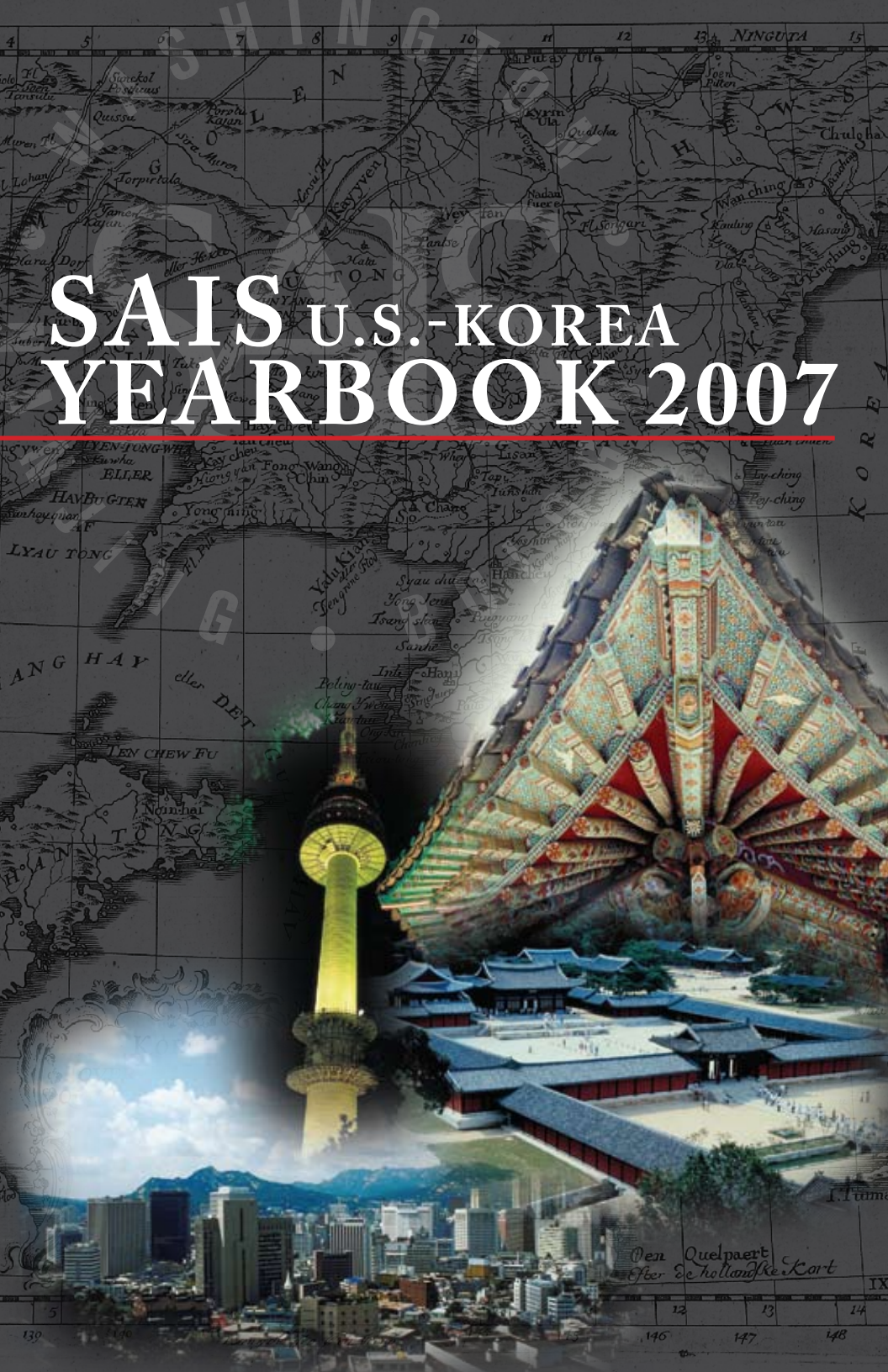
SAIS U.S.-KOREA YEARBOOK 2007



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INTRODUCTION

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What an extraordinary year 2007 was for Korea! Following the difficult 2006 that saw North Korea testing its nuclear weapon and difficult negotiations over security and trade issues with Washington, the Republic of Korea (ROK) made remarkable diplomatic breakthroughs on many weighty issues. The past year may well be recorded as the "year of deal-making" in Korea's diplomatic history. In February, the Republic of Korea (ROK) and U.S. governments agreed on transfer of wartime operational control (OPCON) of South Korean troops in the Combined Forces Command back to the ROK government. Following this decision, in June, South Korea and the United States finalized the monumental Korea-U.S. Free Trade Agreement (KORUS FTA). In October, South Korean President Roh Moo-hyun and North Korean leader Kim Jong Il held a summit meeting in Pyongyang and reached several significant agreements in inter-Korean relations. Through the Six-Party Talks, the North Koreans agreed in February and October to take measures that would disable, and contribute ultimately to dismantling, their nuclear programs. Indeed, it was an extraordinary year of "big deals" on the Korean peninsula. But these agreements face challenges of ratification or implementation, and much work remains to be done.

The 2nd edition of the SAIS U.S.-Korea Yearbook covers principal developments, including these "big deals," on the Korean peninsula in 2007. SAIS students in the fall 2007 course "The Two Koreas: Contemporary Research and Record" wrote each chapter of this yearbook. Not only are their writings based on in-depth readings and study, but also field research through a November 2007 trip to South Korea. On this field trip, the students conducted numerous interviews with government officials, think tank scholars, NGO workers, academics and private sector experts in South Korea. Also, this edition of the U.S.-Korea Yearbook reflects, and benefits from, the extensive academic and professional backgrounds in both Korean and Northeast Asian affairs that the student-authors brought to bear upon the project.

The SAIS U.S.-Korea Yearbook 2007 is divided into four parts: U.S.-ROK Relations, U.S.-DPRK Relations, Korea in the Region, and Korean Politics.

I. U.S.-ROK Relations

Samuel Yim, formerly a U.S. Army officer who served in Korea, reports on the transformation of the ROK-U.S. alliance through return of wartime OPCON of ROK soldiers and developments in the base relocation plan for the U.S. forces stationed in South Korea.

Ting Xu, a graduate of Beijing Normal University who worked in advertising and development in China, Japan and the U.S., writes about the future of the ROK-U.S. alliance.

Andrew Anderson-Sprecher, who is currently a trade consultant in a Washington, D.C. law firm, examines the uncertain future of the KORUS FTA and its political complexities.

II. U.S.-DPRK Relations

Rian Jensen, who previously worked in Washington, D.C. on various security and political reform issues in Asia, surveys the Six-Party Talks and assesses prospects for continued progress in U.S.-North Korea relations.

Yumi Kim, a graduate of Princeton University who worked for several years in public service and non-profit organizations, examines the uncertain legal status and treatment of displaced North Koreans.

Tania L. Askins, who worked for Salomon Smith Barney/Citigroup in New York in their infrastructure finance group, analyzes the economic conditions of North Korea and possible scenarios for change and future development.

III. Korea in the Region

Michael Yo, who interned at the Korean Institute of Defense Analyses, reports on the political, economic, and cultural aspects of inter-Korean relations of the past year from the nuclear test to the summit meeting.

Nat Kretchun, who has experience studying language and conducting academic research in both Korea and China, examines Korea-Japan relations over the past year with a particular focus on the effects of historical memory on contemporary relations between the two countries.

Mathias Hartpence, a graduate of McGill University in Canada who worked in the public and private sectors in China, writes about the diplomatic relations between Beijing and Pyongyang, within the context of the reengagement process that the Six Party Talks witnessed in 2007.

Benhan Limketkai, who has worked in the financial sector in San Francisco, reports on North Korea-China economic relations and the deterministic role that the interaction could have on North Korean economic reform and development.

Jason Cohen, who has experience working in the financial and consulting sectors in Asia, examines South Korea-China relations through political, economic, and socio-cultural dimensions.

IV. Korean Politics

Thomas S. Kang, who worked at the San Diego World Trade Center and interned at the law firm Munger, Tolles & Olson LLP, reports on inter-Korean relations, North Korea policy in South Korea's domestic politics, and the presidential elections.

Michael Richardson, who was a Princeton in Asia Fellow in South Korea and taught English literature and composition in Seoul, writes about the influence of South Korean civil society on inter-Korean relations.

Shaw-Lin Chaw, a graduate of the National University of Singapore who used to report finance business-related news in Hong Kong, covers the consolidation and transformation of South Korea's democracy and the trends of foreign policy under President Lee Myung-bak.

The yearbook would not have been possible without generous support from many people. For their unsparing assistance that made the class trip to Seoul possible, I am deeply grateful to U.S.-Korea Institute Chairman Don Oberdorfer, Deputy Chairman Yong Shik Choo, Director Jae Ku, and generous donors. Many officials and officers in Washington and Seoul helped us arrange

meetings or spared their precious time to meet with the class and/or individual students; many scholars and experts sat down with many of us to discuss relevant issues and answer hundreds of questions we had. I thank them all, without naming any, for enlightening us and helping us produce a better yearbook than we could have on our own. My special thanks go to Program Manager Kate Surber, and her successor Nicole Baillis who took over the last phase of the yearbook project, for competently overseeing all the administrative and logistical details of the class, the trip, and the yearbook production. Samuel Yim and Nina Sawyer provided critical assistance in the final stage. Most of all, I thank the students of "The Two Koreas" class, whose brilliance was coupled with exuberance; we can expect to hear much more from all of them. Each chapter of the yearbook reflects each student author's hard work and view, as well as the support from all of the above. As the faculty leader of the "Two Koreas" course who had the privilege of working with them, I hope that the SAIS U.S.-Korea Yearbook makes a contribution to U.S.-Korean scholarship and mutual understanding.

ROK-U.S. ALLIANCE ADJUSTS TO NEW REALITIES

Samuel Yim

I. INTRODUCTION

The strength of an alliance often times depends on a cost-benefit analysis of each partner. If each side believes there is a net benefit, then the alliance will likely be favored and endure. If costs outweigh the benefits, the joint alliance of interests may diverge and the alliance may be disbanded. As alliances normally do, the Republic of Korea (ROK) and U.S. governments have been reassessing the new military landscapes of the ROK-U.S. Alliance (the Alliance) to determine its new future. Seminal agreements from previous years, such as the relocation of the U.S. forces at the Yongsan Garrison, realignment of the 2nd Infantry Division, and the Land Partnership Plan, created new realities in the relationship of the Alliance. Many of these deals have been reworked and renegotiated to meet changing political, economic, and social conditions in the ROK and the United States. As with any changes in a relationship, disagreements in the Alliance are expected to arise. Nevertheless, close consultations and strong mutual commitment helped find consensus between Seoul and Washington and, in the long run, has strengthened the Alliance. In 2007, the ROK and U.S. governments went through an adjustment period to new realities in the Alliance.

The disagreements from previous years over changes in the Alliance raised questions about its future. Historically, whenever strategic or environmental conditions changed between the two countries, the Alliance managed to resolve the issues and overcome their differences. The current conflicts between the ROK and U.S. governments are no different and it they represent a period of evolutionary change of the Alliance. Nevertheless, concerns between the Alliance still remain on cost sharing plans of the relocation of U.S. forces, the timeline of the transfer of U.S. bases back to South Korea, modernization of training ranges for U.S. forces, and the role of the United Nations Command (UNC) under the new wartime operational control (OPCON) structure. Despite their differences,

the two countries have managed to stay committed to a "comprehensive, dynamic, and mutually beneficial alliance" and they are expected to work out solutions that will strengthen the Alliance.

This paper reviews the transformations in the ROK-U.S. Alliance that took place in 2007 and assesses how the Alliance has adjusted to the new realities. This paper first addresses divergence in the Alliance through the different perceptions of the North Korean threat and the resulting policy divergences. It then comments on the U.S. Global Posture Review and South Korea's "Self-Defense Policy" and their ramifications on the transformation of the Alliance. The paper transitions into how the Alliance has adjusted to new realities such as the planned wartime OPCON transfer, the consequent dissolution of the Combined Forces Command (CFC), and the future on the UNC. It continues with a report on the progress made in the United States Forces Korea (USFK) base realignment and force reductions. It then discusses how the ROK military progressed in their new acquired military mission from the U.S. military and the new developments in the combined military capabilities. The paper concludes with the prospects for peace on the peninsula, possible challenges in the future, and what lies ahead for the Alliance.

II. NEW REALITIES IN THE ROK-U.S. ALLIANCE

Different Perceptions of the North Korean Threat

The foundation of any alliance is a shared view on security. Recently, the ROK and U.S. governments have had differences in the view of the North Korean threat to the security of South Korea and to the rest of the world. South Korea no longer views North Korea as being the same threat as it once was, whereas the United States still considers North Korea threatening in its potential to proliferate weapons of mass destruction and contribute to terrorism. A coherent alliance must have a shared belief about and identification of the common threat and an agreement to take coordinated action to deter the threat. For more than half a century, the Alliance has been an exemplary example of this. In recent years, however, the two countries appear to have diverging perceptions about the North Korean threat.

Because of deteriorating economic conditions, outdated military equipment, and lack of training for its troops, North Korea is less of a conventional military threat to South Korea than it was in the past. First, South Korea has one of the most modern and advanced militaries in the world, whereas North Korea's military, despite its size, is one of the least trained and ill-equipped militaries. Consequently, it would be difficult for North Korea to achieve its political aims through military force, although its newly declared nuclear weapons capability

could potentially nullify the advantages of South Korea's conventional forces. Second, North and South Korea relations have been improving. An important turnaround in the South Korean perception of North Korea occurred as a result of the June 2000 summit between President Kim Dae-jung and Chairman Kim Jong Il. Finally, the ROK government has adopted an engagement policy, which expresses its belief that reform is inevitable in North Korea and, through economic cooperation and dialogue, the two Koreas can achieve permanent peace. The South Korean government does not wish to see any provocation by the ROK-U.S. Alliance that might cause North Korea to go back to its isolationist past.

The U.S. government, on the other hand, still sees North Korea as a global threat. This is primarily due to its nuclear capabilities with the possibility of proliferating nuclear weapons. North Korea also has long-range ballistic missile threat capability to target its neighbors along with the possibility of targeting its missiles to the United States. North Korea also schemes in illicit arms sales, counterfeit currency, money laundering, human rights violations, and drug trafficking. The Bush Administration's image of North Korea is overall negative, exemplified by President George W. Bush's declaration that North Korea is part of the "Axis of Evil." North Korea's consistent track record of reneging on international agreements and defying international norms contributes to its negative image.

Though the South Korean government agrees with the United States that the North Korean threat still exists, they disagree in the means to deal with the North Korean threat. For any alliance to stay healthy, allies must have continual consultations on a shared recognition of a common threat. The discord in how the North Korean threat was perceived caused divergent policy goals within the ROK-U.S. Alliance due to material disagreements on how to respond to the North Korean threat. This was a crucial divergence for the Alliance and, resultantly, had a spillover affect in the relationship between South Korea and the United States in 2007.

Policy Divergence

These different perceptions of the threat posed by North Korea resulted in different policies toward North Korea that have challenged the Alliance. The South Korean government has pursued a reconciliatory or engagement policy with North Korea. They believe this policy will cause a gradual and peaceful transformation to encourage North Korea to open itself up to the international

community. The United States, however, has taken a tougher stance on North Korea and its policies. It does not trust North Korea, so its policies are based on tit-for-tat exchanges and reciprocity. The U.S. government policies in the past have stated that regime change and overthrowing Kim Jong Il would be a welcome way for North Korea to establish normal diplomatic relations with the United States. In recent years, however, the United States has expressed a toned-down attitude toward North Korea. In its actual dealings with North Korea in 2007, the United States has become flexible and pragmatic. The United States has emphasized a peaceful resolution of North Korean nuclear problems through diplomatic negotiation and has expressed "no hostile intent" toward North Korea.

The largest policy challenge confronting the Alliance has been the issue of North Korea's nuclear weapons. South Korea has approached the North Korean nuclear threat from a peninsula-focused view. Seoul's main policy goal is to avoid or prevent a crisis or clash over the North Korean nuclear issue that might interfere with improving inter-Korean relations. In a military confrontation with North Korea in which nuclear weapons were used, South Korea would suffer the most casualties. As a result, South Korea has pursued a peaceful policy of engagement through economic, cultural, and social exchange. Moreover, it has sought cooperation through the Six-Party Talks to resolve the nuclear situation. The South Korean government has also consistently pursued a policy of a nuclear-free Korean peninsula.

The United States, however, views the North Korean nuclear threat from a global counterproliferation and counterterrorism perspective. The United States has taken a more aggressive approach by leading the multinational Proliferation Security Initiative to counter any possible North Korean nuclear proliferation. The U.S. government also prefers to not to deal with North Korea directly and does not diplomatically recognize North Korea. It still has North Korea officially listed as a country that sponsors terrorism in the State Department's annual *Country Reports on Terrorism*. Though the United States is suspicious of North Korea, the Bush Administration in 2007 has recognized the necessity of engaging North Korea to for the sake of denuclearization. The U.S. government softened its hard-line approach in 2007 by communicating to North Korea that the United States has no intentions to attack North Korea and to pursue its goals of reaching a denuclearization deal with North Korea. It also brokered an aid-for-denuclearization deal with North Korea in February 2007. Still, the U.S. government approaches North Korea with great caution and leans toward a "carrot and sticks" diplomacy. Though both the United States and South Korea seek a nuclear-free Korean peninsula, the two countries have diverged on the means to achieve that goal.

This disagreement over North Korea has existed in the past and will likely appear again in the future. In 2007, the Alliance adjusted expectations between the two governments on their political stance on the North Korean threat through closer coordination. Both sides made significant progress in redefining its shared recognition of a common threat. In the 39th ROK-U.S. Annual Security Consultative Meetings they addressed this divergence and created a plan to resolve it through the ROK-U.S. Security Policy Initiative discussions in June 2007. In the Security Policy Initiative meeting, both countries worked on a joint study on the North Korean threat to get a coordinated picture of North Korea. Both countries "expressed satisfaction" that they made significant progress in the joint study and worked further the bridge their intelligence gaps. For the Alliance to endure, both sides must have a coherent perception of the threat and coordinated polices to deal with it.

The Global Defense Posture Review and South Korea's "Self-Defense" Policy

In the U.S.'s Global Defense Posture Review in 2003, the U.S. military embarked on a global structural transformation of its forces. Hence, South Korea was classified as a "Main Operation Base" in the U.S. military's grand force restructuring plan. As a result, the U.S. and the ROK governments have consulted each other about preparing a blueprint for restructuring U.S. forces in South Korea. In the Future of the Alliance Policy Initiative talks held in April 2003 and August 2004, Washington and Seoul reached an important agreement about the relocation of U.S. military bases and the reduction of U.S. troops in Korea. The final agreement stipulated that the U.S. government would withdraw 12,500 troops from South Korea in three stages. Along with troop reductions, thirteen U.S. military bases have been returned to South Korea.

Coincidentally, South Korean President Roh Moo-hyun declared the "Self-Defense Policy" of Korea during a ceremony marking the 58th anniversary of national independence on August 15, 2003. He spoke of his country's need to build up a "ROK self-reliance" defense posture. The policy objective was to improve the military capabilities of South Korea's armed forces, with a gradual reduction of USFK and American control over South Korean forces. Roh said this would not weaken the two allies' relationship; rather, it would build the relationship into a more "comprehensive and mature one." President Roh also emphasized the need for military force structure reforms among Koreans to prepare measures to offset the U.S. troop reduction.

In a statement on May 20, 2004, Roh softened his tone and urged his government to create plans for the creation of a "cooperative self-defense system" with U.S. military forces in South Korea. According to the "cooperative self-defense system," the U.S. would transfer selected military responsibilities and

control to the South Korean military and gradually support South Korea in taking the lead on its defense. The Roh administration wanted a military policy under which the Korean government could incorporate the U.S. military in a complementary role in South Korea's defense.

III. THE ALLIANCE ADAPTS TO NEW REALITIES

OPCON Transfer and the Combined Forces Command

The Alliance has been transforming its command structure to reflect prevailing economic, social and political realities between the two countries. During the 37th Security Consultative Meeting in October 2005, South Korea and the United States agreed to accelerate discussion on the CFC's wartime operational control, which currently rests with the U.S. Army four-star general who commands the CFC, USFK, and UNC. Some have argued that since South Korea provides the majority of CFC forces, a Korean general should be in command of any combined force. Currently, the U.S. general controls both ROK and U.S. soldiers in wartime.

When President Roh visited the White House on September 14, 2006, he and President Bush agreed in principle on South Korea's independent exercise of wartime OPCON and the deactivation of the CFC. Following this meeting, South Korea's former Defense Minister, Yoon Kwang-ung, and former U.S. Secretary of Defense Donald H. Rumsfeld agreed at the 38th ROK-U.S. Security Consultative Meeting of October 20, 2006, to deactivate the CFC sometime between 2009 and 2012.

In the ROK-U.S. Defense Ministerial Meeting held on February 23, 2007 between the new Defense Minster Kim Jang-soo and Defense Secretary Robert Gates, the two countries finalized agreement to complete the transition of wartime OPCON on April 17, 2012. They opted for a later date to give the ROK military more time to adjust to deactivation of the CFC and its assumption of its new military responsibilities. This five-year transition period gave both U.S. and ROK militaries enough time for the necessary planning, training and capability upgrades to ensure a seamless transition. On June 28, 2007, both sides also made progress in creating a roadmap for the OPCON transfer through the Strategic Transition Plan.

At the 39th ROK-U.S. Annual Security Consultative Meeting held in Seoul on November 7, 2007, both sides agreed to work on new operational based command relations structure under new wartime OPCON transfer to the ROK military. The agreement was the result of intense negotiations between the

Allies and recognition of South Korea's stronger military capabilities and its increasingly influential status among the world's major industrialized nations. Under this agreement, Seoul will exercise independent control of ROK forces during wartime, while the U.S. military will transition into a support role. In essence, this change will deactivate the CFC and bring about South Korea and the United States to run separate military commands.

Effects on the UNC

Dismantling the joint command in South Korea and changing the OPCON of wartime forces raised questions about the future role of the UNC in Korea. The UNC was created in 1950, at the beginning of the Korean War, as a central command and military umbrella for allied countries to fight under. The UNC in Korea is officially a 16-country coalition that oversees the armistice signed at the end of the Korean War. The commander of the USFK concurrently serves as the commander of both the UNC and the CFC. The UNC's mission is to support the ROK-U.S. Alliance with UN forces, equipment, and supplies during wartime.

However, the transfer of power to the ROK government of South Korean soldiers in wartime raises a responsibility mismatch for the UNC. This is important because the UNC is the main channel through which to accept international military support from the UN in the event of a conflict on the Korean peninsula. With the transfer of wartime OPCON of South Korean troops, however, the U.S. general who commands the UNC would not be able to get immediate and effective control of ROK soldiers. According to USFK commander General B. B. Bell, the dismantling of the joint command over South Korean forces and the transfer of operational control to Seoul would "create a military authority-to-responsibility mismatch for the UNC." Bell explained that once wartime OPCON is transferred to South Korea in 2012, the U.S. general who commands the UNC would no longer have immediate and effective access to South Korean troops. A new UNC role under a transformed ROK-U.S. military alliance needs to be discussed to credibly maintain the armistice.

Until there is a permanent peace treaty on the Korean peninsula, the U.S. government believes the UNC will be needed to maintain the armistice. The South Korean view of the future role of the UNC diverges from the United States. The ROK government has discussed dismantling the UNC when a permanent peace treaty is signed and, according to a recent report by the Korea Institute for Defense Analyses, it recommended that the UNC serve as an international peacekeeping organization. The report goes on to say that after North Korea's nuclear programs have been dismantled and a peace treaty has

been signed, the UNC will be replaced by a new international peacekeeping organization that is yet to be determined. Without any conclusive agreement between the governments of the United States and South Korea on the UNC's future, there is a possibility that this issue could strain the Alliance.

Base Realignment and Force Reductions

Both sides also made significant progress in USFK base relocations to Pyongtaek in 2007. Discussions about the relocation of the USFK Yongsan Garrison began in June 1990. However, because of projected relocation expenses, the base realignment project was essentially put on hold in June 1993. The United States and South Korea eventually worked out their differences and finally agreed to the relocation during a May 2003 summit meeting. The ROK government pushed for the relocation of U.S. military personnel to the Pyeongtaek area that is south of Seoul. Current plans are for the Yongsan base to be relocated beginning at the end of 2008.

Under the master agreement, the relocation of USFK bases will be carried out in two phases. First, USFK bases north of the Han River will be consolidated in the Dongducheon area. Second, the remaining USFK bases will ultimately integrate into the Pyongtaek area south of the Han River. The ROK and U.S. governments agreed in 2004 to reduce the number of U.S. troops in South Korea by 12,000 to 25,000 in a phased manner by the end of 2008. Under this agreement, the United States withdrew about 5,000 forces from South Korea in 2004, 3,000 in 2005 and 1,000 in 2006. As of 2007, the U.S. troop reductions plans continue to make progress as there were around 28,000 U.S. troops stationed in South Korea. These plans have been approved by both governments, but now these relocations and troop reductions still depend on cost sharing between the ROK and U.S. governments, base construction, and political conditions in South Korea.

In March 2007, South Korea agreed to spend about $5.2 billion on the $10 billion program to move U.S. bases to Pyongtaek, which will accommodate more than 44,000 U.S. servicemen, their families, base workers and South Korean reinforcements. However, there still appears to be disagreements about the cost sharing of the U.S. base relocations. USFK Commander General B.B. Bell testified to Congress that South Korea has agreed to pay most of the expenses for moving U.S. forces out of Seoul. Bell also said the two countries have agreed to equally split the cost of relocating the U.S. 2nd Infantry Division, deployed north of the Han River, to Pyongtaek.

The Seoul government has said that it would pay to move Yongsan Garrison out of the capital city since the Korean side had requested it. However, ROK government has reiterated that the U.S. government should foot the bill for relocating the 2nd Infantry Division in Dongducheon since this was at the request of Washington. The U.S. government's contention is that it is a 50-50 cost split for the relocation of the infantry division. Though the U.S. force restructuring in South Korea made significant progress in 2007, disagreements and miscommunication in the master relocation plan still remain between the two governments.

Transfer of Military Missions and Development of Combined Military Capabilities

Keeping pace with the development of their combined military capabilities, the two countries have adjusted to the transfers of military missions. The ROK military now control ten new military missions that used to be under U.S. military command. Most notably, guarding the JSA along the DMZ and all counter-fire operations are now controlled to the ROK military. These transfers and assumption of control reflect the ROK's mature and sophisticated military capabilities and symbolize the highly capable ROK military leadership in defending South Korea.

Recently, the ROK government was able to negotiate a transfer of armistice responsibilities from the UNC to the ROK military. Under the Armistice Maintenance Responsibilities agreement, both sides reached accord on the ROK military having control of the armistice maintenance along the Demilitarized Zone (DMZ). The ROK military is expected to take over administrative affairs, such as control of civilian entry into the DMZ and investigations of incidents along the border between North and South Korea. The UNC will continue to handle such key armistice affairs as regularly reporting to the UN Security Council.

At the same time, both South Korea and the United States are advancing their military capabilities and coordination on the Korean peninsula. The U.S. government is investing $11 billion to modernize U.S. forces and upgrade the combined force capabilities in the Korean peninsula. The U.S. plans to assist in ROK forces modernization through enhancement of intelligence capabilities, increasing stockpiles of precision munitions, and improving deployment capabilities. The ROK military, in accordance with its force improvement programs, is reinforcing its own capabilities by improving and advancing intelligence, long-range strike capabilities, and precision munitions. The modernization efforts of the two countries with ROK-U.S. interoperability advancements are intended to strengthen the defense posture on the peninsula and for the Alliance.

IV. PROSPECTS FOR PEACE

The second inter-Korean summit was held in October 2007 in Pyongyang between South Korean president Roh Moo-hyun and North Korean leader Kim Jong Il. This summit raised speculation about a historic peace declaration for the Korean peninsula. There was similar euphoria after the first North and South Korean summit in 2000. But this hope was dashed soon after the summit by a naval clash along the Northern Limit Line in the West Sea of Korea. That clash served as a reminder of how delicate the military balance is between the two Koreas.

The recent uncertainty in the Alliance was exacerbated when Roh Moo-hyun and Kim Jong Il agreed to arrange three-way or possibly four-way (the fourth being China) summit talks to replace the armistice with a permanent peace treaty in the peninsula. The disagreement between Seoul and Washington was over South Korea's claim that the official end of the Korean War can be declared at the start of the negotiations to sign a peace treaty. South Korea maintained that the declaration to end the Korean War by leaders of the three or four states would be a turning point to begin negotiating a permanent peace treaty.

Challenges to Peace

The United States, on the other hand, disagrees and argues that North Korea's nuclear issue and signing a peace treaty cannot be separated. The U.S. government's stance is that it, instead, must be done concurrently. Because signing a peace treaty would constitute a "legal and political" end to the war, the U.S. position is that North Korea must disable its nuclear facilities and verifiably dismantle its nuclear weapons program, as it agreed to do in the aid-for-denuclearization deal signed in February 2007, before any peace negotiations can begin.

The core issue that stands as a roadblock to a peace treaty is the denuclearization of North Korea, which also is the central issue discussed at the ongoing Six-Party Talks. The United States goal is for the Yongbyon reactor to be shut down and the nuclear capabilities of North Korea to be permanently dismantled. The South Koreans have temporarily put the North-South Korea engagement policy on the back burner for the sake of the six-party talks and the goal of denuclearization. The question over whether a peace treaty can be signed without denuclearization remains a sticking point between the policy views of the United States and South Korea.

Implications of Peace for the ROK-U.S. Alliance

If the South Korean armistice regime transitions into a peace regime, North Korea will no longer be a common enemy. A peace agreement signed by North Korea, South Korea, China, and the United States would be a monumental step in officially ending the Korean War. But how would it affect the ROK-U.S. Alliance? If North Korea is no longer designated an enemy and the North Korean threat is significantly reduced through a peace agreement, will there be a need for a ROK-U.S. military alliance at all? More questions will arise from a peace treaty on the Korean peninsula than answers. However, the U.S. and ROK governments are likely to welcome these challenges because it would be a positive step toward the long awaited peace and hopeful reunification of the two Koreas. Important questions remain on how the ROK and U.S. government along with Korea's powerful neighbors China, Russian, and Japan would follow up a peace treaty with a re-configuration of the military alliance between the United States and a unified Korea.

V. CONCLUSION

The Alliance has managed to resolve its issues and overcome its differences in the past, and it is likely that it will do so in the future. It is inevitable that the ROK and the U.S. government will differ in their policy goals for security in the Korean peninsula. The ROK-U.S. Alliance in 2007 endured many transformational challenges in the evolution of the alliance. Despite their differences, the Alliance remains intact and has matured by weathering difficult negotiations to reach compromises between the divergent viewpoints. The Alliance will again in the future go through evolutionary changes as it adjusts to the new realities such as changing of inter-Korean relationships, increased traffic along the DMZ, increased economic cooperation between the two Koreas, continued U.S. military transformations, and dealing with the rise of China's power in the region. If history is a good precedent of the ROK-U.S. Alliance, it appears that the two governments will adjust to these new realities and become a stronger alliance from it.

U.S.-ROK ALLIANCE: LOOKING TOWARD THE FUTURE

Ting Xu

I. INTRODUCTION

It has been years since scholars started speculating about the future of the alliance between the U.S. and the Republic of Korea (ROK). The military side of the alliance, which was its foundation, has been changing very rapidly in recent years. Since the beginning of this alliance in 1954, the Korean peninsula has been a unique place in the world. After the brutal Korean War, the two Koreas have been technically at war until the present, with the U.S. having had control of military conduct in South Korea up until 1994. This arrangement worked well for South Koreans during their weak time throughout the Cold War. However, as South Korea focused on pursuing its economic miracle, North Korea fell into a worsening international environment, and the end of the Cold War fundamentally changed the dynamics of intentional politics and U.S. security strategy. Some people started to think that South Korea should have dominant power in its own defense and security, and some people in the U.S. started calling South Koreans free riders. These changing perceptions have been reflected in the changing conditions of the alliance in recent years. In 1994, the ROK took back its military conduct power during peacetime, and the U.S. Secretary of Defense Donald Rumsfeld suggested in 2006 that the U.S. would return wartime operational command control to South Korea in 2009. Also, the two sides decided to reduce the number of American troops in the ROK by a third by 2008 and move the U.S. military base out of Seoul. It is expected that the U.S. bases in the ROK will be reduced from 41 to 23 by 2011. These changes have led some people to claim that the U.S.-ROK alliance is weakening, and that it will eventually end.

This paper puts the changes in a global context, because the bilateral context is too narrow to effectively explain them. It would also be dangerous to reach

conclusions based on isolated analysis. This paper explains the changes in the concept of security since the Cold War and attempts to relate it to the changes in the U.S.-ROK alliance. By examining the major events between the U.S. and the ROK in 2007, it may be possible to see where the alliance is heading.

II. CHANGING CONCEPTS OF GLOBAL SECURITY

When the U.S. and the ROK signed the Mutual Defense Treaty in 1953, the Cold War was just starting. The ROK faced an aggressive North Korea that had larger military forces, a more robust economy, and support from the Soviet Union. The beginning of the Korean War showed how vulnerable the South was, and the U.S. presence seemed to be essential to deter further North Korean aggression and maintain the sovereignty of the South. Meanwhile, as the leader of the free world, the U.S. felt pressure to back governments that were friendly to it and to claim South Korea as a "free capitalist country." The division of the Korean peninsula was only one example of the "two-polar society." In these circumstances, a U.S.-ROK military alliance served the two countries well. It put strong deterrence pressure on the North, dramatically improved the military quality of the South, and gave the South a relatively stable and friendly environment in which to develop its economy. For the U.S., it is one of many successful examples of its global efforts to counter communism and spread democracy. The alliance was formed at a time when direct warfare was a main security concern; its purpose was to prevent invasion from the stronger North and protect the South's capitalistic society.

Half a century later, the Cold War has ended and the technology revolution has been followed by a strong tide of globalization. In this context, traditional security concepts have gradually become irrelevant—or perhaps outdated is the better word. First, North Korea, the once-strong enemy, has become isolated and weaker in all respects. China, the closest friend of the North, has shifted its interest primarily to economic development, and the likelihood of China helping the North invade the South is essentially zero. The need for a U.S. military presence in South Korea to counter an invasion from the North has become very slim. Second, especially after the 9/11 attacks in the U.S., global terrorism has become one of the major security concerns in the world. Terrorists have a wide range of targets, and they do not have to limit their attacks to one country. For example, Al Qaeda targets not only American soldiers and military facilities but also American allies. The ROK has had the third largest number of troops in Iraq, and Al Qaeda terrorists have been kidnapping Korean citizens to blackmail the ROK government. Third, new issues have emerged that need the attention of global friends and competitors. Among these are global warming and other environmental issues; energy scarcity and alternative energies; peacekeeping and human rights protection. Fourth, the kind of national power that reflects

a country's status in the world and its ability to protect its security has been shifting from primarily hard power to a combination of hard power and soft power. Finally, new kinds of challenges from countries other than the Soviet Union and North Korea emerged in the 21st century. For example, whether it is opportunity or challenge that a rising China brings to the region, it definitely has changed the dynamics of regional politics and created a whole new set of policy concerns for countries in the region. Given these important changes in the concept and dynamics of security, it is essential for the U.S. and the ROK to adjust to the new situation. Both sides are taking steps to address the changes.

III. DEVELOPMENTS IN 2007

North Korean Nuclear Issues

In 2007, the U.S. and the ROK further coordinated their efforts to address North Korean nuclear issues. On February 17, the Six-Party Talks moved into a new stage, after years of difficult negotiations and frustrations. The U.S. and the ROK have been learning how to deal with each other's different security concerns in the region. There have been doubts on both sides concerning motive and strategic approach to the North Korean nuclear issue. In 2005 and 2006, gaps between the U.S. and the ROK were apparent. The U.S. was mostly concerned about the proliferation of North Korean nuclear materials, which would be especially detrimental to the U.S. if terrorist groups got their hands on them. In addition, Japan—a very important U.S. ally in the region—has been stymied in its dealings with North Korea over the abduction issue. The Japanese are more afraid of a direct attack by North Korea than any other country in the region, so they keep pushing for a tough approach toward the North, which has contributed to the Bush administration's hard-line diplomacy toward North Korea.

The hard-line approach began at the same time Kim Dae-jung was trying to approach the North with his Sunshine Policy. For the ROK, it is much more troublesome if the North becomes unstable. If economic sanctions are too harsh and the society collapses, millions of refugees could enter South Korea and cause all kinds of social and economic problems. If the hard-line policy goes too far, Seoul would be the first front in a war. And now that the South has advanced so far economically, South Koreans have started to feel sympathetic to citizens in the North, who share their roots but are faced with a much harder life.

For a while, the participants in the six-party talks were divided: Japan and the U.S. pushed for punitive measures, while China and South Korea were ultra cautious. Friction among the countries was apparent by the end of 2006, which caused more complaints and doubts about the alliance. The situation changed, however, in 2007.

In February 2007, during the third phase of the fifth round of the Six-Party Talks, the participants agreed to honor the September 2005 joint statement. In the initial stage, North Korea would shut down and seal its Yongbyon nuclear facilities in exchange for economic assistance. At first, there were long delays because of problems with a transfer of funds to North Korea from its Banco Delta Asia (BDA) account in Macao. But the incident did not become a major issue, in part because of close communication among the parties and their commitment to solve the problem together. Also in February, high-level communications resumed between South Korea and North Korea. In addition, the U.S. and South Korea worked together to assure the North of the U.S. efforts to resolve the BDA case, and South Korea's initial shipment of 50,000 tons of heavy fuel oil energy assistance awaited the completion of North Korea's first step. At this point, it was hard for the North to come up with excuses or complaints about the lack of commitment of all parties to the agreement.

The BDA issue was resolved in early July, with Russia agreeing to transfer the funds from Macao to North Korea. On July 14, North Korea received fuel aid from South Korea; on July 18 the International Atomic Energy Agency (IAEA) confirmed that North Korea had closed its nuclear facilities in Yongbyon. This initial breakthrough was very important for the continuation of the Six-Party Talks toward the final goal of denuclearization in the Korean peninsula. At the same time, it showed the importance of the U.S. and the ROK staying on the same page in spite of different concerns and interests.

By September, the Six-Party Talks had gone into the second phase of the sixth round, with the U.S. and South Korea putting forth parallel positive efforts to deal with North Korea. Between the first and second phases of the sixth round, South Korean President Roh Moo-hyun proposed discussing the formation of a Korean Economic Community at the October 4, 2007, summit between the North and South, and President Bush signaled that the U.S. was willing to sign a peace agreement on the peninsula under certain conditions. The last round of talks in 2007 confirmed the positive direction of the talks and the progress of the February agreement.

Compared with the approaches of U.S. and South Korea toward the North Korean nuclear issue in previous years, 2007 was a fruitful year for the maturity of the alliance. The two countries learned how to find common ground and a unified voice to approach problems despite different national concerns. This is very important for the health of the alliance, because only when two countries can reconcile the basic differences in their national interests can they face others as a team.

The Free Trade Agreement

In February 2006, South Korea and the U.S. launched talks about a free trade agreement (FTA). In April 2007, after 10 months of negotiation, the two countries agreed on a final deal. This paper will not go into the details of the FTA agreement; instead, it will focus on its implications for the alliance.

The FTA will provide enormous economic benefit for both sides. The estimated boost of $20 billion in bilateral trade will be a 25 percent jump compared with 2006, and South Korea is expected to raise its exports to the U.S. by 12 percent in the first year. Supporters estimate that the FTA will create 510,000 jobs in South Korea and raise per capita income from $20,000 to $30,000. Not only will this FTA give South Korea an opportunity to further modernize its economy, it will help both countries prepare for more reforms to compete with China and Japan.

More importantly, the FTA agreement points to a new direction for the economic pillar of the alliance. It shows that both military cooperation and economic ties are essential to the alliance. And the economic ties have transformed from a patronage relationship during the Cold War to a more equitable partnership in the 21st century. This kind of partnership enables both countries to further penetrate the global economy.

During the FTA negotiation process, numerous obstacles had to be overcome and disagreements resolved. The success of the negotiation in such a short time shows the extent of the common economic interests of the two countries. It also shows that, despite differences, cooperation is mutually beneficial on economic grounds and negotiation is a productive mechanism for discussion. Furthermore, it sets a model and provides inspiration for Doha Round talks and other trade negotiations. It is not only an achievement for the alliance but an important sign of progress for the development of the world trade system.

Transformation of the Military Alliance

The two countries continued to adjust their military cooperation in 2007. First, communication between senior officials in the U.S. and the ROK deepened in 2007. The Departments of Defense and State, as well as the ROK Ministries of National Defense and Foreign Affairs and Trade, conducted multiple dialogues on issues related to alliance modernization and the realignment of U.S. forces in Korea. The Security Policy Initiative between the U.S. and the ROK and the subministerial session of the Strategic Consultations for Allied Partnership (SCAP) are efficacious mechanisms for bilateral communication on security-related subjects.

Secretary of Defense Robert Gates and Defense Minister Kim Jang-soo reached an agreement in February 2007 to transfer wartime operational control (OPCON) to the ROK on April 17, 2012. This is a major breakthrough in the negotiation of security alliance adjustment. Once wartime OPCON has been transferred, U.S. and United Nations (UN) forces will play a supporting role and the ROK forces will have their own commander. To prepare for this transformation, the ROK military has been pursuing a Five-Year Mid-term Defense Plan (2007–2011) that aims to acquire improved reconnaissance capability, command-control-communications and precision strike capability.

U.S. forces realignment moved into the implementation stage in 2007. Construction for the Pyongtaek base began late in 2007. The ROK agreed to cover the majority of the restationing costs, including new facility construction. Thus, significant resources have been committed by the ROK to acquire land for the relocation of the Yongsan Garrison in Seoul and the 2nd Infantry Division north of Seoul under the Land Partnership Plan. According to the plan, U.S. forces would return 59 camps and all their associated facilities to the ROK and consolidate into two main hubs south of Seoul.

The two sides continued to work on an agreement for sharing the costs of the U.S. military presence in Korea. In 2007, South Korea took on 41 percent of the nonpersonnel stationing cost, a 3 percent increase over 2006. This is one step toward implementing the Special Measures Agreement signed in 2006 for cost sharing in 2007 and 2008. The U.S. continues to push for a 50-50 ratio.

All these adjustments move the ROK into the front lines of self-defense, and the ROK has been expanding its defense capabilities. The defense budget in 2007 went up to 24.49 trillion won, a 9.8 percent increase from 2006. The budget for 2008 will rise to 26.7 trillion won. The Ministry of National Defense has a long-term reform plan (Defense Reform 2020) that will increase the defense budget annually until 2020. These increases have been essential for ROK government initiatives to improve military preparedness. Forty-six percent of the 3.7 million South Korean forces (mostly ground troops) are expected to be cut in the next 13 years, while significant improvements are expected in naval and air forces. The budget increases are largely earmarked for purchasing high-tech weaponry and improving the level of training, which will improve the readiness and strength of South Korean forces.

Even after a third extension, 1,200 South Korean forces continued to play an important role in Iraq in 2007. Despite the criticism and controversy it faces from the South Korean public, the South Korean government decided to remain in Iraq in 2008 and contribute to the U.S. global strategy against terrorism. Its peacekeeping soldiers in Lebanon show its steadfast commitment to UN operations worldwide.

All the progress in 2007 represents a stable adjustment of the military alliance. The global situation has been changing rapidly since the end of the Cold War, and the strategic and security concerns of the U.S.-ROK alliance have changed accordingly. The Soviet Union no longer exists as the biggest threat to the U.S.; nor does North Korea represent the largest and most direct threat to South Korea. Crucial security problems such as the North Korean nuclear issue are being tackled in a multilateral venue, and bilateral military alliances must adjust to the changing environment. With its strong economy and impressive cultural, political and social achievements, South Korea naturally seeks to regain control of its own military. The strong U.S. military command made sense when South Korea was weak and vulnerable to a North Korean attack; however, to eventually become a genuinely self-sufficient nation, it should have control over its own military. Now is a good time to make this important adjustment, because South Korea is strong enough to assume greater responsibility and the global strategic concerns facing the U.S. make it more important for South Korea to take a leading role in its own defense. The agreement during the SCAP meetings in 2006 underscores the strategic change in the alliance members' priorities: "The Republic of Korea supports the strategic flexibility of the United States forces in Korea, and the United States respects the Republic of Korea's position that it shall not be involved in a regional conflict against the Korean people's will."

Regarding the relocation of U.S. forces to positions south of Seoul, some people see it as an unfriendly gesture from South Korea and the beginning of a U.S. pullout. But it is superficial to think this way. First, the area in downtown Seoul that U.S. forces have occupied is very precious urban land. No one would welcome a large military presence in the middle of Manhattan. And moving the 2nd Infantry Division farther away from the DMZ does not mean that the U.S. is less committed to the defense of South Korea. One clear shift in the U.S. global defense strategy is to improve the flexibility and mobility of its forces. A significant amount of energy has gone into building a strong U.S. naval and air presence on the Korean peninsula. Concentrating U.S. forces in the south helps further that goal and fits into the strategic shift of U.S. forces playing a supporting role in South Korea's self-defense. The ROK has more than a million ground forces concentrated on its northern border.

There are also some practical reasons for this move. More than 60 percent of the U.S. troops in Korea are married, and the U.S. commander is trying to extend the tour of duty from one year to three years so their families can accompany them. Realignment offers a chance to upgrade facilities and provide more space for the soldiers and their families. With longer tours and the presence of their families, the U.S. troops would enjoy a higher quality of life and more easily integrate into the local Korean society.

The ROK's participation in the U.S. global war on terrorism reflects a more active period of the U.S.-ROK alliance. The military relationship of the alliance has changed from patronage to partnership, with South Korea as an important supporter of the U.S.'s global strategy. The shift has been painstaking and has involved numerous obstacles, but the continuing strength of the alliance is clear.

Diplomatic Improvements

A shared identity as democracies has become important for the stability of the U.S.-ROK alliance. This identity has been steadily improving through the exchange of tourists, students, missionaries and cultural programs on all social levels. In 2006, the U.S. Embassy in Seoul processed more than 450,000 visas; in 2007, the number exceeded a million. In 2007, a U.S. House-Senate conference committee started addressing the issue of a visa waiver program for Koreans. This kind of improvement at the diplomatic level can create optimal conditions for cultural exchange, thus indirectly providing support for the alliance. Finally, another important development in improving the alliance was the first defense-foreign ministers meeting, the so-called 2+2 meeting, held in 2007.

