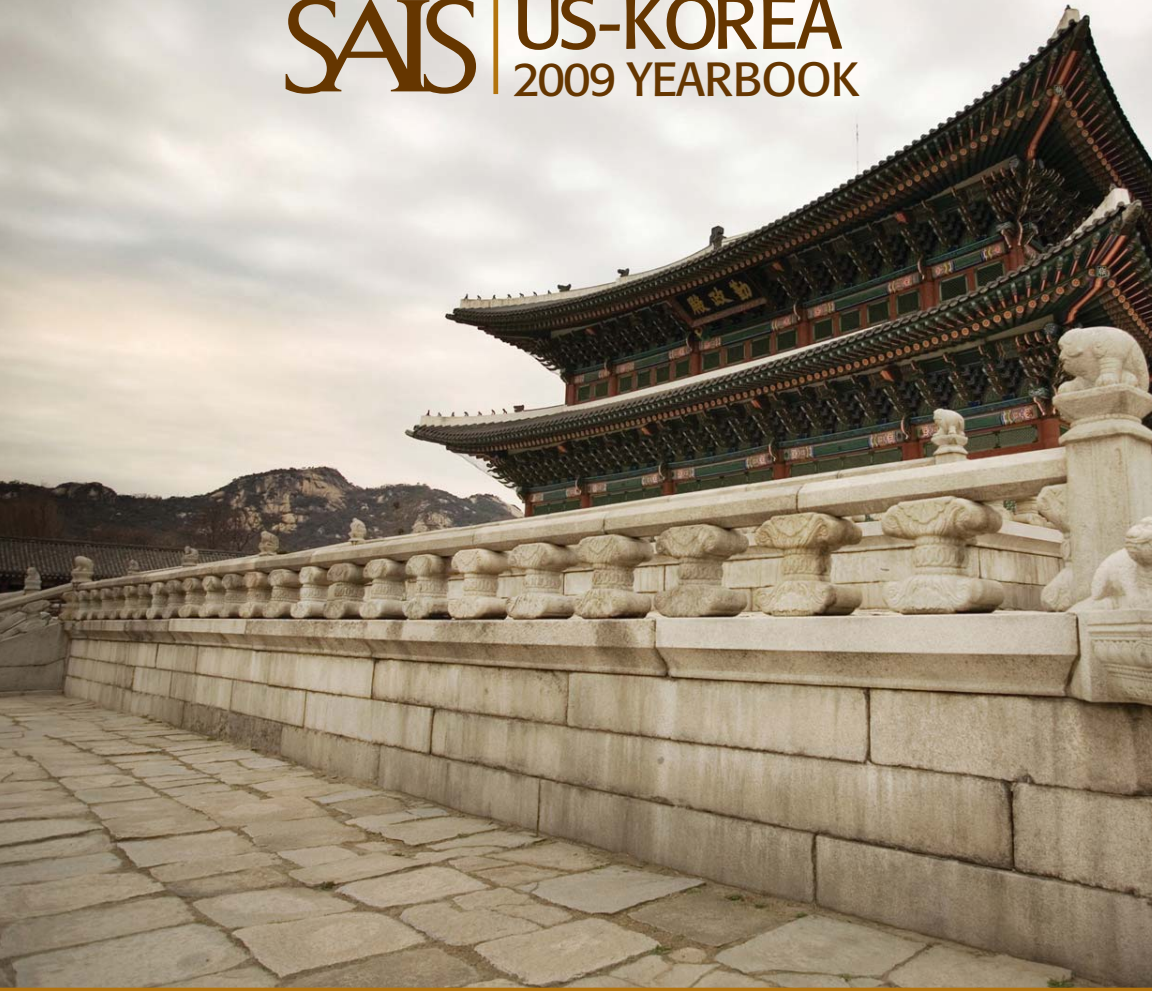


SAIS | US-KOREA 2009 YEARBOOK



JOHNS HOPKINS
UNIVERSITY

SAIS U.S.-KOREA YEARBOOK 2009

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INTRODUCTION

By Jae-Jung Suh, Director of Korea Studies, SAIS

What a dynamic year for Korea in 2009. It was almost as if North and South Korea were competing with each other for the world's attention. While the North relied on military actions and diplomacy, the South elevated its presence on the international stage. The *2009 SAIS U.S.-Korea Yearbook* captures this dynamism in its many manifestations.

To the north of the Demilitarized Zone (DMZ) that divides the peninsula, Pyongyang sparked tensions with the international community early in the year, only to suddenly reverse its course in the middle of the year. North Korea's Eunha-2 rocket launch and nuclear test focused the world's attention on the peninsula, prompting the United Nations Security Council to respond with punitive measures. Then in August, Pyongyang reversed course and began a "charm offensive," inviting former U.S. president Bill Clinton and Hyundai chairwoman Hyun Jung-eun to the capital. This sudden reversal triggered wide speculation about Pyongyang's motives and the potential for reviving the Six-Party Talks. Within the country, North Koreans participated in mass "campaigns" designed to maximize labor input and accelerate economic recovery, all amid rumors of a power vacuum at the top and possible succession.

To the South of the DMZ, Seoul increased its diplomatic efforts around the world. President Lee Myung-bak conveyed Seoul's concerns to Washington, Beijing, Tokyo, and many other capitals throughout the year. These heightened diplomatic efforts culminated in Seoul being chosen to host the 2010 G20 Summit. As South Korea became more active in international affairs, Seoul's agenda expanded into energy in Central Asia, nuclear cooperation with the Middle East, and the internationalization of Korean food. South Korea's growing diplomatic reach was only matched by the increasing complexity of its domestic politics as media and political party politics complicated Seoul's diplomacy, as most vividly illustrated by the interface of media, civil society, and trade negotiations over American beef imports.

This year's *Yearbook* presents a snapshot of these developments and more. Part I delves into South Korea's evolving relations with China, North Korea and Central Asia, relationships that have not only deepened in recent years, but have grown more complex. Part II then turns inward, taking a closer look at the dynamics of South Korea's domestic politics as Seoul took on a more prominent international role. Part III looks outward and analyzes the opening of South Korea's legal market, its relations with the United States, and its role in the G20. Finally, Part IV examines the domestic and international politics surrounding North Korea's nuclear weapons and the Kaesong Industrial Project.

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It is only thanks to the generosity of many that the *Yearbook* exists in the current form. From the U.S.-Korea Institute at SAIS's Chairman Don Oberdorfer, Vice Chair Yong Shik Choo, and Director Jae Ku, to the good people in the Development Office of SAIS to private donors, many provided intellectual, financial, logistical, or moral support. Many officials, scholars, and NGO workers—some, but certainly not all, of whom are mentioned in the report—gave briefings or availed themselves for interview. They enlightened the student authors with their experience, knowledge, and insights, without which the yearbook would have been a dull collection of old news. It is the student authors who deserve the most credit for working diligently for the entire fall of 2009 to research the issues that unfolded and evolved as they wrote about them. Last, but not least, Nicole Baillis provided excellent administrative support for the class and research trip to Korea and Jenny Town oversaw the production of the *Yearbook* with skill and grace. I thank each and every one of them, and hope that the *Yearbook's* publication returns everyone's generous giving.

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PART I: KOREA'S REGIONAL RELATIONS



SOUTH KOREA-CHINA MUTUAL PERCEPTIONS: THE GOOD, THE BAD, AND THE UGLY

By Tze Chin “Alvin” Wong

I. INTRODUCTION

China’s and South Korea’s bilateral political and economic relations have developed dramatically since the normalization of diplomatic ties in 1992. China’s and South Korea’s leaders had effective political cooperation in bilateral and multilateral settings, such as ASEAN 10+3 and China-Japan-South Korea trilateral conferences; China and South Korea share a confluence of interests in regional security, such as the Six-Party Talks on the North Korean nuclear issue. Indeed, China and South Korea have shared a consensus engagement of North Korea compared to other parties such as the United States and Japan, especially on the need to supply aid to DPRK and the aversion to apply sanctions. Since 1992, trade and economic ties have mushroomed and formed the firm foundation for bilateral relations. In view of this strong political and economic relationship, China and South Korea have developed extensive people-to-people exchanges, with tourism, education, and culture flourishing since then. However, irritants and friction reflected in disputes over trade relations, historical issues, territorial sovereignty, and cultural ownership, emerged over this period as well, at both the official and people-to-people levels. This resulted in heightened anxieties and insecurities, as demonstrated by rising negative sentiment on both sides. Such negative emotions at the public level could affect political and economic decisions by political elites and policymakers in the future, or at least constrain their room to maneuver, despite the consensus and commitment by leaders of both sides to maintain good bilateral relations.

Unraveling this tangled web of complex political, economic, cultural, and historical issues became even more challenging, however, since most Chinese and South Korean public opinion regarding each other was expressed mainly in the unbridled medium of cyberspace. Most scholars have examined Chinese-South Korean relations from political, economic, strategic, and security angles, and many research papers have highlighted the Goguryeo history issue as an

important bilateral issue. However, few papers have examined bilateral issues from the perspective of mutual perceptions at the people-to-people level. This paper aims to provide a preliminary examination of Chinese and South Korean mutual perceptions and to highlight key issues and views.

II. POLITICAL EXCHANGES: STILL ON HONEYMOON

The high-level relationship between China and South Korea has been good since normalization of relations. One must take special note of President Lee Myung-bak's efforts to strengthen South Korea-China bilateral relations following his inauguration. The four ROK presidents since normalization with China who preceded Lee (Roh Tae-woo, Kim Young-sam, Kim Dae-jung, and Roh Moo-hyun) each made only one visit to China during their terms. Within his first year in office, President Lee Myung-bak visited Beijing three times, including making his first state visit to China in May 2008, attending the Opening Ceremony of the Beijing Olympic Games in August 2008, and attending the ASEM Summit in Beijing in October 2008. During Lee's first state visit to Beijing in May 2008, both sides significantly upgraded bilateral relations from a "comprehensive cooperative partnership" to a "strategic cooperative partnership." To that end, South Korea and China pledged to heighten cooperation in all areas, including foreign affairs, security, economy, society, and culture. Both foreign ministries would hold an in-depth strategic dialogue on a regular basis to give concrete shape and provide substance to the development of bilateral relations.

On the Chinese side, President Hu Jintao visited Seoul from August 25-26, 2008, immediately after the Beijing Olympic Games. Hu emphasized that trade and economic cooperation was an important element of Sino-South Korean relations and played a significant role in bilateral ties. He cited bilateral trade volume, which had reached nearly \$160 billion the previous year, a 32-fold increase compared to the early days when both countries established diplomatic relations. Hu added that the two-way investment has exceeded \$41 billion, an almost 90-fold increase so far. On the basis of the joint statement when President Lee visited Beijing in May 2008, Hu offered the continuous development of a China-South Korea "strategic cooperative partnership." Most recently, Vice President Xi Jinping visited Seoul from December 17-19, 2009, and met with President Lee Myung-bak, Prime Minister Chung Un-chan, and National Assembly Speaker Kim Hyong-o. This visit is significant since Xi is the front-runner widely expected to succeed Hu Jintao in 2012 as China's fifth-generation leader.

However, this “great leap forward” in bilateral relations was preceded by some initial concerns from China regarding President Lee Myung-bak. Following Lee Myung-bak’s presidential election victory, Chinese academics raised concerns about Lee’s prospective China policy, based on Chinese perceptions of Lee as being pro-United States and the likelihood of the U.S.-ROK alliance being strengthened under the Lee administration, in a departure from Roh Moo-hyun’s relatively ambivalent U.S. policy. When Lee sought to distance himself from Roh’s policies, it raised Chinese concerns that Lee would not adopt Roh’s warm and positive policy towards China. However, Beijing was reassured after the swift exchange of special envoys from both sides to pass messages from the respective leaderships. For instance, GNP leader Park Geun-hye visited Beijing on January 16, 2008, and conveyed a personal letter from President-elect Lee Myung-bak to President Hu Jintao, while Chinese Vice Foreign Minister Wang Yi visited Seoul from January 13, 2008, to confer with President-elect Lee Myung-bak. This shuttle diplomacy culminated in Special Envoy Tang Jiaxuan attending President Lee Myung-bak’s inauguration ceremony on February 25, 2008, as President Hu Jintao’s personal representative; both Tang and President Lee affirmed the need to strengthen bilateral relations.

Sichuan Earthquake

Even though the Sichuan earthquake on May 12, 2008, was a serious natural disaster, it offered South Korea a good opportunity to enhance relations with China during the early days of the Lee Myung-bak administration. The South Korean government and people, as well as various groups, expressed sympathy and concern immediately after. The ROK government actively offered assistance to the Chinese government, including \$5 million in humanitarian aid along with rescue and medical teams and civilian volunteers. President Lee, Prime Minister Han Seung-soo, cabinet ministers, leaders of political parties, parliamentarians, and members of the public visited the Chinese embassy to offer condolences. President Lee made a special goodwill gesture to visit the Sichuan earthquake-hit areas. Lee was the first foreign head of state to visit the disaster area. He made the follow-up effort to invite a delegation of Chinese children from quake-affected areas to Seoul in May 2009. South Korea provided substantive assistance to China amidst this natural calamity as well as considerable “face” to China as a friendly neighbor. South Korea’s friendly gestures were well received by the Chinese government and the public.

III. ECONOMIC AND TRADE FIGURES: PLEASANT BEDFELLOWS

China-South Korea bilateral economic relations skyrocketed after normalization, from a base of about \$6 billion in 1992 to \$168 billion in 2008. China has emerged as South Korea's largest trade partner and the largest destination for South Korean investments; in turn, South Korea is China's third-largest trading partner, after the United States and Japan, and South Korean cumulative investments in China had reached \$37.6 billion by 2008. During President Hu Jintao's visit to Seoul in August 2008, both sides agreed to set an even more ambitious target of \$200 billion by 2010, two years earlier than initially planned. This was superseded by a higher target set in October 2009: Chinese Minister of Commerce Chen Deming and his ROK counterpart Kim Jong-hoon expected bilateral trade to reach \$300 billion by 2013. Even at current trade volume, Chinese-South Korean trade was equivalent to the combined total of South Korea-United States and South Korea-Japan trade. While these positive economic developments reflected the high-level commitment from both sides towards economic cooperation, there remained concerns in South Korea about economic overdependence on China. Scott Snyder, in his 2009 book *China's Rise and the Two Koreas*, pointed to concerns in Seoul derived from China's increasing competitiveness and the possibility that China could overtake South Korea as a key competitor and supplier in international markets.

On the proposed South Korea-China free trade agreement (FTA), the issue was raised when leaders from both sides met in May 2008; Presidents Hu and Lee agreed to continue the FTA negotiations. To that end, the fifth round of the Joint Study Meeting for ROK-China FTA was conducted in June 2008. At the same time, China and South Korea, together with Japan, were embarking on a broader Northeast Asia FTA between the three countries, as well as an East Asia FTA with ASEAN. These wide-ranging trade-liberalization frameworks that would eventually link the Chinese and South Korean economies even closer together with the region were discussed during the China-South Korea-Japan trilateral summit on October 10, 2009, and during the ASEAN 10+3 Summit in Thailand on October 24, 2009.

Various economic indicators pointed to the vibrant economic and people-to-people exchanges between China and South Korea. For instance, 837 passenger flights on 47 routes operated in 2008 between 33 cities in China and seven cities in South Korea, as well as 47 flights on 10 freight routes. Koreans account for the largest single group of foreign students in China (65,000), as do Chinese (25,000) in South Korea. According to MOFAT statistics for 2008,

4.0 million Korean tourists visited China, while 1.2 million Chinese tourists visited South Korea: this meant that almost 10 percent of South Koreans visited China in 2008. There were 700,000 Korean long-term residents in China and 530,000 Chinese long-term residents in South Korea. In 2007, Chinese formed the biggest group of foreigners in South Korea, at 44 percent of the total, with 441,334, including 266,764 ethnic Koreans of PRC nationality. In China, South Koreans formed the largest group of foreign students, ahead of Japanese students. During President Hu's visit to South Korea in August 2008, Presidents Lee and Hu designated 2010 as the Visit China Year and 2012 as the Visit Korea Year in order to expand tourism and people-to-people exchanges, especially among the young people from both countries.

Despite the close economic relations between the two countries, periodic trade disputes such as the "Garlic War" between 2000 and 2001 and the "Kimchi War" between 2004 and 2005 happened from time to time. The "Garlic War" happened when Chinese garlic imports sky-rocketed tenfold in just one year to claim 35 percent of the South Korean garlic market and resulted in tit-for-tat tariffs on Chinese garlic and the banning of South Korean mobile phone equipment. The "Kimchi War" was triggered when the South Korean authorities found parasite eggs in shipments of kimchi exported to South Korea from China. More recently, in 2007 and early 2008, there was acrimony from both sides when many Korean small and medium enterprises (SME) investing in China closed down. This was due to a combination of factors, including the rising business and labor costs in China. At that time, Chinese authorities viewed the business closures by Korean SMEs as unsupportive at the minimum, given that China was grappling with the downturn in export demand due to the financial crisis and was under pressure to reduce unemployment numbers. There were accusations from China that many Korean SMEs had illegally shut down their business and that the Korean owners fled from China, leaving thousands of Chinese workers stranded without a job or fair compensation. According to the *South China Morning Post* in February 2008, 103 of the 119 businesses in Jiaozhou, Shandong, that suddenly closed without paying workers were South Korean. According to the survey of 350 South Korean companies in China taken by the Korea Chamber of Commerce Industry (KCCI) in mid-January 2008, 25 percent of the companies polled were seriously considering leaving China, while 3.1 percent were preparing for withdrawal from the country. KCCI also said the ratio of Korean companies in China expecting a deterioration of the business environment in the country rose to 85.8 percent in 2008 from 33.1 percent in 2007. This illegal flight of Korean business was brought to the attention of the South Korean government. According to the Ministry of Commerce, Industry,

and Energy, in February 2008, the government came up with a package of measures to support companies that operate in China and those that plan to withdraw from the country.

However, with China's stimulus package taking effect and optimism of a swift economic recovery in China, business prospects in China appear to be quickly improving. According to a *Chosun Ilbo* report on July 7, 2009, 50 percent of Korean companies in China reported plans for further expansion of their China operations in August 2009. Even as early as the middle of 2008, Korean companies' confidence in China appeared to be recovering. According to a survey in mid-2008 by the Korea Trade-Investment Promotion Agency, almost 49 percent of 636 companies surveyed said they would increase their business activities in China; about 42 percent answered that they would maintain their current level of business, while only 6 percent said they would reduce operations.

South Korean media coined the term "Chaiwan" (China + Taiwan), and warned against the threat of the combined economies of China and Taiwan in the climate of improved cross-strait relations against South Korea. The *Seoul Economic Daily* published a series of articles under the banner "The Chaiwan Storm Is Coming!" in July 2009, warning that "the combination of China's capital and Taiwan's high technology warns us of a powerful fusion of forces that cannot but present a threat to Korean industries." *Chosun Ilbo* cautioned that the "rise of 'Chaiwan' threatens Korean's tech industries" on August 1, 2007. Highlighting the case of Apple's iPod, the article related that Korean companies turned Apple down when Apple approached them to manufacture it, claiming that the unit price was too low. In contrast, Taiwanese companies could make a profit by working with their manufacturing partners in China. In the end, Taiwan's Hon Hai clinched the Apple deal and assembled iPods in their China factories. "Chaiwanese" production lines turn out a wide range of electronic consumer products, from Apple's iPod to Sony's PlayStation 3 to Intel chips.

Not surprisingly, the Chinese side took exception to the "Chaiwan" characterization and its negative connotations. Zhang Guanhua, deputy director of the China Academy of Social Sciences (CASS) Institute of Taiwan Studies, argued that it was natural for the mainland to buy more of Taiwan's high-quality and comparatively cheap products with cross-straits economic relations warming since 2008. While the closer relationship between mainland China and Taiwan has led to more orders for Taiwan's products from countries including South Korea and Japan. Referring to the term "Chaiwan," Zhang criticized

it as wrongly putting China and Taiwan side by side, when Taiwan is part of China. Li Jiaquan, a former director of the CASS Institute of Taiwan Studies, said the term “Chaiwan” is also improper because the mainland and Taiwan have not been integrated as a single economic body. Li argued that it would be better to call it a closer economic partnership. Even Taiwan economic officials reassured South Korea and downplayed the negative connotations of the term. Taiwan External Trade Development Council (TAITRA) Chairman Wang Chih-kang explained during the 34th joint meeting between the Taipei-based Chinese International Economic Cooperation Association (CIECA) and the Federation of Korea Industries (FKI) in Seoul on September 29, 2009, that Taiwan and South Korea have long been important trade partners and the so-called “Chaiwan” phenomenon would not pose a threat to South Korea’s economy.

IV. MUTUAL PERCEPTIONS: DR. JEKYLL AND MR. HYDE

After the euphoria in the 1990s after normalization, there has been a negative trend of mutual feelings, especially after the Goguryeo history dispute in 2005. With trade frictions in the form of the Garlic and Kimchi Wars, feelings between the peoples appeared to have been worsened by South Korean apprehension of growing Chinese international clout and its rising economic power, as well as by Chinese displeasure over the Olympics Torch Relay incidents in Seoul in 2008. All these negative feelings, which were labeled as “anti-Korean” and “anti-Chinese” by the respective publics, were in stark contrast to the booming bilateral trade and strong political relationships. This suggests a deeper and more visceral mismatch of perceptions than expected; evidently a raw nerve has been exposed and is being frequently poked.

President Lee Myung-bak appears to be very much aware of the negative sentiments between the Chinese and Korean people. In his speech at the JoongAng Global Forum in September 2008, Lee shared that he was “very concerned” about the growing animosity between people in the two countries. He added that both sides must resolve the problem with wisdom. Then during the 44th Cabinet meeting held at the Blue House on October 13, 2009, President Lee pointed out that there was much room for enhancement of ties between the people of the two countries even though diplomatic relations between Korea and China have continuously improved. Referring to his summit meeting with Chinese Premier Wen Jiabao just the previous week, President Lee instructed his cabinet ministers to find ways to enhance friendly ties between the Korean and Chinese people.

Table 1. Pew Global Attitudes Project: South Korean Opinion of China

	South Korean views of China		Chinese views of self	
	favorable	unfavorable	favorable	unfavorable
2009	41	54	95	6
2008	48	49	95	2
2007	52	42	93	6
2006	-	-	94	5
2005	-	-	88	9
2002	66	31	-	-

Various recent studies indicate the extent of negative sentiment between the Chinese and Korean people. According to the Pew Global Attitude Project, negative feelings towards China have been on the rise in Korea since 2002 (see table 1). For instance, data from the study pointed out favorable views of China steadily declined from 66 percent in 2002 to 41 percent in 2009, while unfavorable views of China rose from 31 percent in 2002 to 54 percent in 2009. In addition, in polls by the East Asia Institute in South Korea, positive views of China's influence declined from 48.6 percent in 2005 to 38 percent in 2009, while negative views of China's influence rose from 46.7 percent in 2005 to 50 percent in 2008.

According to the "Soft Power in Asia" opinion poll conducted by the Chicago Council of Global Affairs in conjunction with the East Asia Institute, published in April 2009 (conducted in 2008), South Korea's ranking of China's soft power was placed third, behind the United States (first) and Japan (second), across the board on categories of political, diplomatic, cultural, economic, and human capital soft power. Other interesting data point to South Korea's reservations regarding China's rise in international status: 78 percent of South Koreans believed that China would be the "leader of Asia" in the future, but only 21 percent were comfortable with the prospect.

The study on "Strategic Views on Asian Regionalism" conducted by CSIS (published February 2009) provided useful insights on South Korean views towards the relative national power of the United States and China. When asked about the most powerful country in Asia in ten years, South Korean politically elite respondents bucked the trend, together with Australia, in judging that the United States would continue to be stronger than China. This was in contrast to the regional shift in thinking that China would be the strongest in overall national power in the future; 59 percent of South Koreans supported the United States, while only 35 percent favored China.

On the question of which would be the country most important to their nation in the next ten years, Koreans saw China as more important than the United States (53% versus 41% for the United States). However, the level of trust was much higher for the United States than for China, as seen in the next question, regarding the “greatest force for peace and stability in the region in 10 years.” An overwhelming 94 percent of South Koreans saw the United States in that role, which was much higher than the weighted average of 40 percent. Responding to the question of which would pose the “greatest threat to peace and stability in the region in 10 years,” South Koreans indicated 56 percent for China and 38 percent for North Korea. This reflected South Koreans’ deep concerns about the future implications of China’s rise for South Korea. To date, it appears that the South Korean leader was the only one who publicly mentioned the downswing of people-to-people feelings; no senior Chinese leader has directly or indirectly acknowledged the situation apart from the usual affirmations to improve bilateral relations, including youth and cultural exchanges.

Apart from international and South Korean opinion polls and studies on public perceptions, similar opinion polls and studies from the Chinese side are limited. As such, it is difficult to gain an objective picture of Chinese sentiments towards South Korea, other than views from the Chinese internet, which might be more virulent, or official views, which might tend to downplay the situation. A widely publicized opinion poll in 2007 was conducted by the *International Herald Leader*; a popular newspaper published by the state media *Xinhua*, in conjunction with major internet portals in China. This poll gathered Chinese internet users’ views (from a sample size of 12,000) on 20 neighboring countries, and yielded interesting results on Chinese views of South Korea. Of the 20 neighbors, the best-liked ones were Pakistan (28%), Russia (15.1%), and Japan (13.2%), while South Korea topped the list of least-liked neighbors at 40.1 percent. Japan surprisingly came in second with 30.2 percent, and Indonesia was third with 18.8 percent. It is interesting to note that when asked about their source of information about neighboring countries, respondents revealed that 65.3 percent depended on the internet, while only 26 percent chose newspapers, television, and radio. More than one-third of respondents had not visited any of the 20 neighboring countries, while only 10.4 percent had visited Malaysia and 7.3 percent had visited Japan. This suggested that the majority of internet users were basing their views of neighboring countries on internet and mass media without actually visiting neighbors such as South Korea. Although it might be easy to dismiss internet-based public opinion as extreme or biased, the power of the internet and other new media to disseminate information about South Korea to the Chinese public should not be underestimated.

It seems that government-linked Chinese academics tend to downplay the negative Chinese views of South Korea. For instance, Wang Xiaoling, researcher from the Institute of Asia-Pacific Studies at CASS, talked about her ongoing study of Chinese views on South Korea during a panel discussion on China-South Korea people-to-people relations, published in the April 2009 issue of *World Affairs*, a publication by the PRC Ministry of Foreign Affairs. According to Wang, this study covered five major Chinese cities—Dalian, Beijing, Qingdao, Shanghai, and Guangzhou—and included 3,200 Chinese youth from ages 20-40 with university education and above. The respondents had prior contacts with South Korean nationals in China, whether as classmates, colleagues, friends, or business partners. Wang's conclusion was that anti-Korean sentiment was not as serious as assumed by the South Korean media. For instance, Wang pointed out that about 60 percent highlighted the *Hallyu*-related Korean soap operas when asked about their first images when South Korea was mentioned; only 10 percent thought about negative issues such as the dispute over the Gangneung Danoje Festival. Wang added that more than 70 percent of respondents gave a score of above 50 when asked if their affinity for Japan was 50 points, what would be their affinity for South Korea (between 0 and 100). Wang concluded that the Chinese public's perception of South Korea was fundamentally positive.

Although Wang's sample was biased towards better-educated Chinese professionals who might have a better understanding of South Korea and its people, Wang had to concede that negative sentiment was also reflected in her survey. Wang found that 50 percent of respondents "agree" or "strongly agree" with the statement that "Sino-ROK relations were good." However, only 30 percent responded "agree" or "strongly agree" with the statement that "Sino-ROK people-to-people relation was good." She suggested that this discrepancy reflected the Chinese public's awareness that there were differences that affected the feelings between the two peoples despite the overall positive official bilateral relations.

When asked about anti-Korea sentiments in China at the J-Global Forum 2008 in Seoul, Professor Wang Jisi, president of the International Studies Institute of Peking University, said that, "the sentiment against Korea is extremely small in comparison to the Chinese people's feelings towards Japan and the United States." He explained that disillusionment set in when the countries learned more about each other. He urged that the media should act responsibly in reporting about such sentiment. It must not become a government-to-government issue.

Sharing a consensus with their Chinese counterparts, South Korean academics appeared keen to downplay the public disputes. Being cited in a *China Daily* commentary on July 2, 2009, Shin Sang-jin, professor of Chinese studies at Kwangwoon University, suggested that Chinese netizens should not overreact to rows over cultural and historical issues since the disputes were triggered by individuals, not endorsed or supported by the ROK government. He added that Seoul's determination to push forward relations with Beijing is out of strategic consideration, not expediency. Shin said that negative sentiments towards China were pervasive, prevalent among the common people as well as elites. He explained that earlier in the relationship, prior to 1992, the South Korean people had little knowledge about China; most only understood that China was big and mysterious. Now with extensive civilian and economic interactions, Shin assessed that it was natural that more frictions and tensions would surface. In the same *China Daily* report, Ko Sung-bin, professor in Eastern Asia studies at Jeju National University, suggested that both sides refrain from looking at historical and cultural disputes from a national and political perspective.

Professor Woo Ju-jae, Kyung Hee University Chinese Department, explained in a February 2009 issue of *Donga Monthly* that a philosophical approach to the bilateral changes in perception of the people is necessary, in conjunction with the values of the people from the two countries. Values, culture, history, traditions, customs, and various other complicating factors influence the formation of public opinions. Woo added that media influence, especially on the awareness of younger generation, had become even more significant.

V. INCIDENTS AND FRICTION

There have been many incidents in recent years that have helped to sour Chinese and South Korean people-to-people sentiments. While an exhaustive list of incidents and disputes will not be provided for the sake of brevity, this paper will highlight representative incidents from recent years, with more emphasis on 2008 and 2009.

Olympic Torch Relay in Seoul

Scenes of Chinese students clashing with pro-Tibetan protesters and South Korean civil society groups protesting against Chinese treatment of North Korean refugees during the Olympic Torch Relay in Seoul on April 27, 2008,

were widely broadcast by media on both sides. A South Korean protester, 45-year-old Son Jong-hoon, doused his body with gasoline and tried to set himself on fire, before police stopped him. One Chinese student was arrested for allegedly throwing rocks at Korean protesters. South Korean Deputy Foreign Minister Lee Yong-joon sent a message to Chinese Ambassador Ning Fukui on April 28, expressing his government's "strong regret" over the acts of some of the Chinese students. Ambassador Ning later assured reporters in Seoul that the Chinese people have good feelings for South Koreans and urged both governments to work together and not to allow the friendly relationship between the Chinese and South Korean peoples to be affected under any circumstances. Ning expressed regrets about the "extreme behavior" of some young Chinese students and extended his sympathies to the South Korean policeman and a journalist who were injured. On April 29, Chinese Ministry of Foreign Affairs spokeswoman Jiang Yu also expressed the Chinese government's sympathies and concerns for the South Korean policeman and journalist injured during the incident. South Korea's Ministry of Foreign Affairs and Trade spokesman announced on April 30 that it would toughen entry visa rules for Chinese students following the violent protests during the Olympic torch relay.

This incident in Seoul rankled both the Chinese and the South Korean public. Even before the torch relay in Seoul, there had been an upsurge of nationalism and patriotic pride among the Chinese for the Beijing Olympic Games, which fermented Chinese indignation against the earlier protests in London, Paris, and San Francisco during the Olympic Torch Relay and the biased Western media reporting against China and the Olympics. As such, the Chinese internet community was incensed that South Korean protesters had attempted to disrupt the torch relay; this was probably seen by the Chinese as South Korea's aligning with the West against China. Meanwhile, many South Koreans were indignant that Seoul was swamped with reportedly 10,000 Chinese students carrying red PRC flags, and South Korean media widely reported the violent scuffles between Chinese students and Korean protesters, which in some cases spilled over into hotel lobbies in downtown Seoul. Interestingly, at the seminar "South Korea Views the Rise of China" at the Woodrow Wilson International Center for Scholars on March 9, 2009, Victor Cha shared that the Seoul torch relay incident had upset senior South Korean policymakers and legislators. This was a wake-up call to South Korean elites.

Another Olympics-related incident that received widespread coverage and condemnation in China was when the Korean television station SBS leaked footage of a dress rehearsal of the Beijing Olympics Opening Ceremony on July

31, 2008. An opinion poll by the Sina internet portal in China showed that 41 percent (268,956 responses) strongly condemned the incident, while 31 percent (202,894 responses) felt that the incident violated media professionalism, and another 24 percent (156,724 responses) argued for legal proceedings. A Beijing Olympic Games Organizing Committee (BOCOG) media official expressed his disappointment over the leaked footage. Many Chinese netizens were infuriated and offended by the leak and felt that the Korean TV station had dampened the August 8 Olympic Opening Ceremony extravaganza, choreographed by renowned director Zhang Yimou, which was eagerly awaited by the Chinese people, and indeed, the world.

Name-Calling

A closer analysis of derogatory terms used by Chinese netizens towards the Korean people reflects misunderstanding and perhaps a link to the deeper and more intense anti-Japanese sentiments held by the Chinese. In Chinese cyberspace and nationalistic internet forums, the derogatory term frequently used against ethnic Koreans is *gao li bang zi* (高丽棒子). *Gao li* (高丽) refers to the historical Chinese name for ancient Korea, while *bang zi* (棒子) could mean “club” literally or “corn cob” in northeast Chinese slang. A widely circulated post on Chinese internet forums accounting for the origin of the *gao li bang zi* reference explained that the “club” was attributed to ethnic Koreans who served as policemen under the Japanese military authority administering occupied Chinese territory during the Sino-Japanese War and the Second World War. This version explained that the Korean policemen would beat up the Chinese in Japanese-occupied areas using wooden clubs, leading to the derogatory term being used as a sly reference to the hated Korean police. The undertone was that the derogatory term was justified since the Koreans had collaborated with the Japanese to oppress the Chinese people during the war.

History, Culture, and Territory: Claims and Counter-claims

From the Chinese point of view, the North East Project was purely a history research project to examine the history of three ancient kingdoms along China’s northeastern borders, undertaken by CASS and the three northeast provinces of Liaoning, Heilongjiang, and Jilin from 2002. However, since the South Korean people regard these kingdoms: Gojoseon, Goguryeo, and Balhae, as an integral part of Korean history, this issue quickly degenerated into an emotional and controversial dispute. Initially between South Korean and Chinese academic circles, it subsequently spilled over into the public domain after the South

Korean media widely publicized the issue in 2004. South Koreans took offense to what they saw as China's attempt to distort history and "hijack" Goguryeo, one of the Three Kingdoms of ancient Korea. This issue became even more complex when intertwined with territorial claims involving Mount Baekdu (or 长白山 *Changbai Shan* in Chinese). Inevitably, the Goguryeo history issue drew rabid responses from Chinese and Korean netizens.

It was in this sensitive context that an incident occurred during the 2007 Asian Winter Games in Changchun, northeast China, when a group of South Korean short-track athletes held out placards that proclaimed "Mount Baekdu is our land" during the medal ceremony. Mount Baekdu (known as Changbai Mountain in China), along the border of North Korea and China, was regarded by Koreans as a sacred mountain, revered as the ancestral origin of the Korean people. Chinese sports officials were reported in a *Chosun Ilbo* article on February 2, 2007, to have protested that this was a "politically-motivated banner that undermines China's territorial sovereignty," and delivered a letter of protest stating that political activities violated the spirit of the Olympics and were prohibited by the charter of the International Olympic Committee and the Olympic Council of Asia (OCA). The head of the Korea Olympic Committee responded by stating that the incident was unplanned and held no political meaning. According to OCA, the South Korean official apologized to the OCA, the organizing committee of the 6th Asian Winter Games, and the Chinese Olympic Committee for the incident. This dispute became a lightning rod for massive reprisals from the Chinese media and Chinese internet forums. This episode sparked Chinese accusations about Koreans infringing on Chinese territorial sovereignty.

Even before South Korea's Gangneung Danoje Festival was listed as an intangible cultural heritage on UNESCO's Representative List of the Intangible Cultural Heritage of Humanity on November 25, 2005, it created a furor within the Chinese public and internet community. The controversy was partly due to China's intention to jointly register the Gangneung Danoje Festival and the Chinese Dragon Boat Festival (celebrated on the same date on the lunar calendar), which was rejected by the South Korean side. Upon South Korea's successful registration, the Chinese media and netizens accused South Korea of stealing Chinese culture. While criticizing South Korea, Chinese netizens also blamed the Chinese government for the humiliation of losing the "Chinese" Dragon Boat Festival to South Korea.

***Hallyu* and Korean Drama**

Hallyu, or “Korean wave,” referring to contemporary Korean pop culture that includes songs, films, and television dramas, has been widespread in China in recent years. Korean dramas have been so popular that it was sarcastically suggested in Chinese cyberspace that CCTV8 (CCTV is China’s state broadcaster, and CCTV8 is the drama channel) should be changed to the “Korean Drama Channel.” The extent of the popularity of Korean dramas in China could be gauged when President Hu Jintao told Moon Hee-sang, the leader of the Uri Party, during their meeting on September 25, 2005, in Beijing, that it was a shame his busy schedule kept him from watching every episode of *Dae Jang Geum* together with his wife. As a thoughtful gesture in view of President Hu Jintao’s professed enjoyment of the popular Korean drama series, President Lee Myung-bak invited South Korean actress Lee Young-Ae, lead actress in *Dae Jang Geum* to be a guest to the state dinner in honor of President Hu at the Blue House on August 25, 2008. Wu Bangguo, chairman of the National People’s Congress, reportedly said in a private conversation that he enjoys watching *Dae Jang Geum* because his wife loves Korean TV soap operas. When *Dae Jang Geum* was first broadcast on Hunan Cable TV in September 2005, the soap opera broke the ratings record at 14 points, and garnered an estimated 180 million viewers in China. The series is still being shown in China via reruns on various provincial cable stations.

Despite the popularity of Korean dramas in China, the China-South Korean history tussle spilled over into the realm of Korean soap opera. China’s broadcasting regulator, the State Administration for Film, Radio and Television (SAFRT), blacklisted Korean drama serials such as *Jumong* in 2006 and *Tae Wang Sa Shin Gi*, with Bae Yong-joon as lead actor playing King Gwanggaeto, in 2007; both were Korean period dramas with the Goguryeo dynasty as background; blacklisting meant that the dramas could not be shown on Chinese television stations. Referring to the backlash against Korean dramas in China, Joseph M. Chan in “Towards Television Regionalization in Greater China and Beyond” in 2009 pointed out that Chinese contracts to import Korean dramas dropped by 30 percent during the Shanghai Television Festival trade show in 2006. On the Chinese internet, accusations were rife that many Korean period dramas distort history and cast Chinese emperors and dynasties in a negative light regarding Chinese historical relations with Korea.

VII. CONCLUSION

In examining China-South Korea mutual perceptions, one must remember that both sides have been viewing each other through ideological lenses for long periods of recent history, before normalization of ties. South Koreans referred to China as “Red China” or “Communist China” (中共), while Chinese referred to “South Chosun” (南朝鮮) instead of “South Korea” or “ROK,” largely due to the traumatic historical episode of the Korean War and China’s continued alliance with the DPRK. While it would be difficult to isolate a causal factor to account for the downward spiral of mutual public sentiments in recent years, it seems that dormant historical baggage, while papered over during the years following normalization, has been reawakened and worsened by economic and cultural frictions after 2000, together with significant recent events such as the Goguryeo history dispute from 2004 and the Olympic Torch Relay incident in Seoul in 2008. All these developments must be taken into consideration along with the overall strategic shift with China’s rise in international status and economic power, in conjunction with South Korean insecurities over economic dependency on China and anxieties of being marginalized by China and Taiwan in the economic sphere. This has created a complex situation of negative mutual perceptions and public sentiments from both China and South Korea despite ongoing strengthening of bilateral political and economic relations.

Although the open display of hostility between the two people has remained largely confined to cyberspace, its impact should not be underestimated, because of the wide reach and huge impact of the internet. To put the situation into perspective, official estimates of China’s internet users reached 338 million by the second quarter of 2009, with an internet penetration rate of 25.3 percent, while South Korean internet users numbered 37.5 million out of a population of 48 million, with an internet penetration rate of 77.3 percent. A point of concern is the difficulty of calming hostile feelings, despite the best efforts of rational leaders in China and South Korea, especially if such negative perceptions became deeply entrenched among the public on both sides or accepted as conventional wisdom. Thankfully, at the moment, the leadership of both countries understands the seriousness of the situation and the importance of strengthening people-to-people exchanges, especially among the younger generation, in order to dispel misunderstandings and build mutual confidence.

China is emerging as an increasingly heterogeneous society, with a rapidly expanding middle class and over 500 million cell phone and 300 million internet users. As China becomes a more pluralized society, SAIS Professor

David Lampton points out in his book *Same Bed Different Dreams: Managing U.S.-China Relations, 1989-2000*, “it is becoming ‘more normal’ as a polity inasmuch as its decisions increasingly reflect the pulling and hauling among increasingly institutionalized bureaucracies...and even public opinion.” Despite China’s being a nondemocratic society, Chinese authorities increasingly have to consider public opinion in policy making. For instance, the PRC Ministry of Foreign Affairs is flooded with phone calls and emails over the handling of Sino-Japan relations whenever disputes crop up with Japan, such as those over the East China Sea and Diaoyu Islands/Senkakus issues. The decision by China to dispatch a Chinese naval mission to the Gulf of Aden earlier this year on antipiracy patrol probably took into consideration Chinese public reactions to media reports of Chinese vessels being hijacked by Somali pirates. In addition, the riots in Urumqi in July 2009 apparently were sparked by a seemingly minor factory brawl between ethnic Uyghurs and Han Chinese workers in Shaoguan, Guangdong Province, thousands of miles away from Xinjiang itself. Wild and unsubstantiated rumors of Uyghurs attacking Han Chinese and vice versa were spread among the two ethnic groups via internet and text messages, leading to riots and retaliatory vendettas in Urumqi. While this is admittedly an extreme case of how ethnic and public sentiments in China could be inflamed by irresponsible individuals over the internet or via cell phones, it is not inconceivable that public sentiments regarding relations with South Korea might be excessively played up by negative Chinese public opinion. Another factor that the Chinese government must consider is its own ethnic Korean minority (estimated 2.3 million in 2009) along the northeast China border with the DPRK.

INTER-KOREAN RELATIONS IN 2009: SOURCES OF A SLOW RAPPROCHEMENT

By Paul Elliott

I. INTRODUCTION

Inter-Korean relations in 2009 were marked by a surprising turnabout in midsummer, as North Korea released two American and one South Korean prisoners, and began to vigorously revive inter-Korean economic projects while softening its criticism of South Korean President Lee Myung-bak. These moves contrasted sharply with the bellicose rhetoric that accompanied the North's nuclear test mere months before. Meanwhile, Lee appeared reluctant to alter his approach to Pyongyang, highlighting the threat that the North posed and reacting harshly to perceived provocations. Yet nongovernmental inter-Korean efforts forged ahead, and by the end of October, Seoul committed to restarting direct aid to North Korea, albeit with a more modest package than those of previous governments.

Two key questions arise from these events: what caused the sharp turn in North Korea's policy towards the South, and why then was Lee so reluctant to respond? While commentators have suggested that international sanctions or regime politics governed the North's seemingly erratic policy, the following paper will suggest that North Korea recognized a need for food aid in the coming winter, and quickly adjusted its policy to allow for the solicitation of that aid from the South. On the other hand, Lee's government was simply unprepared for North Korea's change in policy, and suspicious of its motives. Political commitments made during the spring provocations constrained Lee's ability to take advantage of the North's opening, although he did attempt to display some support for improved inter-Korean ties.

II. A FROSTY SPRING

The trajectory of inter-Korean relations in 2009 is linked to policies put in place by President Lee when he took office in February 2008. Opposed to unconditional aid and open engagement policies of his predecessors, Lee's new policy linked aid to the North with the Six-Party process of denuclearization. Though this set a high bar for engagement, Lee promised an ambitious program to engage the North under the "Vision 3000" proposal that would assist the North in opening its economy and lift its GDP to \$3,000 per capita within ten years after denuclearization.

Pyongyang viewed the Lee government's new policy as an abrogation of previous agreements between the North and South, refusing to accept the new conditions. North Korea's 2009 Joint New Year's Editorial stated, "The June 15 Declaration and the October 4 Declaration, the action programme of the former, are the milestone of national reunification. We will never tolerate any slight deviation from the historic inter-Korean declarations." Dialogue ground to a halt, and relations rapidly deteriorated through 2008. North Korean rhetoric became increasingly shrill, and incidents such as the shooting of a South Korean tourist that wandered away from the Mount Geumgang resort area in the summer of 2008 intensified South Korean attitudes towards the North.

This downward spiral continued through the first half of 2009. The failure of the Six-Party Talks in December 2008 suddenly made the Vision 3000 proposal a much more distant prospect. A January cabinet reshuffle in Seoul brought in Hyun In-taek, who had drafted Lee's North Korea policy, as unification minister. Hyun saw no room for flexibility in linking denuclearization with inter-Korean relations. Pyongyang reacted strongly to his appointment, with the *Minju Joson* claiming that Hyun's appointment would "push inter-Korean relations into a deeper abyss of confrontation and ruin." Indeed, Pyongyang's rhetoric towards President Lee and his government grew even more vitriolic in early 2009, with the Ministry of Unification (MOU) noting an increase in negative references to Lee in North Korean publications to 9.9 per day from the previous year's average of 7.6. The DPRK seemed intent on undermining Lee's inter-Korean policy.

