg.

Tomorrow is our session on economics. But in East Asia, certainly on the Korean Peninsula, economics and political questions are hopelessly intertwined. And I think the free trade agreement discussions going now between the United States and South Korea exactly have the potential of putting our relationship for the long term on the kind of equal to equal basis that it really needs to be. And I hope that both sides are going to be able to deal with it.

The timing issue makes this one pretty tricky. Because in the summer of 2007, the kind of authority that the American Congress gives to administrations to negotiate trade agreements expires.

This is the most complicated one that the U.S. has pursued. It's done so in an atmosphere in which the Doha Round of multilateral trade is not exactly progressing very well. So the stakes, I think, are very high both on the up and positive side and on the down side if it doesn't work so well.

So, with that, thank you very much for your attention. I'll be happy to take questions.

QUESTION: Mr. Ambassador, I am [inaudible] from Korea. You said that regime transformation, not regime change, is the practical necessity. What's the difference between

regime change and regime transformation except the time when you do not recognize North Korea as it is when you pursue regime transformation? Thank you.

MR. KELLY: A transformation is a change of behavior without a change of the persons who lead a particular government. Americans, at least a lot of them, profess to have a faith in redemption and to believe that any government--the fact is, governments do make remarkable changes.

What I'm saying is that American policy, my view has never been established as a pillar that Kim Jong-il and the leadership structures that North Korea must somehow depart before there can be either a normalization of relations or in a more preliminary way a nuclear weapons agreement.

That said, this is something that's very important and very central to North Korea's political identity -- and it might be difficult for such a change to occur. But the fact is, regime transformation is a serious kind of policy change. Regime change is something else. That regime is really a kind of revolution somehow imposed from outside. And that has not been the choice of the administration because it is not a policy that would either likely succeed nor have the support of our allies or, for that matter, anybody else in East Asia.

QUESTION: [Inaudible]

MR. KELLY: Oh, I think they can, yes, indeed. I think they can understand that very, very well. But it may be, I don't know this, but it may be that North Korea feels that if it changes its policies it will somehow lose the mandate of heaven and be swept aside by either internal or external forces. So it may feel that it can't. Its dilemma for a long time has been that it can't survive if it does not open up its economy and the way it deals with the outside world. But the dilemma is that the leadership can't survive if they do open up. That's, really, I think, the only explanation for the very slow process that has gone on. But as I noted, I think there are some interesting and significant changes, even in a limited way, that are starting to unfold now.

Don?

QUESTION: Don Oberdorfer.

Jim, I was so glad to hear you say that in your view it's unjustified to have a fear of meeting with North Korea, that meetings should take place. For that seems to be the hang up right now with our government not allowing your successor to meet with North Korea without a whole bunch of requirements that the North Koreans have to make, indeed, which they probably won't be able to meet. You were able to go to Pyongyang without preconditions in 2002, and I think that should proceed.

But my concern is really deeper than this in a way. I'm almost in despair about the American political system and its ability to deal with North Korea. North Korea seems to have been taken up as the bogeyman after the end of the Cold War, along with a couple of other countries in which American political people, and not just Republicans, but Democrats and

others as well, view North Korea as so far outside of the normal human pale that they're not ready to have dealings with them.

What was said earlier by our former Defense Secretary, Bill Perry, is we have to deal with them as they are, not as we would like them to be.

So I guess I want to put a question mark on all this and ask you, in your view, what should the United States, by politics as well as government, be willing to do to meet with North Korea and put forward our views on their policy without giving up American ideas or American policies?

MR. KELLY: You and I have discussed this question in the past. And I think your point about the--it really does need to be understood that the reputation of North Korea among the American Congress is far worse, I think, than it was ten or twelve years ago. I'm not sure even if we were all transporting ourselves back twelve years that the Agreed Framework, with both its strengths and weaknesses, would be accepted by current Congress of either party. This suggests, in fact, that the new opportunities, the role of South Korea, in particular, but also China and Japan, and for that matter, Russia, I think, is going to be important in solving this.

The notion of multilateral solutions to this we want to strongly support. But direct communication is not impossible and there really has been a lot of it.

As to the question of whether it seems to be working very well, I don't have any firsthand knowledge of what the current situation is on that. But, certainly, the administration does not want to seem to be going back to the past of the Americans and the North Koreans will solve all the problems. And we'll let you know in the end what the bill is that South Korea gets to pay. That's not what's going on and that's certainly not inherent in these direct conversations.

So it's not so much that there haven't been any, but that they have been limited in number and duration. I think that's probably and actively unwise.

Yes?

QUESTION: Rob Warne.

Mr. Kelly, would you care to assess bilateral relations between the Republic of Korea and the United States today, and do you have any particular recommendations as to how they might be improved?

MR. KELLY: I'm 15 months out of date, other than for a very short visit next week, and I missed Mike Green's presentation this morning. I think that they're not as bad as has been indicated. I don't think I agree with Professor Cumings about the attitudes to Roh Moo-hyun. The election campaign that went on there three years ago really had three, at least for a good chunk of it, three major Korean candidates: Lee Hoi-chang, Chung Moon-joon, as well as President Roh.