IV. CHALLENGES AHEAD

Of course, the positive developments do not mean that the alliance will not face challenges in the future. Old and new problems still present numerous challenges. One problem is the Korean peninsula nuclear issue. Despite the optimism and efforts to date, at the end of 2007 North Korea had failed to complete its declaration concerning its nuclear program. Disagreement about the acceptable level of declaration exists between North Korea and the U.S. Washington's understanding is that North Korea would acknowledge having acquired 19 centrifuges and then turn them over in a display of good faith. U.S. intelligence has downgraded the North's assessed nuclear program to a uranium enrichment program (UEP), but the North has not yet acknowledged having any kind of UEP. On the other hand, North Korea claims it has met the terms of the February agreement by handing the U.S. a list of its nuclear program components in November, and that the delay of aid from the other participants in the Six-Party Talks shows a lack of commitment to the agreement. The road to North Korea's denuclearization will not be smooth and the timetable might have to be adjusted; and any delays in the process will encourage skepticism and suspicion on all sides, jeopardizing the trust built to date.

Domestic politics will continue to play a big role in the alliance's future. The presence of South Korean troops in Iraq and Afghanistan is a controversial topic in South Korea. In May 2007, a group of 23 South Korean church workers was taken hostage in Afghanistan. Most were freed, but two were killed. The hostage

crisis precipitated another round of demands to withdraw Korean troops from Afghanistan, which led the South Korean government to agree to withdraw its troops from Afghanistan to get its hostages back. This kind of incident could happen again and could change domestic politics, potentially hindering the alliance's action plan if the situation is not handled well.

In addition, some American soldiers in South Korea have been convicted of crimes such as rape, and this could happen again in the future. Discipline among U.S. forces in Korea is a very important feature of a stable military relationship between the two countries. Both sides face heavy domestic pressure to cut the costs of the U.S. military presence. The South Koreans have been very slow to accept the 50-50 cost-sharing mechanism proposed by the Americans. This problem must be solved to guarantee a healthy future for the alliance.

To further complicate the picture, pollution on U.S. bases has become a source of discontent among nongovernmental organizations (NGOs) and citizens alike. The U.S. government and Korean NGOs have different understandings of acceptable levels of pollution. The U.S. wants to stick with the original agreement, in which both sides clean up base pollution; Korean NGOs think these agreements did not speak for the Korean people and that the Korean government is not doing enough to push the U.S. to accept its responsibilities in this area. These NGOs are active not only in Korea but also in the U.S. U.S. officials might consider the problem purely a legal one, but these disputes can get very emotional and can have damaging effects on the long-term prospects of the U.S.-ROK military alliance.

Finally, with respect to the military alliance, as the U.S. global defense strategy changes to emphasize flexibility and mobility, clear communication between the U.S. and the ROK is essential. For the alliance to continue in a healthy direction, mutual understanding of the American strategy and the Korean people's wishes addressed in the 2006 SCAP meetings must be further discussed and fully implemented. A Joint Vision Study (discussions about a strategic vision) was held, but it did not produce a consensus on future threats. This may not seem like a big problem, but when conflict comes in the future, the alliance could face serious challenges for which it is not fully prepared.

On the FTA agreement, even though the negotiation is over, it is still subject to the approval of both the Korean Parliament and the U.S. Congress. Especially in the U.S., the Democratic-controlled Congress has already put enormous negative pressure on the passing of several FTA agreements, including the KORUS FTA. With the upcoming U.S. presidential election, it is likely that the Democratic Party will try to stick to its traditional position, which is much more

protective of domestic industries and much less supportive of FTAs. In fact, the front-running Democratic Party candidates have all voiced skepticism about the KORUS FTA, and some people in the U.S. are asking for a renegotiation. In Korea, where two-thirds of the population was pro-FTA in April, more than 20,000 protesters rallied in Seoul in November of 2007 to show their dissatisfaction with the FTA. The slow pace of approval in the U.S. makes Koreans doubt the Americans' commitment and risks destroying the momentum in Korea for supporting the FTA. Final passage has been dragged into 2008, and the chance that the agreement will be blocked is not getting any slimmer. The FTA is the first important official attempt to expand the nature of the alliance; its failure would be extremely costly and detrimental.

V. CONCLUSION

The U.S.-ROK alliance is not, as some have feared, collapsing; neither is it facing serious problems. It is simply adjusting to a changed world situation and moving from a patronage relationship to a partnership. Given the greatly improved condition of South Korea and the changing global security situation since the end of the Cold War, partnership is the direction toward which a healthy, lasting alliance should move. Over half a century of cooperation has given the alliance a solid foundation; if the two countries can overcome the challenges, they will move toward a stronger alliance that not only contributes to the security of the ROK and the U.S. but may serve as a powerful supporter of global stability.

In 2008, we will see more interesting developments regarding the U.S.-ROK alliance. With President Lee Myung-bak in office, South Korea will likely be friendlier to the U.S. politically but more aggressive on economic issues. If Lee brings up issues such as human rights in dealing with North Korea, as he promised during his campaign, the relationship with the North will be further complicated, introducing more challenges into resolving the peninsula's nuclear problem.

Meanwhile, if the U.S. elects a Democratic president, supported by a Democrat-controlled Congress, the country's global policy might shift toward reduced overseas military deployment and a renewed focus on environmental protection and human rights. The future of the U.S.-ROK alliance depends on its flexibility in cooperating and adjusting to all these challenges and changes.

Chronology

2/13/07	Third session of the third round of the Six-Party Talks; initial actions to implement the forum's joint statement.
3/05/07	Six-Party Talks; meeting in New York of U.S.-DPRK bilateral working group.
4/02/07	U.S. and Korea conclude FTA agreement.
4/08/07	U.S. delegation to North Korea.
4/13/07	DPRK reaffirms commitment to implement the February 13 agreement and willingness to move when the BDA resolution "is proved to be a reality."
5/01/07	Joint statement of the U.S.-Japan Security Consultative Committee.
6/11/07	Assistant Secretary of State Christopher Hill meets with ROK Vice Foreign Minister Chun Young-woo.
6/14/07	North Korea receives money that had been frozen at BDA.
7/14/07	North Korea shuts down Yongbyon nuclear facilities.
7/26/07	U.S. responds to flooding in North Korea.
8/28/07	Inaugural inter-Korea summit.
10/03/07	Six-Party Talks agreement on "second-phase actions for the implementation of the joint statement."
10/11/07	U.S.-ROK strategic consultations for allied partnership, subministerial session.
11/16/07	President George W. Bush welcomes Japanese Prime Minister Yasuo Fukuda to Washington, D.C.
11/27/07	Defense ministers of North and South Korea begin talks.
12/11/07	The New York Philharmonic agrees to visit North Korea.
12/11/07	Beginning of a cross-border rail link between the two Koreas.
12/30/07	North Korea fails to declare all components of its uranium enrichment program by the year's end.

KOREA-U.S. FTA FACES UNCERTAIN FUTURE

Andrew Anderson-Sprecher

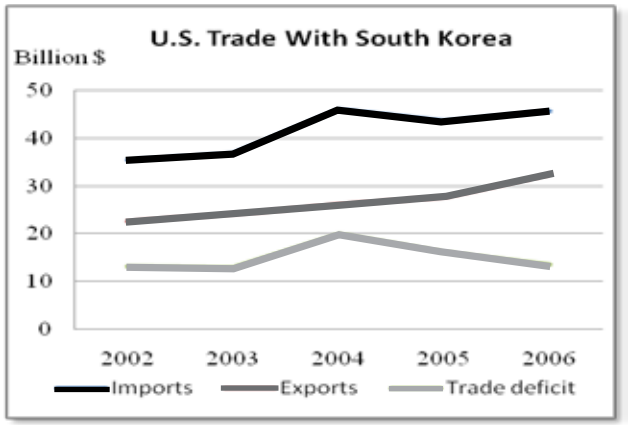
I. INTRODUCTION

The ambitious Korea-United States Free Trade Agreement (KORUS FTA) faced a tumultuous year in 2007. On June 1, the U.S. and Korea finalized their negotiations. Following this initial success, the agreement has been swept up in the storm of election year politics in both countries, throwing its future in doubt. If passed, however, the KORUS FTA will become the largest U.S. FTA after the North American Free Trade Agreement (NAFTA).

Presidents George W. Bush and Roh Moo-hyun remained strongly committed to the KORUS FTA in 2007, seeing important strategic and economic imperatives for an FTA. The Bush administration hopes that the FTA will boost U.S. exports and generate strategic dividends at a time when the U.S. is struggling to deal with a nuclear North Korea and a rising China. The Roh administration saw the FTA as critical to securing Korea's position in a globalizing world economy and strengthening its alliance with the U.S.

The U.S. International Trade Commission (ITC) and the Korea Institute for International Economic Policy (KIEP) have predicted that the KORUS FTA will benefit both the U.S. and the South Korean economies. South Korea is the seventh largest trading partner of the U.S. and an important market for U.S. exports. Last year, U.S. exports to Korea grew by 17 percent, outpacing import growth by more than 10 percent and reducing the bilateral trade deficit to its lowest level since 2003 (see figure 1). This growth came despite the fact that currently only 13 percent of Korea's tariff lines are duty free, compared with 38 percent in the U.S. The KORUS FTA, by removing barriers to trade, is projected to boost U.S. exports and narrow the bilateral trade deficit.

Figure 1: U.S. Trade with Korea (2002–2006)



Source: USITC Trade Dataweb

The growing momentum in 2007 for FTAs in Asia has added greater urgency to the KORUS FTA. In that year, South Korea implemented an FTA with the Association of Southeast Asian Nations (ASEAN) countries, except for Thailand, and it started FTA talks with the European Union (EU) on May 7. South Korea also began a feasibility study with China on a joint FTA. KIEP has estimated that a Korea-China FTA would be more economically significant than an FTA with either the U.S. or the EU. Other countries engaged in FTA negotiations with South Korea include Australia, India and Japan.

South Korea's Minister of Economic Affairs and Trade, Choi Seok-young, warned U.S. officials in October 2007 that the U.S. risks losing market share if the KORUS FTA is not passed. The U.S. already lost its position as South Korea's top trading partner to China in 2003. U.S. Embassy officials have been upbeat, however, noting that Korea's new FTAs will provide alternative markets for Korean exports besides the U.S.

For South Korea, the incentives for an FTA are more complex. South Korean leaders worry that the U.S. has become distracted by commitments elsewhere, and they see the KORUS FTA as a way to strengthen the U.S.-Korea alliance. The South Korean trade minister remarked that he hopes the FTA will bring Korea's bilateral alliance with the U.S. to "the next level."

South Korea is worried about its declining market share in the U.S., despite continued growth in absolute terms. Korea's currency continued to appreciate in 2007, staying well below 950 won to the dollar. This has made Korean exports

less competitive and even small tariff rates painful. Trade accounts for 70 percent of Korea's GDP, and South Korean leaders see guaranteeing export markets as an economic imperative. South Korean officials also see an FTA with the U.S. as improving their bargaining position in FTA talks with other countries. Current FTA talks with the EU suggest this strategy may be working.

Just as significant from an economic perspective is the gain for Korean consumers. High agricultural tariffs in South Korea have made Korean agricultural products some of the most expensive in the world. The price of beef in South Korea has at times surpassed even Japan's famously high prices. The U.S. is South Korea's top foreign supplier of agricultural products, and the KORUS FTA is predicted to decrease the prices paid by Korean consumers.

II. NEGOTIATIONS AND THE CHANGING POLITICAL LANDSCAPE

The KORUS FTA negotiations got off to a rocky start in 2007. Seoul was rocked by anti-FTA protests in January, requiring the deployment of 15,000 riot police. Nine South Korean progressive lawmakers announced a five-day hunger strike, calling for a halt to negotiations. Farmers, the film industry and labor unions denounced negotiations, opposing relaxation of quotas and other barriers to trade.

President Roh Moo-hyun, a politician who once boasted proudly of his lack of connections to the U.S., has been the driving force behind ratification of the KORUS FTA in Korea. His support for the FTA has caused deep divisions within the traditionally progressive Uri Party, of which he was a member. In February 2007, a group of legislators left the Uri Party, and another group left in May to form their own party. Internal politics caused the Uri Party to break apart and re-form as the United New Democratic Party (UNDP). UNDP national committeewoman Suh Hae Suk admitted in November that the FTA has been a "hard issue within our party."

President Roh has managed to boost support for the FTA despite low approval ratings. The percentage of South Koreans who express support for the KORUS FTA in public opinion polls went from around 30 percent in mid-2006 to nearly 60 percent a year later. The president's approval rating shot up to 32 percent—a 10-point jump—when the KORUS FTA agreement was reached.

In Washington, D.C., the Democratic Party used its new majority to refocus the debate over U.S. trade policy away from President Bush's emphasis on free trade and toward labor and environmental concerns. On March 27, 2007, Charles Rangel (D-NY) and Sander Levin (D-MI) announced the Democratic Party's new trade strategy, titled "A New Trade Policy for America." The policy called on the

United States Trade Representative (USTR) to insist on the enforcement of "basic international labor standards," equal access for U.S. investors, and environmental protections in any FTA agreement. The Democrat-controlled Congress also expressed opposition to renewing Trade Promotion Authority (TPA).

With his trade policy under attack, President Bush brought Secretary of the Treasury Hank Paulson in to negotiate a compromise with Democratic leaders. On May 10, the White House and Democratic leaders announced a deal. The White House promised to incorporate United Nations International Labor Organization (ILO) principles and environmental protection provisions in FTAs; in exchange, Democrats agreed to support the Panama and Peru FTAs.

Washington's changing position on the FTA was not welcomed in Seoul. Floor leaders from the top six Korean political parties announced in a May 30 debate that they would oppose any renegotiation of the KORUS FTA. Chang Young-dal, floor leader of the ruling Uri Party, said that "unless the renegotiation is about changing expressions or phrases on the agreement, we will not accept the renegotiation."

The Bush administration remained committed to the May 10 agreement with the Democrats despite Korean opposition. U.S. Trade Representative Susan Schwab explained that given the choice "between bipartisan cooperation or letting the U.S. trade agenda die—the administration chose the path of bipartisan cooperation." U.S. negotiators tried to resolve the impasse by claiming that they were "not seeking a renegotiation," only to "clarify and add" provisions required by the May 10 agreement.

The negotiations received another setback the next week. The South Korean agriculture ministry announced that it had discovered rib bones in shipments of U.S. beef to Korea by Cargill Inc. Beef bones from the U.S. have been designated as a "specified risk material" and banned in Korea because of concerns about mad cow disease. The incident sparked angry editorials in South Korean newspapers, and Korean officials stepped up controls on beef imports. U.S. officials insisted that U.S. beef was safe, but they promised to try to prevent mistaken shipments in the future.

By mid-2007, presidential campaigns were in full swing in the U.S. and South Korea, and the KORUS FTA became embroiled in presidential politics. Hillary Clinton spoke out against the KORUS FTA on June 19 in Detroit while talking to the AFL-CIO, saying "the agreement is inherently unfair" and would hurt the U.S. auto industry. Her comments followed similar criticism by John Edwards earlier in the year.

Large-scale protests continued in South Korea throughout this period, with the Korea Advanced Farmers Federation, the Korean Confederation of Trade Unions, and the Korean Metal Workers' Union (KMWU) all organizing large anti-FTA protests, including strikes at Hyundai and Kia on June 28. The Roh Moo-hyun administration labeled the strikes illegal, and police issued arrest warrants for KMWU strike leaders.

That same day President Roh announced an aid package to South Korean farmers worth $140 billion to mitigate the economic effects of the KORUS FTA and reduce hostility to its passage. The Korean pharmaceutical industry and other affected industries also received economic support worth billions to compensate them for losses resulting from the FTA. FTA skeptics, however, question how much of this aid would actually reach farmers and other affected groups.

At that point, time was running out. Democratic congressional leaders showed no intention of renewing TPA, thereby making the TPA expiration date of July 1 the effective deadline for Presidents Bush and Roh to finalize and sign an agreement. Prime Minister Han Duck-soo announced on June 29 that South Korea would accept U.S. demands for additional labor and environmental provisions. On June 30, mere hours before the TPA expired, the two presidents signed the KORUS FTA.

III. THE KORUS FTA

The KORUS FTA is notable for its broad scope, including both tariff and domestic policy changes. The U.S. achieved its major negotiating goals in agriculture, automotive trade, investment rights, service sector trade, intellectual property rights, labor and the environment. South Korea achieved some of its top negotiating goals, notably the exclusion of rice and the gradual removal of the U.S. tariff on light trucks, but it was forced to give up other goals. Among those, Korea failed to get the Kaesong industrial complex included in the agreement, to address U.S. trade remedy practices, or to increase visa access to the U.S.

The largest gains for U.S. exporters in the agreement are in agricultural products, which currently face an average applied tariff rate of 52 percent in South Korea. Under the KORUS FTA, more than half of all agricultural products will be able to enter South Korea duty free, with further reductions over the next 15 years. Rice was too politically sensitive in South Korea and was excluded from the final agreement. Tariffs on U.S. beef will be phased out over 15 years. The agreement does not resolve the dispute over import restrictions on U.S. bone-in beef, although negotiations are ongoing outside the FTA framework to resolve this issue.

Automotive trade, a top priority for U.S. and Korean negotiators, was also liberalized. Under the agreement, South Korea will remove its 8 percent tariff on cars and trucks, while the U.S. will remove its 2.5 percent tariff on passenger vehicles. Over the next 10 years, the U.S. will eliminate its 25 percent tariff on light trucks. The KORUS FTA also sought to address U.S. automakers' concerns about nontariff barriers (NTBs) that have restricted access to the Korean auto market. A special dispute settlement process was established to review complaints by automotive companies, with U.S. tariffs to be re-imposed if South Korea fails to adhere to the agreement.

The KORUS FTA eliminates tariffs on 95 percent of consumer and industrial products within three years, with most of the rest removed within 10 years. Other benefits of the KORUS FTA include liberalizing Korea's service sector, an area of traditional U.S. comparative advantage. Liberalized sectors include financial, legal, insurance, telecommunications and shipping services. The agreement also relaxes quotas on foreign content in film and broadcasting, and it bars duties on electronic commerce. The FTA requires the adoption of a "negative list" approach to services, which will allow U.S. participation in all service sectors except those specifically exempted.

The agreement Bush and Roh signed on June 30 sought to accommodate Democrats' concerns over labor rights, environmental protection and investor rights. The agreement includes ILO standards and Multilateral Environmental Agreements. U.S. investors will receive national treatment in most sectors, including the right to fully purchase telecommunication companies. Despite South Korean pressure, the North Korean Kaesong industrial park and other outward processing zones (OPZs) are not included in the KORUS FTA. A panel was created to discuss future inclusion of OPZs, but any change would require ratification by the U.S. Congress.

The KORUS FTA also requires changes to domestic regulations in South Korea. It creates an investor-state dispute settlement mechanism under which U.S. investors in Korea can appeal for international arbitration. The June 30 agreement requires the Korean government to change its health care system to pay for more expensive brand-name pharmaceuticals and restricts the use of data from brand-name drugs to approve new generics. South Korea also agreed to reduce and streamline engine-displacement-based automotive taxes and to increase the length of patents to 70 years. These regulatory changes are highly controversial in South Korea and face opposition from its strong industrial unions.

IV. ECONOMIC IMPACT OF THE KORUS FTA

The KORUS FTA will make 82 percent of U.S. and 80 percent of South Korean tariff lines duty free immediately, with close to 99 percent of tariff lines becoming duty free within 10 years. In September 2007, the ITC issued a report analyzing the economic impact of the KORUS FTA. Tariff cuts alone are predicted to raise U.S. GDP by slightly more than $10 billion, with merchandise exports to South Korea predicted to increase by $9.7–10.9 billion. Imports are also predicted to increase, but by several billion less.

Trade in agricultural goods is expected to see the largest growth in percentage terms, with exports of meat, grains, oilseeds (such as soybeans), fruits and vegetables all expected to see substantial growth. If the issue of U.S. beef safety is resolved, the KORUS FTA could increase employment in the U.S. meat sector by up to 2 percent.

U.S. textile and auto imports from South Korea are predicted to increase as a result of the FTA, but less than 1 percent of U.S. workers in these sectors are predicted to lose their jobs as a result of the agreement. In addition, as much as 85 percent of the increase in textile imports, 91 percent of apparel imports, and 57 percent of the increase in passenger vehicle imports are predicted to be diverted from other import sources.

The high level of expected trade diversion has two important ramifications: (1) it reduces the likely number of jobs lost due to the FTA in import competing sectors, as total imports will increase by less than bilateral imports, and (2) it reduces the overall economic gain from the agreement. If the drop in tariff revenue is greater than the gains from lowered prices, the FTA could potentially hurt the U.S. economy. The high level of predicted trade diversion raises questions about the economic justification for the FTA.

ITC projections should also be taken with a grain of salt. The ITC uses the Global Trade Analysis Project (GTAP) CGE model to calculate the effect of reducing or eliminating tariffs and tariff rate quotas. Pravin Krishna, a professor of international economics at Johns Hopkins University's School of Advanced International Studies, has expressed doubt about the accuracy of such models, noting that CGE models are only as good (or bad) as the elasticities they use. In addition, the GTAP model does not capture gains resulting from regulatory improvements and the reduction of NTBs, key parts of the FTA. The model also fails to capture gains from increased foreign direct investment. The actual benefits may therefore be significantly larger (or smaller) than ITC estimates.

V. BATTLE LINES DRAWN

The June 30 agreement was met with a mixed reaction on both sides of the Pacific. South Korean citizens complained that the negotiation process had been carried out secretly with limited public input and that the final outcome was unbalanced. People First Party floor leader Chung Jin-suk spoke for many South Koreans when he said, "We cannot avoid the FTA in the era of globalization," but it is "naive to think the Korea-U.S. deal was made on equal terms." There was similar antipathy in the U.S.: agricultural and consumer-electronic organizations generally supported the FTA, while auto companies and unions expressed concern.

The mixed reaction in both countries is due to the uneven impact the KORUS FTA will have by sector. Trade inherently involves winners and losers, with labor and capital leaving less competitive sectors for those where countries have comparative advantages. In July 2007, *Korea Times* finance editor Cho Jae-hyon wrote, "Every deal cannot completely satisfy both sides. Just like the Korean farming and film industries, some have to bleed in the course toward free trade." Few industries have shown eagerness to offer their blood for the sake of the greater good, and business and labor coalitions have lined up on both sides of the debate in South Korea and the U.S. in preparation for a fight over ratification.

FTA supporters in the U.S. include farmers, consumer-electronics companies, media companies and service industries. The ITC received written submissions from a wide range of industry groups expressing strong support for the FTA; among them were the Aerospace Industries Association of America, the Coalition of Services Industries, the Entertainment Industry Coalition, the National Potato Council, Pharmaceutical Research and Manufacturers of America, the Semiconductor Industry Association, and the Telecommunications Industry Association.

Other industry groups were generally supportive but not as enthusiastic. The National Association of Manufacturers said that while the KORUS FTA is not perfect, it will benefit the majority of manufacturers. The National Cattlemen's Beef Association said it strongly supports the KORUS FTA, but only if beef trade is first normalized. U.S. opponents of the agreement are concentrated in labor and automotive companies. Organizations writing in opposition to the FTA included Ford Motor Company, the United Auto Workers, and the National Council of Textile Organizations.

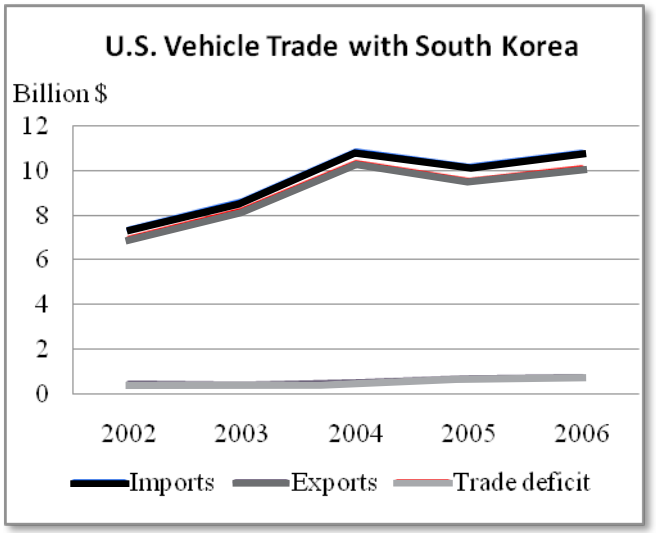
The KORUS FTA enjoys wide support among Korean manufacturers and automotive giants such as Hyundai. The general consensus is that while the FTA presents new challenges, it is essential to maintaining Korean companies'

international competitiveness. The largest opponents in South Korea are farmers, labor unions, and film and television show producers.

Autos

U.S. automotive company resistance to the KORUS FTA stems largely from concerns over NTBs. A range of tax and regulatory policies has limited the number of U.S. autos sold in South Korea. In 2006, the U.S. imported more than 100 times as many cars from South Korea as it sold there, with automotive trade accounting for 75 percent of the bilateral trade deficit (see figure 2). Senator Sander Levin (D-MI) described South Korea's NTBs as an "economic iron curtain against all imported autos" in a written submission to the ITC.

Figure 2: U.S. Vehicle Trade with South Korea



Source: ITC Trade Dataweb; U.S.-South Korea trade statistics in HS 87

The KORUS FTA attempts to address the NTBs at issue and creates a dispute panel to review complaints by U.S. automakers. Auto companies, labor leaders and Democrats in the U.S. House of Representatives, however, have questions about whether the agreed-upon framework is enforceable and goes far enough. Concerns over NTBs have combined with general anxiety over the competitiveness of the U.S. automotive industry. Rep. Brad Sherman (D-CA) described the KORUS FTA in apocalyptic terms, comparing it to the destruction of Detroit in the War of 1812.

House Democrats have proposed renegotiating the KORUS FTA to shift the burden of proof to Korea in NTB complaints. Minister Choi Seok-young responded by saying that South Korea would not renegotiate the agreement and that the reverse burden of proof suggestion was without precedent and violates the General Agreement on Tariffs and Trade (also known as GATT). U.S. Embassy officials also said they had no intention of renegotiating the agreement.

Korean automakers have supported the agreement, expecting increases in sales in the U.S. to outweigh greater competition at home. Hyundai has already begun preparing for changes in production lines in anticipation of the FTA's passage. Even in the U.S. auto industry, opposition is not universal. GM, which purchased the automotive division of Daewoo in 2002, has remained conspicuously silent on the KORUS FTA.

Agriculture

The largest quota and tariff reductions under the proposed KORUS FTA are in agriculture on the Korean side. This has sparked vocal opposition from Korean farmers. The chairman of the Korean National Agricultural Cooperative Federation (NACF) said that the KORUS FTA and other proposed trade agreements "will deal a heavy blow to the agricultural industry, and put our agriculture and farmers in an even more perilous position."

A range of factors converge in South Korea to make agriculture particularly volatile. Most farms in Korea are small, with an average of 1.43 hectares of farmland per agricultural household in 2005. Recent generations of Koreans have been reluctant to enter agriculture, and over 40% of farm households are now over 60. As a result, many Korean farmers are both unable to compete and ill prepared to change professions.

Rice is the most sensitive agricultural sector, accounting for 30 percent or more of agricultural income in South Korea. Farming groups portray rice production as the foundation of traditional rural culture, bringing cultural nationalism into the mix. Although U.S. negotiators gave in to South Korea's insistence that trade in rice be excluded, progress is being made in multilateral talks. Korea increased the quota allotment to U.S. rice exporters to 50,000 tons during the Uruguay round, and Korea's rice quota is set to double by 2014.

There is broad support for the FTA among farmers in the U.S., with almost all the written submissions to the ITC by agricultural lobbying groups expressing strong support. The National Potato Council wrote that it "strongly supports" the FTA, noting that South Korea is the "fifth-largest foreign market for U.S.

frozen french fry sales." The National Pork Producers Council said it expects the FTA to increase pork exports by close to $825 million. U.S. rice growers have opposed the KORUS FTA, fearing that the exclusion of rice will set a precedent for future agreements.

Beef

The issue of beef exports to South Korea is particularly thorny, having become embroiled in politics and safety concerns. In 2003, South Korea banned imports of U.S. beef after a case of mad cow disease was discovered in the U.S., although some imports of deboned skeletal muscle meat were later allowed. In May 2007, the World Organization for Animal Health (OIE) upgraded the U.S. to "controlled risk" status for mad cow disease, meaning that bone-in beef could be exported under OIE protocols. Korean regulators have refused to authorize the importation of U.S. bone-in beef despite U.S. pressure on South Korea to follow OIE protocols.

The threat of liberalized beef trade has already shaken Korea's heavily protected beef market. The NACF reported in May 2007 that the price of certain cut types of domestic beef had declined by as much as 27 percent since January because of fears of increased imports. Anti-FTA groups protested stores carrying U.S. beef when it was again allowed into Korea in July 2007, and some stores were pelted with cow feces.

Senate Finance Committee chairman Max Baucus (D-MT) has warned that he will block the FTA from being considered by the Senate until the beef issue is resolved. In October, South Korea's Finance Minister, Kwon O-kyu, met with senators and promised that the beef issue would be resolved "within the most reasonable time frame." That same month, South Korean Agriculture Minister Im Sang-gyu told Korean lawmakers that he would not back down on beef imports under U.S. pressure over the FTA and that the resumption of beef imports would be decided on the basis of safety considerations.

U.S. and Korean negotiators met in October 2007 to try to resolve the impasse over beef. Thousands of South Korean cattle farmers surrounded the Korean legislature during the negotiations, opposing the admittance of U.S. beef into Korea. No agreement has yet been reached, although high-level and technical negotiations are continuing. The KORUS FTA has little chance of passage in the U.S. Senate until beef trade is normalized.

Outward Processing Zones

South Korean negotiators lobbied heavily to include in the FTA goods produced in OPZs located in North Korea. South Korean exporters feel squeezed by low-cost goods from China and high-end goods from Japan. Some South Korean companies have reacted to this pressure by looking into moving production to North Korea, where labor costs are even lower than in China. High logistics costs have made such ventures relatively unprofitable and South Korean officials had hoped to help these firms by including OPZs in the KORUS FTA.

This proposal quickly ran afoul of U.S. legislators on both sides of the aisle. Congress, having imposed economic sanctions on North Korea, was not about to include it in an FTA. Because of U.S. opposition, the final agreement does not include the Kaesong Industrial Complex or any other OPZ. The KORUS FTA does allow a committee to be formed to discuss the future inclusion of OPZs in the agreement. The Korean Ministry of Foreign Affairs and Trade continues to express the hope that OPZs will eventually be included, but any addition of OPZs will require separate U.S. congressional approval, which makes it highly unlikely.

Labor

Labor unions in the U.S. and South Korea are the most vocal opponents of the KORUS FTA. Union leaders have expressed concern that the FTA will weaken union bargaining power and result in the loss of union jobs, and labor unions in South Korea and the U.S. have participated in joint protests and issued joint statements against the KORUS FTA.

Unions in the U.S. are most concerned about the effect of the agreement on the auto sector. The AFL-CIO asked the USTR to delay reducing tariffs on Korean passenger vehicles until automotive import penetration reaches a level similar to that seen in Organization for Economic Cooperation and Development member states. This proposal was dismissed by the USTR as "managed trade." Other concerns of U.S. labor include labor rights in South Korea and the possible inclusion of OPZs in the FTA.

Labor opposition to the KORUS FTA is even more intense in South Korea: labor-organized protests have attracted thousands and have involved clashes with the police. Korean Confederation of Trade international director Lee Chang-geun and Korean Metal Workers Union international director Chong Hye-won emphasized that their unions were opposed to FTAs in general and that specific aspects of the KORUS FTA were of particular concern. High among them were changes to domestic Korean laws mandated by the KORUS FTA, which they said would make healthcare less affordable for their members.

VI. CHANCES FOR PASSAGE

The impending elections in the U.S. and Korea, and the divisions outlined above have thrown the approval of the KORUS FTA into doubt. Top Democratic Party presidential candidates have expressed little interest in following President Bush's push for increased trade, with Hillary Clinton, Barak Obama, and John Edwards all speaking out against the KORUS FTA in 2007. The mood is little better in Congress, with some calling for the KORUS FTA to be renegotiated. Timothy Reif, staff director of the House Ways and Means Trade Subcommittee, said in October 2007 that the agreement was a "missed opportunity" and that it has little chance of passing in its present form.

U.S. business coalitions remain determined to press for the approval of the FTA. The president of the U.S.-Korea Business Council, Myron Brilliant, said his organization is launching a national effort to increase support for the agreement, and he remains optimistic that it will be voted on and approved in spring 2008. The South Korean Embassy in Washington has started an extensive publicity and lobbying campaign of its own, and has spent much of 2007 lobbying Congress and traveling around the U.S. to rally support for the FTA.

The KORUS FTA is the last in a line of four FTA agreements to be ratified. The Peru FTA was the only one approved by Congress in 2007, and the Colombia and Panama FTAs will have to be resolved before the KORUS FTA will get a vote. If the KORUS FTA does not receive a vote in spring 2008, it risks getting lost in the heat of presidential elections in November. So far, the Bush administration has been reluctant to force a vote on the KORUS FTA, but it has not ruled out this option.

Prospects for passage of the KORUS FTA in South Korea improved in December 2007 with the election of conservative Grand National Party (GNP) candidate Lee Myung-bak. The FTA is awaiting a vote in South Korea's National Assembly after being introduced on September 7, 2007. President Lee has said that passage of the KORUS FTA is a high priority for his administration and that he will get the agreement passed as soon as possible.

The National Assembly is likely to approve the KORUS FTA when a vote is held. The South Korean constitution requires only a simple majority to approve trade deals, and both the current pro-government UNDP and the conservative GNP support the agreement. The two parties control close to 80 percent of the seats in the 296-seat National Assembly; anti-FTA parties, such as the Democratic Labor Party (DLP), hold only a handful of seats. DLP National Assemblywoman Sim Sang-jeong, who sits on the Special Committee on the ROK-U.S. FTA, said in November 2007 that she expects the KORUS FTA to be approved in early 2008 before National Assembly elections are held in April.

VII. CONCLUSION

The KORUS FTA is the most ambitious FTA signed by the U.S. since NAFTA. It has the potential to upgrade relations with an important regional ally and boost U.S. exports. South Korean companies will benefit from increased access to the U.S. market, and consumers will enjoy the benefit of lower prices. The ITC and KIEP have predicted that the agreement will boost the U.S. and South Korean economies by billions of dollars. Labor and environmental clauses are included, and NTBs are addressed. The agreement is not perfect, but it does make progress in key areas.

The KORUS FTA also raises important questions. First, the agreement involves extensive changes to domestic policies that have little to do with tariffs or quotas. These changes may or may not be beneficial to South Korea, but it is not clear that they belong in a trade agreement. Second, and more fundamentally, FTAs are only ever a second-best policy. Preferential trade agreements inevitably involve trade diversion and are inferior to multilateral and unilateral trade liberalization. The KORUS FTA is no exception. Unfortunately, at a time when the Doha Round of trade negotiations seems stuck in perpetual stasis, second best may be the best available.

THE "TEETH OF DIPLOMACY": U.S.-DPRK RELATIONS AND THE SIX-PARTY TALKS

Rian Jensen

I. INTRODUCTION

U.S. relations with the Democratic People's Republic of Korea (North Korea, or DPRK) improved dramatically in 2007, although year-end events raised the specter of a renewed stalemate. The U.S. ended a four-year moratorium on direct negotiations with North Korea and achieved important breakthroughs in the Six-Party Talks, developing a more pragmatic and engaged approach toward Pyongyang that Secretary of State Condoleezza Rice has called the "teeth of diplomacy." Wider diplomatic latitude (in spite of North Korea's partial nuclear breakout in October 2006) enabled the top U.S. negotiator, Assistant Secretary of State for East Asian and Pacific affairs Christopher Hill, to meet with his North Korean counterpart, Vice Foreign Minister Kim Kye-gwan, to engage in serious discussions on North Korea's denuclearization and the normalization of U.S.-DPRK relations. In a series of joint agreements in February and October 2007—each preceded by productive bilateral discussions—North Korea committed to shuttering and disabling its nuclear facilities in return for the initiation of U.S. efforts to normalize relations and for U.S. and international provision of economic, energy and humanitarian aid.

Important policy success during 2007 was achieved despite major developments that punctuated the negotiating process, galvanizing outside critics and raising important concerns about prospects for continued progress. Most seriously, North Korea failed to submit its nuclear declaration on time and will continue to work on disabling its Yongbyon facilities—although at a slower pace—beyond the December 31, 2007 deadline. U.S.-North Korea relations also must overcome the legacy of a protracted dispute over frozen North Korean funds

at Banco Delta Asia and revelations of possible North Korean complicity in an alleged Syrian nuclear program. Yet, outside the context of the Six-Party Talks on denuclearization, the U.S. and North Korea scheduled an unprecedented number of goodwill exchanges in a range of cultural and technical fields.

II. BACKGROUND

The emergence of a new policy of engagement by the U.S. represents a stark departure from the George W. Bush administration's confrontational approach leading up to North Korea's partial nuclear detonation in October 2006. Previous U.S. policy had been derived from the premise that North Korea was on the verge of collapse, sustained only by Chinese and South Korean aid, and that coercive policies aimed at toppling Kim Jong Il would further U.S. interests on the peninsula. Everyone in the foreign policy decision-making establishment did not share this hard-line perspective, but it was the dominant paradigm concentrated in strong personalities in the office of the Vice President and the Department of Defense, to which all others were oriented. President Bush famously denigrated North Korea as a charter member of the "Axis of Evil," and Secretary of Defense Donald Rumsfeld called for regime change in Pyongyang in 2003. Prominent U.S. conservatives in think tanks outside the government captured the ear of key officials with a similar line. In December 2002, in the national strategy to combat the proliferation of weapons of mass destruction (WMDs), North Korea was considered a country to which the policy of preemptive attack would apply. These perspectives were catalyzed and reinforced in 2002 with the emergence of intelligence reports indicating that North Korea had been producing highly enriched uranium (HEU) in violation of the Agreed Framework of 1994. These reports confirmed U.S. officials' worst suspicions: that Kim Jong Il was duplicitous and not serious about relinquishing North Korean WMDs. Thus, the stage was set for a U.S. policy of isolation that eschewed meaningful diplomacy and sought "sticks" rather than "carrots" to compel Pyongyang to acquiesce to maximal U.S. demands or to effect regime collapse.

U.S. policy toward North Korea in 2007 was altogether different in both style and substance from that of previous years. Rather than seeking to influence North Korean action by coercion, the more pragmatic policy ascendant in Washington was premised on the merits of engaged and incentive-based diplomacy. This change in policy outlook was the result primarily of three main events: personnel changes at key national security decision-making bodies in the second Bush administration; a significantly degraded geopolitical environment for the U.S. as a result of the war in Iraq; and a sober assessment of the exigencies of dealing with a nuclear-capable North Korea in Northeast Asia. Key to this shift were Secretary of State Rice, Christopher Hill as the top U.S.

negotiator, and Victor Cha, who until May 2007 was director of Asian Affairs at the National Security Council.

A key aspect of the U.S. policy toward North Korea in 2007, as reflected in the landmark February and October agreements, was that serious negotiations would give North Korea a meaningful stake in an emerging international order and would provide the U.S. with a hedge against DPRK recidivism, if not more robust instruments to compel or deter North Korea in the case of future abrogation. One-for-one schedules of coordinated, reciprocal actions—codified in September 2005 as the principle of "commitment for commitment, action for action"—provide the U.S. with structural assurances about the regularity of North Korean behavior and help foster predictability in relations between two countries burdened by a pernicious legacy of mistrust.

Indications of a new U.S. policy direction emerged after North Korea's partial nuclear detonation on October 9, 2006, which demonstrated the failure of the Bush administration's approach and elevated North Korea's disarmament to paramount importance. North Korea's nuclear breakout transformed the strategic context, affecting a rare condominium of interests among the U.S., China, Japan, Russia, and South Korea, and injecting a sense of mission in the often-wayward six-party negotiations. Concerted international effort resulted in the swift passage of United Nations (UN) sanctions against Pyongyang, coupled with bilateral Chinese pressure. North Korea announced an intention to return to the negotiating table in late October 2006. Yet actual discussions in December 2006—the first in 13 months—produced little beyond the broad acknowledgment of the September 2005 statement of principles stipulating North Korea's commitment to "abandoning all nuclear weapons and existing nuclear programs." As in earlier talks, the main impediment to successful negotiations remained the issue of "sequencing," in which neither Washington nor Pyongyang was willing to relax first principles: North Korea maintained that the U.S. must lift financial sanctions before discussing nuclear disarmament, while the U.S. was adamant that nuclear disarmament talks proceed on a separate track, irrespective of financial matters.

As the negotiators were heading home in December to continued and certain deadlock, North Korea offered another request for direct talks with the U.S. The offer came in the form of a chance encounter between Victor Cha and North Korean negotiators at the Beijing airport as they all prepared to return to their capitals, with the North Koreans adding that they would prefer bilateral discussions outside Beijing. Up to that point, Washington had resisted North Korea's longtime demands for direct discussions. But Cha took the offer back to Washington and his reasoning, coupled with a broader strategic urgency to gain some traction with Pyongyang, persuaded President Bush to agree to

allow Assistant Secretary Hill to meet bilaterally with Vice Minister Kim Kye-gwan. Cha's key argument was that direct talks would help "test" North Korean intentions and force Pyongyang to either demonstrate its sincerity in working toward denuclearization or reveal its intransigence on the international stage in the face of accommodative U.S. behavior.

III. SURVEY OF 2007 EVENTS

Thus, in January 2007, the U.S. had decided to offer a tactical concession as a confidence-building measure to advance the stalled negotiations. Christopher Hill met his North Korean counterpart Kim Kye-gwan in a one-on-one session in Berlin in mid-January, the first time the U.S. under the Bush administration had held direct talks with North Korea outside the six-party framework. This seeming concession on negotiating procedure was complemented by a second compromise on tracked discussions regarding financial sanctions and nuclear disarmament. Japanese press in late January reported that the Berlin meeting resulted in an understanding that the U.S. would begin facilitating the release of approximately $25 million of DPRK funds in a Macau Bank that had been frozen in 2005 on suspicion of money laundering and counterfeiting. In addition, the two sides signed a memorandum of understanding that committed North Korea to freezing its nuclear reactor in return for U.S. energy and humanitarian aid. Although top American officials insisted on the separation of the financial and denuclearization issues—Hill pointedly reiterated this during his press comments in Berlin—in practice, the parallel negotiations revealed an important quid pro quo that provided Pyongyang with the necessary financial incentives to address U.S. denuclearization concerns.

IV. FEBRUARY 13 AGREEMENT AND FIRST-PHASE ACTIONS

This linkage—"explicit though unstated"—paved the way for the breakthrough six-party agreement of February 13, 2007, the multiphase action plan in which North Korea declared its intention to "shut down and seal for the purpose of eventual abandonment" its nuclear facilities. The agreement effectively operationalized the September 2005 statement of principles by specifying the commitments to be undertaken by the U.S., North Korea, and the four other members in the following core areas: North Korean denuclearization; normalization of U.S.-DPRK and U.S.-Japan relations; provision of economic, energy and humanitarian assistance to North Korea; formal study regarding a regional security mechanism; and the establishment of a permanent peace regime on the Korean peninsula to replace the 1953 armistice that ended the Korean War. Importantly, the agreement specified a structure of phased implementation derived from the "commitment for commitment, action for action" principle. The

arrangement of quid pro quos in the "initial actions" phase introduced procedural regularity into the negotiation process, managing expectations and overcoming high barriers to mutual trust between the U.S. and North Korea.

Banco Delta Asia

But the new engagement strategy embodied in the Berlin meeting and the February 13 agreement soon gave way to protracted implementation that nearly imperiled the entire process. The U.S.'s pledge to facilitate the transfer of frozen North Korean funds from Macau-based Banco Delta Asia (BDA) proved a far more difficult task than originally expected by American diplomats. The perception of U.S. reticence gave North Korea grounds to exercise its prerogative of refusing implementation of the denuclearization accord until its frozen funds had been returned. The funds were first frozen in September 2005 after the U.S. Treasury Department initiated an investigation of BDA by describing it as a "financial institution of primary money laundering concern." That action prompted a run on the bank, and Macanese banking authorities eventually froze the funds suspected of association with North Korean illicit activity and assumed control of the family-run institution. The Treasury Department's action, seemingly uncoordinated with more accommodative State Department initiatives concerned at the time with the September 2005 negotiations, significantly affected North Korea's perceptions of U.S. sincerity and the veracity of its commitment to a process of negotiation rather than coercion. The U.S. investigation into BDA closed 18 months later, in March 2007, at which time Washington decided to impose the "fifth special measure" under section 311 of the U.S. Patriot Act, prohibiting U.S. banks from holding accounts on behalf of BDA or BDA from opening or maintaining accounts in the U.S. While at the time this was seen to clear the way for the return of funds to North Korea, it eventually became an impediment to the process, as private U.S. and foreign banks were unwilling to risk involvement with the tainted monies.

North Korea, fearing that procedural difficulties reflected a broader lack of U.S. political will, resorted to familiar tactics of brinksmanship and "attention-inducing behavior." During the Six-Party Talks that began in Beijing on March 19—billed as a follow-on to the February meeting and a chance to measure progress on initial actions—North Korea's negotiator, Kim Kye-gwan, steadfastly refused to discuss any actions toward implementing the February 13 agreement without a resolution of the banking issue. Kim left on the third day, collapsing the talks. In May, with U.S. officials still unable to devise a method to return the funds, Pyongyang tested several short-range missiles in the Sea of Japan and then fired two more on June 7. International reaction remained relatively calm, although the U.S. called the second test "not constructive."

Russian intervention finally helped resolve the banking impasse. On June 12, Moscow announced that the Russian Central Bank agreed to receive the $25 million via the New York Federal Reserve Bank and then forward the funds to the Foreign Trade Bank of North Korea. Although North Korea could have technically withdrawn the funds in cash, Pyongyang insisted on a wire transfer to demonstrate a successful ability to deal with the international financial system. The U.S. Treasury Department, whose actions in March barred U.S. financial institutions from handling BDA funds and which refused to offer any exemptions, did not have to clear the involvement of New York's Federal Reserve Bank; as part of the regulatory Federal Reserve system and not a banking institution per se, it is not subject to relevant U.S. commercial banking laws. North Korea, upon U.S. insistence, agreed to use the money for humanitarian purposes, although monitoring and enforcement are unlikely.