North Korea also demanded suspension of the Key Resolve/Foal Eagle military exercise, from March 9-20. As these demands were rejected, North Korean media predicted imminent war on the Peninsula. On March 9, the North cut its military hotline to the South and closed the border to all traffic for a day.

Days after the exercise ended, Yoo Seong-jin, a Hyundai worker at the Kaesong Industrial Complex (KIC), was detained for criticizing the North Korean system and for encouraging a female worker to defect. Coming several days after the arrest of two American journalists at the China-North Korea border, and flagrantly violating the operating protocols of the Kaesong project, the decision to detain Yoo, rather than to simply deport him, marked an escalation of tensions that threw the continuation of the long-unprofitable Kaesong project into serious question.

On April 5, North Korea launched a long-range Eunha-2 rocket in the face of protests by the international community. Although this new capability did not increase the threat to South Korea, it began a shift towards a more military-focused inter-Korean policy. Following the launch, talk began in Seoul and Washington about opening discussions on lifting limits on South Korea's missile arsenal, which might create a larger threat to North Korea's rear areas in the event of conflict.

On May 25, North Korea conducted its second nuclear test. While North Korea's nuclear strategy is outside the scope of this piece, the test had a profound effect on South Korean opinion towards the North. Not only did the test occur before the Obama administration had articulated a policy towards North Korea, it followed closely on the death of former President Roh Moo-hyun. In light of Roh's efforts to improve inter-Korean relations, some interpreted this timing as an effort to disgrace his memory. In a Hyundai Economic Research Institute poll after the nuclear test, only 22.2 percent of South Koreans surveyed felt that the North was trustworthy, the lowest level in a decade.

Building on discussions that followed the April rocket launch, Seoul announced its entrance into the Proliferation Security Initiative (PSI), a group that works to establish intelligence-sharing and maritime inspection procedures to obstruct trade in WMD-related materials. Though an invitation to join PSI had long been open, previous governments feared that joining might spark a conflict with the North. Lee's interest in joining in April signaled that the South would take concrete steps to contain North Korea as it presented a greater threat. North Korea's response was extreme: voiding the 1953 Armistice and calling Seoul's PSI decision a "declaration of war." Lee moved again to bolster the South's security by obtaining assurances in his June 16 summit with President Obama that the South would still be protected under the U.S. nuclear umbrella.

Even before the UN Security Council could pass a resolution condemning the

nuclear test, the North further soured inter-Korean relations, demanding on June 11 that North Korean workers at the KIC have their wages quadrupled and for companies involved in the project to pay exorbitant rents to Pyongyang. Though MOU denied that the North was trying to shut down the centerpiece of inter-Korean cooperation, the firms involved protested that they could not bear such an increase in costs. Hyundai Asan, which manages the KIC and the Mount Geumgang resort, seemed unlikely to survive a long period of inter-Korean tensions.

III. AN UNEXPECTED TURNAROUND

Yet frosty as inter-Korean relations were by July, it proved surprisingly easy to turn them back around. The North Korean media began to ease its criticism of President Lee, along with restrictions on travel to the KIC. Meanwhile, South Korea announced in late July that it would allow NGOs to resume aid work in the North. Both countries moved to a more conciliatory posture.

North Korea's key moves to warm relations with the South began in the crises generated by detaining two American journalists and a Hyundai worker. By taking captives, North Korea positioned itself to control any future rapprochement process. It hardly seems coincidental that the new North Korean constitution adopted in April granted Kim Jong-il the authority to pardon prisoners for the first time. Requiring that high-ranking officials visit Pyongyang to retrieve the captives, the North Koreans ensured that dialogue could be reopened no matter the depth of their isolation.

While former President Clinton's visit to Pyongyang to secure the release of the Americans mainly impacted the prospects for nuclear negotiations, the meetings that returned Yoo Seong-jin home reversed the course of inter-Korean cooperation in mere hours. Hyundai chairwoman Hyun Jeong-eun met with Kim Jong-il in Pyongyang for four hours on August 16 and agreed to measures that could revive Hyundai's inter-Korean projects. Aside from pardoning Yoo Seong-jin, Kim agreed to lift restrictions on cross-border traffic to Kaesong, resume tourism at Mount Geumgang, and to hold reunions for families separated by the North-South border during the autumn festival of Chuseok.

On August 18, former South Korean president Kim Dae-jung passed away. Kim Jong-il forwarded condolences to the South Korean people and dispatched a delegation headed by Korean Workers' Party Secretary Kim Ki-nam to Seoul

to lay a wreath at the funeral. Given that Kim Dae-jung was the architect of North-South cooperation, the North's move was unsurprising, but it contrasted with Roh Moo-hyun's passing in May, which was quickly followed by the nuclear test and then manipulated by North Korea to accuse President Lee of murder. Kim's death was far less controversial than Roh's, and his legacy as South Korea's first opposition president and the architect of the Sunshine policy emerged as cause for reverence and respect in both Koreas. Further, the dispatch of a North Korean delegation to Seoul reopened communication, allowing for talks with Unification Minister Hyun and a visit to the Blue House, where President Lee received a verbal message from Kim Jong-il.

In late August, inter-Korean Red Cross committees agreed to resume inter-Korean family reunions in early October. Though only 100 families were allowed to take part, the emotional and symbolic significance of these reunions to North and South Koreans is immense, and a decision to hold reunions was indicative of a commitment to return inter-Korean ties to a normal footing.

The events of early September further signaled North Korea's readiness to resume relations with the South. On September 6, an unexpected water buildup behind a North Korean dam on the Imjin River apparently forced a large, unannounced release of water. Flowing downstream across the border, the surge caused flooding that drowned six South Koreans camped by the river. The South's public was incensed, and President Lee and Unification Minister Hyun called the release a premeditated demonstration of the North's ability to attack the South, demanding an explanation and apology. Rather than taking a defensive tone, Pyongyang provided a written explanation that the release was an emergency measure and that the South would be notified in case of future releases. Satellite imagery later confirmed the North's statement, and the Lee government moderated its tone, later holding talks about dam control. North Korea's flexibility, at the expense of saving face, averted what could have become another inter-Korean crisis, revealing Pyongyang's investment in maintaining inter-Korean relations.

Meanwhile, economic cooperation began to run more smoothly. Cross-border trade showed a year-on-year rise of 2.6 percent in September, the first increase in 2009. This accompanied renewed contracts at the KIC with only modest wage increases for North Korean workers and discussions between North Koreans and KIC firms focused on understanding the obstacles to doing business there. In late October, after North Korea requested aid during negotiations over further family reunions, Seoul made a modest offer of 10,000 tons of corn targeted to North

Korea's North Hamgyong Province. Though the North was unsatisfied with the size or restrictions of this package, it appeared that inter-Korean relations had truly begun to return to consistent cooperation, and rumors of a new inter-Korean summit seemed realistic.

Still, two major questions spring from the course of inter-Korean relations in 2009: Why did North Korea upend its approach to inter-Korean relations, and then pursue them so aggressively? And why, in the face of this, was the Lee government so hesitant to embrace North Korea's new course?

IV. NORTH KOREA: SMILE DIPLOMACY WITH HAT IN HAND

Korea watchers have already pegged several motivations for the August turnaround in the North's relations with the South. One explanation involves a combination of Kim Jong-il's 2008 health problems and the need to install a successor during the 12th Supreme People's Assembly in April. This suggests that the rocket launch and nuclear test showed the Kim family's strength and solidified plans for Kim's son, Kim Jong-un, to take over after his father. Ostensibly, with this process complete and the leader's health improving, Pyongyang would be ready to get back to negotiations. At the same time, others argue that the North's "charm offensive" was a direct effect of sanctions instituted under UN Security Council Resolution 1874. This assumes that the sanctions were so effective in curtailing the North's weapons exports and isolating it financially that it had no real choice but to reopen inter-Korean sources of funding and move back into nuclear negotiations.

Both of these approaches are helpful in understanding the events of 2009, but neither sufficiently explains the details of the turnaround. Those who emphasize regime politics suggest that Kim needed to appease certain factions among the North Korean elite on whom his power depends, yet if this support is so critical to Kim's position, how could he safely and quickly reverse course and cancel the policies demanded by these constituencies? This model suggests that Kim would be locked into a certain policy as a new set of leaders moved into place, leaving him unable to make the sudden changes of the second half of 2009.

Likewise, the idea that sanctions forced North Korea to move to a more moderate stance in order to limit their implementation is not borne out by the evidence. North Korea reversed course after Resolution 1874 was passed, but it was already clear that high-level meetings would be necessary to obtain the

release of American and South Korean prisoners. The passage of Resolution 1874 and the visit by former President Clinton were separated by only about six weeks, hardly enough time for any of the players to understand how extensively sanctions would be enforced, much less assess their impact. Nor were estimates of the sanctions' impact so high as to suppose that they would cripple the North. The Hyundai Economic Research Group reported on June 17 that the sanctions, if enforced, would produce estimated losses of \$1.5 to \$3.7 billion to North Korea, or about 3 to 9 percent of GDP. By contrast, North Korea showed 3.7 percent GDP growth under sanctions in 2008. Enforcement of these sanctions during the summer was also minimal, targeting a small group of proliferation-related firms and North Korean arms shipments intercepted at foreign ports.

Meanwhile, increasing trade along North Korea's border with China was cemented with a raft of agreements signed during Chinese Premier Wen Jiabao's visit to Pyongyang in early October. While the exact details of these agreements remain unknown, at the very least, the Chinese offered \$200 million in direct aid to Pyongyang, mitigating the impact of UN sanctions. Reports of increased construction in Pyongyang, a prevalence of consumer goods, and other signs of economic normalcy indicated that the North was far from facing dire straits under sanctions. Perhaps most importantly, the North Korean leadership was committed to appearing impervious to sanctions. The "150-Day Battle" to increase production began prior to the May nuclear test, to prepare the nation to resist sanctions and to allow the leadership to hail success in the face of sanctions. Reflecting this attitude, North Korea remained reluctant to return to the Six-Party Talks months after Resolution 1874 was passed, in contrast to its quick response to Resolution 1718 following its first nuclear test in 2006.

Rather than being forced upon the North Koreans by sanctions, the new engagement policy appears to have arisen out of basic needs. Cold and drought severely reduced North Korea's rice and corn crops, and summer harvests were weak in 2009. The Good Friends organization reported in late October that the North Korean agricultural ministry had instructed state trading companies to import as much grain as possible to combat expected shortages, while the UN Food and Agriculture Organization estimated a shortage of 1.8 million tons of food in 2009. These reports, and the rare direct request to the South for food aid, highlight the difficulties that the government faced, and the change in tone towards South Korea correlates quite well with a bout of unusual weather in mid-July that damaged crops in the DPRK's northern agricultural regions.

Temperature records for Chongjin and Hamhung, in North and South Hamgyong

provinces respectively, show several drastic swings in temperatures during early and mid July. Hamhung, where the average high in July is about 25 degrees Celsius, saw temperatures jump to 32 degrees Celsius before quickly falling to a 20-degree high during three brief periods that month. Further north, Chongjin had a month consistently colder than its 18-degree average lows, with only one night where the temperature remained above that level. Meanwhile, reports from the *DailyNK* carried testimony from North Hamgyong Province that crops suffered cold-weather damage in July. Although difficult to verify, these claims seem reasonable given the low temperatures recorded. Rapid temperature swings and unseasonably cold weather take a toll on crop yields, and North Korea generally lacks the expertise and funds to properly protect its crops from inclement weather.

Though trade with China has cushioned recent economic shocks, North Korea's foreign currency reserves remain limited. As North Korea cannot borrow to finance its trade deficit with China, analysts argue that much of this Sino-DPRK commerce is essentially disguised aid. Although China is North Korea's chief food supplier and would likely bail out the regime if conditions became truly abysmal, its generosity may be limited, and Pyongyang would not accept the vulnerability of overdependence on China. Importantly, the Chinese aid package announced in October had little apparent effect on inter-Korean relations. Marketization in North Korea is also thought to shield many of its citizens from food shortages. Yet Pyongyang is still unwilling to rely on markets and clamped down on market activity in late 2009 with a currency revaluation and other measures.

Meanwhile, the international support that previously helped sustain North Korea has broken down. Food and fertilizer aid from Seoul ended in 2008, and shortfalls since then have eaten through North Korea's reserve stocks. The World Food Programme mission to North Korea has been under-resourced since negotiations broke down over allowing Korean-speaking staff and aid targeting, with the agency now claiming that it can feed only two-thirds of the hungry population. South Korean aid groups were also restricted from operating in the North for most of 2009, leaving them unprepared to assist with a crisis. While aid agencies often overplay the seriousness of food conditions in North Korea, the spring of 2010 is likely to be far leaner than in recent years.

Pyongyang has weathered food shortages and even famine before, surprising many who have anticipated the regime's collapse. Based on these experiences, political stability appears to be disconnected from the food problem, and the

leadership has allowed its people to suffer through deprivation. Over the years though, the information afforded by interaction across the Chinese border and illicit market activity has led North Koreans to better understand their own poverty. Protests of market closures and the currency revaluation show that real, though very limited, dissent has occurred, and might be inflamed by a food crisis. Perhaps more importantly, the regime is now accountable to the various state trading companies and associated state and Workers' Party agencies in unprecedented ways. As described by John Park in an August 2009 Nautilus Institute paper "Understanding New Ways to Enhance Human Security in the DPRK," state trading companies attached to government offices generate foreign currency to fund the senior leadership while padding the budgets of their own bureaucracies. A food shortage would reroute a portion of that foreign currency to grain imports, reducing the funds available for the regime to maintain the loyalty of its elites and for government agencies to pay mid-level officials and operate normally. The risk of dissatisfaction within the governing structure presents a much more acute risk to the regime and its plans for the future than does hunger and poverty among the general North Korean public.

For North Korea, aid from the South is an excellent way to dampen the effects of a food shortage. Aid has traditionally come in large, unconditional deliveries of rice and fertilizer. Even when there are conditions, as in the fall 2009 aid proposal, South Korea has no structure for monitoring the food's distribution. Consistent humanitarian aid would also help North Korea hedge against Chinese influence, ensuring that the North has more than one external source of food. According to Andrei Lankov's article "Staying Alive" in the January 2008 issue of *Foreign Affairs*, the Chinese have begun to increase pressure on Pyongyang to open its economy. They are constantly pushing for reform in meetings with North Koreans, suggesting that the North Koreans should create space to maneuver with China to avoid potentially destabilizing reforms. After nearly a decade of "Sunshine"-type policies and enthusiasm for targeted and conditional aid even among the most conservative circles in Seoul, strong support among South Koreans for continued aid to the North means that an appeal for assistance is a safe request for North Koreans to make, and difficult for Seoul to refuse.

Aid-seeking behavior more effectively explains North Korea's warming to the South than succession- or nuclear-focused explanations. The North limited its overtures to the United States regarding the nuclear issue, reluctant to commit to a return to the Six-Party Talks, while it forged ahead in its relationship with the South. Momentum in North-South relations simply is not seen in the nuclear issue. The North continues to condemn linkage of inter-Korean relations and

denuclearization even as Seoul begins to find a way around that commitment, and Pyongyang will likely continue to encourage inter-Korean engagement even if nuclear negotiations remain stagnant, since inter-Korean aid will act as a buffer against continued or tightened sanctions.

Of course, aid is not the only item on the inter-Korean agenda. Revival of the Kaesong Industrial Complex, the Mount Geumgang tourist center, and family reunions were important parts of the turnaround in relations in 2009. Each of these points of cooperation can serve Pyongyang's need to import grain and bolster its foreign currency reserves. Tourists entering the North and families that wish to be reunited must pay fees directly to the North Korean government, providing a legitimate source of foreign currency without social or political disruption. As Victor Cha, Korea Chair at the Center for Strategic and International Studies, phrased it in a September 3, 2009, interview with the Council on Foreign Relations. "[I]f you think about it, tourism is the best sort of hard currency source because you pay a ticket to get in, see something and you leave. It has no broader impact on the regime but gives the leadership hard currency." Repairing these projects could allow North Korea to recover these sources of income and import more food staples.

The military measures taken by South Korea following the spring rocket launch and nuclear test may have helped induce this change in thinking. South Korean entrance into the PSI elicited an extreme rhetorical response from the North. This development was followed by a reiteration of U.S. nuclear assurances to South Korea, often cited as a serious threat by the North. Pyongyang may have perceived a link between its nuclear test and a deteriorating security situation. As North Korea displays what it terms its "nuclear deterrent," it should be unsurprising that the South would seek the ability to contain the North. Seeing that the Lee government is prepared to counter rather than accommodate the North's increasing capabilities, North Korean strategists naturally would place a heavy emphasis on improving inter-Korean relations to mitigate that threat. Indeed, North Korea's overtures to the South have gone far beyond what is necessary to allow the United States to restart dialogue. That North-South relations have advanced while direct U.S.-DPRK discussions over returning to the Six-Party Talks have stalled over technicalities and assurances further supports the notion that the North's moves are narrowly focused on the South rather than built into Pyongyang's wider nuclear strategy.

Thus, rather than a direct result of sanctions and isolation or the palace politics of Pyongyang, the North's rapprochement with the South was spurred by a need

to secure aid before food stocks run out. This explains the commitment and flexibility that North Korea showed in pursuing renewed engagement with the South, and its continuing effort to separate inter-Korean engagement from the nuclear issue. This follows a familiar pattern in inter-Korean relations, where relations improve as North Korean economic activity and agricultural output are weak, and deteriorate as North Korea regains its economic footing and improves its military capabilities.

V. SOUTH KOREA: PRINCIPLES CONSTRAINING ENGAGEMENT

The events of 2009 raise a second question in inter-Korean relations: why has the Lee government, which stands to benefit politically and economically from better North-South relations, been so hesitant to embrace North Korea's attempts to improve relations?

The Blue House has stood by a policy that it terms a "principled approach" towards North Korea, linking inter-Korean projects and aid packages to progress in denuclearization. It sees these limits as necessary in reducing the threat to South Korea, acting as a responsible member of the Six-Party Talks, and ensuring that relations with the United States remain strong. This policy was also thought to provide an additional incentive for North Korea to end its nuclear programs, as Lee's "Vision 3000" policy promised assistance for developing an export-oriented economy in the North post-denuclearization.

Though he won the 2007 presidential election by a significant margin, Lee has never had a firm political footing among the Korean public or even in his own party. Coming into office, the new president could boast only a 50 percent approval rating, the lowest of any Korean president at the time of his inauguration, and many Grand National Party (GNP) National Assembly members preferred Park Geun-hye, Lee's competitor for the presidential nomination. Faced with scandals and deep public dissatisfaction over his leadership style and handling of the lifting of a ban on American beef imports early in his term, Lee's political capital evaporated in 2008. Though his approaches to North Korea and many other issues were "principled" when he entered office, Lee was often forced to give into immense political pressure on various policy fronts. By the end of his first year in office, he had to pick his battles very carefully.

Yet the day that North Korea would definitively end its nuclear program seemed increasingly distant in 2009 as a failed session of the Six-Party Talks developed into a nuclear crisis and North Korea declared that the Six-Party process had ended. These steps pushed the Lee government further from engagement, and it took steps, such as joining PSI, in an attempt to contain the North Korean threat. The spring's provocations also appear to have had an impact on public opinion in the South, with a government poll showing an unusually high proportion, 51.8 percent, of South Koreans favoring an international response to the North Korean rocket launch, while only 33.6 percent supported direct inter-Korean talks. Not long after, polling by the Hyundai Economic Research Institute showed that public trust of North Korea was at its lowest level in a decade. The possibility of reengagement was faced with the obstacle of poor public perception.

At the time of the nuclear test, Lee was managing another political crisis stemming from allegations that top officials in his government had pushed a corruption investigation against former President Roh Moo-hyun, leading to Roh's May 23 suicide. The furor in South Korea over Roh's death far outweighed concern over the nuclear test, and a Korea Research poll in early June showed the Democratic Party with an approval rating of 23 percent, and Lee's GNP at 21.1 percent—the first time since Lee's election that the opposition polled higher than the governing party. The only issue on which the conservative government seemed to be trusted was the disarmament of North Korea. Yet with anti-North Korea supporters energized and the U.S.-Korea alliance increasingly emphasized in preparation for Lee's June 16 summit with American President Barack Obama, a June 13 *Hankook Ilbo* survey saw his approval jump to 30.3 percent, a number that was likely bumped higher the following week by his successful visit to Washington.

The South Korean government thus learned that heightened perceptions of a North Korean threat were beneficial to its political welfare, and although it would not be accurate to say that Lee “played up” the North Korean threat, his government was quick to condemn perceived hostility from North Korea, which it defined in increasingly broad terms. In addition to the benefits in terms of public support, a harder line towards North Korea also helped Lee cultivate support from conservative figures inside and outside the GNP. So, when denial-of-service attacks hit a range of South Korean and U.S. government websites, Seoul was quick to blame the North, although later evidence threw those claims into serious doubt. As mentioned above, the Blue House also took a very hard stance against flooding caused by an emergency release from a North Korean

dam. Both cases showed the government's eagerness to peg North Korea with hostile intent rather than waiting for a full investigation.

Still, it is virtually required that a South Korean leader present himself as working towards eventual unification of the peninsula. Not only does the notion of a united Korea speak to hopes of those on either side of the DMZ, it has real economic implications for certain constituencies in the South. A growing number of South Korean companies are tied to the KIC and have hopes of increasing inter-Korean trade, while rice farmers in the South have relied on government purchases of rice for food aid, which supports the price of their crops. So, while quick to highlight the North Korean threat, Lee also positioned himself as a supporter of inter-Korean cooperation. Yet his plans for economic engagement and aid remained linked to the North's denuclearization, differing little from standing policy. Lee's August 15 call for inter-Korean dialogue, like his September 21 "Grand Bargain" proposal, was rejected out of hand by the North. A South Korean proposal for reopening the Mount Geumgang project in late September was typical of this type of maneuver: showing initiative in resuming inter-Korean ties, but including requirements, such as an apology for the killing of a South Korean citizen at the resort in July 2008 and a guarantee of safety for South Korean tourists that the North could never accept. Lee appeared bound to his party's platform, paying only lip service to advancing engagement. In this sense, the "principles" of the Lee government obstructed any moves to reciprocate the North's attempts to improve relations, and as late as October, Lee still voiced his suspicions of the North's motivations for warming towards the South.

Although many South Koreans were pleased by President Lee's confrontational, conditions-based reaction to North Korea's attempts at rapprochement, the majority simply had other priorities. Although South Korea avoided the worst of the global financial crisis and quickly returned its economy to growth, the economy and domestic reform programs were much greater concerns than movements by North Korea, especially by autumn. With little enthusiasm or interest in either engaging or isolating the North, a move to engage Pyongyang more openly held the risk of losing face and appearing too conciliatory, while offering few political benefits. Instead, Lee chose a serpentine course between hard-line confrontation and limited engagement. As Leon Sigal suggests in "North Korea Policy on the Rocks: What Can Be Done to Restore Constructive Engagement?" published in the June 2009 issue of *Global Asia*, this allowed Lee to appease the more realist conservatives in his government, who preferred to focus on issues other than the North, as well as the more ideological politicians

to his right, whose perspectives remained fixed on the border.

As a result of this ambivalent strategy, initial inter-Korean efforts simply bypassed the Lee government. The visit by Hyundai chairwoman Hyun Jeong-eun to Pyongyang, and the fact that the North Korean delegation that paid condolences after the death of Kim Dae-jung came in a civilian capacity, showed that government-to-government ties lagged behind the reality of thawing relations. Interestingly, rumors arose in October that the North and South were discussing the possibility of an inter-Korean summit. Though the Blue House denied that such a meeting was planned, this move would have put cooperation between the governments back on track, even if the wide gap in policy made it unlikely that lasting changes would arise from such an exchange. The notion that Lee would consider traveling to Pyongyang when so little government-to-government work had been done lends credence to the notion that his inter-Korean efforts were mostly political posturing.

Finally, in September, as the North's efforts to improve relations appeared to be a sustained policy that could not be ignored, the Lee government took genuine steps to reopen inter-Korean ties. Seoul lifted restrictions on South Korean NGOs operating in the North and once again allowed companies in the South to import sand and other raw materials, though under close monitoring to ensure that the North did not misuse its profits. On October 29, the government unveiled its first inter-Korean aid package: 10,000 tons of corn required to be sent directly to North Hamgyong Province, where conditions were reportedly the worst. Though far smaller than previous governments' aid packages, this marked a compromise between Lee's principles and the political need to engage the North. Aid was sent in the form of corn rather than rice, as corn was less likely to be siphoned off by North Korean elites or the military. Although Seoul had no way to control where the aid went in North Korea, by pronouncing it a targeted aid package, Lee was able to maintain a distinction from previous governments while still attaching no strings to the South's donations. Though the opposition decried the package as far too small, it laid the groundwork for a new type of inter-Korean engagement that would reassure both the South and the United States that the North-South relationship was more than the "appeasement" that it had been labeled in the past.

VI. CONCLUSION

The turnaround in inter-Korean relations in mid-2009 came as North Korea recognized its need for food aid to make up for harvest shortfalls, in hopes of rejuvenating its relations with the South to guard against Chinese domination of its economy. Just as in the late 1990s, an economically weak North Korea looked to the South for an opportunity to avert potential collapse, while making overtures about national reunification that maintain support for the regime in Pyongyang. North Korea will likely continue pursuing better relations with Seoul in an attempt to procure further food aid, although continuing short- and medium-range missile tests show that the North will not fully link its defense policy with efforts to gain assistance.

The Lee government, fettered by the conservative elements of the GNP and by frozen nuclear negotiations, will only hesitantly advance cooperation with the North. While Seoul may hope to take advantage of renewed nuclear talks to allow for further aid, it will have difficulty justifying these steps if nuclear negotiations again break down. President Lee may see the current period of warming relations as fragile given the questionable status of nuclear negotiations, and could seek an inter-Korean summit sooner, while the notion is still viable, rather than later when Pyongyang's tone may grow harsh. Given North Korea's demonstrated commitment to improving relations on the peninsula, it is likely that Kim Jong-il would agree to meet Lee, giving both leaders a boost in domestic political standing.

North Korea's focus on food and on acquiring foreign currency in the short term bears important implications for the longer trajectory of inter-Korean relations. Once this season's food shortage is resolved, or the traditionally worst months of famine in the North pass in spring 2010, the North Korean drive to improve inter-Korean ties will most likely peter out. If a regular relationship of aid and economic cooperation with an unambiguous commitment from Seoul does not develop by that point, the North may again escalate its provocations towards the South and its criticism of the Lee government.

SOUTH KOREA'S ENERGY DIPLOMACY TOWARDS CENTRAL ASIA

By Sogaku Miyamoto

I. INTRODUCTION

South Korea imports 97 percent of its energy from abroad and is currently ranked tenth in the world in terms of energy consumption. Thus, securing a stable supply of energy is one of the top national priorities of the country. The South Korean government has been pursuing energy diplomacy with resource-rich countries and regions such as Russia, Central Asia, the Middle East, Africa, and Latin America. Among them, South Korea has actively engaged in Central Asia since the collapse of the Soviet Union in the early 1990s. Central Asia, including Kazakhstan, Azerbaijan, Uzbekistan, and Turkmenistan, is referred to as the “Second Middle East” for its abundance of natural resources such as oil and natural gas. Proven oil and gas reserves in Central Asia in 2006 were 48 billion barrels, or 3.9 percent of the global portion, and 9.1 trillion cubic meters, or 5 percent of the global portion, respectively. As for oil reserves, Central Asia is the second largest after the Middle East. Moreover, a large quantity of uranium, an ingredient for nuclear power generation, is also found in Central Asia.

This paper considers South Korea's overall energy diplomacy towards Central Asia. First, it explores various aspects of its energy diplomacy in Central Asia, with a focus on the case in Uzbekistan and Kazakhstan. It then considers geopolitical issues related to Central Asia that could affect its energy diplomacy. Finally, this paper assesses the achievements and failures of South Korea's energy diplomacy and discusses the prospect of its future.

II. SOUTH KOREA'S ENERGY DIPLOMACY IN CENTRAL ASIA

Energy Cooperation Diplomacy

South Korea has engaged in Central Asia at the highest political level. President Lee Myung-bak made state visits to Uzbekistan and Kazakhstan in May 2009. Lee and President Karimov signed 16 memoranda of understanding on the rights of Korean firms to develop oil and mineral resources and industrial infrastructure in Uzbekistan. South Korea and Kazakhstan also adopted a joint action plan that calls for closer bilateral cooperation in the development of energy, natural resources, and infrastructure, as well as in the fields of labor, culture, disease control, and health. The two countries agreed to begin projects to develop gas and oil and build a broadband Internet network in Kazakhstan. Overall, President Lee signed 20 memoranda on energy and resource cooperation with the presidents of Uzbekistan and Kazakhstan.

South Korea and Kazakhstan also agreed on a reciprocity strategy that fuses the resources of Kazakhstan with the capital and the technology of South Korea. President Lee described South Korea as having a competitive edge in high technology and Kazakhstan in abundant resources. President Nazarbayev said that Kazakhstan welcomes the expansion of South Korean investment to other fields, such as the information-technology industry.

Foreign Minister Yu of South Korea also emphasized that the visit of President Lee to Uzbekistan and Kazakhstan deepened the trust between President Lee and the leaders of Uzbekistan and Kazakhstan, which would be a crucial factor to expand cooperation between these countries. For example, President Karimov of Uzbekistan accompanied President Lee almost all the time during his three-day visit. President Nazarbayev of Kazakhstan even treated President Lee in the same sauna as his before having dinner in the presidential residence.

On top of high-level energy diplomacy, South Korea has also adopted a softer lower-level approach, most visible in cross-cultural programs. For example, the Korean Culture and Information Service of the Ministry of Culture, Sports, and Tourism and the Korean Silk Road Foundation jointly held a Korean Culture Festival in Uzbekistan, Kazakhstan, and Turkmenistan in May 2009. The Korean Culture Festival was aimed at boosting cultural exchange and increasing friendly bilateral relations with the aforementioned countries. *Hallyu*—or the “Korean wave”—seems to be leading the way to Central Asia; Korean cars, cell phones, and electronic appliances can easily be found in Central Asian homes, as well

as fans of Korean TV dramas such as *Jewel in the Palace* and *Winter Sonata*. A traditional Korean band also often accompanies the economic cooperation caravan, which is discussed below, and gives performances. These initiatives aim to promote South Korean culture in Central Asia.

Reinforcing Support Activity for Energy Development Business in Central Asia

South Korean embassies worldwide have provided close support for South Korean companies' major energy development projects in 20 countries, including Central Asia, through direct dialogue with companies. The basic role of the South Korean government in supporting the energy companies is twofold: (1) provide assistance to overcome their disadvantages compared to foreign counterparts; and (2) minimize political risks associated with launching businesses in politically volatile environments. In this regard, the South Korean government provides the following support to the South Korean energy companies.

- a) ***Collecting and Distributing Energy-Related Information.*** Even if Korean energy companies hope to expand their business opportunities in Central Asia, they are less experienced and less technologically equipped compared to major international energy companies such as BP and Shell. Thus, Korean companies would need to move to more politically and economically volatile regions in Central Asia to be more profitable by avoiding competition with the major global companies. In order to encourage this movement, the South Korean government has set up early warning and rapid response systems for hazards in volatile business environments.

- b) ***Caravan Diplomacy.*** In 2008, the South Korean government launched a special mission group formed by governmental officials and private companies, called the "Korea Caravan," to resource-rich areas such as Central Asia, the Middle East, Latin America, and Africa. The Korea Caravan plans to enhance both official and commercial ties with these regions to create a good atmosphere for signing relevant agreements to secure resources in the countries concerned. The Korea Caravan is based on similar mission tools that exist in Japan and China. Cooperation between the public and private sectors will be more and more important because in many cases private companies find it risky to invest and need public assistance to do so in resource-rich countries.

To encourage more private investment in such regions, it is important for the government to play a role in promoting the organic cooperation between official development assistance (ODA) and commercial activities. In this regard, the Korea Caravan has enormous potential in constructing ODA and technical support cooperation channels. Although no caravans have yet been sent to Central Asia, the South Korean government plans to send them in the foreseeable future.

Improving Infrastructure and Quality of Energy Cooperation Diplomacy towards Central Asia

The South Korean government has also engaged in expanding infrastructure in Central Asian countries for successful energy development there. The government has pursued energy diplomacy based on an “energy diplomacy strategy,” which aims at ensuring an energy supply to sustain Korea’s economy in a sophisticated and harmonious manner. Furthermore, the South Korean government designated 32 embassies as special missions for energy cooperation. The government also opened new embassies and consul generals in resource-rich countries in Africa, Central Asia, and South America. In Central Asia, a new consul general opened in Kyrgyzstan. In addition, the Ministry of Foreign Affairs and Trade was reported to have relocated a substantial number of its elite officials to embassies and consul generals in resource-rich countries, including Central Asia. Moreover, South Korean embassies and consular offices abroad are to hire local “special advisors” to help facilitate energy diplomacy. Indeed, the South Korean embassy in Kazakhstan hired local experts on oil and natural gas in 2008.

III. SOUTH KOREA’S ENERGY DIPLOMACY IN KAZAKHSTAN AND UZBEKISTAN

Kazakhstan

In May 2009, South Korea and Kazakhstan signed a \$5 billion contract for South Korean investments in Kazakhstan’s energy and technology sectors. Under this agreement, South Korean companies will invest \$2.5 billion in a new power plant in southern Kazakhstan. The plant will be completed by 2014, and Korea Electric Power Corporation and Samsung C&T will own 65 percent of the plant.

At the grass-roots level, there are approximately 320,000 ethnic Koreans living in Central Asia, of which approximately 100,000 live in Kazakhstan. The South Korean government hopes that they will play a key role in bridging South Korea and Kazakhstan and strengthening the relations at the grass-root level.

Uzbekistan

In May 2009, South Korea and Uzbekistan signed five oil-and-gas deals. In return for access to Uzbekistan's energy reserves, South Korea will undertake a series of development projects, including financing the construction of chemical plants and a \$17.6 million revamp of the sewage system in Navoi.

Furthermore, the number of ethnic Koreans living in Uzbekistan is approximately 200,000, which is the largest among Central Asian nations. When President Lee visited Uzbekistan in May, he hosted an informal social gathering with local Koreans, during which the president emphasized the importance of their presence for South Korea to develop a closer relationship with Central Asia, which could complement South Korea's energy diplomacy.

IV. GEOPOLITICAL ISSUES IN CENTRAL ASIA

China's Presence

China has been trying to expand its influence in Central Asia through the Shanghai Cooperation Organization (SCO). For China, Central Asia is a strategically important region in terms of securing energy supplies. China's economic presence in Central Asia has largely increased over the years. In the SCO summit in June 2004, the Chinese government offered the financial support of about \$900 million to the SCO signatories, which includes four Central Asian countries: Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan. In June 2009, China further agreed to loan \$10 billion to the SCO countries to help them overcome the struggle that resulted from the current economic crisis. Meanwhile, Central Asian countries also seek to advance cooperation with China in various ways. In Kazakhstan, the construction of a crude-oil pipeline to China was completed, and the transportation of crude oil to China began at the end of May 2006. As Kazakhstan seeks to expand exports of its energy resources, China is an important destination as a huge consumption market. Moreover, the advancement of Chinese capital in the energy sector has become more significant. In August 2005, a Chinese oil and natural gas group (CNPC)

purchased a Kazakhstan enterprise and is estimated to have paid approximately \$4.1 billion. In 2009, China National Oil & Gas Exploration and Development Corporation (CNODC) and KazMunaiGaz, a Kazakhstan enterprise, formed a joint venture called Mangistau Investments B.V. They agreed in a \$3.3 billion deal to exploit oil and gas fields in Kalamkas and Zhetybai in Kazakhstan. In addition, Uzbekistan has also been strengthening economic ties with China. Chinese capital has mostly flowed into the fields of communication and energy development in Uzbekistan.

Russia's Presence

Russia has engaged in Central Asia in order to regain its influence over the region, which had significantly declined following the collapse of the Soviet Union. Despite the expected Russian retreat from engagement in the area after the recent global financial crisis, which badly hit the Russian economy, it seems that Russia is taking advantage of the crisis to be more influential in the former Soviet Union and the allies. While the United States and Europe are occupied with dealing with the global economic crisis, Russia has taken measures to weaken Western influence in Central Asia. In February 2009, the heads of the members of the Collective Security Treaty Organization (CSTO), which includes Russia and Central Asian countries, agreed to create a readiness command with manpower of 10,000 soldiers. Although the purpose of creating the new command force is to fight against terrorism and drug trafficking, it also serves as a counterweight against the North Atlantic Treaty Organization (NATO), which has expanded to the former Soviet sphere in countries such as Ukraine and the Republic of Georgia. In retrospect, Russia also succeeded in closing the United States air base in Kyrgyzstan, which the United States had used as a military outpost for the Afghanistan War since 2001. These measures indicate a continuation of the "Strong Russia" policy adopted by President Putin in his second presidential term that began in 2004. An important implication of Russia's involvement in Central Asia is that in order for the South Korean government and companies to successfully conduct energy development in the region, it is crucial that they develop a good and close relationship with Russia as well, which now has more influence over the region.

Japan's Presence

Japan began to engage Central Asian nations soon after they achieved independence from the Soviet Union in 1991. Tokyo became a major aid donor to the region through policies such as ODA. In 2006, Japan provided

\$92.7 million in ODA to Central Asian countries, which was the third largest contribution after that of the United States (\$468.7 million) and Germany (\$157.5 million). In 2004, Foreign Minister Kawaguchi initiated the “Central Asia plus Japan Dialogue,” holding a round of talks on economic and security ties. Japan’s main interest in Central Asia has long been to build up stability and development in the region as they are indispensable for the peace and prosperity of the Eurasian Continent, as well as East Asia, and the international community as a whole. In this regard, Japan and the Central Asian countries have intensified their endeavors towards the democratization of the Central Asian societies, the promotion of the market economy, the improvement of people’s standard of living, the eradication of terrorism and poverty, and the protection of human rights.

At the same time, Japan sought to reduce its oil dependence on the Middle East. Moreover, Japan has wanted to increase its use of nuclear energy, which requires uranium. As a result, Japan started to actively engage in energy diplomacy in Central Asian countries. During his visit to Central Asia in 2006, Prime Minister Koizumi agreed with the president of Kazakhstan to cooperation on the peaceful use of nuclear power, which includes the development of uranium mines in the country.

V. CENTRAL ASIA’S POLITICAL, SOCIAL, AND ECONOMIC SITUATIONS

The Political and Social Situations in Central Asia

Many Central Asian countries are still under authoritarian rule. When they became independent after the collapse of the Soviet Union in 1991, they hoped to transform themselves into democratic states with free-market systems. However, the legacy of authoritarian rule has long persisted since their independence, which has resulted in enormous challenges to changing their political, economic, and social systems. Also, violent ethnic, religious, and social conflicts still exist, which causes civil society to be undeveloped and unstable. With weak democratic institutions, the power of central governments remains strong, with no effective checks and balances. In addition, abuses of human rights, corruption, and misuse of power continue to prevail. In Central Asia, Uzbekistan and Kazakhstan are the two main political actors. Uzbekistan has a close and strong tie with Russia, and Kazakhstan has a large economy, with the highest GDP per capita in the region: \$8,501 in 2007.

The Economic Situation in Central Asia

The recent global economic crisis severely hit the economies of Central Asia as well. Kazakhstan's economy received a particularly harsh blow from the crisis together with the decline of the price of crude oil. Because of this, Kazakhstan's economic system—supported by enormous loans from abroad—collapsed. Consequently, many large banks defaulted, and real estate prices stagnated. Through this crisis, Kazakhstan came to realize the weakness in its economic structure, which relied solely on resource development. Based on this experience, Kazakhstan now seeks to diversify the scope of its economic activity to include information technology and manufacturing to achieve a more diverse and stable economy. In this regard, South Korea could help Kazakhstan achieve its economic goals by providing high technology, in which South Korea has a competitive edge, as part of reciprocity cooperation with Kazakhstan, which would provide South Korea with its natural resources.

As for Uzbekistan, although the economic situation is somewhat different from that of Kazakhstan, its economic goals are similar. Uzbekistan followed a closed economic policy since its independence in 1991, and, although its economy did not grow to the size of Kazakhstan's, it was hardly affected by the recent economic downturn due to the lack of openness in its monetary system and its backward economic structure. It is reported that, taking advantage of this opportunity, Uzbekistan seeks to gain economic power to be more influential in the region. To help Uzbekistan achieve this, South Korea could provide Uzbekistan with economic assistance in a similar manner to that for Kazakhstan, by transferring high technology such as information and manufacturing technologies to them.

South Korea could also increase its ODA to Kazakhstan and Uzbekistan to facilitate strengthening of its economic activity by improving its infrastructure and by subsidizing higher and vocational education.

VI. ANALYSIS OF SOUTH KOREA'S ENERGY DIPLOMACY AND ITS PROSPECTS AND RECOMMENDATIONS FOR ITS FUTURE

With all the aforementioned measures taken by South Korea, it is fair to say that South Korea has developed good relationships with Central Asian countries to serve its goal of energy diplomacy. However, South Korea should also be aware of the geopolitical factors that exist in the region, in order to conduct energy

diplomacy in an effective manner.

With regard to the pursuit of energy cooperation diplomacy, South Korea seems to be investing huge political capital under the leadership of President Lee. With his understanding of the importance of securing energy resources for South Korea, President Lee utilizes strong leadership to promote energy diplomacy. It was particularly important that, during his visit to Central Asia in May 2009, Lee successfully agreed to a number of memoranda of understanding on the rights of South Korea to develop natural resources. The president should also be credited for developing close and personal relationships with the leaders of Kazakhstan and Uzbekistan, which will help further accelerate energy cooperation between South Korea and Central Asian countries. President Lee also acknowledged the importance of the 320,000 ethnic Koreans living in Central Asia as key players in bridging South Korean and Central Asian cultures and in strengthening relations at the grass-roots level. This shows that President Lee recognizes that a holistic approach, spanning from high-level diplomacy to the grass-roots level, is an effective way of promoting South Korea's goal of building a strong energy cooperation network in Central Asia.

Meanwhile, South Korea should seek a "win-win" strategy that is mutually beneficial for both sides when conducting energy diplomacy. Bulat Sultanov, president of a strategy research center under the direct control of the Kazakh president, once said that it would be out-of-date diplomacy if South Korea seeks only to meet its own interests without considering the needs of Central Asia. Since the oil shocks in the 1970s, South Korea's foreign energy development had been geared towards gaining immediate results and seeking solely their interests, but not the interests of the suppliers. Resource-rich countries tend to seek to develop a domestic economy that will be sustainable even after their natural resources are used up. South Korea therefore should understand these needs when negotiating with Central Asia. In this regard, during the May 2009 visit President Lee rightly promised to provide funds and knowledge capital for economic growth and infrastructure development in Central Asian countries. It is also highly appropriate for South Korea, as one of the East Asian Tigers, to offer such assistance based on its own development experience.

As for the reinforcement of support activity for the energy development business in Central Asia, the South Korean government aims to collect and distribute energy-related information to Korean energy companies. The South Korean government is right to introduce this measure because it is essential for energy companies to successfully exploit energy resources in a volatile

business environment such as Central Asia. Central Asia is one region where the position of Korean energy companies is weak in the energy market, which makes them more vulnerable to state intervention and exploitation than their foreign competitors are. To make this measure more effective, the South Korean government should work to create an environment in Central Asia that is more favorable to South Korean investment in the region.

In this regard, the government's recent decision to open a consul general in Kyrgyzstan is the first step towards establishing the comprehensive political risk assessment and crisis response system in the region that would reinforce South Korea's energy development in Central Asia. Embassies and consul generals are expected to build a network to monitor political, economic, and social conditions in the region and to identify opportunities for energy development in those countries. In the future, South Korea should also increase the number of energy experts in the embassies and consul generals in Central Asia to further reinforce the infrastructure and quality of energy diplomacy.

That said, it is unclear how actively the South Korean energy enterprises seek to invest in a region with high political and economical volatility, which could seriously undermine their energy development business. Furthermore, while it is important for South Korea to sign energy deals with Central Asian countries, these energy deals often expect an involvement of private enterprises. For example, South Korea signed an agreement that includes a \$2.5 billion investment by South Korean companies in a new power plant in southern Kazakhstan. It is unclear whether private enterprises are willing to play a role in a region where civil society is underdeveloped and democratic institutions are weak, and corruption and misuse of power still exist.

With regard to geopolitical issues in Central Asia, many Central Asian countries still have authoritarian governments. In light of this, while increasing ties with Central Asia, the South Korean government should be careful about intervening in or criticizing the domestic politics of any Central Asian countries, especially on issues of human rights violations. Instead, its efforts would be better spent on expanding interchange and mutual cooperation in nonpolitical areas. In this regard, it is appropriate that South Korea focuses on promoting cultural exchanges with Central Asian countries through programs such as the Silk-Road Cultural Festival rather than pursuing political intervention such as spreading democracy. In addition, Central Asian countries seem to regard South Korea as a reliable and trustworthy partner. When the Korea-Central Asia Cooperation Forum was established under the Roh administration, representatives from

Central Asian countries expressed their approval of the forum on the grounds that “Koreans have neither imposed political propaganda, nor attempted to touch politically sensitive domestic agendas.” To this end, South Korea should continue to strengthen cooperation in nonpolitical areas.