I attended a meeting with President Roh on that same day after the inauguration, accompanying Secretary Powell and a number of American politicians to the meeting. Frankly, it was a love fest that went on -- and, as far as I know, all President Roh's meetings with President Bush have also been more than diplomatically cordial.

Yes, it is certainly true that President Roh wasn't well known when he came in. My first time to meet with him was about a month before the inauguration. I thought we -- it was a defense colleague and myself -- thought we had a very direct and I thought very sincere meeting.

So I think the fact is that the governmental relations, Rob, have, in fact, been a lot better than outsiders recognize. Part of that, I think, may be some changes within South Korea.

There's a much broader participation, to put it mildly, in the political process in South Korea now than was the case years and years ago. And so there were so many people, American school graduates, fluent in English that Americans tended to talk to about things that went on in North Korea.

Many of these individuals no longer have the influence in Seoul that they once had. And some of them, I think, are downright unhappy about that. And so that kind of attitude carries its way on in conversations with old friends.

While many of those new to political power, for many good reasons, haven't--don't conduct much of their lives in the English language. And Americans, with our own linguistic inadequacies, haven't had a chance to get to know them -- and we haven't understood them.

I think this: the externalities of this may appear a little bit worse than before. I think another element of it is the very aggressive competition among Korean media that leads to what many on the scene have found at least inventive reporting.

QUESTION: Thank you very much, and thank you also for your comments today.

A moment ago we talked about North Korea's credibility problem in the United States. I don't think you'd ever get any argument from anybody here.

Do you think that the United States has a credibility problem in Pyongyang? If so, what are some things that one should think about to address that?

MR. KELLY: We have credibility problems probably in just about every capital in the world.

Frankly, I'm inclined to think we may have fewer credibility problems in Pyongyang because there may be fewer people involved in noting what's said or done. There is certainly a great deal of focus among parts of the leadership on assessing exactly what Americans are saying or doing.

But the fact is, whether it be Pyongyang, Seoul, Tokyo, Moscow, Berlin, Paris, any other capital, it's really hard, with all of the voices that come out of Washington, D.C., what's mainstream and exactly how the opinions that are constantly being uttered relate in terms of policy.

The axis of evil in the 2002 State of the Union speech, I think probably Americans who were listening to the President that night, most ordinary Americans in the light of 9-11 weren't particularly taken aback by this association of Iraq, Iran, and North Korea.

Certainly, everybody in Asia parsed it in a much more specific way and took away from it meanings that I don't think were particularly intended at the time; in particular, the inference that since the three problems were lined up together, the solutions would also be similar.

I think from the very beginning President Bush made very clear, especially during, I think, what was a very important visit, which was his visit to South Korea in I believe February of 2002, and the time that he spent with President Kim Dae-jung. This was the first visit that President Bush had to South Korea. He saw very clearly the distances that are involved between the DMZ. He saw the Dorasan Station. He and President Kim made their speeches at that station.

But, in particular, there was an occasion for a lot of long, private dialogue. I think the seriousness of how our ally has to deal with this particular problem at the very minimum separated it from other countries and other situations. But how well that's understood by others, probably not at all surprising that a lot of it gets missed.

Joe?

QUESTION: [Inaudible]

You heard this morning--I'm going to have to move out of here in a second--a sense that the South Koreans have a strong feeling the United States tilts toward Japan, that we favor Japan over Korea. Whenever there's a chance to pick one side or the other, we pick Japan. We're silent on Dokdo, therefore, implying support for Japan. We have an unequal appreciation of the value of the alliance between them and Japan and them and Korea.

How do you think we might address this concern that the Koreans have?

MR. KELLY: We can only address it with persistent careful work with the Republic of Korea and its government and hope for understanding.

Part of it may be, certainly in terms of the recent differences, that Americans have only the vaguest misunderstanding. The fact is Dokdo is occupied by Korea. There is zero probability that these islands are somehow going to be occupied by Japan under any circumstances legal or otherwise.

What's the fight about? What's the hassle about? That some Japanese prefecture has re-emphasized its claim or that some group surreptitiously is proceeding to name under water

locations. I think there are a lot of understandable reasons why this excites Koreans. But it doesn't translate all that well into here. So the case of supporting Japan, supporting Korean on the Dokdo dispute is, I think, simply asking too much in the area of international affairs. We can't possibly have a position on complicated historic questions such as this. The world is full of islets, including a number in East Asia, on which there are conflicting claims certainly all the way from Southeast Asia heading on north.

The advent of 200 mile exclusive economic zones have put the element of money into these kinds of discussions and brought a fever that certainly didn't exist during the more casual days of a long time ago.

RICHARD BUSH: Jim, thank you very much for joining us today.

[Applause]

DR. BUSH: You suggested in your opening story that you're probably pretty jet lagged. So we particularly appreciate you indulging us today and taking so much time for Q and A. You've added immeasurably to our conference.

The conference will resume downstairs at 2:15. We'll give you a bit of a break to get out in this very nice weather before you head back to our bomb shelter below.

Let me also remind you that we will begin at 10:00 o'clock tomorrow morning, not 9:30, as is on the schedule.

And thank you again. We'll see you in about 15 minutes.

[End of taped luncheon]