Completion of Initial Action Phase

As a testament to the importance of the BDA issue, the return of the frozen funds triggered a flurry of diplomatic activity under the initial actions phase of the February 13 agreement. North Korea extended an invitation on June 18 to International Atomic Energy Agency (IAEA) inspectors to visit North Korea and discuss procedures to shut down and monitor its nuclear facilities. Three days later, Hill made a surprise visit to Pyongyang, the first trip to North Korea by a ranking U.S. ambassador since Assistant Secretary James Kelly's visit in 2002. Hill's quick visit sought to capitalize on the summer's momentum, secure North Korea's commitment to shuttering its reactor, and advance U.S.-DPRK relations by demonstrating a sincere U.S. willingness to deal directly with North Korea in the wake of the BDA debacle.

On June 25, North Korea confirmed receipt of all BDA funds. The next day, IAEA inspectors entered the country, and by July 9, they had approved an action plan to monitor the shutdown, verification and surveillance of five North Korean nuclear facilities: a 5 MW nuclear reactor at Yongbyon, a reprocessing facility, a nuclear fuel fabrication plant, and two uncompleted nuclear reactors. Days later, South Korea began shipping the first portion of 50,000 tons of heavy fuel oil to North Korea, and on July 15, two months later than envisioned, the IAEA officially verified the shutdown of North Korea's nuclear reactor at Yongbyon. This action effectively completed the initial actions phase and triggered discussions on the next set of actions required to implement the February 13 agreement.

V. AGREEMENT ON SECOND-PHASE ACTIONS

Second-phase actions concerned Pyongyang's commitment to advance beyond reactor shutdown to nuclear disablement and to provide a complete declaration of all its nuclear programs. Many experts considered these to be key areas in which differing interpretations among U.S. and North Korean negotiators could lead to protracted disputes or even a collapse of the process. Concerns focused on the precise understanding of what constituted disablement; whether a disabled facility could be reconstituted as fully operational; and the requirements for a "complete" declaration.

The July round of Six-Party Talks sought to address these concerns by identifying the necessary modalities and time line for action to which the six parties would commit. The talks ended without resolution on these matters and instead delegated the technical issues to the level of the five working groups formed in the February 13 agreement. Despite the perception of stalling by Pyongyang, U.S. and Chinese officials put a positive spin on the inconclusive July talks, saying the lack of agreement reflected North Korea's technical unfamiliarity with the disablement process rather than a strategic imperative by Pyongyang to stymie the negotiations. Throughout August and early September, the five working groups convened in China, Mongolia, Switzerland and Russia to advance discussions in specific issue areas. Notable achievements were made in Geneva at the U.S.-DPRK normalization working group talks, in which Christopher Hill and Kim Kye-gwan reached agreement on disablement and nuclear declaration procedures as well as the process through which the U.S. would begin lifting economic sanctions and removing North Korea's designation as a state sponsor of terrorism.

As with the Berlin meeting in February, a willingness in Geneva to negotiate bilaterally with North Korea (through a working group, in this case) laid the groundwork for another significant advance at the next round of Six-Party Talks, which began on September 27. Building on the Geneva negotiations, this round in Beijing yielded a detailed action plan and timetable on second-phase actions. Under the October 3 agreement, the DPRK agreed to "disable all existing facilities subject to abandonment" and provide a "complete and correct declaration of all its nuclear programs," and it committed to carry out both activities by December 31, 2007. The DPRK also reaffirmed a commitment to not engage in the proliferation of nuclear materials, technology or know-how. In response, under the "action for action" principle, the U.S. and other members would provide the remaining 900,000 tons of heavy fuel oil of the total promised 1 million tons under the February accord (50,000 tons had been provided by South Korea in July and another 50,000 by China in September).

The U.S. also committed to begin the process of terminating sanctions against North Korea and delisting North Korea as a state sponsor of terrorism.

The October 3 agreement was concluded amid reports in the preceding weeks that Israeli fighter jets had bombed a suspected nuclear installation in Syria that, according to Israeli intelligence, had received material and technological assistance from North Korea. Few details were publicly provided about the intelligence that precipitated the attack, the targeted facility, or the nature of any North Korean complicity in a nascent Syrian nuclear program. The DPRK officially condemned the attack and called the accusation of Syria-DPRK nuclear cooperation "groundless." Press reports and nongovernment experts, however, indicated that the targeted Syrian facility, a suspected reactor building, was similar in design to North Korea's Yongbyon facility, and they revealed that a North Korean vessel had docked at a Syrian port with suspicious cargo a few days before the bombing. Some media claim more provocatively that Israeli commandos seized nuclear material of North Korean origin and that Israeli warplanes killed North Koreans at the site of the attack.

U.S. reaction to this event was cautious and seemed to reflect a desire to conclude bilateral discussions with North Korea in Geneva and secure Pyongyang's commitment to the October 3 agreement in Beijing. President Bush avoided comment except to say that proliferation would negatively affect the Six-Party Talks. Yet, while it appears that Bush was aware of North Korean activity in Syria at least since the preceding summer (and the date of North Korean assistance could be even farther in the past), Hill still received authorization to deal with the North Koreans in Geneva. The fact that North Korea "reaffirmed its commitment not to transfer nuclear materials, technology, or know-how" in the text of the October 3 agreement suggests that the Syria issue was raised during the negotiations.

The October 3 agreement was an important milestone in the six-party negotiations, and it established a schedule that sought to advance U.S.-North Korea relations to a historic point. North Korea committed to moving beyond commitments made in 1994, and the U.S. agreed to initiate steps to remove barriers to bilateral and international investment in North Korea's economy and to undertake the normalization of bilateral relations. However, the schedule for implementing these provisions included a slight but potentially significant departure from the precedent of reciprocal and corresponding actions. In a modification that raised uncertainty about the modalities of implementation, the U.S. agreed to "begin the process" of lifting economic sanctions and delisting North Korea as a state sponsor of terrorism "*in parallel* with the DPRK's actions [emphasis added]"—and not necessarily through a formal quid pro

quo arrangement. Such curious language reflected Washington's concern (and, ostensibly, North Korea's understanding) about establishing flexibility on North Korea's delisting vis-à-vis Japanese concerns about the unresolved cases of abductions of its citizens by North Korean agents in the late 1970s and early 1980s. Tokyo complained that North Korea should still be considered a terrorist-sponsoring state until Pyongyang resolved the abductee issue to Japanese satisfaction.

Notwithstanding the rationale, supporters and critics alike of the U.S. approach seized upon the change in language, regarding it as a tactical mistake and saying that as the two parties moved toward the December 31 deadline, a lack of a strict one-to-one correspondence between DPRK and U.S. actions would enable North Korea to gain critical U.S. concessions without proper confirmation of Pyongyang's commitment to disabling its nuclear facilities and submitting a proper and timely nuclear declaration. These fears were well founded. The process of lifting sanctions and removing North Korea from the terrorism list proved difficult, subject to countervailing demands by critics inside and outside the government, and tied to the perception of North Korean "parallel" actions. The absence of a rigid, clearly defined arrangement of quid pro quos resulted in a higher structural susceptibility toward deadlock, accusations of stalling, and protracted disputes over sequencing of actions—all issues that had proved mettlesome for the U.S. negotiators who had dealt with the BDA sanctions earlier in the year.

VI. IMPLEMENTATION OF SECOND-PHASE ACTIONS

Disablement

Amid the optimism after the October 3 accord, North Korea seemed committed to implementing its measures in a timely fashion. Other parties requested that the U.S. lead the process of disabling North Korea's facilities, and Washington provided initial funding for these activities. The three facilities slated for disablement at Yongbyon were the 5 MW reactor, the reprocessing plant, and the nuclear fuel-rod fabrication facility. Six days after the October agreement was signed, a team of U.S. experts, led by Sung Kim, director of the Office of Korean Affairs at the State Department, was en route to Pyongyang to negotiate the "scope of disablement." The October talks in Beijing reportedly defined disablement as a series of 10 steps, although the six parties were unable to agree on a broad application of those steps to each of the three facilities. In Pyongyang, Sung Kim and other U.S. officials sought to determine whether disablement would be considered the removal of critical parts in nuclear facilities or the chemical treatment of core components to render them unusable, and whether

such facilities, once disabled, could be reconstituted. According to press reports, U.S. and North Korean officials settled on an agreement that disablement meant a period of inoperability for at least 12 months.

A follow-on team of 9 U.S. experts arrived in Pyongyang on November 1 and traveled to Yongbyon to oversee the smooth start of the disablement process on November 5. The U.S. lauded North Korea's actions, which proceeded beyond the mere freezing of reactor activities to a "qualitatively new phase," representing the most far-reaching steps the DPRK had taken to limit its nuclear operations. A multinational team of six-party member delegates traveled to Yongbyon in late November to inspect the progress of disablement, which consisted of an 11-step process. The head of the inspection team, the U.S. State Department's Sung Kim, concluded that "all of the steps that can be completed this year will be completed by December 31," which implicitly raised the possibility that North Korea might undertake disablement activities after December 31 and thus miss the year-end deadline for the completion of all activities. Hill visited Yongbyon on December 4, declaring at the time that the "disablement activities are going well and on schedule" but that momentum needed to be maintained to meet the December 31 deadline.

A few days after Hill's statement, Wu Dawei, China's delegate to the Six-Party Talks and Vice Foreign Minister, revealed that North Korea would not meet the disablement deadline of December 31 for "technical reasons." Hill put a positive spin on the announcement, drawing a distinction between delays attributed to deliberate obstruction and those for safety and technical reasons. The North Koreans apparently needed more time to complete the removal of fuel rods and their storage in an adjacent pond, a process that takes about 100 days and that began in mid-December. U.S. commentators, in fact, had predicted this outcome in October when they analyzed the logistics of disablement according to such a tight timetable. As the December deadline neared, North Korea was reported to have completed or nearly completed 7 of 11 stages of the disablement process.

Prospects for progress on the remaining steps remain unclear. On December 27, North Korea declared its intention to slow down work on disablement because of a perceived slowdown in the provision of economic aid by the U.S., China, Russia and South Korea (Japan has refused to provide aid until the abduction issue is satisfactorily resolved). The aid package of 1 million tons of heavy fuel oil promised to North Korea by the other five states was subsequently revised and agreed to by all parties to consist of 400,000 tons of heavy fuel oil and alternative "energy-linked" aid equivalent to 500,000 tons of heavy fuel oil. Six-party working-level delegates convened in Beijing in mid-December to determine the composition of the energy-linked aid, but they adjourned without a final decision. At the end of 2007, North Korea had received 150,000 tons of oil (50,000 each from the U.S., China and South Korea) and 5,100 tons of steel from South Korea, with no further forms of aid specified. North Korea, describing the aid shipments as "steadily delayed," hesitated to commit to further action needed to destroy the cooling tower and dispose of nuclear fuel in the disablement stage, preferring instead to undertake such activities in the postdisablement "abandonment" phase. Despite signs of progress in early November, the year ended on a markedly ominous note.

Nuclear Declaration

Meanwhile, even fewer signs of progress could be found on North Korea's nuclear declaration. While technical reasons accounted for North Korea's failure to disable its nuclear facilities by December 31, Pyongyang seemed deliberately intransigent in its failure to submit a complete nuclear declaration by the end of 2007. Since the October agreement that provided for such a declaration, outside experts had detailed the manifold challenges of securing North Korea's commitment to submitting a declaration that the U.S. would find acceptable. The October 3 joint document specified that North Korea would provide a "complete and correct declaration of all its nuclear programs." Subsequent public statements by U.S. officials had clarified this to mean the amount of plutonium extracted from Yongbyon reactor operations, existing weapons and weapons-related components, and the nature and components of any uranium enrichment program. A fourth key declaration came from President Bush, who said that a complete declaration must also include documentation of any incidences of nuclear proliferation from North Korea to third countries, a demand that seems beyond the requirements of the October agreement.

Considerable uncertainty had surrounded the willingness of North Korea to submit a genuine declaration, especially regarding its alleged secret uranium enrichment program—the key assertion by U.S. intelligence that had led to the breakdown of the Agreed Framework in 2002. By March 2007, officials admitted that the U.S. intelligence community's confidence had waned about North Korea's continued uranium enrichment activities. By June, U.S. officials had made a slight but important shift in language, no longer referring to North Korea's HEU program but to its more modest "uranium enrichment program" (UEP). A UEP enriches uranium at lower, non-weapons-grade levels, a distinction that seemed to reflect the uncertainty of U.S. intelligence estimates as well as a more encompassing requirement for North Korea to declare its entire stockpile of uranium, regardless of enrichment level. U.S. officials characterized the change in August as a way for the North Koreans to save face by establishing a "bar they can meet."

The change contributed to buoyant hopes among top South Korean and U.S. officials that North Korea would submit its declaration on time. On November 8, South Korean officials said that North Korea was expected to submit a complete declaration of nuclear programs within one or two weeks. On the eve of a trip to Pyongyang later in November, Hill told reporters that he expected North Korea to provide a draft declaration to the Chinese, as the host of the Six-Party Talks, within a week's time. In a further dramatic sign of Pyongyang's willingness to be forthcoming, North Korea provided the U.S. with physical evidence to clarify its position that it had never embarked on an HEU program.

Hill was in Pyongyang December 3–5, briefing his North Korean counterparts on U.S. expectations of an accurate declaration and exhorting them to submit the declaration on time. In an unprecedented display of personal U.S. engagement at the highest levels, Hill delivered a hand-signed letter from President Bush to Kim Jong Il. The letter (which was not publicly disclosed and mirrored correspondence from the U.S. president to the four other participants in the talks) urged North Korea to continue disabling its nuclear facilities and to make three key issues part of an accurate nuclear disclosure: the number of plutonium warheads built; the amount of weapons-grade material produced; and any incidences of proliferation of nuclear material, technology or know-how to third countries. Speaking to reporters upon leaving Pyongyang, Hill raised the specter of U.S. concern over North Korea's intention to describe in sufficient detail its nuclear "materials, installations, and programs." Although at the time Hill qualified his public comments by refusing to call the situation an impasse, it appeared that serious disagreements had emerged about the veracity of North Korea's claims regarding its UEP. South Korean Foreign Minister Song Min-soon, speaking the day after Hill left Pyongyang, said that the U.S. and North Korea sat at a "critical juncture" over the uranium dispute.

U.S. officials pressed the North Koreans on two ostensible components for a uranium-based nuclear weapon: 150 tons of aluminum tubes purchased from Russia in 2002 and centrifuges sold to North Korea by Pakistani nuclear scientist A. Q. Khan. U.S. disablement teams at Yongbyon obtained samples of aluminum tubes in November; in subsequent testing in Washington, minute traces of uranium particles were found on the tube samples. The discovery cast doubt on North Korea's long-term denial about its UEP, although debate persists inside the U.S. government about whether the particles could have been transferred from sources outside North Korea or planted by hard-line elements within the North Korean government seeking to spoil the denuclearization deal. North Korea acknowledged purchasing the aluminum tubes but maintained they were not used in any UEP; instead, they were part of a conventional rocket program. The second U.S. concern regarding any UEP has been confirmation of the purchase, use and disposition of centrifuges integral to uranium enrichment.

Considerable uncertainty surrounds the issue, and some U.S. officials have raised the prospect that North Korea's centrifuges may have been exported to a third country, possibly Syria. The U.S. government estimates that North Korea may have obtained as many as 20 centrifuges for an enrichment program that required thousands. North Korea maintains that it never purchased the centrifuges.

As the end of 2007 neared, the U.S. sent a series of messages through separate channels to urge North Korea's compliance with the December time line for its nuclear declaration. Secretary Rice issued a reminder on December 20. Sung Kim was in Pyongyang December 19–21 to urge a complete and timely declaration, but North Korea reportedly denied—as it has done in the past—the existence of any UEP. North Korea issued a response to President Bush's letter, saying that it was prepared to abide by its October 3 agreement commitments as long as the U.S. fulfilled its part of the deal. However, North Korea failed to submit its nuclear declaration by December 31. Recalling statements made earlier in December, Song Min-soon attributed the failure to discrepancies over the "scope" of the UEP.

Delisting

The failure of North Korea to submit a nuclear declaration contrasts with its apparent willingness to move forward on the disablement of nuclear activities at Yongbyon. North Korea's mixed implementation was matched by similarly ambivalent actions on the U.S. side regarding delisting North Korea from sanctions lists and as a state sponsor of terrorism. At the end of 2007, the U.S. had neither terminated the application to North Korea of the Trading With the Enemy Act (TWEA) nor delisted North Korea from the State Department's list of terrorist-supporting countries, both of which severely curtail U.S.-North Korea economic relations and hinder large-scale lending to North Korea from international financial institutions such as the World Bank, the International Monetary Fund and the Asian Development Bank. North Korea was designated a state sponsor of terrorism after the bombing of a South Korean passenger jet in 1987, for which North Korean agents were responsible. U.S. laws stipulate that the American president can remove TWEA conditions without congressional approval; the terrorist-support designation can be eliminated after a notification by the president to Congress 45 days before the date of recision. The Bush administration conspicuously decided to not notify Congress of its decision to remove the terrorist designation on November 16, the last day by which the label could be withdrawn by the end of the year.

The October 3 agreement noted that North Korea's disablement and declaration of its nuclear infrastructure was to proceed "in parallel" with U.S. delisting efforts. In contrast to rather premature comments in September by North Korea

that the U.S. had agreed to lift sanctions and remove the terrorist designation, North Korea hinted in November through a pro-Pyongyang paper in Japan that U.S. delisting by the end of year was "in return" for North Korean disablement and declaration. When Pyongyang missed the December deadline for nuclear disablement and declaration, North Korea made an even more explicit assertion that the U.S. has "not honored its [delisting] commitments" and thus that North Korea, by "going ahead of others in fulfilling its commitment," would "adjust the tempo" of its denuclearization efforts on the "principle of action for action."

North Korea regarded the fact that it had not been removed from sanctions and terrorism lists (or at least that there has been no substantive movement on delisting in correspondence with North Korean disablement) as an abrogation by the U.S. of the October 3 agreement. For its part, the U.S. maintained that a parallel process of delisting had been under way and, furthermore, that the October agreement provided for the U.S. to "begin the process" of delisting, not to entirely delist Pyongyang. Moreover, delisting, according to Hill, "is not a reward for endeavors in other areas" and is subject to U.S. "legal processes" and confirmation that North Korea is "no longer engaged with terrorism acts." Hill added that the North Koreans should declare that they are "no longer in any way, shape, or form involved in any terrorist acts or assisting any terrorist groups and, moreover, that they are acceding to all UN covenants and international standards on terrorism." Washington therefore, expected North Korean action for delisting to proceed.

These public statements suggest that the delisting issue is viewed differently by the two parties: North Korea views delisting as tied (perhaps mistakenly through an action-for-action modality and not as a parallel process) to disablement; the U.S. expects additional actions (what Hill has gone so far as to call a "declaration") proving the genuine absence of involvement in international terrorism.

The U.S. position is hardened by a number of domestic and international factors. The first is alliance management with Japan. The ostensible impetus for the "in parallel" language was to accommodate Japanese demands that North Korea remain designated as a state sponsor of terrorism as long as Pyongyang did not make a successful effort to resolve outstanding issues regarding its kidnapping of at least 13 Japanese citizens in the late 1970s and 1980s. This act of terrorism, from the Japanese perspective, warrants U.S. inaction on delisting. While Washington appreciates Tokyo's sensitivity about this issue, the State Department has said that the abduction issue is not linked to removing North Korea's designation as a state sponsor of terrorism. Despite official Japanese pronouncements (including one by Chief Cabinet Secretary Nobutaka Machimura) that U.S. removal of North Korea's terror status would damage

U.S.-Japan relations, the State Department, just days before a mid-November meeting between newly elected Japanese Prime Minister Fukuda Yasuo and President Bush, said that delisting is "not necessarily linked to" the Japanese abduction issue. The Bush-Fukuda summit appeared to produce no tangible resolution of the abductee issue, although Bush remarked to reporters at a joint press conference that he "would not forget" the abductees. Both governments have refused to disclose the details of the meeting; although Fukuda insisted separately that the U.S. would not sideline the abductee issue, he nevertheless declined to provide details.

The second factor complicating North Korea's delisting is considerable domestic opposition from members of Congress and former and current government officials. In December, four senators, led by Sam Brownback (R-KS), submitted a draft resolution conditioning North Korea's removal from the U.S. terrorism list on successful resolution of the Japanese abductee issue and confirmation of North Korea's cessation of counterfeiting U.S. dollars. Over the course of the year, John Bolton, a former Bush administration insider, was especially critical of U.S. policy toward North Korea, including delisting.

Domestic detractors were emboldened by allegations of nuclear cooperation between North Korea and Syria, a claim that, if true, intersected with issues of proliferation that were also injected into the debate surrounding North Korea's nuclear declaration. The Israeli strike on a purported Syrian nuclear facility that had allegedly received North Korean assistance opened the way, detractors maintained, for a reconsideration of North Korea's suitability for removal from the terrorist list. Syria has been on the State Department's list of terrorism-supporting countries since 1979. For North Korea to be removed from that list, U.S. laws require that the president certify to Congress that the DPRK has not supported international terrorism in the past six months and has provided assurances that it will not do so in the future. Congresswoman Ileana Ros-Lehtinen (R-FL), senior Republican on the House Foreign Affairs Committee, was especially outspoken in her criticism of the administration's unwillingness to reconsider the North Korea deal in light of the Syria allegations. She introduced a bill in Congress—although it was never taken up by the Democratic chair, Sen. Tom Lantos (D-CA)—that conditioned North Korea's removal from the U.S. list of state sponsors of terrorism on the clearing of Pyongyang's involvement with any missile or nuclear-related technology.

In addition to alleged nuclear cooperation with Syria, a Congressional Research Service (CRS) report in mid-December raised the possibility of North Korea's cooperation with two international terrorist groups within the past two years. The CRS released a report detailing North Korea's supposed involvement in providing weapons, munitions, training and vital weapons components to

Lebanon's Hezbollah and the Tamil Tigers in Sri Lanka. Both groups are considered terrorist organizations by the U.S. State Department. Together with the reports on Syria, these allegations emboldened critics of the October agreement, who said they revealed Pyongyang's duplicity in negotiating with the U.S. while proliferating nuclear and conventional technologies to terrorist states and groups. The CRS report led to a formal letter from three senators—Sam Brownback, Chuck Grassley (R-IA) and John Kyl (R-AZ)—to Hill to clarify the State Department's assessment of North Korea's alleged ties to the two terrorist groups.

VII. INTERNATIONAL EXCHANGES AND TRADE

Outside the context of the Six-Party Talks, the U.S. and North Korea scheduled a series of educational and cultural exchanges that sought to foster bilateral awareness against the backdrop of halting progress in the denuclearization process. In early December, amid emerging indications of difficulties in North Korea's nuclear declaration, the New York Philharmonic accepted an invitation from North Korea's Ministry of Culture to perform in Pyongyang in February 2008. The orchestra's visit will represent an unprecedented cultural exchange between the two countries and cap the exchanges in sports, science and technology, finance, and military fields that took place in 2007. For example, in February 2007, the American Association for the Advancement of Science hosted an academic seminar with North Korean officials on cooperation between the two countries in science and technology, and a North Korean taekwondo team competed in exhibition matches in the U.S. in October. The National Committee on American Foreign Policy, a track-two forum, sponsored a conference in November for North Korean trade and financial officials to visit New York, meet their U.S. counterparts, and learn about topics in international finance. Weeks before the Wall Street visit, the U.S. Navy helped a crew of North Korean sailors repel pirates off the coast of Somalia. North Korea responded through its state media, thanking the U.S. and hailing the event as a "symbol of North Korea-U.S. cooperation in the war against terrorism." Although modest, together these activities contributed to an expansion of bilateral ties that supplemented the ongoing interaction at the official level over denuclearization.

VIII. CONCLUSION

The difficulties that emerged at the end of 2007 should not overshadow the admirable diplomatic progress achieved in the early part of the year. The new U.S. approach toward North Korea resulted in two important agreements in February and October in which North Korea committed to serious, verifiable actions to disable its Yongbyon nuclear production facility. North Korea's commitment to disablement comes just a year after its partial nuclear breakout. This success points toward the merits of direct U.S.-DPRK interaction, a relationship that has become personified in Assistant Secretary Chris Hill and Vice Minister Kim Kye-gwan, and which has required remarkable tactical wherewithal among U.S. and North Korean negotiating teams, as well as among diplomats from the four other members of the Six-Party Talks.

Yet, on balance, the mixed progress in 2007 is cause for worrying speculation about prospects for forward movement in U.S.-DPRK relations. Year-end problems—North Korea's failure to disable and declare its nuclear facilities on time, and perceptions of U.S. reticence in delisting North Korea from sanctions and terrorism-support lists—portend diplomatic wrangling reminiscent of the negotiations over the frozen BDA funds. Such protraction opens the possibility of damaging the bilateral relationship as well as the reputations of the proponents of this engaged U.S. approach.

The key issue for the U.S. continues to be whether tactical negotiations and process-driven engagement can, in the end, substitute for a broader strategic harmony of interests between North Korea and the U.S. The bilateral relationship continues to be characterized by mutual mistrust and strategic discord—or, at best, strategic ambivalence—regarding each party's commitment to the six-party process of denuclearization. North Korea fears that the U.S., especially its outspoken conservatives and hard-liners, will use the pretext of denuclearization to resurrect earlier hard-line policies of regime change. The U.S. is concerned about the provision of economic aid to a failing regime amid uncertainty about North Korea's strategic commitment to fully abandon its WMDs. The year's mixed results underscore the point that success at the tactical negotiating level (as was apparent after the resolution of the BDA issue and through the October agreement) is still subject to the durable and broader imperatives of longer term strategic uncertainty.

NO DOORS OPEN: DISPLACED NORTH KOREANS AND ASIAN GEOPOLITICS

Yumi Kim

I. INTRODUCTION

In 2007, the steady stream of North Koreans leaving their country continued, bringing increased international attention to the human rights violations of Kim Jong Il's regime and exacerbating the many difficulties regarding how to cope with those who leave the Democratic People's Republic of Korea (DPRK) and hope to settle elsewhere. At the heart of this unresolved humanitarian quandary lies the uncertainty about the legal status and thus the appropriate treatment of displaced North Koreans. Few of the major countries and nongovernmental organizations (NGOs) involved appeared to take appreciable steps toward forming a coherent international strategy (or even bilateral approaches) on the issue over the past year. South Korea is the desired final destination for the great majority of North Koreans wishing to resettle abroad permanently, but a small number of North Koreans have requested transfer to the U.S. since the passage of the North Korean Human Rights Act by the U.S. Congress in 2004.

The predicament of displaced North Koreans is a flashpoint that illustrates the divergent and often contradictory political agendas of the nations involved: North Korea, South Korea (ROK), China (PRC) and the United States. North Koreans often travel through China to Thailand, Vietnam, Mongolia and Laos, so those countries are also parties to the problem. The increasingly publicized, politicized and international nature of the dilemma has caused a kind of paralysis, with no one nation or aid organization able to single-handedly change the status quo.

II. LEGAL STATUS

During 2007, neither the countries involved nor the United Nations (UN) significantly altered their respective positions on the legal status of displaced North Koreans. Owing to the lack of direct land routes on the Korean peninsula, North Koreans hoping to resettle outside the DPRK often travel through third-party countries before petitioning for transfer to the ROK or the U.S. Others manage to travel to South Korea on their own and then turn themselves in to custody. The transit countries' positions regarding the legal status of displaced North Koreans within their borders are often the deciding factor in determining which route North Koreans choose to take in order to reach their desired destinations.

Because most of the northern border of the DPRK is shared with China, almost all those leaving North Korea must stay in China for some period of time. (The border with Russia is only 17 km long and consists of much rougher terrain to cross. Far fewer people attempt to leave the DPRK by this route.) The decisions of Beijing regarding the legal status of North Koreans within Chinese borders are of paramount importance. Beijing continues to designate North Koreans without valid travel permits as "economic migrants" and honors its two bilateral agreements with the DPRK—the Escaped Criminals Reciprocal Extradition Treaty of 1960 and the Border Area Affairs Agreement of 1986—which call for the repatriation of North Koreans found to be illegally on Chinese soil. Though no official numbers are released by either the PRC or the DPRK, the South Korean government estimates that some 6,000 North Koreans are repatriated by China to North Korea every year. Tim Peters of the NGO, Helping Hands Korea, puts the estimate much higher, at 150–300 North Koreans a week, for a total of 7,800–15,600 a year.

Further complicating the situation in China is that, short of a thorough screening process, there is no way to determine whether any North Koreans on Chinese soil are fleeing the DPRK for reasons that would qualify them under international law as refugees or asylum seekers. The PRC's stance hinges on the fact that it considers displaced North Koreans to have entered the country for purely economic reasons. During the severe floods and famines in the DPRK in the mid-to-late 1990s, many North Koreans crossed the border into China in search of food and work, often with the intent of returning home eventually. In addition, many North Korean women, voluntarily or otherwise, enter into marriage-like arrangements with Chinese men in the border region. Chinese law does not recognize these marriages, and the women are considered illegals, as are their children. It can also be argued that some North Koreans in China are not actually in transit and would stay indefinitely if they could, making them

illegal immigrants. North Koreans in China—whether aspiring immigrants or transients—thus remain in an extremely difficult position, vulnerable to labor exploitation, sex trafficking and, of course, expulsion. There is no evidence that the Chinese government intends to change its position or allow the UN High Commission on Refugees (UNHCR) access to displaced North Koreans to determine whether they meet international legal standards that would disallow their forced return to the DPRK.

The UNHCR did not make any public statements in 2007 to radically alter its previous position regarding the legal status of displaced North Koreans. The often-cited UN 1951 Convention on the Status of Refugees and its 1967 Protocol designate refugee status on the basis of "a well-founded fear of being persecuted for reasons of race, religion, nationality, membership of a particular social group or political opinion." The sharp increase in the number of North Koreans leaving the DPRK during the 1990s seems to have been motivated by sheer survival, and while it was undoubtedly a humanitarian emergency, it is unclear whether economic hardship alone would confer refugee status on North Koreans outside the DPRK. Nonetheless, among advocates for the displaced, there is almost universal agreement that China (which signed the convention and its protocol in 1982) is in violation of its international duties by declaring all illegal North Korean nationals to be economic migrants without providing any form of due process to ascertain possible qualification of refugee status.

In 2005, Vitit Muntarbhorn, the UN special rapporteur on the situation of human rights in North Korea to the Commission on Human Rights, raised the possibility that displaced North Koreans—though not necessarily refugees based on the criteria in the convention and the protocol—may qualify as refugees "sur place." A person outside his home country can become a refugee even if his initial motivation for leaving would not qualify him as such; if a foreign national has a reasonable fear of unjust persecution should he return to his home country, he has a claim to the "sur place" designation. In his 2007 follow-up report to the UN, Muntarbhorn went so far as to say that "many" displaced North Koreans qualify as "sur place." But regardless of the developing legal arguments, until China (and in fact, all transit nations for displaced North Koreans) allows regular, internationally recognized and sanctioned access to North Koreans on its soil so that determinations of legal status can be made on a case-by-case basis, these debates will remain theoretical.

III. STATISTICS

Almost all North Koreans leaving the DPRK do so without legal permits or visas, and they live in hiding. This prevents an exact count of the number of displaced North Koreans in other countries, particularly in China, where the

majority of the displaced are believed to be located. Throughout 2007, the PRC maintained a high level of border security and a policy of monetary rewards for those who turn in illegal immigrants and incarceration for those caught helping North Koreans. China's tighter internal monitoring has also discouraged and limited the activities of NGOs as well as Chinese citizens, often of Korean descent, who are sympathetic to North Koreans. Under these conditions, estimates of the displaced North Korean population are extremely difficult to formulate.

The estimated number of North Koreans illegally residing in China is now generally believed to be in the range of 10,000 to 100,000. The estimates of governments and the UN tend to be on the lower end, while advocacy groups and NGOs tend to estimate higher. The official Chinese estimate of North Koreans inside its borders is the lowest, at 10,000, and the official U.S. State Department and UN estimates are the same: 30,000–50,000. The International Crisis Group's latest reported figure is 100,000, and Good Friends, a prominent and highly respected South Korean NGO working on the issue, also estimates the number to be 100,000.

IV. THE NORTH KOREAN PERSPECTIVE

In 2004, the DPRK began to harden its position on those who leave the country without permission, and this trend continues. Coinciding with the repatriation of 468 North Koreans from Vietnam into South Korea in July 2004 and the passage of the North Korean Human Rights Act in the U.S. later that same year, the DPRK instituted significantly heavier security measures and punishments for those leaving the country illegally, and these policies stayed in effect through 2007. The measures include increased border patrols (though the government's available resources and ability to put more bodies on the ground have been called into question); guaranteed jail time, from six months to five years, even for first-time offenders; and increased penalties for border guards who take bribes. These punishments are a considerable departure from the previous sentences, which did not often mandate jail time, particularly for first-time offenders who had had no contact with foreigners during their time abroad.

Despite the harsher punishments, there is a strong possibility of an increased outflow of North Koreans as a result of severe summer flooding in 2007. This latest round of floods followed the previous summer's, which resulted in major crop damage. According to the World Food Program, torrential rains seriously damaged a wide swath of the southern section of the country, damaging infrastructure and the nation's key farming regions. The rains were reported to be the worst the country had sustained in 40 years, and nearly one million people

have been directly affected and are in need of emergency assistance. This scenario is strongly reminiscent of the floods that ravaged the northern provinces in the mid-1990s that pushed the first large wave of border crossers out of the country in search of food and work. The DPRK government requested international assistance; in response, the World Food Program mobilized a three-month-long emergency effort in late 2007. Neither the NGOs involved nor the DPRK government has yet reported fully on the effects of the rains and the current food situation, but the outlook for the 2008 food supply is poor.

This potential spike in the number of citizens attempting to leave the country does not bode well for the North Korean government, which feels increasingly threatened by large, internationally publicized numbers of its citizens seeking refuge abroad, particularly to South Korea. The DPRK characterizes the repatriation of North Korean refugees to the South as "kidnapping" to imply that the North Koreans went there unwillingly, but it is questionable whether its own citizens believe this propaganda. However, although the continued outflow of citizens is undoubtedly embarrassing for Kim Jong Il's regime, the regime has been able to use the situation to accuse the ROK of deliberately trying to undermine the DPRK government. Because of South Korea's policy of engagement and its fervent desire to prevent a German-style reunification scenario, the ROK government has held firm on its stance of discouraging defection from the North. The primacy of the denuclearization issue in the international arena, spearheaded by the U.S. government, kept the refugee and human rights issue off the table during the Six-Party Talks in 2007. Both the U.S. and the ROK have made the clear decision, at least for now, not to push North Korea on the issue of its displaced citizens and its human rights record.

V. THE SOUTH KOREAN PERSPECTIVE

The ROK government maintained its policy of engagement with the DPRK throughout 2007. South Korea continued to try to avoid any appearance of encouraging further defections by North Korean citizens. The most significant challenge to this policy occurred in the spring, when 414 North Koreans in custody in Thailand went on a hunger strike to protest the detention center's unsanitary conditions and call for speedy resettlement in South Korea. South Korea pointedly avoided a repeat of the airlifting of 468 North Koreans out of Vietnam in July 2004 that had so angered the DPRK. Instead, the ROK government negotiated the end of the strike by promising to airlift the detainees in small groups every few weeks. The negotiation also managed to avoid receiving coverage in the major U.S. newspapers.

South Korea's engagement approach goes hand-in-hand with its "soft-landing" approach to future reunification. The South Korean Ministry of Foreign Affairs and Trade, high-level members of conservative president Lee Myung-bak's Grand National Party, and prominent South Korean intellectuals all strongly support a very gradual and steadily managed path to reunification. The hard-line position favoring North Korean regime change and immediate reunification seems to have fallen out of favor: according to a 2005 survey of the South Korean public cited by the U.S. Committee for Human Rights in North Korea, only 6 percent of those polled advocated "speedy unification." Cost estimates for the immediate integration of the North into the South generally range from $600B to $1,200B. As the difference between the DPRK and ROK economies is much larger than that between the East and West German economies before unification, economists predict that the impact of sudden reunification could be painfully detrimental to the South Korean economy. It is not surprising that ROK national assemblyman Jin Pak stated that the engagement policy would continue when Lee Myung-bak takes office in February 2008, though with a greater emphasis on concrete policy concessions by the DPRK.

VI. THE CHINESE PERSPECTIVE

Despite pressure from international aid organizations, China did not make any significant policy changes in 2007 that would adjust the political calculus for its position on displaced North Koreans. Much like South Korea, China has a vested interest in the stability of the DPRK regime. Both countries wish to forestall the extremely costly mass migrations of refugees over their borders that could result from the political or economic collapse of North Korea. China remains the DPRK's staunchest ally and has so far been unwilling to use its economic leverage over the DPRK regime as strongly as some in the international community would like. Policy experts also speculate that the Chinese regime wants to maintain the strategic benefit of the buffer provided by North Korea against the huge number of ROK and U.S. forces on the southern half of the Korean peninsula. China has no desire to have U.S. army bases close to its borders. Given the current U.S. strategy of taking human rights–related issues off the table during the Six-Party Talks, there is no international actor capable of compelling China to change course.

VII. OTHER THIRD-PARTY NATIONS

In addition to the hunger strike of North Koreans detained in Thailand, one of the most publicized refugee situations of 2007 was the arrest and detainment of three young North Koreans in Laos, which itself has a very repressive and corrupt government. Several aspects of this case are emblematic of the shifting dynamics of the displaced North Korean situation. First, it reflects the steady

push of North Koreans out of China because of increased pressure from the PRC government. Second, it highlights the role NGOs and publicity continue to play. Displaced North Koreans have often sought shelter in foreign consulates and international schools, particularly in China, in the hope that employees will deliver them safely to the South Korean Embassy for repatriation. Various human rights groups often assist the displaced in planning these attempts, which often involve evading security guards. The success of many of these attempts, a number of which garnered widespread news coverage, has led many such facilities to increase security measures around their property. Thus, these types of organized, internationally publicized events are much more difficult to execute successfully, especially in China. But after several advocates for displaced North Koreans—including Helping Hands Korea, Life Funds and Sang-Hun Kim—intervened to publicize the three children's situation to international media organizations, the South Korean government negotiated their transfer to Thailand and finally to the ROK for resettlement. Another significant feature of this case is that, according to some reports, the children petitioned for access not to South Korea but to the U.S. Details about the screening process and the decision to send them to the ROK remain unclear. The State Department has made several public statements supporting the increased settlement of North Koreans onto U.S. soil, but the situation appears to be complicated by the requisite screening process—the U.S. does not have formal diplomatic ties with the DPRK, and so background checks are very difficult to execute.

VIII. THE U.S. PERSPECTIVE

The change from the former U.S. strategy of linking North Korean human rights abuses and the situation of the displaced to nuclear dismantlement efforts has elicited some accusations of flip-flopping. President Bush prominently advocated the linking strategy from the beginning of his administration, and it became a significant principle in the text of the North Korean Human Rights Act, signed into law in October 2004. The act was intended to facilitate the processing of North Korean refugees into the U.S. and to provide federal funding for refugee-related support activities.

The U.S. government's seemingly equivocal support for North Korean refugees is emblematic of the Americans' current state of indecision regarding two mutually exclusive strategies toward the DPRK—engagement on discrete issues or general pressure and issue linkage. This is a problem faced by all countries and advocacy groups involved in the situation of displaced North Koreans, but the influence of the U.S. in the Far East amplifies any changes in its policy. South Korea and China have clearly chosen engagement and, depending on the progress of the Six-Party Talks in 2008, the U.S. may have the opportunity to choose whether or not to make its policy change permanent.

IX. CONCLUSION

The strategic decision by the U.S. to delink the issue of displaced North Koreans and human rights in the DPRK from the nuclear issue, at least temporarily, risks the appearance that the U.S. government has sold out the displaced for broader geopolitical security concerns. As is the case for South Korea, however, there exists a basic logic to the attempt to pursue quieter diplomacy on the human rights front in order not to jeopardize the already precarious position of displaced North Koreans living outside the DPRK. This effort requires the political will to continue addressing the situation even without large media events to attract attention and a public outcry: storming embassies worked for some of the North Koreans involved, but it adversely affected the possibilities for those still at large. More countries might be willing to look the other way, if not actually condone the transit of North Korean refugees, if the issue did not cause significant political friction with the DPRK.

That said, it is difficult to argue with the humanitarian effort to call attention to the cause of North Korean human rights in general and to individual cases of the displaced in the hope of improving their condition or helping them get to their desired destination. At the end of 2007, the tension was far from resolved between short-term and long-term goals; between the will to aid the displaced immediately and the hope for the eventual transformation of North Korea into a more humane regime to the benefit of all its citizens; and between the desire to end North Korean human rights abuses as quickly as possible and the development of a carefully controlled unification process.

AFTER NORTH KOREA: REBUILDING THE HERMIT KINGDOM AND THE TRANSFORMATION OF A COMMAND ECONOMY

Tania L. Askins

I. INTRODUCTION

It comes as no surprise that the Democratic People's Republic of Korea (DPRK) has been labeled as the most autarkic industrial economy in the world. It has also earned the title of the most militarized country in the world. The policies of the DPRK have allowed this small country of approximately the same size and population of New York State to be cited as a textbook example of what can result from an isolated command economy. Compared with the performance of its southern neighbor, North Korea has served, in effect, as a self-selected control group in an economic experiment. With the DPRK's 60th anniversary drawing near, the country remains a curious oddity in the global system, and the international community nervously waits to see what will become of North Korea after Kim Jong Il.

The purpose of this paper is not to speculate on political change; rather, it is to analyze the development of the current economic conditions of the DPRK and draw conclusions about how these conditions could change. Referencing the direct correlation between infrastructure and economic development, the paper looks at the current condition of the transport and energy infrastructure, and suggests what investments would be prerequisites for growth. Finally, the paper evaluates the actors, both public and private, who could provide those investments and describes the roles they could play.

II. ECONOMY: PAST AND PRESENT

The DPRK was born under Soviet auspices in 1948. Before that, Korea was a colony that had been annexed by Japan in 1910. With Japan's defeat in World War II, Korea was liberated from Japanese rule, but the country was soon divided at the 38th parallel, separating North from South under different governments and economic systems. North Korea's economy was initially founded on Marxist communism and was perhaps more orthodox in its adherence to communism than any of the other communist systems. By 1955, socialist ideological differences between the Soviet Union and China, coupled with difficulties in securing foreign aid, prompted Kim Il Sung to propose his own form of communism—the ideology of *juche*, which is translated as independence or self-reliance. Under *juche*, the state pursued policies that would ensure a self-reliant economy that could illustrate the superiority of the socialist system. Priority was placed on heavy military industries as opposed to consumer goods and agriculture. It is ironic (and would be amusing if the long-term results were not so devastating) that although North Korea claimed to be pursuing a policy of economic independence, the DPRK was largely dependent on international aid to remain "self-reliant."

In 1950, the Korean War began when the North invaded the South. Three years of fighting did little to change the boundary that divided the peninsula, but the war did succeed in reducing both countries to rubble and destroying both economies. In the decade following, reconstruction was the focus of the DPRK's three- and five-year plans. Major industries were nationalized. Investment, largely from the Soviet Union, allowed the economy to grow at rather impressive rates. North Korea focused on industrialization, and up until the early 1980s, the northern economy (which followed a program of import substitution under central planning) actually grew faster than the southern economy (which pursued a policy of export-led growth under a free market).

The significant point of divergence between the two economies occurred in 1991, when the Soviet Union was broken up into 15 states. Perhaps no other country was more affected by the collapse of the Soviet Union than North Korea, which suddenly lost its supplier of oil and cheap inputs as well as its purchaser of industrial output and products. The DPRK was unable to purchase necessary inputs on the open market, industrial output declined sharply, and GDP growth was negative until 1998.

The break-up of the Soviet bloc was felt severely in the agricultural sector as well. Fuel imports were critical for not only industrial production, but also for agricultural equipment, which used oil to power machinery and irrigation systems. Compounding the problem was China's decision in 1994 to reduce its exports to the DPRK. Trade issues, combined with poor agricultural practices and an asymmetric distribution system, led to severe famine. Approximately 3 to 5 percent of the population is believed to have starved to death from approximately 1990 to 1998.

During this time, Pyongyang began to reevaluate its autarkic stance. A flurry of new laws were promulgated to encourage foreign investment and to establish trade zones, such as the Rajin-Sonbong Free Economic and Trade Zone in the northeast. As a result, a few Chinese (Hong Kong), French, Japanese, and even South Korean firms committed to building manufacturing facilities in the DPRK.

But in spite of these small attempts at reform, the DPRK's economy slowed to a crawl by the turn of the century. Economic metrics from year to year are based on a kind of economic reverse engineering; nevertheless, it can safely be said that the economy has not fared well. GDP growth was negative for several years and has only recently begun to increase at an extremely slow rate. The people continue to face shortages in food and energy. Still, the economy somehow muddles on, adhering to its philosophies of juche and military priority.

Military spending is perhaps the biggest factor precluding significant improvement in the economic growth rate. Because the military-first policy is a clear indication of spending and investing priorities, it leads to a dilemma for the international community in granting aid. Consistent spending on the military also exacerbates the issue of sanctions. Furthermore—and most obviously—overspending in the military disproportionately directs capital away from other sectors of the economy that could serve as catalysts for growth. Underinvestment in the manufacturing sector has stripped factories of the raw materials and equipment necessary to maintain output. It is estimated that factories currently run at 30 percent capacity because of old equipment and a lack of replacement parts. Infrastructure that is not tied to the military has not been maintained, let alone developed. And output in the agricultural sector has suffered from under-allocation of resources that could alleviate the shortage of fertilizers and improve antiquated methods. What little revenue the DPRK does generate is supplemented with unconventional and illegal activities that include missile sales, drug trafficking, remittances, counterfeiting, and smuggling.

III. TRANSFORMATION: SCENARIOS FOR CHANGE

The future of North Korea is a wild card. Numerous scenarios and hypotheses have been tendered by the academic community, government agencies, and the international press, and because North Korea possesses nuclear technology, the world is on edge to see what will happen after Kim Jong Il. Without

international aid and intervention, many commentaries predict some sort of collapse, meaning that the DPRK will either cease to be a sovereign state or will be in a condition so dire as to bring about a significant change. (Although, it is important to note that an economic definition of "collapse" does not really exist).

Gradual reform is a possibility, if not a probability. In fact, one could say that the DPRK has theoretically been undergoing reform since the 1980s. For example, a North Korea deeply in debt passed a joint venture law in 1984 to attract foreign direct investment. By the 1990s, the government's inability to meet the demand for food sparked a type of marketization. Informal farmers markets were tolerated, and by 1994 this second economy accounted for almost 20 percent of output. Finally, in 2002, the government officially announced economic policy changes that had a direct effect on prices and wages, and included market incentives.