Regarding Russia, its presence in Central Asia is certainly influential and important, so South Korea should develop a good relationship with the country. Turning our attention to the east of the country, Russia urgently wants to increase the production of energy in eastern Siberia and the Russian far east in the near future. Russia's economic growth is heavily dependent on its energy export, but Russia struggles to expand energy production at locations with major energy reserves such as eastern Siberia. Russia seeks a large amount of investment for building infrastructure for extracting and processing the reserves in the region. In this regard, South Korea could assist Russia by investing in the energy development initiatives in Siberia. In return for such assistance, South Korea could earn more leverage over Central Asia from Russia in terms of energy development in the region.

Moreover, China and Japan conduct active energy diplomacy in Central Asia as energy security has recently become a national priority for both countries, just as for South Korea. Thus it is important for South Korea to manage the competition with these countries strategically. However, it cannot be denied that the scale of Korean investment and economic assistance in the region is significantly smaller than that of China and Japan. This is a representation of the weaker ties South Korea has with Central Asia, compared with China and Japan. This could put South Korea in a more difficult position to compete against these economically influential countries over energy development. On the other hand, South Korea has been seeking to develop an international cooperation for energy matters. South Korea has proposed a three-party dialogue on energy issues among China, Japan, and South Korea. The purpose of such a dialogue is to manage and mediate competition between these energy-hungry countries. If the three countries were able to cooperate, it would create a new framework for more harmonious energy development in the region, which implies that energy security in South Korea and all of Northeast Asia could be improved. South Korea therefore should continue to play an active role in realizing a regional energy cooperation framework to achieve this.

VII. CONCLUSION

South Korea, which imports 97 percent of its total energy consumption, has actively conducted resource-seeking diplomacy in Central Asia. South Korea bases its policy on the belief that by the mid 21st century, Central Asian countries such as Kazakhstan, Uzbekistan, and Azerbaijan will become major energy suppliers, replacing the Middle East.

As analyzed above, the South Korean government seems to be taking the right approach to energy diplomacy in Central Asia. So far, the South Korean government has succeeded in creating a more politically and economically favorable environment to secure an energy supply from Central Asia and has also opened up opportunities for those who seek energy development in the region. It was especially effective that President Lee developed good personal relationships with the leaders of the region. This is important because these countries still tend to have authoritarian regimes, under which their leaders have more concentrated political power.

That said, there are several uncertainties that could undermine the effectiveness and efficacy of South Korea's energy diplomacy in the region, where political and economic volatility prevail. The scale of Korean investment and economic assistance in the region is also significantly smaller than that of China and Japan, which could put South Korea at a disadvantage when competing against these economically influential countries over energy development.

To this end, South Korea should take a holistic and strategic approach to meet its goals and overcome the difficulties associated with energy development in Central Asia by improving the comprehensive political risk assessment and crisis response system in the region and also by pursuing regional cooperation with Japan and China.

PART II: GOVERNANCE IN SOUTH KOREA



KOREAN MEDIA BIAS AND GOVERNMENT INTERVENTION IN MEDIA

By Ian Howard

I. INTRODUCTION

The power of the media in South Korea, in all forms, has a profound influence on the events that shape South Korea. There have been numerous instances of media bias, defined here as manipulation of the media to support a certain perception, cause, or agenda, particularly for the purpose of anti-Americanism or government opposition. The latest incarnation of this media influence manifested itself in the beef protests in 2008, which occurred because of false information and rumors that directly challenged the Korean government. While the topical issue was the opening of the Korean market to American beef, closer examination shows that the media was intentionally manipulated to stir sentiment against the incumbent president. The government has taken action to hold responsible those that purposely spread false information and has taken steps to improve media responsibility. However, these steps, including making government appointments to top broadcast positions, implementing the internet real-name system, and allowing newspapers to own shares of broadcast companies, are likely in the long term to have negative effects on Korea's right to free speech.

II. LEAD-UP TO THE PROTESTS

American beef imports were suspended in South Korea twice before: once in 2003 after an outbreak of mad cow disease in the United States, and again in 2007 when bone chips were found in shipments. American beef imports have been a point of contention between the United States and Korea in negotiating a free trade agreement. In April 2008, the two countries once again entered negotiations. The United States firmly stated that Congress would not ratify

the agreement if Korea did not lift its ban on beef. On the other hand, Korea demanded that imports be restricted to only certain parts of cattle under a certain age. On April 17, Assistant Agriculture Minister Min Dong-seok, the chief negotiator for the Korean side, said, “The two sides remain far divided and the gap is too deep,” and “We will continue the talks if there is the possibility for a deal. But if not, we will halt the talks.” However, the next day, April 18, it was announced that the two sides had come to an agreement in which Korea had given in to nearly all of the United States’ demands relating to beef. The suddenness of the agreement and the amount of concessions the Korean side gave engendered discontent among the populace for kowtowing to U.S. demands. Many believed that the sudden agreement was a gift to Bush for the April 18-19 summit meeting Lee Myung-bak attended at Camp David. It would be the first time for a Korean president to be invited to Camp David for a summit.

A television broadcast on April 29th, however, was the catalyst that set off mass demonstrations against Lee Myung-bak regarding the safety of American beef that nearly brought the Korean government to a standstill. MBC’s *PD Notebook*, an investigative journalism program, broadcast a special on the dangers of consuming American beef. Three days after the broadcasts, the beef protest, which lasted throughout the summer, began. It is said that these were the biggest protests in twenty years and that up to 2 million people participated. The streets leading up to the Blue House were barricaded with police buses and oiled shipping containers to keep protestors away, candlelight vigils eventually led to violence and arrests, and mass hysteria swept the country. Eventually, nine out of ten of Lee Myung-bak’s cabinet resigned, the Korean government was forced to renegotiate the FTA, and, according to the Korea Economic Research Institute, an estimated loss of roughly 3.75 trillion won, or \$2.97 billion, occurred.

PD Notebook Misinformation

The content of MBC’s *PD Notebook*, which ignited the beef protests, when examined closely exhibits the intent to misinform the public on the dangers of importing American beef. In this section, we will compare specific points of contention mentioned in the broadcast with contradicting facts.

“Downer cows,” or cows that are unable to stand or walk by themselves, were prominently featured in the program as carriers of bovine spongiform encephalopathy (BSE), more commonly known as mad cow disease. In the program, *PD Notebook*, while showing U.S. downer cows being forced to

slaughter, implied that BSE was the primary cause of downer cows and that the United States was still slaughtering them for human consumption. However, it has been determined that the original footage used was shot by the Humane Society for the purpose of showing animal cruelty, not mad cow disease. While BSE can cause cattle to be downer cows, there are numerous other reasons for the condition to occur, none of which were mentioned in the broadcast. This is analogous with saying all deaths are the result of heart attacks.

The program also cited the research of a Hallym University professor, Kim Yong-Sun, in its claim that Koreans are two to three times more susceptible to contract BSE from eating U.S. imported beef because of a gene that Koreans have. The gene in question, methionine-methionine, was claimed to be found in about 94 percent of Koreans, far more than in Americans, of whom about 37 percent have it. *PD Notebook* misinterpreted the ratio of these two percentages to mean that Koreans are two to three more times likely to contract BSE. Later, this was further misinterpreted to state that 94 percent of Koreans will contract the disease. Kim denied these claims, saying that his research was taken out of context and misunderstood.

Another claim made by the program was that Americans only ate beef aged twenty months or below and exported the rest to unsuspecting countries such as South Korea. This is most likely an allusion to the fact that the United States at the time imported only beef less than 20 months from Canada. A closer look at the facts shows that at the time there were far more cases of BSE in Canada than in the United States; the decision by the United States to *import* only beef that was less than 20 months is consistent with this fact, as beef that was 30 months or older was believed to be more susceptible to BSE. Since 1993, there have only been 3 cases of BSE in the United States, while there have been 17 cases in Canada. This does not indicate consumption percentages by the United States. In fact, American consumption of beef aged thirty months or older is quite common.

However, the most damning portion of the program was the segment dedicated to the late Aretha Vinson, an American woman who the program claimed was a victim of mad cow disease. During an interview, the victim's mother stated that the cause of her daughter's condition was Creutzfeldt-Jakob disease, or CJD, a rare disease that has no relation to eating beef. The subtitles, however, translated CJD as vCJD, a variant of the disease believed to be caused by eating beef. The producers of the show claimed that they believed the mother, someone not likely to misunderstand the details of her daughter's case, had confused the

two terms. The show also edited an interview with the victim's doctor in such a way that made it seem that there was no question that vCJD was the cause. It was later determined that Aretha Vinson had passed away from Wernicke's encephalopathy.

MBC's main defense against allegations of media misconduct was translation errors. Jeong Ji-min, the program's translator, took exception to this and made repeated claims that she had warned the production staff that the translations the producers wanted did not properly convey the meanings of the interviews. Primary instances of this were mistranslating CJD as vCJD during the Vinson segment and using "cow suspected of being infected with mad cow disease" instead of "downer cow" and "mad cow disease-infected cow" instead of "dairy cow." Jeong further claims that these were not mistranslations, but an intentional misrepresentation of the facts. The scenes of downer cows contrasted with the emotional footage of the then hospitalized Vinson quickly spread apocryphal rumors about the dangers of American beef and resulted in the mass demonstrations.

Further supporting the claim of media bias are emails prosecutors found belonging to one Kim Eun-hee, a scriptwriter for *PD Notebook*. In an email dated April 18, 2008, she states, "While I've been looking for an item for *PD Notebook*, I was looking for ways to release my indignation over the outcome of the general election." In another dated June 7, 2008, she states, "I really get into making a program one or two times a year. ...This year's mad cow disease was one of them. I think that was because anger over Lee Myung-bak was at a peak at that time after the general election. Because I'm still very interested in the 'fate of Lee,' I've spent a lot of time watching the candlelight vigils and looking at Agora on Daum [a popular online forum]."

Jeong's statements and Kim's emails indicate that there was a clear intention to distort facts, and prosecutors have indicted four producers and Kim for their roles. In addition, in 2009, an MBC union held an internal survey of senior staff that indicates just how susceptible the media can be. Of 81 respondents, 46 percent stated that coverage was partial, while only 12 percent believed it to be impartial.

However, a more puzzling question is, how can a single instance of poor and manipulative journalism ignite such public frenzy?

The Internet

While the catalyst for the beef protests was the broadcast of MBC's *PD Notebook*, the spread of misinformation was compounded by the internet. After the broadcast, online websites, forums, and chat rooms became flooded with opinions, rumors, and misconceptions in the guise of truth and facts. Unsubstantiated claims that numerous products, such as diapers, instant noodles, and cosmetics, might expose consumers to the risk of contracting mad cow disease because of possible beef by-products that might be found in their ingredients spread throughout the internet and engulfed the general populace in widespread fear. There was also a widely held belief that direct contact, either by a person or an item, would spread the disease.

Considering that nearly 77 percent of the population in Korea uses the internet, the importance and influence of the internet and the online Korean community cannot be understated. To demonstrate just how powerful the Korean online community is, South Korea's sixteenth president, Roh Moo-hyun, a leftist-leaning candidate, narrowly won the 2003 election due to online support. OhmyNews, a website where anyone can submit "news" articles, pioneered this new form of media, became an alternative source of information that challenged traditional sources of news and information, and is credited for successfully rallying young Koreans to vote for Roh Moo-hyun. In fact, in recognition of the importance of the internet community on his gaining the presidency, Roh Moo-hyun granted his first interview after winning the election to OhmyNews.

Roh Moo-hyun's victory demonstrated and legitimized the power that young Koreans held by embracing the internet. While Korean society and the world in general took notice of the significance of this new form of media, this newfound legitimacy engendered widespread participation that exacerbated the issue of misinformation, bias, hidden agendas, and opinions being mistaken for facts, therefore becoming a leading factor behind the panic and protests about importing American beef.

Regarding the beef riots, this newfound internet influence was in the form of the Agora forums on the Daum web portal. Agora was the online center of anti-government sentiment, where members could voice their criticisms of Lee and his policies. Beef protests were also often organized through Agora. So influential were these forums that they were able to record hit counts in the billions and gather 1.4 million signatures for the impeachment of Lee.

III. HISTORY

However, this still fails to explain how a single program and the popularity of the internet could cause such a failure in truth. For this, an examination of traditional news media must be undertaken to understand how the new online media has risen to such heights of popularity.

Throughout the twentieth century, Korea's traditional media had been plagued by government censorship and control. All through modern Korean history, from the Japanese occupation of the Korean peninsula, when news dailies were constantly at odds with Japanese censors, until 1941, when the occupation government outlawed all Korean language publications, and until even today, the Korean media is constantly inhibited from conducting independent news coverage. After the defeat of the Japanese in World War II, the period of the United States Army Military Government in Korea (USAMGIK) saw a resurgence of newspapers, periodicals, and radio. However, even under this American-led administration, the media was covertly controlled to minimize leftist or communist influence over the South Korean population. This was achieved with the ratification of Ordinance 88 in May 1946, a measure under which newspapers and periodicals must have a license before being able to publish.

Despite the suppression of Korean media by Japanese powers, it is arguable that Korea faced just as much opposition to free media from its own government, becoming a casualty of political infighting and totalitarian control as the nation made its painful journey to becoming a democratic nation. South Korea's first president, Syngman Rhee, despite guaranteeing freedom of speech according to Korea's constitution, modeled after the American constitution, ultimately decided to continue enforcing Ordinance 88 to restrict leftist newspapers and periodicals. Rhee further restricted the media as he saw them as a threat to his power, including shutting down the *Kyunghyang* newspaper, the main opposition publication, and other moderate newspapers. He also issued a set of guidelines to publishers in order to ensure that certain articles would not be published. Violating these guidelines or failing to have the proper license led to many arrests during Rhee's administration.

After Park Chung-hee's government takeover in 1961, 49 out of 64 dailies were shut down, therefore increasing the influence of the state's official news agencies. Under such measures, the government was able to encourage an atmosphere of self-censorship over the South Korean media. In 1963, Park

eliminated the media licensing system in favor of a registration system that better allowed the government to keep track of publishing and broadcasting companies and organizations. After 1970, Park implemented the Declaration of the State of National Emergency and the Martial Law Decree, which banned all assemblies and demonstrations for political activities, speeches, publications, press, and broadcasts, further eliminating the press's ability to provide unbiased news coverage. After Park's Yushin Constitution was declared in 1972, press freedom was further marginalized, as the constitution declared that freedom of speech could be restricted if deemed necessary. This allowed Park to later implement the Emergency Measure, which banned all publications and distributions of media in relation to the National Federation of Democratic Youths and Students, a group Park's government declared illegal for being anti-establishment and controlled by North Korea. However, Park was able to manipulate the media through indirect means as well. This is demonstrated by the government's retaliation in 1975 against *Dong-A* newspaper for government criticism, by pressuring businesses to withdraw their advertising contracts with the daily. Park's representatives sent to these businesses were often from the Korean Central Intelligence Agency (KCIA).

The Fifth Republic of Chun Doo-hwan, for the most part, continued the anti-media policies of his predecessor. His constitution also guaranteed freedom of speech and publication, but these "freedoms" were limited due to a provision that stated that the press was liable for damages if someone's reputation was violated. In addition, they were also liable if they violated social ethics or morals. Because of this possibility of being sued for damages, there was very little criticism against government officials and influential people. The media in Chun's administration were also subject to "guidelines" that limited the reporting they could do. In addition, independent broadcasting companies were absorbed into the state's official news agency, many provincial papers were shut down, central papers were prohibited from having local correspondents permanently placed outside of Seoul, and KBS, the government broadcast station, absorbed two independent broadcasting stations. The Basic Press Act of 1980 further gave the government various reasons to shut down media outlets. In order to promote government support within the media, the state set the professional qualifications for reporters and journalists. Enforcement of these rules were potentially quite violent. As a result of the military regimes of both Park and Chun, in 1987 there were only 32 daily newspapers in South Korea, and hundreds of journalists resigned, were jailed, or were forced out of their positions.

It was not until after 1988, when Roh Tae-woo, South Korea's first democratically elected leader, came to power that media reforms were put into effect to undo the oppression of newspaper and broadcast companies. Although traditional Korean media now operates in an environment of free speech, damage had already been done in that public perception of the press is that newspapers and broadcasts are government controlled and cannot be trusted. The feeling of betrayal the people felt against the government and media can best be exemplified by the Gwangju Massacre, in which Chun deployed paratroopers and regular troops to quell a rebellion. Official estimates claim 200 deaths, but other sources place the number between one and two thousand. While rumors abounded, it was not until the media reforms that the general populace became aware that the massacre had occurred. Most Koreans felt lied to and manipulated by the media and government and further fomented a distrust of traditional media that lasts to this day.

In addition to media suppression, the early Korean regimes, especially those of Park and Chun, resulted in another phenomenon that further bred distrust of traditional Korean media: media conglomerates. Due to the repressive policies on the media during Park and Chun's regimes, media companies evolved from small businesses to monopolies that today wield great power.

Because the government often shut down newspapers and broadcast stations for dissenting opinions from the 1960s to the 1980s, the majority of those companies that remained were, more often than not, those that supported the military regimes of the time. In addition, buyouts and absorption of independent and smaller companies by either the government or companies that supported the government often occurred. To this day, there is widespread cross-ownership within broadcasting, periodicals, and newspapers. The end result was an environment in which very few media conglomerates, most of which supported the government, ruled the Korean media industry. In fact, members of the private media corporations were often rewarded by the government in the forms of interest-free loans, tax favors, political offices, bureaucratic roles, and government positions. They also were given access to public funds for overseas travel, housing loans, money for their children's education, and the more traditional forms of graft, cash and gifts. Therefore, journalists in the larger media conglomerates were quite wealthy, influential, and often accused of being in the pockets of government officials and focusing on "news" that was to their own monetary benefit. In addition, because the media industry was ruled by a few powerful media conglomerates, they were able to take advantage of their market strength to earn high incomes from subscriptions and especially

advertising. This further embedded into Korean society a permanence of a restricted media, in which only a few small companies could influence the majority of the population while using their monopoly power to prevent smaller companies from entering the market. Within this environment, there was little incentive for these conglomerates to challenge government restrictions, for doing so would reduce their own economic and political advantages.

Looking upon the history of modern Korean media, it comes as no surprise that there is still a latent distrust of traditional media that permeates Korean society to this day; the media is widely believed to be corrupt and in the hands of government or big business. For all intents and purposes, free speech has existed only since 1987—just 22 years compared to the repressed or government-controlled media that existed since Japanese colonial rule. In light of this, it is only natural that internet news sites were embraced as they were, despite their lack of journalistic credentials, distortions of truth, and tendency to substitute opinion for fact. Many people viewed online sites such as Agora as an alternative source of information free from the constraints of government and business control.

Some may question *PD Notebook*'s influence over the public, as it is a member of one of these distrusted conglomerates. However, *PD Notebook* had two advantages in this regard. The first was that in 2005, *PD Notebook* aired a show questioning the veracity of the work done by Hwang Woo-suk, a scientist who claimed breakthroughs in human stem cell research. At the time, Hwang was being portrayed as a national hero and was a symbol of Korean patriotism. *PD Notebook* was vilified for being unpatriotic by questioning Hwang's integrity and was forced off the air for several weeks. Eventually, it was realized that Hwang fabricated the majority of his research, and *PD Notebook* was vindicated. This gave the program a reputation for accuracy and honesty. The second advantage was that in the media environment today, any report against the government is accepted more readily than reports supporting the government. This perfect storm of circumstances allowed *PD Notebook*'s broadcast to be far more influential than it should have been. Within this environment, it should come as no surprise that the combination of *PD Notebook* and the online community lead to the widespread misinformation that resulted in the beef riots.

IV. REPERCUSSIONS

Although the beef riots endangered the stability of the nation, the long-term negative effects on South Korea's foreign relations may prove more damaging to the country. The beef riots that paralyzed Seoul forced Lee Myung-bak to renegotiate the already agreed upon KORUS FTA. This set a dangerous precedent, as the renegotiation process was understood to have been brought about by the government's inability to communicate with an uninformed public and characterized the South Korean government as unable to honor its contractual agreements. This damaged the credibility of South Korea and may have put the country at a disadvantage for all future negotiations. To emphasize this point, the Obama administration will likely call for another renegotiation of KORUS FTA in order to make it more favorable to U.S. interests and it will have the precedent of South Korea's renegotiation on its side. In other words, South Korea may have given up a long-term advantage for a short-term gain.

Economically, these protests have resulted in nearly \$3 billion in damages from loss of sales, damages to private and public property, diversion of public funds to handle the protests, and losses resulting from the inability of the government to implement cost-cutting programs. However, the damages go beyond these figures as the beef protests have caused investors, foreign and domestic, to lose confidence in the South Korean market. Soon after the protests, a survey found that out of 1,000 foreign companies investing in Korea, 70 percent said they were reluctant to continue investing in Korea. This lack of investor confidence could cost the country billions in unrealized gains, and it could take years before they can regain enough credibility to bring back old investors and entice new ones to the Korean market.

V. COUNTERMEASURES

Soon after the riots, the Lee administration began taking steps to regulate the media to curb its influence. The two most significant changes have been to replace top leadership of several broadcast stations with people friendly to the Lee government and to implement the internet real-name system. While these measures may help to curb media abuse in the short run, government intervention will only hinder the Korean media's development towards becoming a more responsible institution.

To regain control of the media, the Lee government took steps to take control

of major broadcast stations, in particular MBC and KBS, leading stations that were especially critical of the government. In August 2008, the Broadcasting and Communications Commission (BCC) removed the KBS head, Chung Yeon-ju, for poor management and replaced him with Kim In-gyu. Choi Si-jung, head of the BCC, was widely considered to be Lee's mentor and was also Lee's campaign advisor. Kim In-gyu was an aide to Lee during his presidential campaign. Gu Bon-hong, a former Lee strategist, was appointed to the Yonhap Television News station (YTN). He later stepped down due to protest within YTN. Lee Myung-rong, a Lee campaign advisor, was appointed to head SkyLife, a digital satellite broadcaster. Chung Kuk-lok, a Lee campaign aide, was appointed to Arirang TV, an English-language channel targeting foreign audiences. Yang Hwee-boo, who assisted Lee during his campaign, was appointed to the Korean Broadcasting Advertising Corporation (KOBACO). This appointment is especially important as KOBACO sells advertising time on behalf of broadcasters. In short, businesses that are not supportive of Lee may find their advertising and marketing abilities compromised, allowing for strong government influence over media and business.

As for MBC, Ohm Ki-young, president and CEO, tendered his resignation in December 2009 after failing to satisfy the Foundation for Broadcast Culture, a 70 percent stakeholder in MBC, with a reform plan meant to improve fairness and accuracy in MBC's news coverage. The head of the Foundation for Broadcast Culture is Kim U-ryong, a former media advisor to Lee. In the end, Ohm's resignation was not accepted. According to the Yonhap News Agency, an industry insider stated that there was an "understanding" between the government and Ohm. The details of that understanding have yet to be made public.

While it is true that the failure of the Korean media to maintain accuracy and fairness resulted in the near paralysis of the Korean government and that measures need to be taken to prevent a reoccurrence of such a failure, the government's actions in replacing the heads of these broadcast stations will likely hurt Korea's freedom of speech in the long run despite any short-run gains in journalistic integrity. The speed and forcefulness of these replacements only support the notion that Korea has yet to realize a free media outside the influence of government. While previous administrations have also manipulated media appointments to their advantage, because Lee did so soon after the riots, accusations of government control and opposition have become stronger; many fear Lee's policies are a backward step towards the policies of Park Chung-hee and Chun Doo-hwan. While the comparison seems exaggerated, Lee's

appointments are more than likely to result in inaccurate and biased news in favor of the government. In addition, the practice of appointing media heads only encourages and solidifies media inaccuracy and bias regardless of the politics of future administrations.

Another policy that the Lee administration put into effect earlier this year was the internet real-name system, in which the public must register their real name and identification number for any website that has a readership of over 100,000 people. This was intended to rein in the influence of the internet by holding responsible those who intentionally spread false rumors, misinformation, and slander. Those found guilty face no more than two years in jail and a fine of up to 10 million won. It was the result of a BCC-originated amendment to the Information Act.

The most famous offender was Park Dae-sung, also known as Minerva. Park regularly posted on Agora. He regularly made economic forecasts, including the fall of Lehman Brothers, which came true, making him a public sensation and gaining him a wide following. Despite his being an anonymous poster on an internet board, his posts were so influential that more of the public found him to be a better source of information than the government in economic matters. After his arrest, it was discovered that he was unemployed and had no more than a two-year degree.

The biggest difficulty with this new regulation is that it inhibits individuals' free speech regardless of their intent and can be abused by the government, which would like to silence opinions incongruent with the administration's. This may seem an exaggeration, but the fact that the government has shown its willingness to arrest Park has demonstrated its intent to influence speech on the internet. The real-name system will make it easier for them to do so. Anonymity encourages free speech, and to make mandatory the registration of names and ID numbers would be equivalent to government monitoring, further inflaming opposition and public confidence.

A third measure taken by the Lee administration is the passage of media reforms allowing cross-ownership of broadcast companies by newspaper companies and private firms. In the past, in order to minimize media control, the two mediums were kept separate in order to reduce excessive media control. However, in legalizing cross-ownership, the administration claims that the increased competition will result in more channels and more balance.

This very well may be true. However, there is just as much a chance that this will also lead to media bias in favor of the government. Cross-ownership is likely to support Lee's conservative government, as most broadcast stations are considered liberal and anti-Lee, while the major newspapers are considered conservative. Coupled with Lee's appointments to the broadcast companies, this gives the government much influence over the media.

Lastly, the indictment of the five *PD Notebook* staff members is also dangerous to the health of Korea's right to free speech. While there is little doubt that facts were manipulated, arresting reporters inhibits media's role as a government watchdog.

VI. CONCLUSION

The Lee administration, in attempting to rectify media abuse, has put into place measures that will only solidify media bias and has set a dangerous precedent for future administrations. The root of the problem stems from the lack of public trust in Korea's media, and government intervention will only legitimize claims that Korea does not have a free press. The influence of the internet is another manifestation of the public's lack of confidence in traditional media, as illustrated by Minerva's ability to influence Korea's economics. Therefore, if the government's goal truly is to shape a free press, it should minimize its presence from the media industry. On the other hand, journalistic integrity remains an issue for which no clear answer exists. Rather, Korean media needs more time to develop and evolve. The beef protests, while damaging to Korea's economy and reputation, have exposed the dangers of media bias. While it is the people's right and responsibility to protest their government if they feel their needs are not being addressed, it is the responsibility of the media to provide the public with accurate facts that they can base their own opinions and actions on. To that extent, the beef protests may have been a necessity, as change rarely occurs until after a catastrophe. To support the Korean media's development towards journalistic integrity, it must be kept free of government intervention. Unfortunately, Lee's policies may have only prolonged the journey to a free media.

FINDING THE PUBLIC VOICE IN KOREA'S POLITICAL PARTY SYSTEM

By Kee Hoon Chung

I. INTRODUCTION

More than 200,000 candlelight vigil protesters and 1,840 NGOs paralyzed the streets around Seoul City Hall from May to August 2008. In those months, the candlelight from the protests illuminated the streets at night and could not be extinguished. From an aerial view, the candlelight spread as protesters spilled over to adjacent streets, and the inevitable clashes with the police escalated as both sides failed to find a nonviolent resolution. Protesters held up signs opposing President Lee's policies, some of them resorting to personal attacks such as "Evil MB (Myung-bak) Policies." NGOs and protesters demanded renegotiation of U.S. beef imports and opposed the increase in private education options and the privatization of government-owned companies. Added to this laundry list of opposition was the group of NGOs opposing the Grand Canal Project, a project spearheaded by President Lee despite some 60 percent opposition from the South Korean public. Like other NGOs, these NGOs went outside the established political framework and participated in the protest to advance their cause.

Less than a year later, the Media Law Revision spearheaded by the President's Grand National Party (GNP) illustrated yet another case in which political opposition went outside the political framework to advance their cause. To prevent the passage of this law, opposition party members snuck into the National Assembly at midnight. Dressed in casual clothing, the opposition party members took turns barricading the entrance to the National Assembly. Eventually, when the GNP members entered the Assembly, the clash between the two sides was unavoidable. From an outsider's perspective, one might not have been able to distinguish the national assemblymen from the angry protesters. And just as with the Grand Canal Project, approximately 60 percent of the public opposed the revision.

In a liberal democracy such as Korea, one might expect strong public disapproval to be addressed through the institutionalized political framework. Indeed, one of the primary indicators of a liberal democracy is a political party system that effectively represents a wide spectrum of constituents' interests. Moreover, such reflection and representation is expected in a parliamentary system such as Korea's, which encourages the establishment of numerous parties to represent broader interest of the constituents and prevent one-party domination. In essence, such a system, which revolves around legislative compromises and negotiations, ensures that the public interest is mirrored and represented at the National Assembly.

As demonstrated by the two cases, however, such representation is seemingly ineffective. In both cases, the political opposition went outside the political framework and engaged in dramatic measures of explosive protest and barricading against the ruling party—the GNP. The clash illustrated that Korea's political system is not effective at representing public interest; this paper will focus on the reasons for that ineffectiveness. While pundits and scholars will posit several explanations, this paper, using the two cases, argues that the power imbalance within the National Assembly in fact creates more incentives to focus on party interest, not the interests of the public. To demonstrate this argument, the paper will first provide the historical context for the origin of the problem, followed by an analysis of the two cases, and conclude with policy recommendations.

II. HISTORY

According to political scientist Lee Yun-kyoung, Korea's current state of ineffective political parties began during the days of the authoritarian President Chun Doo-hwan. During this time, political parties did not advance the interest of the citizens but provided legitimacy and continuity to the authoritarian regime. For instance, the intelligence agency fabricated the existence of an opposition party just to advance such a cause. Under such a manipulative political environment, political opposition at the party level was difficult to form. Instead, political individuals such as Kim Dae-jung and Kim Young-sam led the dissent. Ineffectiveness of the political party system remained, even after the democratization in 1987, as Kim Dae-jung and Kim Young-sam repeated the patterns of creating, merging, and splitting parties to serve their personal political agendas. During this span, parties were used as political capital and as opportunities to fulfill the political ambition of their leaders. As the result,

political parties were ephemeral and unstable, and the political party system could not institutionalize political procedures to resolve social and political problems.

After cycles of merging and splitting political parties, the GNP was founded in 1997 by merging various conservative parties. In 2000, it became the largest political party, and it has retained that status except in 2004, when it briefly lost that status in the parliamentary election, before regaining it next year. The GNP's majority status throughout this decade put the opposition parties in position to naturally collaborate and counter the GNP, with limited success. Today, the GNP holds the majority in the National Assembly with 169 of 299 seats.

III. THE GRAND CANAL PROJECT

Background

The Grand Canal Project was President Lee's main campaign pledge before his presidency in February 2008. It entailed creating a shipping route from Seoul to Pusan by connecting major rivers. The project would create more than 500,000 jobs, boost Korean export companies' competitive edge by reducing the cost of transporting goods to other cities, and be a long-term tourist attraction. In order to strengthen his credentials, Lee in October 2006 met with the director of Germany's RMD canal and other experts to discuss the economic profitability and environmental sustainability of a similar canal project in Korea.

Before the presidential election, Lee, as the GNP's presidential candidate, faced opposition from 180 environmental and religious NGOs that demanded an open policy forum to discuss the canal project in depth and verify its environmental sustainability. Due to effective counterstrategy from the GNP, however, the activism did not bear any fruit. During this period, GNP member Chung Kap-yun claimed the NGOs violated election rules by defaming then-candidate Lee. Regardless of the validity of the claim, the charge forced the NGOs to focus and redirect their time and resources to clarifying the charge instead of opposing and investigating the project. Furthermore, the morale of the NGOs was shaken when Chung threatened to rescind the allocated government budget from 47 of the 180 NGOs under charges of misappropriation of funds. As a result, the GNP effectively subdued the NGOs through legal and financial arm twisting and prevented an opportunity for meaningful discussions within a nonviolent setting.

After the election, however, the NGOs gained momentum through a union of college professors who opposed the Grand Canal Project on grounds of economic inefficiency. The group was comprised of 2,466 professors from 115 colleges. It asserted that the Lee administration must approach the issue more rationally and consider the negative economic impact on the public and tremendous benefits to only the construction industry. Opposition further materialized when Seoul National University (SNU) professors formed their own coalition against the project. The fact that the elites sided with the NGOs and not the administration increased the NGOs' legitimacy. Furthermore, support by the elites restored NGOs from the negative image they suffered during the presidential election and freed them from the general conception by moderates that the NGOs' activities were solely politically motivated. The Lee administration was especially taken aback by the elites' support of the NGOs, as it was widely known that most of the elites, especially those from SNU, had supported the president during the campaign.

The challenge to the Grand Canal Project further gained momentum from a working paper series from Kim Byung-ki from OhmyNews and Choi Jin-sup from the Eco Horizon Institute, who had traveled to Germany and met with the same individuals with whom President Lee had met during his visit. They held discussions with experts such as Manfred Krause, who was in charge of MDK, Germany's biggest environmental group, and was also the director of the river project in BUND as well as the vice director of Germany's federal waterway, regarding the feasibility and profitability of the canal. From the discussions, Kim and Choi gathered concrete economic data to refute President Lee's argument that the Grand Canal Project was economically profitable and environmentally sustainable.

Kim and Choi contended the Grand Canal would permanently damage the environment and become an economic loss. According to their report, Germany's RMD had resulted in a deterioration of cultivable land and decrease in farmable land. The report indicated the demand for use of the canal has been decreasing in Europe (from 4% of all goods transported in 1995 to 3.5% in 2005) due to slow speed, which contradicted a key Lee administration assertion. The claim that 500,000 jobs would be created was also unlikely. Even if some jobs were created, they would be construction-related jobs, which few among the educated class desired. In fact, many of those jobs were already vacant in Korea, resulting in firms hiring immigrant workers. At the expense of \$12 billion, the project was neither economically feasible nor profitable. Finally, the report added that the RMD canal was created not for economic reasons but for

political reasons—the result of successful lobbying efforts by the industry.

During an interview with Kim Byung-ki, he noted his report did not attract much attention before the election. According to Kim, it gained more attention after the election as the overall level of attention and scrutiny on the project increased. According to Gallup polls, the professors' union's opposition and the sluggish economy triggered a sharp increase in the public's opposition. Ha Seung-chang, chairperson of the Coalition of Civil Society Organizations, in an interview said the mounting scientific evidence against President Lee's logic of positive economic output kept the momentum growing, which led to the eruption of protests. Eventually, the coalition base expanded and created a larger coalition called the Committee to Oppose the Grand Canal Project, which collaborated with the People's Committee on Preventing Mad Cow Disease and spearheaded one of the largest-scale candlelight vigils in Korea's history.

As the magnitude of the activism reached an apex, the NGOs demanded a list of concessions by June 21 from the president, including a public announcement to cancel the project. If Lee did not comply, the NGOs threatened to heighten the intensity of the protests. President Lee ultimately conceded, announcing that "if citizens didn't want the Grand Canal Project," he would stop pursuing it. Two hours after the announcement, Lee rescinded the \$3 million previously earmarked for research on connecting the different rivers. Moreover, he abolished the subcommittee on promoting Grand Canal Project under the Ministry of Land. He also replaced five staff members identified by the NGOs as key players advocating the project.

Shortly after these concessions, canal-related stocks plummeted, signaling the demise of the project. As *Dong-A Ilbo* reporter Choi Byung-chul reported, "Most media outlets assume that the Grand Canal Project is now completely abolished." Although the protest ended in mid-August 2008, public opinion remained strongly against the project into 2009. Public opinion on the Grand Canal Project changed somewhat during the course of the events. The opposition was low before the election, at approximately 35-40 percent. After the election, however, the opposition rapidly increased, and remained at approximately 60 percent, with some media outlets claiming close to 70 percent opposition. The GNP eventually dropped the Grand Canal Project from its campaign agenda, and shortly after, President Lee again announced he would not pursue the project during his presidency.

Analysis

The main opposition party, the Democratic Party, played a marginalized to nonexistent role in addressing public opposition to the Grand Canal Project at the legislative level. If the opposition parties desired to prevent the Grand Canal Project, three strategies could have been employed within the National Assembly. First, the opposition parties could have limited, amended, or nullified the project's allocated budget. Second, they could have opened an investigative committee to examine the project and taken necessary measures to delay or cancel the implementation. Third, the parties could have passed a resolution opposing continuation of the project to pressure President Lee through disagreement. However, these outcomes were unlikely as the main opposition Democratic Party had only 87 seats in the National Assembly, which did not allow them sufficient political leverage. Even if the Democratic Party somehow managed to persuade all opposition parties, that would total 130 votes, which was still 39 votes less than the 169 seats the Grand National Party possessed. However, even that was an arduous task, as the Pro Park Party and the Progressive Freedom Party, holding 8 seats and 17 seats respectively, aligned more closely with the GNP in their ideologies. Essentially, the imbalance of power between the ruling party and the opposition parties limited the scope for restricting the implementation of the Grand Canal Project.

Even if the opposing parties somehow persuaded a number of the GNP members, the complex nature of budget planning posed further challenges to employing the aforementioned strategies. In the Korean parliament, budget items are not always specified by the project but by sector and industry. Therefore, one would not see an item labeled "the Grand Canal Project" in the budget. Instead, the \$15 billion estimated for the Grand Canal Project would be dispersed to industries related to construction, environment, and administrative functions. In short, it would be almost impossible for the opposing parties to identify and act against each and every budget item related to the project. Even if the opposition parties could somehow have reduced a significant amount of the budget related to the Grand Canal Project, the executive branch's flexible discretionary budget spending would have enabled it to offset the impact. For example, under the construction item, the executive branch could allocate resources from other construction-related items, or even from other budget items.

The absence of tactical maneuvers such as the filibuster system further escalates the effect of the power imbalance in the National Assembly. For example, in the

United States, even if the opposition party is outnumbered by the ruling party in the Senate, as long as the party can muster 41 votes out of 100, it can avoid cloture and employ a filibuster that can perpetually delay voting. Although the opposition party may not be able to nullify that policy, it can force some compromise through such tactics.

With the public strongly opposed to the project, one may assume that the GNP members would feel pressured to respond, therefore aligning with the opposition party to some degree. However, the GNP members appeared unresponsive to the magnitude of the public opinion. Before the election, it was understandable for the GNP members to pass the budget on the Grand Canal Project, because the public opinion on the project before the election was even, with some polling sites even showing a slight favoring of the project. After the election, however, the public opinion against the project rapidly intensified, reaching its apex around June 2008, when some polls showed as high as 70 percent opposing the project, and even the conservative newspaper outlets such as *Chosun Ilbo* reported approximately 60 percent opposition. Despite rising opposition, the GNP members remained inactive in taking any kind of measure to oppose the project.

It is understandable that the GNP members refrained from taking a drastic legislative measure of completely abandoning the project, such as opening an investigative committee on the project, passing a resolution opposing the project, or examining the appropriate usage of the budget. While public opinion is important, national assemblymen also have an obligation to the party, and therefore cannot completely ignore the party's interest. However, the GNP members completely abandoned any legislative measure that necessarily didn't prevent the project, such as passing a resolution to open a forum to address relevant questions. Such passage had no binding effect on the implementation of the policy, and appeared as the optimal choice for the GNP members faced with dilemma of balancing the public and party's interests. However, that did not happen, as the GNP members stuck to their party interests. Essentially, public opinion appeared irrelevant to the GNP, and therefore, the power imbalance within the National Assembly also remained fixed.

In this context, strategizing to confront the Lee administration directly rather than through the existing political framework was a more efficient and effective tool. Therefore the NGOs, to advance their interests, engaged in protests before and after the election instead of reaching out to the political parties. Before the election, the NGOs demanded President Lee to participate in an open policy

forum to verify the environmental sustainability of the project, instead of going through the party channel to advocate for legislation that demanded a rigorous check on environmental sustainability. After the election, they continued to advocate independently, as they expanded their coalition base by framing their argument more in economic terms than environmental ones. Both before and after the election, no signs indicated that the NGOs reached out to the political parties to advance their interests. In the same periods, the Democratic Party protested with the NGOs, as the scope of their activism within the Assembly was limited by the GNP's dominance. Overall, both the NGOs and the opposition parties protested because it presented a greater probability for success than the existing political framework.

IV. THE MEDIA LAW REVISION

Background

The Media Law Revision was introduced by the GNP on December 5, 2008, in the 279th National Assembly. After that, public opinion remained fixed, with polls showing strong opposition ratings of 55 to 60 percent, which remained in that range until it passed on July 22, 2009. The GNP emphasized that the revision eased cross-ownership restrictions between television stations and newspapers. If it was passed, major newspapers such as *Chosun*, *Dong-A*, and *JoongAng Ilbos* would be able to own up to 30 percent of the television stations. The revision also encouraged higher foreign ownership, as foreigners would be allowed to own up to 60 percent of Korea's television stations. It abolished limits imposed on corporations owning satellite channels, and allowed corporations to own up to 30 percent of terrestrial channels as well. The GNP claimed the Media Law Revision would create more than 100,000 jobs and enhance the quality of Korea's media industry.

However, opposition parties strongly disagreed with the GNP, arguing that the revision strengthened and extended the conservative influence on not only newspapers, but television as well. Indeed, the revision would allow the three largest and most conservative newspaper companies—*Chosun*, *Dong-A*, and *JoongAng Ilbos*—to increase their influence in television. Furthermore, opponents asserted that corporate ownership of television stations would reduce broadcasting independence and neutrality, because television stations owned by corporations would be subject to the influence of those corporations. Opposition parties were skeptical about the promised positive economic benefits,

questioning the number of jobs that would be created through the revision, since corporations would be more likely to consolidate their businesses.

The inter-party disagreement led to a series of clashes. On December 20, 2008, the opposition parties physically occupied and locked the Cultural Broadcast Communication Committee (CBCC) to prevent the GNP from entering and voting on the revision. The CBCC is one of the two standing committees by which the revision has to be approved before advancing to the National Assembly floor. However, the opposition parties, outnumbered 16 to 8 by the GNP in the committee, knew the revision would automatically pass and resorted to physical occupation.

Unable to process the revision, the GNP requested National Assembly speaker Kim Hyong-o to bypass the standing committees and directly advance the legislation at his discretion. After much debate, Kim announced he would not bypass the standing committees for a direct vote until January 8, 2009. On that day, opposition parties again occupied the National Assembly. In March 2009, the opposition parties and the GNP eventually reached a compromise and formed a bipartisan panel to further investigate the revision. However, the panel discussions had limited success, as the committee members, including NGO representatives, retained strict adherence to their political ideologies. Competition between conservatives and progressives defined the revision from the beginning to end. As a result, the committee published two separate reports.

The clash escalated as each side blamed the other for not keeping its agreed commitments. The GNP claimed the opposition parties agreed to vote in the standing committee after the panel. Opposition parties claimed that since the investigative committee was divided and polarized, detailed public polling must be conducted to further assess public opinion on the revisions. The GNP disagreed, however. GNP National Assemblywoman Na Kyung-won, secretary of the CCBC, claimed the citizens did not understand the complexity of the issue, and in-depth polling would therefore have limited utility.

Both parties sharply disagreed, and ultimately, with only eleven GNP members present, the report published by the GNP from the bipartisan panel passed on June 25, 2009. The revision was now up for vote on the National Assembly floor. Again, this prompted opposition parties to take over and barricade the National Assembly. Attempts at negotiations were made but failed to materialize. Finally, on July 22, 2009, when the assembly was not barricaded as the result of resuming talks between the GNP and the opposition parties, 161 GNP members

covertly entered and locked the National Assembly. They passed the revision without any opposition party members present. Such a voting procedure was subject to constitutional procedural controversy and criticism, as the opposition parties claimed the GNP members voted while the other assemblymen were not present. The opposition brought the case to the judicial court, which eventually ruled and validated the legislation.

Media Action, a group of NGOs opposing the Media Law Revision, was comprised of 48 NGOs. NGOs opposing the revision could not mobilize large-scale protests to influence the GNP. This was mainly because their ability to organize and mobilize large protests was severely curtailed following the Lee administration's successive measures to limit the scope of NGO activities after the protests against the Grand Canal Project. During the Media Law Revision, the Lee administration took measures to prevent protests in central Seoul, where the protests would have had the greatest impact. Ever since the protests against the Grand Canal, police officers had been placed to guard these areas. Although their presence did not necessarily prevent protests, nor had they the legal right to do so, the preemptive measure reduced the NGOs' ability to organize and protest. However, one of the most crucial measures implemented by the Lee administration was to take advantage of the law that required NGOs to register at least 48 hours in advance of a protest. The Lee administration deliberately kept the protest registration full even when there were no protests planned. The administration banned night protests, further decreasing the latitude and possibility of candlelight vigils. Therefore, Media Action relied on alternative strategies that were less effective in educating the audience and collaborating with opposition parties.

