

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

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**Michael Yo**

### I. INTRODUCTION

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

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

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

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

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

## II. POLITICAL TURBULENCE SAVED BY A SOFT LANDING

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### III. HIGH-FLYING ECONOMICS

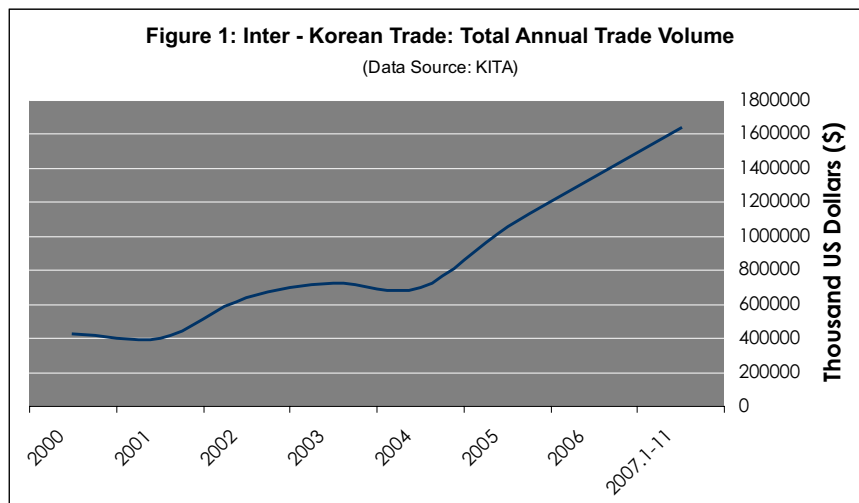
South Korea, whose open economy and stock market are tied to the stability of North Korea and of the entire peninsula, experienced a turbulent 2006 that discouraged many investors in the South Korean stock market. It was a politically uncertain time, and it was understandable that expectations for inter-Korean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

Table 1: Inter-Korean Trade

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

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

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



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

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

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

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

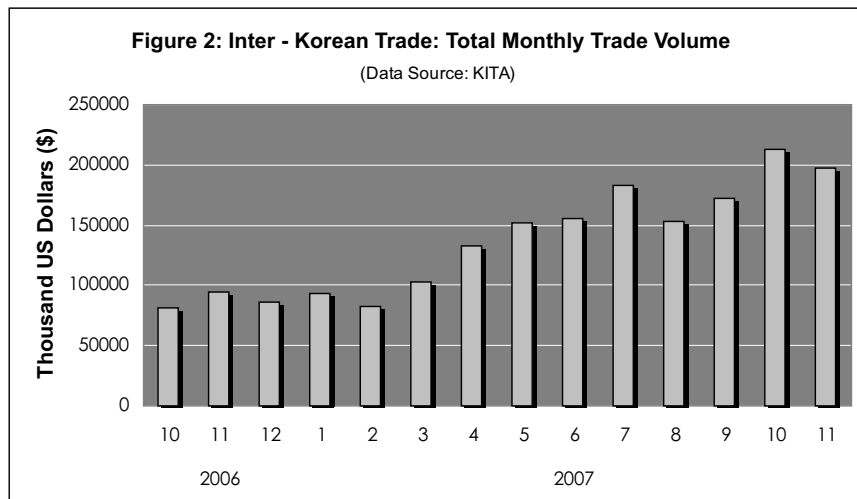
The influence of political events was evident in the aid to North Korea. Throughout 2006, private donations increased 67.8 percent, to \$407 million, but government aid fell 90.4 percent, to a value of \$12 million, which was due to the sanctions South Korea put on North Korea. In the first 11 months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

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

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

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

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



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

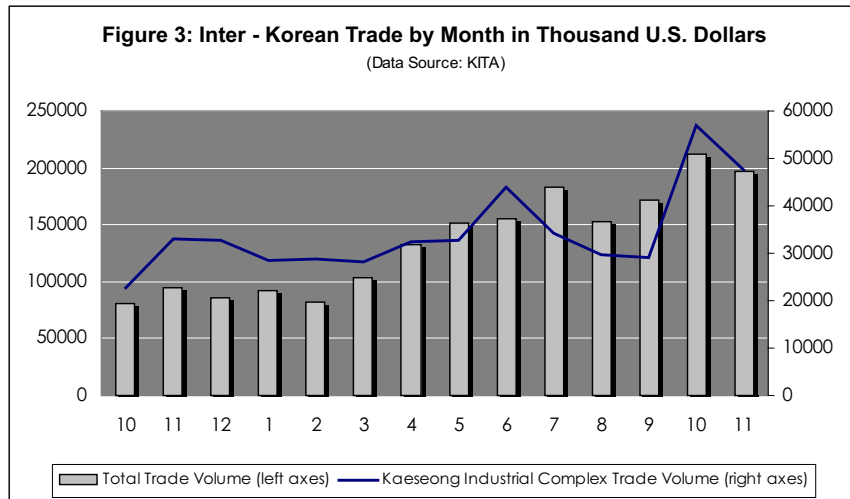
The picture is similar for commercial trade. In October 2006, the total was \$75 million; in November it swelled to \$86 million. Out of the five sectors in commercial trade, only one was a loser: processed brought-in materials decreased from \$25 million in October to \$24 million in November. The nuclear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

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

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

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





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

#### IV. SOCIO-CULTURAL EFFECTS

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

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

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

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

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

#### V. CONCLUSION

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

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

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

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

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

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

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**Nat Kretchun**

### **I. INTRODUCTION**

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

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

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

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