Given that collapse is an incomplete (and poorly defined) scenario, and that adhering to the status quo without reform or aid is not a sustainable option, there are least two distinct paths toward reform that can be identified. The first is the Vietnam or China model, in which the DPRK remains a communist entity and either engages in some sort of opening up to the rest of the world or becomes a de facto protectorate of another country (i.e., China). The second is the East German or Russian model, in which the DPRK changes to a market system, either through unification with South Korea or through internal change with South Korean and international assistance. Whichever path the North Korean economy follows, the key factor is time. It is also important to note that one of the key differences between the DPRK and Vietnam/China is that the former is largely industrialized and urbanized. The DPRK is not a country with a large agrarian population; rather, a majority of the population in North Korea is urban. Pyongyang alone has been estimated to hold a large percentage of the country's population.

In light of the outcome of the most recent summit meetings, the gradual reforms that the North has been making, the age and health of Kim Jong Il, and the condition of the economy, reunification falls into the realm of possibility. The Koreans share a common culture, language and ancestry, and Korea was a unified state for more than a millennium before 1945. Assuming a peaceful integration (and one must remember that the Korean War was essentially a military attempt to reunify), the economic burden would fall on the South Korean state and the international community. The most immediate issue would be the prevention a sudden migratory flood. The next would be the reconstruction required to raise the GDP of North Korea within a reasonable time frame.

For the North, the issues would focus on how much the country could absorb—in aid, investment and technology. Some estimates of the absorption ratio (the ratio of investment/aid to GDP that a country can absorb into its economy) have been as low as 30 percent of GDP (approximately U.S. $4 to 5 billion). This implies that although the North would need (and get) a significant amount of assistance to match the South, it could take in only a small fraction of it.

IV. FOUNDATIONS: RESOURCES AND INFRASTRUCTURE

No matter which path it follows, if North Korea ever relinquishes its nuclear ambitions, it will need investment in its economy, specifically in its hard infrastructure, to make any kind of change. It should come as no surprise that North Korea's overall infrastructure is underdeveloped and poorly maintained. The country runs on a system established during the Japanese colonial rule from 1910 to 1945. The rebuilding effort will take enormous amounts of planning, investment and time. According to the *CIA World Factbook*, the DPRK has the following infrastructure endowments relative to the South:

Infrastructure Development
South vs. North

Category	South	North	Ratio (S/N)
Land (sq km)	98,190	120,410	0.8
Population (1,000)	49,045	23,302	2.1
Road			
Total length (km)	100,279	31,200	3.2
Length per sq km land	1.02	0.26	3.9
Percentage paved	87%	6%	13.6
Expressways (km)*	3,060	682	4.5
Rail			
Total length (km)	3,472	5,214	0.7
Percentage electrified	39%	67%	0.6
Port			
Loading capacity* (mil tons)	41,625	3,501	11.9
Per capita loading * (tons)	9.0	1.6	5.6
Electricity			
Generation capacity* (1,000 kw)	46,978	7,387	6.4
Electricity generated (bn kwh)	366	22	16.5
Gerneration per capita (kwh)	7.47	0.95	7.8
Telephone			
Total lines (1,000)	26,866	980	27.4
Lines per capita	0.55	0.04	13.0

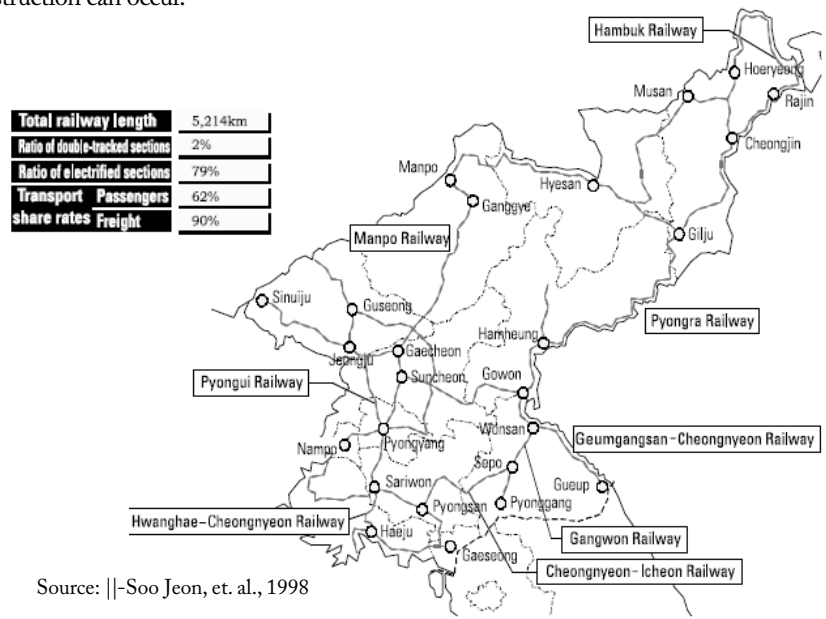
Source: CIA World Factbook

* Statistical Office of the Government of Korea

From this chart, it is evident that one of the most critical gaps between the South and the North is in the energy sector—the South produces 16 times more electricity than the North. This gap is due to a shortage of coal as well as the aging of generating facilities and leaks in the transmission system. Problems in the energy sector spill over into the transport sector, with resultant interruptions of railway operations. The transport sector is further hampered by underdevelopment and poor maintenance. Finally, the telecom sector, a critical component in the communications infrastructure, is underdeveloped for today's demands of business and commerce. It is estimated that the DPRK's development level is similar to that of South Korea in the mid-1970s.

On the other hand, North Korea has more natural resources than the South does. It is the world's second largest producer of magnesium, and it is estimated that the DPRK could possibly export up to 43 different mineral resources. The minerals necessary to make steel—iron ore, limestone, coal, and magnetite—are those in most abundant supply, but infrastructure underdevelopment has limited the country's ability to use these resources. This situation presents a distinct opportunity for foreign investment. In fact, after the Clinton administration eased sanctions against North Korea, the first U.S. company to form a joint venture was a mining company, Aurora Partners, which agreed in early 2000 to mine, process and export North Korean magnesium.

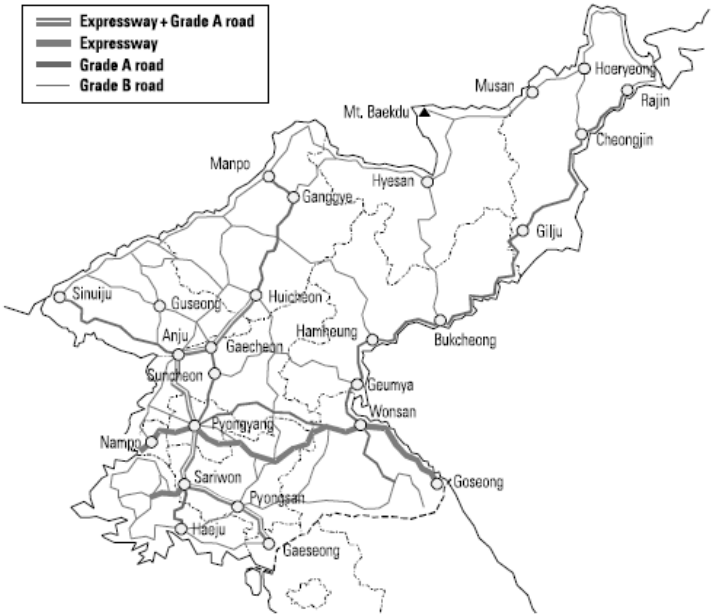
However, North Korea is not a friendly place when it comes to construction—mountains cover almost 80 percent of the country. Building roads and tunnels in this topography would be an expensive prospect even for a fully developed country. Furthermore, the hot and humid summers and bitterly cold winters, combined with a monsoon season that lasts for two months, greatly limit the number of days when construction can occur.



Source: ||-Soo Jeon, et. al., 1998

The mountainous regions and wet climate provide one large advantage, however: hydraulic resources for power. It is estimated that the DPRK could have up to three times the current amount of power generation from hydro resources. Not surprisingly, most of the hydroelectric plants were constructed during the Japanese colonial period.

All of North Korea's transport infrastructure is nationalized and exists solely for the purpose of industrial production or military mobility. Public transportation and mobility are limited and strictly controlled by the government; consequently, most people live within walking distance of their place of work. The DPRK's transportation development has largely mirrored the structure of its economy; in other words, transportation largely serves heavy industry and the military. The primary means of supporting industrial output is rail, which accounts for 80 to 90 percent of transport demand. Currently, the DPRK has a railway system of about 60 lines that extend over 5,000 km in four main routes. The foundations of this system were established during Japanese imperial rule; only a fifth of the network was built after 1960. However, more than 75 percent of the system has been electrified, which greatly improved operations in mountainous regions. But despite these improvements, rail speeds are slow (30 to 40 km/hr), because almost the entire network is single-track and must accommodate traffic in both directions. North Korea also maintains rail links with China and Russia.



Source: ||-Soo Jeon, et. al., 1998

Because the railways currently meet the needs of the transport industry and because of the extent of urbanization and the limited mobility of the population, investment in road construction in North Korea has been minimal. It is estimated that approximately 270,000 vehicles operate in the DPRK, and the entire network of roads totals only 23,000 km. Furthermore, those roads are mostly unpaved lanes about 2.5 m wide. North Korea has about 682 km of "semi-expressways" (four-lane roads) that were built after 1980.

Energy generation and use in the DPRK is an interesting case. Years of autarky have allowed North Korea to rank as one of the countries with the lowest rates of dependency on oil. What little oil is needed is allocated to the military. Hydroelectric power and coal have become the dominant sources of energy. Satellite photos of the peninsula reveal a darkened country compared with its illuminated neighbor to the south.

It is estimated that North Korea has 500-plus electricity generation facilities. However, only 62 of them (42 hydroelectric and 20 thermal, mostly coal-fired) are part of the grid to transmit and distribute energy. The remaining plants are either isolated hydro facilities or small facilities that serve a local industrial base. Total generating capacity is estimated to be approximately 10,000 MW, but only half of that is actually in operation. According to the Nautilus Institute, "The entire country is running at most on the equivalent of two to four large-sized power plants." As with all other parts of the infrastructure system, these facilities are under-maintained because of a shortage of replacement parts. South Korea depends heavily on nuclear energy, whereas North Korea has been all but prohibited from using this energy source.

Nuclear energy is, of course, the subject that keeps North Korea in the news. In the late 1960s, the DPRK built a 2 KW (later upgraded to 8 KW) research reactor in Yongbyon. In 1993, the DPRK sought to build two nuclear power plants to supply 250 MW of power. In an attempt to manage the security threat that a nuclear power plant would bring, the U.S. and the DPRK worked together in 1994 on a framework, which ultimately collapsed, specifying that North Korea would receive two light-water reactors—to be constructed at Shinpo—that would supply 2,000 MW of energy. In addition, the DPRK would receive enough fuel each year to supply energy needs until the reactors were operational. In exchange, the DPRK agreed to freeze its existing nuclear program that used graphite reactors, which are capable of producing bomb-grade plutonium.

Although energy might be the most immediate need for the DPRK's economic resuscitation, it is only one part of the infrastructure puzzle. Given a finite amount of resources and time, the questions are which projects to finance first, how to fund them, and who should provide the necessary financing. Once the prioritization and logistics have been decided upon, the three key follow-up issues are (1) who will provide the

materials; (2) who will design, build, operate and maintain the projects so they are completed with the maximum efficiency; and (3) who will provide oversight to ensure the minimum amount of corruption.

V. INVESTMENT: COSTS, PRIORITIES AND FUNDING SOURCES

Infrastructure is highly capital-intensive and time-consuming—both in the planning and construction phases. Furthermore, the expense involved and the difficulty in making changes mean that large projects should be part of a comprehensive long-term strategy that looks at future growth and demand as well as at expectations for land use and development. In a hypothetical scenario in which North Korea is peacefully unified with the South or otherwise opened up to the rest of the world, how would an infrastructure plan look? First, one would need a complete and accurate assessment of the current facilities, roads and rail lines, and their condition. Most likely, almost everything would need to be rebuilt or replaced, and priority would be given to projects that would immediately increase production.

Most North Korean factories, transport lines and energy facilities operate with tremendous inefficiency. The easiest initial approach, therefore, would be to increase efficiency through short-term upgrades. Basic improvements and replacement of parts could be used as an interim solution. The second step would be to address energy and transportation needs. Energy is the most important sector, because nothing happens if the lights are not on. Rail lines are nearly as important, because trains not only carry goods for trade but also transport coal to maintain an energy supply. North Korea needs the equivalent of two new power stations in addition to a transmission grid that can distribute power efficiently. Repair of existing hydropower plants is one interim solution. However, once existing energy plants are operating closer to capacity, sustainable energy solutions should be a part of the new infrastructure, and because the DPRK is in need of a new generation and distribution system, it is in a position to explore the development of alternative energy sources.

Land routes, both railways and roadways, are another key area for upgrading. It is estimated that because of North Korea's poor infrastructure, the cost of transporting a 20-foot container from Inchon to Nampo is four times the cost of shipping the same container the same distance to China. Obviously, the use of the existing infrastructure should be considered before new greenfield projects. In this area, and in general, North Korea can learn from the successes and failures of the South.

The most important part of any energy or mobility strategy is to anticipate and plan for sustainable future growth. Although it is not an immediate need, civilian mobility planning is crucial for later-stage development. Because North Korea

is so urbanized, mass transit systems should be considered in addition to roads. Once energy plants are operating closer to capacity, sustainable energy solutions should be a part of the new infrastructure. Finally, for commercial development, North Korea has an existing intranet infrastructure that simply needs constant voltage electricity in addition to access points throughout the country.

Replacing infrastructure, especially energy and transportation, is expensive. Calculating the total cost of infrastructure development in the North is a speculative undertaking. One formula extrapolates from the cost of South Korea's infrastructure. It is estimated that over the past decade, South Korea invested more than 2 percent of GDP in its infrastructure each year. Other metrics consider the cost involved for North Korea to raise its per capita GDP to some percentage of that in the South. Still others have referenced the case study that revealed that the German government spent almost 6 percent of its GDP on reunification. On the basis of these back-of-the-envelope calculations, estimates range from as little as $40 billion to as much as $400 billion for infrastructure development in the DPRK.

To pay the bill for reconstructing the North, several sources can be drawn upon, either alone or in combination. These include loans from international financial institutions (IFIs), aid from bilateral and multilateral donor agencies such as reconstruction or development banks, private bank loans and capital markets, and foreign direct investment.

If the DPRK is not absorbed into the South but seeks, rather, to open its markets as China and Vietnam have done, IFIs would be a good source of funds to finance infrastructure development. One huge obstacle stands in the way, however: the DPRK would need to be a member of the World Bank, which it is not. To become a member of the Bank, North Korea must be a member of the International Monetary Fund (IMF), and to become a member of the IMF, it would have to complete legal and structural reforms that would allow for private ownership and economic decentralization. The process could take years.

Currently, the DPRK is reluctant to join these institutions because it would have to open its country to economic surveillance and establish proper economic reporting mechanisms. There is one option, however, that is often cited as a source of immediate World Bank aid; namely, a trust fund similar to the one set up in 1993 to assist reconstruction in Gaza and the West Bank. The problem is that this funding is available only for post-conflict countries, and the DPRK would not qualify.

However, for a reunification scenario, the bigger issue is not cost, but rather time. Sixty years of autarky in the North have created a huge disparity between living standards in the two Koreas. As was the case for East and West Germany,

employment and migration will be critical issues. One possible solution to the issue of quickly financing infrastructure is private sector participation. The models of privatization (transfer of assets to the private sector), concessions (leasing assets to a private operator), and project finance (structuring a loan around a project's cash flows) can even completely bypass the requirements of loans from IFIs or other international institutions. Often, a combination of public and private initiatives ensures successful funding. The private sector brings managerial and operational efficiencies, while the public sector shoulders project risks. In addition, consortiums can offer various financing bids that encompass the design, building, operation and maintenance of a project.

Just as North Korea could be an example of how not to run a country, South Korea could be an example of how to transform a country ravaged by war. South Korea has been called "the premier global success story of the past half century." Per capita income in the North at the turn of the 21st century was approximately $1,000, compared with $16,000 in the South. The South Korean development model relied heavily on private investment and financing from the international capital markets. In fact, after the Asian financial crisis of 1997, the South Korean government passed the 1999 Private Participation in Infrastructure Act, which sought to encourage private participation in power, transportation, telecommunications and other utility sectors. The act gives bonuses for early construction completion and a guarantee of operating revenues in a specified time frame.

Other governments with political and economic interests in North Korea have begun to underwrite infrastructure projects. A few Chinese companies, such as Haier, sell goods in Pyongyang. And as a dominant historical trading partner with the DPRK, China has invested more than 2 billion RMB ($240 million) in the development of road and rail from Musan to Tonghua. In 2005, Dandong's municipal government assisted in a joint venture among the North Korea Railways Ministry, the Dangdong China Railways International Express and the China Railways Dandong Station to purchase up to 100 freight cars. Like China, Russia shares a border with the DPRK and has a vested interest in its transportation infrastructure. Currently, Russia has offered to upgrade North Korea's rail connections and is looking to link the Trans-Siberian Railway with the Korean railway system.

The largest South Korean company with the most interest in the North is Hyundai, which helped lay the foundation for industrial complex projects in Mt. Kumgang and Kaesong. Hyundai signed an Agreement on Economic Cooperation Rights with the North in 2000 that granted the company the business rights as contractor or procurement coordinator for infrastructure projects, but there is little current interest in establishing more business in one of the world's poorest countries.

For the most part, South Korea's infrastructure projects in the North have been markers of progress toward reconciliation or cooperation on the peninsula. The two biggest examples are the Kaesong industrial complex and the inter-Korean rail connection. On July 31, 2000, the two governments announced that they would reconnect the Kyongui railway that links the North and the South on the western part of the peninsula (Seoul to Shinuiju). The North agreed to work with the South and provide 3,000 laborers to restore the line. This would theoretically create a Korean "silk road" and allow travel overland from Pusan to Paris. This connection would carry not only political benefits but also economic ones. First, shipment time from South Korea to Europe could be reduced by as much as 15 days. Second, transportation charges could be reduced by as much as 75 percent. However, progress has been slow. In May of 2007, 150 passengers were finally allowed to travel from Musan to Kaesong by train as a part of a test run of the system. According to the *New York Times*, three years were spent actually re-linking the tracks and another four years were spent in negotiations with the North to allow a test run. It is estimated that South Korea spent almost $590 million to reconnect the rail system.

Infrastructure was also a focus of the 2007 inter-Korean summit. When former President Roh Moo-hyun visited the North for the October 4, 2007, he traveled on the Pyongyang-Kaesong highway, North Korea's first blacktop road, which spans 162 km. The results of that meeting included agreements to improve and expand freight rail service between Musan and Bongdong and to allow joint use of the Kaesong-Sinuiju railroad and the Kaesong-Pyongyang highway.

All these efforts may be needed for goodwill, but they fall short of creating a plan that truly reconstructs the North. Special economic zones and industrial complexes may help improve GDP, but North Korea will need a long-term economic and infrastructure development plan. The biggest problem precluding such a plan is information. The DPRK is a closed economy, so planning and assessments by foreigners would be based on anecdotes and estimates. However, if a plan is in place with some sort of baseline, even if it was based on estimated data, it is only a matter of ongoing modifications, which would make implementation that much faster.

VI. CONCLUSION

Making plans to rebuild North Korea's infrastructure and economy may seem premature given Pyongyang's stance on its nuclear program. And it is no secret that North Korea's short-term economy is not poised for growth. The DPRK is one of the few communist countries left standing, along with China, Vietnam, Laos, and Cuba. China and Vietnam are high-growth countries that remain under a socialist system. It is entirely possible that the DPRK could go through a similar transformation—from an autarkic country to one that is open but has a controlled market. It is also possible that a sudden reunification occur with the South. With the right capital infrastructure investment, long-term growth is a possibility for North Korea—it has many natural resources and a labor force that would be attractive to manufacturers and multinational corporations. Indeed, throughout the tumult surrounding the DPRK's perceived hostile stance, companies have been experimenting with doing business in the North.

And even if economic and trade prospects do not immediately attract investment, North Korea enjoys a strategic economic location: it is situated between South Korea and Japan, two countries that trade with China. South Korea has been unable to use land routes to ship or receive goods. As one scholar said, "After the Korean War, South Koreans were cut off geographically from the rest of the world as much as North Koreans were cut off economically and politically."

In the rebuilding process, IFIs are a possible solution, although a slower and more bureaucratic one. A definite and immediate role is possible for the private sector if sovereign guarantees are part of the funding structure. The cost to make the necessary upgrades in the energy and transportation sectors will be high, but much can be learned from the South Korean model of using the private sector to construct and manage critical projects with the maximum amount of efficiency in the minimum amount of time. Meanwhile, South Korea should try to maintain an infrastructure and rebuilding plan that could assist in the successful transformation of the North and economic integration of the Korean peninsula.

SMALL BLAST, EXPLOSIVE EFFECTS: ROLLER COASTER INTER-KOREAN RELATIONS

Michael Yo

I. INTRODUCTION

The underground nuclear detonation in the northeastern region of North Korea on October 9, 2006, registered 3.58 to 4.2 on the Richter scale, depending on the source. The Richter scale readings indicated a low-yield explosion of .55 KT (kilotons). Compared with tests conducted in the past by India and Pakistan that measured 10–12 KT, North Korea produced a much smaller blast than one would expect from a conventional nuclear test. Many experts say this indicates a failure of the North Korean test. But although the North may have produced a small tremor rather than a large quake, the political effect was explosive.

The nuclear test dealt a blow to political relations between North and South Korea, which had been pursuing a policy of engagement with each other. The test confirmed the worst fears of South Korea and the world. Shocked and incensed, Seoul sternly rebuked North Korea, and its policies toward the North grew cold. However, just a year later, on October 4, 2007, the leaders of the two nations held a summit meeting, capped by a declaration proclaiming continuous peace and engagement.

While political relations between the two Koreas faltered and then improved, economic relations held steadfast. Throughout the nuclear crisis and the ensuing negotiations, inter-Korean trade—especially from the special economic zone in Kaesong—showed relative gains and no ill effects from the political shocks. Typically, the politics and economics of a nation and its trading partners are intertwined, but inter-Korean economic relations seem to illustrate the "cold politics and hot economics" phenomenon.

The socio-cultural sphere of inter-Korean relations seems to take its cue from both political and economic relations: colder relations are apparent in socio-cultural areas that have greater political saliency, while the two countries enjoy warmer relations in areas with less political saliency. Among the former areas is the reunion of separated families, which is a prominent issue and one that hinges on the good will of both governments. Over the past year, when political relations grew cold, the government in the North ended exchanges between separated families. However, sports exchanges between the two countries, which have less political influence, appeared unaffected and even increased.

This report looks at all aspects and influences of inter-Korean relations—from political to economic to socio-cultural—from the October 9, 2006, nuclear test to the October 4, 2007, summit meeting.

II. POLITICAL TURBULENCE SAVED BY A SOFT LANDING

Most of the international community immediately and sternly rebuked North Korea for the nuclear test. This included longtime ally China, which called its neighbor's actions *hanran*, or brazen, a term it does not use lightly. The U.S. and Japan condemned the action and placed strict sanctions on the North. The United Nations Security Council unanimously passed Resolution 1718, condemning the North and sanctioning it just short of military enforcement. South Korea, already under pressure from the international community (particularly the U.S. and Japan) for its soft stance on North Korea, was placed in an even more difficult position. The nuclear test raised questions about the credibility of South Korea's policies and put pressure on the South to sanction the North. The test was the breaking point for the South's tolerance for the actions of Kim Jong Il and his regime.

South Korea's response was lukewarm but still very different from the usual appeasement. South Korean president Roh Moo-hyun denounced North Korea and delayed the shipment of 4,000 tons of cement to the North. (After the July 2006 missile tests, the South had suspended annual assistance in the form of shipments of 500,000 tons of rice and 300,000 tons of fertilizer.) On October 12, the South Korean Parliament passed a resolution condemning North Korea's nuclear test. These actions were not taken lightly—South Korea remained wary of provoking Pyongyang.

On October 26, despite warnings from the North that sanctions would be seen as a "declaration of confrontation," South Korea took concrete steps toward sanctions. In accordance with UN Resolution 1718, Seoul said it would ban officials from Pyongyang from entering the South; in other words, there would be no diplomatic exchange between the two Koreas. The ban came in addition

to the ban on humanitarian and economic aid, some of which had been halted starting in July after the North's missile test. This was a defiant stance for South Korea, but it did not last. With the first signs of cooperation from Pyongyang, Seoul's cold policies began to melt. On October 31, North Korea agreed to return to the Six-Party Talks. At the conclusion of high-level inter-Korean meetings on November 6, Seoul said it would not recognize the North as a nuclear state. On November 13, Seoul declined Washington's request to assist in intercepting and inspecting North Korean ships suspected of carrying weapons and related supplies.

The warming of relations halted, at least temporarily, on November 20. Traditionally, South Korea has abstained or has been intentionally absent during voting on UN resolutions regarding North Korean human rights. This time, however, South Korea voted in favor of a resolution condemning North Korea's human rights record.

But after Pyongyang came back to the Six-Party Talks for the second phase of the fifth round on December 18, 2006, and the third phase on February 8, 2007, it seemed that tension resulting from the nuclear explosion had been lifted. The joint statement from the third-phase talks, issued on February 13, signaled progress toward peninsular peace and stability. The greatest easing of tensions came on February 17, when Seoul lifted its sanctions. The two Koreas held ministerial level talks February 27 through March 2. Since the 2000 summit meeting, the two countries have held 19 cabinet-level meetings, during which decisions about economic and humanitarian aid are made, separated families are reunited, trust is built, and future cooperation is promised. Resumption of those meetings, therefore, was crucial.

On March 2, at the conclusion of the 20th round of ministerial-level meetings, the two Koreas agreed to resume humanitarian projects and reunions of separated families, and Seoul agreed to Pyongyang's request that it ship 300,000 tons of fertilizer. Through the Korean Red Cross, shipments began on March 28. South Korea also agreed to ship 400,000 tons of rice, but said that the speed of the shipments and the quantities shipped would depend on Pyongyang's sincerity in honoring the February 13 joint statement.

Progress in negotiations hit another stumbling block due to North Korea's suspected money laundering funds in Banco Delta Asia (BDA). On March 20, the Six-Party Talks stalled due to the unfrozen but inaccessible funds. North Korea refused to continue the negotiations until the $25million dollars in funds were released.

In other developments, for the first time in 56 years, a train crossed the militarized inter-Korean border on May 17. Although the trans-Korea railroad is not fully operational, its economic potential is monumental. And greater than the economic potential is its symbolic meaning for the future of the Korean peninsula and its influence on inter-Korean relations. South Korean Unification Minister Lee Jae-jeong likened the event to "reconnecting the severed bloodline of the Korean nation." His North Korean counterpart, Kwon Ho-ung, agreed, stating that the event could be compared to the Korean nation galloping toward reunification.

Seoul hosted Pyongyang's delegation for the 21st round of North-South cabinet-level meetings on May 29; however, no concrete progress was made on reconciliation talks for three reasons. First, even though the funds in Macao's BDA were unfrozen in March, the $25 million was still inaccessible. Second, the 60-day February 13 joint statement deadline had passed and North Korea still maintained its nuclear program. Third, although Seoul had reason, as it had warned, to withhold rice aid, Pyongyang demanded provision of rice. Furthermore, military talks on May 31 between the two Koreas at the border village of Panmunjom brought the Northern Limit Line coastal border disputes to light.

As far back as April 2007, Roh Moo-hyun had evidence that the North was shutting down its Yongbyon nuclear reactor. That evidence included satellite imagery proving the freezing of the reactor. Kim Jong Il thus had showed the Roh administration enough continuous progress that it had completed fertilizer shipments on June 11.

On June 14, after North Korea received its unfrozen funds from BDA, it finally allowed International Atomic Energy Agency (IAEA) inspectors into the country. On the basis of that action, the Roh administration resumed shipments of rice aid. The first shipment left on June 30, just days after the IAEA inspectors landed. In addition to the rice, the South contributed $20 million worth of food aid to the North through the World Food Program: 12,000 tons of corn, 12,000 tons of beans, 5,000 tons of wheat, 2,000 tons of flour, and 1,000 tons of powdered milk.

On July 4, a year after the North's missile test, Seoul as part of the Six-Party Talks February 13 Agreement promised to send Pyongyang 950,000 tons of heavy fuel oil in exchange for the irreversible disablement of the nuclear reactor, along with a declaration of all its nuclear programs. On July 12, IAEA inspectors began monitoring the complete shutdown of the reactor. On the same day, South Korea sent 6,200 tons of heavy fuel oil to North Korea as the first step in fulfilling its commitment.

Seoul's engagement with the North continued as Pyongyang agreed to a second summit meeting. It was scheduled for August 28–30, but massive flooding in North Korea caused a postponement. The floods affected key industries and about 14 percent of the arable land. In response, the South agreed to send $7.1 billion worth of aid to the North, including 100,000 tons of cement, 5,000 tons of iron bars, 80 trucks, 500 tons of gasoline, 20 road reconstruction machines, and 20,000 tons of pitch.

At the inter-Korean summit meeting October 2–4, Kim Jong Il and Roh Moo-hyun agreed to work toward ending the Korean War, resolve maritime disputes, continue inter-Korean economic development, and initiate new economic projects. The summit marked a peaceful end to a tumultuous year for both Koreas—what began with saber rattling ended in an accord toward permanent peace and cooperation.

III. HIGH-FLYING ECONOMICS

South Korea, whose open economy and stock market are tied to the stability of North Korea and of the entire peninsula, experienced a turbulent 2006 that discouraged many investors in the South Korean stock market. It was a politically uncertain time, and it was understandable that expectations for inter-Korean trade were pessimistic, especially because the nuclear test caused the Roh administration to back away from its policy of engagement. However, unlike the turbulent political relations of the two Koreas, economic relations were not only smooth but steadily expanding. The bustling economic exchange between the two countries flourished despite the chilling influence of politics.

Table 1: Inter-Korean Trade

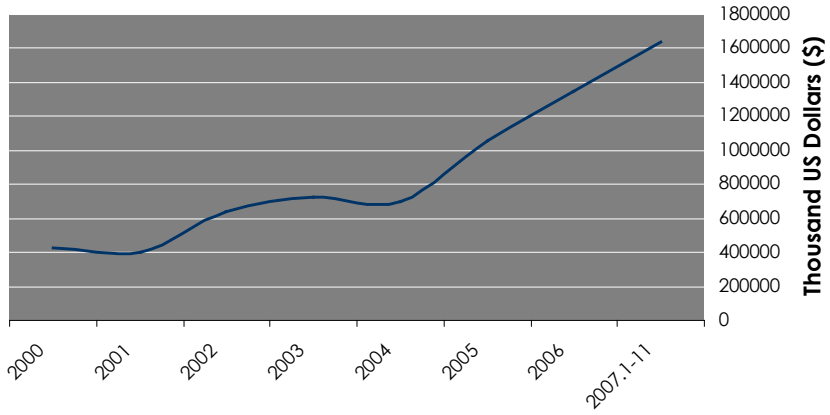
Commercial Trade					Noncommercial Trade				
Trade		Economic Cooperation			Aid to North Korea		Socio-Cultural Cooperation	Light-Water Reactor	
General trade	Processing brought- in materials	Kaesong Industrial Complex	Mt. Kumkang tourism	Misc.	Private donations	Govt. aid	Socio-cultural cooperation	LWR construction	KEDO heavy oil

Inter-Korean trade can be divided into two broad areas: commercial trade, which accounts for a large share of the dividends of trade, and noncommercial trade. Commercial trade can be subdivided into trade and economic cooperation, which bring in comparable U.S. dollar amounts. Under trade are general trade and processing brought-in materials, which are also comparable in their earnings. Under economic cooperation are the Kaesong Industrial Complex, Mt. Kumkang tourism, and miscellaneous. Among these three endeavors, the Kaesong Industrial Complex brings in the lion's share of the profits. Noncommercial trade is subdivided into aid to North Korea, socio-cultural cooperation, and light-water reactor. Under aid to North Korea are private donations and government aid; income from the former is consistent, but government aid varies according to the situation. Socio-cultural cooperation is a separate division. Light-water reactor is broken down further into light-water reactor construction and KEDO heavy oil, both of which are highly variant and affected by the external situation.

As figure 1 shows, 2006 was a high volume year for inter-Korean trade. In 2000, total inter-Korean trade was $400 million; in 2003, it was $724 million. The following year saw a 3.8 percent reduction to $697 million. In 2005, inter-Korean trade broke the billion-dollar mark. In 2006—a supposedly financially risky year—inter-Korean trade soared to $1.3 billion, a 27.8 percent increase over 2005. In November 2007, inter-Korean trade was at $1.64 billion—a 29.5 percent increase over the previous November. As the figure shows, except for a hitch in 2004, annual trade volume continues to increase, despite political events.

Figure 1: Inter - Korean Trade: Total Annual Trade Volume

(Data Source: KITA)



Of the total $1.3 billion in trade in 2006, the commercial trade sector was profitable at $930 million, which was a 34.5% increase from 2005. Under the commercial trade sector, general trade and Kaesong Industrial Complex accounted for the majority of the volume of trade. Of the total volume from commercial trade, exports from the South to the North accounted for $410 million, which was an increase of 17% from 2005, and exports from North to the South accounted for $520 million, an increase of 52%.

Additionally, the noncommercial trade sector cleared $421 million—a 15.1 percent increase over 2005. Under the noncommercial trade sector, aid to North Korea accounted for nearly $420 million, an increase of 14.8%. The remaining $1 million going from North to South came from socio-cultural cooperation, which experienced an astonishing increase of 449%.

As mentioned above, the first 11 months of 2007 cleared over $1.6 billion. The total for commercial trade for the same period cleared $1.3 billion, which was approximately the total for all sectors in 2006. The general trend of 2006 continued on to 2007. Under commercial trade, general trade and Kaesong Industrial Complex accounted for the majority and made the biggest gains.

The total for noncommercial trade from January to November 2007 was $345 million. Ten percent of the total for noncommercial trade came from provision of heavy fuel oil, while nearly 90% came from aid to North Korea.

The influence of political events was evident in the aid to North Korea. Throughout 2006, private donations increased 67.8 percent, to $407 million, but government aid fell 90.4 percent, to a value of $12 million, which was due to the sanctions South Korea put on North Korea. In the first 11 months of 2007, private donations were at $230 million, while government aid was up to $79 million from the rapprochement with North Korea. In 2006 total aid to North Korea was valued at $420 million, an increase of 14.8 percent; for the first eleven months of 2007, it was valued at $310 million.

In 2006, commercial trade saw significant gains. At $930 million (an increase of 34.5 percent from the previous year), the earnings were more than twice those of noncommercial trade. By November 2007, this figure had increased 52.1 percent from the previous year and nearly quadrupled the figure for noncommercial trade at a value of $1.3 billion. General trade and processing brought-in materials gained 44.9 percent, at a value of $304 million, and 20.6 percent, at earnings of $253 million, respectively. Thus, total trade was $557 million, a 32.7 percent increase over the previous year. The same trend was visible in the first 11 months of 2007. General trade was at $414 million and processing brought-in materials at $302 million, for a total of $716 million, or a 39.8 percent increase.

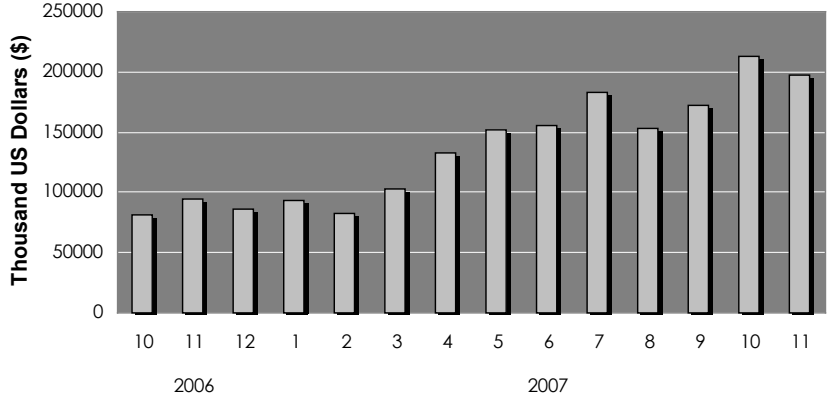
The other part of trade's large gain was from the economic cooperation sector, which saw a total of $370 million. By November of 2007, economic cooperation was at a value of $509 million.

Couple areas of interest are the special economic zones. First is Mt. Kumkang tourism, which in 2006, saw a 34.9 percent decrease from the previous year, earning $56 million. In the following year Mt. Kumkang tourism recovered with earnings of $105 million. The second is Kaesong Industrial Complex. Of total inter-Korean economic exchange, Kaesong is the area of greatest value and gain, at earnings of $300 million, an increase of 69 percent from the previous year. Through November 2007, Kaesong Industrial Complex was up by 47 percent from 2006, earning $392 million.

Thus, in 2006, inter-Korean trade generally increased in value and amount, and this trend (especially in commercial trade) continued through the difficulties and successes of 2007. The annual data for both years show no significant changes in trade; in fact, the figures show a steady upward movement, as if there had been no nuclear test, UN resolution, or sanctions. As the following data from October 2006 to November 2007 show, inter-Korean monthly trade generally followed the annual trend, with some variations.

Figure 2: Inter - Korean Trade: Total Monthly Trade Volume

(Data Source: KITA)



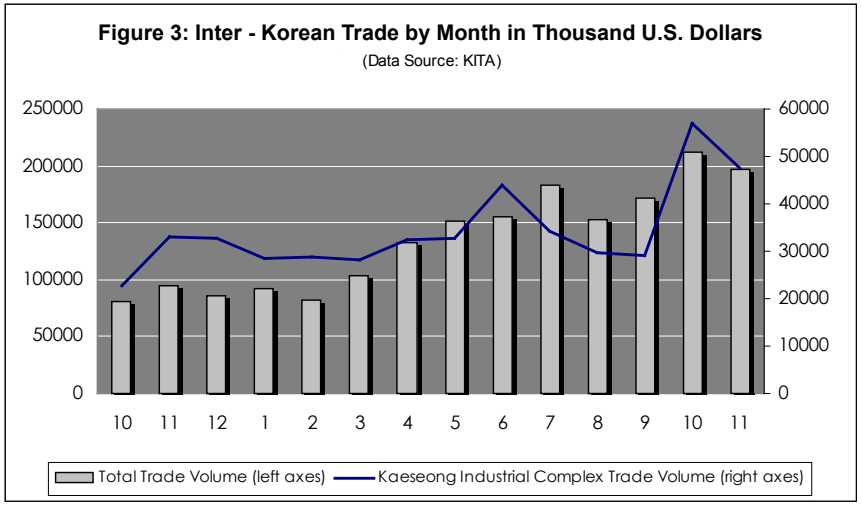
As figure 2 illustrates, the month after the nuclear test, trade figures increased; the month after the summit meeting, trade figures declined. Between October 2006, when the nuclear test was carried out, and November, trade increased in nearly all sectors. Total inter-Korean trade went from $80 million to $94 million, and noncommercial trade increased from $5.5 million to $8 million. This is surprising, considering the suspension of food and humanitarian aid, but it was balanced by private donations, which increased by about $3 million.

The picture is similar for commercial trade. In October 2006, the total was $75 million; in November it swelled to $86 million. Out of the five sectors in commercial trade, only one was a loser: processed brought-in materials decreased from $25 million in October to $24 million in November. The nuclear test in North Korea should have been considered a travel threat, but Mt. Kumkang tourism actually increased, from $1.071 million to $1.787 million. These numbers seem to indicate that not only at the state level but also at the private citizen level, there is little fear of nuclear destruction.

One factor that contributed to significant trade increases immediately after the nuclear test is the Kaesong Industrial Complex. South Korean workers continued to enter North Korea every day to work at the complex, and dollar values earned increased from $23 million in October to $33 million in November. On a smaller scale, the miscellaneous category increased from $375,000 to $800,000.

However, in the months following the nuclear test, as tensions mounted, trade output did begin to decline. Total trade output from November to December 2006 declined from $94.5 million to $86 million. This trend also included losses from the Kaesong Industrial Complex, which fell from $32.9 million to $32.7 million. In January 2007, the gains from manufactured goods from the complex fell again, to $28 million. Total trade, however, increased to $92.7 million.

In February, manufactured goods from the Kaesong complex increased to $29 million and total trade decreased to $82 million; in March, goods from Kaesong netted $28 million, but overall trade soared to $103 million. This up-and-down trend continued until November 2007, the last month for which data are available. However, the trend line for both total trade volume and the Kaesong Industrial Complex goes up. As figure 3 shows, the variation between the two is slight, and they follow a similar roller-coaster path upward.



The changes in values show no correlation with outside events. The fluctuation seems to follow normal trade flows rather than any significant dip in trade numbers from an exogenous shock to the system.

IV. SOCIO-CULTURAL EFFECTS

Throughout periods of political turmoil, the economics of inter-Korean trade seem to have been unaffected. However, it is the citizens of both North and South Korea who are affected by the political maneuverings of the heads of state. North Korea's nuclear experiment caused the South to suspend food and humanitarian aid; in response, the North suspended inter-Korean reunions of separated families. The one human exchange that does not seem to be affected by politics is international football.

Sixteen inter-Korean family reunion sessions have been held since 2000. The latest session took place October 17–21, 2007, at Mt. Kumkang as a result of an agreement at the October 4 summit meeting. The two Koreas agreed to build a permanent reunion center and increase the frequency of visits from periodic to monthly. In the first round (October 17–19), 97 South Koreans met 404 of their North Korean relatives; in the second round (October 20–21), 94 South Koreans met 219 of their North Korean relatives. This reunion session came after nearly a 15-month hiatus, as a result of the nuclear test and chilled political relations. Separated family reunions are important, especially as, according to the South Korean Red Cross, "10 South Koreans aged 90 years or older who have relatives in the North die every day." So far, only 15,381 of the total 90,000 separated family members have participated in the reunions.

On the other hand, just weeks after the October 9 underground nuclear test, the Democratic People's Republic of Korea (DPRK) took part in the Asian Football Confederation Youth Championship 2006 tournament. The DPRK men's team defeated Japan 2–0, Iran 5–0, and Tajikistan 2–1. In the playoffs, North Korea beat Iraq 2–0 and Jordan 1–0. In the final round, the DPRK tied Japan 1–1 but won 5–3 on penalty kicks. The women's team enjoyed similar success. In the Fédération Internationale de Football Association (FIFA) Under-20 Women's World Cup Final of 2006, the DPRK team was undefeated in the playoff rounds and beat China's team 5–0 on September 3 for the championship.

Although the government in the South was enacting sanctions and suspending humanitarian aid during that period, the South Korean teams played in both tournaments. Even Japan, which was distraught by the nuclear test and enacted sanctions against North Korea, competed in the tournaments along with the DPRK. Although her country was undergoing negotiations for the permanent disablement of its nuclear facilities, DPRK women's team member Ri Kum-suk received the Asia Football Confederation's Woman Player of the Year award. And in spite of tense moments of political standoff and brinksmanship, the men's and women's teams from both Koreas competed in friendly and World Cup–qualifying matches throughout early 2007.

In fact, sports in general seemed little affected by politics. On December 1, 2006, as their governments were suspending exchanges of political officers, the North and South teams marched together in the Asian Games in Doha. The two countries agreed to form a unified team for the 2008 Beijing Olympics, and the North agreed to support the South's bid for the 2014 Winter Olympics in Pyeongchang.

V. CONCLUSION

The events from October 2006 to October 2007 illustrate the seemingly contradictory cold political but hot economic and socio-cultural relations between North and South Korea. The contradiction can be attributed primarily to South Korea's sincere commitment to engagement on the peninsula and to its role and responsibilities in the world.

The October 9, 2006, underground nuclear test in North Korea proved to be only a minor detour in South Korea's policy of engagement. The South's quick abandonment of hawkish policies at the first sign of North Korean cooperation showed Seoul's commitment to engagement. This commitment was further displayed by the government's decisions to allow inter-Korean trade not only to continue but to flourish and to allow socio-cultural exchanges to continue

unhindered. Furthermore, the U.S. Department of State agreed even during the nuclear crisis that an engagement policy by the South Korean government was reasonable. Although Washington opposed Mt. Kumkang tourism as simply a cash transfer to North Korea, it accepted the strengthening of the Kaesong Industrial Complex, because it exposed the North to capitalism.

In the crisis, Seoul was sending two messages. As a responsible and active global player, it discontinued economic and humanitarian aid to the North as a sign to the world that it would not tolerate a nuclear test. At the same time, it continued inter-Korean trade as a sign to the North that it would not abandon Pyongyang.

In October 2007, the two Koreas concluded their summit meeting with a peace declaration. Both sides agreed to continue economic cooperation, including establishing new economic zones in Haeju and Mt. Paektu. Furthermore, both North and South Korea agreed to end the current armistice and establish permanent peace and to work toward mutual understanding and respect of their similarities and differences.

SOUTH KOREA-JAPAN POLITICAL RELATIONS IN 2007: ROH AND ABE'S PATH TO ESTRANGEMENT

Nat Kretchun

I. INTRODUCTION

Young and handsome by prime ministerial standards, Shinzo Abe was to be the proud fresh face of a new Japan. He entered the office on September 26, 2006, with high hopes and an ambitious agenda for change. He was determined to take steps toward shedding the postwar restraints that were placed upon Japan—both internationally and domestically—including, most notably, constitutional changes that would allow for Japan's remilitarization. Many, especially those on the political right in Japan, believed that Abe would help revive Japanese nationalism and allow Japan to assert itself as a world power in political and military as well as economic terms.

Yet, exactly one year later, Abe would resign amidst a plethora of scandals, a loss of domestic support, and Japanese diplomatic difficulties with its regional neighbors. Abe's rocky tenure as prime minister perfectly frames South Korean-Japanese political relations in 2007. Like the Abe administration itself, relations between South Korea and Japan began on a hopeful note before deteriorating into bitterness on both sides and a lack of positive diplomatic interaction.

II. ABE'S INAUGURAL TRIP: HOPE FOR BETTER REGIONAL RELATIONS

On October 8, 2006, just days after being inaugurated, Shinzo Abe broke with the long-standing tradition of a new prime minister traveling first to the U.S. before making any other official visits. Instead, in obvious acknowledgment of

the strategic significance and historically troubled relations between Japan and its two most important regional neighbors, Abe's first trip as prime minister was a diplomatic visit to Beijing and Seoul. This bold choice by the relatively hawkish Abe eased some fears about the new prime minister and gave many Koreans hope that, unlike his predecessor Junichiro Koizumi, Abe would usher in an era of improved South Korean-Japanese ties.