The complexity of the issue also made it difficult for Media Action to advocate and relate to the citizens. Media Action argued that the revision would destroy journalistic and broadcasting neutrality by allowing daily newspapers to own television stations. However, one could also argue that the increase in foreign ownership of broadcasting stations could actually promote neutrality. The complexity of the issue prevented NGOs from building the kind of momentum they did when they opposed the Grand Canal Project.

The Grand Canal Project case showed that citizens are likely to be more interested or involved in issues that pertain to their daily life. In the Media Law Revision case, although economic implications were at stake, the stake was not as tangible to citizens' daily lives because the revision had no relationship to actual taxes paid. Furthermore, Media Action emphasized the political aspect—

the retrenchment of democracy—which was not aligned with the public's stronger reaction to issues relating to their daily lives.

Analysis

As with the Grand Canal Project, even though 60 percent of the public opposed the Media Law Revision, the opposition parties lacked political leverage to represent the public opposition at the National Assembly. In both subcommittees, including the Cultural and Broadcast Communication Committee (CCBC), the GNP held more votes than the opposition votes combined. In the general assembly, it was the same story; the GNP controlled the assembly with 169 out of 299 seats, which meant legislative compromise was not a requirement. Although the Progressive Freedom Party, with 16 seats, announced its disapproval of the revision, that still left the vote count unchanged. Moreover, without any legislative maneuver such as the filibuster, the GNP really had no incentive to harvest any legislative compromise with the opposition parties. As the last resort, the opposition parties had no choice but to engage in disruptive behaviors such as locking and barricading the National Assembly to prevent the revision from passing. The opposition parties resorted to such behavior because it was the only available strategy with the possibility of any success. In fact, such behavior led to brief moments of success, as it delayed the revision from rapidly advancing to the National Assembly. Originally, the GNP desired to advance the revision before January 2010. It also led to the creation of a bipartisan panel examining the revision, although the panel was ineffective in reducing the ideological differences between the two sides. These successes, however, failed to change the final outcome or create a compromise on the contents of the bill.

The strong public opposition, much as with the Grand Canal Project, appeared to have no impact on the behaviors of the GNP. Kim Hyong-o, a former GNP national assemblyman, decided to bring the revision for direct vote on January 8, 2009, despite strong opposition from the public. Additionally, on July 22, he exercised his prerogative as the speaker to convene the National Assembly session without any opposition members present, despite knowing how unpopular such action would be. Not only was it unpopular, but also posed significant political risk for the speaker, as the process eventually was subject to judicial review, and criticisms would be thrown at the speaker for instigating that controversy. As for the GNP members, they passed the findings of the bipartisan commission, and eventually 161 of them voted for the revision. Incredibly, no members opposed the revision, illustrating yet another case in which the GNP

members chose party loyalty over public interest.

The incentive for such loyalty to the party remains a puzzle. All 161 GNP members who voted for the revision faced the political risk of losing votes from their constituents in the next election. Knowing this, they must have calculated that party loyalty was politically more rewarding than following public interest. In the same context, Kim Hyong-o faced perhaps even greater political risk than the GNP members, as the sole blame could fall on the speaker for directly introducing the revision to the floor in first place. Despite such risks, the entrenched loyalty illustrated by the GNP speaker poses the question of what incentives would lead him to act in such way.

Nevertheless, the party allegiance of GNP members implies that they were determined to pass the revision despite opposition from the public. Indeed, if public opposition as high as 60 percent could not influence the preference of the GNP, one wonders what can. The secretary of the CBCC from the GNP, Na Kyung-won, went as far as to claim that the polls were inaccurate because the majority of the citizens did not actually understand the full complexity of the issue. Moreover, many GNP members, including Na, asserted that as politicians, they must at times pursue a course of action unpopular with the public in order to promote national interest. Furthermore, a reporter from the progressive newspaper *Pressian* said that “the Grand Canal Project was President Lee’s own agenda. However, the Media Law revision has been the GNP’s primary platform for so long that regardless of public opinion, as long as the President is from the GNP and the GNP has the majority, the revision will pass.” In fact, the revision was outlined in the GNP’s strategic handbook, seventh and eighth editions, whereas the Grand Canal Project was not. All these findings implied that from beginning to end of the passing of the legislation, public interest was not an issue. Instead, these findings demonstrate the GNP’s determination to pass the revision, illustrating the diverging interests of the party and the public.

V. CONCLUSION

This paper has demonstrated that single-party domination is the main cause hindering representation of public interest in South Korea’s political party system. The power imbalance within the National Assembly in both the Grand Canal Project and the Media Law Revision led to advocacy outside the political framework, because the GNP had no incentive to strike a legislative compromise. As the result, only the GNP’s interest—not the interests of the

general public—was represented at the National Assembly. This paper is not, however, exhaustive, as it incorporates only two cases. Further research examining more cases would solidify the claim and provide important implications for consolidating Korean democracy.

Whether one is identified as progressive or conservative, the common goal needs to be the development of an effective political party system that better represents public interests. Illustrated by the two cases, there is a wide gap between public interest and politicians' representation of the public within the political setting. Reducing that gap should be the next step in consolidating South Korean democracy. Since its democratization in 1986, South Korea has made numerous improvements, such as free elections and enhanced human rights. However, one dynamic remains fixed compared to the days of the autocratic regime—the ineffective party system that often fails to represent the public interests. Since the National Assembly has two functions—as the public's representative and trustee—it should not have to vote in accordance with the public's desire all the time. However, when the National Assembly decides to vote against the public interest, there should be an accountability mechanism that would result in some form of political repercussions. The GNP, with such mechanism absent, can pass legislation at the expense of losing popularity, but not political security, as the National Assembly speaker and the GNP members appear unafraid of repercussions of going against public opposition.

What allows the GNP members to ignore the repercussions remains a puzzle. Ignoring public opinion as high as 60 to 70 percent does not help the prospect of reelection, as the constituents can vote them out of their office. Essentially, following party loyalty rather than public interest must have provided the GNP members with greater political benefit. One possible explanation for this political calculation relates to regional politics in Korea, which overwhelmingly favors the conservatives, the GNP. In those areas, winning the primary is equivalent to winning the election, based on past voting behaviors favoring the GNP. Therefore, the GNP members from those districts would have incentives to follow the party's interest, not the interests of people. However, this is only a hypothesis, and requires further evidence, as a point of contention remains. Even if regional politics prevailed, not all 161 GNP members who voted for the revision come from conservatively bent areas. Therefore, the question remains, what incentives did the rest of the GNP have in following the party's interest? Identifying that cause is not only significant for consolidation of Korean democracy, but also useful for theoretical and academic purposes as well.

**PART III: SOUTH KOREA ON
THE INTERNATIONAL STAGE**



THE LEGAL HERMIT KINGDOM: THE KOREAN LEGAL INDUSTRY AND ITS OPENING

By Jason Park

I. INTRODUCTION

The Korean economy today is a robust international economy, with its exports slightly outweighing its imports. According to the Central Intelligence Agency *World Factbook*, the total Korean export as of 2008 was \$433.5 billion, while import was \$427.4 billion. The Korean economy was the eleventh-largest exporter in the world, while being the fifteenth-largest economy overall. The Korean economy mainly exports capital-intensive manufactured goods, including consumer electronics, semiconductors, computers, automobiles, and ships, and imports various natural resources, manufactures, and services. The country boasts many internationally well known companies such as Samsung, LG, and Hyundai. Also, according to the Office of the United States Trade Representative, Korea's low or nonexistent tariffs on most manufactured goods invite foreign manufacturers to Korea. Furthermore, companies providing services such as investment banking, consulting, and accounting have all established branches in Korea. Undoubtedly, Korea is a significant center of international economic exchange, with many Korean companies establishing businesses abroad, and various foreign companies coming into the Korean market.

South Korea has also concluded numerous FTAs with prosperous Asian and European economies including Singapore, Thailand, and the EFTA countries (Switzerland, Iceland, Norway, and Liechtenstein). Also, according to a May 2008 report in *Legal Times*, Korean companies have a strong interest in fledgling Asian economies such as Cambodia, Vietnam, and India. Korean companies have a strong presence especially in Cambodia, where new investments are on the rise after decades of brutal communist rule.

Naturally, economic traffic of this scale gives rise to many legal problems, and both overseas-bound Koreans and foreign clients in Korea would benefit greatly from having easily accessible international legal service located in major Korean cities. However, Korea is the last Organisation for Economic Co-operation and Development (OECD) member country to liberalize its legal market, and the recently adopted (in September 2009) Foreign Legal Consultant Act (FLCA), which outlines the procedures for foreign law firms to establish offices in Korea, requires five years before allowing full-scale foreign legal market liberalization in Korea. It is also important to acknowledge that FLCA is applicable only to law firms originating from countries with which Korea has signed an FTA. Because most major international law firms responsible for providing legal service to Korean and foreign clients originate from either the United States or Britain, this means that any meaningful legal market liberalization remains at least six or seven years away. Currently, there are no foreign “lawyers” in Korea. Foreign attorneys in Korea are called “foreign legal consultants” and must be employed by a Korean employer to be active in the country.

This paper addresses the following questions that arise from this situation: First, why has the Korean legal industry been so protected despite the obvious demand for a more open legal market? What are some of its characteristics that have kept it from liberalizing, even when the Korean economy depends heavily on liberal international market?

Second, although it has remained closed so far, the Korean legal sector has finally begun to accept various measures aimed at its liberalization. This leads to another set of questions: What and who have influenced the decision to liberalize the Korean legal market? Also, what institutional processes does the Korean government provide to achieve this liberalization, and how is the KORUS FTA related to it?

Furthermore, legal sector liberalization will have important consequences for Korean and foreign lawyers, as well as domestic and international consumers. Therefore, this paper will also explore some of the possible impacts of liberalization on the Korean legal sector: What kind of service will the newly established foreign law firms provide? What will happen to the Korean law firms that face competition from these foreign firms? And what are the implications for the consumers?

II. KOREA: A LEGAL HERMIT KINGDOM

Countless political, social, economic, and cultural reasons have kept the Korean legal sector closed to the international market. However, it is not feasible to analyze all of these reasons in this paper. This discussion will instead focus on the characteristics of the Korean legal sector itself, and why it has been resistant to legal market liberalization.

The Korean legal sector possesses certain traditional characteristics that make it ill-suited for international competition, leading many of its socially influential members to strongly oppose liberalization. The following discusses some major aspects of the Korean legal profession that have contributed to its current relative lack of international competitiveness.

Legal Training and Lawyers' Role in Korea

In Korean society today, entering the legal profession is a prestigious accomplishment. The Korean Bar Exam is an extremely rigorous examination, allowing only 2 percent of its takers to pass. According to a 2003 study of the American Chamber of Commerce in Korea: “Since 1996, the quota of new lawyers has been raised from 300 per year to the current 1,000 per year, but further liberalization beyond this 1,000 number appears unlikely, at least in the near future. Due to the limits placed on the number of new attorneys accredited each year, experienced counsel is at a premium.” The Korean Bar therefore systematically lowers the number of new lawyers, making them a rarity in Korea. For most Korean people, therefore, engaging a lawyer can be prohibitively expensive. According to *Korea Law*, a simple average defense case costs more than \$10,000 (with another \$10,000 if the case is won), while a client in the United States has many more price options because of America’s much larger supply of legal professionals.

As professionals, Korean lawyers often perceive themselves as litigators representing their clients in courts rather than advisors involved in business interests. According to the Judicial Research and Training Institute (JRTI)—the national legal training institute that all new passers of the Korean Bar Exam must graduate to become full legal practitioners—its top graduates most often choose to become judges or prosecutors, in contrast to Western countries, where most top graduates accept law firm or corporate counsel positions. A careful observation of the curriculum offered by JRTI reveals that it focuses largely on traditional legal theory and on preparing its students to become

judges and prosecutors, with relatively few programs designed for private legal practice. Also, JRTI's program traditionally has had a very strong domestic focus; although JRTI now has made its one-semester-long legal English course mandatory, this requirement was only instituted in 2006, while the KORUS FTA was being negotiated. Similarly, a formerly elective course on U.S. law was made mandatory only in the same year.

Consequently, domestic Korean clients, whether corporate or individual, usually do not engage lawyers unless they are involved in litigation and therefore absolutely require legal assistance. While clients in many other countries frequently engage lawyers to solicit their advice on many issues ranging from their court trials to business contracts, Korean clients do not perceive their lawyers as such easily employable business advisers. According to Brendon Carr, an American lawyer working in the Korean law firm Hwang Mok Park, there is therefore almost no domestic demand and supply for nonlitigation corporate legal service. As a result, when international clients seek nonlitigation corporate legal advice in Korea, they must rely on a handful of large law firms that employ few international corporate lawyers, which has proven to be inadequate, as will be discussed in sections below.

The newly opened law schools in Korea are intended to train legal professionals to be competitive in the international legal environment. However, as these schools opened only in 2009, there are currently no Korean legal professionals who graduated from these newly founded Korean law schools. It is also uncertain how these graduates of new law schools will qualify for membership in the Korean Bar Association. Some speculate that the new bar exam that law school graduates will have to take will be as difficult as the existing bar exam, and others believe that the process will be much easier. Overall, it is unclear how graduates from these newly established law schools will change the landscape of Korea's legal profession.

A Weak Industry

The Korean legal system has focused on training few elite litigators and legal academics rather than readily accessible private legal advisers. Although such a system may have sustained the prestige of, and prevented competition for, Korean lawyers, it has not adequately prepared the profession to become a competitive international industry. Korean lawyers have recognized this, and indeed a major factor that has prevented the liberalization of the Korean legal sector is a fear of foreign competition by Korean lawyers (and therefore the

Korean government to a large extent, because a significant portion of public officials and legislators hail from the legal profession). When describing their foreign counterparts, Korean lawyers and media often use adjectives such as “Goliath,” “killer-lawyers,” and “invaders,” as evidenced in the April 2007 article of *Korea Economics Daily* entitled, “An Upward Battle against Goliath Accounting and Law Firms from the U.S.” According to the European Union Chamber of Commerce in Korea (EUCCCK), *Trade Issues and Recommendations 2004*, 60.4 percent of all Korean lawyers very strongly opposed the opening of the legal market, while almost all other Koreans and foreigners studied in the report were favorable to the opening. The following examines the current lack of international competitiveness of the Korean legal industry that has led many of its members to strongly oppose legal-sector liberalization.

The Korean legal industry is distinctly disadvantaged compared to their foreign counterparts in the following areas: size, available capital, and international legal expertise. Even a cursory comparison of major Korean and foreign law firms will reveal that, as a result of Korea’s legal training system producing very few lawyers, foreign law firms are indeed “goliaths” compared to their smaller Korean counterparts. The *American Lawyer*, a U.S.-based journal focusing on legal issues and trends, has compared the ten largest Korean law firms with their foreign counterparts. Kim & Chang, the largest law firm in Korea, employs “only” 400 lawyers, while Clifford Chance, a U.S.-based law firm interested in Korea, employs more than 3,800 attorneys worldwide. Also, according to the report, the Korean legal industry is characterized by a very uneven distribution of legal talent among law firms: there is a very large gap between Kim & Chang, the largest firm, and the other major law firms. The second-largest Korean law firm, Kwang Jang, employs 200 attorneys—about half the number of attorneys in Kim & Chang. The smallest of the top ten Korean law firms, Logos, employs a meager 64 attorneys. Therefore, it is reasonable to describe the Korean legal sector as being dominated by five large law firms employing more than 100 attorneys, with other small and mid-sized firms competing for the remainder of the market in Korea. In contrast, the United States and European (particularly British) legal markets are full of law firms employing more than 1,500 attorneys, and there are not one but several largest firms that employ more than 3,000 lawyers, including the aforementioned Clifford Chance, DLA Piper (3,500 lawyers), and Baker McKenzie (also 3,500 lawyers), among others. Even Troutman Sanders, the very smallest of the top 100 American and British law firms surveyed by *The American Lawyer*, employs more than 700 attorneys.

Clearly, no final conclusion about these firms’ competitiveness can be drawn by

merely observing the number of employed attorneys. In fact, Korean law firms were able to maintain their competitiveness because the size of the Korean legal market demands only so many lawyers. However, as the industry is about to enter direct competition with giant foreign law firms, the number and variety of employees become important factors. As in any other business, hiring more skilled and reputable attorneys means a higher capacity to build a wider client base, and therefore produce more revenue, which leads to greater capital for future investment. Employing more lawyers in many different capacities and practice areas also means more stability: when one branch performs poorly due to specific sector conditions, other well-performing branches are able to offer support and advice in order to ensure firm-wide survival. Currently, Korean law firms do not have enough employees or capital to competitively invest in newly opened markets—the current number of attorneys employed by Korean law firms might have been enough for the domestic market, but it will certainly be deficient in the much bigger global market where foreign firms are already well established and in fierce competition among themselves.

Besides these problems of personnel and capital, Korean law firms clearly lack international outreach and presence. Major Korean law firms tend to stay in Seoul, refusing to reach out and build a more diverse client base with what small number of attorneys they have. For example, the aforementioned Kim & Chang has a large cluster of office buildings in central Seoul, having concentrated all of their employees in one city. In contrast, foreign law firms tend to establish a larger number of smaller offices scattered around the world. For example, DLA Piper has nearly 90 offices throughout Europe, North America, Africa, Middle East, Oceania, and Asia. According to a February 2008 article by Brian Rupp and Jae En Kim in the *National Law Journal*, such strategy of having multiple offices on multiple continents allows these law firms to offer “fully integrated, one-stop international legal service that can meet the local needs as well as provide them with global know-how and resources...and reduce the cost and inconvenience to client companies.” Therefore, besides the massive personnel and capital available, Korean law firms lack the capability and international presence required to offer large-scale global corporate transaction services for international clients.

There are notable exceptions as several mid-sized and smaller Korean law firms have actively engaged foreign markets and established offices in Vietnam, Cambodia, and even non-Asian markets, such as Russia and Britain. However, according to a December 2008 report of *Law Times*, there are two important deficiencies in these law firms’ international outreach efforts, besides the fact

that their overseas outreach began too late (the earliest overseas office of a Korean law firm was opened in 2005). First, the larger law firms that are the most experienced and familiar with corporate transactions (such as Kim & Chang and Kwang Jang) are still overly focused on domestic markets. Although smaller law firms such as Yulchon and Logos have aggressively explored overseas markets, they are relatively limited in resources and personnel compared to their larger and better-known counterparts such as Kim & Chang and Kwang Jang, and find it much more difficult to maintain offices that can compete with foreign law firms already established in these markets. For example, according to Logos, its Vietnam office in Ho Chi Minh City employs only three Vietnamese lawyers advising Korean companies in Vietnam. While these lawyers are known to be talented and experienced, there are currently more than 1,500 Korean companies in Vietnam engaged in an equally diverse variety of industries. The situation is similar in China. Despite the fact that there are many Korean law firms in China, many Korean attorneys interviewed by *Legal Times* has stated that viable competition with major international firms in China is still unlikely because of the unmatched size of capital and personnel in these foreign firms and their advantage of having established their offices much earlier. Second, despite the fact that two Korean law firms, Logos and Dae-Ryuk, have opened offices in Moscow and London, respectively, access to other major non-Asian economic markets and non-Korean corporate clients still remains painfully limited to Korean law firms; hardly any major foreign corporation has solicited legal service from a Korean law firm regarding non-Korean market issues, according to an expert of the Korean Bar Association of Seoul. This is in contrast to the influence and acknowledgment enjoyed by many U.S. and British law firms that have already established an international reputation independent of their countries of origin, firms from whom clients willingly solicit legal advice despite the fact that their business matter may not have much to do with the United States or Britain.

Another dimension of international legal practice involves foreign clients seeking legal service in Korea. However, as JRTI has traditionally focused on domestic law and has adopted mandatory English language and U.S. law courses only very recently, it has traditionally produced legal professionals unable to directly interact with foreign clients unfamiliar with Korean culture and language. Also, JRTI has yet to offer courses on other foreign languages and laws. While other Korean industries report up to 50 percent of their employees being able to interact directly with their foreign clients, the Korean legal profession estimates that less than 10 percent of its professionals are able to interact with foreign clients without third-party assistance. And as a result of

still-existing restrictions on foreign lawyers in Korea, the country as a whole has not been able to attract many foreign lawyers. In addition, most foreign legal advisers currently available in Korea are concentrated in a handful of firms in Seoul (Kim & Chang, Sejong, Kwang Jang, Yulchon, and few others). Yet, the level of specialization offered by even these top law firms is nowhere near the international standard. For instance, Sean Hayes, an American attorney working in Korea, recalls an incident where a Korean attorney specializing in litigation was appointed to lead a team working on a corporate transaction issue of which he had no prior experience, an event “unimaginable” in reputable international law firms.

Therefore, even in 2009, most Korean law firms still lack the international presence and experience to advise Korean and foreign clients in need of legal service. As a result, even indigenous Korean clients such as Samsung, LG, and others often rely on foreign law firms when in need of international legal service, while foreign clients in Korea are constantly dissatisfied with the quality of international legal service in Korea.

The Korean legal industry, therefore, is too small, overly domestic, too late, and too limited in exploring major international markets compared to their foreign counterparts. Despite the few Korean firms that have ventured into overseas markets and have had relative success, it is still a weak international industry largely incapable of supporting other sectors of the Korean economy in their global competition, forcing them to rely on foreign law firms that enjoy solid reputations as authorities on international legal issues.

III. THE REASONS FOR INCLUSION OF THE LEGAL SECTOR IN THE KORUS FTA

Despite its weakness discussed above, the Korean legal sector has been included in KORUS FTA negotiations. This section will examine the major reasons why this legal hermit kingdom is finally willing to open itself to the international market: foreign dissatisfaction and Korean consumer demand for a more open legal market.

According to the Office of the United States Trade Representative, “Under the FTA, nearly 95 percent of bilateral trade in consumer and industrial products would become duty free within three years of the date the FTA enters into force, and most remaining tariffs would be eliminated within 10 years.” The

sectors affected include agriculture, financial service, textiles, pharmaceuticals, investment, and government procurement and contract, among others. Virtually every sector included in the FTA has received close attention from interested constituencies, and the legal sector is no exception. This section surveys three major interests that demand liberalization of Korean legal market.

Widespread Foreign Dissatisfaction

The uncompetitive international legal service in Korea has raised the ire of many international clients with an interest in Korea—perhaps extremely so. According to a survey conducted by the European Chamber of Commerce in 2004, in which 150 major foreign companies operating in Korea participated, 91.3 percent desired full opening of the market and an astounding 97.3 percent believed that Korean law firms fall behind world standards in the area of corporate law. When the United States government was negotiating KORUS FTA, it perceived this dissatisfaction. Indeed, the service sector, including legal service, was one of the major areas of American strength during the negotiations (while being weak on other sectors, such as automobiles)—and according to an April 2007 article in the *Maeil Business News*, it was the United States that strongly insisted on having negotiations on the legal service sector, while Koreans have been overly cautious broaching the matter.

Korean Consumer Demand

As discussed already, many Korean consumers are forced to rely on foreign law firms for international legal service. According to *Korea Economic Daily*, Korean consumers are a major force lobbying for a cheaper and liberalized legal service. Large Korean companies are able to afford legal services offered by prestigious foreign firms, but mid-sized and smaller companies are forced to rely on inadequate international service provided by domestic Korean law firms. Besides such business concerns, Korean companies often feel that it is unfair for lawyers to enjoy heavy protection while they have to compete internationally. In his book *Legal Reform in Korea*, Tom Ginsburg describes the sense of alienation that many Korean clients feel towards their lawyers. According to Ginsburg, Korean clients often describe their lawyers as having a “guild mentality” aimed at avoiding competition by preventing the legal system from training more lawyers and opening up the legal market. Consequently many Korean consumers feel that the legal sector must face these market mechanisms to be able to better understand the situation faced by their clients who have been competing within liberal international market conditions for decades.

Korean Lawyers

Recently, a rapidly growing minority within the Korean legal profession has expressed its support for legal-market liberalization under the terms of KORUS FTA. These lawyers argue that the Korean legal market must be opened to competition to acquire new skills and competitiveness in order to better serve their clients. According to the 2004 study conducted by the Seoul Bar Association regarding the market liberalization, a significant minority (42%) agreed to market liberalization or believed that it will have an overall positive impact on the Korean legal sector. Many of these lawyers also expressed the opinion that the Korean legal sector needs to expand its areas of service into the international sphere in order to improve the industry's competitiveness and to give more opportunities to future Korean lawyers, whose numbers will increase due to the new law school system in Korea.

IV. THE FOREIGN LEGAL CONSULTANT ACT

Although KORUS FTA includes the legal sector in its list of negotiation areas, it does not provide specific processes that law firms must adhere in order to fully engage the Korean market. The Korean government therefore passed the Foreign Legal Consultant Act (FLCA), in order to specify steps and procedures that foreign law firms seeking entrance into Korea must follow. The act provides a five-year, step-by-step process that will ultimately liberalize the Korean legal market. It was adopted in September 2009, but major law firms from the United States can benefit from the act only after the KORUS FTA is ratified, which had not happened by the end of 2009.

According to the Ministry of Justice of Korea, the act has three stages. During the first stage, it will allow foreign lawyers and law firms to open branches in Korea as "foreign legal consultants" and advise clients on the law of their home jurisdictions, public international law, and international arbitrations, but not Korean law. After two years, the second stage will be in force, in which foreign law firms will be allowed to enter into specific business agreements with Korean law firms to handle cases that involve both domestic and foreign legal issues. Finally, within five years, foreign law firms will be permitted to establish joint ventures with Korean law firms and hire Korean-licensed lawyers as partners or associates. As one can see, FLCA is designed to promote a very gradual process of legal-market liberalization spread over several years. FLCA has been adopted

as a compromise measure between constituencies interested in full liberalization and the Korean legal profession, which demands a slower time frame of market liberalization.

V. POSSIBLE POSITIVE AND NEGATIVE IMPACTS OF LEGAL MARKET LIBERALIZATION

Therefore, full legal-market liberalization will take at least several years to become a reality. However, once it has been achieved, it is expected to have enormous consequences for both foreign and Korean clients, as well as the legal sector itself. There will be both positive and negative consequences for all parties involved, and a careful analysis of both pros and cons must be carried out before adoption of market liberalization. The following section shows that market liberalization will have both positive and negative impacts for the parties involved in the process.

Korean Law Firms and Lawyers

Once foreign law firms establish themselves in Korea, foreign law firms will target the following areas: Korean domestic clients, Korean corporations seeking overseas business, and international clients in Korea. Currently, Korean law firms in Seoul employ only a handful of international attorneys. After five years of FLCA and the ratification of the FTA, Korean law firms will have to employ more international attorneys who can interact with foreign clients, and will be compelled to establish additional offices internationally in order to retain their current Korean clients who have overseas branches in foreign markets.

Also, an influx of foreign lawyers will force Korean lawyers to expand their areas of service, and build new niches in order to remain competitive in the market. Rather than insisting on their primary role as litigators, Korean lawyers will gradually begin to see themselves as readily accessible business and private consultants who advise on virtually every aspect of corporate and individual legal life—corporate contracts, market consulting, and other areas that may not involve going to the court, and therefore were previously perceived to be less prestigious.

As with all market openings, however, there may be negative consequences as well. Currently many conservative Korean lawyers are gravely concerned about the possibility of over-globalization. The legal sector is unique in that its

services are based on a country's law, which is a product of its unique history and culture. The common law, upon which much of the world's commercial law is based, is an entirely different tradition from that of Korea, which is based on civil law. Each country has developed its unique legal traditions to suit its circumstances. Because many young Korean lawyers who hope to lead international careers are currently engaged in learning a legal system that originates from a foreign culture, it is reasonable to be concerned that there may be confusion, compromise of legal integrity, and overall dilution of the Korean legal system. Also, because of its complexity, understanding a legal system requires an extensive amount of study and effort. Learning how to benefit a client by utilizing the legal system may well require a lifetime. Faced with a very difficult challenge of having to learn two different legal systems simultaneously, some Korean legal professionals may find it necessary to compromise their competence in Korean customs and laws in the process of becoming more international.

Foreign Law Firms

It is expected that various foreign law firms and lawyers will arrive in Korea once its legal market is liberalized. Large international law firms, such as Paul Hastings, Akin Gump Strauss Hauer and Feld, and DLA Piper, originating from the United States and Britain are especially hopeful that the FTA with Korea will be signed quickly because they expect the Korean market to be a success. These law firms have well-known Korean clients such as Hyundai and LG, and expect that their new offices in Korea will gain their further trust and offer convenience.

However, while some members of the Korean Bar Association fear a sudden influx of a large number of international lawyers into Korea, foreign law firms claim that such fear is unfounded; since the Korean market is still not as large as China or Japan, many law firms will focus on consolidation in these markets, with Korea being a secondary consideration. One example is O'Melveny & Myers, a U.S.-based international law firm with a very strong presence in China and Japan. According to Howard Chao, the firm's head of international practice, "Right now we have a lot of resources in China and Japan, and we're trying to get those markets right." Therefore, while it is reasonable to expect a number of law firms to establish new offices in Korea, it is still uncertain how many law firms are really interested in the Korean market. Furthermore, it is still to be seen whether these international law firms would choose to eventually practice domestic Korean law—an opportunity that remains more than five years away anyway.

One main concern that international law firms have is the difference between Korean and common law culture. In common law countries, legal service is often sought for writing contracts and providing other commercial expertise. However, Korea has a culture in which law is something to be afraid of: Koreans often perceive law as the last resort for their problems, and the involvement of legal professionals often implies mistrust between the involved parties. The foreign law firms in Korea therefore may have to resolve such cultural differences by employing various local experts and adopting alien practices that may compromise the firms' business *modus operandi*. Adjusting to an entirely new legal culture therefore requires substantial investment and effort on the part of these law firms. Compounding this problem is the exclusive characteristic of the Korean legal profession. The Korean legal profession is notorious for consisting of an extremely disproportionate number of professionals who graduated from certain elite universities. Gaining access to this exclusive network may require substantial capital contribution and involve uneven hiring practices that compromise the firm's ability to tolerate diversity. Law firms that establish their practice too hastily in Korea, therefore, may find the Korean legal market unprofitable and leave after much loss.

Domestic Korean Consumers

Although foreign law firms will be able to establish offices in Korea, Korean consumers whose legal needs are domestic will not directly benefit from these foreign lawyers. However, there are indirect benefits. It is likely that domestic consumers will enjoy a "push down" effect; if top Korean law firms lose their international practice (although very small in proportion to the entire legal industry, it can be quite lucrative to individual law firms) to their new foreign competitors in Korea, they are very likely to lower the price of their service in order to court smaller and less wealthy clients who traditionally relied on smaller law firms and individual legal practitioners. Less wealthy companies and individual consumers therefore may be able to afford prestigious legal representation previously unavailable to them.

However, the consumers might be negatively affected from the legal-market opening as well. According to a May 2008 article in *Chosun Ilbo*, once FLCA reaches its third stage and allows foreign law firms to hire domestic Korean lawyers, foreign law firms may offer much higher salaries and benefits to their potential recruits. Because of their larger capital, foreign law firms may be able to afford to do so, while Korean law firms will have to struggle ever harder to attract even talented domestic lawyers, let alone talented international attorneys.

This competition to secure legal talent may translate into higher fees for clients, denying access to top-level legal service to more consumers than the current system. Some experts pessimistically predict that this will ultimately result in polarization of legal service, with wealthier clients enjoying monopolistic access to talented domestic and international legal counsel, while the higher cost of these firms may discourage less wealthy clients from hiring them. This will ultimately result in further stratification of the Korean legal market between poor and wealthy clients, and alienate less wealthy clients from these law firms, and also from the legal system itself.

Furthermore, with the influx of many U.S.- or U.K.-trained lawyers and the competition they bring, some negative aspects of Western legal culture might take root in Korea. Lawyers in the Western legal market are often criticized for their overly commercialized behavior and outlooks. Stories of class-action lawsuits that bring little real benefit and deepened psychological damage to clients and enormous financial benefit to the involved legal professionals are often cited in the United States as some of negative impacts that lawyers make on society. Also, Western legal culture is criticized by many observers for creating unnecessary frictions between various social groups and over-codification of social conventions in the form of complexly written legal contracts. Internationalizing the Korean legal market increases the likelihood that such negative practices of the Western legal system will be imported into Korea. As a result, it might adversely affect the unique social atmosphere and conventions that exist among the Korean people.

International Consumers

There are two types of international consumers: first, Korean companies and individuals who have interests in foreign countries and therefore need foreign legal counsel, and second, foreign companies and businessmen who have commercial interest in Korea. Both types of international legal consumers will greatly benefit from foreign law firms in Korea. Overseas-bound Korean consumers will no longer need to travel abroad in order to benefit from legal service provided by international law firms. Korean consumers in need of international legal counsel often travel to Hong Kong and Tokyo because these cities offer a wide range of international legal service, unlike Seoul. Once foreign law firms are allowed to open offices in Korea, such costly travel will be unnecessary and Korean consumers will enjoy an easier access to international law firms.

Foreign consumers interested in Korea will also be able to enjoy a wider range of international legal services once foreign law firms are established in Korea. These foreign consumers will no longer have to engage Korean law firms that offer inadequate international legal service, and will be able to comfortably interact with legal advisers who better understand their situation both legally and culturally. Also, by being able to hire one firm to handle both overseas and domestic legal services, consumers will no longer incur the additional transaction costs that arose from having to hire and coordinate between two firms: one Korean and one foreign. Also, according to an April 2007 article in *National Law Journal*, international clients who are concerned with “commercial issues, they really would like someone right next to them” because of the sensitive nature of commercial issues, and having a lawyer’s office close to one saves various costs such as traveling.

Despite these benefits, some international consumers may nevertheless suffer some negative consequences. According to Hyun Dong Lee, an international corporate attorney working for Samsung Group, there is a certain Western hegemony in the international legal market. Law firms headquartered in common law countries such as the United Kingdom and the United States currently dominate the market, and in fact, these firms are much more likely to establish their presence in Korea than law firms from civil law countries such as France, Germany, or China. According to Lee, these law firms tend to appeal to American or British courts, where their long experience gives them a great advantage. American and British domination of the legal market in Korea is a very uncomfortable prospect for companies from non-common-law countries, such as China and Russia. For these clients, American law firms in Korea may be actually more difficult to deal with than Korean ones. These clients would have to deal with a law firm that is used to an entirely different legal system, and in the case of international conflict between the United States and their home countries, an infinite amount of unseen and costly complications may arise.

VI. CONCLUSION

South Korea’s status as a legal hermit kingdom is finally about to come to an end through the adoption of the FLCA in September 2009 and the potential ratification of KORUS FTA in the near future. The purpose of the Korean legal sector in Korean society has traditionally been very different from that of its Western counterparts, and as a result the industry has become ill-prepared for international competition while still enjoying domestic prestige

and influence. This has been widely recognized by members of the Korean legal profession, and they have been vocal in their efforts to prevent the legal-sector liberalization. However, there has also been widespread domestic and foreign dissatisfaction with the legal service in Korea, and major domestic and international interests have been constantly demanding a more open legal market in Korea. Consequently, the legal sector finally has been included in KORUS FTA negotiations, and upon its ratification, will follow the steps specified in the FLCA towards full liberalization. The FLCA provides a time frame of five years to institute gradual market liberalization, which allows Korean legal professionals time to prepare for this change. Once the legal market is fully liberalized, both domestic and international consumers are likely to benefit from it, while many also fear negative consequences such as higher fees, influx of low-quality foreign lawyers, unemployment for many domestic Korean lawyers, and other negative impacts that have been discussed.

Overall, the legal-market liberalization is a mixed blessing; for every possible benefit, there is also potential harm. However, it still remains to be seen what impacts the liberalization will have on the legal sector and the Korean society. Unlike other sectors, the Korean legal sector has traditionally produced many of the country's political and economic elites, and therefore, great changes in the sector are likely to have very extensive effects throughout the Korean society. In the end, Koreans and foreigners will have to work together to enable legal-market liberalization to bring about positive effects for all those involved.

THE U.S.-ROK ALLIANCE IN AN EVOLVING ASIA

By Momoko Sato

I. INTRODUCTION

For over five decades, the U.S.-ROK alliance has remained a fixture in the overall security framework of East Asia. The Mutual Defense Treaty signed between South Korea and the United States in October 1953 firmly rooted the alliance in a rationale based on a narrow military objective of joint defense against a common external threat: North Korea. Since the end of the Cold War however, the rationale for the military alliance has slowly been undermined by the changing dynamics of a post-Cold War international system and the diverging threat perceptions of both parties. Under the previous Roh Moo-hyun administration, the rise in anti-American sentiment among the South Korean public posed challenges for the alliance. Furthermore, questioning the salience of the alliance became an active and growing discourse on both sides of the Pacific.

Hand-wringing over the future course of the alliance continues, but the discourse among academic and policy circles is less dire than what most alliance doomsayers would have predicted. Despite significant United States Forces Korea (USFK) realignment and troop reduction, the Lee Myung-bak and Obama administrations, in the Joint Vision statement of 2009, renewed their commitment to adapt the alliance to the changes of a 21st-century security environment while outlining their intent to expand the military alliance into a wide range of cooperative efforts on global issues. For the foreseeable future, indications are that the U.S.-ROK alliance will weather the challenges ahead. Rough patches notwithstanding, a number of institutional barriers prevent any alliance from dissolving. The U.S.-ROK alliance is no exception. But the alliance will face many new challenges in the context of an evolving Asia.

This paper seeks to touch upon the recent history of events concerning the U.S.-ROK alliance. More importantly, it will look further at the dynamic changes occurring in Asia and what implications these changes may have not only for the

conventional framework of the alliance, but for the long-term strategic posturing of U.S.-Asia policy.

II. RECENT HISTORY OF THE U.S.-ROK ALLIANCE

Realignment and Reduction

The U.S.-ROK alliance has been undergoing significant shifts since announcing its intention to withdraw 12,500 USFK personnel over a five-year period starting in 2004. The 2007 decision to transfer wartime operational control (OPCON) to Seoul and the simultaneous disbandment of ROK-U.S. Combined Forces Command (CFC) continues on track according to Defense Department officials, despite its controversial nature. Though some members of Korea's conservative wing oppose the transfer, preferring to rely on the U.S. security commitments in return for Seoul's expanding contribution to the U.S. international agenda, the transition has continued to move steadily forward.

Between 2004 and 2008, the United States cut 12,500 personnel from USFK, capping the current numbers remaining in South Korea at 28,500. The Second Infantry Division's 2nd Brigade Combat Team (BCT) was deployed to Iraq, and then subsequently relocated to Fort Carson, Colorado. In June of this year, the *Korea Times* reported that the USFK cut the number of its combat aircraft by 25 percent over the past four years. General Walter Sharp, commander of the USFK, also elaborated in February 2009 on the transformation of the Eighth United States Army (EUSA) headquarters in Seoul. It is currently preparing to reorganize EUSA headquarters into an operational command post after 2012, when South Korean commanders take over wartime operational control of its armed forces from the U.S. military. This will be an important change given the symbolic status of the army command on the peninsula. In accordance with the 2004 Yongsan Relocation Plan (YRP), plans to relocate the Yongsan Garrison in Seoul and infantry units north of Seoul to Camp Humphreys in Pyeongtaek, about 70 kilometers south of Seoul, is scheduled to be complete by 2015. The United States has also closed 36 installations encompassing 16,700 acres and returned 30 installations to South Korea. Further, in accordance with the Status of Forces Agreement (SOFA), the United States transferred all buildings, capital assets, and improvements located on these installations. Nearly 60 camps and facilities totaling over 38,000 acres still remain to be closed and returned.

In the 41st Annual Security Consultative Meeting on October 22, 2009, Secretary

of Defense Robert Gates offered assurances that the United States will use “the full range of military capabilities, including the nuclear umbrella,” to ensure South Korea’s security. In the press conference following the meeting, Gates also expressed his confidence in the timely transfer of OPCON as planned by April 2012. Admiral Michael Mullen, chairman of the U.S. Joint Chiefs of Staff, cautioned that South Korea still required improved capabilities, such as long-range artillery, before a fully operational command independent of the United States could be established, but he noted that “they are a very capable fighting force and they are capable of doing this.” The Joint Communiqué did not indicate any delays or disputes concerning the current scheduled timeline of OPCON transfer. However, the transfer is subject to continued evaluations, leaving open the possibility for future delays should South Korea fail to meet the operational requirements.

The transformation falls in line with Lee’s vision for a more independent and flexible military command capable of responding to new threats on a global scale. On Armed Forces Day just three weeks prior to the consultative meeting with Gates, Lee asserted that transforming the force was crucial to “carry out roles commensurate with [Korea’s] growing stature as a global Korea.” He has thus far resisted the pressure to rethink or postpone the transfer of operational control made by conservatives who see the transformation and realignment of USFK as an indication of weakening alliance and security guarantees.

The Salience of the Alliance

Similar to the discourse surrounding the U.S.-Japan alliance, the end of the Cold War and the feeling within South Korea that its strength was superior to that of North Korea prompted debate regarding the necessity of an alliance established and perpetuated based on a Cold War framework. In South Korea, nationalism and anti-Americanism fueled the feeling that the existing alliance framework violated the sovereignty of a now stronger and more capable Korea. Divergence between the United States and more open policies towards North Korea under Kim Dae-jung and Roh further underscored the differences in threat perception that undergirded the alliance. Roh’s call for a “self-reliant” defense also promoted a renewed look at the alliance structure.

In the United States, those who advocated a hard-line position on North Korea, such as Doug Bandow of the Cato Institute, ardently argued for the United States to dissolve the alliance. In the 2005 issue of the *National Interest*, in an article titled, “Ending the U.S.-ROK Alliance,” Bandow characterized the alliance as

an “alliance in search of a purpose” and made a case that the security of South Korea no longer remained vital to the United States. Daniel Kennelly, former managing editor of the *American Interest*, argued in a 2005 *American Enterprise* piece “Time for an Amicable Divorce with South Korea,” that “our troop presence in South Korea no longer deters the North. It deters us.” He questioned the salience of the alliance while posing the detrimental effect on the flexibility of U.S. military options towards North Korea. Others argued that the alliance was a relic of the Cold War. A larger group of scholars and policymakers continued to see the alliance as a pivotal component of security in East Asia, but feared that new steps had to be taken in order to reinvigorate the alliance and safeguard its future.

In a presentation to the 1st ROK-U.S. West Coast Strategic forum held in Seoul in December 2006, Daniel Sneider, associate director for research at the Walter H. Shorenstein Asia-Pacific Research Center at Stanford University, called for a need to “re-imagine” the alliance and look to NATO as an example of how alliances created under a Cold War framework could remain viable in the 21st century. The common solution proposed by alliance advocates was the expansion of alliance capabilities beyond the military. Scott Snyder of the Asia Foundation aptly points out viewing alliances as zero-sum arrangements incapable of evolving beyond Cold War security needs is a mentality entrenched in Cold War thinking. Utilizing the strong relationship built on the history of mutual interests and shared values, Snyder sees much possibility for expanded cooperation between the United States and South Korea on global issues such as climate change, pandemics, counterterrorism, and energy security to bolster alliance ties.

A World without the U.S.-ROK Alliance?

In September 2007, the National Bureau of Asian Research held a conference titled, “A World without the U.S.-ROK Alliance?” In discussing alternative futures, conference participants came to several shared conclusions—many of which underscore the implausibility of either the United States or South Korea terminating the alliance in the near future. Replacing the full range of military capabilities gained through the alliance would be very difficult and costly for South Korea. Such costs could pose substantial barriers to South Korea’s growth and integration, which would be to the detriment of the United States as well. Furthermore, the contribution of USFK to the defense of South Korea covers a wide range of fields where South Korea falls short on its own. These include: reconnaissance and intelligence satellites, strike capabilities, early warning

analysis, and special operations capabilities. It is estimated that South Korea would need to increase its defense budget tenfold in order to fill all the holes that USFK is responsible for under the current bilateral security arrangement. Such budgetary and capability consequences underscore the bottom line of the alliance for South Korea. Not only are these hurdles to long-term attenuation of the alliance, but they may also be an important point of debate and political liability for Lee, whose conservative base opposes OPCON transfer.

While the shortfalls outlined by the conference point to the probable difficulties the transfer of operational controls will face, fears that the transfer and subsequent disbandment of the CFC could undermine alliance ties should be allayed by the intrinsic operational dependency of the South Korea military. Lee Jong-sup of the American Policy Division in the ROK Ministry of Defense estimates that South Korea procures 70 to 80 percent of its weapons from the United States in order to ensure interoperability within the alliance. South Korea is also the fifth-largest consumer of U.S. defense goods according to the Direct Commercial Sales Export Authorizations for Fiscal Year 2007. The OPCON transfer may lessen the need for interoperability, but any significant changes in weapons procurement will be gradual as equipment, budgetary, operational, and institutional norms have been entrenched in the half-century-long alliance structure. Simply put, while challenges lay ahead, strategic and institutional identities and perceptions created through the history of the alliance pose large hurdles to actually challenge the core of the alliance.

III. LONG-TERM CONCEPTUAL ANALYSIS: ASIA AND THE ALLIANCE

Dynamic Changes in Northeast Asia

The challenges to American hegemony and the accelerated transformation of international politics precipitated by the 2008 financial crisis leave the possibility for fundamental shifts in the economic and security architectures that affect the current U.S.-ROK alliance. While the impact of the crisis still remains to be judged, the crisis has indeed created the potential for significant shifts in the regional and international order. In particular, the case of the trilateral relationship between China, Japan, and South Korea is an indication of how such crises can trigger pragmatic efforts for cooperation and deepened regional ties. As David Kang, director of the Korean Studies Institute at the University of Southern California, noted in a 2008 article entitled, *South Korea's Not-So-*

Sharp Right Turn, the region has changed more in the past decade than it did during the entire Cold War.