Abe's Goodwill Tour: Overshadowed by Kim's Blast

On October 9, just as Prime Minister Abe arrived in Seoul, the North Koreans successfully detonated a nuclear weapon. The test immediately threw the world, especially North Korea's close neighbors Japan and South Korea, into a frenzy of speculation over exactly what geopolitical implications the Hermit Kingdom's ascension into the nuclear club would have. Newspapers throughout Asia, which had been covering Abe's trip as a sign of hope for greater regional cooperation and stability, turned 180 degrees to cover the greatest and most direct threat to regional security in years. The goodwill that might have resulted from Abe's attempt at positive regional diplomacy was put on the back burner by pressing security concerns over North Korea.

III. SIX-PARTY TALKS: THE TRIUMPHS AND (MAINLY) FRUSTRATIONS OF MULTILATERALISM

Although Prime Minister Abe's trip to Seoul seemed to be a positive omen of good relations to come, the ability of South Korea and Japan to work together in the Six-Party Talks—a forum that would prove to be the two nations' most significant stage for diplomatic interactions in 2007—was imperiled from the start. The reason was Abe's personal convictions regarding the issue of kidnapped Japanese.

After North Korea's successful test of a nuclear weapon, the Six-Party Talks, which had stalled time and time again, took on a renewed urgency. All participants, including (perhaps especially) the DPRK, seemed more ready to work together. While each party had its own set of concerns, the main goal of five parties—the U.S., China, Russia, Japan and South Korea—was prompt, verifiable and lasting denuclearization of the Korean peninsula.

For Japan, the Six-Party Talks represented an important opportunity not only to help bring about regional peace and stability through denuclearization but also to reaffirm its position as a regional leader by meeting more frequently and working more closely with the other players in the region.

For Abe personally, the talks represented a chance to engage the North on

other issues of importance to Japan. Chief among those was a discussion about Japanese citizens who had been kidnapped by the DPRK. In Abe's mind, the abductee issue had to be satisfactorily resolved before Japan would provide North Korea with the aid and other incentives it hoped to receive in return for denuclearization. Abe's stance drew tough criticism from all sides.

The third session of the fifth round of the Six-Party Talks, which concluded on February 13, 2007, resulted in a joint statement in which North Korea agreed to freeze all its nuclear facilities at Yongbyon. The two main concessions in return for the DPRK's compliance in shutting down its Yongbyon reactor were the receipt of fuel aid and steps by both the U.S. and Japan toward normalization of relations with North Korea.

Nevertheless, Abe made good on his earlier claim: Japan would not supply aid to the North until significant steps were taken to resolve the abductee issue. At home, Abe came under attack even from members of his own party for his refusal to send fuel to North Korea. An article that appeared in the *New York Times* in February 2007 echoed the view of many critics claiming, "Tokyo's narrow focus on this issue, seemingly at the expense of regional stability, would leave it isolated." In South Korea, President Roh Moo-hyun was livid that Abe would sacrifice Six-Party progress—and perhaps the security of the entire region—over an issue involving a handful of Japanese who were unaccounted for. Compared with nuclear proliferation, the Japanese abductee issue had relatively little international resonance.

Abe remained defiant. In an address to the parliament, he said, "We must not be isolated and we are not, in fact, isolated. Other countries understood our decision not to provide oil unless progress is made in the abduction issue." In an interview with a *New York Times* reporter, Makoto Taniguchi, a Japanese scholar and former diplomat, said, "Japanese diplomacy has, so to speak, been abducted by the abduction issue."

IV. ABE AND THE ABDUCTEES

If Abe's singular focus likened him to Ahab in *Moby Dick*, the white whale that brought down his administration's ship was the abductee issue.

Many Japan-watchers, especially those in South Korea and China, had been apprehensive about Shinzo Abe's ascension to the prime minister post. The first prime minister born after World War II, Abe was the most decidedly nationalistic leader in Japan's postwar history. Given the intense distrust and bitter grievances that still linger among many of Japan's neighbors over its wartime actions, South Korea and others in the region were wary of a revival of

Japanese nationalism. But compared with some of Abe's other policy goals (such as his desire to revise article nine of the Japanese constitution, which prohibits Japan from militarizing), a tough stance against North Korea on the issue of abductees seemed rather innocuous. However, it was an issue on which Abe staked much of his political credibility with the Japanese public.

From the late 1970s into the early 1980s, a number of Japanese citizens were kidnapped by the DPRK. Although North Korea consistently denied it had done so, the DPRK eventually admitted to kidnapping Japanese citizens. In 2002 and 2004, after meetings with then-Prime Minister Koizumi, North Korea allowed five Japanese captives and then their seven children to return to Japan. The DPRK claims that a total of 13 Japanese citizens were kidnapped and asserts that the eight who have not been returned to Japan are dead. The Japanese government, on the other hand, currently recognizes 16 abductees, and some, based on DPRK-defector accounts, have claimed that the number may be as high as 70–80. This issue is a cause for outrage among many in Japan. It evokes a strong nationalistic response from the often apolitical Japanese, and even some prominent international figures have expressed their support for and condolences to the families of the victims.

Abe has made a political career out of the abductions, and the issue has served him well. By championing the return of Japanese abductees, he was able to stir nationalistic feelings and garner considerable domestic support. With regard to this issue, although some details could be disputed, Japan was firmly in the role of the victim, and because North Korea was widely viewed as a dangerous rogue state, Japan had little fear that the international community would support the DPRK. It was only when Abe made the resolution of the abductee issue a condition for meaningful Japanese participation in any resolutions reached by the Six-Party Talks that he finally overstepped his bounds. At this point, many in the international community did turn against him—including Roh Moo-hyun.

The South Korean president was determined to resolve the nuclear issue as quickly and completely as possible, and Abe and the abductee issue were proving to be an unexpected and extremely frustrating obstacle to progress. The press was aware of Roh's growing lack of patience; for example, when Roh backed out of a dinner meeting at the ASEAN +3 Summit with Abe and the Chinese prime minister, reporters were quick to point to an enmity between Roh and Abe as the true cause.

The *Korea Times* reported a South Korean official traveling with Roh to have said, "Add a touch of a cold, and he might have felt an intense mixture of physical and mental fatigue after a war of nerves with the Japanese prime minister." Roh had reportedly butted heads with Abe in the trilateral meetings

that preceded the dinner in which one of the top agenda items was the Six-Party Talks. Abe insisted that the North's abduction of Japanese people be included in their next joint press statement. He said, "Japan has tried to deal with the abduction issue within the forum despite Seoul's concern that it could complicate the already difficult denuclearization talks."

One of the most puzzling things about Abe's insistence on tying Japanese abductees to the denuclearization negotiations is his seeming failure to acknowledge the parallels between North Korean abductions of Japanese citizens and the huge list of Japanese indiscretions committed in Korea and other parts of the region a half century earlier. Almost every meeting of regional actors since the end of World War II has included at least some reference to other Asian nations' lingering bitterness over Japanese wartime atrocities. To many, it seemed as though Japan regarded its position as victim of a neighboring country's aggression to be unique in the region's history.

The Japanese have put themselves in a difficult diplomatic position over the abductee issue. They can likely expect little more in the way of concessions from the North Koreans; however, Abe's successor, Yasuo Fukuda, is bound by Abe's political maneuvering to include the abductee issue in any talks related to North Korea. From one noted South Korean scholar who described recent Japanese diplomatic missteps bluntly as "utter stupidity" to a former ambassador who encouraged other sides to be more understanding of Japan's difficult position despite its mistakes, observers seem to agree that Japan has made a serious miscalculation in tying meaningful participation in resolving the much more strategically vital issue of denuclearization to that of abductees.

An official at the U.S. Embassy in Seoul said he believes Japan's grievances with the DPRK over abductees made some political initiatives more sensitive, but that the Six-Party process would proceed regardless of Japanese participation. Japan's ability to delay the process, however, was apparent in Prime Minister Fukuda's visit to the U.S. just at the time when President George Bush would have had to notify Congress that he planned to remove the DPRK from the list of state sponsors of terrorism before the end of 2007. After the DPRK agreed to discontinue all nuclear enrichment programs, many observers believed that Bush would finally agree to remove North Korea from the list. However, Fukuda's presence in Washington more or less ensured that such an announcement would not be forthcoming, and that the DPRK would remain on the list at least into 2008. Later, officials at the U.S. Embassy in Seoul said that if North Korea continues to comply with the agreements reached by the six parties, Bush will likely remove the DPRK from the list regardless of Japanese objections.

The Six-Party Talks were both the major forum for South Korean-Japanese diplomatic interaction and the context of a huge point of dispute between the two countries and their leadership. It is safe to say that much of the deterioration in the relations between the two countries over the past year was the result of the abductee issue's injection into the Six-Party framework.

V. OUTSIDE THE SIX-PARTY TALKS: POLITICAL DEVELOPMENTS RELATED TO HISTORICAL MEMORY

Although the Six-Party Talks were an important source of both cooperation and disagreement between South Korea and Japan in 2007, the two countries continued to battle elsewhere over issues of historical memory in the region, especially the legacy of Japanese colonialism and aggression in Korea throughout the first half of the 20th century. Many issues—such as the content of Japanese history textbooks and claims over the Dokdo (Takeshima) Islands—are still far from being satisfactorily resolved. And even though the Abe administration made progress on some issues, others flared up again.

Comfort Women: Abe's Verbal Blunder and "Coerced" Apologies

In the early 1990s, a group of survivors brought into the international spotlight the plight of young Korean and Chinese girls who had been forced by the Japanese military to serve Japanese servicemen in overseas brothels. These girls were euphemistically referred to as "comfort women," and for many Koreans their story epitomizes Japan's wartime barbarism. During Abe's administration, there was renewed controversy over this issue, triggered by a seemingly unlikely source.

As it demonstrated recently with its statement condemning mass killings of Armenians in Turkey during World War I, the U.S. House of Representatives has at times commented on historical events that did not directly involve the United States. In early March 2007, one such resolution under consideration called on Japan to take clearer, more meaningful responsibility for its military's abuse of thousands of Korean and Chinese girls as sex slaves. The bill, House Resolution 121, eventually passed in July through the efforts of Rep. Michael Honda of California. Honda stated that it was "the sense of the House of Representatives that the Government of Japan should formally acknowledge, apologize, and accept historical responsibility in a clear and unequivocal manner for its Imperial Armed Forces' coercion of young women into sexual slavery… during its colonial and wartime occupation of Asia and the Pacific Islands from the 1930s through the duration of World War II."

Prime Minister Abe was outraged. Speaking in parliament, he reiterated the position of conservative scholars that Japanese officials and soldiers did not force women into brothels. Instead, they blame any coercion on contractors used by Japan's military and imply that most comfort women were professional prostitutes. The assertion that the Japanese military had not relied on coercion to staff its military brothels sent shock waves throughout much of Asia.

In the days that followed his initial statement—amidst outcries from South Korea, China, the Philippines, and others—Abe attempted to clarify the statement, and he apologized "as prime minister" for the pain and hardships suffered by those forced to work as sex slaves during the war.

Aside from the apparent lack of compassion in Abe's statement, Koreans were angered by the hypocrisy of the Japanese position. How, they asked, could Abe be so politically insensitive with regard to the issue of comfort women and so adamant about the abductee issue? Their outrage and confusion were echoed in an article in the *Los Angeles Times*:

> Anyone struggling to understand the Japanese government's position on the morality of kidnapping people, taking them to another country and forcing them to work against their will can be excused for being confused by the declarations coming out of Tokyo these days. On one hand, Prime Minister Shinzo Abe seems prepared to risk his country's reputation by saying that the Japanese military did not coerce the tens of thousands of women from other Asian countries cast into sexual slavery during World War II. Yet his government cannot contain its fury over North Korea's failure to "sincerely" face up to its role in kidnapping a handful of Japanese civilians during the Cold War and forcing them to teach Japanese customs and language to North Korean spies.

There is no hint here of any awareness of the irony.

Another reason for the renewed focus on the comfort women was related to Japan's effort to compensate the victims. A fund had been established in 1995 to compensate the woman, but most refused to accept any money because, as one former comfort women said, they saw the measure as a way for "the government to avoid taking direct responsibility." Only 285 women accepted money from the fund, which was terminated at the end of March 2007. The women's insistence on receiving an official apology rather than being bought off was largely interpreted as a moral victory for them. Japan is still not free of its historical responsibilities, and the Japanese government will have to deal with the issue for some time to come.

A Sea by Any Other Name

In yet another South Korea-Japan dispute, the two countries continued to argue over the name of the sea between the Korean peninsula and the Japanese islands, which is known in Japan as the Sea of Japan and in Korea as the East Sea. The Japanese name is a point of contention because it gained international acceptance during the period of Japanese colonial rule over Korea. Although Roh Moo-hyun proposed a rather creative diplomatic solution to the dispute, his efforts to resolve the issue yielded no forward progress.

Roh Moo-hyun wisely realized that should either side accept the name proposed by the other, it would be viewed as weakness and a loss of face. Thus, first in November 2006 at the APEC conference in Hanoi and then again in his New Year's address, Roh suggested another option: rename it the Sea of Friendship or the Sea of Peace. Abe immediately dismissed the idea, and Roh's suggestion was unpopular among many Koreans, who insisted on fighting for the East Sea moniker. Roh stressed the importance of bilateral compromise in dealing with South Korea-Japan issues. He said, "I did not make the proposal overnight. Some say it was improper that I offered the idea at a summit. But if the heads of state cannot talk about such an issue, why should we meet each other? I wanted to discuss it from a broader point of view. …[I]f the two sides agree to meet halfway and give it a third name, like the Sea of Peace or Sea of Reconciliation, the peoples in both countries would certainly like it, as far as they have consciousness."

Although this effort failed and the relationship between the two leaders deteriorated, Roh's attempt to compromise may indicate that in the future leaders of the two countries may search for new solutions to old problems. Or, at the very least, they might be willing to move slightly from the positions in which they have been entrenched for decades.

Yasukuni Shrine: Abe Tries a New Compromise

The Yasukuni shrine was a foreign relations nightmare for Abe's predecessor, Prime Minister Koizumi, and there was much domestic and international speculation about whether Abe would visit the shrine to pay his respects. Located in Tokyo, the shrine honors Japanese soldiers who lost their lives in World War II. Included among those memorialized are several high-level war criminals who oversaw atrocities that still incense Koreans and Chinese. Japanese leaders are caught between visiting the shrine (thus severely straining relations with South Korea and China) and opting not to go (thus facing criticism from Japan's political right). Koizumi attempted to finesse the issue with a technicality: he said he was visiting the shrine not in his official role as prime

minister but as a private citizen. This distinction did little to appease the South Koreans and Chinese, who had already thoroughly vilified Koizumi and saw his reliance on a technicality as more evidence of his insincerity.

Abe knew he would have to find a new solution to this seemingly impossible problem. In May, he confronted the issue in a way that showed considerable deference to the Sino-Korean position. Instead of visiting the shrine himself, he sent a representative with a small plant as an offering. The responses were mixed. The normally vocal Chinese were surprisingly mum, issuing no official statement regarding the incident. But the Korean Foreign Ministry reacted strongly, calling Abe's gesture "very regrettable" and "running counter to establishing a correct perception of history, which serves as a basis for regional peace and stability." It is likely that icy relations between Seoul and Tokyo in the months preceding Abe's offering contributed to Seoul's angry reaction to the compromise.

Abe showed, as had Roh, that he would endure domestic criticism in exchange for diffusing a contentious issue. While his diplomatic initiative was not considered totally acceptable, his effort to find a creative solution to a decades-old problem bode well for the prospect of future progress.

VI. DOMESTIC POLITICS IN JAPAN: EMBROILED IN SCANDAL

Throughout his term as prime minister, Shinzo Abe's diplomatic challenges were overshadowed by a seemingly endless stream of scandals. The cabinet and ministers he installed to help him realize his ambitious plans for change became the source of one controversy after another and contributed greatly to his extremely quick loss of popular support in Japan. The following is a list, originally compiled by the BBC, of some of the scandals that engulfed the Abe administration; it shows the domestic pressures and crises the prime minister was forced to deal with while trying to conduct foreign relations.

*December 21, 2006: Masaaki Homma, handpicked by Abe as government tax panel chief, resigns after allegations he was living in government-subsidized housing with a woman other than his wife.

*December 27: Administrative Reform Minister Genichiro Sata resigns over a scandal related to a political funds report.

*January 10, 2007: Allegations surface about inappropriate office management expenditures of Agricultural Minister Toshikatsu Matsuoka.

*January 27: Health Minister Hakuo Yanagisawa compares women to "birth-giving machines" in a speech.

*May 28: Agricultural Minister Matsuoka commits suicide.

*July 3: Defense Minister Fumio Kyuma steps down over A-bomb remarks.

*July 5: Allegations emerge about inappropriate handling of office management expenses by Agricultural Minister Norihiko Akagi.

*August 1: Agricultural Minister Akagi resigns.

*September 3: Agricultural Minister Takehiko Endo resigns over the misuse of farm subsidies. Yukiko Sakamoto, Parliamentary Foreign Secretary, also steps down over accounting irregularities in political funds reports.

*September 5: Two other ministers are found to have errors in their political funds reports.

As a result of these and other scandals, Abe's approval rating fell below 30 percent. The loss of popular support culminated in a disastrous loss for his party in the upper house elections. According to Japanese political custom, Abe should have stepped down in response to his loss of a public mandate. He initially said that he would not resign because the election results were a reflection of scandals, not public dissatisfaction with his policies; but just a few weeks later, on September 12, he announced that he would step down as prime minister. The reaction from Seoul was cool. The Roh administration issued no statement regarding Abe's resignation.

Abe's Out: Fukuda's Likely Effect on Relations

In the wake of the scandal-ridden Abe administration, the Liberal Democratic Party (LDP) was eager to pick a safe replacement who would promote the issues the Japanese public holds dear: pensions, health care, and income disparities. The party's choice of Yasuo Fukuda is by most accounts a good one for addressing those issues, and many observers have speculated that his selection as prime minister may have positive effects on relations in the region. Fukuda is perceived as less historically revisionist and more sensitive to Japan's immediate neighbors.

Although the new prime minister is bound to some of Abe's positions, he is generally expected to be far less dogmatic in his approach to North Korea. Japan's commitment to participate more cooperatively in the Six-Party Talks is key to ensuring that it does not become regionally isolated and will go a long way in repairing some of the damage to South Korean-Japanese relations under Abe.

In most areas of foreign policy, Fukuda seems to represent a shift to the center, in which, as the *Financial Times* put it, improved regional relations will take precedence over "asserting Japan's determination to flex its diplomatic muscles." There is no doubt that this approach will be welcomed in South Korea, where Abe's departure had become a precondition to repairing strained relations between Seoul and Tokyo.

In his first telephone conversation with Roh Moo-hyun after taking office, Fukuda described his beliefs about East Asian regional diplomacy: "I am convinced that further developing friendly and cooperative relations between Japan and South Korea will lead to the stability and prosperity of East Asia and the rest of the world." In the same conversation, Roh agreed to deliver a message about the abductee issue to North Korean leader Kim Jong Il during their summit meeting. Far more important than the content of the message was the fact that Roh, whose frustration with Abe was unmistakable, would agree to deliver a message on behalf of the Japanese. Roh's readiness to work with the new prime minister was a strong sign that Korea had renewed hopes for the future of South Korean-Japanese relations. Abe's tenure as prime minister also started on a positive regional note, but Fukuda's centrist leanings and regional foreign policy experience give reason to believe that he will not repeat the mistakes of his predecessor.

VII. LEE MYUNG-BAK: POST-ROH PROSPECTS FOR RELATIONS

On December 19, 2007, Lee Myung-bak—Grand National Party candidate and former mayor of Seoul—was elected to succeed Roh Moo-hyun as president of South Korea. Following two consecutive liberals, Lee is expected to bring a much more business like approach to the Blue House.

Many observers believe that Lee's style will facilitate South Korea's relations within the region, especially with regard to Japan. Early statements out of the president-elect's camp have focused on issues relating to regional diplomacy: "[Lee Myung-bak's] transition committee suggested the regularization of trilateral talks among the foreign ministers of South Korea, the United States, and Japan for intensified regional diplomacy…and that shuttle diplomacy with Japan suspended since June 2005 must be revived."

Lee has stated that while he will continue some of the Roh administration's more productive measures with regard to North Korea, he will "not shy away from criticizing North Korea's abuse of human rights." This willingness to take a stronger position toward the DPRK, in combination with Fukuda's likely softer position, may provide more room for productive cooperation between Seoul and Tokyo in the Six-Party Talks.

Consistent with his background as former head of the Hyundai Corporation, Lee has highlighted the possible economic benefits for Japan should increased Japanese participation in the talks lead to closer Japan-DPRK ties. He said that "improved relations between Pyongyang and Tokyo in the future would pave the way for Japan to make investments [in the DPRK]."

Noted Georgetown professor Victor Cha expressed the belief of many scholars that the recent leadership changes in South Korea and Japan should yield positive results for regional relations: "The pragmatism and business orientation of both Lee and Prime Minister Yasuo Fukuda of Japan should mean better relations are on the horizon."

VIII. CONCLUSION

Despite the political and diplomatic bitterness and impasse of the Roh-Abe era, economic and cultural exchanges between South Korea and Japan remain healthy. According to the South Korean Embassy in Tokyo, for example, some 2.31 million Japanese people visited South Korea last year, and about 2.36 million South Koreans visited Japan. The two countries are key economic partners, and trade between the two countries, even in a year of strained political relations, was robust.

On the diplomatic front, while old issues cropped up along with minor disputes and compromises, the most remarkable feature of the past year in South Korean-Japanese relations was the lack of developments. Despite Abe's initial attempt to extend an olive branch to Japan's regional neighbors, he soon repeated many of the diplomatic missteps of his predecessors. As a result of those blunders—and in conjunction with the South Korean leadership's anger over Abe's unwillingness to budge on the abductee issue despite its negative effect on regional security—relations between South Korea and Japan quickly soured. In the months leading up to Abe's resignation, it became clear that Roh was unwilling to work with Abe on bilateral issues and that improved Korean-Japanese relations would have to wait for a regime change. Now that such changes have occurred in both countries, we will see whether Lee and Fukuda can succeed in improving South Korean-Japanese ties.

CHINA-NORTH KOREA RELATIONS

Mathias Hartpence

I. THE NUCLEAR TEST AND AFTERMATH

On October 9, 2006, the Democratic People's Republic of Korea (DPRK) conducted its first underground detonation of a nuclear device. Pyongyang's official news organ acclaimed the event as "historic," one that would "contribute to defending the peace and stability on the Korean peninsula and in the area around it." The nuclear test—which occurred against the backdrop of tensions over the Banco Delta Asia (BDA) issue and the July 5 missile tests and against which all other Six-Party Talks participants had repeatedly cautioned—sent shockwaves throughout the region. The test pushed the nuclear issue back onto the front burner of international attention and underscored the growing rift between China and North Korea.

"Flagrant North Korea" on the cover of a Chinese magazine following the nuclear test in October 2006.

(China Newsweek / 中国新闻周刊)

Given their long-standing postures on the North Korean nuclear issue, calls by the U.S. and Japan for stringent United Nations (UN) sanctions against Pyongyang were not surprising. China's reaction, on the other hand, was somewhat startling in the extent to which it broke

with precedent. Although more tempered than the reactions from Washington and Tokyo, Beijing's diplomatic response was remarkable in that it publicly rebuked Pyongyang for the first time—Chinese policymakers had consistently avoided public opposition to North Korean actions as they sought to maintain a conciliatory stance in the talks. China's official reaction was also unusually swift. Immediately after the test, the Chinese Foreign Ministry denounced it as a "flagrant" act. In Beijing's eyes, the DPRK's defiance of China's admonitions against provocative action and its disregard for Chinese interests were a matter of deep embarrassment. Moreover, the test occurred just as reports surfaced that some in the Chinese foreign policymaking establishment were reconsidering China's approach toward its former communist ally, because of the mounting risk of regional destabilization associated with North Korean brinksmanship. Jingdong Yuan, Director of the East Asia Nonproliferation Program at the Center for Nonproliferation Studies of the Monterey Institute of International Studies, noted that Pyongyang's audacity seemingly tilted Beijing closer to strategic reappraisal.

In the Security Council deliberations at the UN, China joined its American and Japanese counterparts in calling for sanctions against Pyongyang, in what initially appeared to be a more coercive approach in Beijing's North Korea policy. Speaking to the press on October 10, 2006, China's UN Ambassador, Wang Guangya, recognized the need for a "firm, constructive, appropriate but prudent response" toward North Korea, adding, "There have to be some punitive actions." Minxin Pei of the Carnegie Endowment for International Peace observed that Beijing's traditionally close relations with Pyongyang may have lost their value as a strategic asset for the former and, in fact, become a long-term liability. Some media analysts went so far as to predict a definitive break between the two states whose leadership had once described the closeness of their relationship as akin to "lips and teeth" and an eventual siding of China with the U.S. in compelling North Korea to roll back its nuclear program.

However sour the ties between Beijing and Pyongyang had become as result of the latter's intractable brinksmanship between July and October 2006, the predicted break did not materialize. Rather, in the diplomatic tumult of late 2006, Beijing assumed a leading role in seeking to limit the negative fallout from the nuclear test. China sought to pull the region away from the maelstrom of a deepening crisis and toward a process of practical reengagement among the key parties.

Beijing has followed a pragmatic line in seeking to protect fundamental interests at stake on the Korean peninsula, chiefly the maintenance of stability on both sides of the Yalu River, the long-term denuclearization of the peninsula, and the perpetuation of the regional status quo. Even though political relations between

China and the DPRK have been increasingly tense over the past few years, their core mutual interests remain unchanged. In 2007, China opted for reengagement as its short-term strategy in the nuclear dispute, and it has been able to nudge Pyongyang in this direction. Beijing's interests are best served by an outcome that maximizes stability on the peninsula while preserving the geopolitical status quo of the wider region. At the same time, there are indications that Beijing may be reevaluating its long-term strategy with regard to a neighbor with demonstrated potential for provoking regional instability.

II. NORTH KOREAN PERCEPTIONS OF CHINA: FROM IDEOLOGY TO REALISM

The days of comradeship between Beijing and Pyongyang are a thing of the past—the two communist states have followed divergent routes of development over the past three decades. China has all but abandoned Marxist ideology and evolved as an increasingly prosperous open-market economy and society, while the DPRK has largely remained an impoverished hermit state whose government apparatus is underpinned by a rigid ideology centered on the personae of its leaders. Alexandre Mansourov of the Asia-Pacific Center for Security Studies wrote that "revolutionary traditions have faded away, and personal loyalties and leadership bonds have already dissolved. … Pragmatism and rational calculation of national interests prevail in both capitals."

China and North Korea: Friends at odds? (*Propaganda poster from the Maoist era.*)

As the two countries have grown apart in their world views and national systems—particularly in terms of their relations with other regional powers and the U.S.—they have developed considerable misgivings regarding each other's intentions. Though the vacillation of Chinese support has been a bitter pill for Pyongyang to swallow, it has learned to deal with Beijing no less pragmatically

than Beijing deals with Pyongyang. The post-Soviet years have undoubtedly disabused the DPRK leadership of any residual notions of solidarity among socialist nations, even if such notions had been at best pragmatically useful. The reality is that as a rational state with a hierarchy of prioritized interests, China is willing to pursue its multiplying and increasingly complex international objectives at the cost of Pyongyang's economic or political eclipse, short of collapse.

Some of the North Korean elite may believe that their country's enduring economic weakness and political isolation dovetail with Beijing's interests, as they have resulted in greater dependence of the DPRK political establishment on Chinese benevolence for its survival. In this situation, Beijing maintains some leverage—however limited—on the actions of its enfeebled neighbor. Mansourov notes that Chinese economic aid has been supplied at levels of minimum sustenance since the demise of the Soviet Union, including during the famines of the 1990s, and has often included various economic or political strings; for example, requests for Chinese access to North Korean mineral resources and for greater cooperation by Pyongyang at the six-party negotiations. Chinese assistance has mostly come in the form of food commodities, lower-end consumer products, and oil shipments. These amount to approximately 90 percent of North Korea's total provisions, which are bought on credit or bartered. "Friendly" prices no longer exist, as Chinese products are sold to North Korea at market value.

At the same time, Beijing has systematically endorsed economic reforms and a policy of opening up as the long-term solution to the DPRK's stagnation. Given the alleged rift between pro-reform and conservative factions in the Pyongyang elite, China's advice may be perceived by anti-reform groups in two ways: as interference in North Korean internal affairs or as an attempt to undermine the paramount authority of the Kim dynasty and its sustainers to the benefit of more pro-reform (and possibly pro-China) factions. North Korea expert Andrei Lankov has suggested that such a division—between the conservative top elite, composed of approximately one hundred senior cadres and their families, and a mid-level elite with some reformist aspirations—does exist.

These calls for economic reform may be perceived as disingenuous in Pyongyang's eyes, given the lukewarm support that China has provided to its neighbor's initial experiments with reform. A case in point was the Sinuiju special economic zone, whose first governor, a Dutch-Chinese businessman, was arrested by Chinese authorities for tax evasion. Mansourov observes that at some point Pyongyang may have come to believe that China does not wish to see it undertake extensive reforms out of fear that a prosperous DPRK could shed its reliance on Chinese aid and gain greater political independence, possibly

even engaging with the U.S. to the detriment of Chinese security interests. Or, conversely, China may fear that North Korea could become destabilized should reforms fail.

Finally, North Korea is suspicious of China's warming ties with South Korea and the U.S., as well as with Japan in late 2006 and in 2007. Given China's key interest in maintaining relatively sound economic and political relations with these countries (its fourth, first, and second largest trade partners, respectively), Beijing has reduced its political support for the DPRK. After all, it has far more to gain from the enhancement of its economic and political relations with these powers than from its unpredictable neighbor. Pyongyang may be wary of any possible signs of collusion between the U.S. and China, including tacit agreements of greater U.S. pressure on Taiwan to respect the cross-straits status quo in return for greater Chinese pressure on Pyongyang.

III. NORTH KOREA AND CHINESE INTERESTS

North Korean leader Kim Jong Il (center) and former Chinese vice premier Wu Yi (left) in Pyongyang for the completion ceremony of the Taean Friendship Glass Factory, built with Chinese aid.
(People's Daily Online, October 10, 2005)

Prognostications of a reversal of Chinese strategy in northeast Asia as a result of the nuclear test ultimately proved to be unfounded, as China's diplomatic maneuverings in 2007 demonstrated. Despite the embarrassment of having been inept in preventing the provocative actions of a smaller and far weaker neighbor, China nevertheless eschewed the sort of coercive stance U.S. government hard-liners had hoped to see following the test. In spite of its general support for punitive measures, Beijing opposed actions—notably the searching of North Korean cargo ships—that would push Pyongyang into a corner and could increase the latter's willingness to engage in further brinksmanship. Ambassador Wang Guangya said to reporters that if such inspections came "into operation, it could easily lead, by one side or the other, to a provocation of conflict, which could have serious implications for the region."

Beijing quickly took the lead in seeking to reinitiate the Six-Party Talks, the first step in what would become its policy of facilitating active reengagement between the U.S. and North Korea. China dispatched former Foreign Minister Tang Jiaxuan to the White House, where he delivered a message from President Hu Jintao: "It is in the interests of China and the United States, as well as the interests of Northeast Asian countries, to realize the denuclearization of the Korean peninsula, [to] maintain peace and stability on the Korean peninsula and Northeast Asia." He added that the two countries should "prevent the situation from getting worse or even getting out of control." Tang subsequently led a delegation to Pyongyang, where he extracted Kim Jong Il's acquiescence to reinitiate the stalled talks without preconditions. Some South Korean academic experts suggest that China likely applied pressure to get Pyongyang to return to the talks, though it remains unclear whether the incentive was punitive or remunerative.

At the heart of Beijing's desire for a peaceful denouement to the issue lie several critical interests that directly bear on what Michael Swaine and Ashley Tellis of the Carnegie Endowment for International Peace once described as Beijing's core objectives of maintaining domestic stability and external security. The long-standing nature of these interests is corroborated in regular press conferences with the Chinese Ministry of Foreign Affairs (MFA), which has persistently reiterated an unchanging official position. For example, on February 17, 2005, MFA spokesman Kong Quan made the following statement: "I want to stress that China persistently stands for the denuclearization, peace and stability on the Korean peninsula." Despite the DPRK's flagrant behavior in late 2006, in January 2007 the MFA spokesman repeated that "the interest shared by all the countries concerned [is] to realize the denuclearization of the Korean peninsula through dialogue and negotiation, maintain the peace and stability of the peninsula, and thereby attain and safeguard the peace and stability of the entire Northeast Asia."

Emerging in relative importance on the scale of Chinese priorities are interests tied to the Chinese Communist Party leadership's need for sustained and robust domestic economic growth and healthy political relations with the U.S., as well as with Japan and South Korea. This explains Beijing's coolheaded pragmatism in oscillating between support for the North Korean and U.S. positions, respectively. As Scott Snyder and Joel Wit of the United States Institute of Peace note, the momentousness of these interests also explains why China strayed from its traditional line of noninterference in the internal affairs of other states to take on a leading role in resolving the DPRK nuclear issue. 2007 has further demonstrated Chinese willingness to assume a chief diplomatic role in the defense of its interests beyond its borders.

The maintenance of political stability in North Korea is China's foremost objective, surpassing even its neighbor's eventual denuclearization. North Korea's possession of nuclear weapons is detrimental to Chinese interests in the long run, because that possession justifies a strengthening of the U.S.-Japan alliance or implementation of a U.S. missile defense shield system in Asia. Such eventualities are dwarfed, however, by Beijing's perception of the immediate and catastrophic implications of serious political instability in North Korea. In a 2005 presentation to the U.S.-China Economic and Security Review Commission, the RAND Corporation's Murray Tanner noted that the three northeastern provinces that border North Korea (Liaoning, Jilin and Heilongjiang) are China's region of greatest social unrest. The area, home to almost 110 million people and once the hub of China's state-owned heavy industries, has been experiencing years of economic decay and high unemployment as a result of the slow demise of the state-owned sector. Although economic recovery in these provinces has picked up in recent years, Beijing continues to view the region as a potential powder keg of nationwide social instability. China is adamant about preserving stability in this region's immediate vicinity, which includes North Korea. The exertion of heavy economic or political pressure on North Korea advocated by U.S. and Japanese hard-liners is out of line with Chinese interests, since either kind of pressure could lead to the socio-economic disintegration of North Korea, with negative repercussions on the Chinese northeast.

One of Beijing's main concerns is that of a massive and destabilizing influx of North Korean refugees into the Chinese northeast should the North Korean state verge on collapse. In the run-up to the Beijing Olympic Games in the summer of 2008, the Chinese government sees social stability as an absolute imperative as its seeks to project the image of a stable, modern state. Hu Jintao's report at the 17th Party Congress in October 2007 emphasized "promoting reform and development while maintaining social stability" and nurturing a "harmonious socialist society." The presence of millions of North Korean refugees at its border would tarnish the international image Beijing wishes to project.

Moreover, Beijing is worried that a larger Korean demographic presence in Jilin's Yanbian Prefecture (an area traditionally inhabited by Chinese of Korean extraction and claimed by certain South Korean nationalists to be the lost province of Gando) could eventually precipitate calls for a redrawing of national borders to match demographic reality. This concern is highlighted by what one expert at Seoul National University sees as the progressive dilution of the ethnic Korean identity of this region. Given the growing local Han population, coupled with the emigration of Chinese of Korean extraction to South Korea, ethnic Koreans now represent less than 40 percent of the prefecture's population. Thus, according to Chinese law, most local government position quotas no longer need to be guaranteed for the minority ethnic group. Furthermore, Korean language schools in Yanbian are reportedly dwindling as the demography of the region changes.

On the academic front, Chinese scholars have continued working on the Northeastern Project, which has sparked diplomatic tensions with both Koreas by its appropriation of the ancient (AD 37–668) kingdom of Koguryo (also referred to as Goguryeo) as part of Chinese history. Koguryo covered an area equivalent to today's North Korea and much of the Chinese northeast. Academics have speculated that the Northeastern Project's assertions may be in anticipation of possible territorial demands over Yanbian by a reunified Korea. It is notable that North Korea has joined the South in emphasizing that the ancient kingdom is the heritage of a reunited Korea. The Korean Central News Agency (KCNA) reported on November 15, 2007, that a symposium of social scientists was held in the North "to mark the 1,580th anniversary of the transfer of the capital of Koguryo to Pyongyang…" and its "great impact on exalting the national honor and the international prestige of Korea in the middle ages." In late November, KCNA further stated that Koguryo "always inflicted wholesale deaths on the enemies in battles against foreign invaders. …Very strong in *attack* and *defense* capacity, the armored unit … was one of the important factors of Koguryo becoming the great power in the East." Interestingly, "foreign invader" could refer to both Tang dynasty China and Silla (whose borders closely correspond with those of present-day South Korea).

Another key Chinese aim is that of maintaining the regional geopolitical status quo, thereby precluding any hasty transformation of the power-political balance on the Korean peninsula to China's detriment. Although China is not adverse to the notion of a reunified Korea in the future, it seeks to ensure that reunification would not harm its interests. Wang Yiwei of Fudan University once outlined China's preferred scenario for North Korea this way: a gradually modernized and stabilized North Korean state would act as a buffer between itself and U.S. troops in South Korea and would contribute to the economic rejuvenation of China's own northeast region. On the one hand, the Chinese have been considerably more supportive of inter-Korean diplomatic exchanges and commercial relations

than has Seoul's U.S. ally. They spelled out this official stance specifically at an MFA press conference: "On the issue concerning the Korean peninsula, the main parties are the North and South Koreans, and we hope that both sides will further enhance understanding and ultimately achieve independent reunification through peaceful means."

On the other hand, Beijing is not banking solely on the friendship of a reunified Korea that would eventually lose sight of the raison d'être of its U.S. alliance. This may have seemed plausible at the height of "China fever" and anti-Americanism in South Korea five years ago, but Beijing is undoubtedly aware that the pendulum of South Korean sympathy has swung away from pro-Chinese sentiments. Indeed, South Koreans elected a pro-American candidate—Lee Myung-bak, who supports a reciprocal policy toward North Korea—to the presidency on December 19, 2007. Lankov suggests that Beijing is placing its chess pieces in the North so it will be in a strong enough position to pressure Seoul to acknowledge Chinese interests following eventual reunification. One element of this strategy is the expanding use of Chinese infrastructure-related standards accompanying the Chinese economic presence in the DPRK, which could make Beijing a quintessential economic actor on the peninsula.

IV. TOWARD REENGAGEMENT AND THE END OF EXCEPTIONALITY

North Korean leader Kim Jong Il (right) and Chinese ambassador Liu Xiaoming enjoy a meal at the People's Republic of China Embassy in Pyongyang on the occasion of the Lantern Festival.
(*Embassy of the People's Republic of China in the DPRK, Official Website, March 2007*).

The risks that the nuclear detonation posed to China's strategic interests have galvanized its policymakers into steering the affected parties back toward negotiations. Through active back-channel consultations, Beijing was able to break the impasse that had stalled the Six-Party Talks for almost a year, and it announced on October 31 that Pyongyang had agreed to return to the negotiations. Although talks were convened in Beijing on December 18, they produced only minor tangible progress in the resolution of the Banco Delta Asia (BDA) issue (regarded by the DPRK as a requisite for progress on the nuclear issue); the six sides merely reaffirmed their commitment to the principle of "action for action." The North Korean and U.S. sides did pledge to meet in New York the following month to further consult on the question of financial sanctions. For its part, China pursued diplomatic initiatives throughout the year, aiming toward a compromise solution on the denuclearization of the Korean peninsula. If 2006 was a year of inertia in the six-party process, 2007 was one of diplomatic reengagement, much of it under the aegis of the Chinese foreign policymaking establishment.

Beijing's modalities of engagement have remained the same as they were before the nuclear test. Rather than leaning strongly toward Washington in ways that could have further exacerbated the DPRK's suspicions, or offering undue material support to Pyongyang as inducement for the latter's cooperation (which would likely have drawn U.S. accusations that Beijing was rewarding its former ally's bad behavior), China maintained a balanced official stance that all parties to the talks should remain flexible in seeking to resolve the standoff. This was confirmed on January 4, 2007, when MFA spokesman Liu Jianchao stated at a press conference that "China's assiduous efforts to solve the nuclear issue on the Korean peninsula and propel the Six-Party Talks have been widely recognized and appreciated by the international community, including other parties to the Six-Party Talks. As is known to all, the nuclear issue on the Korean peninsula is very complicated and demands a flexible and practical attitude of the principal parties. All parties should play a constructive role."

The fact that the nuclear test had occurred in spite of President Bush's long-standing hard-line posture underscored the ineffectiveness of the hawkish stance, providing credibility to proponents of pragmatism in the Chinese diplomatic establishment who had long called for greater compromise between Pyongyang and Washington. Notably, China's sub-rosa consultations with officials in Washington may have given a boost to calls by realists at the U.S. State Department for a more practical and creative approach, including formal direct negotiations between American and North Korean officials, for which Beijing had long appealed. Indeed, on January 18, 2007, following U.S.-DPRK talks in Berlin, Liu Jianchao stated that China "always supported direct contact between the U.S. and the DPRK. We hope this meeting achieves positive results and creates conditions for the early resumption of Six-Party Talks." The numerous one-on-one meetings between U.S. chief negotiator Christopher Hill and his

North Korean counterparts in 2007 attest to the closer convergence between Beijing, Washington, and Pyongyang on a line initially traced by Beijing.

Beijing's approach was, first, to convince U.S. policymakers of the need for a give-and-take approach and, second, to bring Pyongyang back to the negotiating table without preconditions. Although China was prudent in not maneuvering too aggressively against Pyongyang, its neighbor's flagrant moves diluted any remaining scruples Beijing may have had about using more forceful tools to obtain North Korea's cooperation. Scott Syder and Joel Wit of the United States Institute of Peace quoted a Chinese analyst who allegedly described North Korea as a "wayward son who requires discipline from a parent."

However, China's willingness to use a bigger stick to exact its neighbor's cooperation immediately after the July 2007 missile tests seemingly backfired. A *New York Times* article claimed that Chinese oil shipments to North Korea were completely halted during the month of September, immediately preceding the nuclear test. If the claim of this report is true, the fact that Pyongyang chose to conduct its nuclear test regardless of its large neighbor's admonitions may have led Beijing to believe that tougher measures would be counterproductive and might propel the Kim Jong Il regime to take even riskier actions. This experiment with hard diplomacy may have confirmed to China that Pyongyang could not be prodded too forcibly and that any hope for true progress ultimately rested on a shift in the U.S. position. Although China's four major banks were ordered to cease all transactions with North Korean companies and individuals in late 2006, it appears that Beijing balked at another "oil supply shock" that could induce its neighbor to push the stakes higher.

In light of progress made on the BDA issue between the U.S. and the DPRK in January in Berlin, China was able to organize the third session of the fifth round of the Six-Party Talks, which began on February 8. During the course of those talks, China circulated a draft joint statement on North Korean denuclearization to the five other parties, which Christopher Hill indicated would include actions as opposed to pledges. The February 13 agreement sponsored by China offered Pyongyang a rare opportunity to back away from its brinksmanship and reestablish ties with the international community and pursue economic reforms, notably working toward an end to U.S. sanctions. The following were among its provisions: "The DPRK and the U.S. will start bilateral talks aimed at resolving bilateral issues and moving toward full diplomatic relations" (II-2); "The US will begin the process of removing the designation of the DPRK as a state sponsor of terrorism, and advance the process of terminating the application of the Trading with the Enemy Act with respect to the DPRK" (II-2); and "The Parties agreed to cooperate in economic, energy and humanitarian assistance to the DPRK. In this regard, the Parties agreed to the provision of emergency energy assistance to the DPRK in the initial phase" (II-5).

China has been empathetic to Pyongyang's security concerns vis-à-vis its American nemesis, within the bounds of not endangering core Chinese interests. By assuaging these concerns through the process of reengagement initiated in the February 13 agreement (including the resolution of the BDA financial issue), China was killing two birds with one stone. First, it was successful in reducing tensions by bringing the U.S. and North Korea to the negotiating table, thus lowering threats to the peninsular status quo and its own domestic stability. Second, by facilitating reengagement between North Korea and the U.S. (including direct talks between the two countries aimed at eventual diplomatic normalization), China is depriving the Kim Jong Il regime of its stated justification for developing nuclear arms in the first place. Once the regime's security concerns were adequately addressed, it would be expected to dismantle its nuclear program, reversing a reality that could trigger a regional arms race that is incongruous with China's security interests.

Furthermore, by creating incentives for Pyongyang to reform and modernize its economy, China may have hoped for a double-win situation. First, it would reduce the burden on itself of North Korea's economic needs, especially in terms of energy and food relief. Second, although economic modernization reforms along the lines of those enacted by China in the 1980s and Vietnam in the 1990s would likely decrease the DPRK's dependence on China (since opening up would ultimately result in burgeoning economic ties with South Korea and the European Union, not to mention the U.S. and Japan), by virtue of its location and recent investment in the country, China could position itself for immense strategic gain as a primary investor in the DPRK.

Among other actions, the agreement called for the establishment of working groups on U.S.-DPRK relations, Japan-DPRK relations, energy and economic aid, armistice and security issues, and denuclearization of the Korean peninsula. In addition, 50,000 tons of heavy fuel oil (equivalent to emergency energy assistance) was to be delivered to North Korea within 60 days of the talks. In return, the DPRK was to halt "plutonium production and processing [activities] at Yongbyon and allow International Atomic Energy Agency inspectors back into the country to monitor and verify this freeze." At the end of the day, China's joint statement was somewhat of a boon for Pyongyang, and it underscored the idea that Beijing sees no solution to the North Korean nuclear issue that would further weaken its neighbor. Gradual internal stabilization of the DPRK through economic engagement, coupled with normalization of ties with the outside world, remains China's objective in the Six-Party Talks. In February 2007, most concessions came from the U.S. side.

Over the past year, China may have gotten the sense that its neighbor was finally willing to attempt economic reforms and the normalization of its

international position. Over the spring and summer and into the fall of 2007, North Korea established or renewed diplomatic ties with numerous countries in the Middle East, Southeast Asia and Latin America, similar to the flurry of diplomatic relations it established with European countries, Australia and Canada around the time of the first inter-Korean summit in 2000. 2007 saw a push for reengagement with Pyongyang and the progressive transformation of China's ties with its neighbor into normal state-to-state relations, without the conspicuous exceptional treatment accorded the North Korean regime in the past. Two well-publicized situations demonstrate that Chinese tolerance is dwindling regarding North Korea's flaunting of the normal rules of conduct in interstate affairs.