The development of the China-Japan-ROK trilateral relationship has been driven heavily by crises and a growing number of shared interests. The 1997-98 Asian financial crisis served as the primary catalyst not only for greater regional economic cooperation, but for the nascent foundation of a trilateral institutional architecture as well. The crisis demonstrated the vulnerability of Asia's small open economies to sudden financial shock and moreover exposed the wider region to the ensuing financial contagion. In the aftermath of the crisis, the region-centered drive to prevent such a recurrence spurred talks of an Asian Monetary Fund and a Northeast Asian Development Bank in Japan and South Korea, respectively, while nebulous ideas for pan-Asian economic integration reemerged concretely in the form of ASEAN+3 (APT) and various currency and bond initiatives.

In reference to the crisis nearly a decade ago, Henry Kissinger observed that although mutual suspicions and levels of development varied too greatly to permit the Asian equivalent of a European Union, Asian countries unwilling to accept such vulnerabilities would in the face of "another significant crisis in Asia or in the industrial democracies" accelerate efforts to gain greater control over their economic and political destinies. Indeed, as Kissinger predicted, the 2008 global financial crisis led to a spate of coordinated efforts between China, Japan, and South Korea, most notably the first independent trilateral summit meeting in 2008 in which the three parties agreed to expand bilateral swap arrangements and establish a regularized Tripartite Governors' Meeting among the three central banks. Such visible and historically significant trilateral cooperation initiatives, though prompted by crisis, have been advanced through a decade-long development of multilayered frameworks formed through APT, Track II mechanisms, and issue-specific areas.

Historical animosity and great power politics impeded political cooperation and economic integration. However, since the late 1990s, Northeast Asia has exhibited a growing interest in political and economic cooperation. On the heel of the Asian financial crisis, the informal breakfast meeting on the sidelines of the APT summit in 1999 marked the first meeting among the heads of China, Japan, and South Korea in modern times. Since then, the meetings have been held every year and have served as the forum for the development of formal institutional mechanisms and closer trilateral cooperation. In 2003, based on the shared initiative presented in the first APT summit, the three leaders issued

the Joint Declaration on the Promotion of Tripartite Cooperation among China, Japan, and South Korea. The declaration established the Three-Party Committee, made up of the three foreign ministers and tasked to jointly study, plan, and coordinate trilateral cooperation in 14 areas such as trade, energy, environmental protection, and infectious disease.

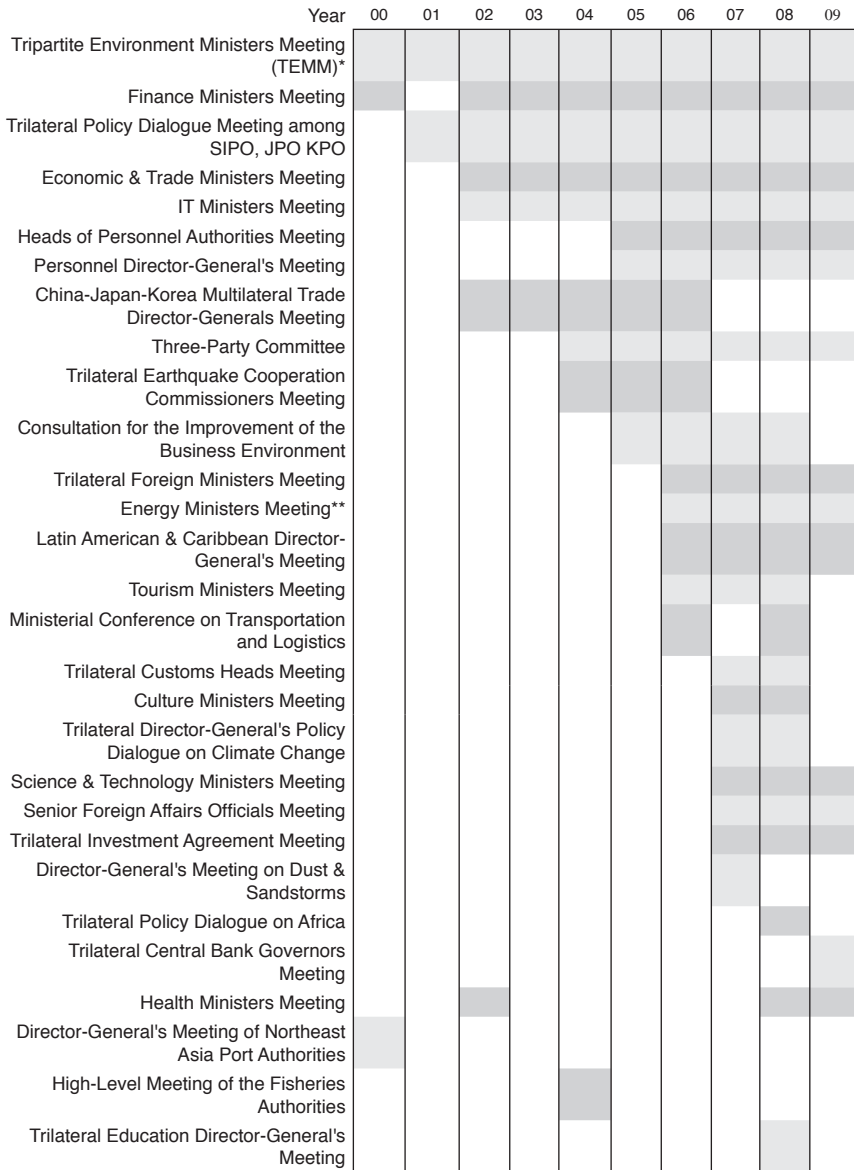
Despite political tension and bouts of anti-Japanese demonstrations in both China and South Korea, beyond the sensationalist narrative of rising regional nationalism and escalation of conflict stemming from bitter memories of disputed history lay the steady government interactions across wide-ranging issues. Issue-specific ministerial and director-general meetings regarding finance and the environment have been held regularly since 2000, and have expanded to issues such as Africa policy, trade, IT, transportation, and earthquake cooperation in spite of periods of deteriorating higher-level relations in 2001 and 2005. As the figure below illustrates, trilateral exchanges have not only expanded to encompass wide-ranging issues, but have also increased in frequency and regularity.

To be sure, the development of such trilateral meetings is far from any indication that Northeast Asia is on the track to economic and political integration in the near to long-term future. However, the impact of the financial crises and the skepticism regarding American economic hegemony they bred, combined with the growing economic interdependence among China, Japan, and South Korea, all point to the potential for the reconfiguration of these regional powers into a smaller, albeit more formidable, Northeast Asian bloc working in close cooperation. Given their realized and potential economic and military capacity as well as their amassed foreign reserves, a China-Japan-ROK trilateral relationship based on greater consultation and trust could become a “new international actor” with the ability to challenge the current international order.

Trade and Asian Regionalism

Despite some skepticism about China’s increasing power, Sino-Korean economic ties are growing deeper. Korean Embassy officials spoke of a time stretching back to 1965 when South Korea’s largest trade partner unquestionably remained the United States. Just six years ago in 2003, China surpassed the United States as South Korea’s number-one trade partner. Currently, the United States is fourth. Free trade agreements among ASEAN and other countries in the region are evoking ambitious concepts of institutionalized Asian communities. To be sure, the developments in Asia are nascent, and widely disparate political,

Figure 1. China-Japan-South Korea Trilateral Cooperation, 2000-2009



Source: Trilateral Cooperation Cyber Secretariat, <http://211.47.188.122/>

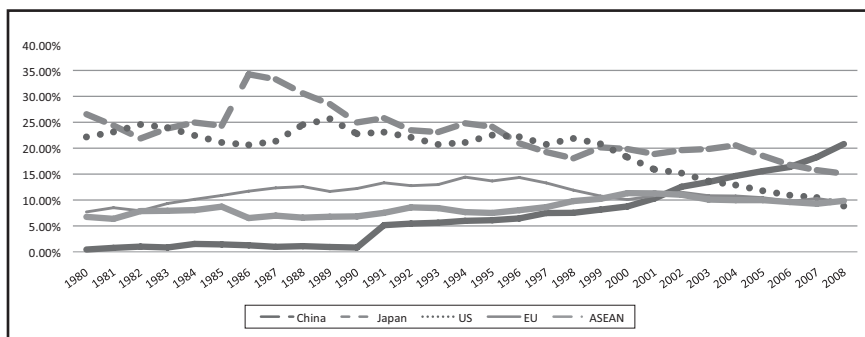
* Meeting regularly since 1999.

** There is no independent trilateral ministerial level consultation meeting. Instead, the dialogue is part of the Five-Party Ministerial Round Table Meeting on Energy with the US and India.

*** There are also Director-General's Meetings for Science and Technology, IT, and Public Safety.

economic, and cultural backgrounds impose barriers to integration that are not easy to overcome. It is not uncommon for the recent flourish of Asian regionalism to be met with skepticism. In an October 28 editorial in the *Wall Street Journal*, Razeen Sally, director of the European Centre for International Political Economy in Brussels, deemed the recent buzz in Asia as “Asian hype.” However, the annual dialogues are slowly but surely building an institutional history. While security architectures are far from discussion, the economic ties are creating a momentum towards greater integration. The evolving Asian order is built on the gradual emergence of a regional security community and growing multilateral architecture based on a series of increasingly shared norms about interstate relations and security.

Figure 2. Percentage of Total Imports to South Korea, 1980-2008



South Korea's Choice

The discussion about an evolving Asia, and China's rise in particular, inevitably posits a dichotomous framework for South Korea's political and security options in the context of the U.S.-ROK alliance. Victor Cha presents two notional paths, “Anchored Korea” and “Korea Adrift,” for South Korea's strategic choice. In the first, Korea is allied with the United States, supporting liberal democratic and free-market principles, while in the second choice, alliance relations are deteriorating as Korea pursues China as a new patron, regionally aligning with China while isolating Japan. Deepening ties with China and the rest of Asia are not mutually exclusive of a robust alliance with the United States. Indeed, the current developments challenge Cha's notional paths and the very definition of an “Anchored” Korea and a Korea “Adrift”.

Korean Embassy officials recounted the crossroads at which South Korea stood under the Roh administration. Turning to China and strengthening the Sino-Korean relationship at the expense of a U.S.-ROK relationship was a dominant stream of discussion in reviewing the long-term strategy for South Korea's external relations. The big strategic decision came with the realization that as South Korea faced new, interconnected, and global challenges, the most effective partner in addressing such issues, and thus South Korea's national interests, was the United States. The concerted effort to negotiate the Korea-U.S. Free Trade Agreement was motivated in large part after this strategic decision to further cement South Korean ties with the United States.

Lee referred to Seoul's hosting of the G20 summit next year as an example of the country's ever-upgraded global status. "The hosting of the G20 summit reflects that South Korea now stands in the center of the global stage beyond the Asian region." In a 2009 speech in commemoration of the 61st anniversary of the founding of the South Korean armed forces, Lee called for building of a "highly efficient and multifunctional" military to support his administration's "Global Korea" policy. The Lee Myung-bak administration's report issued by the presidential transition committee outlined the overall themes in the area of national security and foreign policy. The report identified the new government's intent to construct a "Global Korea" with efforts to advance international cooperation, trade policy, and the creation of a new peace structure on the Korean Peninsula. Recommendations put emphasis on broadening the horizon of Korea's forging policy in line with the trend of globalization. In effect, this report reflects the Lee administration's determination to reach out to the world as a middle economic power and build mutually beneficial relations with countries throughout the world. The ambitious effort to raise Korea's global status also requires actions that are commensurate with a "global" power. The Organisation for Economic Co-operation and Development's (OECD) rate of official development assistance (ODA) is often cited as a reliable barometer—a measure that the ROK intends to meet. This is in contrast to Roh, whose emphasis was on "self-reliance" in foreign policy and national security focused on freeing Korea from the traditional Cold War alliance structure. Playing a "balancing role to help ensure peace and prosperity in Northeast Asia" and improving relations with North Korea and China was seen as the means to pursue this "self-reliant" diplomacy.

Certainly, the regional approach for South Korea has a historical and natural rationale. Regionalism guarantees South Korea a seat at the table, which is crucial as the region finds increasing convergence of functional, political, and

economic issues. Moreover, the regional approach is a valuable tool for policy coordination on North Korea, and in many ways vital to securing the economic and geopolitical interests.

Yet, South Korea's "globalist impulse," as Scott Snyder puts it, cannot allow it to simply follow a one-track regional path. Its leadership of the G20 in 2010, determination to increase ODA, and plans to expand its peacekeeping forces are components of a concerted effort to upgrade South Korea's global visibility and role. Lee seeks to restore the U.S.-ROK relationship as a priority because the alliance with the United States falls squarely within this strategic vision. The U.S. alliance and many of its shared interests, values, and goals provide a launching point or foundation for these globalist ambitions.

IV. RECONCEPTUALIZING ASIA POLICY

U.S. Role in Asia

The rising role of Asia in the international order and the growing ambitions for greater regional integration do not portend a diminished role for the United States. As Seongho Sheen of the Brookings Institution notes, the United States has the ironic role of facilitating Asian cooperation even though its political influence is becoming less relevant. Though the United States, more preoccupied with the war on terror after the September 11 attacks, has become less engaged with Asia, its role within the context of growing Asian regionalism and integration remains crucial.

The Outdated Model of the Hub and Spoke

Victor Cha's analysis of South Korea's strategic choices with regard to the U.S. alliance and regional considerations points to the need for U.S. policymakers to refresh and revamp their conceptualization of Asia. Currently, Asian security arrangements run along bilateral lines from regional capitals to Washington. For decades, under both Republican and Democratic administrations, this "hub and spokes" model was conventional wisdom informing policymakers and shaping their view of the region.

In the South Korean Ministry of Foreign Affairs and Trade (MOFAT), the institutional organization has adapted to meet the demands of a changing Asian

landscape. As trade has grown with China and the 1997 Asian financial crisis underscored the importance of greater regional cooperation, the Asian Bureau has grown larger in an institution where the management of the U.S. alliance dominated. Within the Asia bureau, offices such as the China division have expanded, while new divisions such as Northeast Asia Cooperation have been added. In effect, South Korea's evolving concept and attitudes towards the region have been augmented by institutional changes that allow for more flexible and regional policy approaches.

The United States, on the other hand, has no policy or apparatus that is oriented towards regionalization. Instead, the United States is driven more by its own global interests, with regionalism seen as a means to achieve these goals. The U.S. interaction with Asia-Pacific Economic Cooperation (APEC) is an example of how U.S. global interests such as counterterrorism are presented in a regional setting to garner support. Regional institutions (or as Snyder refers to it, the U.S. "hanger" from which the interest du jour is hung) are not seen in a broader regional policy context apart from their utility to promote a U.S. global agenda. This is slowly changing, however, under the Obama administration.

During the president's first tour of Asia in November, he articulated U.S. policy towards Asia in a speech delivered in Tokyo. The speech indicated Washington's intention to refocus its efforts on improving ties with Asian countries. At the end of the 28-minute speech, Obama stated, "As America's first Pacific president, I promise you that this Pacific nation will strengthen and sustain our leadership in this vitally important part of the world." His stance was based on the notion that the collaboration between Asian countries is necessary to properly address such global issues as nuclear nonproliferation, as well as U.S. domestic concerns, including the combat situation in Afghanistan and the recovery of the U.S. economy.

As though to emphasize the importance of Southeast Asia, an ASEAN-U.S. summit was held on the sidelines of APEC. Combining ASEAN, Japan, South Korea, and China is, perhaps, a tacit recognition of the geographical region of East Asia as the arena for global economics and politics in Obama's diplomacy. His stated preference for multilateralism was explained by Secretary of State Hillary Clinton at last July's ASEAN Regional Forum (ARF) where she stated her intention to strive for a "multi-partner," not a "multipolar" world.

V. CONCLUSION

Since the 1997 Asian financial crisis, the recognition that Asia, and Northeast Asia in particular, holds strategic regional interests that require closer cooperation among nations, despite contentious histories, has translated into gradual cooperative efforts to build a nascent institutional structure to address a multitude of functional issues. While the ties between China, Japan, South Korea, and indeed the whole of Asia remain tenuous, the growing trade and economic interdependence throughout the region have buttressed these efforts. The rapid rise of China has also contributed to the spurt of greater regional integration. The pronouncements of Japan's new Prime Minister Yukio Hatoyama's "East Asian Community," though fraught with vagueness, are in part a sign and recognition of the significant transformation currently underway in Asia. The U.S.-ROK alliance stands at the cusp of an evolving Asia. Though Lee's renewed emphasis on the U.S.-ROK relationship secures the short- to mid-term status of the alliance, neither the United States nor South Korea can ignore the potential implications of this changing regional architecture. The United States will have to accommodate greater discussion of the potential structure of an East Asian regional architecture within governmental policy arenas while also recognizing that maintaining a U.S. presence in Asia will require far more effort and attention than before. For the U.S.-ROK alliance and for South Korea, the strategic decision is not a zero-sum dichotomy between Asia and the United States. However, the alliance is under-institutionalized in areas outside of the military. The military alliance provides a prime foundation for cooperation beyond security. Adapting to the emerging regional changes will require a more flexible alliance.

THE U.S.-ROK BILATERAL ECONOMIC RELATIONSHIP: THE 2008 CRISIS AND BEYOND

By Neil K. Shenai

I. INTRODUCTION

South Korea acutely felt the pain of the 2008 financial crisis, facing steep drops in the value of their KOPSI equity market and a full-scale run on the won. To combat this panic, the Federal Reserve Bank of the United States (“the Fed”) agreed to create a \$30 billion emergency lending facility via a currency swap agreement with South Korea. After the announcement of this swap and a fractional drawdown on this credit line, South Korean equity markets and currency stabilized, net capital inflows resumed, and investor confidence returned to the South Korean economy.

This paper answers two distinct questions. First, what role did the United States play in combating the financial market panic in the ROK throughout 2008? Second, did restored confidence in the South Korean economy after the swap reflect restored material fundamentals of the South Korean national liquidity position, or did the announcement of the swap constitute the creation of a new social equilibrium in which the South Korean won stabilized?

Answering the former question is crucial in understanding the nature of bilateral U.S.-ROK relations over the past twelve months. The latter issue contains myriad implications for the bilateral U.S.-ROK relationship going forward, in addition to several methodological implications for the broader discipline of political economy.

Ultimately, this study shows that a materialist understanding of the international financial system fails to causally account for restored confidence in the South Korean economy during the financial panic of 2008. Ideational interpretations, namely through the constructivist political economy approach of Blyth, Matthijs, McNamara, Abelal, and others, account for the marked improvement

in the health of the South Korean financial markets. Factors such as investor confidence, perceptions, and narratives—deemed materially inconsequential and exogenous to models of international capital movements—must be treated as endogenous causal factors of economic stability, as the South Korean case illustrates.

In order to analyze the way in which Korea's financial market restored its stability, this article first reviews the lessons learned from the Asian Financial Crisis of 1997 because the experience served as an immediate historical context within which the Korean market reacted to the volatility of 2008. Second, it examines market fluctuations since the crisis, arguing that the mere announcement of the currency swap helped stabilize the South Korean economy. Finally, the article concludes with consideration of the implications of this finding for the broader project of South Korean macroeconomic management in the next year and beyond.

II. LEGACIES OF THE ASIAN FINANCIAL CRISIS: LESSONS LEARNED

To understand the material composition of the South Korean economy in the run-up to and aftermath of the 2008 crisis, it is important to understand the historical context of the South Korean experience given the memory of the 1997 Asian Financial Crisis.

America has historically served an instrumental role in aiding the development of South Korea. The global economy has born witness to several episodes of global system-wide financial panic, first in the Asian Financial Crisis of 1997 and most recently during the wholesale panic of the global financial system during 2008. In both circumstances, during these crises South Korea turned to the United States and the IMF for help.

The roots of South Korea's vulnerability to financial crises grew from Korea's exposure to short-term, or "hot" international financial flows. As described by economist Joseph Stiglitz in *Globalization and its Discontents*, both the International Monetary Fund (IMF) and the Department of the Treasury urged rapid-pace capital market liberalization for South Korea in 1993. By espousing the ideological predisposition of *carte blanche* market fundamentalism that stemmed from what economist John Williamson called the "Washington Consensus," both the IMF and Treasury advised countries such as South Korea

to allow their firms to borrow from abroad. Despite initial skepticism, Western reformers prevailed in convincing the South Koreans that the benefits of open capital markets outweighed the risks associated with international borrowing.

As South Korea would later experience firsthand, this market openness is a double-edged sword. During times of buoyant liquidity and economic optimism, foreign lenders gladly lend abroad, as high foreign yields attract new capital. But during periods of perceived weakness, fickle foreign lenders withdraw credit lines, leaving domestic financial institutions without the means to roll over their liabilities. Note that these periods of speculative financial market weakness can occur without real economic stimuli. Rumors of insolvency can be self-fulfilling or recursive, as foreign lenders withdraw credit lines en masse, leading to panic and financial collapse.

Stiglitz states this pro-cyclical nature of capital flows thus: “[C]apital flows out of a country in a recession, precisely when the country needs it most, and flows in during a boom, exacerbating inflationary pressures. . . . [J]ust at the time [when] the countries need outside funds, the bankers ask for their money back.”

This, in short, describes South Korea’s experience during the Asian Financial Crisis. Although originally constraining investment, South Korea lifted controls on foreign borrowing for firms. This development, coupled with lax domestic regulation, led to the creation of a complex system of merchant banking. These lenders lacked the prudence and financial incentives for self-regulation, thus lending freely via speculation and improper due diligence for loan approvals. Poor exchange-rate management led to an overvaluation of the South Korean won. The current account surplus of \$0.4 billion in 1993 became a deficit of \$23.7 billion in 1996, approximately 5 percent of South Korean GDP.

Imprudent lending on behalf of South Korean industrial conglomerates, or *chaebols*, depleted the capital bases of their lending banks. As defaults mounted, foreign investors sold their won-denominated assets. Thus continued the downward spiral of a depreciating currency, rising real liability values, and continued macroeconomic instability. In response to this panic, the South Korean Central Bank tried in vain to stem the flight from the won, depleting their foreign reserves to prop up the value of their currency. Alas, this did not stem the tide. At the height of the crisis, short-term external debt as a percentage of foreign exchange reserves exceeded 700 percent. Total foreign debt as a percentage of foreign exchange reserves totaled approximately 2000 percent. These staggering liabilities dwarfed the South Korean monetary response,

forcing South Korea to devalue their currency, default on myriad liabilities, and seek an IMF-sponsored bailout.

To the South Koreans, the lessons learned were simple: unrealistically overvalued currencies, financial imbalances, and structural weakness made them vulnerable to crisis. Insufficient foreign exchange reserves and monetary excess left them bereft of the tools necessary to stage an intervention in the currency markets to stabilize their currency. Correcting these material factors would help them avoid the destruction inherent to financial market panic per their experience of the Asian Financial Crisis.

III. THE 2000s: A QUICK REBOUND AND LESSONS LEARNED?

With the memories of the Asian Financial Crisis fresh and the impetus for reform high, the South Koreans responded to their financial crisis by better regulating their lenders, building a veritable war chest of foreign exchange reserves, and decreasing their reliance on foreign debt. This stark contrast is illustrated in table 1.

Table 1. ROK: Material Changes of Financial Market Reform

Foreign Reserves, Banking & Corporate Sector Stability: 2008 v. Asian Financial Crisis		2008	Asian Financial Crisis (1997)
Foreign Exchange	Foreign Currency Reserves	\$212.3B	\$8.9B
	Short-Term External Debt / FX Reserves	68%	717%
	Total External Debt / FX Reserves	173%	1,957%
Banking Sector	Bank Non-Performing Loan Ratio	0.7%	6.0%
	BIS Ratio	11.6%	7.0%
Corporate Sector	Debt to Equity Ratio	106.5%	424.6%
	Interest Coverage Ratio	404.8%	115.0%

By all traditional measures, at the start of 2008, the South Korean economy was insulated from foreign external shock. Current account deficits, imprudent domestic lending, excessive borrowing from abroad, and an overvalued currency could be fixed, the South Koreans believed, by building up a large currency reserve base. By buying dollars with their won, they prevented the won from appreciating against the dollar while building up large stockpiles of foreign exchange reserves to fight speculative panic akin to that of the Asian crisis. Edward Sullivan of the Institute for International Economics (IIE) deemed this process “self-insurance” against future crises. Indeed, South Korea’s foreign exchange insurance policy led it to build up foreign exchange reserves equal to

25 percent of its GDP, which made it the fifth-largest foreign exchange holder worldwide.

In contrast to its large deficits during the 1997 Asian Financial Crisis, South Korea ran large current account surpluses from 2004 to 2007, totaling \$54 billion. Surely their economic authorities were surprised at by the speed at which this veneer of economic security evaporated during the global crisis of 2008.

IV. THE 2008 CRISIS AND THE AMERICAN RESPONSE

Problems with the U.S. economy emerged in 2007 with the default of several large mortgage originators. The preceding period of expansionary fiscal and monetary policy, rising asset prices, increased leverage across the U.S. economy, American household dis-savings, and a global liquidity glut laid the foundation for the monumental tumult in the global economy in 2008.

Yet at the start of the crisis, economists believed that the fallout from the bursting of the housing bubble could be contained. America's Chairman of the Federal Reserve, Ben Bernanke, iterated the prevailing market sentiment at the start of subprime crisis in May 2007:

[G]iven the fundamental factors in place that should support the demand for housing, we believe the effect of the troubles in the subprime sector on the broader housing market *will likely be limited, and we do not expect significant spillovers from the subprime market to the rest of the economy or to the financial system.* The vast majority of mortgages, including even subprime mortgages, continue to perform well. Past gains in house prices have left most homeowners with significant amounts of home equity, and growth in jobs and incomes should help keep the financial obligations of most households manageable.

Contrary to Bernanke's optimistic forecast, falling home prices continued to spill over into all elements of the U.S. financial system. From May 2007 to September 2008, pent-up distress in the financial system came to a head: investment bank JP Morgan purchased Bear Stearns for \$10 a share—less than 10 percent of the firm's share price during its heights of 2007; America's housing agencies, Fannie Mae and Freddie Mac, were put into receivership by

the federal government; several large mortgage originators such as IndyMac Bank had to have their deposits fully backed by the FDIC; and worldwide asset markets reeled. Yet this duress failed to fully prepare global markets for perhaps the most ominous point of the entire global panic of 2008—the failure of investment bank Lehman Brothers.

The collapse of Lehman Brothers marked a turning point of the financial crisis, making it a truly global phenomenon. Global investors sold assets that they perceived as risky in favor of traditional safe havens such as U.S. Treasury securities in a process known as the “flight to quality.” Unfortunately for the South Korean economy, global institutional investors dumped their won-denominated securities in favor of dollar-denominated ones.

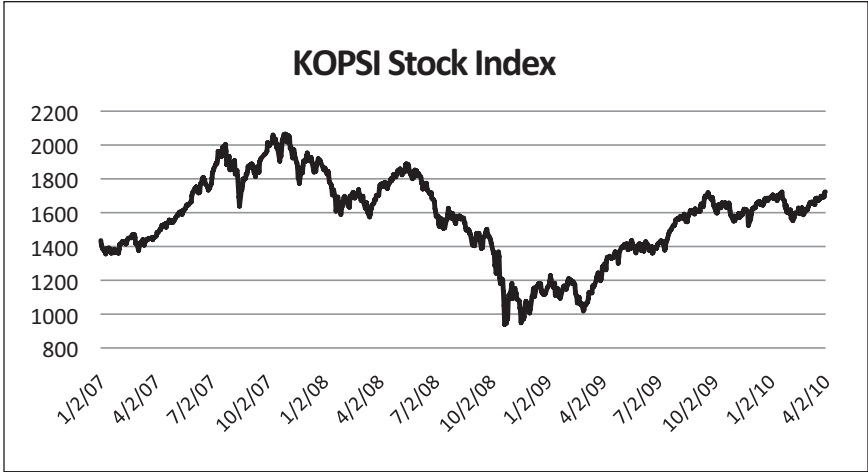
For South Korean policymakers, this process belied their perception of stability in their economy. During the first two quarters of 2008, South Korea maintained strong growth rates, with real GDP at 5.8 percent and 4.8 percent, respectively. But financial market instability bled into the real economy, depressing consumption, exports, investment, and net capital flows. This deterioration is summarized in table 2.

Table 2. ROK: Real Economy Contraction

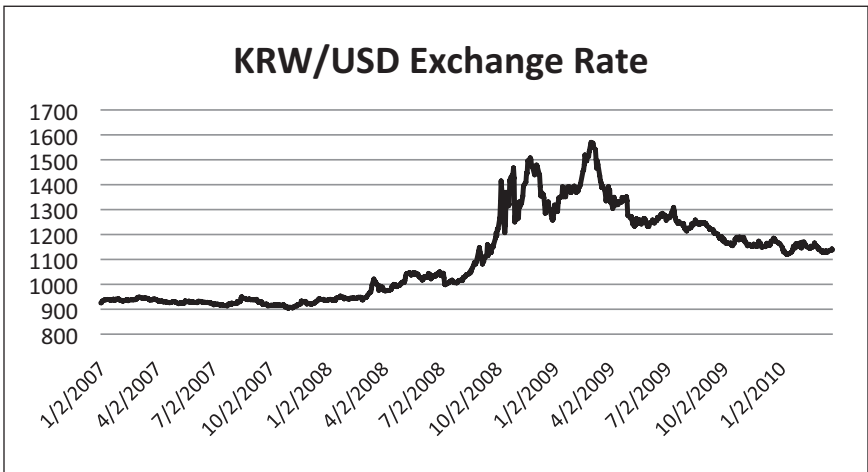
South Korea Economic Indicators (% or % change)	2007	2008			
		Q1	Q2	Q3	Q4
GDP growth rate	5.0	5.8	4.8	3.8	-3.4
Consumption Growth	4.5	3.4	2.3	1.1	-4.4
Investment Growth	7.6	1.4	0.7	4.7	-14.0
Export Growth	14.1	17.4	23.1	27.0	-9.9
Interest Rate (Corporate bond, 3 yr. AA-, %)	5.7	6.4	6.3	7.2	8.3

Sources: Bank of Korea; Korea National Statistical Office

As global deleveraging continued in the wake of the Lehman Brothers bankruptcy, foreign investors unwound their holdings in Korea because of Korea’s relative capital market liquidity. In 2008, risk averse foreign investors recorded net sales of 43.2 trillion won out of total holdings of 176.2 trillion won, and foreign investors’ share of the Korea stock market fell from 42 percent in 2004 to 29.4 percent in 2008. Changing demand conditions led to a predictable outcome in the South Korean currency and asset markets. The KOSPI stock index fell precipitously during September and October 2008, while their currency depreciated against the dollar, illustrated below.



Source: Yahoo™ Finance



Source: Federal Reserve

To combat this capital flight and precipitous fall, the South Korean government guaranteed \$100 billion in foreign debt and pumped an additional \$30 billion into their financial sector on October 19, 2008. The proximate effects of this intervention were clear: despite the announcement, the won continued to depreciate and the stock market continued its skid. South Korea was not able to autonomously stem capital outflows.

With credit frozen worldwide and ratings agency threats of sovereign downgrade, the Federal Reserve intervened to loosen credit in emerging markets. On October 30, 2008, the Federal Reserve announced a \$30 billion currency swap arrangement with South Korea. After this announcement, the KOSPI index rose 12 percent and the won rallied, reflecting renewed investor confidence in the South Korean economy.

The correlation of the announcement of this coordinated intervention and the South Korean market stabilization provides *prima facie* evidence of a link between U.S. involvement in the South Korean economy and material outcomes. Did the creation of the swap agreement stabilize the South Korean financial markets? If so, what was its mechanism?

V. CONFIDENCE-BUILDING MEASURES: THE UNITED STATES' INTERVENTION

South Korea's stock market and nominal currency value were in freefall prior to the Fed's announcement of the currency swap arrangement. The Federal Reserve's stated reasoning, per their official announcement of the swap line, gave the purpose of the swap as the following:

[It is] designed to help improve liquidity conditions in global financial markets and to mitigate the spread of difficulties in obtaining U.S. dollar funding in fundamentally sound and well managed economies.

Further, the Fed concluded that South Korea was a "systemically important" economy.

This characterization bolstered the credibility of South Korean monetary authorities. The financial press—an imperfect barometer of market sentiment—echoed the case that financial panic in South Korea had been overdone. Asset

managers believed that with the credit of the United States, outright default in South Korea became a distant possibility. Given that other systemic actors in the United States received near-virtual guarantees of their liabilities, this word carried particular symbolic importance for the South Koreans.

But this begets the question: what was the actual mechanism of transmission between the currency swap arrangement with the United States and Korea and the stabilization of the Korean financial market?

The Swap Agreement's Material Insignificance

To judge whether the swap agreement had a lasting material effect on the South Korean economy, it is important to consider the evolution of the execution of the swap. The currency swap's actual implementation took place far later than the announcement of it.

Taken in context, the announced notional value of the currency swap, \$30 billion, ostensibly provided South Korea with additional firepower to fight the extensive net capital outflows from won-denominated securities. For instance, \$30 billion is over three times the value of their foreign exchange reserves during the crisis of 1998. And \$30 billion constituted an additional 12 percent of their total foreign exchange reserves. This extra ammunition would have given South Korea a sufficient buffer against speculative panic in their financial markets.

But a closer examination of the swap's treatment reveals a different story. For most of November 2008, the Fed did not physically fund any of the currency swap with South Korea. No dollars were exchanged for won during this time period. On November 27, 2008, South Korea received \$4 billion from the Federal Reserve. The Bank of Korea claimed this action would "ease dollar shortages at local banks, and help ease market jitters as well." On February 4, 2009, South Korea extended the deadline of the swap with the United States to October 30, 2009. No more of it was funded.

To date, South Korea has funded merely \$4.5 billion of the \$30 billion notional of the swap. Although South Korea and the Fed extended the facility several times, they have tapped very little of it. This amount, \$4.5 billion, constitutes less than 2 percent of South Korea's foreign exchange reserves. Moreover, this additional dollar infusion paled in comparison to the net monetary and fiscal stimulus that the central bank and the South Korean government put into the market.

And although South Korea struck other bilateral currency swaps with other economic powers, namely China and Japan, these swaps also went widely unused. Moreover, these swaps were created prior to the acute panic of 2008.

Still, the lack of material stimulus did not preclude material outcomes from the Fed's actions. South Korea's KOSPI stock index touched its three-year low prior to the Fed's announcement. The market was in freefall and volatility was high. After the Fed's announcement, however, the markets stabilized. On the one hand, the market presented a material outcome—the stabilization of the asset markets—but on the other hand, material stimuli were absent. Something else must have accounted for this stabilization.

VI. IDEATIONAL INTERPRETATIONS OF INSTITUTIONAL CHANGE

Ideational accounts for economic change draw on a sociological interpretation of political economy. Per the methodology of Mark M. Blyth, as outlined in his *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century*, ideational or constructivist political economy focuses on interest formation of agents. Blyth issues a caveat about material interpretations of economic crises, saying:

“[E]xogenous material changes may help to explain why a particular institutional order becomes unstable, [though] infusions of instability do not themselves explain how the new or modified order takes the form that it does.

In other words, new institutional orders do not come from these exogenous material shocks.

Applied to the Korean case, the exogenous material change in the financial market was the deterioration of credit markets first in the United States and later worldwide. The “modified order” is the post-swap stabilization of the Korean won and KOSPI stock markets. Materialists view both the uncertainty faced by agents within their model and the ideas available to them as both exogenous and irrelevant in explaining this institutional change. Instead, they contend that the imposition of the swap was the most important material change that led to the stabilized outcome. On the contrary, ideational accounts insist that these factors must be exogenous in cases of economic crises. Blyth continues:

Agents must argue over, diagnose, proselytize, and impose on others their notion of what a crisis actually *is* before collective action to resolve the uncertainty facing them can take any meaningful institutional form ... [and] ... [t]he set of available ideas with which to interpret the environment, reduce uncertainty, and make purposeful collective action possible becomes crucially important in determining the form of new institutions.

In short, Blyth contends that economic ideas matter during crises, and these ideas become the guiding principles of agents.

To wit, Blyth quotes economists Frank Hahn and Robert Solow:

The way the economy actually does work can depend on the way agents believe the economy to work ... [and] ... the way the economy responds to a policy move by the government can depend on the interpretation that other agents place on it, and therefore on the beliefs about the way things work. ... If participants believe that every increase in the money supply will be fully translated into the price level ... then they are likely to behave in ways that will make that happen.

Herein lies the critical distinction between rationalist, material interpretations of the South Korean financial crisis and ideational ones—if agents believe in a certain outcome, this outcome will recursively occur.

Constructing the South Korean Case

There are four stages of the South Korean financial crisis in 2008. In each stage, a unique ideational environment pervaded. These narratives are causally important because of South Korea's openness to international capital flows. As mentioned above, openness to international capital flows leaves South Korea's development at the behest of fickle global financial market investors. Thus, these narratives determine the behavior of these actors, thereby creating the material outcomes that these actors anticipate, per the ideational self-fulfillment cycle described above.

Phase 1: Pre-crisis Equilibrium (2006-2007) During this phase, the dominant narrative about the South Korean economy was one of rebound, stability, and lessons learned from the prior Asian Financial Crisis. South Korean authorities had regulated their financial system, exports surged, and the central bank accumulated foreign exchange reserves equal to a quarter of their total GDP. Net capital flows poured into South Korea, while a global liquidity glut precipitated a fall in world interest rates.

Phase 2: Contained Crisis (2007–mid-2008) During the contained crisis mode, world institutional investors believed that cracks in the U.S. housing market would be contained and that the macroeconomic fallout would be limited worldwide. Korean exports surged during this period as global growth had yet to take a hit from the impending disaster of the global financial crisis. Market participants believed that Asian economies had decoupled from the United States.

Phase 3: Global Crisis (mid-2008–October 2009) After the bankruptcy of Lehman Brothers, global investors sold their risky assets in favor of dollar-denominated ones. It was here where investors seized on the notion that South Korea's financial sector could be vulnerable to the maladies of the 1990s. This marked the height of market uncertainty.

According to Tom Kang, founder of Kang & Company and private equity fund manager in South Korea, market participants believed that imprudent dollar bets by South Korean banks led to market fears of their solvency. This is an example of agents forming narratives to effect material change.

Phase 4: Confidence Restored (October 29, 2009–present) During this phase, the Federal Reserve announced its swap agreement with the Bank of Korea. Net capital outflows halted, the KOPSI's fall ended, and the outright panic of the preceding period receded.

Immediately after the announcement of the swap, market participants recognized that the mere acknowledgement of Fed backing would lead to material outcomes: "The Fed agreement itself is recognition of the soundness of the Korean economy and currency," said Lee Min-ko, a strategist at SH Asset Management Company in Seoul.

Indeed, market participants saw that the announcement of the swap represented a watershed moment in South Korea's financial crisis. The actual execution of

the swap went commensurately underreported in the mainstream financial press.

The critical point in this narrative occurs at the announcement of the swap agreement. Given the Knightean uncertainty of the market panic of 2008, agents sought narratives. The Federal Reserve provided one; given the Fed's credibility, South Korea was able to stem the financial market panic and assuage the fears of sovereign default.

Implications of the Ideational Response

The notion of market sentiment (ideas) leading to market outcomes (material change) is central to the above framework. Thus, South Korea should aim to achieve the following two goals. First, South Korea should mitigate the mechanism by which the whim of market sentiment can influence material outcomes. Second, given the status quo, South Korea should work to create its own narrative of its economy through material change.

Openness to Capital Flows: A Double-Edged Sword

The above theoretical section noted that ideas and interest formation were largely ignored by rationalist interpretations of crises. As the South Korean case vividly illustrates, policymakers must treat these variables as both endogenous and central to policymaking writ large. South Korea's openness to foreign capital flows leaves it vulnerable to the changing ideational context of the international financial markets. As its experience during the Asian Financial Crisis portended, capital flows are pro-cyclical in nature. Their pro-cyclicity, both amplifying market buoyancy and deepening market downturns, must be understood.

This paper does not argue for wholly closed capital markets, as access to foreign portfolio investment often leads to higher real returns and benefits for target countries. Moreover, monitoring and eliminating all forms of cross-border portfolio investment is difficult if not impossible. But the speed by which cross-border portfolio flows can travel in South Korea is essentially instantaneous: institutional investors in the Netherlands, for instance, can easily sell their won-denominated securities and convert their currency at ease. This encourages market participation but also lays the groundwork for speculation. To combat the propensity of investors to speculate, South Korea—along with other Asian tigers—should consider the use of a Tobin tax, or minute penalty on speculation as a percentage of cross-border capital flow. Although Tobin taxes

could draw the ire of global investors who want access to South Korean markets, empirical analysis done by Blake LeBaron at Brandeis University confirms that Tobin taxes decrease overall market volatility. This would allow policymakers who typically engage financial markets with a lag to properly conduct economic policy without the short-run vulnerability to systemic risk because of speculative asset market traders.

Ideationally, the use of the Tobin tax could serve as a market signaling mechanism that the South Koreans are serious about deterring capital flight. Indeed, countries with capital controls, such as China, were better insulated from the panic of 2008.

Still, the United States government remains opposed to the use of Tobin taxes in emerging markets. It would be up to South Korea to weigh this cost against the potential benefits of such a proposal, though this essay prefers the use of a Tobin tax to regulate cross-border financial flows, regardless of the political ramifications qua the United States.

Building International Credibility

Given that international market sentiment often leads to self-fulfilling economic outcomes, South Korea should understand several principles of the global economic order. First, institutional investors still see South Korea as a risky or emerging market. Despite gains in per-capita income, capital deepening, large currency reserves, a low unemployment rate, and high scores on development indices, South Korean securities still were perceived as risky by institutional investors, as shown by the fact that these were sold en masse during the panic of 2008.

According to Kwun Jun-il, founder of Actium Corporation and private equity fund manager in South Korea, corporate governance structures in South Korea render the shareholder comparatively weak, especially compared to corporations in Japan and elsewhere in East Asia. Avenues to increase shareholder rights should be explored by South Korean corporations. In so doing, they could change investors' perceptions of the staid and insular nature of Korean business.

Second, simply stockpiling currency reserves does not preclude international financial panic from engulfing the South Korean economy. Such a singular focus could lull South Korean monetary authorities into blindness to the other accumulating risks in their economy. Additionally, Kwun also emphasized that

South Korea should try to accumulate approximately 100 percent of GDP in currency reserves, amassing an even larger buffer than originally anticipated. In sum, crisis prevention should take a multifaceted approach. As a corollary, crisis resolution should assume a multifaceted approach as well.

Third, and perhaps most important for the U.S.-ROK bilateral economic relationship, South Korea should work to decouple its economy from the United States' economy. This is a difficult task and encapsulates several other factors in the global economy.

VII. U.S.-ROK MONETARY RELATIONSHIP: CHALLENGES IN 2010

In the wake of the Asian crisis of the late 1990s, countries such as the ROK, China, Japan, and the Gulf States stockpiled massive dollar reserves to combat prospective speculative panics. In so doing, these countries accumulated large current account surpluses relative to America. The United States ran twin current account and budget deficits, being the driver for global demand.

Economic theory dictates that current account deficits smooth themselves over time. With the U.S. consumer currently reeling from 10.2 percent unemployment and falling asset prices in numerous classes, the global economy can no longer reliably depend on the U.S. consumer as the spender of last resort. Luckily, countries such as China, Japan, and South Korea have large savings bases that could be used to spur their own domestic consumption.

South Korea should attempt to rebalance its economy by spurring more consumption domestically. Moreover, Korea can no longer be dependent on the United States to fuel its growth. Although exports to China have grown during the last decade, its economy is still dependent on foreign consumers. Given that investors view South Korea as the economic proxy of the United States, diversifying its economy ideationally from the United States is an essential first step to avoid global financial contagion.

And although the Korean peninsula remains a chief security concern for the United States, its economic influence is a second-tier priority for the United States. Indeed, the global economy depends on several nodes, the most important of which include the United States and China. The global decision to maintain the G20 as the chief body for global economic coordination reflects the recognition by the United States, Western Europe, and Japan of the rising

economic importance of emerging markets, such as India and China. A shifting economic balance of power could result in trade disputes, a disruption of the global monetary architecture, and protectionism if economic growth does not resume.

South Korea should not sit idly as the composition of the global economy changes. Although its version of Western capitalism has served it well, South Korea should not be afraid to break with the West in its economic policymaking. Some triangulation between China and the United States would serve South Korea well, as its interests predispose it. Practical implementation of such a policy would include finding its voice in multilateral institutions, perhaps pushing for the ratification of the U.S.-ROK Free Trade Agreement, or joining in on global calls for less fiscal profligacy of the United States. Such a policy would signal a distinct shift from the status quo, but South Korea should not hesitate to explore this new ground.

On the United States' behalf, it should understand that the South Korean economic relationship is one facet of a complex web of interdependence between the two countries. Yet the complexity of this is rising with each succeeding rise in Chinese power. Allowing the above latitude to the South Koreans would afford the Chinese a valuable regional ally, as well as one who could help to broker economic agreements to achieve the goals discussed here.