During the sixth round of the Six-Party Talks first convened in March 2007 and resumed in July, the U.S. and the DPRK reached an agreement on the North Korean funds frozen at the BDA. The agreement would have allowed for the transfer of these funds to another bank after they were "cleansed" by transferring them through a U.S. bank (the issue was less that of the funds themselves than of restoring North Korea's access to international financial markets). However, the transfer turned out to be an extremely complicated matter for China. The U.S. and North Korea initially sought to transfer the funds through the Bank of China, but the Chinese balked because BDA had been blacklisted by the U.S. Treasury. China refused to provide a financial haven for the North Korean funds because of its concern that this would put it at odds with the U.S. financial system and, by extension, with much of the global financial system. Thus, the Chinese declined exceptional treatment to North Korea. Following intensive technical consultations with the other parties, the transfer issue was finally resolved when Russia agreed to have the funds transferred to a bank in Khabarovsk.

In another example of China's dwindling tolerance, it held thousands of tons of food aid to North Korea at the Dandong-Sinuiju border in October 2007 because of a dispute between the DPRK government and Chinese train companies. According to the *Financial Times*, some 1,800 Chinese train cars carrying provisions had been retained in North Korea, where they were dismantled by the regime for scrap metal use. Chinese train officials responded to the loss of rail cars with a policy under which one car was sent into North Korea for each car that emerged. As a result, aid from the World Food Program was blocked from being delivered to North Korea, despite the severe flood damage to the country's food production bases.

In late 2007, the DPRK made public overtures to South Korea and other countries in the region, suggesting that it wishes to be less dependent on its large neighbor. During the second inter-Korean summit between Kim Jong Il and

South Korean President Roh Moo-hyun in early October, the two sides pledged further economic and political cooperation. Experts close to the government in Seoul say that the North advocated for the inclusion of the "three-party" option in the fourth clause in the Joint Declaration ("to pursue issues related to declaring the end of the Korean War by holding on the Korean peninsula, a three- or four-party summit of directly-related sides") to maintain the option of excluding Beijing from the eventual negotiation of a permanent peace.

Another notable event was the visit to Pyongyang by Vietnamese Communist Party chief Nong Duc Manh less than two weeks after the inter-Korean summit in October. Some experts in Seoul speculate that the North's leadership is exploring reform models and advice other than those proffered by the Chinese, possibly because of suspicion that assistance from China may be tainted by an intention to further Chinese influence on the DPRK. Vietnam is an especially significant model of a country that has successfully reformed its economy, developed friendly ties with the U.S., and maintained an independent position vis-à-vis Beijing, all the while preserving an authoritarian political system.

On the other hand, Pyongyang's cooperative stance in the six-party process in 2007 has also opened the door for improved relations with Beijing. Since the February declaration, several events have indicated a strengthening of ties between the DPRK and China. The Chinese Embassy to the DPRK reported that "On March 4, 2007, on the occasion of the Lantern Festival, Kim Jong Il …visited the Chinese Embassy in Pyongyang at the invitation of Ambassador Liu Xiaoming. Kim Jong Il wished the Chinese Government and the Chinese people a happy holiday. Ambassador Liu Xiaoming conveyed to Kim Jong Il the best regards from Hu Jintao." In July, the first official visit abroad by newly appointed Chinese Minister of Foreign Affairs Yang Jiechi was to North Korea. On October 31, KCNA announced that "The Central Committee of the Workers' Party of Korea hosted a reception in honor of Liu Yunshan, member of the Political Bureau and member of the Secretariat and head of the Publicity Department of the Central Committee of the Communist Party of China, on a visit to the DPRK…" where "Liu Yunshan in a speech wished the Korean party and people bigger achievements in building a great, prosperous, powerful nation."

On November 20, the DPRK's official news agency reported that

> Gu Xiulian, vice-chairperson of the Standing Committee of the Chinese National People's Congress, met and had a friendly talk with the delegation of the Korean Committee for Cultural Relations with Foreign Countries headed by its acting Chairman Mun Jae Chol on a visit to China at the Great Hall of the People in Beijing. ... Noting that the political trust and cooperative relations in various fields, including economy and culture, have grown stronger between China and the DPRK, Gu said that the mutual visits of the top leaders of the two countries in recent years marked an important occasion in putting the bilateral friendly relations on a new level.

Recently, Air China announced that it would begin direct flights to Pyongyang in early 2008.

V. CONCLUSION

If 2006 was a year of divergence between Beijing and Pyongyang, 2007 was one in which the two sides improved their relations. The future of the "lips and teeth" relationship between the two countries appeared uncertain immediately following the October 2006 nuclear test, when China sided with other UN Security Council members in condemning North Korea. But then Beijing actively sought to reinitiate the stalled six-party negotiation process. One sees an underlying pragmatic sense in the two countries' decision-making circles that the long-standing core interests of both sides are best served by developing and maintaining positive bilateral ties. In Beijing's case, the central issue is stability on the Korean peninsula, avoiding any disorder that could destabilize China's northeast and preserving the prevailing geopolitical status quo. In Pyongyang's case, China is its primary source of economic support, without which the current regime could probably not survive. Restoring a positive working relationship with China was thus a practical necessity for Pyongyang.

However, although it improved again after the rift caused by the nuclear test, the China-DPRK relationship appears to be shedding some of the unique aspects that characterized it in the past. Decision makers in Zhongnanhai seem to be eliminating much of the exceptional treatment Pyongyang has received in the past and beginning to treat it like a "normal country." At the same time, Pyongyang's leadership seems to be seeking broader interactions with the South, the region, and the world at large to reduce its dependence on China. The steady improvement in relations between Beijing and Pyongyang is likely to continue in 2008, but how the two countries deal with each other in light of new factors—such as the U.S. elections, the new conservative government in the South, and the DPRK's economic fortunes—remains to be seen.

SINO-DPRK ECONOMIC RELATIONS: THE CHINA MODEL'S ROLE IN THE HERMIT KINGDOM

Benhan Limketkai

I. INTRODUCTION

As one of the most isolated countries in the world during the Kim Il Sung dynasty, the Democratic People's Republic of Korea (DPRK) has an economy that has been far surpassed by the economic growth and rapid industrialization of its regional neighbors—most notably, China and the East Asian "tigers" of South Korea, Taiwan, Singapore, and Hong Kong. These economies witnessed the rapid development during the second half of the 20th century; the North Korean regime, on the other hand, has stagnated, despite the continued rise of South Korea and, in particular, China, its strongest ally. In fact, despite a common communist ideology, China's current pseudo-capitalist economy lies in stark contrast to the bleak reality of the Hermit Kingdom.

To be sure, North Korea's Stalinist economy under Kim Jong Il continues today, resembling the economy of pre-reform China. It is characterized by central planning and state ownership of the means of production. In accordance with its *juche* ideology, North Korea is focused on establishing a self-reliant economy that emphasizes military-oriented heavy industry—despite its impoverished economy, North Korea maintains a formidable military machine that includes the fifth largest standing army in the world. That said, many references are made to China's development experience as a model for North Korean economic reform.

This paper focuses on the North Korean economy with an emphasis on North Korea–China economic relations and the influence that interaction could have on North Korean economic reform and development. Specifically, the paper

addresses the DPRK's economic reforms and free trade zones, international trade, China-DPRK economic relations; and the predictive value (if any) that China's development experience may have for the DPRK.

II. OVERVIEW OF THE DPRK ECONOMY

The North Korean economy experienced moderate growth until the mid-1980s. However, in the mid-late 1980s annual growth fell precipitously, forcing the economy into crisis during the early 1990s. In fact, the annual growth of the gross national product of North Korea continued to decline throughout most of the 1990s. During that same decade, North Korea suffered the ravages of several devastating famines and floods. And though the country's economy rebounded in the late 1990s, it was more a reflection of the massive amounts of foreign aid it received than of any significant revival in the economy. That its consumption levels remain above the capacity of the domestic economy is indicative of North Korea's zero domestic savings. This low domestic savings rate is inadequate to reach the investment levels necessary to replace depreciation, leading to a continued decline in capital stock and accumulation. In fact, in 2006, the economy stood at a mere $22.8 billion, a paltry figure in comparison with the vibrant economies of its regional neighbors, and 1.1 percent lower than in 2005. The North Korean economy has essentially caught itself in a technological poverty trap—a vicious cycle of low savings and little or no investment opportunities. Essentially, below a certain poverty threshold, a country is unable to achieve increasing returns to capital—poor countries fall deeper into poverty, while developed countries gain through increasing returns. Since the mid-1980s, the DPRK has been in a cycle of reinforcing poverty and declining economic growth.

The continued decline of the North Korean economy is attributable to several factors, both internal and external. Most significantly, the inefficiencies caused by the centrally planned Stalinist economy and the forced allocation of resources into military-oriented heavy industries (15–25 percent of gross domestic product) have hindered the growth of the domestic economy. The economic decline cannot be blamed completely on internal factors, however. The collapse of the Soviet bloc (one of North Korea's main trading partners and staunchest political allies) and the occurrence of several natural disasters left the North Korean economy unable to cope. The collapse of the Soviet economic bloc caused a precipitous drop in Soviet foreign aid, export markets, and artificially low oil price controls. Trade flows between the former Soviet bloc and the DPRK fell significantly, from more than $3 billion in 1999 to just above $230 million by 2005.

In fact, North Korea's policy of self-reliance belied the true reality of its biased dependency on the Soviet Union, China and other centrally planned economies. During the Cold War, the DPRK relied heavily on the Soviet economic bloc to help support its economy. After the collapse of the Soviet price system (far below global market prices), the surge in energy prices, for example, led to a severe reduction in North Korea's domestic output. An unfortunate by-product of this reduction was a food scarcity that had devastating consequences. The natural disasters in the 1990s exacerbated the food shortages, causing severe economic devastation and famine. Despite being shrouded in immense secrecy, estimates of famine-related deaths have ranged between 220,000 to upwards of 3.5 million. China replaced the former Soviet Union as the DPRK's largest trading partner and provided a substantial amount of resources during the North Korean economic crises. It should be noted, however, that China's aid to its impoverished neighbor is more a reflection of its desire to prevent political and economic chaos on its borders should the North Korean political system collapse than a pledge of support for the North Korean economic system itself. Given China's priorities in promoting its own economic development and its posturing as a pseudo-capitalist market, any assistance it provides is conditional.

In any regard, the mobilization of domestic resources and the central planning of the economy have been unable to reverse North Korea's economic decline. The triumph of global capitalist market forces over Soviet-style socialist economies in recent decades provides a strong case for economic reform and a gradual movement toward a market economy, as clearly demonstrated by China's experience. Even North Korea itself, as far back as the mid-1980s under Kim Il Sung, had begun to experiment with the idea of partial economic reforms. China has played a large role in this regard, as both a major economic trading partner and a model for economic reform, despite its communist government. Knowledge of the history of North Korean economic reforms and the influence China has had as a foreign trading partner and model of economic development is critical to understanding the North Korean story.

III. CHINA-DPRK ECONOMIC RELATIONS

Despite North Korea's isolationist posture and *juche* ideology, the DPRK is ironically still heavily enmeshed within the global trading system. Not surprisingly, international trade plays an important role in North Korea's foreign-dependent domestic economy, allowing the country to import food, technology and other goods that the domestic economy is unable to produce. The DPRK's international transactions have grown substantially since the famines of the 1990s, though the domestic economy has relied substantially on foreign aid to help finance these imports, in particular from China. As North Korea's neighbor and closest ally, China's economic relations with the DPRK have thus become especially salient.

During the North Korean famine in the early 1990s, for example, it was China that played a pivotal role in supplying foreign aid. Chinese economic aid has included not only official aid from the Chinese government but also private transfers from the sizable ethnic Korean community on the Chinese side of the border. This ethnic Korean population makes private capital flows into North Korea and often acts as a channel for funds originating in Korean communities outside China. In recent years, however, China's interaction with the DPRK has become increasingly market-oriented, in contrast to the noncommercial or aid component that predominates in North-South economic interaction. South Korea's economic relationship with the DPRK is heavily biased toward noncommercial exports in the form of financial aid support and investment in the Mt. Kumgang project and other cooperation projects.

A large part of China's increasingly market-oriented exports into North Korea is in the form of foreign direct investment (FDI). China has become the largest supplier of FDI into the North Korean economy—inflows into the DPRK surged sharply in 2003 to $158 million, led primarily by Chinese and South Korean investments. North Korea sustained steady flows of FDI in 2004 ($197 million) and 2005 ($113 million). Chinese investments in the North Korean economy have ranged from small, informal investments to large-scale projects involving state-owned enterprises (e.g., mining).

China's increasingly dominant role in the North Korean economy is evident in the country's trade share statistics. The annual value of bilateral trade between the DPRK and China grew from $370 million in 1999 to more than $1.6 billion in 2005; North Korean imports of Chinese products more than doubled between 1995 ($490 million) and 2005 ($1.1 billion); and DPRK exports increased nine fold between 1995, when they were a mere $64 million, and 2004, when they reached $582 million. China's share of commercial exports surged from 19.3 percent in 2001 to 41.5 percent in 2004; imports rose from 28.4 percent in 2001 to 32.3 percent in 2004; and China accounted for 25.4 percent of total trade in 2001, compared with 36.0 percent in 2004. The proportion of China's share of North Korean commercial trade eclipses the country shares of the DPRK's other trading partners: South Korea's total trade share is the second largest at only 9.8 percent of total trade. In contrast, the economic importance of North Korea's other major trading partner, Japan, has decreased significantly in recent years to a mere 7.1 percent in 2004.

In sum, China remains North Korea's most important source for foreign investment and trade. China's economic integration with North Korea is largely commercial—in stark contrast to South Korea's growing official component of economic integration through aid and support (in excess of $600 million in 2005, compared with China's $200 million). China's overwhelming trade share

reflects its more sustainable and arguably more influential role in determining the development of North Korea's economy. Not surprisingly, South Korea harbors fears of China's economic colonization and its own potentially decreasing role and influence over its northern neighbor.

Official exchanges between North Korea and China have increased steadily in recent years and are another potential indicator of strengthening economic sway. Kim Jong Il himself has made numerous visits to China, an indication of the warming economic relations between the two countries and, more importantly, of China's increasing influence. In May 2000, Kim Jong Il met with Chinese President Jiang Zemin and Premier Zhu Rongji, with the clear intent of making educational site visits to high-tech industrial facilities. In January of that year, Kim Jong Il had declared during a visit to factories in Sinuiju that profit-seeking was a form of "practical socialism." Not coincidentally, his statements of pragmatism in economic thinking are reminiscent of Deng Xiaoping's philosophy of pragmatism during the early years of China's reform: "Be it a black cat or a white cat, a cat that can catch mice is a good cat." Eight months after his first visit to Shanghai in January 2001, Kim Jong Il made another trip there (followed shortly by a delegation of North Korean technocrats) for the purpose, analysts said, of ascertaining the potential for the DPRK to pursue market-oriented reforms similar to those of China. In an editorial delivered before his trip, Kim Jong Il called for the transition from "old thinking" to "new thinking," a clear signal of change in the government's direction. Despite the official *juche* ideology, Kim Jong Il reportedly asked his Chinese hosts if a market economy was compatible with socialism. Many officials have acknowledged off the record that Kim Jong Il became convinced of the advantages of a market economy. "A Directive for Economic Management" was issued in late 2001—decentralizing economic decision making and paving the way for more comprehensive economic reforms in July 2002. In April 2004, Kim Jong Il made yet another visit to China, touring factories and meeting with top Chinese leaders, including President Hu Jintao. In his meeting with Hu, Kim Jong Il commended China for its accomplishments under Jiang Zemin's "Three Represents," which reconciled market-oriented privatization with socialist principles. In March 2005, DPRK Cabinet Premier Pak Pong-ju made an official goodwill visit to China, particularly interested in touring large enterprises and factories on the outskirts of Beijing. At the conclusion of Pak's visit, the two governments signed two agreements: the Agreement on Encouraging and Protecting Investment and the Agreement on Cooperation in Environmental Protection.

But of all the official exchanges, the most historically significant is Kim Jong Il's trip to China in January 2006, during which he toured southern China's fastest growing regions. His trip was highly symbolic of Deng Xiaoping's famous Southern Tour in 1992 to promote China's special economic zones

(SEZs) and market reforms. In Kim Jong Il's own words, the visit was a resounding endorsement of the success of China's economic reforms under the socialist banner:

> "The progress made in the southern part of China, which has undergone a rapid change, and the stirring reality of China, in particular, deeply impressed us. Still fresh in my memory is my visit to Shanghai five years ago that has changed beyond recognition. Touring various special economic zones making a great contribution to the socialist modernization drive with Chinese characteristics, we were more deeply moved by the Chinese people's enterprising and persevering efforts and fruits borne by them. In a word, our visit to the southern part of China convinced us once again that China has a rosier future thanks to the correct line and policies advanced by the Communist Party of China."

Kim Jong Il's own "Southern Tour" was followed in March 2006 by a 30-member North Korean economic delegation led by his brother-in-law Jang Song-taek. That trip was widely speculated to be a precursor to economic reform measures modeled after China.

China's common ideology and its reconciliation of capitalist market practices with socialist thought make its economic development model particularly relevant and applicable to the North Korean regime, and the ongoing dynamic relationship between the two countries is strong evidence of China's influence on the DPRK. Though not as important as South Korea as a source of economic assistance, China remains an important provider of foreign aid to the impoverished nation, having sent food, medicine and oil shipments to the North as recently as August 2007 (and the year before, in July 2006). More importantly, however, market-oriented economic links are being forged between the two countries. For example, in March 2006, a North Korean trade delegation was invited by China's Ministry of Commerce to visit the northeastern border regions to observe the trade situation between the two nations; in May, a Chinese delegation reciprocated by visiting North Korea. In May 2006 and again in August 2006, China sent trade delegations to North Korea to promote increased cooperation in commerce, which both sides agreed would contribute to the development of stronger economic relations between them. In September 2006, a North Korean delegation representing 31 enterprises attended a product exposition in northeastern China, peddling mineral products, food, cosmetics, oil and farm products that were surprisingly well received by Chinese investors.

The frequency and depth of such interactions has led many observers to believe that the DPRK is eager to learn from the Chinese experience and is keen on

pursuing Chinese-style reform in its own development process. Thus, China's economic reform and development model is a particularly meaningful perspective through which to analyze and predict North Korean economic reform.

IV. ECONOMIC REFORMS

Historically, North Korea's foreign economic relations have largely been shaped by its autarkic development strategy of self-reliance. The DPRK developed into an isolationist, inward-looking economy that is reliant on import substitution. Yet, despite being virtually closed off from world trade, North Korea ran a chronic trade deficit with its trading partners.

Even with the DPRK's traditional insistence on self-reliance, its leaders have been amenable to receiving foreign aid, when convenient. Following the devastation of the Korean War, North Korea received substantial amounts of foreign aid, mainly from other communist countries, to rebuild its economy. Again, in the 1970s, the DPRK accepted inflows of advanced machinery and equipment from Japan and Western Europe to help modernize its economy in order to catch up with South Korea.

By the mid-1980s, however, North Korea began to rely more on exports to fund imports of advanced technologies and oil needed for industrial growth. The country's shift from its traditional policy of self-reliance was evident in the 1980s, when it experimented with a partial open-door policy—a policy that had been foreshadowed by Kim Il Sung's 1979 New Year's speech expounding the necessity of expanding foreign trade to meet the needs of an expanding economy. In 1984, the Supreme People's Assembly formally launched the partial open-door policy in its "For Strengthening South-South Cooperation and External Economic Work and Further Developing Foreign Trade" statement. The document underscored the need to expand economic and technical cooperation with the advanced industrial world as well as the developing world. Also in 1984, North Korea enacted a joint venture law, signaling an increasing openness to FDI. In 1988, despite still officially being in a state of war, North Korea established economic relations with South Korea. Since then, inter-Korean trade has grown rapidly, though noncommercial trade continues to occupy a significant proportion of North-South trade (31 percent in 2006, or $421 million).

The most comprehensive economic reforms to date were enacted in July 2002: the DPRK announced its "economic adjustment policy," a series of economic reforms that introduced pseudo-market mechanisms in production and consumer economic decisions. This was the first sign of a significant economic restructuring of Stalinist controls over the economy; again, similar to what China undertook in the early years of its reform period. Not coincidentally,

the reform measures were preceded by a succession of visits by North Korean officials to China. Although the Stalinist state did not abandon its socialist planned economy, it did reform several major facets of it. The adjustments included an end to the rationing system for daily commodities, excluding food; an increase in the prices of essentials and in wages; devaluation of the official exchange rate; abolishment of the foreign coupon payment system; increased autonomy for enterprises; authorization for the establishment of markets and other trading centers; and more opening of the economy to foreign investment. Although prices remain under centralized control, they are at levels closer to those of the free market.

North Korean economic reforms have also led to the increased use of currency, not ration coupons, in commercial transactions. After the reforms, prices set by the North Korean government on many essential items increased significantly. For instance, the price of rice increased 550 times, corn 471 times, diesel oil 38 times, and electricity 60 times. Wages also increased, though to a lesser degree: laborer wages increased 18 times and managerial wages (in a trading company, for example) 20 times. However, the wage and price reforms led to significant consumer inflation and many households were worse off as the increased wages could not keep up with surging consumer prices. Reforms in North Korean factories allowed for greater control over prices, procurement, wages and incentives, as well as profit sharing based on individual performance. Reforms in the agricultural sector continue to be implemented. In the 1990s, North Korea's agricultural work squads were reduced in size, and the agricultural sector was transformed into family-oriented operations, with individual farmers allowed to retain additional production over official production targets as profits, in a model similar to China's rural household contracting system. Again, not coincidentally, North Korea introduced the family-unit farming system and enterprise system reforms in January 2004, shortly before Kim Jong Il's visit to China. These measures were an expansion of March 2003 reforms that allowed merchants to sell manufactured goods, commodities and farm products in the general market. An inheritance law was also enacted that allowed children to inherit house leases, automobiles, bank savings and household appliances. These economic reforms are an indication of North Korea's adoption of Chinese-style adjustments to transform itself into a more market-oriented economy.

However, North Korea's economic reforms have been limited in scope and depth compared with China's more radical and comprehensive economic transition. The lack of trade is starkly evident in comparison with South Korea: in 2003, South Korea's total trade volume was 155.9 times larger than that of the DPRK. Moreover, North Korea's economic reforms have been motivated by the need to address the increasing seriousness of the problems created by its centrally planned socialist economy. Thus, North Korea's willingness to further open

its economy to South Korea and the rest of the advanced industrial world is related to its need to import advanced industrial equipment and technology to modernize its economy to help resolve the escalation of economic hardship (ironically, data for per capita food production indicate that for a 30-year period after 1961, growth rates in the DPRK exceeded those in South Korea).

V. SPECIAL ECONOMIC ZONES

During North Korea's early economic history, it pursued the political goal of proving the superiority of its system over that of South Korea. After the collapse of the Soviet economic bloc and in light of the continued decline of the North Korean economy, however, the DPRK has primarily concentrated its efforts on sustaining the current regime. In the early 1990s, the failings of the North Korean economic system in the face of China's robust economic miracle were impossible to ignore—after the famines, floods and collapse of the Soviet bloc, North Korea had few options. In a move that closely resembled China's partial market opening to foreign investment under Deng Xiaoping in the early 1980s, the DPRK established special economic zones (SEZs) through which the leadership could facilitate economic development and still maintain the regime. Profits from the SEZs would provide the North Korean government with access to much-needed hard currency to finance its severe current and capital account deficits and to facilitate trade with its trading partners. The FDI and foreign corporations established in these SEZs would facilitate the transfer of advanced industrial equipment and technology, as well as management skills, needed to modernize the domestic economy.

In the early 1980s, Deng Xiaoping had proposed opening such economic zones in China to fuel the country's economic development while maintaining its existing political structure. The SEZs of Shenzhen, Zhuhai, Shantou, and Xiamen were established in 1980 and 1981. Such special industrial complexes, physically separated from the rest of the country, allowed the government to control the inflow of FDI and the flow of outside information into the country without altering the political status quo. The largest SEZ—Shenzhen—sits right outside the border of Hong Kong and has become a major metropolitan area in mainland China. The phenomenal success of the SEZs motivated the Chinese government to enlarge the scope of its economic, technological and industrial zones—essentially laying the foundation for further economic reforms that led to the high growth rates in the Chinese economy over the past three decades. The Chinese experience has been a particularly salient example of the potential of SEZs in helping to develop the North Korean economy.

North Korea established its first SEZ in the early 1990s—Rajin-Sunbong near the Chinese and Russian borders. In 1991, FDI inflows spiked to $134 million as capital was pumped into the North Korean economy to expand the Rajin-Sunbong economic zone. But the failure of Rajin-Sunbong to attract much

foreign investment led frustrated Russian investors and ethnic Korean investors in Japan to withdraw, and FDI into the domestic economy declined significantly. The volatility of inter-Korean politics (in contrast to the relative stability of the Chinese political environment) discouraged South Korean investors from getting involved in the North Korean economy. Moreover, the remote location of the SEZ and North Korea's underdeveloped infrastructure negated the benefits of low-cost labor and proximity to a major trading hub. These factors combined to create conditions for failure, and FDI failed to flow in as hoped. After the initial spike, FDI dropped to low or negative levels. In July 2002, the DPRK established the Sinuiju special administrative region (SAR) along the northwestern Sino–North Korean border, again modeled after the SEZs that had helped launch China's economic development. However, like the Rajin-Sunbong SEZ in the early 1990s, Sinuiju also failed to replicate the phenomenal successes of the Chinese SEZs. The failure of Sinuiju SAR was due in large part to external circumstances: the effort collapsed after China's arrest of Chinese-Dutch entrepreneur Yang Bin, governor of the SEZ, on charges of bribery, fraud and illegal land use.

North Korea's latest attempt to establish a free trade zone may prove that it has learned from its mistakes. Despite the failure of the Sinuiju SAR, North Korea has been committed to the development of the Gaeseong Industrial Complex (GIC), which was established in December 2002 along the border with South Korea. Managed by South Korea's Hyundai Asan and Korea Land Corporation, the GIC has developed rapidly. Much like the Chinese SEZs, Gaeseong is an avenue through which North Korea can allow FDI into the country without subjecting the entire domestic economy to the effects of world market forces. The 810-acre complex is primarily targeted toward small and medium-sized South Korean enterprises that seek to take advantage of cheap North Korean labor and production costs, and that may not be able to establish subsidiaries in China or other low-cost countries. In January 2006, 15 companies had established operations in Gaeseong; by 2007, 8,746 North Koreans were employed. The complex is to be completed in three stages and is projected to attract upwards of 1,000 enterprises employing 300,000 workers by the end of the third stage. Gaeseong developed in part as a result of former South Korean President Kim Dae-jung's Sunshine Policy of economic engagement with the North. Of the $374 million cost for the initial stage, the South Korean government subsidized $223 million.

The ultimate success of North Korea's SEZs, specifically Gaeseong, depends on a variety of factors, for which the China model can again serve as an example. Several of the factors that led to the overwhelming success of the Chinese SEZs are present in the North Korean scenario. The immense investment originating from the large overseas Chinese business community helped channel massive amounts of capital and management skill into China's four original SEZs. Many decades of high economic growth in South Korea have created a modern corporate sector that could

play a similar role in the North Korean economy. In addition, the proximity of the GIC to Seoul and its large South Korean business network could play the same role that Shenzhen's proximity to Hong Kong played in China's economic reforms. Shenzhen's coastal location and low-cost and highly disciplined labor force reduced transportation and labor costs; Gaeseong's favorable location and North Korea's highly literate workforce could be a key factor in the success of North Korea's SEZs.

However, unlike China—with its potentially huge domestic market, its high domestic savings rate, and the availability of domestic resources devoted to infrastructure development—North Korea's economy is impoverished and (unlike China) it holds little appeal in an increasingly competitive regional economy. The successful development of North Korean SEZs is thus highly dependent on South Korean investment.

But in contrast to the other SEZs, the importance of Gaeseong's success is readily apparent in both North and South Korea. Not surprisingly, in negotiations with the U.S. on the proposed free trade agreement, South Korea has tried (unsuccessfully) to have products exported from Gaeseong considered to have originated from a South Korean jurisdiction such that they qualify for duty-free status. The South Korean corporate sector's heavy involvement in the development of the economic zone, with explicit support from the South Korean government, has helped create the conditions necessary to attract massive amounts of FDI into the industrial complex and promote its success. More importantly, North Korea's vested interest in Gaeseong will ensure the DPRK's continued support of these partial economic reforms. The North Korean government earns inflows of hard currency from the GIC through leasing fees and a percentage of the wages South Korean enterprises pay to a North Korean government agency before they are distributed to workers in local currency. This inflow of hard currency denominated in dollars or euros is important in helping the DPRK manage its balance-of-payments problem and finance imports of the equipment and technology it needs to develop its economy.

VI. APPLICABILITY OF THE CHINA MODEL

A consequence of its socialist political structure, the North Korean economy remains one of the world's poorest. In particular, the DPRK's policy goal of developing a self-reliant economy and its emphasis on military-oriented heavy industries have caused the national economy to lag far behind those of its regional neighbors. North Korea experimented with partial economic reforms as far back as the mid-1980s, but its most notable economic reforms have been the 2002 establishment of the GIC and limited price and wage reforms. These economic reforms have elicited broad comparisons with China's economic reform and development process in the early 1980s under Deng Xiaoping. As the DPRK's closest political ally and largest trading partner, China is uniquely positioned to influence North Korea's reform path. China's

development model—rapid economic growth while maintaining the political status quo—has a predictive value for similar reforms in North Korea.

But the applicability of the Chinese development model is tenuous due to North Korea's fundamentally different economic and geopolitical conditions. China was able to establish its four original SEZs on the geographic and economic periphery, far from the traditional industrial centers. Geographically equivalent to a small Chinese province, North Korea cannot conduct open-market experiments on the periphery without concern about the potentially destabilizing effects on the national economy. In addition, China's open reform period followed the normalization of relations with the U.S. and Japan in the early 1970s. Normalized diplomatic relations with the two largest world economies laid the foundation for increased trade relations and access to global financial capital. North Korea, on the other hand, has yet to normalize relations with these two large economies, which substantially hinders the effectiveness of any economic reforms. In December 2007, there was speculation that President George W. Bush might consider restoring normal diplomatic relations with the North; however, this has not happened. Unlike China, which readily attracted foreign investment, North Korea struggles to attract foreign capital. Instead, the bulk of its foreign investment comes from China (which again is largely motivated by a desire to prevent the collapse of the North Korean regime) and South Korea (primarily in the form of foreign aid and noncommercial projects). Moreover, the agricultural sector constituted a large majority of the economy in pre-reform China: the breakup of collective farms and extensive rural reforms (such as the rural household contracting system) triggered significant gains in productivity that were a major driver in China's economic growth. In contrast, North Korea has a relatively small agricultural sector. The North Korean economy would have to rely on improvements in the productivity of the labor-intensive manufacturing industry, a formidable task for an economy mired in poverty and facing declining capital accumulation.

VII. CONCLUSION

The economic crises and famines of the past two decades illustrate the hardships North Koreans have faced under the centrally planned system. Moreover, the extent to which North Korea's self-reliant *juche* economy depended on other centrally planned economies (especially the Soviet Union) was evident after the collapse of the Soviet economic bloc in the early 1990s. In recent years, there have been signs that the economy is slowly rebounding after more than a decade of rapid decline. Partial economic reforms have helped the rebound, but a more substantial solution is necessary to bring the DPRK back from its prolonged isolation from the global economic system. Some observers see possibilities in North Korean adoption of the Chinese development model, but China's unique circumstances may preclude the development of a non-country-specific "China model" and its applicability to the DPRK.

THE DRAGON NEXT DOOR: REPUBLIC OF KOREA – PEOPLE'S REPUBLIC OF CHINA RELATIONS

Jason Cohen

I. INTRODUCTION

Starting with Seoul's recognition of Beijing in 1992, the fundamentals of the relationship between the Republic of Korea (ROK) and the People's Republic of China experienced a dramatic shift from wartime enmity to cooperative partnership. This transformation occurred along three main axes: political cooperation, economic links, and social, people-to-people connections.

Progress in each of these three areas was inevitable. Possessing common cultural and historical referents, the Korean and Chinese people found much to share in terms of music, the arts, and even pop culture. The so-called "K-craze" that swept Asia had a particularly dramatic effect on China, where Korean dramas, soap operas, and rock stars became household names. Moreover, once the economic floodgates were opened, trade and investment flowed across borders, and by 2004, China was the ROK's largest trading partner. China was already the largest destination for Korean foreign direct investment (FDI), surpassing the U.S. in 2002 and steadily widening the gap ever since. The maturing economic links also had a personal dimension, as more and more South Koreans followed investment dollars into China and settled there on a long-term basis.

Politically, the end of the Cold War effected a realignment that put the ROK's short- and medium-term goals more in line with those of China than of its American ally. Without the support of the Soviet Union, China was forced to sustain the failing regime in Pyongyang alone; China wished to strengthen the North Korean pariah state in order to avoid an economic collapse. Beijing also feared both the flood of refugees that a state failure of the Democratic People's Republic of Korea (DPRK) would unleash and the potential destabilizing

effects on social stability in Manchuria given the two-million-strong ethnic Korean minority there. Likewise, the ROK wished to avoid the difficulties West Germany had faced in absorbing its much poorer and dysfunctional other half. South Korean leaders therefore abandoned the old strategy of working for a collapse of the DPRK. The U.S., on the other hand, largely continued the policy of isolation that it has pursued with Cuba and other such regimes, making little effort to engage the DPRK outside of the nuclear issue. The convergence of Chinese and South Korean priorities, juxtaposed with a divergence of American and South Korean strategies, brought Beijing and Seoul closer together politically.

The concurrent rapid progress in cooperation between the ROK and China along the political, economic, and social fronts constituted a "China fever" that affected the political class and society at large. After the turn of the 21st century, however, problems arose along these same three axes that brought China's rising tide to an ebb. Seemingly love-struck with China just a few years earlier, the ROK now suspiciously eyes the dragon next door, perhaps as dubious of Beijing's motives as it had become of those of the U.S.

On a social level, China's clumsy handling of the Koguryo flap, which unfolded from 2001 to 2005, severely damaged relations between the two peoples. China declared the ancient kingdom of Koguryo, seen as the seed of the Korean nation, to be "China's Koguryo" and a vital part of China's own heritage. Despite attempts by UNESCO to create a compromise solution regarding Koguryo-era tombs spread throughout northeastern China and North Korea, as well as the obvious displeasure of South Koreans, China persisted with its Northeast Asia History Project and sent mixed messages regarding its claim to the Koguryo legacy. South Koreans were outraged and expressed their anger in street protests and on the Internet. Continued bullheaded actions by China, including the issuance of Koguryo heritage stamps, led scholars in both North and South Korea to lead a joint study on Koguryo tombs near Pyongyang, the first academic collaboration of its kind since the division of the Korean peninsula. China's actions were even more troubling because they were part of the Communist Party's wider strategy to promote cultural pride and nationalism as avenues to garner domestic political support now that Marxism has ceased to generate mass appeal.

Economically, China continued to play an increasingly important role in the ROK, but at a price. Cheap Chinese imports flooded the southern region of the Korean peninsula and hurt local producers, particularly in the steel and chemical industries. Already a hotbed for union activity and strong protectionist tendencies, South Korean society was increasingly concerned about being squeezed by low-end competition from China and high-end competition

from Japan. These economic worries brought about tit-for-tat tariffs and anti-dumping penalties in which the ROK's vulnerability in a trade war with China became apparent. In 2000, for example, the ROK was forced to surrender in the "Garlic War" when China responded to Seoul's imposition of anti-dumping duties on Chinese garlic by banning the import of South Korean cellular phones.

Finally, the Koguryo incident highlighted political issues regarding China's long-term strategies and intentions. While Seoul and Beijing found common cause in favoring engagement with and buttressing the DPRK, China's more enduring concerns remained suspect. Actual reunification of the Korean peninsula would put, right on China's doorstep, a united Korean people with the benefits of the ROK's economic powerhouse and its American ally. Analogous to Turkey's concerns over an autonomous Iraqi Kurdistan, China fears that reunification would create secessionist tendencies among northeastern China's sizable ethnic Korean minority. Moreover, China sees its continued engagement in the peace process as both a testing ground and a preparatory stage for its emerging regional and global political leadership role, and it might benefit from the process dragging on endlessly. Add to these facts Beijing's extremely cautious and almost reflexively status quo mentality, and it becomes clear that Beijing's long-term interests, as perceived by the Chinese Communist Party leadership, are not necessarily served by a united Korea. This is precisely why the formation of the North and South Korean joint commission on the Koguryo tombs, an apparently benign event, inspired such concern in Beijing.

By the end of 2006, ROK-China relations were in a state of uncertainty. The era of good feelings had given way to a new and less trusting environment. While China's growing economic power and political clout made cooperation with the ROK more likely and furthered its strategy of bringing Seoul out of its squarely pro-U.S. camp into a more balanced position, problems arose. Chinese cultural insensitivity, the economic insecurities aroused by China's rise, and a more realistic evaluation of Chinese strategic priorities all served to halt the Chinese charm offensive. Simultaneously, rising self-confidence and nationalism in Japan, a reinvigorated Japanese economy, and persistent disagreements with the U.S. left the ROK feeling more vulnerable and strategically uncertain than ever. The year 2007 would see movement in both positive and negative directions along all three major channels for the developing relationship: tightening people-to-people bonds combined with some residual ambivalence from the Koguryo incident; increasing economic concerns along with strengthening ties; and continued political cooperation in conjunction with some evident strains.

II. SOCIAL AND CULTURAL RELATIONS

Relations between the ROK and China are greatly influenced by the shared historical and cultural roots of the two countries. Unlike Japan's painful and controversial history of colonialism on the Korean peninsula, the tributary relationship between Korea and China, in which the latter maintained a sort of tutelage over its "younger brother," was far more benign. China's change in tactics around the turn of the 21st century—from periodically beating its chest and throwing its weight around to being a benevolent economic partner with a "peaceful rise" strategy—was reassuring in Seoul and throughout the region. However, the Chinese government's emphasis on stoking nationalistic sentiments to drum up domestic political support has caused alarm in Seoul, Tokyo, and elsewhere. As noted earlier, although the Koguryo incident did not significantly alter the fundamental relationship between the ROK and China, it nonetheless made many Koreans much more wary of Beijing's "hegemonic ambitions."

Thus, the attitude of the South Korean people toward China was somewhat mixed and decidedly more suspicious as 2007 began than it had been in the previous decade. Contributing to the mix were younger South Koreans who do not share the Korean War experience and the bonds it created between the U.S. and the ROK. They generally view China as the most friendly and influential nation toward Korea, with the U.S. lagging far behind. Polls of the general population taken later in 2007, however, pointed to changing attitudes. For example, an August survey of 1,000 South Korean citizens aged 20 years and older revealed a uniformly negative assessment of China, especially vis-à-vis the U.S. Over 80 percent of respondents were suspicious of China's motives in the peace process, saw its rise as a threat to national security, and believed that the Koguryo incident was indicative of China's territorial ambitions. South Koreans favored close relations with the U.S. as opposed to China by a 79 percent to 20 percent margin, while 92 percent favored maintaining or strengthening the South Korea-U.S. alliance. Likewise, only 26 percent thought China considered the ROK's interests in dealing with the DPRK, while 56 percent thought the U.S. did.

This apparent turnaround in public opinion toward China and the U.S. probably reflects an increasing concern about the nuclear threat, residual bad feelings as a result of the Koguryo flap, and a spate of recent negative press about Chinese goods and Beijing's treatment of North Korean refugees. Tracking negative trends globally in attitudes toward China, China's favorability rating in the ROK fell well below 50 percent as measured by the well-respected Pew Global Attitudes Survey released in June 2007.

These opinions are shaped, of course, by economic and political developments that generally cast China in a more negative light in 2007. They are also shaped by people-to-people interaction, however, which has continued to increase. Between 2003 and 2007, the number of South Korean university students studying in China jumped more than 50 percent, from 36,000 to 54,000. South Koreans now constitute more than one third of the 162,000-plus foreign students in China, outnumbering students from any other single country. Indeed, while the U.S. remains the number one destination for South Korean students, with 70,000 studying there in 2006, China is catching up fast as a preferred study-abroad destination. At the same time, 24,000 Chinese students were enrolled in South Korean schools, making China the largest contributor of foreign students to the ROK.

Similarly, 4.4 million South Koreans visited China in 2006, up from 3.5 million just a year earlier and far outnumbering visitors from any other country. More than 897,000 Chinese tourists visited the ROK in 2006, putting it just behind the U.S. in terms of international destinations preferred by the Chinese. Likewise, more than 150,000 Chinese tourists visited the ROK's tropical Jeju Island, which ranked fifth in an online poll of the Chinese people's most desired international tourist destinations—ahead of Paris, Tokyo, Macau, and Phuket. Equally, if not more, important is the startling number of South Koreans who have moved to China: the most recent statistics reveal that more than 500,000 South Koreans are currently living and working there.

Finally, South Korean culture and society are being beamed throughout China and all of Asia via the "Korean wave," a surge in the popularity of Korean pop culture that started roughly three years ago. Korean actors and singers, such as Rain, are household names in China, and Korean dramas are highly popular with Chinese of all ages. Though the first half of 2007 saw a decline in broadcast exports to China, there is little evidence that the possible modest ebbing of the wave is due to anything other than normal product life cycle. In fact, a recent estimate put the number of Chinese who watch Korean soap operas every day at 100 million, representing nearly 8 percent of the total Chinese population. Nevertheless, there have been some signs that the Korean wave is subsiding, as most popular culture sensations do after a few years. An August 2007 poll of Chinese businesses, for example, found that 45 percent felt that the wave was "nonexistent" or "already going downhill."

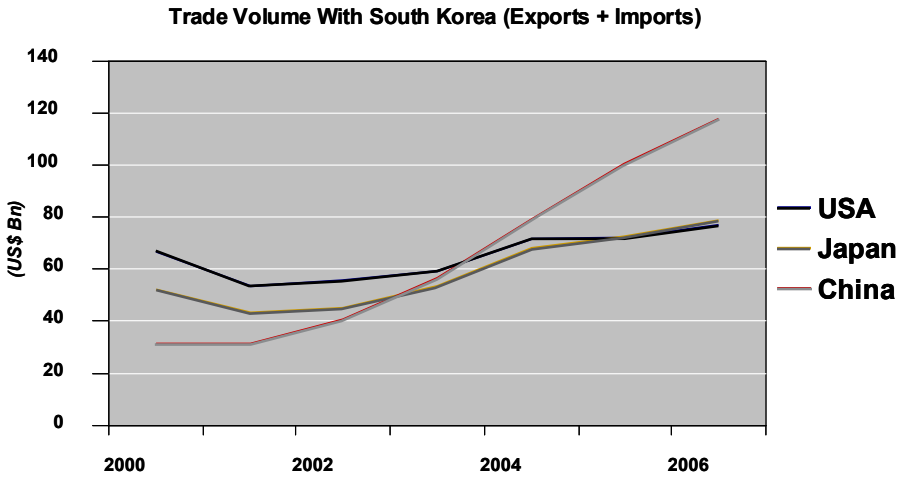
Seoul has taken notice of the ROK's growing "soft power" in the number of Korean studies programs throughout the world and has been funding such academic ventures in order to further this trend. Likewise, at the end of 2006, government officials and entertainment industry leaders from the ROK, Japan, and China held a trilateral summit to explore ways of producing more

collaborative projects, reducing legal and economic barriers to cultural imports, and expanding cross-culture exposure across the three nations. While Korean cultural exports are already very strong, Korean participants hoped to strengthen their position, especially in China's growing market. China, on the other hand, was looking for ways to widen the appeal of its entertainment products in the region, while Japan hoped to regain some market share, its own wave having given way to the Korean one.

Though economic and political factors will undoubtedly drive the day-to-day relationship between the ROK and China, people-to-people and cultural relations have an important, if subtle, impact on fundamental questions of identity. How individual South Koreans and Chinese see themselves, especially in the context of a shared cultural milieu vis-à-vis the U.S. and the Western world, will clearly influence the longer term relationship between the two countries. The year 2007 saw a strengthening of cultural and interpersonal links between the two peoples, with no serious reversal of the positive trends. However, given the mistrust aroused by the Koguryo flap and both countries' tendencies toward nationalistic pride, disputes over history and borders are a potential flashpoint.

III. ECONOMIC RELATIONS

The fundamentals of the deepening ROK-China economic relationship remained strong over the past year, with a continuation of the trends of increasing trade and FDI. As the economic ties between the two nations deepen, political and social harmony will become even more important because the economic damage caused by tensions will rise over time.



Source: KITA statistics

By 2004, China had surpassed the U.S. as the ROK's largest trading partner, and its differential with Japan and the U.S. has continued to widen. Data from the Korean International Trade Association (KITA) are revealing as to recent trade flows. In 2006, trade volume between the two countries jumped to $118 billion, a 17.4 percent increase over 2005. Exports to China were $69.5 billion, a 12.2 percent increase over 2005, while imports grew 25.6 percent, to $48.6 billion. These trends are repeated in the monthly statistics from January through September 2007: trade volume increased 21.6 percent over the same period in 2006, with exports growing by 16.2 percent and imports gaining 29.2 percent. These numbers reflect an increase in China's weight in South Korea's overall trade portfolio. In 2007, China became the largest exporter to the ROK, a position previously held by Japan for more than 30 years.

Foreign direct investment tells a similar story. China has been South Korea's largest destination for FDI since 2002. The Korea Eximbank's (KEXIM's) numbers indicate that as of June 2007, 33,422 projects, valued in excess of $31 billion, had been approved in China, representing about 45 percent of all Korean outward FDI by number of projects and 25 percent by value. In 2006, approved investment projects in China totaled $4.5 billion, more than double that headed toward the U.S. In the first half of 2007 alone, FDI approved in China was $4.9 billion, already exceeding the 2006 totals and well ahead of the $2 billion in FDI flowing into the U.S.

Numbers from China's statistics bureau (though not as reliable because of discrepancies with international FDI accounting standards) reveal the same trends. By the end of 2006, Chinese statistics claim that ROK FDI in China consisted of 43,130 projects with a total realized value of $35 billion, representing about 5 percent of total FDI in China. In dollar terms, this put the ROK in fourth place behind Hong Kong, the Virgin Islands, and Japan. However, it is important to note that much of the money from Hong Kong and most from the Virgin Islands actually represents domestic Chinese money funneled back into China to avoid taxes and regulations. Thus, only Japan has invested more than the ROK in China. From January through November 2007, the ROK invested more than $3.2 billion in China, a jump of 2.2 percent over the same period in 2006. While 2007 figures indicate that ROK FDI in China still lags far behind that of Hong Kong and the Virgin Islands, it has actually surpassed Japan's investment (which totaled about $3 billion) and nearly equals FDI from the entire European Union.