Ultimately, the challenge for both countries is not a material decoupling, but an ideational decoupling, wherein investors do not associate macroeconomic weakness in the United States with fear of spillover contagion in South Korea. The above measures help mitigate and change this investor perception, which proved instrumental in driving the material outcomes in South Korea during the financial crisis of 2008.

VIII. CONCLUSION

Using the methodology of ideational political economy, this paper has described how the United States helped construct an ideational narrative or social equilibrium of economic stability in the Republic of Korea. Because of South Korea's open capital markets, agency of global institutional investors becomes a critical variable in explaining material change in the South Korean economy. This agency depended on the ideas formed by the narratives of global economic actors. Material measures to fight crisis, such as large currency reserves, failed to achieve their desired result precisely because they lacked a strong ideational

complement to fight crisis. As such, the currency swap between the United States and South Korea of October 2008 helped constitute this credibility.

This paper then argued that South Korea should work to dissipate vulnerabilities to international capital flows, through either the implementation of a Tobin tax or increased domestic ownership of its domestic securities. Even if this reform is not passed, South Korea should use the wake of the financial crisis to do its part to rebalance the global economy. Structural change in South Korea should develop with this in mind.

Finally, policymakers in both the United States and South Korea must come to grips with the reality of a changing economic balance of power worldwide. For its part, the United States should afford South Korea the policy latitude it needs to triangulate between the United States and China, as South Korea is a fertile ground for cooperation between these two wary superpowers. On its behalf, South Koreans should understand that the prior economic hegemon can no longer fuel the international economic system, and it should attempt to find its voice in global economic institutions. Coming to grips with this changing reality will allow South Korea to construct its own narrative for its capricious institutional portfolio investors.

Of course, the above analysis must be taken in context. Many issues face both the United States and South Korea, most notably issues of nuclearization of the Korean peninsula. But these multiple channels of interaction can lay the groundwork for cooperation elsewhere. The United States should not lose sight of this—perhaps conjuring the political will to pass the Korea-U.S. Free Trade Agreement could be in order.

Although the events of 2008 and 2009 proved tumultuous for the global economy, through the economic wreckage come signs of hope. The global economy could not depend on the United States to fuel the international economic system forever. As such, the next year marks a chance for countries such as South Korea to claim a larger voice in shaping the contours of the global economy in ways that better suit their interests and long-term stability.

SOUTH KOREA AND THE G20

By Nick Borst

I. INTRODUCTION

The meltdown that occurred in American financial markets during the fall of 2008 has precipitated a watershed change in the global economic landscape. The governance mechanisms previously used to guide the global economy suddenly became inadequate. Constructed in the aftermath of World War II, the old international economic system was largely Western-centric and guided by international institutions such as the International Monetary Fund, the World Bank, and G8. Emerging now is a new system, one that is more representative of the growing economic influence of rapidly developing economies in Asia and elsewhere. The prominence of new organizations, such as the G20, stands as testament to the change that has occurred in the global system. Significantly, the shift has created an opportunity for previously marginalized countries to reshape the global economic system in a way more equitable to their interests.

South Korea has traveled a tumultuous economic path over the past decade, facing devastation during the Asian Financial Crisis and an unexpectedly quick recovery after the crisis passed. South Korea now occupies a unique position. The current global economic crisis has overturned old models of economic growth and led to a resurgence of interest in South Korea's development model. This change has occurred simultaneously with the rise of the G20 and its emergence as the premier global economic forum. South Korea's position as both a member of the G20 and the host of the fall 2010 summit gives it a unique opportunity at a pivotal moment to help reform the global economic system. South Korea is seizing this opportunity and assuming a global leadership role unprecedented in its national history. The hosting of the fall 2010 G20 summit will be a critical test of South Korea's ability to act on the world stage and take a role in international economic leadership.

II. FROM “BASKET CASE” TO DEVELOPMENT MODEL

The significance of South Korea’s involvement with the G20 must be understood in the context of the events of the past decade. In 1997, the Asian Financial Crisis devastated South Korea’s economy and threatened to unravel decades of economic progress. The crisis originated in Thailand, and after the collapse of the Thai Baht, it soon spread across the rest of Asia, embroiling South Korea, Indonesia, Malaysia, and Russia in financial turmoil. South Korea’s economic progress, long heralded as a model for the rest of the developing world, suddenly came under fire as an example of industrial policy gone wrong. The close connection between *chaebols* (conglomerates) and the government was now suddenly seen as giving rise to cronyism and inefficiencies. South Korean national pride took a gigantic blow as it was forced to seek assistance from the International Monetary Fund (IMF). It was a tremendous reversal of events for a nation that had prided itself on its rapid and seemingly unstoppable economic development.

IMF assistance came with loan conditionality, requirements for South Korea to implement a wide range of significant economic reforms. In their article “Economic Reform after the Financial Crisis,” published in the *Review of International Political Economy*, Shin Jang-sup and Chang Ha-joon identify the main focuses of the IMF reforms as pushing South Korea to implement macroeconomic retrenchment, market opening and liberalization, and larger structural reforms. South Korea was forced to raise interest rates and cease deficit spending. Capital and products were opened up, and trade-related subsidies were largely eliminated. The *chaebols* were targeted for reform, pushing them to reduce leverage ratios and focus on core businesses. The financial sector also became a major target for reform and an overarching financial supervisory body, the Financial Supervisory Commission, was created.

The South Korean economy experienced a dramatic and unexpectedly quick recovery, returning to positive growth in the first quarter of 1999. Disputes, however, continue to rage over whether the economic restructuring alleviated or exacerbated the crisis. Regardless of the effectiveness of the IMF-mandated reforms, the trauma caused by the Asian Financial Crisis has bred a deep desire in South Koreans, especially policymakers, to avoid having to seek assistance from the IMF in the future. In the years following the crisis, South Korea worked hard to clean up its financial system as well as to build up significant foreign exchange reserves to provide protection against a future crises.

Interest in South Korea's economic model appears to have been revitalized as a result of the country's impressive performance in weathering the Global Financial Crisis. South Korea's initial experience during the current economic crisis was traumatic, but recovery and a return to growth came with unexpected speed. As an export-oriented economy, South Korea faced a steep decline in exports as the crisis ravaged the United States and Europe. In the face of financial turmoil and economic recession, Western consumers cut back on expenditures and in doing so greatly reduced their purchase of imported goods. In addition to being damaged by declining exports markets, South Korea also took a major investment hit. Western financial institutions withdrew capital from overseas in a panic-induced effort to meet their domestic obligations, expanding the credit crunch beyond the borders of Europe and the United States. The International Monetary Fund reports that the South Korean economy contracted by 5.1 percent on a quarterly basis at the end of 2008, among the most severe in the world.

Although the country faced difficult economic circumstances, South Korea's previous experience in dealing with the Asian Financial Crisis and the reforms it had made in cleaning up its financial system actually helped the country navigate through the economic turmoil. Cognizant of the fact that failure to act quickly during the initial stages of a crisis could lead to greater suffering later on, South Korean officials moved quickly to deal with the spread of the financial crisis within the country's borders. Copious amounts of won and dollar liquidity were injected into the system. The immense foreign reserves that South Korea, along with much of the rest of Asia, built up after the Asian Financial Crisis greatly facilitated South Korea's ability to quickly provide new sources of liquidity. The Lee administration also took proactive steps to create recapitalization and toxic-asset funds in order to help maintain solvency in the banking system and prevent a damaging forced deleveraging.

As a result of its prompt actions during the crisis and preexisting solid economic fundamentals, South Korea became one of the first nations to recover from the recession. This has, in turn, given birth to a new burst of national self-confidence. Many South Koreans feel confident once again about putting forth their country as model for development, especially as Anglo-Saxon forms of capitalism came under criticism for having caused the crisis. Concerns, however, continue to linger about the sustainability of South Korea's recovery. Consumer demand in South Korea's export partners remains sluggish, and the health of the global financial system is precarious. The Bank of Korea continues to keep interest rates at record lows in order to protect the country from sliding back into recession.

III. EMERGENCE OF THE G20

The resurgence of the South Korean economic model has coincided with the emergence of the G20, of which South Korea is a member, as the world's premier economic forum. The history of the G-groups is closely linked with the international economic crises. The 1973 oil crisis and economic turmoil following the collapse of the gold standard led to a renewed interest in coordinating global economic policy. In 1974, after the dollar devaluation and a sharp recession, U.S. Treasury Secretary George Schultz invited representatives from what were the world's major advanced economies at that time (United Kingdom, France, West Germany, and Japan) to meet and discuss global economic issues. The group was commonly referred to as the Library Group because of the meeting location in the White House Library Room. In 1975, France invited the Library Group countries plus Italy to a meeting to discuss the global economy. At the meeting, the process was formalized, with annual summits and a rotating presidency. In 1976, Canada was added to this group, and thus the Group of Seven (G7) was born. Although it lacked an institutionalized secretariat and a founding charter such as other international institutions had, the organization's flexible and relatively unstructured nature contributed to its effectiveness. As a result, members found it an effective forum to discuss issues of global importance and to build consensus for problem-solving approaches.

Outsiders, however, have not viewed the group nearly as positively. Throughout its history, the G7 has been a frequent target of criticism for its lack of representation of the developing world. This problem was exacerbated by the glacial pace at which the G7 increased its membership to reflect the shifting distribution of global economic power. It was only in 1994 that Russia was invited to participate in a summit for the first time, and it took until 1998 for the country to become a full member. China was invited to attend meetings as part of the G8+5 structure in 2003, but has never been invited to join as a full member despite its status as the world's third-largest economy. As a result of this perceived legitimacy deficit, the G8 has been subject to questions about its continued relevancy and effectiveness for the past decade.

In his book *The G8 System and the G20*, Peter Hajnal describes the events that led to the establishment of the G20. When the Asian Financial Crisis erupted, world leaders doubted the ability of the G7/8 to unilaterally combat the crisis; the G22 was established in 1998 at the behest of the G7/8 to help coordinate the global response. In 1999, the organization was expanded into the G33. That same year, the G33 was superseded by the G20 when the organization was

formally established during the September 1999 Finance Ministers Meeting.

In the view of much of the world, the G20 represented a significant improvement in global representation. Its members, taken together, make up 85 percent of global GNP, 80 percent of world trade, and two-thirds of the world's population. Additionally, the group is significantly less Western-centric, with members hailing from every region of the world. Like the G8, the G20 lacks a permanent secretariat and is governed by a rotating chair. It also makes use of a governing system called the "Troika," in which the present chair, chair from the previous year, and upcoming chair all meet to coordinate the planning of new initiatives and meetings. With the chair rotating between member countries, the governing Troika is frequently a mix of Western and non-Western nations. Despite global enthusiasm for the group, in the period leading up to the Global Financial Crisis the G20 was still overshadowed by the G8 in terms of global influence.

IV. THE G20 AND SOUTH KOREA TAKE CENTER STAGE

As the Global Financial Crisis worsened during the fall of 2008, it became clear to many world leaders that some sort of coordinated global activity would be necessary to save the global economy. Though the crisis had begun in the West, it had quickly spread and become a global problem. As during the 1998-9 crisis, it was obvious that the G8 structure alone would be insufficient to deal with a crisis of this magnitude, especially with the American and European economies in a state of free fall. The leaders of the G8 countries decided to convene a meeting in Washington to discuss the crisis and to invite representatives from the world's major economies to participate.

European leaders initially pushed for a G8+5+1 structure, adding China, India, Brazil, Turkey, Indonesia, and Saudi Arabia. President Bush, according to reports, objected to the exclusion of several American allies from the forum, notably South Korea and Australia. The Europeans acquiesced to the enlargement, and the G20 was selected as the most appropriate organization. After the Washington summit, it was decided that the G20 would continue to meet biannually throughout the duration of the crisis. After the Pittsburgh meeting, positive endorsements from both the G8 members and the newly included members made it clear that the G20 not only would continue to meet, but would henceforth replace the G8 as the preeminent global economic forum. As it had for South Korea, the Global Financial Crisis represented a turning point for the G20; its role on the world stage would be greater than ever before.

V. KOREA'S ROLE IN THE G20 CRISIS SUMMITS

The Washington Summit—October 2008

The mood at the Washington summit, with the full extent of the global financial meltdown still uncertain, was anxious, and expectations for the G20 were astronomical. The organization was being called upon to undertake the critically important role of stabilizing the global economy in a period of extreme turmoil. The G20 was relatively new and untested. Its predecessor, the G8, had not been known for producing tangible solutions during periods of crisis. Many worried that the G20, with a larger and more diverse membership, would prove even worse in terms of achieving a consensus.

Coming into the summit, South Korean goals were focused on achieving a consensus on measures to mitigate the crisis. In his keynote address at the summit, President Lee outlined a series of goals for the G20 to achieve. The first goal was to ensure adequate liquidity in the global market, and he pushed for members to take immediate action towards injecting adequate funds into their financial systems. President Lee referenced South Korea's own experience during the Asian Financial Crisis as a testament to the importance of maintaining adequate liquidity. While President Lee commended the major economies for coordination on interest-rate cuts and liquidity cuts, he argued strongly for more action on fiscal stimulus. Lee pointed to China, Japan, and South Korea as positive examples of countries that had undertaken adequate fiscal stimulus programs. This was taken at the time to be an implicit criticism of relatively meager stimulus efforts by some European nations.

South Korea pushed for two specific outcomes from the summit. The first was an increase in the number of bilateral currency swap agreements. This was a key way for emerging markets to staunch the growing spread of financial instability by increasing confidence. Second, President Lee argued for the extension of the IMF's new Short-Term Liquidity Facility (SLF) to developing nations who were not members of the G20.

Additionally, South Korea pushed for a redoubled effort to complete the Doha Round of multilateral trade negotiations. As an export-dependent economy, South Korea was extremely worried about a new resurgence in trade protectionism. Finally, President Lee used the summit as an opportunity to put forth South Korea as an example of financial regulation. Lee put forward South Korea's unified financial supervisory agency tasked with overseeing overseas

banking, insurance, and securities. This agency was created as a way to overcome South Korea's massive bank problems that were exposed in the Asian Financial Crisis.

The Washington summit represented a huge shift in South Korea's role in international economic policymaking. South Korea had only decades before been considered a developing nation. The country's economic reputation then took a nosedive during the Asian Financial Crisis as its economy collapsed and cronyism was exposed. Now, a decade later, South Korea was seated among leaders from the world's largest economies in the premier international global economic forum, putting itself forth as an example of financial stability. The summit also gave South Korea an opportunity to act as an advocate for the interests of developing nations and push for more equitable changes to the international financial system. The Washington summit was an impressive initial debut for South Korea on the world economic policymaking stage.

The London Summit—April 2009

The London summit contained all the urgency of the Washington summit, but was burdened by even higher expectations. The Washington summit had been hastily arranged, without proper time to draw up detailed plans for reform of the global economy. Moreover, imminent transfer of presidential power in the United States after the summit had limited the scope of what delegates could commit to. For the London summit, there was now a popular new American president in office who had given a strong voice of support to the efforts of the G20. The hopes for the London summit were astronomical; many at the time referred to it as Breton Woods II, a new foundation for the global economy.

The agenda for the meeting included coordinating macroeconomic stimulus actions to revive the economy, reforming and improving financial sector functioning and regulation, and reforming international financial institutions, primarily the International Monetary Fund, the Financial Stability Forum, and the World Bank. This agenda represented a massive increase in the scope of challenges undertaken by the G20. In order to increase the chance that results could be achieved during the summit, British Prime Minister Gordon Brown visited multiple member nations and lobbied for their support on these initiatives. There was, however, significant controversy surrounding some of the G20 initiatives. The disagreement centered around fiscal stimulus, with a clear gap opening up between the United States and the United Kingdom advocating aggressive stimulus, and Germany and the Czech Republic (then holding the

EU presidency), advocating a more restrained approach to avoid a resurgence of inflation.

In advance of the summit, President Lee met with leaders from Indonesia and Australia to encourage avoidance of protectionist trade measures. South Korean officials were worried about the growing influence of protectionist voices as the world's major economies struggled to cope with the crisis. South Korea's economic recovery would be dependent not only on open access to foreign markets, but also on a recovery in foreign consumer demand. To that end, during the summit South Korean representatives pushed for renewed commitments by G20 members to avoid protectionist measures and early withdrawal of stimulus efforts. While pledges to avoid protectionism had been made at the previous summit, many countries subsequently ignored those promises. Some countries enacted explicitly protectionist trade policies, while others subtly violated the pledge by enacting "buy domestic" provisions in stimulus packages.

In the lead-up to the summit, South Korea initiated an aggressive effort to host a summit in South Korea. A G20 Task Force was established with former finance minister, Sakong Il, as head of the G20 Summit Coordinating Committee. Lee and Sakong made a major diplomatic push, traveling around the world to convince G20 members to support South Korea's bid. There was a strong desire on the part of many member nations to have a non-Western country host a summit, and many were worried that the likely candidate for that role, Japan, would be incapable of hosting a successful summit due to its imminent change of administration. South Korea's hosting initiative was thus successful, and it entered the summit with the knowledge that it would be hosting a meeting the following year.

During the meeting, South Korea made progress in advancing its agenda of reforming the international financial institutions. South Korea advocated for a series of reforms to the International Monetary Fund and World Bank aimed at not only increasing the effectiveness of these institutions, but also increasing their perceived legitimacy by giving developing nations a larger share of decision-making power. The G20 also agreed to replace the Financial Stability Forum with the Financial Stability Board, an organization with a broader mandate to focus on global financial stability. In a press conference after the event, President Lee referred to the meeting as a success. President Lee specifically pointed to the pledge by G20 leaders to make \$850 billion dollars available to developing countries to finance fiscal stimulus efforts and recapitalize insolvent banks. At the London summit, South Korea was able

to successfully advance several of the items it had initially advocated for in Washington.

The Pittsburgh Summit—September 2009

In the lead up to the Pittsburgh summit, the Lee administration published an article expressing the South Korean government's view of the progression of events thus far. According to Lee, thanks to the extraordinary efforts of the G20 process, the economic recession was hitting bottom and a greater depression-like event had been avoided.

Despite this progress, President Lee raised significant concerns over the issue of exit strategies. Officials in South Korea believed that the recovery in the global economy was extremely fragile and that premature withdrawal of fiscal and monetary stimulus efforts could lead to a return to recession. Lee also stressed the need for concerted global action in implementing the unwinding of rescue efforts.

South Korea made the coordination of unwinding strategies its primary goal at the summit. South Korean representatives also advocated for the advancement of a proposal to create a new trust fund of special drawing rights from developed nations and nations with large foreign reserves in order to benefit developing countries. Additionally, President Lee again pushed for the completion of the Doha Round of trade negotiations.

At the Pittsburgh summit, South Korea joined with the Americans in advocating the need for global rebalancing. The massive borrowing and expanding trade deficits that had characterized the global economy in the previous decades could not be relied upon to provide sustainable growth. South Korea pushed for the International Monetary Fund and the World Bank to act as an international "brain bank" producing policy recommendations for global economic issues and ideas for reform. Finally, South Korean representatives recommended consideration of institutionalization of the G20 process as a way to strengthen both the organization and global governance. The establishment of a permanent secretariat and headquarters for the G20 was put forward as a possible method of institutionalization.

Towards the Toronto and Seoul Summits—June and November 2010

The upcoming G20 summit meetings in 2010 will be held during June in

Toronto, Canada, and during November in Seoul, South Korea. The G20 group agreed that biannual meetings would be necessary through 2010 in order to deal with the aftermath of the financial crisis. A G8 meeting was planned for June in Canada, and in order to minimize travel preparations, the G20 members decided that its first meeting of the year should be held in conjunction with the G8 meeting. Cognizant of South Korea's position on the governing Troika and preparations to host in November, Canada agreed to co-chair the June G20 meeting with South Korea.

After discussions with multiple South Korean officials at the Ministry of Finance, the International Monetary Fund, and the G20 Planning Task Force, several items have emerged as likely initiatives. The ambitious lists of initiatives includes the promotion of coordinated exit strategies of crisis rescue efforts, the rebalancing of the global economy to prevent the outbreak of a future crisis, plans to tackle noneconomic issues such as climate change, and several national initiatives aimed at promoting South Korea's international role. None of these initiatives is without challenge, and it will require skillful leadership on the part of South Korea to achieve even half of these goals.

Macroeconomic Coordination. With the global economy apparently on the path to recovery, the upcoming meetings are likely to focus on a coordinated wind-down of emergency fiscal and monetary stimulus efforts. The South Korean government is eager to avoid recurrence of inflation, but at the same time wary of too rapid a withdrawal of rescue efforts that might lead to another recession. South Korea is also likely to keep emphasizing the need for wariness against trade protectionism, arguing that global trade is necessary to fuel global growth. It remains to be seen whether the G20 will be capable of quelling the trade spats that have sprung up recently between member nations.

Global Rebalancing. Global rebalancing is another initiative that will receive a major push from the South Koreans. South Korea is interested in pushing for a shift to a more sustainable pattern of global economic development. This will involve increased savings from current account deficit nations and increased domestic consumption from nations that have been running large surpluses. Without a shift in these larger global trends, a sustainable long-term recovery will be difficult to achieve. This shift, however, will require painful economic reforms for member countries and might be indefinitely postponed as nations continue to struggle economically.

Noneconomic Challenges. South Korea is likely to push for the G20 to increase

its activeness in addressing noneconomic global challenges. Such challenges include global climate change and the proliferation of weapons. With most of the world key powers present, the G20 offers a unique platform to discuss and build consensus on transnational problems. The flexibility and representativeness of the G20 stands in contrast to some of the long-running frustrations with other international bodies such as the G8. For South Korea, it is a seat at the table where before it had previously been excluded. Questions remain, however, as to the effectiveness of the G20 in tackling these issues due to its lack of enforcement mechanisms.

Institutionalization of the G20. Another achievement South Korea may try to realize next year during its hosting of the G20 summit could be the further institutionalism of the G20 process. Although previously the G8 and G20 have benefited from structural flexibility, the increased responsibilities the G20 now finds itself faced with may necessitate a more formalized structure. If the G20 is to truly be the “global steering committee,” its working groups and oversight of international financial institutions will need permanent staff and facilities. Greater mechanisms to enforce agreements, or at least monitor compliance once consensus has been reached could also be considered. Whether larger nations will be willing to agree to such measures is still an open question.

Korean Model for Development. South Korea will use the opportunity of hosting the G20 to put itself forward once again as a model for development. After having lost much of its luster during the Asian Financial Crisis, the South Korean model is once again attracting global attention. Of particular interest are the reforms South Korea made to its financial system after the crisis. South Korean leaders are now eager to put forward their model of financial regulation with a unitary regulatory structure as a model for other nations to emulate as they try to prevent the reoccurrences of future crises.

National Brand. One of the key goals South Korea will have for the summit is to raise its national brand. As a country that rapidly progressed from developing to developed status, South Korea has entered a new echelon of international economic status. South Korea’s image, however, has lagged behind reality. Many nations are not fully cognizant of South Korea’s transition to a developed economy and a democratic political system. One of the main priorities of the Lee administration has been to improve South Korea’s “national brand.” South Korea has worked to change the misconceptions about it, to create a national image that is associated with high-tech economic growth. The hosting of the G20 summit will be a fantastic opportunity to show the world South Korea’s

progress over the last fifty years from war-torn developing country to developed economy with a thriving democracy.

Bridge between Developed and Developing World. Hosting the G20 summit is also an opportunity for South Korea to continue its role as an advocate for developing nations. Having only recently been a developing nation itself, South Korea continues to feel a strong sense of obligation to push for greater inclusion for unrepresented developing nations into the process. One of the principal ways in which South Korea will advocate for this is by continuing to push for the reform of international financial institutions. South Korean officials envision the creation of financial safety nets as part of global financial architecture reform in order to protect small open economies. These reforms will likely focus on increased leadership roles and voting shares for developing nations. South Korea will also push to make addressing the global development gap a high priority on the G20 agenda.

VI. CONCLUSION

The financial meltdown of 2008 dealt a sharp blow to South Korea's economy, but its subsequent recovery has been a source of national pride. While the immediate economic impact of the crisis has been given a great deal of attention, the political consequences of the crisis are likely to be more enduring and significant for South Korea in the long run. The financial crisis triggered discussions about restructuring the global financial system and shifting the distribution of power within global institutions. These discussions have given new prominence to globally representative groups such as the G20 and diminished the influence of such Western-centric groups as the G8.

As a member of the G20, South Korea now has more influence over international economic policy. South Korea has used this increased influence to push for a variety of reforms to the global economic architecture. Truly capitalizing on this new influence and achieving long lasting reform will not be easy. The G20 is more representative of the current distribution of global economic power, but greater representation coincides with increasingly divergent interests and viewpoints. Numerous fault lines run within the G20, between developing and developed nations, regional economic blocs, and rising and declining economic powers. South Korea must walk a difficult tightrope because it straddles many of the fault lines that divide the group. South Korea has recently emerged as a developed non-Western economy. The country is

politically aligned with the United States but economically oriented towards Asia. Due to its unique makeup, South Korea has the potential to act as a bridge between competing interest groups within the G20 and a credible advocate for reforming the global economic architecture.

Many of these reforms were conceived from South Korea's own experiences. Having quite recently been a developing nation, South Korea has aggressively pushed to make the international system more sensitive to the desires of developing nations. It has also advocated changes to the international financial institutions (World Bank, International Monetary Fund, and Financial Stability Forum). Having been through a severe economic crisis during the late 1990s, South Korea has pushed for greater efforts to increase liquidity in struggling markets and has advocated against an overly quick withdrawal of recovery efforts. South Korea has also put forth its financial regulatory efforts in the wake of the Asian Financial Crisis as an example for other nations to follow. South Korea has been one of the key forces backing the anti-protectionist agenda in the G20. As a nation heavily dependent on access to export markets, it has argued that global recovery is impossible if the nations of the world adopt beggar-thy-neighbor strategies. Finally, through its aggressive efforts to host the G20 summit, South Korea has given itself a platform to promote the country to the world and raise its international stature.

The financial crisis of 2008 marks a watershed moment in South Korea's role in the international system. It marks the emergence of South Korea as an international leader and agenda setter. It also represents a stark turnaround for the country's economic model. Only a decade after the Asian Financial Crisis, South Korea's economic model seems to be revitalized in the eyes of the world. More broadly, the shift from G8 to G20 is a historic transformation. For some countries, such as China and India, it marks an inevitable shift towards a greater role in the international system. However, for other smaller economies, such as South Korea, a role in shaping the reform of the global economic system was not a given under the G8 framework. The confluence of a global economic crisis and a group of leaders willing to push for a system with broader representation opened this new window of opportunity. South Korea is seizing the opportunity to realize a long-held goal of playing a larger role in international economic policymaking. The success or failure of the Seoul summit this November will be a referendum on whether South Korea has been successful in this effort.

PART IV: NORTH KOREA



NORTH KOREA'S DENUCLEARIZATION: THE CHALLENGE OF BREAKING THE CYCLE OF MISTRUST

By Naoko Aoki

I. INTRODUCTION

Years of multilateral efforts aimed at halting North Korea's nuclear programs have failed to produce lasting results. In 2009, the goal of denuclearizing North Korea proved elusive yet again.

The year 2009 began on the heels of a major setback. In December 2008, the Six-Party Talks aimed at denuclearizing North Korea broke down due to disagreements over how to verify nuclear information provided by North Korea. The collapse of the December talks came to mark the latest in a series of diplomatic failures intended to end North Korea's nuclear development.

While there was a period of relative calm between the United States and North Korea in the period leading up to and immediately following the inauguration of U.S. President Barack Obama, that changed abruptly in the aftermath of North Korea's rocket launch on April 5, 2009. The launch was condemned immediately by the UN Security Council. North Korea reacted angrily to the United Nations' censure, rejecting future Six-Party Talks and expelling international nuclear inspectors from the country. In May, it carried out a second nuclear test, ignoring international pressure to refrain from the test.

Since summer of 2009, however, North Korea has begun peace initiatives termed by some as a "charm offensive," which culminated in the December 8-10 trip to North Korea by U.S. Special Representative for North Korea Policy Stephen Bosworth. Early indications suggest that the first official high-level contact between the two countries since President Obama took office is likely to be only the first step towards the resumption of the formal denuclearization process.

Why did the Six-Party Talks break down, and why did tensions increase in the first half of 2009? Now that the mood in Pyongyang appears to have changed, are North Korea's current gestures for dialogue sustainable?

This paper attempts to answer those questions by examining the major events associated with North Korea's nuclear development since last year through public comments and actions by the main parties involved. It argues that mutual mistrust between the United States and North Korea has played a major role in the collapse of the denuclearization process and the concomitant increase in tensions in the first half of 2009.

It also addresses North Korea's various nuclear programs in an attempt to assess how far North Korea has progressed in reversing all that was accomplished during the "disablement" phase of the denuclearization process since the collapse of the December 2008 talks.

The paper starts with a quick overview of the process that led to the deadlock of the Six-Party Talks by the end of 2008. It then turns to the North's rocket launch and nuclear test in early 2009, to examine the role that mutual mistrust played in heightening tensions between the United States and North Korea. It then analyzes North Korea's nuclear programs in an effort to gain an understanding of the challenges ahead for denuclearization efforts. Finally, it concludes with the significance of the visit to North Korea by Bosworth in December 2009 from the point of view of avoiding misinterpretations and misunderstandings, and warns about the continuing danger of mistrust triggering dynamics that negatively affect any future denuclearization efforts.

II. THE COLLAPSE OF THE SIX-PARTY TALKS

Even before they began, the December 2008 denuclearization talks that involved the two Koreas, the United States, China, Japan, and Russia appeared to be headed for failure. On one side were the United States and its allies Japan and South Korea calling for the sampling of North Korea's nuclear sites in order to verify nuclear information submitted earlier by North Korea. On the other side of the dispute were the North Koreans, who rejected the measure as being overly intrusive.

Although there was no written record, the United States insisted that North Korea had orally agreed to the collection and analysis of samples in a bilateral

meeting in October. The North Koreans denied U.S. assertions and in a statement carried by the official Korean Central News Agency (KCNA) on November 24, 2008, noted that their understanding related to verification was that it was to be accomplished through field visits, the confirmation of documents, and interviews with technicians, but that sampling *per se* was not involved.

Bilateral talks to bridge the differences were held in Singapore in December 4-5, 2008, ahead of the Six-Party meeting. U.S. Assistant Secretary of State for East Asia and Pacific Affairs Christopher Hill and North Korean Vice Foreign Minister Kim Kye-gwan failed to narrow the gap, and the multilateral talks that began three days later in Beijing predictably ended without any progress.

The disagreement over sampling was a clear demonstration of the extent of mutual mistrust that exists between North Korea and the United States. At the core of the dispute was the fact that sampling, as part of the verification process, was never clarified in any of the agreements reached in the Six-Party Talks. A document covering verification, released by China after the six countries met in July 2008, for example, states they will “include visits to facilities, review of documents, interviews with technical personnel and other measures unanimously agreed upon among the six parties.”

The North Koreans interpreted the push for the sampling provision as yet another example of “hostile policy” by the United States. North Korea underscored that position in the November 24, 2008, KCNA statement, which stated, “The DPRK and the U.S. are still technically at war. To demand what is not mentioned in the written agreement between the two sides while refusing to take the present level of confidence between them into consideration is an infringement upon sovereignty as it is little short of seeking house search.”

Driven by a high level of mistrust, however, the United States insisted that sampling should be a part of the verification process. Washington asserted that North Korea had orally agreed to the collection of samples and their removal from the country for analysis.

Their disagreement had not narrowed by the end of the year. The stalemate was further complicated by the election of a new president in the United States and the illness of North Korean leader Kim Jong-il, which led to debate over possible succession in the country. The year 2008 ended with the Six-Party Talks teetering towards collapse.

III. THE ROCKET LAUNCH AND NUCLEAR TEST

The United States and North Korea started the year 2009 by refraining from major initiatives on an official level as they made their respective adjustments after the January 20, 2009, inauguration of U.S. President Obama.

North Korea appeared to be in a wait-and-see mode as to how to best evaluate the policy direction the new U.S. administration would take towards North Korea. During this time, Pyongyang refrained from using any provocative expressions in their public remarks. North Korea, for example, struck a notably less confrontational tone against the United States in its annual joint editorial that appears in North Korea's three newspapers on New Year's Day. The editorial, which serves as the country's policy statement, refrained from such phrases as "imperialist forces" to refer to the United States and its "hostile policy" against North Korea—phrases used in the past.

At the same time, North Korea sent messages to the United States through public statements. After keeping silent about the nuclear issue for almost a month after the breakdown of the Six-Party Talks, in the months leading up to President Obama's inauguration North Korea issued successive statements that in essence said that it would not give up its nuclear weapons until there is no threat from the United States. In doing so, North Korea refrained from using any of the usual confrontational expressions.

North Korea also embarked on a minor engagement initiative, inviting U.S. scholars and former U.S. diplomats to visit North Korea, in what appears to have been a further attempt to gauge the direction of U.S. policy and perhaps influence it. The first visit took place in January by Selig Harrison, director of the Asia program at the Washington-based Center for International Policy. That visit was followed by a trip in February by a Stanford University group led by professor emeritus John Lewis. The Lewis trip in turn was followed by a visit that included former ambassadors Bosworth and Morton Abramowitz. (Bosworth had not at the time been named as U.S. special representative.)

All of the scholars and former officials met with North Korean Foreign Ministry officials during their respective trips. During their visits, North Korea relayed the message that while Pyongyang is committed to the denuclearization of the Korean Peninsula, Washington must treat it as a nuclear weapons state until further progress is made in relations.

The Start of the Vicious Cycle

The relative calm changed dramatically in the aftermath of North Korea's rocket launch on April 5, 2009.

North Korea launched the rocket from a facility located at Musudan-ri in the country's northeast and maintained that it was launching a satellite into orbit. The window of the launch, designated between April 4-8, offers an insight into the significance of the event for domestic politics. For on April 9, the Supreme People's Assembly, the country's parliament, was scheduled to meet for its once-in-five-years gathering. The launch of the rocket was intended to boost morale ahead of the meeting, at which North Korean leader Kim Jong-il was expected to be reelected as chairman of the powerful National Defense Commission.

Moreover, given the emphasis North Korea is placing on science and technology as part of its economy, it is logical to assume that the rocket launch was also a symbolic message to the domestic public to keep morale high while the nation worked to bolster its dismal economy on its path towards achieving its stated goal of realizing "a powerful and prosperous state" in 2012. Even if other factors may have come into play—for example, North Korea's desire to bolster its missile technology to use it as a bargaining chip with the United States—events following the rocket launch demonstrate that there were clear domestic reasons for the launch.

In the North Korean mindset, the North Korean government had done everything that was necessary to prepare for the launch. It had reported the plan to relevant international authorities, namely the International Civil Aviation Organization and the International Maritime Organization, in accordance with their requirements for member countries to inform them of such launches to ensure the safety of planes and ships. It had also warned that if Washington took the issue to the UN Security Council, it would regard it as yet another hostile act intended to bring down the North Korean government. According to a *Minju Joson* commentary carried by the KCNA on April 1, 2009, the discussion surrounding the rocket at the U.N. Security Council "would mean the collapse of the Six-Party Talks and everything achieved until now in the process for the denuclearization of the Korean Peninsula (would) come to naught."

But the United States saw the issue differently. President Obama had warned North Korea there would be consequences should they go ahead with the missile launch, which many countries viewed as a test of its ballistic missile technology.

True to its word, in the aftermath of the test, the United States played an instrumental role in the issuing of a UN Security Council presidential statement condemning the launch.

The vicious cycle was now in place. North Korea, perceiving the condemnation of the rocket firing as an attack on its system, reacted angrily. It called the UN censure a hostile act being perpetrated by the United States and its allies. In retaliation, it terminated all nuclear disablement activities at their nuclear complex in Yongbyon on April 14, 2009, and expelled both the U.S. nuclear experts, who were there to assist the disablement process, and the inspectors from the International Atomic Energy Agency (IAEA) who had been rotating in and out of North Korea since July 2007.

North Korea made its position towards the Obama administration clear on May 8 by voicing its first public criticism against it. A Foreign Ministry spokesman was quoted by the day's KCNA dispatch as saying that Pyongyang believed the United States remains committed to destroying the country's ideology and bringing down its system of government. "Nothing," a KCNA spokesman was quoted as saying, "would be expected from the United States which remains unchanged in its hostility towards its dialogue partner."

Believing it was under siege, North Korea retaliated again later in May, this time taking an even stronger measure. It detonated a nuclear device for the second time on May 25, 2009, near the small village of Punggye-ri, in the northeastern province of North Hamgyong. The test was quickly condemned by the UN Security Council, which adopted Resolution 1874 to strengthen sanctions against North Korea for the underground explosion.

IV. WAR OF WORDS

The confrontation between the United States and the North Koreans became visible in many ways, particularly in public comments made by the two sides.

Both the United States and North Korea—although more so for Pyongyang than Washington—are known to track each other's public remarks closely, in an attempt to gauge each other amid a lack of regular official contact. An exchange of hostile words began when U.S. Secretary of State Hillary Clinton likened North Korea's rocket launch to the actions of small children and attention-seeking teenagers. "What we've seen is this constant demand for attention,"

Clinton said in a media interview in July. “And maybe it’s the mother in me or the experience that I’ve had with small children and unruly teenagers and people who are demanding attention—don’t give it to them, they don’t deserve it, they are acting out.”

North Korea immediately shot back. “We cannot but regard Mrs. Clinton as a funny lady as she likes to utter such rhetoric, unaware of the elementary etiquette in the international community,” a North Korean Foreign Ministry spokesman said in a statement carried by the official media. “Sometimes she looks like a primary schoolgirl and sometimes a pensioner going shopping.”

With the war of words, U.S.-North Korea relations hit another low by the time summer began.

V. NEW INITIATIVES

A turning point to the downward spiral came in August. Former U.S. President Bill Clinton visited Pyongyang in an effort to rescue two American journalists who had been apprehended in March in the vicinity of North Korea’s border with China.

North Korea is known to place importance on high-level visits to North Korea, including those by former officials, perhaps because of the importance it attaches to its own leadership. An indication of the gravity North Korea attached to former President Clinton’s visit can be gauged by the fact that Kim Jong-il himself met with former President Clinton, as well as by the wide coverage of the event in North Korea’s state-run media.

A “charm offensive” began following Clinton’s visit. The glimmer of possibility for the resumption of the Six-Party Talks first emerged following Chinese Premier Wen Jiabao’s visit on October 5, 2009. In his meeting with Premier Wen, North Korean leader Kim stated the possibility of denuclearization once again. A KCNA report on October 5, 2009, quoted the North Korean leader as saying that “the denuclearization of the peninsula was the behest of President Kim Il-sung.” Such comments are significant, as words of Kim Il-sung, the founder of the country, continue to play a highly important role in the formulation of policy in North Korea. Also, Kim Jong-il indicated that Pyongyang would return to the Six-Party Talks if its bilateral talks with Washington produce positive outcomes.

U.S. Special Representative Bosworth's visit to North Korea on December 8-10, 2009, appeared also to be a step directed towards the resumption of the Six-Party Talks. Bosworth handed North Korean Vice Foreign Minister Kang Sok-ju, a key figure behind the country's foreign policy, a letter to Kim Jong-il from U.S. President Obama. At a press briefing after his visit to North Korea, Bosworth stated that Pyongyang had recognized the importance of the Six-Party process. He added, however, that a date for the next round of talks had yet to be set.

VI. ISSUES OF DENUCLEARIZATION

North Korea's Reversal of Disablement

Even if the Six-Party Talks resume, a host of challenges lie ahead. One of these would be to deal with the reversal of the disablement measures that had been taken at the nuclear complex in Yongbyon, located about 120 kilometers northeast of capital Pyongyang. The Yongbyon nuclear complex is at the heart of North Korea's nuclear capability. In this complex, nuclear fuel rods are produced, irradiated in a reactor, and then reprocessed to extract plutonium. Since becoming operational, the Yongbyon complex is believed to have produced sufficient weapons-grade plutonium for four to eight atomic weapons, depending on estimates.

When the disablement process was halted on April 14, 2009, North Korea had been removing spent nuclear fuel rods from the reactor in the complex. Of the 8,000 nuclear fuel rods that were in the reactor, about 6,500 had been removed and put in an adjacent cooling pond for storage until a decision was made about how to deal with them.

An independent analysis about how much of the disablement measures North Korea reversed is extremely challenging, as international inspectors have been expelled from the country. North Korea, however, announced on November 3, 2009, that it has taken out all of the fuel rods and extracted plutonium from them. A KCNA report on that day stated that North Korea has "successfully completed the reprocessing of 8,000 spent fuel rods by the end of August."

While there was no mention of the amount of plutonium that was produced through the operation, Siegfried Hecker, co-director of the Center for International Security and Cooperation at Stanford University and a former director of the Los Alamos National Laboratory, estimated in an interview with

the author that the amount of plutonium is likely to be around 8 kilograms, or about one and a half bombs' worth of the substance.

Whether North Korea has begun taking other steps to reverse disablement measures remains an open question. North Korea could, for example, begin preparing for more plutonium production by reloading the reactor. There are approximately 14,000 fresh fuel rods stored at Yongbyon that could be utilized at its 5-megawatt reactor.

Admission of the Uranium Enrichment Program

Another, perhaps bigger, challenge would be addressing the issue of North Korea's uranium enrichment programs. In June, North Korea reversed its past denials and admitted to developing a uranium enrichment program, another route to obtain fissile material. The June 13, 2009, statement by the North Korean Foreign Ministry said that "pursuant to the decision to build its own light-water reactor, enough success has been made in developing uranium enrichment technology to provide nuclear fuel to allow the experimental procedure."

The remarks suggest that uranium will be enriched to provide fuel for its yet-to-be-built light-water reactors. Light-water reactors use low-enriched uranium (LEU) as fuel to produce nuclear energy. While LEU is not an ingredient for nuclear bombs, a facility that manufactures it can produce highly enriched uranium (HEU), which is a weapons-grade substance that has 90 percent concentration of uranium-235.

North Korea's suspected uranium enrichment program has been the source of a dispute between the United States and North Korea in the past. In October 2002, U.S. officials confronted the North Koreans with information that North Korea had imported aluminum tubes needed for the program. The ensuing discord over whether the North Koreans admitted to the program or not in that meeting led to the collapse of the 1994 Agreed Framework between the United States and North Korea and led to the second nuclear crisis.

According to Hecker, given the complex technology and equipment involved in uranium enrichment, it is doubtful that North Korea had begun the effort only over the last couple of months. His comments suggest that while North Korea has continuously denied trying to develop the uranium enrichment program until very recently, it is more probable that the efforts began some time ago.

The first and foremost advantage of the uranium program is its size. The structure is typically far smaller than that of the plutonium program. It could also be placed underground, making it difficult, if not impossible, to detect by satellite images and accordingly difficult to target.

Another advantage is the design of the weapon. HEU can be used in the gun-type device, the least complex of the nuclear weapons. Because of this, HEU is considered attractive material for terrorist groups interested in building nuclear weapons. For this reason, it can be argued that the development of this program raises the risk of proliferation by North Korea.

The plutonium program, however, still has benefits for North Korea, particularly as it has carried out two nuclear tests—in October 2006 and May 2009—presumably based on a plutonium device.

“Weaponized” Plutonium

Of all the aspects of North Korea’s nuclear program, the most difficult to address in any denuclearization talks is likely to be the plutonium North Korea has converted into weapons.

No outsiders have ever been known to have had access to what North Korea calls its “weaponized” plutonium, which is widely believed to mean plutonium metal. U.S. experts who have visited the country say they have been left with the impression that once the material is weaponized, North Korea’s General Department of Atomic Energy, which is in charge of the Yongbyon nuclear plant, is no longer responsible. They believe the responsibility shifts to another authority, most probably the country’s military.

No specific arrangements were ever made for the weaponized plutonium in any of the Six-Party denuclearization efforts so far. It is a part of the nuclear program that North Korea had never granted other countries access to.

No official figure is available on how much North Korea possesses of what it calls weaponized plutonium. After his visit to North Korea in January 2009, however, Selig Harrison quoted North Korean officials as saying that they had 30.8 kilograms of weaponized plutonium. This figure translates roughly into four or five nuclear weapons. North Korea may be in possession of additional weaponized plutonium, as it may have already made nuclear warheads out of recently extracted plutonium.

Delivery Systems

North Korea's nuclear threat is combined with its ballistic missile program, and that is another issue that must be addressed in the future.

North Korea has developed three types of missiles. One is the short-range Scud missile, which can reach up to 500 kilometers, or all of South Korea. Another type of missile is the medium-range, which have a range of about 1,500 kilometers, covering U.S. bases in Japan and major Japanese cities. Finally, there are the longer-range intercontinental ballistic missiles, including the Taepodong-2, which is estimated to have a range of up to 6,700 kilometers. The April 5 test was believed to have been a test of the Taepodong-2 technology.

North Korea's successful development of missiles, however, does not automatically mean that North Korea's nuclear weapons can be delivered. North Korea is not thought to possess the technology to develop warheads small and reliable enough to be carried on long-range intercontinental ballistic missiles. Experts say Pyongyang has some way to go in order to overcome problems related to vibrations associated with second-stage separation.