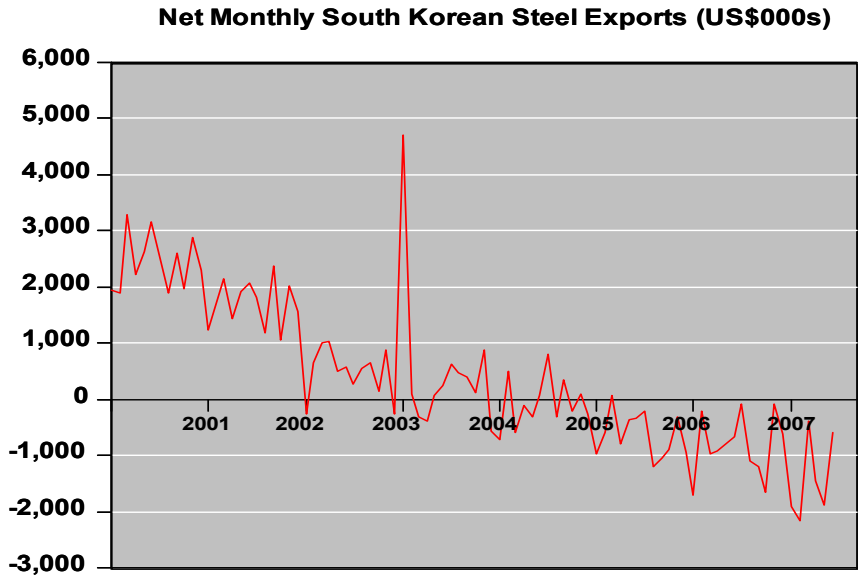
Both the ROK and China seem to recognize the benefits of economic exchange and are keen to expand it. Immediately after the ROK and U.S. announced their intention to explore a free trade agreement (FTA), Beijing expressed its desire to do the same with the ROK. It is understandable that China would not want to

cede any economic ground to the U.S., given its strategy of trying to orient Seoul away from Washington toward a more neutral stance. The first joint feasibility study for an FTA began in March 2007, and the latest round of negotiations was held in Beijing in October. Although Chinese public opinion concerning the possible FTA is difficult to gauge, businesses in China overwhelmingly favor such a deal. A recent poll among them found that 94 percent favor the FTA, a strong indicator of Chinese business leaders' views on the benefits of their country's economic relationship with the ROK.

Both the public and elite opinions in Korea are more ambivalent, which reflects South Koreans' increasing wariness regarding China's economic influence and the ROK's economic vulnerability vis-à-vis its neighbors. With cheap goods of improving quality from China and high-quality goods from Japan that are becoming more cost-competitive, the ROK's place in the value chain is facing pressure from both sides. No less a personage than former president Roh Moo-hyun expressed this sentiment last fall, when he said South Korea felt squeezed "like a sandwich" between Japan and China. At the October 4, 2007, inter-Korean summit, he said that the ROK's challenge was to "keep up with the Japanese economy while making sure we maintain the competitive advantage over China." He posited increasing cooperation with North Korea as a possible solution to the ROK's economic pressures. Roh Moo-hyun's comments are particularly interesting in light of the persistent suggestion that China's interests would not be served by a unified Korean peninsula.

Moreover, the numbers bear out Roh Moo-hyun's concerns. While China remains the largest contributor to the ROK's trade surplus, this surplus has been deteriorating in recent years, as the growth rates of imports versus exports cited earlier demonstrate. From 2005 to 2006, Korea's trade surplus with China, which had been growing steadily since 1994, suddenly deteriorated by 10.2 percent, to $20.9 billion. This deterioration seems to have accelerated in 2007, with the trade surplus with China from January to September down 12.8 percent over the same period in 2006. The ROK's trade deficit with Japan grew by 4.2 percent from 2005 to 2006 and jumped 15.9 percent from January to September 2007 over the same period in 2006. These figures reveal that the ROK is indeed being squeezed by its two powerful neighbors.

Not surprisingly, tensions over trade have arisen in certain sensitive sectors of both the South Korean and Chinese economies, and a series of small-scale trade wars, though not well publicized, have broken out between the ROK and China. Perhaps the most salient example is what happened in the steel industry. South Korea has long dominated the manufacture of steel, one of the commodities that led to the nation's establishment as a global economic player. In 2004, however, the ROK actually became a net *importer* of steel.



Source: KITA statistics

This dramatic turnaround closely parallels the movement of China's steel exports, with shipments to the ROK increasing dramatically in 2004. The trend accelerated in 2005, with Chinese exports of steel to the ROK jumping around 50 percent while the ROK's exports to China fell about 15 percent. In terms of metric tons, China's steel exports to South Korea in 2005 outnumbered South Korean exports to China by a factor of more than 2-to-1. The reason for this movement was not a mystery: the Chinese steelmakers' product was of similar quality to the South Korean and Japanese products, but it was 15 to 20 percent cheaper than Korean steel.

In terms of specific steel products, the case of H-beams is illustrative. From 2004 to 2005, Chinese exports of H-beams jumped a whopping 257 percent, followed by an even more dramatic jump of 450 percent the following year. Chinese H-beams now enjoy a market share of more than 20 percent in South Korea. Again, the driving force behind the jump is obvious: the quality of the Chinese steel has improved, and it sells for around $450 a ton, about $100 cheaper than the South Korean equivalent. H-beam statistics for 2007 are not yet available, but there is no evidence to suggest that these trends have reversed. South Korean steelmakers are concerned about the situation. At the end of 2006, Hyundai sued Chinese steel mills for dumping, specifically H-beams. For its part, China continues to maintain the anti-dumping duties it has levied on South Korean steel since 2000.

Trade disputes between the ROK and China are not confined to steel; they frequently occur in other sectors, especially chemicals. In August 2007, China announced anti-dumping duties on South Korean exports of bisphenol-A (a compound used in many plastics and polymers) and dichloromethane (a solvent used in many chemical processes). The ROK began a formal investigation in October 2007 into alleged dumping of Chinese benzoyl peroxide—a chemical used in many health and beauty products. Seoul also announced anti-dumping duties on a synthetic fabric from China called draw texture yarn.

Because of its larger strategic goals and desire to pursue regional FTAs, China made moves in 2007 to allay the ROK's fears. In May, in advance of meetings with Japanese and South Korean officials, Beijing announced measures to curb steel exports, which had continued to grow at a breathtaking pace, increasing threefold over the same period in 2006. Some cooperation between the ROK and China on steel vis-à-vis third countries also became a possibility. Baosteel, the largest Chinese steelmaker, expressed an interest in selling a strategic stake to POSCO, the largest South Korean producer, to help discourage potential foreign takeover bids. But trade disputes between the ROK and China persisted, as China maintained 22 anti-dumping duties on South Korean goods, more than any of the ROK's other trading partners.

On the whole, the ROK and China are undoubtedly being drawn closer together by rapidly rising trade and investment volumes. It goes without saying that these shared economic interests will tend to encourage political and social tranquility between the two countries. However, South Koreans are becoming increasingly concerned about the distribution of benefits from trade and the direction of the flows. Thus, in the near term, trade and investment actually have the potential to aggravate tensions and negatively affect Sino-Korean relations.

IV. POLITICAL RELATIONS

Since the Koguryo incident, South Koreans' views of China have become much more nuanced, and the events of 2007 have done little to produce any change in the overall political relationship between the two countries. Koguryo was a defining moment in that it laid bare many of the suspicions that South Korean policymakers have held about China's intentions on the Korean peninsula, even at the apex of the "China fever." In April 2004, before the incident, 63 percent of South Korean National Assembly lawmakers viewed China as the country's most important diplomatic partner (only 26 percent chose the U.S.). In August, during the height of the spat, only 6 percent chose China, a dramatic reversal of opinion. Many began to say publicly what they had long grumbled about privately—that China had its own self-interest at heart in involving itself in Korea and that increasingly close ties with Beijing would alienate South Korea's most important ally.

Nevertheless, ROK-China relations recovered somewhat during the period leading up to 2007. This was due mainly to the two countries' common goal of engaging and stabilizing North Korea, as opposed to the hard-line U.S. approach. China continued to play the leading role in the Six-Party Talks, a dialogue involving the ROK, DPRK, the U.S., China, Japan and Russia which aims to resolve security issues arising from the DPRK's nuclear program. The role China played at the talks helped refill the reservoir of goodwill in the ROK that Beijing had worked to cultivate but which had been seriously damaged by the Koguryo incident. Meanwhile, the ROK moved back into the good graces of Beijing by signaling that it would oppose the presence in its territory of U.S. forces that could be deployed in future conflicts in Asia, namely in the Taiwan Strait. This pleased Beijing, which was alarmed after the ROK's acceptance of the "strategic flexibility" of U.S. forces in Korea in 2006. So, going into 2007, the ROK maintained an overall positive but nonetheless realistic (or perhaps cynical) view of China's objectives and motives in its involvement in Korea.

China's leadership in the Six-Party Talks continued to promote closer relations with the ROK, and the progress made during 2007 highlighted China's constructive role in the process. Success came early in the year with the DPRK's agreement in Beijing on February 13 to close its reactor at Yongbyon. The deal was immediately preceded by a Chinese draft agreement, which stipulated that in exchange for allowing inspections and taking steps to shut down Yongbyon, the DPRK would be provided with fuel supplies. Furthermore, five working groups would be created within the six-party framework to deal with the most critical issues. This proposal was largely reflected in the final agreement. China won praise from all parties, including the main negotiator of the U.S., Christopher Hill, who commented, "China has done a great job of getting us together."

China continued its engagement throughout the year, with Presidents Hu Jintao and Roh Moo-hyun sitting down together in September to discuss the regional security situation on the sidelines of the Asia-Pacific Economic Cooperation (APEC) summit. The two agreed to begin discussions on a peace treaty to formally end the Korean War and to draw up roadmaps for a multilateral security regime in Northeast Asia. The meeting was particularly noteworthy juxtaposed with Roh Moo-hyun's tense public exchange with U.S. President George W. Bush. The six-party process in September 2007 again bore fruit: the DPRK agreed to declare and disassemble all nuclear facilities by the end of the year in exchange for eventually being removed from the U.S. list of state sponsors of terrorism and application of the U.S. Trading with the Enemy Act.

Not all the progress on peace and denuclearization is particularly indicative of Chinese leadership, however, or that China is the ROK's most critical diplomatic partner. Despite China's public leadership at the Six-Party Talks, some have

claimed that the February 2007 agreement actually pointed to a diminished role for Beijing because the most critical substance was supposedly hammered out at a U.S.-North Korea bilateral meeting in Germany the month before.

China remained protective of its leadership role, expressing alarm and opposition to a DPRK proposal at the inter-Korean summit in October 2007 to conduct three-way talks involving the two Koreas and the U.S., but excluding China. While such direct talks have the potential to produce dramatic results, given the recent relative thaw in Washington-Pyongyang relations, China saw the proposal as a threat to its influence and an indication of a resurgent U.S. dominance on the peninsula. Indeed, the episode revealed that Beijing's priority is to stay involved in the process, even if progress could be made through other channels. In fact, some ROK diplomats privately grumbled that China was so intent on taking a leading role that it "belittled" South Korean officials and acted with increasing arrogance.

Seoul's less trusting attitude toward Beijing was highlighted in a diplomatic row between the two countries. On May 13, a South Korean cargo ship (the *Golden Rose*) collided with a Chinese container ship (the *Jin Sheng*) near Dalian. The *Golden Rose* sank, and all 16 crew members died. Though initial details of the collision were sketchy, it was quickly established that the crew of the *Jin Sheng* waited seven hours before notifying authorities of the collision. To make matters worse, Beijing did not notify the South Korean Embassy for another 14 hours, a full 21 hours after the accident. China then refused to allow South Korean maritime forces to participate in the search-and-rescue efforts, prompting widespread cries in the ROK of a cover-up.

A report issued later by Chinese authorities largely blamed the *Jin Sheng*'s crew for the collision, but it also pointed the finger at the *Golden Rose* for failing to take evasive action. The report was silent on the issue of Beijing's slow notification of South Korean officials. The situation hearkened back to China's previous secretive and confrontational international persona, underlined the fundamental difference between the authoritarian regime and Seoul's liberal democracy, and stoked nationalistic sentiments in South Korea.

Finally, aside from just being another way to promote good relations, the ROK's continuing efforts to expand economic cooperation with the DPRK must be seen in a certain sense as a reaction to China's rising economic influence there. After the economic collapse and widespread famine in the DPRK just a few years ago, something of a grassroots market economy sprang up, and a burgeoning illicit trade of consumer products across the Chinese border appeared. The DPRK legalized some of this trade and sought to regain its footing by increasing sales in its extractive industries, mostly to China. South

Korean participation in the DPRK's economy, on the other hand, is limited to a small group of highly managed investments such as those in Kaesong, restricted tourism ventures, and official aid.

The ROK's attempts to promote economic cooperation at the October 4, 2007, summit (for example, establishing a joint fishing zone) take on different overtones when viewed in this context. It is obvious that both the ROK and China would like to see a more economically stable DPRK, but their reasons for doing so are not necessarily identical. The ROK would like to foster a more prosperous neighbor to ease eventual unification. China seems to have mixed motives. On the one hand, investment and economic growth will help shore up Pyongyang's position so the DPRK can remain standing as a buffer between itself and the ROK-U.S. alliance. But, on the other hand, China's investment would also likely buy political influence with whatever would replace the regime in Pyongyang in the event of a collapse of the state. Meanwhile, economic cooperation also helps China guard its position as Pyongyang's most trusted friend, although "friend" is probably too strong a word for the relationship.

On the whole, 2007 was something of a wash with respect to the state of ROK-China political relations. China remained a great enabler of the peace process and denuclearization talks, pointing to its shared goals with the ROK. This contrasts with ROK-U.S. relations, which remain somewhat tense, although they have warmed now that Washington has softened its line toward North Korea. The ROK's eagerness to promote economic ties with the DPRK points to a competition with China for influence there. Furthermore, rumors of China's relatively less significant role in the Six-Party Talks, particularly in brokering the February agreement, and ROK diplomats' dissatisfaction with treatment by their Chinese counterparts suggest an underlying tension and a mistrust of Beijing. Incidents such as the sinking of the *Golden Rose* underscore the cooling of sentiments that resulted from the Koguryo spat and the increasing wariness of China's long-term intentions in Korea. As a result, ostensibly trivial territorial and maritime disputes or other unforeseen incidents have the potential to knock ROK-China relations off track.

V. CONCLUSION

The driving force behind progressively closer relations between the ROK and China has been the common desire by the two nations for a more stable DPRK and, generally, a more cooperative situation on the peninsula. In addition, strategic disagreements and conflicting priorities between Washington and Seoul have driven the ROK more and more into China's arms. In many ways, this dynamic played out again in 2007. While the Bush administration showed a much greater willingness to engage the DPRK, policy differences over

sanctions, aid, and a peace treaty to officially end the Korean War remained. Simultaneously, China continued to play a leading and constructive role in the Six-Party Talks. Economically, cooperation between the ROK and China expanded, while social and cultural exchanges fostered better people-to-people relationships, which definitely play a role in shaping long-term policy direction and political relations.

The story is not a simple one, however. The period of "China fever"—the South Koreans' somewhat naively optimistic views of China and its intentions—ended, or at least subsided, after the Koguryo flap. Incidents like the *Golden Rose* and below-the-surface diplomatic tensions between the two countries signal an increasing wariness of China's motives and long-term objectives in the Korean peninsula. More and more, China's booming economy is considered to be less of an opportunity and more of a threat to South Korean industry, as evidenced by the ROK's deteriorating trade surplus and trade disputes over steel, chemicals, and other products.

The short-term outlook for the relationship is positive, even though relatively minor incidents have the potential to become major flashpoints. In the longer term, however, the strategic situation suggests that the two countries' goals, particularly their views on reunification, are not necessarily in harmony. The events of 2007 provide some support for this view. Oddly enough, in a certain sense this state of affairs is the mirror image of the ROK's relationship with the U.S. While Washington and Seoul have disagreed strongly on tactics, both countries would benefit from a united Korea and seem to share this goal. A single Korea would have the potential to be a friend of the U.S., would remove the threat of proliferation, and would alleviate the perceived need for an American troop presence in the region. When and how the differences between the short- and long-term priorities of the U.S., the ROK, and China will be sorted out is anyone's guess; however, such a reckoning is unavoidable.

THE POLITICS OF INTER-KOREAN RELATIONS AND SOUTH KOREA'S 2007 PRESIDENTIAL ELECTIONS

Thomas S. Kang

I. INTRODUCTION

Since the establishment of the two Koreas in 1948, the domestic politics of each country have been heavily influenced by the existence and actions of the other. Both governments have continuously claimed to be the legitimate government of the entire peninsular territory. Such claims have made reunification issues and inter-Korean relations important in each nation's domestic politics. Even after democratization in South Korea (Republic of Korea, or ROK), North Korean (Democratic People's Republic of Korea, or DPRK) policy and inter-Korean relations have been at the focal point of ROK foreign policy and its domestic politics.

Over the past two decades, developments in inter-Korean relations have been especially volatile. From multiple nuclear crises in the early 1990s to the inaugural summit meeting between the ROK's Kim Dae-jung and DPRK chief of state Kim Jong Il, inter-Korean relations have been turbulent. The ROK has had three presidents in those two decades. Under Kim Young-sam, Kim Dae-jung and then Roh Moo-hyun, the South's policies regarding its northern counterpart have undergone sometimes considerable and sometimes subtle transformations. As the presidential torch in South Korea is passed again in 2008, policies toward North Korea are bound to undergo change, although to what extent remains to be seen.

In 2006, the DPRK joined the exclusive ranks of the nuclear powers, further estranging itself from the ROK and the rest of the world. The year 2007 saw tremendous progress through the Six-Party Talks and dramatic inter-Korean events that peaked with the October summit meeting. It was also an election

year in South Korea, and one would have expected North Korean policy to be a prominent issue in the presidential campaigns because of the implications of the elections for the future of inter-Korean relations and North Korean affairs in general. But although North Korean affairs and policy attracted the spotlight for a while, it was actually the economy and the voters' weariness with Roh Moo-hyun that dominated the election issues.

Leading up to the October summit between Kim Jong Il and Roh Moo-hyun, North Korean issues were highly politicized. The Grand National Party (GNP), South Korea's traditionally conservative party, complained loudly that the Roh administration was using inter-Korean relations for political ends, trying to boost the progressive candidate in the elections. At one point, stances on North Korea seemed to be the principal distinguishing characteristic among the candidates.

Then, in the last stretch of electioneering, North Korean issues all but disappeared from the news. A general consensus favoring a positive engagement policy toward North Korea emerged and interest in the presidential candidates' perspectives on North Korea seemed to wane. The GNP is poised to assume power in February 2008 with Lee Myung-bak as president. South Korea will see a change not only in the government's approach to the economy but also in its policy toward the North.

In the first part of this paper, I review the salient inter-Korean events that occurred in 2007. I begin by examining how the major developments in 2006 (the July missile tests and, more important, the October nuclear test resulted in a new dynamic in inter-Korean relations. I describe how inter-Korean relations improved with the successful Six-Party Talks that resumed after the Banco Delta Asia (BDA) affair was resolved and how they culminated in the surprisingly successful October 2007 summit meeting between the leaders of the North and South.

In the second part of the paper, I discuss how these issues were manipulated in South Korea's party politics in the 2007 presidential campaign. I review the major candidates' official platforms, as well as the reactionary policies of hard-line conservatives, and discuss what seemed to be a general trend toward a centrist engagement policy. In closing, I discuss the implications of Lee Myung-bak's policies on the future of inter-Korean relations and North Korean affairs in general.

II. ROUGH BEGINNINGS IN 2007

It was a dramatic year for inter-Korean relations in 2007. From the cold front that followed North Korea's nuclear weapons test in 2006 and a deadlock in the Six-Party Talks, the atmosphere warmed considerably. Direct talks between the U.S. and North Korea, the resolution of the BDA affair, and significant progress

in Six-Party Talks were central to the improvement in peninsular relations. The frost in North-South relations continued to thaw with a summit meeting in October. High-level talks between the two Koreas continued after the summit meeting, further fostering the spirit of good will.

The year 2007 began with scant hope for warm relations between the DPRK and the ROK. Against the tumultuous backdrop of events in 2006, expectations were understandably low. The Six-Party Talks had been at an impasse since 2005 because of the DPRK's anger at the U.S. for imposing financial restrictions. Then North Korea exacerbated its already strained foreign relations, including those with the South, with two provocative acts: test-firing short- and long-range missiles in July, and—of graver consequence—conducting a nuclear test in October.

On July 5, 2006, North Korea test-fired five short-range rockets and one long-range missile. Although the missile test failed within a minute after launch, the event antagonized already tense relations. South Korean President Roh Moo-hyun issued a statement saying that "North Korea must take responsibility for events resulting from its firing of the missiles."

Three months later, on October 9, North Korea conducted a successful underground nuclear test. Coming only three days after the United Nations (UN) Security Council issued a formal statement urging the DPRK to abandon any plans for a nuclear test and return to Six-Party Talks, the test strained North Korea's relations with even its closest ally, China. Foreign Minister Li Zhaoxing said China was "resolutely opposed" to the nuclear test and publicly condemned the DPRK for having "ignored universal opposition of the international community."

South Korea also gave signs of reevaluating its support for North Korea. The ROK immediately suspended an emergency aid package meant to help the DPRK deal with recent floods, and President Roh went so far as to question the effectiveness of his predecessor's Sunshine Policy. In a nationally televised speech, he said, "The South Korean government at this point cannot continue to say that this engagement policy is effective… Ultimately, it is not something we should give up on, but objectively speaking, the situation has changed. Being patient and accepting whatever North Korea does is no longer acceptable." President Roh's very uncharacteristic statement reflects the severe tensions in the relationship. Oddly, the very next week the administration's Unification Minister asserted the administration's intention to continue the engagement policy.

Shortly after the nuclear test, the UN Security Council unanimously voted to impose a wide range of sanctions on the DPRK. North Korea rejected the resolution and walked out of the Security Council chambers. Joining the ranks of

the world's nuclear powers came at a considerable cost to the DPRK; it managed to isolate itself from even its very few friends. In the past, President George W. Bush's administration had found it difficult to get China and South Korea to effectively pressure the North. Now the dynamic had changed.

In light of these circumstances, prospects for improved inter-Korean relations in 2007 were bleak. Nam Sung-wook, a professor of North Korean Studies at Korea University, said, "The relationship between the two Koreas [will] be more turbulent than it has been in recent years … because factors which exert direct influence on the Korean peninsula and the South-North relationship have become more complex than ever." Although inter-Korean relations were at an extreme low, South Korea nevertheless maintained its Sunshine Policy, and hopes for improving relations were not completely abandoned.

III. THE TURNING TIDE

In September 2005, the U.S. Treasury Department took measures against Banco Delta Asia (BDA), an obscure, family-owned bank in Macau, which it accused of laundering money for North Korea and engaging in the distribution of the DPRK's counterfeit "supernotes." The U.S. action effectively imposed an informal financial embargo and caused a run on the bank's deposits, which forced the government of Macau to take control of BDA. The threat to BDA greatly affected a wide range of North Korea's business dealings, both legitimate and illegitimate. According to Marcus Noland of the Peterson Institute of International Economics, an expert on North Korea's economy, "Not only did North Korea lose access to this particular financial institution, other financial institutions began severing their ties with North Korea, not wanting to risk entanglement in North Korean illicit activities and possible expulsion from U.S. financial markets." As a consequence, he added, "North Korea has encountered increasing difficulty executing international financial transactions."

The importance of the BDA embargo to North Korea was clear when the DPRK walked away from the Six-Party Talks shortly after the U.S. action. North Korea refused to discuss denuclearization until the financial issue was resolved.

Unable to make progress in its bilateral relations with the North, South Korea strongly desired a resolution of the BDA affair so that the Six-Party Talks could be resumed and the ROK could regain its positive rapport with the DPRK. Thus, the ROK government quietly engaged in an active role to untangle the BDA issue. According to an article in *Chosun Ilbo*, "South Korea asked the U.S. to consider selectively unfreezing at least five of North Korea's 50 accounts with the Macau-based Banco Delta Asia, saying part of the U.S.$24 million North Korean accounts were acquired legitimately." Rather than going through the

customary diplomatic channels, an unnamed senior ROK official "explained the five accounts in detail to John Negroponte, the Director of National Intelligence and Deputy Secretary of State-designate." The U.S. official who confirmed this meeting said that because Washington did not believe that the five accounts in question were related to illicit activities, it was considering unfreezing them. Between February and June 2007, officials in Roh's administration did everything they could to resolve the BDA affair and move on to the more important issue of planning a summit meeting.

In January 2007, Christopher Hill, Assistant Secretary for East Asian and Pacific Affairs of the U.S. State Department, met in Berlin with Kim Gye-gwan, Vice Minister of Foreign Affairs of the DPRK, for one-on-one discussions. During these talks, progress was reportedly made on the U.S. financial sanctions issue. Both envoys agreed that the financial issue should not be evaded. Ultimately, "the Berlin meeting in January was critical in resuscitating the [six-party] talks and in shaping the agreement reached in Beijing," according to a senior U.S. official familiar with the American negotiating team.

Following the bilateral talks and agreements to resolve the BDA affair, all sides optimistically resumed the Six-Party Talks February 8–13 in Beijing. The joint statement issued at the sessions' close resounded with optimism: North Korea agreed to take steps toward nuclear disarmament and the U.S. agreed to "begin the process of removing the designation of the DPRK as a state sponsor of terrorism and advance the process of terminating the application of the Trading with the Enemy Act with respect to the DPRK." In June, the money that had been frozen in the BDA was returned to North Korea, which responded accordingly. "'Now that the issue of defreezing the funds has been settled, the DPRK, too, will start implementing the February 13 agreement,' a North Korean foreign ministry spokesman said in a statement published by the official Korean Central News Agency…" Inter-Korean relations resumed, eventually culminating in the October summit between Roh Moo-hyun and Kim Jong Il.

IV. THE OCTOBER 2007 SUMMIT

President Roh and Kim Jong Il met October 2–4; it was only the second summit meeting between the leaders of the two Koreas since the end of the Korean War. The meeting produced concrete results that far exceeded expectations—many people thought the lame duck Roh would give away too much without gaining anything. But the joint declaration issued at the summit's close showed that Roh had achieved more than his predecessor. A *New York Times* article asserted that it contained "specific projects that could build closer economic and security ties between the Koreas" and reflected "some modest, though important, concessions" made by the DPRK to the South.

The declaration outlined projects designed to promote economic cooperation between the two Koreas, including a new special economic zone to be built by South Korea in Haeju, a small port town in the southwestern corner of North Korea; a joint fishing area in the Yellow Sea where, previously, military clashes had frequently occurred; the rebuilding by the South of a railway connecting Kaesong with Sinuiju, a town on North Korea's border with China; and the construction by South Korea of a shipbuilding complex in North Korea's Nampo region. Politically, the declaration called for the two sides to work toward establishing a formal peace regime. It explicitly stated their desire "to terminate the existing armistice regime and to build a permanent peace regime, and cooperate to pursue issues related to declaring the end of the Korean War by holding on the Korean peninsula a three- or four-party summit of directly related sides." The mention of "a three- or four-party summit of directly related sides" implies China's inclusion, or possible exclusion, and firmly establishes South Korea as an essential party in establishing the permanent peace regime—something not included in the 1953 armistice agreement.

The meeting between the two Koreas was surprisingly successful both politically and economically; the fact that it even occurred is attributed by many to the improvement in U.S.-DPRK relations. Inter-Korean relations have at times been viewed by the international community as almost of secondary importance to relations between North Korea and the U.S. In any case, the interdependence between the two relationships cannot be ignored. Leon V. Sigal, Director of the Northeast Asia Cooperative Security Project, says that "North Korea's leaders have never agreed to a summit meeting with the South unless the U.S. was improving relations with North Korea." U.S.-DPRK relations also figure prominently in South Korea's domestic politics.

The underlying political motivations behind holding a summit meeting two months before South Korea's presidential elections invite discussion. It is no secret that President Roh, who was widely unpopular as he approached the end of his term, was hoping to secure his legacy by holding the talks. Another motivation for having a strong finish was "to alter South Korea's political landscape, which currently favors the conservative opposition's presidential candidate." Completing his term on a positive note could have given Roh's party a significant boost at the polls. Given South Korea's sensitivity to polling and dramatic last-minute upsets (as seen in the 2002 elections), anything Roh could do to boost his party's popularity—especially with regard to North Korean policy, which the public seemed keenly attuned to—had the potential to provide some political pull.

In late August, Bruce Klingner described the political climate this way: "A summit is unlikely to affect the outcome of the election but could shift the vote

by several percentage points—a significant move if the election proves close. According to some polls, up to 25 percent of the electorate is undecided in its support for a political party and presidential candidate." Klingner's assessment reflects the post-summit political atmosphere. Pundits, the media and politicians themselves were all furiously speculating about how the summit meeting and other developments with North Korea would resonate politically among the presidential candidates, their parties and ultimately the elections. But even with such concrete results from the summit, public interest in North Korean affairs cooled considerably. In spite of the hype that so many hoped or worried could sway the election, barely two months later the summit had virtually disappeared from the news.

Although the economy and Roh Moo-hyun fatigue dominated the election, the significance of North Korean policies should not be underestimated. The candidates, in spite of pandering to the public consensus on engagement, had distinct views on foreign policy issues with respect to the North.

V. PARTY PLATFORMS ON NORTH KOREA AND INTER-KOREAN RELATIONS

Whereas the U.S.-ROK relationship and anti-American sentiments fired up the 2002 presidential elections, the 2007 elections reflected a jaded sense of disenchantment. Voters seemed resigned to Lee Myung-bak's victory; in fact, they seemed to prefer a president who could take charge of the economy, in spite of questions about unethical behavior. In the last few weeks before the election, the politicized fervor of North Korean policy that stirred up the media from August through October became yesterday's news. One notable exception was National Assemblywoman Suh Hae-suk's description of North Korean policy as "the most significant difference between the UNDP [United New Democratic Party] and the GNP." In some instances, candidates intertwined aid and North Korean relations with South Korea's economic interests, but in the last few weeks, the excitement fizzled and North Korean issues were hardly mentioned.

Earlier in the campaign, however, this was not the case. Each candidate seemed to want to distinguish himself in terms of his approach to North Korea. The more liberal center-left UNDP's candidate, Chung Dong-young, advocated pro-engagement policies toward North Korea, calling for a continuation of the Sunshine Policy. He believes in firm inter-Korean economic cooperation as the key to unification, but he also sees almost any aid to North Korea as an investment that can benefit South Korea's own economy. In fact, his most significant proposal to boost the South Korean economy was economic aid to the DPRK. If elected, he planned to expand the development of industrial complex projects in North Korea by building 10 or more complexes. "[Chung]

believed that South Korean companies will benefit from the resulting investment opportunities and the profits from those investments will trickle down to South Korean workers. He also believed that he [could] cut the defense budget to pay for his social welfare plans as tensions with Pyongyang ease." Chung was adamant about implementing promises made on September 19, 2005, to supply North Korea with 2 million kW of electric power.

The more conservative center-right GNP has traditionally emphasized security first and supported a containment policy, favoring a more quid pro quo relationship with North Korea. In the 2007 presidential election, however, GNP party leaders announced a change in their North Korean policy, to what Rep. Park Jin described as a "flexible approach, but engagement with principles." The new policy, endorsed by Lee Myung-bak, "includes a plan to aid North Korea's economy with support missions and large-scale training programs once Pyongyang gives up its nuclear arms program." This shift is perhaps the most salient example of South Korea's general consensus in viewing North Korean policies.

Lee Myung-bak's "Korea 3000 Plan" goes further: it sets a goal of raising North Korea's per capita income from $500 to $3,000 in a decade by providing development aid and economic assistance if—and only if—the North dismantles its nuclear weapons program and opens up its economy. Lee has proposed establishing a North-South economic community to implement his plan by signing a Korean Economic Community Cooperation Agreement. His approach would have the practical effect of slowing nonhumanitarian aid to North Korea, given the North's reluctance to openly reform its economy. However, "he has pledged to keep humanitarian aid flowing north regardless of the state of relations between Seoul and Pyongyang." This pledge seems to reflect a less hard-line approach.

The impetus for change in North Korean policy seems to have been overwhelming public sentiment in favor of improved relations with North Korea and the conservative party's need to revise its hard-line image among voters. According to Park Doo-sik at *Chosun Ilbo*'s political desk, the policy shift towards a more flexible approach was merely election posturing, because "the GNP thinks it is unpopular with young and middle-of-the-road voters because of its reactionary image, [with] its hard-line North Korea policy being the biggest obstacle." Critics claim that the GNP's direction change is nominal and that concrete action, if it occurs at all, will be slowly and inconsequentially implemented.

Then there were those on the far right who advocated even stricter policies. While the GNP and Lee Myung-bak attempted to curry favor among the younger, more progressive voters with a flexible, conciliatory North Korean policy, independent candidate Lee Hoi-chang did just the opposite. Breaking

from the GNP because he viewed it as being too soft on North Korea, Lee Hoi-chang entered the presidential race with an "ultra conservative line, putting more emphasis on security than on engagement with North Korea." A former Supreme Court justice, Lee criticized both Lee Myung-bak and Chung Dong-young for pursuing policies that he claimed "eventually help the North develop nuclear weapons power rather than resolve the nuclear problem." He found fault with the GNP candidate for what he considered to be an "ambiguous" North Korea policy. Lee Hoi-chang's entry in the race added a new dimension by mobilizing right-wing forces and putting pressure on Lee Myung-bak to take a more conservative line. This pressure will probably continue in the future, as Lee Hoi-chang has pledged to remain in politics. Moreover, he garnered more conservative support when some GNP lawmakers defected to support his bid for the presidency. Though it is doubtful that he will amass enough support to outweigh the GNP, his movement to the right could potentially create a significant amount of friction in the National Assembly, especially with upcoming elections in April 2008.

Pressure mounted from the left as well, as the Democratic Labor Party (DLP) and civil society groups demanded even more engagement. DLP candidate Kwon Young-ghil called for "disbanding the Korea-U.S. alliance" and establishing a permanent peace regime on the Korean peninsula by 2008. The environment-friendly Creative Korea Party's candidate, Moon Kook-hyun, proposed "plans to build a regional economic bloc linking the two Koreas to Russia as an inducement to North Korea." Though the far left groups do not have enough political sway to challenge the GNP or Lee Myung-bak by themselves, they pose significant potential for opposition if coalitions are formed in the upcoming National Assembly elections.

VI. POLITICKING OVER THE NORTH

Over the course of 2007, almost every event or development in North-South relations was highlighted in the news. Often linked to such news coverage were critiques or public claims of support by political parties, candidates or the president. From funding and humanitarian aid to the scheduling of the summit meeting, everything seemed to merit political commentary or draw controversy in the tense political landscape of the presidential elections. Political debates and schisms over North Korean treatment developed across and even within parties.

The reversal of the U.S. containment policy toward North Korea led to dramatic improvements in North Korean relations not only with the United States but also with South Korea. After the policy reversal, bilateral talks between the U.S. and North Korea were held in Berlin, the Six-Party Talks resumed, and the February 13 North Korea Denuclearization Action Plan was established.

These developments elicited various responses from South Korean politicians. Roh Moo-hyun and the progressive camp applauded the developments because they bolstered the engagement policy. In fact, the U.S. policy shift seemed to embolden South Korean progressives, because the Bush administration appeared to be following the lines the Roh administration had been advocating all along. Furthermore, the improvements in U.S.-DPRK relations and progress in the Six-Party Talks created a more accommodating environment in which to hold a summit meeting. According to North Korean officials, Kim Jong Il said, "[N] ow the timing [is] right for a second summit meeting, considering the state of relations between the two Koreas and the improved regional situation."

On the other hand, South Korea's conservatives, who provide the support base for the GNP, did not so eagerly welcome the change in policy. In fact, the tactical reversal came as a shock to the conservative camp, and their reactions ranged from a sense of betrayal to cautious wariness. Tong Kim, a former senior interpreter at the U.S. State Department, interviewed a number of GNP representatives, including Chung Hyung-keun, the architect of the GNP's new policy of "reciprocal engagement." According to Kim, some conservative leaders felt betrayed by the U.S. while others "were hoping that Bush's new engagement approach had been only a tactical shift that would be reversed to the familiar policy of pressuring and isolating North Korea." After seeing the improvement in inter-Korean relations as a result of the Roh administration's involvement in resolving the BDA affair, the GNP was wary of potential effects on its chances in the presidential election. Conservatives began to make a great fuss over the use of North-South relations for political ends, and Roh Moo-hyun made efforts to separate the summit from domestic politics. But in spite of its early response, the GNP shifted its own DPRK policies, incorporating a more flexible approach.

By July, it seemed that all the political parties supported some form of engagement with the North, although the major parties still sought to distinguish themselves in their approaches to North Korea. It also seemed that even the DPRK itself was drawn into the South's political melee.

The North Korean regime was in a precarious position because of the country's economic failure, and it would have preferred a continuation of progressive government in Seoul. Rather than facing demands for reform that could potentially undermine the Kim Jong Il regime, North Korea would have a much easier time dealing with the no-strings-attached approach favored by Chung Dong-young. Thus, the DPRK at times attempted to insert itself in South Korean politics by "publicly opposing the Grand National Party." Pyongyang even went so far as to "call for South Korean voters to keep the Grand National Party out of the Cheongwadae." But when Lee Hoi-chang entered the presidential contest, the North's tone changed. Though the DPRK publicly

criticized and opposed Lee Hoi-chang, it maintained a conspicuous silence on Lee Myung-bak, even as it attempted to garner support for progressives. In September, just a few weeks before the summit meeting, the North expressed gratitude to President Roh Moo-hyun. Through a high-level official, Pyongyang thanked him for flood aid and the letter of condolence he had sent directly to Kim Jong Il. But even this public expression of thanks seemed laden with political overtones. Toward the end of the race, the North's lack of criticism of Lee Myung-bak and the GNP seemed to reflect its acknowledgment that he would win the election.

South Korean politicking over North Korea peaked in the weeks before the October summit. Many criticized the summit as merely a political maneuver by President Roh to secure a legacy and boost the progressive camp's presidential candidate. Though the progressives would not admit it, establishing a strong legacy and boosting Roh's approval ratings were probably two of the principal goals of the administration at that time. The GNP raised the issue of using North-South relations for political reasons and protested the summit's scheduling.

On August 12, the GNP demanded that the "second inter-Korean summit be delayed until after December's presidential election to minimize the summit's political impact on the Dec[ember] 19 poll." The demand came a day after the summit was postponed from its original August 28–30 time frame to October because of severe flooding in North Korea. GNP spokesperson Na Kyung-won told reporters, "We're increasingly suspicious that the postponement could be a political gambit designed to affect the ongoing presidential race in which GNP presidential hopefuls are enjoying strong public support." The Blue House rejected the demand, criticizing the GNP for being concerned only with the presidential elections, and the GNP rejected the Cheongwadae's "proposal to send a lawmaker or presidential hopeful to visit Pyongyang with President Roh Moo-hyun." In contrast, the liberal DLP asked that two of its legislative members be allowed to participate in the summit. Seemingly reverting to its traditional stance toward the North, the GNP "urged the president to seek ways of dismantling North Korean nuclear weapons completely, not to pursue reunification plans which lack public support and not to pledge further economic assistance to the North." Even after the summit, GNP Rep. Kwon Young-see denounced the Roh Moo-hyun government "for placing a tremendous burden on South Korea by promising North Korea a slew of projects during the inter-Korean summit in Pyongyang."

VII. CONCLUSION

The October 2007 summit meeting between Roh Moo-hyun and Kim Jong Il produced more substantive results than anyone expected. The leaders agreed on a wide range of projects to develop political and economic relations between the two Koreas, beginning with the expansion of the Kaesong industrial complex. In addition, the summit seemed to partially achieve the political goals of the Roh administration: shortly after the conclusion of the summit, Roh's ratings shot up to 43.2 percent, a major increase from the 32.3 percent recorded a month earlier. But the increase in the Roh administration's popularity did not create enough momentum to boost the progressive candidates. Oddly, the same poll revealed that the number of people who said they were going to vote for GNP candidate Lee Myung-bak had risen by 1.2 percent from the previous month's 49.5 percent.

Lee Myung-bak's victory by such a large margin indicates that the summit meeting and politicking over North Korean affairs did not produce enough momentum to sway the presidential elections. The drop in interest in North Korean affairs in the last crucial legs of the presidential race raises the question of whether Roh was trying to manipulate North Korean issues and the summit meeting's popularity purely for the sake of boosting the liberals' chances in the election. If so, he missed a number of opportunities in the follow-up to the summit.

The October summit was followed by a series of high-level talks between the Koreas, including the first meeting between North and South prime ministers in 15 years. The Roh Moo-hyun administration could have capitalized on these meetings to fan the momentum of the summit meeting, but it did not. In fact, in the last stretch leading up to the elections, the fervor over North Korean policy seemed to vanish. The North-South issues that seemed critically important in October were absent from the news a month later. Rather, questions of Lee Myung-bak's unethical behavior dominated.

In spite of the questions that loomed about his character, Lee Myung-bak won the presidential election by the largest margin since Korea's democratization. Though the general public seemed to favor a positive engagement policy, rather than North Korean affairs, the state of the economy seemed a stronger issue for South Korean voters.

The return of conservative power to the Blue House raises significant questions regarding the future of North-South relations and North Korean affairs in general. A prominent issue is the role of South Korean aid. The conservatives have traditionally regarded aid from a different tactical perspective than the liberals. Though Lee Myung-bak has pledged that humanitarian aid will not be affected by political considerations, he is likely to ask for more from the North in return for development aid. In turn, this may have an effect on resolving the nuclear issue. Stephen Haggard and Marcus Noland wrote, "Properly conditioned, South Korean aid could be a powerful carrot in the nuclear negotiations, whether it ultimately encourages internal reforms or not." While Lee is likely to demand a more reciprocal exchange from North Korea up front, he still favors progress in the Six-Party Talks. Also, given his desire for a strong U.S.-ROK alliance, he is unlikely to be so demanding that he risks derailing the talks or stepping out of sync with the new pro-engagement policy of the U.S.

Behind the question of whether Lee Myung-bak will implement dramatic change in North Korean policy lies the question of whether he would even be able to do so. With the public consensus favoring a positive North Korean engagement policy, Lee and the GNP have gone to great lengths to refresh their policies toward the North and take a more flexible approach. In spite of pressure from the hard right of the Lee Hoi-chang camp, it would not make much sense to revert to the GNP's old stance. Doing so would only alienate the public. Although Lee Myung-bak was cleared of allegations implicating him in the BBK financial scandal, Lee's innocence is still considered suspect amongst opposing political parties. Moreover, the president-elect's appointing cabinet members while bipartisan negotiations were still under way drew significant criticism, resulting in a dip in his popularity ratings. Even within the GNP, Lee seems to have failed to consolidate support from Park Geun-hye, who carries significant weight in the party. Without enough time to establish his leadership as president, Lee may face considerable challenge from legislative leaders. As the April National Assembly elections approach, South Korea's political landscape is uncertain. Thus, though it seems certain that Lee Myung-bak's policy toward the North will see a shift from the past 10 years, the extent of the change and its effects remain to be seen.

CIVIL SOCIETY AND THE STATE IN SOUTH KOREA

Michael Richardson

I. INTRODUCTION

As 2007 drew to a close, South Korea was turning the page on a 10-year period of progressive political rule. The election of the Grand National Party's Lee Myung-bak to the presidency marked a clear shift away from the policies of Presidents Kim Dae-jung and Roh Moo-hyun and paved the way for what some commentators have billed as a more pragmatic and pro-business approach to governance. Against the backdrop of this change in voter sentiment and realignment of political power, 2007 also offered a glimpse into important trends in Korean civil society. Sharp disagreements over both domestic and foreign policy led to political polarization between liberal and conservative groups, especially with respect to North Korea and the second inter-Korean summit held in Pyongyang on October 4. Moreover, the work of nongovernmental organizations (NGOs) and other civil society organizations (CSOs) continued to serve as a buffer for government policies, offering a degree of continuity even when government officials deemed an issue too controversial. Human rights in North Korea is one notable area in which official silence was partially offset by vocal civil society agitation.

This paper offers an account of the major developments in South Korean civil society during 2007. After laying out the historical context, the paper focuses on CSO involvement in setting policy toward North Korea. The role that both progressive and conservative groups played in the October inter-Korean summit serves as a case study for assessing the broader role of civil society in the South Korean political system.

Before moving forward, however, some conceptual clarity is needed. "Civil society" is itself a nebulous term. It is handy to have a concise formulation that defines civil society as "voluntary flexible organizations," but that leaves

something to be desired. For the purposes of this paper, the London School of Economics Civil Society Centre's working definition will suffice:

> Civil society refers to the arena of uncoerced collective action around shared interests, purposes and values. In theory, its institutional forms are distinct from those of the state, family and market, though in practice, the boundaries between state, civil society, family and market are often complex, blurred and negotiated. Civil society commonly embraces a diversity of spaces, actors and institutional forms, varying in their degree of formality, autonomy and power. Civil societies are often populated by organisations such as registered charities, development non-governmental organisations, community groups, women's organisations, faith-based organisations, professional associations, trade unions, self-help groups, social movements, business associations, coalitions and advocacy groups.

The importance of civil society lies in its ability to provide a public space for the interaction of diverse societal values and interests. As will be seen in the sections that follow, Korean CSOs have played an active role in the past year in the public debate on a range of issues.

II. HISTORY AND BACKGROUND

In many ways, the growth of civil society in South Korea mirrors the growth of the nation's economy. In the early 1960s, South Korea's per capita GDP was lower than that of the Belgian Congo. Still recovering from the ravages of internecine war, Korea had not urbanized, and prospects for development looked bleak. Then there followed, seemingly out of nowhere, three decades of fantastic economic growth, during which the country transformed itself from an impoverished backwater to an urban industrial powerhouse. By the end of the 20th century, South Korea boasted the 11th largest economy in the world.

Civil society has emerged on the peninsula with similar gusto. Though scholars debate the precise origins of civil society in Korea (some argue that it existed in nascent form during the Chosun dynasty, while others see its birth coming much later, during the Japanese colonial era or the postwar period), there is no doubt that organized civic groups have blossomed since 1987. In that year, nationwide demonstrations forced the authoritarian Chun Doo-hwan regime to hold democratic elections and ushered in a new era of participatory politics in South Korea.