Nuclear Collaboration with Other Countries

Any future denuclearization talks will also have to deal with North Korea's nuclear cooperation with other countries. While the denuclearization efforts stalled, the possibility of North Korea proliferating nuclear material and technology continued to be in the headlines. North Korea's possible cooperation with Burma/Myanmar, another isolated state, came under scrutiny after several developments linking the two countries took place in early 2009.

Concerns increased when a North Korean cargo ship, the *Kang Nam I*, sailed for Burma/Myanmar in July. The 2,000-ton *Kang Nam I* departed North Korea's Nampo port only a few days following the adoption of a UN Security Council resolution calling for a worldwide embargo on the country's weapons trade. While the nature of the cargo has never been made clear, the vessel was suspected of carrying military equipment and was closely shadowed by the U.S. Navy destroyer *John McCain* before it returned to North Korea.

Also in July, a set of photographs and a 37-page report regarding a secret visit to North Korea in November 2008 by a Burmese delegation led by General Thura Shwe Mann, joint chief of staff of the Armed Forces, were obtained

by Burmese opposition groups and published. In the pictures, the Burmese delegation is shown to be in meetings with North Korean officials, signing a document with them and visiting landmarks in and around Pyongyang as well as military facilities. Also apparently during the visit, the two sides agreed on closer military cooperation, including efforts directed at modernizing military equipment

In addition, U.S. Secretary of State Clinton told reporters at the summit of the Association of Southeast Asian Nations on July 22, 2009, in Thailand that the United States had “growing concerns about military cooperation between North Korea and Myanmar, which we take very seriously.” Clinton said that the concerns included “the transfer of nuclear technology and other dangerous weapons.”

Finally, in August, two Australian investigators, Desmond Ball and Philip Thornton, offered that their interviews with two Burmese defectors show Burma/Myanmar’s pursuit of the acquisition of a nuclear capability to be a genuine threat. The two wrote that if the testimonies of the defectors are correct, “the alleged ‘secret’ reactor could be capable of being operational and producing a bomb a year, every year, after 2014.”

While the developments have generated much concern, whether Burma/Myanmar was receiving nuclear assistance from North Korea remains an open question. The cargo on *Kang Nam I* was never verified. U.S. government officials have admitted several times following Secretary Clinton’s remarks that they remain unclear about the exact nature of cooperation between Burma/Myanmar and North Korea. In addition, defectors are not always the most reliable of sources.

Suspicions of illicit military cooperation, including nuclear cooperation, however, remain, particularly in the United States. It appears to be a logical choice—arms exports and other military cooperation are considered by North Korea to be a method for earning badly needed foreign exchange, and Burma/Myanmar is one of the logical choices for such a market, as North Korea continues to be subject to economic sanctions and has only a limited number of markets for its military equipment.

The suspicions of North Korea’s nuclear links with Burma/Myanmar followed its widely reported cooperation with Syria. That connection was highlighted in April 2008, when the United States disclosed that a facility in northeast Syria,

which was bombed by Israel on September 6, 2007, was a plutonium nuclear reactor under construction. This facility at Al Kibar could have produced nuclear fuel rods from which weapons-grade plutonium could have been extracted, according to U.S. officials. In this context U.S. officials released to the media several items of evidence of North Korean involvement, including a photograph of a man who is believed to be a North Korean nuclear official visiting the facility.

Nuclear cooperation with Iran has also been long suspected. Press reports quoting U.S. and European intelligence officials have pointed to collaboration between the two countries in the development of both plutonium and weapons. In this case, the suspicions continue because one has what the other lacks. North Korea, for example, has nuclear test data from its two detonations, which Tehran does not. Tehran has mastered uranium centrifuge technology and already runs uranium enrichment plants, while North Korea is not known to have acquired them yet. By cooperating, they could both further their nuclear ambitions.

VII. CONCLUSION

Efforts to denuclearize North Korea have often been characterized by difficulties and an increase in tensions triggered by mistrust among the involved parties, particularly between main players the United States and North Korea.

North Korea's rocket launch on April 5, 2009, and the U.S. reaction to it in particular underscored failure by both sides to understand the other's point of view. The United States saw the launch only as a provocation that violated UN Security Council Resolution 1718, rather than considering the possible domestic role of the act, and responded by garnering international support for the condemnation of the launch. North Korea, meanwhile, viewed U.S. behavior as yet another act of hostility by the United States. Ultimately, the rocket launch marked the point that determined the direction North Korea was to head with the new U.S. administration: confrontation.

Bosworth's trip in December served the important purpose of conveying a message from Obama directly to Kim Jong-il through a key figure in the North Korean regime, Kang Sok-ju, so that messages would not be misinterpreted or misrepresented in any way. While positive, this is likely to be only a first step towards putting the Six-Party Talks back on track. In addition, the danger of mutual mistrust triggering yet another vicious cycle will continue to exist.

Should the talks resume in the near future, they will be held against a strong sense, particularly in Washington, that the United States should not be made to “buy the same horse twice”—an expression used to describe its rejection of a cycle of a freeze of the Yongbyon nuclear complex and its reversal. This is reflected in the language used by the U.S. administration. It has resurrected the term “irreversible” when referring to denuclearization, which had been dropped in the last years of the Bush administration, following strong opposition from North Korea.

Given the continued lack of trust between the United States and North Korea—the two key players of the denuclearization talks—it is unrealistic to assume major leaps in a short period of time. A reasonable diplomatic settlement may involve a midway point, where North Korea gives up certain parts of its nuclear program—its recently extracted plutonium, for example—in exchange for security assurances and economic benefits.

THE LOST YEAR: NUCLEAR ESCALATION AND THE ABSENCE OF SIX-PARTY TALKS

By Zander Lanfried

I. INTRODUCTION

The last round of Six-Party Talks in December 2008 ended in stalemate over how to verify North Korea's compliance with its denuclearization obligations. Despite major diplomatic successes earlier in the year, which culminated in the delivery of more than 18,000 pages of documents detailing North Korea's nuclear program, followed by its removal from the United States' list of state sponsors of terrorism, negotiators failed to come to an agreement as to how to proceed. With hard-liners in the Bush administration calling for more stringent inspections and North Korea refusing to comply with what it called "coercive" verification requirements, the Six-Party Talks stalled.

Since this stalemate also came at the end of the Bush administration, it is likely that the North Korean regime was waiting to see how the new Obama administration might deal with it. Unfortunately, after North Korea's rocket launch in April and the resulting condemnation by the international community, prospects for further constructive dialogue rapidly deteriorated. North Korea responded bitterly to criticism over its rocket launch and eventually declared that the "Six-Party Talks are dead." North Korea escalated tensions further when it conducted a second nuclear bomb test in May. This action was followed by wider condemnation, resulting in the adoption of UN Resolution 1874, which stipulated tougher sanctions on North Korea.

During this time, two American journalists had been arrested on the China-North Korean border and were sentenced to twelve years of hard labor. This situation eventually led to former President Clinton's trip to North Korea in early August to win their release. Following his meeting with Kim Jong-il, there was renewed hope that North Korea was again willing to negotiate over its nuclear program

as it made a series of conciliatory gestures to South Korea and the United States throughout August and September.

However, Six-Party Talks remained stalled as North Korea said that it would be interested only in multilateral negotiations after first meeting bilaterally with the United States and invited Special Envoy Stephen Bosworth to visit Pyongyang in an effort to begin bilateral negotiations. Washington was initially reluctant to accept this invitation and stated that it would meet bilaterally only if it had a guarantee that those meetings would eventually lead back to Six-Party negotiations.

Soon after President Obama's trip to Asia in November, Ambassador Bosworth met with North Korean officials in Pyongyang for discussions on how the Six-Party Talks might be restarted. Despite this progress, the talks remain stalled with no clear commitment to future meetings at the end of 2009.

This paper will highlight the major events over the past year that are relevant to the Six-Party Talks as well as explore how the Six-Party process has improved or reduced the chances of North Korean denuclearization in the years since its inception. Problems inherent in the framework will be discussed, and an overview of the immediate issues facing the Six-Party Talks, should they be resumed, will also be given.

II. BACKGROUND

The current nuclear crisis largely stems from a meeting in 2002 between Assistant Secretary of State James Kelly and Kang Sok-ju, the first vice foreign minister of the DPRK, in which Secretary Kelly claims that Kang admitted to a North Korean highly enriched uranium (HEU) program. While North Korea later denied any such program, the United States used this admission as a pretext to suspend shipments of heavy fuel oil (HFO) and the construction of light-water reactors (LWR) that had been promised as part of the 1994 Geneva Agreed Framework. The following year the Bush administration, in an attempt to force North Korea to end its nuclear program, pushed for multilateral negotiations, arguing that these would further isolate North Korea and provide leverage in denuclearization negotiations. The Bush administration felt that the only way to verifiably and irreversibly dismantle North Korea's nuclear weapons program would be through a regional security framework involving countries that would be directly impacted by North Korea's nuclear program. The administration

cited the failure of bilateral negotiations during the Clinton administration as the primary rationale for a multiparty framework.

After initial three-party talks between the United States, North Korea, and China, the format was expanded to include South Korea, Japan, and Russia. The Bush administration envisioned the Six-Party Talks not only as a way to put pressure on North Korea to end its nuclear program, but also as a way to resolve other regional issues. The first meeting took place in August of 2003, and little progress was made until the fourth round of negotiations, in 2005, when a joint agreement was reached on September 19. Since then, a mix of progress and setbacks has characterized much of the process.

The Six Parties

From the beginning of these negotiations, China often played the role of a facilitator. Unlike the other members, China has a much stronger interest in ensuring a stable regime in North Korea because of the potential for a mass refugee exodus across a porous North Korean border in the event of a regime collapse. China also has economic interests in North Korea and is the North's largest trading partner. The potential for a nuclear North Korea to lead to an East Asian nuclear arms race is also a major concern, with the prospect of a nuclear Japan particularly troubling for Chinese security concerns.

Russia has a similar interest in a long-term settlement to the nuclear dilemma because North Korea stands in the way of Russian plans for economic development and political normalization in the region. Russia is hoping to connect energy resources in its far east to markets in South Korea, Japan, and China, and an unstable North Korea will substantially retard this development. Of particular interest to Russia is a North Korea that is stable enough to allow for the connection of South Korean railways to the Trans-Siberian Railway and for a pipeline that will ultimately link Seoul to vast gas resources on Sakhalin.

South Korea, the United States, and Japan all share security concerns, with South Korea and Japan feeling directly threatened by North Korea's nuclear weapons and missile programs. The United States may at some point in the future feel more of a direct threat if North Korea is able to perfect its intercontinental ballistic missiles, but a larger concern for the United States at present is the risk of proliferation to such places as Syria and Iran, and the protection of its allies.

A key departure in the conceptual framework with which officials both in the United States and in South Korea view North Korea's pursuit of a nuclear program is that some see the North's nuclear program mainly as a way to address its security fears, while others see it as a bargaining tool designed to squeeze aid from the international community. Although the DPRK's program essentially serves both purposes—a bargaining tool that helps allay security fears—this conceptual divide drives different responses to the crisis because these two parties weigh these concerns somewhat differently. If the primary purpose is security, then a peace treaty and normalization of the U.S.-DPRK relationship would play a very large role in convincing North Korea to abandon its nuclear program. On the other hand, if the main purpose is to extract aid, then the price of denuclearization will presumably go far beyond normalization, although it will still be a key component, as North Korea attempts to leverage its nuclear program for all that it can.

III. THE “DEATH” OF THE SIX-PARTY TALKS

In December of 2008, the last round of Six-Party Talks in Beijing largely ended in failure over disputes as to how to verify North Korea's compliance with denuclearization. This left the Six-Party Talks in a state of limbo at the end of the Bush administration, despite some major successes earlier in the year. For several months both the United States and North Korea appeared to be waiting to see how domestic political issues might play out in each other's respective country. The election of President Obama represented a potentially new tack in negotiations with America, and uncertainties over Kim Jong-il's health led to talk of a potential North Korean succession crisis. Kim Jong-il is widely believed to have suffered a stroke in the summer of 2008, which opened questions as to how a succession might affect dealings with North Korea and led to speculation that North Korea might be close to a turbulent epoch in its history as there appeared to be no clear successor to Kim Jong-il. While his third son eventually emerged as a likely candidate, Kim Jong-il's health improved throughout the year, and it soon became clear that he still wielded absolute authority.

On April 9 the Supreme People's Assembly (SPA) convened and reelected Kim Jong-il as the chairman of the National Defense Commission and revised its constitution to expand his powers. The timing of this meeting is crucial because it came five days after a rocket launch that North Korea claimed had put a satellite into orbit. The launch of this rocket was seen domestically as proof of

North Korean technological prowess and a basis for the continued edification of Kim Jong-il and his regime. It was also part of a long-term drive to modernize the country and make a “great prosperous and powerful nation without fail by 2012,” the centennial of Kim Il-sung’s birthday.

However, this launch touched off the main crisis of the year and is the main reason there has been no progress in Six-Party negotiations this year. The resulting condemnation of the launch in a UN presidential statement on April 13, for what was seen by the outside world as a test of ballistic missile technology, incensed Pyongyang and led it to declare that it would withdraw from Six-Party Talks and restart its nuclear program. Later that month, Pyongyang also announced that it would pursue an HEU program—the first unambiguous admission that it would pursue such a program—and test another nuclear device.

Near the end of the following month, on May 25, North Korea tested a second nuclear device, more powerful than its previous one in 2006. This provoked a strong reaction by the UN Security Council, which, through Resolution 1874, expanded previous sanctions and notably called on member nations to inspect and detain DPRK vessels suspected of ferrying illicit materials or to deny bunkering services to these vessels if they refused inspection. The strength of this resolution was soon tested, when the *Kang Nam I*, which was suspected of carrying materials banned under this resolution, returned home after being denied access to ports on what was thought to have been a trip to Myanmar. The resolution again proved its effectiveness in December when a cargo plane carrying North Korean weapons was detained in Thailand after Thai authorities were apparently tipped off by American intelligence.

IV. A PATH BACK TO NEGOTIATIONS?

During this escalation of the nuclear crisis, another drama between the United States and the DPRK had been unfolding since the arrest of two American journalists on the China-North Korea border on March 17. On June 8 these journalists were found guilty of hostile acts and sentenced to twelve years of hard labor. The journalists’ fate soon became a bargaining chip for North Korea, which eventually led to a visit by former President William Clinton to Pyongyang in early August to seek their release. While President Clinton was not there as an official representative of the U.S. government, his visit provided fresh propaganda for North Korea, as it claimed that Clinton had “expressed words of sincere apology to Kim Jong-il for the hostile acts committed by the

two American journalists against the DPRK after illegally intruding into it” and that “the meetings had candid and in-depth discussions on the pending issues between the DPRK and the United States in a sincere atmosphere and reached a consensus of views on seeking a negotiated settlement of them.” While Pyongyang had expressed willingness for dialogue on its nuclear program (albeit outside the Six-Party framework) the week before this took place, Kim Jong-il’s meeting with president Clinton became a turning point in U.S.-DPRK relations as North Korea was now seen as conciliatory and potentially willing to deal.

Relations between North and South Korea have also been improving since August. The week after Clinton’s visit, the chairwoman of Hyundai traveled to Pyongyang to discuss business interests that had been on hold since the breakdown of relations between North and South Korea at the end of 2008. Shortly after this meeting a South Korean worker who had been held for several months was freed, and a few weeks later, on September 2, the border with South Korea was reopened. Reunions between families separated by the Korean War also resumed in September after a two-year hiatus. In October, North Korea expressed regret over the death of six South Koreans who had been killed in a flood when North Korea unexpectedly opened a dam—a rare expression for the North Korean regime.

Recent meetings with Chinese leadership also seem to confirm the view that Pyongyang is more open to dialogue. On September 19, Dai Bingguo, a visiting Chinese envoy, was reportedly told by Kim Jong-il that North Korea would be willing to return to multilateral talks. This point was reiterated the next month after a meeting with Chinese Premier Wen Jiabao in which China and North Korea signed agreements on trade, tourism, and education. Premier Wen said that Kim Jong-il was willing to engage again in Six-Party Talks, but only if there was first progress in bilateral talks with the United States.

Taken together, these events suggested that North Korea was genuinely interested in renewed dialogue. It invited Special Envoy Stephen Bosworth to visit Pyongyang as part of bilateral talks aimed at resolving the nuclear problem and stated publicly that denuclearization of the Korean Peninsula is its ultimate goal. This invitation was eventually accepted by the United States, with a meeting on December 8 between Bosworth and North Korea’s first vice foreign minister, Kang Sok-ju, and the North’s chief negotiator, Kim Kye-gwan. The meeting was characterized by Bosworth as “exploratory discussions aimed at restarting the six-party process” and as taking place under the framework of the Six-Party Talks.

In response to Mr. Bosworth's visit, KCNA, North Korea's government news agency, said, "Through working and frank discussion the two sides deepened the mutual understanding, narrowed their differences and found not a few common points. They also reached a series of common understandings of the need to resume the Six-Party Talks and the importance of implementing the September 19 Joint Statement. Both sides agreed to continue to cooperate with each other in the future to narrow down the remaining differences."

V. THE MOVE TOWARDS ENGAGEMENT: WHAT CHANGED?

Given this apparent shift in Pyongyang's position, the question of how effective have the United States and other countries been in influencing North Korea's behavior is important. The United States claims that the sanctions are working and that this has been a major reason why North Korea has changed its position. While these sanctions were more severe than previous ones, over the last decade North Korea has withstood withering sanctions that have been unsuccessful in diverting it from developing a functioning nuclear bomb as well as in significantly changing the course of its actions. Given that the sanctions were enacted on June 12 and North Korea expressed an interest in resuming some form of negotiations on July 27, it seems unlikely that these sanctions by themselves were enough to play a significant role in North Korea's decision making after only a month and a half. While it is certainly possible that tougher sanctions forced them to quickly reevaluate their position, an alternative explanation is that domestic politics made a bellicose response to international condemnation necessary because criticism of the "satellite" launch was seen as direct criticism of the North Korean power structure. Their long-term strategy may have always been to return to talks, but important events in North Korea in early April necessitated a strong response that the North Korean leadership calculated could be relaxed later. Having gone through several periods of increased tensions followed by reconciliation in the last two decades, it is possible they were willing to sacrifice short-term gains in negotiations for domestic political reasons.

It is also possible that while the rocket launch was designed purely as a show of strength for consumption by domestic audiences, it quickly spiraled into a situation for which the DPRK was unprepared. The launch came as no surprise to the international community since North Korea had announced its intentions in advance (unlike in 1998), so perhaps the North Korean leadership, in its own mind, was not being intentionally provocative. It was eager to use the "satellite"

launch as a sign of concrete technical achievements that had been made under Kim Jong-il's leadership so that it could in part justify impending changes that were going to be made to its constitution at the SPA meeting a few days later. For domestic political reasons, once it had announced this launch, there may have been no way for it to back down in the face of international criticism. To do so would have been a sign of weakness and a loss of face for a society that prides itself on its independence and military strength, particularly at a time when it was celebrating the anniversary of the creation of the Korean People's Army (KPA) and officially endowing Kim Jong-il with more expansive powers.

While the missile launch may have been difficult to cancel once it had been announced, Pyongyang certainly had an idea of how a second nuclear test would be received and most likely conceived of a second test as a way to reinforce its status as a country with a nuclear deterrent, given the skepticism about the effectiveness of its original nuclear test. Already on the wrong side of UN condemnations, North Korea may have seen little further downside to another nuclear test and may have capitalized on a period of poor relations to conduct a test that it had been wanting to perform, but was unable to do in an atmosphere of improving relations during the previous couple of years.

Other theories make the case that this test might also have been a signal to prospective buyers of North Korean nuclear technology. It could have been a way for North Korea to create more nuclear blast data that it could then trade to countries such as Iran for more advanced uranium enrichment technology.

Ultimately, the shift in North Korea's attitude towards further negotiations probably came as a result of domestic issues and not because of external pressure. The regime may have decided that it had proven its strength sufficiently and could now use that as leverage in further negotiations.

VI. BILATERAL VERSUS MULTILATERAL

Whether constructive negotiations with Pyongyang can truly take place is an important question as U.S. policy towards North Korea has been largely based on the view that it is an untrustworthy negotiating partner. While mistrust of North Korea is historically warranted (it is rooted in the beginning of the Korean War and North Korea's provocative actions since then), the idea that it is impossible to negotiate with North Korea because it will fail to honor its agreements is a narrative that grew out of the HEU dispute with the Bush

administration. This view of North Korea's unreliability has grown over the last several years and has become a standard characterization of its behavior, both in policy formation and in the media. Given that this line of thinking is the underpinning of the logic of the six-party framework instead of a bilateral one, it is important to know whether this characterization of North Korea is accurate.

The Geneva Agreed Framework, a bilateral agreement between the United States and North Korea, had been effective in shutting down the reactor at Yongbyon and freezing the development of a plutonium-based nuclear program. While there was evidence that North Korea was pursuing a clandestine HEU program through its attempted purchase of materials necessary for the enrichment of uranium, the difficulty of developing an HEU program large enough to produce bomb-making capabilities made North Korea's progress in this program in 2002 very much an open question.

While the intelligence on North Korea's HEU program was murky at best and openly questioned by the Chinese government and others, the Bush administration seemed eager to interpret Kang's statements in the most extreme way that it could. Because of 9/11, the Bush administration felt that it had to take a much harder line with its enemies, and it viewed North Korea as an intransigent international pariah that was bent on developing weapons of mass destruction. This view led the United States to end its agreements under the Geneva Agreed Framework before it could either verify Kang's statements or explore alternative solutions to this problem. The Bush administration's decision to abandon the 1994 agreement pushed North Korea to respond, and an escalating spiral of retaliation ensued that eventually led to the test of a nuclear device in 2006. While it can be argued that the North Koreans cheated by secretly pursuing an HEU program, there had been tangible results from a bilateral agreement in that Pyongyang had refrained from further developing a plutonium-based nuclear program and their Yongbyon reactor had remained offline up until the Bush administration declared that it would no longer honor its obligations under the Geneva Agreement.

Given that the largest breach of an agreement with North Korea may have been by the Bush administration in its rush to condemn North Korea for ideological purposes, it is not at all clear that a multilateral approach is the only way forward, and it may even be a hindrance to further progress. By insisting on this approach as the only modality for negotiation, the United States may also be delaying negotiations that could prevent further proliferation of nuclear technology. Delaying the bargaining process in the past has only served to

increase North Korea's ability to develop its nuclear capabilities and has ultimately resulted in greater bargaining power.

Problems with the Six-Party Framework

By bringing in other countries to help negotiate a settlement to this problem, the Bush administration hoped to create a more binding framework under which Pyongyang would find it difficult to renege on its agreements. While added pressure from regional players, notably China, has a strong potential to influence decision making in Pyongyang, the inclusion of other countries has also introduced variables that have complicated negotiations. Under the Six-Party process several different issues are being tackled at the same time because they are seen as linked to Pyongyang's pursuit of nuclear weapons. This has led to the creation of five working groups that are tasked with solving different issues under the Six-Party process: denuclearization of the Korean Peninsula, DPRK-U.S. normalization, DPRK-Japan normalization, economy and energy cooperation, and a Northeast Asia Peace and Security Mechanism.

As these other issues have become interlinked with denuclearization, they have sometimes become stumbling blocks as different members have put their own agendas ahead of the primary goal of denuclearization. In 2008 Japan lobbied the United States not to remove North Korea from its list of state sponsors of terrorism because North Korea had not yet admitted to its wrongdoing on the abductee issue. This delay ultimately led to a severe slowdown and then halt of the disablement process, which was restarted only after North Korea was taken off of the list. Japan has also been reluctant to offer any aid to North Korea until this issue is resolved.

When South Korea's conservative party took power in 2008, its abrupt shift in its North Korea policy also threatened to derail Six-Party Talks. In addition, the Bush administration repeatedly linked North Korean human rights abuses to progress in its negotiations with North Korea. The point here is that by linking these issues to the main issue of denuclearization, the Bush administration created a system that required much greater coordination than bilateral discussions. This allowed for ambiguities in member commitments and greatly increased the time it took to reach any agreement because of the necessity for compromise among all members.

This multilateral system also created a difficult environment in which to police the enforcement of disincentives for continued nuclear development. Because

each member is impacted differently by North Korea's stability, there is an asymmetric interest in the stability of its regime. China and Russia both have a strong incentive to ensure that a stable North Korean regime continues to exist because they would potentially bear the brunt of a regime collapse in the form of a refugee crisis. Despite the touted success of sanctions, China recently signed new economic agreements with North Korea, a move that could undermine the effectiveness of these sanctions. Since China is North Korea's largest trading partner, their cooperation is essential in making sanctions work, but their reluctance to cooperate fully with sanctions has been a perennial problem.

At this point, the Six-Party Talks may well be the best way to move forward, but not because North Korea would be unwilling to honor agreements made in other venues. The seeds of a multilateral East Asian security framework have been sown, and there has been tangible progress made under previous Six-Party agreements. To scrap the entire system and begin anew with a bilateral framework would not appeal to any party involved (aside from the DPRK). Since all parties are now committed to pursuing negotiations under this framework, it is probably too late to consider an alternative path. However, building consensus through the Six-Party Talks should not be seen as a way to force North Korea to accept its denuclearization because there is no other way, but rather as a way to integrate it more fully into the region so that it finds cooperation and economic growth more in line with its interests than nuclear weapons and missile development.

If the various parties can agree on a consistent framework and a clear path for moving forward, as they did in 2007, then much progress can be made. However, aligning interests across multiple parties with disparate agendas will continue to be a problem that has the potential to delay further progress.

Conditions for a Bilateral Meeting

The United States had publicly stated that it would meet bilaterally with North Korea only if it had assurances that such a meeting would lead back to Six-Party Talks. A problem with this approach is that if North Korea makes the calculation that it can survive the current sanctions, then it may be a long time before the United States can create the necessary atmosphere of increased pressure through which it can induce Pyongyang back to the negotiating table in a multilateral setting. Since the meeting with Bosworth took place with no clear promise of further engagements, the United States seemed to relax this position somewhat, although it was still able to claim that this meeting took place under the Six-

Party framework—an assertion that went unchallenged by North Korea.

It is likely that the United States was hesitant to pursue bilateral discussions for several months after North Korea's invitation to Bosworth because it felt that sanctions were working and that it would be in a stronger bargaining position whenever negotiations resumed. Waiting may also allow the United States to appear in control of a situation in which it has limited options—a military option is all but unthinkable, and malign neglect will only embolden North Korea further as it did during the first half of the Bush administration. This makes dialogue and engagement the only plausible way forward.

While North Korea's energy, economic, and security needs will continue to remain an important motivation for its desire to negotiate, some recent accounts have stated that the economic situation in Pyongyang has actually been improving. If this is true, America's reliance on sanctions as an agent of change may be misguided and could lead to the squandering of an opportunity for renewed dialogue if North Korea reaches a point where it sees engagement with the United States as no longer preferable. On the other hand, it has been widely reported that North Korea may be seeing its worst harvest in several years. If, as it is widely speculated, 2010 brings a severe famine, then this could certainly hasten North Korea's desire to negotiate. In either case, China's relationship with North Korea will almost certainly guarantee that North Korea remains politically stable in the foreseeable future.

Whether the DPRK is in a position in which it needs to negotiate from desperation is unclear, but the bilateral meeting between the United States and the DPRK in December was a positive sign in that it keeps the hope of further progress alive. The Obama administration is not eager to allow North Korea much control in how negotiations move forward, and its strategy seems to be a polite indifference that is open to further dialogue, but not at the expense of previous agreements or through rewarding North Korea in any way for a return to Six-Party Talks. If the United States can maintain this position and the appearance of solidarity with the other members of the Six-Party Talks, then it may be difficult for North Korea to drive a wedge between the other parties—a consistent strategy it has employed over the years. In any case, North Korea needs to believe that negotiations will ultimately be in its long-term interest before it makes a commitment to a new round of talks.

VII. CHALLENGES TO MOVING FORWARD

If Six-Party Talks are resumed in the future, the same problem that led to the dissolution of the last round of talks still looms, namely how to verify North Korea's compliance with denuclearization. A verification plan was rejected by North Korea last year because it would have involved removing samples from Yongbyon's reactor core and sending them outside the country for processing. North Korea also felt that the United States had changed the nature of the dismantlement phase by demanding verification protocols that were not included in the original agreement.

In the short term, it may be in everyone's interest to allow this verification process to be driven by North Korea's demands. Since permanent dismantlement of the reactor in Yongbyon would represent real progress and would significantly reduce if not eliminate North Korea's ability to produce plutonium-based weapons, this could lead to an important first step in denuclearization, as compliance with this would be relatively easy to verify. After that has been completed, the focus could then shift to verifying the extent of North Korea's nuclear arsenal, its development of other nuclear programs, and the nature of any technical assistance it may have provided to nations such as Syria or Iran.

Another point of contention last year was that North Korea failed to mention an HEU program in the 18,000 pages of documents that it submitted to the United States, arguing that such a program did not exist. However, by officially declaring for the first time that they were pursuing such a program, they may have provided a sounder basis for the United States to pursue verification related to this program. Because it can be hidden underground, a clandestine uranium enrichment program would be extremely difficult to confirm unless North Korea was willing to allow inspections. Recent statements by North Korean media suggest that technology to enrich uranium is in the developmental stages, and with their admission that such a program exists, the United States will have more of pretext to demand verification in future rounds of negotiations.

A third issue will be to undo whatever moves North Korea has made over the last year to rebuild its nuclear capacity. Secretary of Defense Robert Gates has stated that the United States should not "buy the same horse twice," meaning that the United States should not be willing to negotiate over concessions that North Korea has made in previous agreements. Understanding what previous agreements have been reversed over the last year will be a top priority. North Korea claims to have reprocessed the remaining spent fuel rods it had in its

possession, which analysts estimate to be enough for one or two more nuclear bombs. Any progress it has made in restarting its reactor in Yongbyon will also have to be closely scrutinized.

A final and much more difficult issue to overcome is that of distrust. Several leading Korean politicians, officials in the state department, and leading academics have all cited the trust dilemma as one of the biggest impediments to further progress, should negotiations become more amicable in the future. North Korea will be reluctant to give up anything of value, such as the ability to produce more plutonium, unless it is compensated substantially before and after it takes action. The other parties will be reluctant to reward North Korea with anything significant in advance, believing that the DPRK will only delay implementation of and ultimately renege on any promises it makes. Figuring out how to build trust when both sides perceive each other to be inconsistent and hostile will take time, but must begin with the assumption that negotiations are made in good faith and that there is at least the possibility that agreements will lead to binding commitments on both sides. If they begin with the assumption that the other side is by its very nature untrustworthy, as they have in the past, then it is difficult to see what progress will be made in the future.

VIII. CONCLUSION

The multilateral process has made some progress towards a comprehensive solution to the North Korean nuclear crisis, but has not yet accomplished it. However, if the threat of proliferation can be in some way mitigated while negotiations through the Six-Party process lumber forward, then any agreements that are forged may have a better chance of being sustained over the long term than those made under a bilateral agreement. While the risk will always remain that one of the parties will not abide by certain commitments, the goal should be to create a regional framework in which all members benefit through their cooperation.

Although some signs of progress in the prospects for renewed negotiations have appeared in recent months, many challenges await the Six-Party Talks when they resume. Since the Obama administration has held only one official meeting with the North Korean regime, it is difficult to judge how future negotiations might play out. So far, the administration has reiterated a commitment to agreements reached under the Bush administration, specifically the September 19, 2005 agreement, and has stated that it sees the Six-Party Talks as the only

path that will lead to North Korea's denuclearization. Although Bosworth's meeting in December gave renewed hope to a diplomatic solution in the future, 2009 is a year of lost opportunities that brought significant setbacks to the denuclearization process.

KAESONG INDUSTRIAL COMPLEX: IS IT CHANGING THE DPRK?

By Sarah Yun

I. INTRODUCTION

The Republic of Korea (ROK) and the Democratic People's Republic of Korea (DPRK) have undergone a series of tumultuous events in 2009. Amidst the numerous challenges and transitions that the two Koreas faced, there is an ongoing debate over the effectiveness of inter-Korean economic cooperation projects. The most prominent of the joint projects is the Kaesong Industrial Complex (KIC), which was launched in 2004. In 2009 alone, the DPRK announced on multiple occasions that the Kaesong Industrial Complex will be shut down unless certain conditions are met. The North further threatened to cut off communication ties with the South. Further straining the inter-Korean relations, a South Korean Hyundai Asan employee was detained by the North, a long-range missile was launched, an underground nuclear experiment was conducted, and the UN Security Council's sanctions against the DPRK became more stringent. The unstable environment for Kaesong persisted throughout the year, and the KIC appeared to be doomed. Nevertheless, the DPRK ultimately chose not to shut down the KIC, and the ROK continued its investment in the complex. Despite the souring of relations since Lee Myung-bak took the office of president, the two Koreas made a conscious decision to sustain the KIC. If the Kim Jong-il regime sees economic engagement projects such as the KIC as infiltrating and risky to the regime's political ideology, why does the DPRK continue to remain committed to inter-Korean economic cooperation projects? If the ROK government does not want to be manipulated by the DPRK threats, why does the South continue to engage with the North through the KIC? How effective is the complex in engaging the DPRK and improving inter-Korean relations? What kind of changes has the KIC brought about in the DPRK?

This paper assesses the legitimacy and effectiveness of the KIC in terms of the economic liberal theory that peace can be created through trade. By testing the main hypothesis that both the DPRK and the ROK remain committed to economic cooperation projects due to common vested interests, the paper also seeks to answer why the DPRK government continued to keep the KIC doors open despite the political risks and dangers attached to liberalization. The paper will first explore the history and objectives of the KIC in order to better assess the current situation. Thereafter, the paper will analyze the effectiveness of the KIC project in improving inter-Korean relations by assessing two aspects: (1) economic incentives versus political pressure and (2) social and human changes within the KIC.

II. HISTORY AND OBJECTIVE OF THE KAESONG INDUSTRIAL COMPLEX

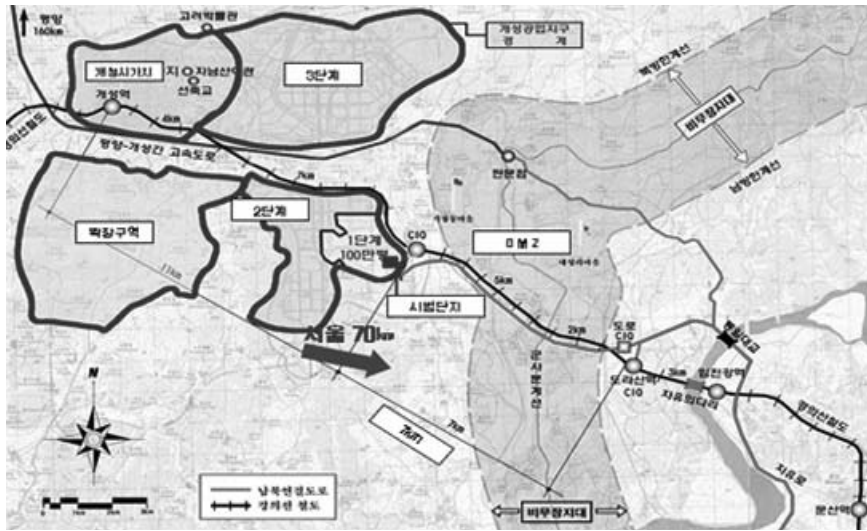
The idea of economic cooperation between the two Koreas originated in 1984 during the South Korean Chun Doo-hwan administration. Chun pioneered a series of ambitious dialogues with North Korea until the talks came to a halt after the U.S.-ROK joint military training exercise. Conversations restarted in the 1990s during the Inter-Korean Basic Agreement talks. The succeeding Kim Young-sam administration continued to engage the DPRK economically until the two Koreas hit a nuclear stalemate. Since then, a clear and radical vision for the ROK-DPRK economic engagement plan was officially launched during the Kim Dae-jung administration with the commencement of his “Sunshine Policy.” During this era, Kim Dae-jung and the newly established North Korean leader Kim Jong-il agreed upon creating an ambitious economic project in Kaesong along with other groundbreaking trade exchanges. The Roh Moo-hyun administration followed the footsteps of his predecessor with his “Peace and Prosperity” policy by engaging the North and providing aid. Currently, the Lee Myung-bak administration takes a hard-liner stance towards the DPRK, diverting away from the ten years of friendly economic policies towards North Korea under the past two liberal administrations. Yet Lee, under his “pragmatic approach,” still remains committed to the KIC and economic engagement with the North. In October 2009, the ROK Ministry of Strategy and Finance announced that South Korea is planning to raise its 2010 budget spending on inter-Korean economic cooperation by 30 percent from 2009. The Lee administration has planned for budget spending amounting to 398.2 billion won (approximately \$339.6 million) for 2010 in order to support economic cooperation projects within the DPRK, up from 304.6 billion won in 2009.

Contrary to common perception, the DPRK has actively engaged in economic cooperation projects for the past two decades. Although without much success, efforts at reform and engagement were initiated in the 1990s and 2000s by Chairman Kim Jong-il. The first of the economic reform efforts came in 1984 with the Joint Venture Law, which ended in failure. In 1991, the DPRK was forced to change its economic direction as the Soviet Union collapsed, China became more successful with their special economic zones (SEZs), and a disastrous famine was at its doorstep. In an attempt to boost the ailing economy, Rajin-Sonbong was declared as a hub for foreign investors in 1991 to allow capitalist management in the region. The Mount Geumgang project began in 1998 with the ROK's partnership and investment. In July 2002, the DPRK introduced the Economic Management Improvement Measures, which signaled market transition in increasing food prices and wages, devaluing DPRK won currency, creating performance-based profit sharing in enterprises, and more. In the early 2000s, Kim experimented with SEZs including Rajin-Sonbong and Sinuiju, both emulating the Chinese reform framework. Foreign direct investment from China, Russia, and now the ROK has been active and increasing in the DPRK in the recent years. In 2003, a land route across the DMZ opened to facilitate trade and exchange between the two Koreas. The current campaign launched by Kim entails ambitious economic targets under the umbrella of the "military-first" politics (*son-gun-jung-chi*). History over the last two decades indicates that the DPRK has been attempting to improve its economy without contaminating their political ideology.

With this as the backdrop of the DPRK's economic development efforts, the Kaesong Industrial Complex was launched in 2004. The KIC was the most recent and perhaps the most ambitious of any inter-Korean economic cooperation projects. The KIC was in large part initiated by the ROK government, who contracted with Hyundai Asan and the Korea Land Corporation to develop 20,000,000 *pyeong* (16,200 acres) of land in Kaesong, with 8,500,000 *pyeong* (6,885 acres) assigned for factories. Kaesong is located 70 kilometers southwest of metropolitan Seoul and has easy access to Incheon International Airport, a distribution hub in Northeast Asia. Kaesong is also in close proximity to the DMZ and Pyongyang (see figure 1). According to the ROK Ministry of Unification, as of October 2009 the KIC has 116 South Korean companies, with some 959 ROK employees working alongside more than 41,283 North Koreans.

The objectives of the KIC for both Koreas are largely twofold: economic and political. For the ROK, these two goals emerge to create one overarching

Figure 1: Kaesong Industrial Complex Map (Hyundai Asan's First Development Plan)



Source: ROK Ministry of Unification

goal of stimulating the DPRK transformation. According to one of the key developers of Kaesong, the KIC is an economic project, in which the first goal is to trigger market integration between the two Koreas by creating economic assets, physical infrastructure, and trade in a potential war zone. The second goal is to create economic mutual benefit by combining the ROK's comparative advantage in capital and technology with the DPRK's comparative advantage in labor and land. On the political end, the first goal is to lead the DPRK to engage in alternative forms of security dialogue over the long run by creating economic stakes in political cooperation. The second political goal is to create economic engagement in order to bring the DPRK out of isolation and to avoid complete collapse of the regime. For the North, the KIC is an important source, and one of only a few sources, of foreign currency for the country. Moreover, the KIC gives Kim Jong-il an opportunity to experiment with marketization in a controlled environment. For a state that is desperate for economic revival, the KIC is a golden opportunity to stimulate growth with the South's capital and technology.

Through the KIC, synergy between economic and political goals is created. There are purely economic objectives of benefiting from comparative advantage as well as the political purpose of gradual integration and transformation of the

DPRK for the ultimate goal of reunification. Some subsidiary goals, according to a KIC developer, are to make Kaesong the hub of inter-Korean cooperation and an important SEZ in Northeast Asia, revive the DPRK's collapsed economy, create new jobs for North Koreans, assist the DPRK to acquire advanced technology, and help to improve North Korea's diplomatic image in the international community.

Underneath the overt objectives, however, there are underlying covert objectives that often go unnoticed. For the South, the KIC is not entirely driven by profit and economic comparative advantage but also by the leadership's political strategy. In a democratic country supported by the people, the closure of the KIC would have an immense negative impact on the popularity of the South Korean president. Therefore, the KIC is a good balance between practical economic gain and political support, while also fulfilling the emotional obligation of several South Koreans to help their "brothers" up North. For the North, the KIC is also coupled with its leadership in that its economic objectives reinforce Kim Jong-il's political legitimacy. Profits from inter-Korean economic projects are major cash cows for the Kim regime. According to the ROK Ministry of Unification, total wages compensated to Pyongyang in 2008 amounted to \$26.8 million, up from \$13.8 million in 2007. Moreover, Hyundai Asan paid the DPRK \$450 million in 2000 to purchase a business license in the North. One of the objectives of the DPRK is to sustain the KIC in order to continue the influx of foreign currency and to showcase the KIC's success to its people, thereby strengthening Kim Jong-il's legitimacy.

The DPRK and ROK share convergences on the means but disagreements on the ends of the KIC's objectives. The overlapping goal is to elevate the DPRK economy to a higher level. The divergence is the future impact from the North's economic growth through the KIC. The North views the KIC as a tool to strengthen the state by learning and adopting industrialized market structures. The South, on the other hand, regards it as a strategy to change the North's economic system, prevent a complete collapse of the regime, and eventually trigger social and political changes. For both Koreas, the KIC is essentially intended to be a market-opening experiment, but the ROK has an additional goal of triggering ripple effects into other parts of the social and political structure of the DPRK. Thus, from a first glance at ROK goals, it is evident that the KIC was established on the economic liberalism theory, in which economic engagement leads to political transformation.

III. RECENT DEVELOPMENTS: WHY DIDN'T THE KIC SHUT DOWN?

The year 2009 began with a chilly relationship between the ROK and DPRK, beginning with the DPRK's unilateral decision to restrict border traffic into Kaesong. On January 1, 2009, North Korea demanded that South Korean companies in Kaesong pay the entire \$10 per month transportation allowance

Table 1: Chronology of Important Events Related to the Kaesong Industrial Complex

Timeline	Date
Agreement between Hyundai Asan and North Korea to develop 20,000,000 pyeong of land in Kaesong	Aug 2000
Enactment of Kaesong Industrial Complex law by North Korea	Nov 2001
Launch of Phase 1 development	Jun 2003
ROK Ministry of Unification agrees to Phase 1 development of 3,300,000m ²	Apr 2004
Agreement of 15 companies to enter model development complex	Jun 2004
First KIC product made	Dec 2004
Beginning of electricity supply to model development complex (15,000 kW)	Mar 2005
Phase 1 of land development completed	May 2005
Agreement of 23 additional companies and 1 organization (Korea Industrial Complex Corp.) to enter main complex	Sep 2005
Beginning of telecommunication supply to KIC	Dec 2005
Power transmission between North and South connected	Dec 2006
ROK Kaesong Industrial Complex law established	May 2007
Agreement of 183 additional companies to enter main complex	Jun 2007
Kaesong Industrial District Management Committee launched	Dec 2007
Total output reached \$500 million	Nov 2008
DPRK closed border passage to Kaesong due to U.S.-ROK joint military exercise	Mar 2009
Hyundai Asan employee detained	Mar 2009
North Korea's declaration to annul KIC rules and regulations	May 2009
1 st and 2 nd round inter-Korean meeting over KIC	Jun 2009
3 rd round inter-Korean meeting over KIC	Jul 2009
Hyundai Asan employee freed	Aug 2009
DPRK restored border passage to Kaesong	Aug 2009
Restored Route 23 to KIC	Sep 2009

Source: ROK Ministry of Unification

to North Korean workers, as opposed to \$5 that was originally agreed upon. On February 10, an official notice was sent to all South Korean companies to increase the wage from \$57.50 to \$300, otherwise facing operation suspension in the KIC. On March 9, the DPRK cut off its military hotline with the ROK, citing its opposition to a ROK-U.S. joint military exercise. The same day, Pyongyang shut down the borders and barred workers from entering the complex, stranding those who were supposed to return home to South Korea. The next day, the border was reopened. On March 21, the DPRK reopened the military communication channel following the conclusion of the military exercise. The North shut down the border three times over a dozen days starting on March 9. On March 30, a South Korean Hyundai Asan employee was detained for allegedly criticizing the DPRK regime and encouraging North Korean workers to defect to the South. On April 21, the two Koreas met at Kaesong in an extremely brief (22-minute) meeting where the DPRK announced it would withdraw all preferences to South Korean companies in Kaesong unless agreement was reached on higher wages for North Korean workers and higher rent from companies. On May 15, the DPRK declared that all contracts and regulations under Kaesong were to become invalid and that South Korea should expect to completely pull out of the complex. Although the ROK government never formally announced retaliation for the DPRK threats and closures, prominent South Korean politicians fired back by urging the ROK government to withdraw from the KIC since the North can take South Korean citizens hostage whenever they want. For the next two months, a series of meetings were held over the KIC (see table 1), and the fate of the KIC appeared to be doomed.