The years following Chun's capitulation saw an extraordinary increase in the number and variety of South Korea's civic groups and voluntary associations.

As Hagen Koo notes in his study of Korean civil society, these groups "included such organizations as the citizens' coalition for economic justice, the league of anti-pollution movements, feminist groups, teachers' associations for educational reform, journalists' associations for press freedom, citizens' watch groups for fair elections, citizen groups to fight political corruption or to fight regionalism, pressure groups for ensuring responsive state agencies, and so forth."

A cursory glance at the civil society groups that sprouted in this period shows most of them to be liberal, if not leftist. This should come as no surprise. Traditionally, such "liberal" interests as press freedom, environmental protection, and women's rights were precisely the interests that had been ignored or suppressed during South Korea's authoritarian period. Liberalization of the political sphere thus paved the way for the liberalization (and, in some sense, liberation) of civil society. The nature and composition of these new civic organizations reflected a degree of dissatisfaction with the course of the country's development. State-led economic growth had transformed South Korea, but it had also stymied the political and social aspirations of large segments of society. Civic groups in the 1990s sought to compensate for those decades of neglect.

III. RECENT TRENDS: THE POLARIZATION OF CIVIL SOCIETY

The growth of civil society continued apace under the administration of President Roh Moo-hyun. More than either of his two democratically elected predecessors, he actively courted and supported a wide variety of civic groups. Having won the 2002 election on a wave of youthful, progressive support, he proceeded to build a "participatory government" that both increased financial backing for civic groups and encouraged direct civil society participation in the policymaking process. President Roh Moo-hyun also continued former President Kim Dae-jung's practice of inviting prominent civic group leaders to join his administration. The consequences of this support for progressive civil society have varied. For one thing, participation in and giving to voluntary organizations have increased over the past five years. For another, the online "netizen" community has garnered considerable power as an informal force for political and social change.

At the same time, however, the close ties between government and civil society have provoked a conservative backlash. If the growth of progressive civic groups can be seen as a reaction to conservative, authoritarian rule, then the growth of conservative civic groups can be seen as just the opposite: a reaction to liberal, progressive rule. The New Right NGOs and political religious groups that have recently appeared are representative of this trend. One such group, the New Right Union, explicitly claims to combine the functions of a civil society organization and a political movement organization. Boasting some 15,000

members, from whom it draws most of its funding in small donations, the group advocates the advancement of liberalism, the rule of law, and globalization. Its inaugural slogan left little doubt about its goals: "To end the leftist power."

The rise of conservative groups reflects a broader issue that South Korean civil society now faces: ideological polarization. As civic groups have become more involved in the political sphere, they have simultaneously experienced and contributed to the problems of politicization. Bitter left-right divides are just as sharp among civil society organizations as they are among political parties. Professor Shin Kwang-young of Chung-Ang University argues that this polarization has far-reaching negative consequences. "Such politically motivated activities by civic groups have resulted in public disapproval," he told the *Korea Herald*, "weakening the very basis of the entire civil society."

Nevertheless, it would not seem that the politicization of some civil society sectors has diminished South Korean society's overall capacity for collective action. The response to a disastrous oil spill on December 7, 2007, which left a 40-kilometer swath of Korea's western coastline soaked in petroleum, has been telling. Environmental NGOs have worked together with the government and ordinary citizens to organize a massive clean-up campaign. As of December 28, more than 300,000 volunteers from across the country had trekked to Anmyeon-do and other devastated coastal areas to help with the relief effort. Press reports and conversations with ordinary Koreans revealed a widely felt sense of collective responsibility for providing help in the wake of this environmental tragedy.

IV. CIVIL SOCIETY AND THE POLICY TOWARD NORTH KOREA

Yet a central fact remains: although a disaster may bring South Korean civil society groups together, many other issues drive them apart. Policy toward North Korea has long provided grist for political division in the South, and civil society reflects this ideological chasm. On the left, NGOs have united around the Sunshine Policy (launched under President Kim Dae-jung and continued by President Roh Moo-hyun) of reconciliation, cooperation, and aid. The Korea NGO Council for Cooperation with North Korea, for example, has brought together 60 separate NGOs under its tent. And on the right, civic and political groups have ardently taken up the cause of North Korean human rights, a position that anchors the hard-line stance they take toward Pyongyang.

Responses to moments of both crisis and cooperation reveal the depth of the divide between progressive and conservative groups. One low point came on July 4, 2006, when the regime of Kim Jong Il, Chairman of the National Defense Commission of North Korea, launched several ballistic missiles without providing any forewarning to China or South Korea. In the aftermath of the

launch, the People's Solidarity for Participatory Democracy (PSPD), the Korea Youth Corps (KYC), Peace Network, Women Making Peace, YMCA, Korean Federation of Environmental Movements (KFEM), Green Korea, and Korea Women's Associations United (KWAU) released the following joint statement:

> We express regret that, despite concerns from South Korea and the international community, North Korea proceeded with missile tests. ...The missile launches were an unwise action which raised the security stakes on the Korean Peninsula while also increasing the leverage of hawks in Washington and Tokyo. ...
>
> We are also deeply worried about the adoption of a hard-line response, both domestically and internationally, towards North Korea. President Bush ceased negotiations regarding North Korea's missiles as soon as he took office. ...
>
> We also find it problematic that domestic politics and the media define the North Korean missile launches as a failure of South Korea's "engagement policy" and initiate a hard-line approach toward the North. The current North Korean missile launch crisis is the result of the U.S. government's hard-line policy and North Korea's improper response to it.

In contrast to this measured response, in which every party in the conflict comes in for some cautious criticism, conservative groups were quick to take a hard-line stance against North Korea and the Roh Moo-hyun administration. They seized the opportunity to declare the so-called Sunshine Policy of rapprochement with the North a failure and to demand a thorough revamping of policy toward North Korea and a strengthening of ties with the United States.

This is not to say that a left-right divide pervades all of civil society, however. Indeed, such a facile bifurcation obscures the fact that many civil society groups are driven by issues, not by a broader political agenda. When interests clash, CSOs have not hesitated to turn on politicians who ostensibly share the same ideological perspective.

Indeed, the polarization of civil society has spurred opposition to President Roh Moo-hyun not only from the right but also from his erstwhile allies on the left. In late 2006, the looming prospect of a Korea-U.S. Free Trade Agreement mobilized opposition across the country. Protests in 13 cities by more than 70,000 farmers, workers, and activists left 63 people injured and caused an estimated 670 million won ($720,000) in property damages. In the following days, police raided the regional offices of the Korea Alliance Against the Korea-U.S. FTA, a coalition of

about 300 civic groups responsible for leading the violent protests. Ironically, these groups had received much of their funding from none other than the government itself. Through annual budget allocations to civic organizations, the administration had effectively paid for the protests and then paid again to put them down.

Largely in response to these events, the government and the National Assembly took steps in January 2007 to cut subsidies to groups that hold violent rallies. The assembly approved 10 billion won in civic group support, as it had in years past, but also required the government to post on the Internet a list of groups that asked for subsidies, as well as the amount of funding each group received. Those groups linked to violent or destructive protests would be denied further subsidies.

An additional consequence of political polarization is that it colors even those CSOs that may wish to stay above the fray. Hakmin Kim of the Citizens' Alliance for North Korean Human Rights (NKHR), for example, complains that the NGO for which she works has been unfairly caught up in South Korea's partisan battles. "Our organization is very nonpolitical," she said in an interview, "but whenever people hear 'North Korean human rights,' they think 'conservative.'" NKHR's position, according to Kim, is that reunification cannot be achieved without some improvement in the North Korean human rights situation. To that end, the organization is working to align with governments that have diplomatic relations with North Korea and to organize international conferences (the most recent of which was held in London on January 22, 2008) that call attention to NKHR's cause.

The case of NKHR reveals the difficulty civil society groups face in maintaining political independence while simultaneously promoting policy change. Ultimately, policy change requires elite support. If a given policy has backing from only the elites of one political stripe, then some degree of interest alignment between politicians and civil society groups—and thus politicization, whether real or perceived—is difficult to avoid.

V. AVENUES OF POWER: CSOs IN THE KOREAN POLITICAL SYSTEM

The task of gaining elite support, of course, can often be a difficult one. CSOs use a variety of tactics to get their messages out and their pet policies passed into law. These methods can include direct contact with government officials, think tank conferences, media campaigns, and street-level demonstrations. Ultimately, however, the success of these efforts depends on the political environment in which they are undertaken.

In a forthcoming study of anti-base movements in South Korea, Andrew Yeo describes the polarization between progressive and conservative groups, with the younger generation of Koreans holding particularly negative views toward the presence of U.S. bases on the peninsula. Yet, despite this diversity of views, there persists a strong elite security consensus that favors reacting to U.S. policy toward North Korea rather than initiating changes in the U.S.-Korea alliance. "The progressive Uri Party has achieved some success in moving the alliance towards a more equal partnership," says Yeo, "particularly in the area of wartime operational control. Yet there are limits to what the liberal party can achieve. South Korea's foreign policy apparatus is still heavily influenced by a conservative line of thinking, and an elite consensus continues to operate on issues pertaining to U.S.-South Korean security relations." According to Yeo's analysis, the presence of this security consensus—which itself is driven by entrenched political and ideological structures—makes it difficult for the alternative voices of progressives and radicals to gain traction in foreign policy circles. Thus, while many activists expected Blue House and National Assembly officials in the Kim Dae-jung and Roh Moo-hyun administrations to depart from what they saw as psychological dependence on the U.S., they were often disappointed to see these formerly radical politicians moderate their views once in power.

Yeo's work on anti-base movements suggests that there are clear limits to what CSOs can achieve in the South Korean political system. Their effectiveness depends not only on citizen support and close ties to elites but also on structural factors that shape the elite consensus on a given issue. If the elite consensus is strong, CSOs promoting alternative policies will face a rough road ahead. If the consensus is weak, they may find more openings for change.

What, then, can be said about the role of CSOs in one of the most significant foreign policy events of 2007, the October summit between President Roh Moo-hyun and Chairman Kim Jong Il? The following sections will outline the ways in which South Korean civil society groups sought to affect both the public perceptions and the substantive outcomes of this event.

VI. CIVIL SOCIETY AND THE 2007 INTER-KOREAN SUMMIT

As noted above, crises in inter-Korean relations often expose the ideological divisions in South Korea. But the reactions of CSOs to apparently positive developments in North-South relations have been no less polarized. Whereas 2006 was a turbulent year, punctuated by North Korean missile launches and an underground nuclear test, 2007 was a year characterized by a marked relaxation of tensions on the peninsula. In addition to improvements in relations between Pyongyang and Seoul, a series of meetings and negotiations between North

Korea and the United States led to progress toward peace and a North Korean agreement to dismantle its nuclear weapons program. And yet, the ideological gap among CSOs showed no sign of closing.

The October summit was the first such event since former President Kim Dae-jung's historic trip to Pyongyang in 2000. In the days and weeks before President Roh Moo-hyun followed in his predecessor's footsteps to meet with Kim Jong Il, progressive organizations welcomed the summit as an opportunity to boost peace on the peninsula. The Civil Society Organizations Network in Korea, an umbrella coalition of 189 civic groups, emphasized the need for economic and military cooperation between North and South and urged the South Korean government to abolish "outdated laws and systems made during the cold-war era."

Conservative civic groups, on the other hand, saw summitry as a political power play. According to these organizations, President Roh Moo-hyun was using his visit to Pyongyang as a tool to bolster progressive political candidates in the lead-up to December's presidential election. Park Sang-hak, head of the Democracy Network Against NK Gulag, argued that the summit's agenda did not reflect public opinion in the South. "What South Koreans want is denuclearization of the Korean Peninsula," he told the *Korea Times*, "and it is what Roh and Kim should talk about. But Roh said he would not irritate Kim by urging him to scrap the nuclear program."

VII. POLITICAL ELITES: SHAPING THE SUMMIT AGENDA

While CSOs dug in their heels and released statements to the media, political elites were reticent about the details of their plan for the upcoming talks. President Roh Moo-hyun had clear personal and political reasons for pursuing a meeting with Kim Jong Il. A fruitful summit would not only validate his five years of work in building constructive ties with the North, it would also culminate a lifetime spent battling a political system that he viewed as needlessly hostile toward Pyongyang. Moreover, it would lend support to President Roh Moo-hyun's would-be successors, thus preserving policy continuity in the next administration. Even if a more conservative president were to take office in 2008, agreements reached at the summit could constrain a new government's ability to radically alter its stance toward North Korea.

The agenda itself, however, was kept secret before President Roh Moo-hyun's departure. When Seoul announced plans on August 8 for a summit to be held later that month, it offered only a broad sketch of the issues to be discussed by Roh Moo-hyun and Kim Jong Il. The government's official statement issued that day said, "The two leaders' discussions on a Korean Peninsula peace treaty

will help widen bilateral military trust and further upgrade mutual economic cooperation and exchanges." Officials also expressed their desire to continue the progress made by former President Kim Dae-jung at the first inter-Korean summit, but specific agenda items were left vague. In response to questions from reporters, Unification Minister Lee Jae-jeong said that while the establishment of a Korean peace regime would likely be considered, the details of other discussion points remained to be hashed out in the coming weeks.

Ten days after that announcement, the summit's August 28–30 time frame was pushed back more than a month, ostensibly because of severe flooding in the North. The delay did nothing to help clarify the planned agenda; indeed, it only left more time for speculation.

Of paramount importance to political and civil society groups on both sides of the aisle was the question of North Korean denuclearization. Speaking in Washington, DC, in mid-September, former President Kim Dae-jung clearly stated that dismantlement of the North's nuclear facilities was a necessary step toward permanent peace on the peninsula. He said that President Roh Moo-hyun would definitely raise the issue of denuclearization at the October summit. But the president seemed to have other plans. In the lead-up to the talks, he was reported to have said that, since many others were already talking about denuclearization, he saw no reason to risk ruining the atmosphere of the talks by raising such a contentious issue.

VIII. CIVIL SOCIETY AS A "THIRD PARTY"

In the end, the outcome of the summit surprised many observers. In addition to pledging to continue to implement the agreement signed at the June 15, 2000, inter-Korean summit, North and South Korea agreed on several new cooperative measures. These include the development of a "special peace and cooperation zone in the West Sea [Yellow Sea]"; the completion of "the first-phase construction of the Kaesong Industrial Complex at an early date and [the commencement of] the second-stage development project"; and a mutual recognition of "the need to end the current armistice regime and build a permanent peace regime" on the peninsula. Notably absent from the October 4, 2007, joint statement was any concrete mention of denuclearization or human rights issues.

Conservative groups were predictably vexed. In the aftermath of the summit, they ramped up their criticisms of President Roh Moo-hyun and began jockeying for influence in the run-up to December's presidential elections. On November 6, an alliance of organizations associated with the New

Right Movement set forth comprehensive recommendations for the next administration's North Korea policy. Members of the New Right Policy Committee, Citizens United for Better Society, Lawyers for Citizens, Liberty Union, and Hansun Foundation for Freedom and Prosperity jointly condemned the Sunshine Policy of Presidents Kim Dae-jung and Roh Moo-hyun. They criticized the policy for, among other things, failing to produce North Korean political reform, failing to open the North Korean economy, and failing to address North Korea's human rights situation. The main causes of the policy's failure, they argued, were its overoptimism and overreliance on one-way economic assistance.

In the Sunshine Policy's stead, the New Right groups proposed the strengthening of international cooperation based on an alliance among South Korea, the United States, and Japan. Rather than provide one-way assistance, Seoul would participate in an international consortium to develop the North's economy. It would actively encourage internal reform, assist in organizing domestic and international reform-focused groups, and, significantly, require as a prerequisite the complete denuclearization of the Korean peninsula.

As the conservative sectors of South Korean society were well aware, the October summit's outcome (as well as the fact that it was held at all) reflected the general policy preferences of South Korea's progressive politicians and CSOs. Yet there is little available evidence that demonstrates the precise ways in which CSOs failed or succeeded in influencing the summit's agenda. Did President Roh Moo-hyun raise (or not raise, as the case may be) certain agenda items because of civil society pressure, or because of unrelated personal or political reasons? Does the joint statement reflect South Korean demands and North Korean concessions, or vice versa? These questions may never be completely answered.

It does seem clear, however, that once the parties from North and South Korea met in Pyongyang, there was little time for CSOs to exert any real influence over the outcome of the summit. According to one summit participant on the South Korean side who was interviewed for this paper, substantive interaction with North Korean officials proved difficult. Meetings of delegate subcommittees (held separately from the main talks between President Roh Moo-hyun and Chairman Kim Jong Il) were limited to one hour, and North Korean officials had no freedom to deviate from the North Korean Workers' Party line. Moreover, while South Korea sent a delegation of independent civil society representatives and academics to the October summit, North Korea sent counterparts who had been organized and effectively "corporatized" by Kim Jong Il's regime in Pyongyang.

Even if academics and CSO representatives were limited in their ability to sway events at the October summit, many observers nevertheless view the overall role played by civil society in reunification efforts as critically important. The South Korean intellectual Paik Nak-chung has long argued that Korean reunification will differ dramatically from any historical precedents. "Briefly put, not only is a Vietnamese-style reunification through military conquest out of the question in Korea," he writes, "but even a peaceful reunification, unlike that of Germany or of Yemen, can only proceed gradually, stage by stage." In Paik's view, civil society will have a major say in both the timing and the nature of a gradual North-South reunification, essentially functioning as a "third party" beside the governments in Seoul and Pyongyang. "Eventually," he says, "it will not be possible to prevent the sphere of civic participation extending to the entire peninsula."

Paik is not alone in arguing for the importance of civil society's third party buffer role in the Korean political system. Officials at the Ministry of Unification in Seoul noted during a recent briefing that CSOs are not bound to follow government policies; thus, they can help reduce the tensions caused by politics. For example, CSOs such as the Alliance for North Korean Human Rights can consistently provide humanitarian aid to North Korea even when diplomatic relations may be strained. Indeed, Ministry of Unification officials said that humanitarian aid sent by NGOs is often more readily accepted by the North than aid sent through official government channels. CSOs are therefore uniquely positioned to actively engage with the North Korean people and have the independence to pursue creative cooperation projects. Initiatives such as visits by South Korean pop singers to Pyongyang and the development of a *Korean National Language Publishing Dictionary* have been undertaken at the behest of civil society groups in Seoul.

IX. CONCLUSION

Korean civil society was active in 2007. This paper has detailed only some of the major developments and, for reasons of space, has left others unmentioned. Overall, major political issues such as North Korean denuclearization and reunification policy continue to seep into the realm of South Korean civil society. The polarization of civil society between left and right, progressive and conservative—artificial though those distinctions may at times be—has alienated many of the ordinary citizens whom CSOs aim to represent. Politicization can be poisonous. But at the same time, politicization can open doors through which CSOs can bring pressure to bear on political elites who might otherwise be less responsive to grassroots demands. To the extent

that civil society can serve as a third party buffer, it also has the potential to substantially affect the course of Korean politics by working outside traditional political power channels.

As Lee Myung-bak embarks on his five-year term as president of South Korea, conservative CSOs will likely find more receptive ears for their policies among political elites. But this does not guarantee that the interests of civil society and the government will necessarily coincide. If the experience of progressive CSOs under the Roh Moo-hyun administration is any indication, Grand National Party officials and New Right NGOs may clash as often as they cooperate. Meanwhile, the South Korean left, stranded in the cold after December's elections, might take solace in knowing that its civil society representatives can continue to work for progressive causes even as the political winds change.

DEMOCRATIC CONSOLIDATION AND FOREIGN RELATIONS UNDER LEE MYUNG-BAK

Shaw-Lin Chaw

I. INTRODUCTION

It is a democracy: not as old or as deeply rooted as Japan's, nor as politically fractious as Taiwan's. Nevertheless, after the successful election of four presidents in a minimalist democratic climate of largely free and fair elections, and a fifth president in December 2007, South Korea is certainly a democracy with some measure of vibrancy. Cited by the *New York Times* in 1995 as a viable "East Asian model of prosperity and democracy," based on fairness, equality, and the rule of law, the country survived the economic hard landing of the 1997 Asian financial crisis to emerge even stronger and more invigorated. South Korea is currently the world's 13th largest economy, and it climbed up 12 spots last year to secure the rank of 11th best country for global business in a poll by the World Economic Forum.

From the evolution of civil societies to a strong and independent news media, South Korea now has all the institutional underpinnings of a democracy. It has also experienced genuine power transitions: leadership changed hands peacefully in 1998 from the conservative government of Kim Young-sam to the first liberal dissident president, Kim Dae-jung, and to Roh Moo-hyun five years later. Power will return to the conservatives after those two liberal administrations. Lee Myung-bak will assume office on February 25, 2008.

Despite numerous setbacks and limited successes over the years, South Korea's democratization story—especially during the Sixth Republic, from 1987 to the present— has been an astounding one. With a focus on the recent presidential election, this paper examines how the leaders of this medium-sized state

geographically with a population of just 50 million have had the political clout to cause an outsized impact in East Asia. Hardly a nondescript nation, South Korea has played a critical and decisive role in the security of the Korean peninsula through its engagement with the Democratic People's Republic of Korea (DPRK) under the Sunshine Policy of Presidents Kim Dae-jung and Roh Moo-hyun. South Korea's at times rocky relations with the U.S. over the past decade have also made both sides question the sustainability of the U.S.-ROK alliance. The final section of the paper analyzes the direction of South Korea's engagement with the DPRK and the country's alliance with the U.S. under the rule of the new incumbent president Lee Myung-bak.

II. POLITICAL TRANSFORMATION INTO THE SIXTH REPUBLIC

For many years after its liberation from Japanese rule in 1948, South Korea muddled through bouts of constitutional disorder and political instability. Civilian activism and attempts at democratic reforms were frequent and well documented, but each time, the efforts were quashed in their infancy, affording little change toward democracy or continuity in reform efforts. The student-led movement of April 19, 1960, scored a momentous victory when it toppled the First Republic under Syngman Rhee, ushering the way for the first democratic government. However, as Samuel Huntington and other political theorists of "stable democracy" have pointed out, the drastic transition from a dictatorship to a democracy entailed dangers of social disorder and political instability. South Korea's first democratic government lasted barely a year before military control returned via a coup staged by Army general Park Chung-hee. Despite presidential elections in 1967, 1971, and 1978, Park's iron rule was largely uncontested over 16 years until his assassination by the KCIA director in 1979.

In 1987, when Roh Tae-woo took over from Chun Doo-hwan after Chun's eight years of authoritarian rule—making the famous June 29 declaration that called for a direct national election and a revision of the country's constitution—the first seeds of liberal democracy were sown. Roh Tae-woo eventually won the presidency with less than one third of the popular vote, because the opposition candidates and longtime political rivals Kim Young-sam and Kim Dae-jung failed to work together to present a single strong candidacy. In 1992, however, democratic transition came to fruition when Kim Young-sam won the presidential election officially as a civilian candidate, putting a decisive end to military surrogate rule.

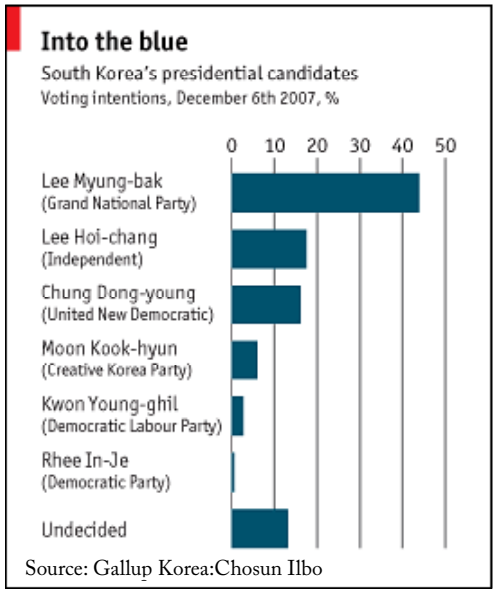
III. RESULTS OF THE 2007 PRESIDENTIAL ELECTION

The results of the 2007 presidential election were telling, and one message in particular resonated. Showing signs of ideological fatigue and a general consensus to seek a paradigm shift, the South Koreans have opted for economic progress and pragmatism over the liberal rhetoric espoused by Chung Dong-young or the hard-line conservative stance on North Korea adopted by Lee Hoi-chang. By choosing to embrace Lee Myung-bak, the "economy president" (despite bad press and allegations of his unsavory business dealings), the people have traded the larger themes that influenced their votes in the past decade—social equality, political change, and reconciliation with the North—for economic well-being. Going back to basics, the people showed that bread-and-butter issues had taken center stage in this election.

South Koreans are plagued by fears of being squeezed out of their economic position by a high-tech Japan on one side and a low-cost China on the other. Viewed in this light, the people's deep-seated desire for economic progress is understandable. Growth has slowed from the heady days of 7 percent to an average of 4.5 percent per annum, a rate slower than that of most Asian economies except for Japan. Small and medium-sized companies are struggling to stay afloat, while real estate prices are skyrocketing and the youth unemployment rate is spiraling to new highs. Against that backdrop, President Lee Myung-bak seems to have captured the hearts and minds of many in a Confucian society that favors meritocracy, hard work, and a strong will. The new president himself suffered through periods of malnutrition and even worked as a garbage collector to put himself through college at Korea University. In spite of those humble beginnings, Lee Myung-bak was fast-tracked and appointed chief executive of Hyundai Engineering and Construction at the age of 35. He went on to lead nine other Hyundai affiliates before entering politics in 1992. His meteoric rise to the top has inspired two Korean television dramas.

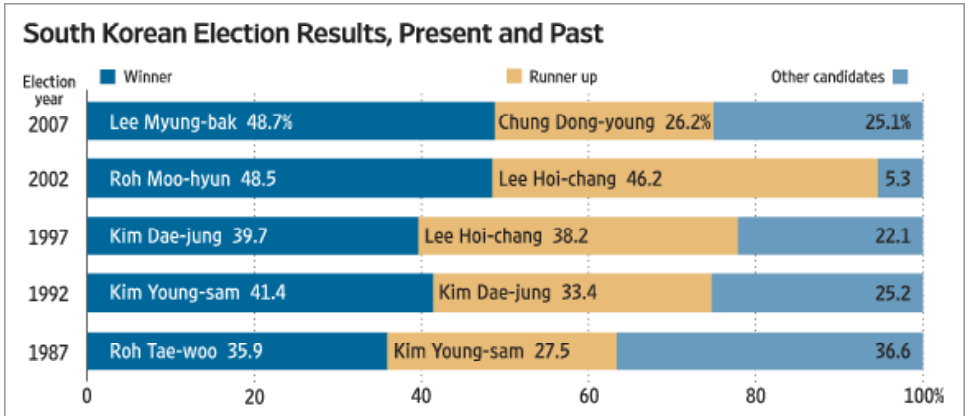
Cruising into the Blue House with a popular mandate, Lee Myung-bak caught the attention of South Koreans hungry for change when he outlined his "Korea 747 Vision": to become the world's seventh largest economy, to double the country's GDP per capita to $40,000 within ten years, and to return to an annual growth rate of 7 percent. Thus far, the former mayor of Seoul has had results that demonstrated his vision is doable. The Cheonggyecheon stream in downtown Seoul, which was paved over for an elevated highway during the development rush of the 1970s, has been restored into a picturesque public park that closely resembles New York's Central Park. Setting an even bigger goal, the president aspires to build a 540-km (approximately 335 miles) inland waterway from Busan to Seoul that would cost 14 trillion won (approximately $16 billion) to bolster growth, ease road and rail congestion, and create 300,000 jobs.

It seems that Lee Myung-bak can do no wrong. His popularity has not wavered in spite of his questionable business and personal ethics. (The president admitted to falsely listing his children as employees to evade taxes and registering them at separate addresses so he could send them to better schools.) The most serious charge brought against him concerned his involvement in a stock manipulation case at a company called BBK. He was cleared of all charges right before the election in December 2007. In a voting intentions poll done by Chosun Ilbo and Gallup Korea two weeks before the election (refer to figure on the right), Lee Myung-bak held a steady 30 percent lead in opinion polls in a field of 12 candidates, and his aides spoke confidently of capturing more than 50 percent of the popular vote, an unprecedented feat in South Korean elections.



Source: Gallup Korea:Chosun Ilbo

Perhaps desensitized by frequent financial scandals involving *chaebol* (business conglomerate) executives and political leaders, South Koreans chose to bypass moral indignation and pin their hopes on Lee Myung-bak to create an economic miracle. Garnering 48.7 percent of the votes and winning by the biggest margin



Source: South Korea National Election Commission

Party (GNP) to power after ten years of liberal rule. His closest rival, Chung Dong-young (a former news anchorman and a reunification minister during the Roh Moo-hyun administration from the centrist-liberal camp) ranked second with 26.1 percent, while 72-year-old independent conservative candidate and three-time nominee Lee Hoi-chang was third, with 15.7 percent.

IV. STATE OF DEMOCRATIC CONSOLIDATION

Democratic participation in South Korea has ebbed and flowed over the past two decades. Populist support reached a peak during the election of Roh Moo-hyun when ardent young voters rallied for him on the Internet and in the streets, and gave him a dramatic, come-from-behind victory. However, his subsequent failure to deliver on his mandate and meet voters' expectations left the public weary and apathetic toward ideological battles among the political parties. After ten years of liberal rule, the people now see the government as merely an electoral democracy, grossly deficient in delivering on the promises of freedom, accountability, responsiveness, and respect for the rule of law.

Many consider a consolidated democracy to be one in which democratic values and ideals are stable and deeply institutionalized. Scholars who take a "maximalist" position use the label "consolidated" when an accountable civilian government guarantees basic civil rights, such as freedom of expression and assembly, and when society is largely involved in the political process. Those who take a "minimalist" position focus on the existence of free competitive elections with peaceful transfers of power. Although South Korea has made notable strides toward true democracy—satisfying the minimalist position by having political parties, fair elections, and successful transitions of power—critics are divided on the degree of democratic consolidation in South Korea. Many have argued that the country has yet to reach a level of political consolidation to be considered a mature liberal democracy.

To become consolidated, a new democracy like South Korea must achieve deep and broad participation among the masses as well as the political elite. The government's performance must be accountable and responsive to public demands and preferences. On one level, democracy represents political ideals or values to be fulfilled; on another level, it refers to the actual workings of a regime that govern people's lives on a daily basis. The support and participation of the citizens are not only crucial for the democracy's legitimacy but also vital to its effectiveness.

As seen in previous South Korean elections, policy issues were never at the forefront of presidential campaigns, and politicians were often fearful of taking a stand on controversial subjects. Instead, campaigns were usually reduced to

mudslinging, fervent accusations of "money politics," or advancing personal interests through vote splintering or regional squabbling. Election campaigns used to be emotionally charged events, but the recent campaign was met with growing apathy and attracted little attention: voter turnout was at 62.9 percent, in contrast to a record high of 70.1 percent in 2002, when Roh Moo-hyun was elected.

V. POLITICAL PARTIES AND CONSOLIDATION THEORY

The dilemma of South Korea since its independence from Japanese colonial rule has been the lack of strong, dominant parties that can claim legitimacy through clear ideological mandates that are consistent over time. Political parties are usually born out of participation, legitimacy, and integration, and they develop on the basis of socioeconomic changes such as the growth of transportation, communications, markets, and education. Defying conventional wisdom, the formation of political parties in South Korea developed even before civil society had evolved. As a result of this political peculiarity, the average longevity of political parties is relatively short compared with that in other developed democracies.

Changes in political parties are often fluid: new ruling and opposing parties are formed, dissolved, and reformed with little apparent concern for electoral consequences. Most parties are organized at election time, with the goal of electing a few individuals, and then disbanded once the candidates lose power. Data kept by the Central Election Management Commission estimate that 505 political parties have existed since 1948: the period between 1963 and 1999 alone saw the emergence and subsequent demise of 81 parties. Charting the growth of these parties over time has also shown that ruling parties in South Korea do not exist in themselves; rather, they are created and maintained by various political regimes.

As evident in the election last December, Roh Moo-hyun's unpopularity among the electoral base spurred the members of his Uri Party to create the United New Democratic Party (UNDP) in an effort to disassociate from him. However, the new party's candidate, Chung Dong-young, still ranked a distant second to Lee Myung-bak, even after furtive attempts to establish a more united front by merging with the Democratic Party and the Creative Korea Party a month before the election.

Most parties in South Korea also tend to cluster ideologically around the middle, in the realm of centrism and conservatism, differing only in small, local-interest-oriented ways, often leading to voter disorientation and confusion. This has made it difficult for a party to gain a broad popular mandate or gain legitimacy

in the long run. As a result, most South Korean political parties lack adaptability owing to their weak coherence, autonomy, and complexity in organization and administration.

In a study done by Lee Nae-young, a political scientist at Korea University who has been conducting opinion polls on the election, South Korean public opinion has indeed shifted to the center, while the left and right have shrunk considerably. Policy toward North Korea took a backseat in the recent election because differences between the conservatives and the liberals have narrowed substantially since the 2002 election. A general consensus over the DPRK engagement policy has emerged. In the 1997 and 2002 elections, the GNP selected Lee Hoi-chang, a rightwing politician with a hard-line stance against North Korea, as the standard bearer for the party. He lost both campaigns in close fights with Kim Dae-jung and Roh Moo-hyun respectively. Born into an elite family and the country's youngest Supreme Court judge when he was 46, Lee Hoi-chang showed an open distaste for Kim Dae-jung's heedless pursuit of the Sunshine Policy at the expense of issues such as national security, democracy, human rights, and the rule of law. In the 2007 election, however, the GNP moved toward the center, abandoning its traditional stance in favor of an engagement strategy reminiscent of Kim Dae-jung's softer centrist-liberal Sunshine Policy to broaden the GNP's appeal and expand its electoral base.

VI. TEN YEARS OF LIBERAL RULE

After the decade-long rule of liberal presidents who promised much and delivered little, South Koreans felt disappointed and impatient for change. Lee Myung-bak's push for economic progress sharply contrasts with the foremost objectives of both Kim Dae-jung and Roh Moo-hyun: to democratize South Korean society and reconcile with the DPRK, goals which had once been central to the wishes of the people.

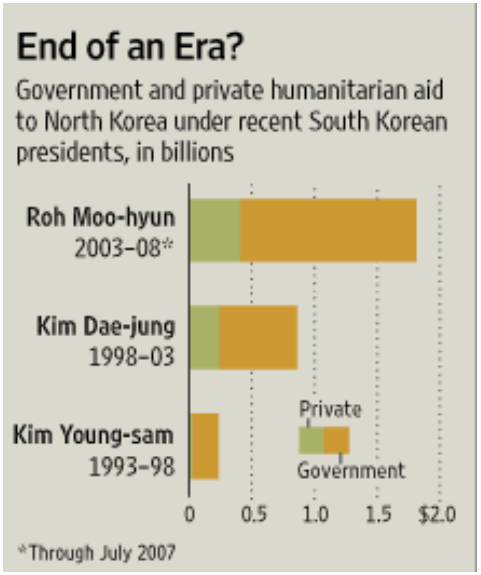
Kim Dae-jung took office at the height of an economic crunch. He was held in high regard for having survived exile, imprisonment, a kidnapping, and several assassination attempts before finally gaining residence in the Blue House. But while the first half of his five-year term was shaped by a flurry of political and economic reforms to make the country more open and democratic, by the time he left office, his government was marked by corruption, political inertia, and a bankrupt policy of engagement. Following a scandal that convicted two of his sons of corruption, Kim Dae-jung's democratic support hit a snag and his popularity plunged. This was a setback for the people because the president was widely recognized as the voice of accountability, fairness, and transparency, and was considered to be democracy's best hope in South Korea.

The erosion of populist support continued during Roh Moo-hyun's presidency. He took office with an approval rating of 80 percent and an ambitious agenda to fight endemic political corruption, but he eventually crafted his own impeachment in 2004 when the National Assembly voted to impeach him on charges of incompetence, illegal electioneering and his lack of restraint from making contentious political remarks. His popularity plunged to less than 30 percent after two years, and even though the impeachment attempt failed, his support dipped to 10 percent in the months before the end of his term in 2007.

Roh Moo-hyun squandered his popularity because of his failure to connect with his base of upwardly mobile supporters. Functioning in a political vacuum, he centered his political agenda on ideological disputes rather than the state of the economy, which was the priority for a pragmatic South Korean society eager to get back to the prosperity it had enjoyed before the Asian financial crisis. In a survey conducted in 2001, 27 percent of the respondents thought of democracy solely in economic terms, while just 8 percent thought of it solely in political terms. Those who chose economic values outnumbered those who chose political values by a margin of nearly two to one, at 64 percent and 34 percent respectively.

Engagement with the North: The Sunshine Policy

For many, Kim Dae-jung's Sunshine Policy generated euphoria, but the mood soon turned to skepticism. Kim Jong Il never came to Seoul, as promised, and relations between the U.S. and the DPRK took a turn for the worse. Many South Koreans believe that the Sunshine Policy of being friendly toward the DPRK emboldened Kim Jong Il's regime and brought South Korea little in the way of improved security, even after spending almost $3 billion in humanitarian aid over the course of two liberal administrations (as shown in the figure below). Generous attempts at peace and engagement resulted in a North Korea that developed and tested nuclear weapons. Public outcry in the South reached new highs when the supposedly historic "peace breakthrough" turned out to have been



Source: Korea Overseas Information Services

furtively purchased for at least $100 million. The inability of Presidents Kim Dae-jung and Roh Moo-hyun to force the DPRK to release thousands of South Koreans believed to have been kidnapped by North Korea during and after the Korean War was another sore spot with the people.

Seven years (and nearly $1.9 billion in aid) after his predecessor's inter-Korean summit with Kim Jong Il, President Roh Moo-hyun finally met the DPRK leader in October 2007. In a theatrical show of peace and reconciliation, the South Korean president crossed the heavily armed border on foot, followed by an entourage of 300 business, political, and cultural figures. Bearing the gifts of numerous joint projects aimed at helping the North's crippled economy, Roh Moo-hyun hoped to persuade Kim Jong Il to reduce the tensions on the peninsula and coax the so-called Hermit Kingdom out of isolation. Unlike in 2000, expectations were played down before the fall 2007 summit. Although it is still not clear whether the North will renege on its part of the agreements, the summit did achieve marginal success and is an accomplishment for Roh Moo-hyun's largely ineffectual rule. The summit resulted in a written commitment to reduce military tensions and allow freight trains into Kaesong, as well as a cooperative effort to share the disputed maritime area in the West Sea. In retrospect, though little damage resulted in way of relations with the key members of the Six-Party Talks, the solitary decision by the Roh Administration to engage in the second summit could have potentially soured relations—especially with China and the U.S., who were knee-deep in discussions with the DPRK to abandon its nuclear ambitions.

U.S.–ROK Alliance

The U.S. came to South Korea's aid during the Korean War, but the partnership between the allies has not always been unilateral and one-way. Over the years, South Korea has helped in many conflicts involving the U.S., including the Vietnam War, Afghanistan, and Iraq, where South Korean troops are the third-largest force behind the Americans and the British. Despite the continued troop deployment, the alliance has been rather tenuous of late. It was hard for Roh Moo-hyun, a man passionate about rapprochement with the North, to reconcile his reunification ideals with the hard-line treatment initially sought by George W. Bush's administration. The South Korean president entered office in 2003 after Bush's famous "Axis of Evil" speech. Later, anti-American sentiment reached a peak when two court-martialed American soldiers were declared not guilty in the deaths of two South Korean schoolgirls who were run over by their vehicle. The many different approaches used by the U.S. to deal with Kim Jong Il and the resulting adverse public sentiment caused concern about irreparable damage to the South Korea–U.S. alliance. In an interview with the *New York Times*, Han Sung-joo, Seoul's ambassador to the U.S. during the Roh Moo-hyun administration, said, "Relations of mutual trust have eroded over the years."

Nevertheless, much has been achieved despite the strained relations. The successful negotiation of the U.S.–ROK free trade agreement, which is awaiting ratification in the National Assembly and the U.S. Senate, is widely billed as Roh Moo-hyun's greatest economic achievement to date. South Korea brought home 195 army medics and engineers who had been stationed in Afghanistan, ending its five-year mission to rebuild that war-ravaged nation, but the National Assembly also passed an extension bill at the end of 2007 to station 650 South Korean troops in Iraq for another year. This was a deliberate move to strengthen ties with the U.S. despite domestic displeasure at the deployment. In a comparative survey conducted by Chosun Ilbo and Korea Gallup, anti-American sentiment had decreased substantially during the course of the Roh Moo-hyun administration. The 2007 survey found that 50.6 percent of respondents had a favorable attitude toward the U.S., compared with only 32.7 percent before Roh Moo-hyun came into office in 2002. Similarly, only 42.6 percent now harbor negative feelings, compared with the previous high of 53.7 percent.

VII. FOREIGN RELATIONS: THE LEE DYNASTY

Although relations with North Korea and the U.S. barely registered among voters in the most recent election, many political analysts believe that a pragmatic pro-business politician like Lee Myung-bak will likely to improve Seoul's strained relations with Washington. The election results also shed light on the "3-8-6" generation (working professionals in their thirties, who entered college in the 1980s, were born in the 1960s and had participated in student movements against authoritarian right-wing regimes) that vehemently opposed the U.S. in the 2002 election. Contrary to the views of many political pundits, the anti-American generation does not represent the permanent reality of South Korea. The rise of anti-American sentiment during the Roh Moo-hyun administration is widely believed to have been more of an "anti-Bush" response than a general displeasure with the U.S. and the alliance.

Given South Korea's geopolitical position amidst China, Japan, and Russia, Lee Myung-bak is eager to create stronger ties with the U.S. to help maintain its territorial integrity in the region. Armed with a more global outlook and a comprehensive foreign policy known as the "MB Doctrine," the new president-elect has planned a series of steps to enhance relations with South Korea's immediate neighbors. In addition to closer ties with China, South Korea's largest trading partner, Lee Myung-bak has expressed a strong interest in collaborating with Russia to develop energy-rich Siberia using North Korean labor.

Preparing to take a tougher stance with the North, Lee Myung-bak declared that he would not hesitate to criticize the authoritarian government. "I assure you that there will be a change from the past government's practice of avoiding

criticism of North Korea and unilaterally flattering it," he said in his first news conference as president-elect. "The North's human rights issue is something we cannot avoid in this regard, and North Korea should know it." This is a clear departure from the softer approach adopted by his predecessors, who shied away from public discussion of human rights abuses to avoid harming their efforts to build relations with the DPRK.

Favoring a more reciprocal relationship, with less aid and subsidies but more mutually beneficial investments, Lee Myung-bak has pledged to raise the North's per capita income from $500 to $3,000 within ten years. The precondition is that the North will give up its nuclear ambitions and open up for business. Although the South Korean economy is 35 times larger than that of the DPRK, North Korea has mineral resources worth an estimated $2.47 trillion, 24 times more than South Korea's natural reserves, according to the South Korean Chamber of Commerce and Industry. To capitalize on the North's rich resources and abundant labor, Lee Myung-bak's "Denuclearization and Opening 3000" development plan intends to draw on the North's human resources to establish five free economic zones and foster 100 firms that will each export at least $3 million worth of goods per year. The plan also seeks to finance North Korea's economic rehabilitation by raising $40 billion. Like a true corporate raider, Lee Myung-bak has ambitious plans, but critics and political analysts alike are ambivalent about the feasibility of his plans in light of Kim Jong Il's lukewarm reception of concepts such as market openness and economic development.

VIII. CONCLUSION

The recent election in South Korea marked a dramatic and decided shift away from liberal ideology and toward economic concerns. While some view this as a turning point toward greater democratic consolidation in South Korea, others see Lee Myung-bak's election as a step backwards. Voters were more progressive in previous elections, with a more concentrated political will to shake off the often corrupt and authoritarian rule of the 1970s and 1980s by making a clean break with the old ties among the military, business, and government. Even though the new president-elect won by an overwhelming majority, his mandate might not be as strong as his victory indicates, because the victory has been partially attributed to voters' disappointment with liberal rule and the perception that the economy is in trouble. However, it is important to note that both of Lee Myung-bak's predecessors took office in periods of even greater economic difficulty. Kim Dae-jung was elected a month after South Korea's economy nearly collapsed from a rapidly devalued won and the weight of overinvestment by big business and financial institutions. Roh Moo-hyun took over in 2003 just as the country experienced a sharp slowdown in growth because of mounting household credit woes and soaring oil prices before the Iraq war.

Lee Myung-bak also must contend with internal rifts in his party, most notably between himself and former party president Park Guen-hye, the daughter of the former military dictator Park Chung-hee. The president-elect's policy agenda might be affected if he cannot reach an amicable working relationship with Park, who has voiced her intention to run for president in five years and wants a hand in picking the party's candidates for parliamentary elections in April 2008. A conflict within the GNP will make it harder for Lee Myung-bak to get his proposals passed in parliament.

Ultimately, for all his vision and grandiose plans for South Korea, Lee Myung-bak must answer to his electoral base—people who are looking for solutions to rising property prices, improvements to the social security system, and economic prosperity. Failure to deliver on his promises of robust growth and a corruption-free administration in the next five years will likely generate greater political apathy and create a backlash so drastic that could potentially damage South Korea's democratic development in the long run.

Timeline of the Sixth Republic (1987–now)

1987: President Chun Doo-hwan pushed out of office by student unrest and international pressure. Roh Tae-woo succeeds Chun, grants greater degree of political liberalization and launches anti-corruption drive.

1993: President Roh succeeded by Kim Young-sam, a former opponent of the regime and becomes the first civilian president.

1998: Kim Dae-jung sworn in as president and pursues "Sunshine Policy" of offering unconditional economic and humanitarian aid to North Korea.

2000 June: Inaugural summit in Pyongyang between Kim Jong Il and South Korean President Kim Dae-jung.

2002 December: Roh Moo-hyun wins election in a closely fought battle.

2004 February: Parliament approves controversial dispatch of 3,000 troops to Iraq.

2004 March-May: President Roh Moo-hyun suspended after parliament votes to impeach him over breach of election rules and for incompetence. In May, the Constitutional Court overturns the move and President Roh is reinstated.

2004 June: United States proposes to cut its troop presence by a third. Opposition raises security fears over the plan.

2006 February: South Korea and the United States launch talks on a free trade agreement, the largest free trade deal involving the United States in Asia.

2006 November: Government approves one-year extension of military mission in Iraq.

2007 April: South Korea and the United States agree on a free-trade deal after ten months of talks.

2007 October: Second Inter-Korean Summit, between Roh Moo-hyun and Kim Jong Il.

2007 November: Prime ministers from North and South Korea meet for the first time in 15 years.

2007 December: Lee Myung-bak claims victory in presidential elections.

Source: BBC News

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