However, Pyongyang began to reverse its hard-line policy in August. On August 20, the DPRK informed the ROK that it would lift all bans on traffic and exchange at the KIC, reopen the office, and resume train service between Panmun and Paju stations. On September 17, the North conceded to accept a 5 percent wage increase as opposed to the initially demanded amount of \$300. They also released the Hyundai Asan employee, ending months of negotiation and tension across borders. After a series of unpredictable decisions and declarations, the DPRK was suddenly entering into a conciliatory mood by September 2009.

Inter-Korean economic cooperation such as the KIC continues to expand despite the political stalemate and a series of dramatic events in 2009. The fact that the KIC, which accounts for about half of inter-Korean trade, continues to operate amidst the escalating tensions between the two Koreas is a testament to the project's strength. The fundamental questions regarding the KIC situation are:

Why didn't the DPRK shut down the KIC despite the high political tension between the two Koreas? Why did the DPRK reverse its earlier hard-line stance and demands after the summer of 2009? What does the survival of the KIC signal about the current state of the DPRK regime? In the following, I argue that the KIC was able to survive because economic engagement created enough stakes, common interests, and common wealth within the system to counterbalance political crackdown.

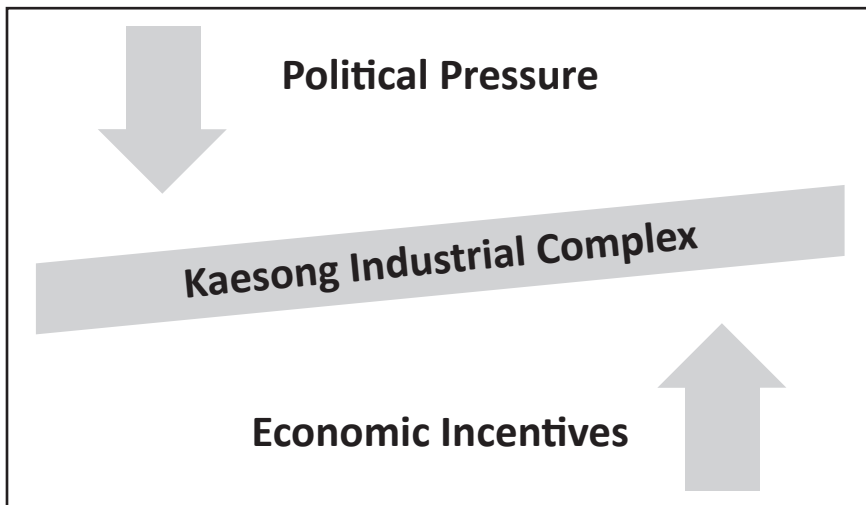
IV. COUNTERBALANCE BETWEEN ECONOMIC INCENTIVES AND POLITICAL PRESSURE

The Kaesong Industrial Complex and economic engagement projects in North Korea cannot be completely separated from politics, given the highly political nature of the relationship between the two Koreas. On the one hand, the KIC and other economic engagement projects remain vulnerable to political matters. Also, they can be dampened by negative political developments such as the South's concerns about the North's nuclear programs or Pyongyang's displeasure with the South's conservative Lee administration. On the other hand, economic engagement itself may affect political matters by creating common incentives to maintain, if not further, political cooperation. This is in line with the economic peace theory under the framework of economic liberalism. Early economic liberalism theorists, such as Adam Smith, argued that economic actions of individuals were largely motivated by self-interest and the invisible hand, which allowed individuals, therefore the society, to produce the best results. The responsibility of the government was to provide public goods, such as roads, bridges, and schools. The exchange of goods, with the government's provision of public goods, would lead to reduced warfare and increased peace. As society industrialized and advanced, the cost of war would exponentially rise, making war too costly for nations to bear. Immanuel Kant says in his book *Perpetual Peace*, "By virtue of their mutual interest does nature unite people against violence and war ... the spirit of trade cannot coexist with war, and sooner or later this spirit dominates every people. For among all those powers ... that belong to a nation, financial power may be the most reliable in forcing nations to pursue the noble cause of peace." A contemporary example of the democratic peace theory is the increased trade and the consequent mitigation of tensions between China and Taiwan under Hu Jintao and Ma Ying Jeou.

The two Koreas and the KIC project seem to demonstrate the democratic peace theory. North Korea has always been cautious of infiltration and contamination

of their political ideology. Nuclear and political factors influenced the status of the KIC. Therefore, the DPRK periodically cracks down on marketization for fear that its people are at the risk of abandoning their loyalty to Kim Jong-il. In 2009, for example, the North used Kaesong to protest against the conservative Lee administration by frequently closing the borders and exchanging harsh words with the South. This political shift almost led to the shutdown of the KIC. However, the KIC created enough stakes, common interests, and common wealth within the system to withstand the political crackdown. In North Korea, economic engagement cannot be completely severed from political moves, contrary to the framework of the past two ROK administrations under Kim Dae-jung and Roh Moo-hyun, which separated politics from economic engagement. In the case of Kaesong, political and economic stakes and interests created symmetry to sustain the complex. Figure 2 depicts how the counterbalancing effects of political pressure and economic incentives worked for the KIC.

Figure 2: KIC Counterbalance of Political Pressure vs. Economic Incentives



One of the main factors for building and maintaining community and peace is that there is common economic understanding and interest. On the other hand, communities are broken and peace-building fails when shared economic interest dissipates, common wealth does not form, or understandings of each other's vested interests begin to clash. Historically, these failures often led to conflict and war. Recognizing the economic vested interest in the KIC, the DPRK decided to use the KIC as a trading and negotiating factor instead. Furthermore,

it is noteworthy that North Korea used economic factors such as wage and land-rent increases as opposed to political factors as their bargaining chips. This may be an optimistic sign that the DPRK is making interest-driven and profit-driven choices as opposed to ideology-driven ones.

Furthermore, the KIC is a mutually benefiting project for the leadership on both sides. The DPRK's leadership benefits from acquiring economic profit that may be directly funneled into Kim Jong-il, his military, and the elites. The ROK leadership benefits politically as the democratically elected Lee Myung-bak administration must rely on public support and opinion. Although the ROK leadership may be aware of the KIC profit going directly into the hands of the dictator, Lee continues to support the project because of his political stakes within the KIC. According to a recent opinion poll conducted by the Hyundai Economic Research Institute, 75.3 percent of the respondents indicated that they wanted the KIC to continue, while only 20.7 percent wanted to end the business exchange in Kaesong. Interestingly, only 22.2 percent of the respondents indicated that they trusted North Korea, implying that the South Korean public sees the KIC as necessary and beneficial despite their distrust of the Kim regime. The two governments as well as the South Korean people want the KIC to continue for economic and political reasons. Yoon Yeo-sang, director of the Database Center for North Korean Human Rights, stated, "The KIC will not shut down because of the vested interests from Kim and Lee." He added, "But it will only expand to the scale that the DPRK can politically control and manage." The benefits of the KIC to Kim Jong-il and Lee Myung-bak are mutually reinforcing.

V. STAKES, INTERESTS, AND COMMON WEALTH CREATED BY THE KIC

Given the argument that economic liberalism and economic interests withstood political crackdown from the North, what are the stakes, common interests, and common wealth that the KIC created?

DPRK

The first obvious vested interest for North Korea is the sheer amount of economic earnings they receive from the KIC. According to the ROK Ministry of Unification, the total production output in Kaesong from the time it opened through October 2009 was \$728,590,000 (see table 2); in 2009 alone (January-October), the total output was \$203,730,000. The total composite export amount

Table 2: Production Level (Based on October 2009)

₩100

	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2007	1,506	1,490	1,570	1,711	2,090	1,927	1,940	18,478
2008	1,846	2,031	2,318	2,412	2,310	1,960	2,224	25,142
Comparison	23%	36%	48%	41%	11%	2%	15%	36%

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Total
2008	1,887	1,768	2,422	1,906	2,058	1,846	2,031	2,318	2,412	2,310	72,859 (‘05.1~‘09.10)
2009	1,803	1,845	1,922	1,884	1,782	1,873	2,059	2,096	2,409	2,700	
Comparison	4%	4%	21%	1%	13%	1.5%	1%	9.6%	0.1%	16.9%	

Export Level (Based on October 2009)

₩100

	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2007	331	282	326	313	423	424	380	3,967
2008	234	253	245	282	281	219	187	3,584
Comparison	29%	10%	25%	10%	34%	48%	51%	10%

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Total
2008	320	432	575	300	256	234	253	245	282	281	11,950 (‘05.4~‘09.10)
2009	189	133	200	193	200	213	232	316	342	311	
Comparison	41%	69%	65%	36%	22%	8.9%	8%	29%	21.5%	10.7%	

Source: ROK Ministry of Unification

was \$119,500,000; in 2009 the export amount was \$23,290,000. Although production decreased in some months of 2009, the decline is attributed to the continuous obstruction of KIC production from the repetitive border closures, unpredictable political climate of the complex, worldwide economic depression, and increase in the number of new companies and workers within the KIC. In recent months, total production and export showed a sharp increase. The export amount in September 2009 was \$3,420,000, a 21.5 percent increase from \$2,820,000 for the same month in 2008.

The KIC is a lucrative business for the DPRK, and money has become the center of North Korean activities. In 2004, the Hyundai Economic Research Institute estimated that Kaesong would help North Korea earn close to \$9.55 billion in economic gains over the course of nine years. For a country in dire need of direct foreign currency, the enormous earnings from Kaesong provide enough incentives to keep the complex in operation. Lim Won-hyuk, Research

Fellow at the Korea Development Institute, argues in his paper “Inter-Korea Economic Cooperation at Crossroads” that “while Pyongyang is still concerned about regime stability, it has made serious efforts to ensure commercial viability for companies in Kaesong.” In a speech to the Workers Party, Kim Jong-il emphasized that material gains benefit the current times and that party members should be competent to produce real results. This change in the attitude towards the free market is parallel to the recent uproar against the currency revaluation in the DPRK. Many experts attribute this phenomenon to the increased awareness of the North Koreans’ concept of money. Even the military is known to have been behind the KIC’s establishment, as Kaesong is extremely close to the DMZ and Pyongyang. Now that the military bought into the idea of the KIC, too much is at stake and it would cost extreme amounts for the Kim regime to close the complex and restore the military system in the region.

Another vested interest for the DPRK is knowledge transfer. Through the KIC, the North has a perfect opportunity to learn the infrastructure of capitalist market systems from the thirteenth-largest economy in the world. Kim Jong-il has been persistently trying to develop North Korea’s economy through constitutional change, modeling of SEZs after the Chinese, and actually launching SEZs and other economic development projects. Despite his efforts, progress has been limited, if not unsuccessful. South Korea is relaying their free market expertise, such as accounting, business management, supply chain management, and more, to their North Korean employees. Many infrastructures have been built that increase the level of commitment to the complex. Factories were built with energy flowing from South to the North provided by Korea Electric Power Corporation. Korea Land Corporation, which acts as a developer along with Hyundai Asan, built a beautiful park and street inside the complex. Increasing numbers of North Koreans are involved in the KIC operations through the Kaesong Industrial District Management Committee (KIDMC). Ninety-four North Koreans are employed at KIDMC, which provides administrative services for companies located in the complex. The Inter-Korean Economic Cooperation Office runs the direct marketing and investment of the KIC, through which the DPRK has been rather cooperative in providing information requested by the ROK companies. Woori Bank opened as the first branch office in Kaesong. Korea Telecom launched the first direct telecommunication between Seoul and the complex. Cheongbong Bridge was completed in 2005 for the commute from Kaesong City to the complex. The number of commuter buses and bicycles increased with the construction of paved bicycle-only roads. A water system and other facilities, such as convenience stores, hospital, restaurants, and recreational infrastructures, were developed in the KIC. In October 2009, the first daycare

nursery opened in the KIC to accommodate the North Korean women in their 20s and 30s who make up 85 percent of the workers. Additionally, negotiations are underway to build an employee dormitory in the complex. An official of the Central Special Direct General Bureau (CSDGB) of North Korea said, “there is nobody in North Korea now who is against the KIC project. If there were any opposition, the project wouldn’t even leave the drawing board. However, they still discuss a number of ways to develop the complex proposed by the South. In terms of the will to develop the KIC, however, there is no room for doubt.” The North is receiving and learning plenty of new technologies and systems through the KIC.

ROK

South Korea also has its vested interest in the KIC. Much is at stake for the South Korean government, which would bear most of the economic and political burden in the case of a KIC failure or closure. Furthermore, the ROK has many different actors invested in the KIC, such as the government, companies, civil organizations, and the South Korean people. For example, South Korean companies who receive investment incentives from the government will incur huge amounts of losses. In June 2009, the Companies’ Association of the Kaesong Industrial Complex appealed to the South Korean government for economic measures. According to *Hankyoreh* on June 13, 2009, an official of the association of firms in Kaesong said, “Due to deterioration in relations between South Korea and North Korea, tenant companies in the complex have run in the red. We ask our government to take measures for financial assistance and for opening up our ability to exit from the project in order to minimize our management losses.” According to KIDMC, South Korean companies had already invested 450 billion won (\$304 million) as of November 2008. Since the launch of the KIC, the South Korean government has invested 658 billion won (\$443 million) to build roads, railways, and logistics, and an additional 311.8 billion won (\$210.1 million) to build the infrastructure and power and communication lines. According to the Forum for Inter-Korea Relations, an NGO in South Korea, the closure of the KIC would cost the ROK government and businesses an estimated \$1 billion. Moreover, the South Korean government has to take into consideration the costs incurred if the North Korean economy or regime completely collapses and the ROK is forced to absorb the shock.

Not only has the ROK government already invested too much money to allow the KIC to fail, it would lose political ground with the North as well, as the KIC is currently the only method in which the ROK can exert leverage over

the DPRK without the involvement of other states such as the United States and China. Moreover, it would also eliminate one of the few remaining channels for inter-Korean communication and interaction. Although the ROK's conservative government announced the possibility of pulling out of Kaesong entirely at the height of KIC-related tension in 2009, the vested interests on economic and diplomatic levels prevent this from occurring. Similar to the DPRK case, the government, private sector, and civil organizations in the ROK have large political incentives and financial interests to sustain the KIC.

The ROK is trying to inject more incentives into the KIC structure by including Kaesong-made products in the Korea-U.S. Free Trade Agreement (KORUS FTA). South Korea has been arguing strongly that products made in the KIC need to be verified as products of South Korea. If the products of the KIC are verified as such, zero or very low tariffs would be levied on them. On the other hand, if they do not qualify as made-in-Korea products, they will be levied over 100 percent tariff upon exportation, due to the sanctions on the DPRK by the U.S. government. However, U.S. trade representative Wendy Cutler said after the first negotiation that "the U.S.-Korea FTA is limited only to the U.S. and South Korea." This still is an important issue of debate, and how the KIC and inter-Korea relations will be affected by future negotiations between the two countries remains to be seen.

VI. SOCIAL AND HUMAN CHANGES WITHIN THE KIC

Lim Eul-chul, in his book titled *Kaesong Industrial Complex: History, Pending Issues, and Outlook*, writes that the North Koreans' understanding of money is slowly changing. North Koreans used to believe that the regime could survive as long as its ideology was not compromised, but there are indications that they are gradually giving more weight to material gains. If economic liberalism and economic interests ultimately rescued the KIC from complete closure in 2009, what were some of the changes that the KIC was able to cause in Kaesong City and the DPRK?

Human security and labor standards have been introduced, established, and improved for those working in the KIC. The 41,283 and steadily growing number of North Korean workers in Kaesong are subjects of envy to other North Koreans (see table 3). They earn \$57 per month plus benefits, which is far more than the earnings of the average North Korean workers. As of August 2009, workers will receive a wage 5 percent higher. Normal work hours are 48 hours

per week. If they work overtime, workers receive a 50 percent premium on their regular hourly rate. Companies have also implemented incentive systems such as a year-end bonus to encourage worker productivity. Kaesong workers have higher wages, better nutrition, and restored health through the KIC system. Andrei Lankov, Associate Professor at Kookmin University, claimed that the more than 40,000 workers combined with their families and friends would make up about 100,000 people who are under the KIC's influence. Moreover, there is increasing demand for additional labor, which requires outsourcing of employment from other cities due to a labor shortage in Kaesong. This will lead to increased exposure of more people to the South Korean lifestyle and business methods. Female workers are allowed 60-day natal, 90-day postnatal, and 60-day paid maternity leave. Although the growth of social capital is difficult to measure within the DPRK, growth in human interactions can easily lead to construction of concrete social capital in the future. Furthermore, training for North Korean workers has created new ways of civil education. Trainings for technical knowledge, safety measures, production quality control, and more take place in the KIC by KIDMC and South Korean companies. The ROK strategically uses the employee training to engage in civil education for North Koreans. North Koreans want more of this training because they realize that better training leads directly to higher productivity and profit, which is another indication that profit is changing the mindset of many North Koreans in Kaesong.

Table 3: Number of Workers in the KIC

(Unit: No. Of People)

	Jan		Feb		Mar		Apr		May	
	South	North	South	North	South	North	South	North	South	North
2008	823	22,778	884	23,529	1,081	28,769	1,081	28,769	1,034	27,341
2009	1,225	38,594	1,262	38,323	1,029	39,238	1,124	38,851	1,079	38,867

Jun		Jul		Aug		Sep		Oct	
South	North	South	North	South	North	South	North	South	North
1,147	29,489	1,187	31,758	1,251	33,037	1,236	33,688	1,461	35,375
1,005	39,801	952	39,504	958	39,933	974	40,848	959	41,283

Source: ROK Ministry of Unification

By opening up North Korea through the KIC, the international community has also become more vested in North Korea, especially on such issues as the regime's questionable adherence to the labor laws. The KIC has put the DPRK under increased scrutiny by international human rights organizations,

which led to some positive changes in labor standards within the KIC. An issue that the international community has voiced much concern over is the lack of transparency in wage distribution. South Korean companies are not able to pay the North Korean workers directly. Instead, they pay through the North Korean government agency CSGDB. Many allege that the government mostly diverts the wages of the North Korean workers towards government coffers, whereby the workers receive only \$8 out of their \$57 monthly wage.

Consistent pressure on human rights issues from the international community has caused some behavioral changes in the North. Amidst the human rights criticism from international organizations such as Human Rights Watch, it was observed that a small group of South Koreans were allowed to cross over the border even after North Korea shut down the border for the first time in 2009. The small group included foreigners, someone who was to be wed, and someone who was sick. The incident implied that the North wanted to avoid an international outcry or further criticism about human rights violations, indicating that pressure on soft issues such as human rights and labor laws can be effective on the DPRK. By engaging with the DPRK through the KIC, the North faces increased exposure and accountability on human rights and peace.

Since the KIC launched, there has also been a high frequency of inter-Korean contact, especially on the economic front. As table 4 indicates, economic contact is a fairly recent phenomenon, with a heavy emphasis in the 2000s. This indicates that both governments are placing value on economic exchanges such as the KIC.

Table 4: Number of Inter-Korean Talks by Field (Unit: No. of Cases)

Area/Year	71-99	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Political	189	18	2	4	5	2	10	5	13		248
Military	0	4	2	9	6	5	3	4	11	2	46
Economic	5	3	3	14	17	13	11	8	22	3	99
Humanitarian	119	2	1	3	7	2	4	3	3		144
Social and Cultural	34			2	1	1	6	3	6	1	54
Total	347	27	8	32	36	23	34	23	55	6	591

Source: ROK Ministry of Unification

When the North-South Exchange Cooperation law was first created in 1990, human exchanges between North and South were at a mere 400 persons per year according to Seok Yoon's article in the *American Journal of Applied Sciences*, entitled "An Economic Perspective of Kaesong Industrial Complex in North Korea." This number increased dramatically by 2008 to 180,000 persons. Additionally, the types of interaction have diversified to include everyday entry and stay, family visits, tourism, long-term stays, and more. Entry and exit of commodities between the two Koreas grew from \$100 million to \$1.82 billion over 17 years, to which the KIC contributed greatly. The KIC has also encouraged other similar projects to start in the surrounding Kaesong area or in other parts of the DPRK. There have been continued talks about replicating the Kaesong model in other parts of North Korea, such as Haeju. Furthermore, foreign direct investment (FDI) has expanded to include non-South Korean companies such as the German company Prettl. In September 2009, a delegation of Dutch businessmen visited the North Korean Chamber of Commerce and wrote a report on the North Korean business environment. When this report gets distributed to other EU countries, it is expected that FDI from the EU countries will increase in the future.

As figure 3 below shows, inter-Korean trade, which takes place mostly through the KIC, has been steadily increasing for the past decade. Table 5 shows numbers of inward and outward trades between the two Koreas. Although the inward volume has not increased as much as in previous years and the outward volume has decreased since the current South Korean President Lee Myung-bak's administration took office in 2008, the two Koreas remain committed to the KIC. In fact, Korea Customs Service announced that inter-Korean trade increased in September 2009. Table 6 shows month-by-month numbers for inter-Korean exits and intakes of goods in 2009, in which both the volume and amount are shown to have increased gradually.

North Korea's perception of South Korea is also changing slowly. In a 2005 Ministry of Unification survey of recent defectors, only 32.8 percent of them regarded South Korea as an enemy, a decrease from 49.2 percent in 1999. Furthermore, 67.2 percent of North Koreans viewed South Koreans as friends, an increase from 50.8 percent in 1999. While the North and South Korean workers within the complex live in separation from one another, they work together and continuously interact with each other. Exposure to South Korean lifestyles, outfits, business methods, and human interactions has caused some small and gradual changes. Lim Eul-chul, research professor at Kyungnam University's Institute of Far Eastern Studies, testified that North Koreans are

Figure 3: Inter-Korean Trade (1998-2007)

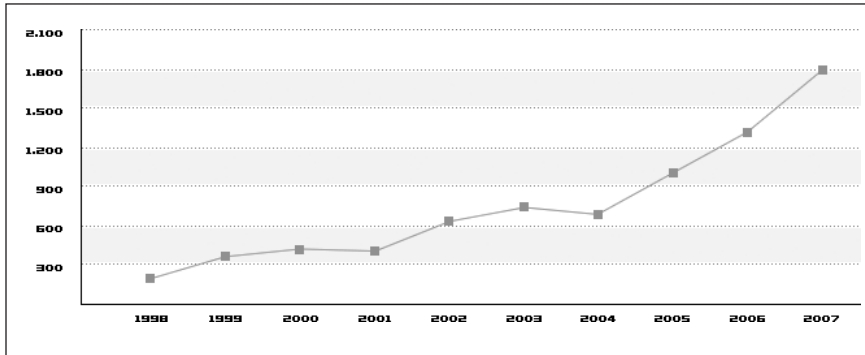


Table 5: Inter-Korean Trade (Unit: USD Million)

Year	1989	1990	1991	1992	1993	1994	1995	1996	1997	1997	1998
Inward	19	12	106	163	178	176	223	182	193	92	122
Outward		2	6	11	8	18	64	70	115	130	212
Total	19	14	112	174	186	194	287	252	308	222	334

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Inward	152	176	272	289	258	340	520	765	932	5,170
Outward	273	227	370	435	439	715	830	1,032	888	5,845
Total	425	403	642	724	697	1,055	1,350	1,797	1,820	11,015

In 2008, trade between the two Koreas totaled \$1.82 billion, which is a 1.2% increase from a year ago.

Source: ROK Ministry of Unification

Table 6: Inter-Korea Exits & Intakes of Goods in 2009

Month	Number of Exits	Amount of Exits	Number of Intakes	Amount of Intakes
Jan	2,840	42,816	2,535	68,512
Feb	2,918	41,640	2,529	59,251
Mar	3,085	40,889	2,791	67,684
Apr	3,056	40,181	2,958	64,721
May	2,963	42,252	2,937	64,265
Jun	3,391	52,138	2,891	61,011
Jul	3,643	63,888	3,012	75,525
Aug	3,397	53,603	3,005	82,809
Sep	3,793	74,250	3,621	98,752

Source: Korea Customs Service

starting to emulate South Koreans. The use of Kaesong dialect is decreasing and slowly being replaced with South Korean tone and language. For example, the word *hwa-jang-shil*, which means “bathroom” in South Korea, is now used more widely within the KIC than *wi-seng-shi-sul*, which is the equivalent term in North Korea. Lim added that their clothing, hair, and makeup are becoming more South Korean-like. The DPRK government strongly condemns and restricts such behavioral changes. Despite the strict surveillance, however, outsiders can often detect behavioral changes among North Koreans to emulate South Koreans.

It may be that the DPRK decided to detain the Hyundai Asan employee because of its awareness of and opposition to these behavioral changes. This incident can be interpreted as a public showcase of the North Korean government’s warning to South Korean and North Korean Kaesong workers that the regime will not tolerate any activities that threaten or challenge its legitimacy, just as the government often performs public executions to induce fear and consequently tighten its grip on the people. Detainment of the Hyundai Asan employee was a classic North Korean case of economic liberalization clashing with political pressure. Despite the strong control of the DPRK regime, people’s exposure to each other inevitably increases, especially as the KIC needs more North Korean laborers and begins to recruit from outside of the Kaesong area. Even with drawbacks due to political tension, uncertainties over laws, institutions, infrastructure, management, and overall environment are being reduced.

VII. LIMITATIONS OF THE KIC’S INFLUENCE

The impact of the KIC is limited, however, as long as North Korea avoids the challenge of broader national reform. North Korea has been unwilling to establish a SEZ that fosters a stable investment and commerce environment. Although they crave the financial benefit of the open market in the open city of Kaesong, they continue to limit expansive economic liberalization in order to protect their ideology. The newly emphasized *son-gun* (military-first) politics also places a cautious regulation on the level of growth, activities, and interactions within Kaesong by emphasizing military and security rather than marketization. Therefore, the North’s political economy has been able to develop only within the boundary of harsh political measures. Five years after the KIC launched, its situation within the “open city” is still volatile as ever. In 2009, the KIC has faced complications and instability stemming from various factors such as the detainment of the South Korean Hyundai Asan employee, North Korea’s

rocket launch, and North Korea's demand to increase the KIC wages to \$300 and land lease to \$5 billion. In the eyes of many, the future of the KIC is indeed unpredictable and seemingly hopeless. Many critics argue that KIC is a failure without clear results of transformation in North Korea.

However, one must remember that economic reform in China and Vietnam also required time and intense commitment even though they were not divided countries like North Korea that required a significant amount of funds to go into the military. The fact that the KIC remains in active operation today can be a hopeful sign that the DPRK is ready to accept some changes. The ROK Ministry of Unification states that the level of inter-Korean economic engagement has not decreased despite the political tension since the conservative Lee Myung-bak administration took leadership. In fact, the amount of trade has increased. Referring to the statistics on the growth of the KIC production and employees, Kim Yong-hyun, professor of North Korean studies at Dongguk University, stated, "The latest statistics show North Korea will not shut down Kaesong but thoroughly protect business there."

VIII. CONCLUSION

Economic cooperation and engagement projects are effective tools to open doors, increase interaction, and instigate change and peaceful transition in the DPRK. Not only is the KIC improving market structure and influencing the larger communist machine as a whole, but these developments are also seen in the welfare of individual lives of North Koreans working at the complex. The KIC continues to grow despite Lee Myung-bak's conservative and hard-line policies towards North Korea and Kim Jong-il's crackdown on drastic reform. However, the DPRK now faces a dilemma: It wants to return to the old classical socialist system by tightening government control, but it also wants to experiment with marketization. This is evidence that the KIC has contributed significantly in creating and systematizing economic incentives and common interests so that both Koreas see value in the project. Due to these economic stakes, interaction on various levels has increased, labor and human rights standards have come under increased international pressure, and North Koreans' perceptions of South Koreans have improved. The overarching goal of the KIC is to induce gradual, small, and short-term changes rather than a big-bang approach with drastic changes that may lead to political breakdown. Within the framework of gradual change, the KIC has been effective at engaging and opening up the DPRK economy. Marcus Noland, Deputy Director and Senior

Fellow at the Peterson Institute for International Economics, stated in his paper “North Korea and the South Korean Economy,” that “it is worth engaging with the North and hoping that through a policy of engagement either Pyongyang will evolve toward a less threatening regime, or engagement will undermine the ideological basis of the Kim Jong-il regime and eventually cause its collapse. Either way the military threat to Seoul is eliminated.” The KIC is a strategic part of this larger plan to engage the DPRK.

Economic development is necessary in order to achieve political stability. Although it is important not to exaggerate its effects, economic engagement projects such as the KIC can have a long-term significant effect when it comes to political transformation. The true value of the KIC is in creating economic integration that leads to increased human interactions, which may provide added opportunities to change the DPRK. The more the DPRK economy is integrated with the South through economic cooperation and the more North Korean people are exposed to South Koreans, the more likely it is for the DPRK to cooperate rather than take military action. Interaction between the two Koreas in itself can be an important learning experience for the DPRK. The KIC can also be a tool to enhance trust, revitalize the economy, reduce reunification costs, and create a buffer zone between the two Koreas such as hosting the South-North family reunions and inter-Korea talks. The KIC has grown too large for either Korea to abandon it; incentives outweigh political risks on many levels. Further steps should be taken to continue to leverage incentives in order to better engage with the DPRK. Thomas Byrne, Moody’s Investors Service analyst, stated after touring the KIC, “[The] Kaesong Industrial Complex is the optimistic future of South and North Korea.” For the two Koreas, the KIC remains to be a land of much potential and opportunity.

CHRONOLOGY

1996	
Early	The Korean government raises the quota of students passing the Korean Bar Examination from 300.
1997	
Mid-year	IMF bailout loans arrive in Korea along with demands for a more open legal market from IMF and other international regimes.
2003	
Mid-year	The Korean Bar Exam passes 1,000 students each year under the Roh Moo-hyun administration.
2004	
Early	Small and mid-sized Korean law firms begin to open offices in fledgling Asian economies such as Cambodia, Vietnam, and India.
2006	
February	Negotiations on KORUS FTA first made public—inclusion of legal sector announced.
March	One-semester-long mandatory legal English and U.S. law courses are adopted by the Judicial Research and Training Institute of Korea.
October	Seoul Mayor Lee Myung-bak visits Germany to meet with the director of Germany's RMD canal and other experts to discuss its economic profitability and environmental sustainability.
2007	
April	Negotiations of KORUS FTA are concluded. The treaty awaits ratification by the Korean and U.S. legislatures.
July	The Law School Act is passed by the National Assembly of Korea.
October	During Lee Myung-bak's presidential campaign, Lee faces opposition from 180 environmental and religious NGOs.
December 19	Lee Myung-bak is elected president.

2008	
March 10	Seoul National University professors announce their opposition to the Grand Canal Project.
March 18	Bear Stearns collapses, one of the first indicators of the severity of the problems facing the worldwide financial system.
April 18	Korea agrees to lift its ban on U.S. beef imports.
April 18-19	Lee Myung-bak meets George W. Bush at Camp David.
April 29	<i>PD Notebook</i> airs program that spurs paranoia about American beef.
May	Protests of the Grand Canal Project begin.
May 2	Protests over American beef imports begin.
June	The combined protests reach a fevered pitch.
June 18	The Ministry for Agriculture, Food, Forestry, and Fisheries files charges against MBC and <i>PD Notebook</i> .
June 21	President Lee announces, "If citizens don't want the Grand Canal Project, I won't pursue it."
August	Protests of the Grand Canal Project end.
August 12	President Lee removes Chung Yeon-ju as head of KBS and replaces him with Kim In-gyu.
September 7	Mortgage institutions Freddie Mac and Fannie Mae are placed into conservatorship amid financial distress.
September 15	Lehman Brothers files for bankruptcy.
September 16	AIG receives an emergency bailout from the Federal Reserve.
October 3	\$700 billion TARP rescue plan passes U.S. Congress and is signed into law by the president.
October 10	G7 representatives meet and issue a plan to cope with the financial crisis. Meanwhile, world financial markets collapse amid double-digit losses.
October 19	The South Korean government guarantees \$100 billion in foreign debt and pumps an additional \$30 billion into the domestic financial sector.

October 30	The Federal Reserve announces the creation of a \$30 billion currency swap.
November	Both the won and KOSPI markets stabilize, despite the lack of funding from the swap.
November 14	Leaders from the G20 member nations meet in Washington to discuss responses to the crisis.
December 5	The Grand National Party (GNP) introduces the Media Law revision in the ROK National Assembly.
December 11	Six-Party Talks conclude amid disagreements over verification of North Korea's nuclear information.
December 20	The opposition parties occupy and lock the Cultural Broadcast Communication Committee (CBCC) building to prevent the passing of the revision.
2009	
January	Law schools are opened in 25 Korean universities sponsored by the Ministry of Education.
January 1	The North Korean Joint New Year's Editorial reaffirms Pyongyang's desire to see inter-Korean relations continued on the basis of unconditional aid, as it had under Presidents Kim Dae-jung and Roh Moo-hyun.
January 10	Minerva, also known as Park Dae-sung, is arrested for electronically spreading false rumors that danger the public good. He is later acquitted.
January 19	Hyun In-taek becomes South Korea's Minister of Unification.
January 30	North Korea states that all previous inter-Korean agreements are nullified.
February 10	Official notice is sent to South Korean companies in Kaesong to increase monthly wages from \$57.50 to \$300.
February 20	Secretary of State Hillary Rodham Clinton visits South Korea.
March	The Foreign Legal Consultant Act (FLCA) is passed by the ROK National Assembly.
March 2	In a brief but rare meeting at Panmunjom, North Korea demands the cancellation of upcoming ROK-U.S. military exercises.

March 6	The first meeting of the bipartisan panel on the Media Law revision takes place.
March 9	North Korea cuts its cross-border military hotline and closes the North-South border to all traffic for one day.
March 10	The DPRK reopens its borders.
March 9-20	U.S. and ROK forces conduct the Key Resolve/Foal Eagle exercises over North Korean protests.
March 17	Two U.S. journalists, Laura Ling and Euna Lee, are captured on North Korea's border with China, while covering stories on North Koreans who flee their country.
March 21	North Korea resumes normal military-to-military communication with the South.
March 30	Hyundai Asan engineer Yoo Seong-jin is detained in North Korea under accusations that he insulted Kim Jong-il and attempted to incite defection at the Kaesong Industrial Complex (KIC).
April	The GNP announces that it will drop the Grand Canal Project from its election agenda.
April 2	Heads of state meet in London at the G20 Summit to coordinate crisis-response policies.
April 3	Chinese President Hu Jintao meets with President Lee Myung-bak in London. Hu says China and South Korea are important neighbors and cooperative partners, and the development of bilateral ties is not only in the fundamental interest of the two countries and their peoples, but also conducive to peace, stability, and prosperity in the region.
April 5	North Korea launches its long-range Eunha-2 missile, ostensibly carrying a satellite payload, over the East Sea and Japan. A failure in the rocket's upper stage causes it to crash into the Pacific. It is considered a ballistic missile test by the international community, in violation of UN sanctions.
April 6	South Korean government officials raise the possibility that limits on its ballistic missile capabilities may be lifted in order to counter the increasing capabilities of the North.

April 7	CPC Politburo Standing Committee Member Li Changchun calls on President Lee Myung-bak during his visit to Seoul. Li suggests that both sides adopt effective measures to ensure economic cooperation, increase cooperation in key areas such as energy, telecom, finance, and environment, and initiate negotiations for a free-trade agreement. President Lee Myung-bak pledges to expand people-to-people exchanges, in particular the communication among young people, to lay a solid foundation for the progress of bilateral ties.
April 9	North Korea's Supreme People's Assembly holds a key meeting and reelects North Korean leader Kim Jong-il as chairman of the powerful National Defense Commission. The Constitution is amended to elevate military-first politics.
April 11	Premier Wen Jiabao meets with President Lee Myung-bak in Pattaya, Thailand, during the ASEAN 10+3 Summit. Both leaders agree to work together to combat the current financial crisis, push forward the bilateral strategic partnership constantly, and tide over difficulties together; to reinforce financial cooperation, implement the bilateral currency swap agreement, advance the process of Chiang Mai Initiative multilateralization, and expand the foreign currency reserve pool.
April 13	UN Security Council issues a presidential statement condemning the North Korean rocket launch.
April 14	North Korea says it will "never" participate in Six-Party Talks and orders U.S. nuclear experts and IAEA experts at its Yongbyon nuclear complex to leave the country.
April 18	In response to discussions in Seoul about South Korea joining the U.S.-led Proliferation Security Initiative (PSI), North Korean media declares that such an action would be interpreted as a declaration of war.
April 21	ROK and DPRK hold a short, unsuccessful meeting in Kaesong.
April 29	North Korean Foreign Ministry spokesman says in a statement through the KCNA that the country may be "compelled to take additional self-defensive measures," including a nuclear test and an intercontinental ballistic missile test.
May 8	North Korean Foreign Ministry spokesman says through the official KCNA that Pyongyang believes the United States remains unchanged in its hostility towards North Korea and that it expects nothing from the United States.

May 12	Special Envoy Stephen Bosworth visits Seoul, Beijing, and Tokyo to confer with the other Six-Party members over what can be done to resume the Six-Party Talks.
May 15	North Korea issues a declaration annulling KIC rules and regulations.
May 23	Former President Roh Moo-hyun commits suicide while he is under investigation for corruption. Many Koreans criticize the Lee government for the aggressive way in which it conducted the investigation.
May 25	North Korea carries out its second nuclear test.
May 26	South Korea becomes a full member of the PSI.
June	President Lee announces he will not pursue the Grand Canal Project as president.
June 4	The trial of the captured American journalists begins in North Korea.
June 8	The detained American journalists are each sentenced to twelve years of hard labor.
June 11	The first round of inter-Korean meetings about the KIC takes place. North Korea demands that wages for North Korean workers at the KIC be quadrupled and that companies operating there pay higher rents.
June 12	The UN Security Council passes Resolution 1874 in response to the May 25 nuclear test, providing for enhanced sanctions and searches of North Korean vessels and aircraft suspected to carry weapons or other illicit cargo.
June 16	Presidents Lee and Obama hold a summit in Washington, where they agree to a Joint Vision Statement to guide the development of the U.S.-Korea alliance, and where the U.S. delivers assurances that South Korea is protected under the American nuclear umbrella.
June 19	The second round of inter-Korean meetings about the KIC takes place. Four producers and one screenwriter for <i>PD Notebook</i> are indicted.
June 22	Members of the bipartisan panel on the Media Law are at a standstill. The GNP proposes to accept the findings and proceed to the next legislative stage. The opposition parties disagree, and request to examine public opinion on the issue more rigorously.
June 25	With only 11 GNP members of the bipartisan panel present, the findings are passed by the GNP.

June 29	The opposition parties barricade the National Assembly to prevent GNP members from voting on the revision.
July 2	The third round of inter-Korean meetings about the KIC takes place.
July 4	North Korea fires seven short- and long-range ballistic missiles over the East Sea.
July 6	North Korean cargo ship <i>Kang Nam I</i> returns to home port after failing to reach its destination. While the nature of the cargo is not clear, its contents are suspected to have been military-related.
July 7-9	Major government and private ROK and American websites experience denial-of-service attacks, possibly originating from North Korea.
July 21	U.S. Secretary of State Hillary Clinton likens North Korea to “small children and unruly teenagers” in a media interview.
July 22	The GNP enters the National Assembly while the opposition parties are absent, locks the door, and passes the Media Law revision bill.
July 27	North Korea announces that it is open to dialogue on its nuclear weapons, but not Six-Party Talks.
August 5	Former U.S. President Bill Clinton travels to Pyongyang to secure the release of the two U.S. journalists.
August 10	Hyundai Asan chairwoman Hyun Jeong-eun arrives in Pyongyang to seek the release of her imprisoned employee, Yoo Seong-jin, and to discuss inter-Korean economic projects.
	Indian authorities detain a North Korean vessel and search its cargo under suspicion of UN sanctions violations.
August 13	As a result of Chairwoman Hyun’s visit to Pyongyang, Yoo Seong-jin is released to South Korea.
August 17	North Korea announces that it will reopen its border with the South.
August 18	Former South Korean President Kim Dae-jung passes away.
August 22	A North Korean delegation led by Korean Worker’s Party director Kim Yang-gon lays a wreath for Kim Dae-jung and meets with Minister Hyun.

August 23	<p>Chinese special envoy Tang Jiaxuan attends the state funeral for the former South Korean President Kim Dae-jung, meets with President Lee Myung-bak, and conveys to him sincere regards and best wishes from Chinese President Hu Jintao and Premier Wen Jiabao.</p> <p>The North Korean delegation meets President Lee at the Blue House and delivers a message from Kim Jong-il.</p>
August 29	The UAE seizes a vessel carrying a shipment of arms from North Korea bound for Iran.
August 30	North Korea releases a South Korean fisherman who had inadvertently wandered into its territory.
September	The FLCA goes into effect.
September 2	North Korea reopens its border with the South.
September 3	North Korea announces that it is in the concluding stage of tests to enrich uranium and that it has finished harvesting plutonium from its spent fuel rods.
September 4	U.S. Special Envoy Stephen Bosworth visits South Korea, China, and Japan to discuss Six-Party Talks.
September 6	An abrupt release of water from a North Korean dam on the Imjin River causes flooding in South Korea that kills six campers.
September 7	The DPRK restores border passage to Kaesong.
September 8	The South Korean government demands that the North apologize and provide a full explanation for the flooding.
September 16	After the North backs away from demands for huge wage and rent increases at the KIC, an agreement is completed on a modest wage increase and a continuation of the complex's operations. The North begins reaching out to companies in Kaesong in an attempt to understand their difficulties.
September 19	Kim Jong-il tells visiting Chinese Envoy Dai Bingguo that North Korea would be willing to return to multilateral talks.
September 21	In New York, President Lee proposes a "Grand Bargain" to resolve the North Korean nuclear issue in exchange for large amounts of economic aid and security guarantees.

September 24	<p>President Hu Jintao meets with his South Korean counterpart Lee Myung-bak in New York on Wednesday morning on the sidelines of UN meetings to discuss bilateral ties and other issues of common interests.</p> <p>G20 leaders gather in Pittsburgh to discuss the effectiveness of macroeconomic responses to the crisis and coordination of unwinding efforts.</p>
September 26	Inter-Korean family reunions are held at Mount Geumgang just before the autumn festival of Chuseok.
September 30	The North Korean media rejects the South's "Grand Bargain" proposal.
October 3-6	Chinese Premier Wen Jiabao visits North Korea, finalizing trade and infrastructure deals, and China commits to at least \$200 million in unconditional economic aid.
October 5	Chinese Premier Wen Jiabao visits North Korea and meets with North Korean leader Kim Jong-il. Kim expresses "readiness to hold multilateral talks, depending on the outcome" of U.S.-North Korea talks, and says the Six-Party Talks are also included in the multilateral talks, according to KCNA.
October 10	Premier Wen Jiabao meets with President Lee Myung-bak in Beijing together with Japan's Premier Hatoyama, at the China-ROK-Japan trilateral summit in Beijing.
October 12	North Korea launches five short-range missiles.
October 14	Following September's fatal dam release, North and South Koreans hold talks on flood prevention. The North Korean side expresses its regrets over the loss of life in the incident.
October 22	The United States and South Korea wrap up an annual security meeting with assurances that South Korea is on track to assume more autonomy over its defense in the next few years and reaffirm the timetable for command hand-over.
October 24	Premier Wen Jiabao meets with President Lee Myung-bak in Hua Hin, Thailand, during the ASEAN 10+3 Summit.

October 30	<p>Press Secretary Robert Gibbs welcomes the announcement by the ROK government that it will expand assistance to Afghanistan's Provincial Reconstruction Team (PRT).</p> <p>Ri Gun, North Korea's number-two official on nuclear talks, travels to the United States and meets with Sung Kim in an unofficial venue.</p>
November 10	<p>A skirmish ensues in the West Sea when a North Korean patrol craft crosses the Northern Limit Line and is challenged by a South Korean vessel. The North Korean boat is damaged and withdraws.</p>
November 16	<p>President Hu Jintao meets with President Lee Myung-bak in Singapore during the APEC Forum.</p>
November 18	<p>President Obama visits South Korea.</p>
December 1	<p>North Korea revalues its currency in what it says is an attempt to fight inflation, but what is widely seen as a way to undermine the unofficial market economy that has been growing in recent years.</p>
December 8-10	<p>U.S. Special Envoy Bosworth visits North Korea.</p>
December 11	<p>The resignation of Ohm Ki-young, president of MBC, is denied by the Foundation for Broadcast Culture.</p>
December 12-21	<p>A joint survey between the ROK and the DPRK on industrial parks in China and Vietnam sets benchmarks towards the KIC.</p>
December 17	<p>Vice President Xi Jinping visits Seoul and meets with President Lee Myung-bak, Prime Minister Chung Un-chan, and Kim Hyong-o, speaker of the National Assembly, as well as other major political party leaders. Xi also visited Gyeongju.</p>
2010	
June	<p>G20 members will meet in Toronto, Canada. The meeting will coincide with a meeting of the G7.</p>
November	<p>South Korea will become the first non-Western country to host the G20, in Seoul.</p>



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