



# THE RESHAPING OF KOREA

November 2001



PACIFIC COUNCIL ON INTERNATIONAL POLICY  
*THE WESTERN PARTNER OF THE COUNCIL ON FOREIGN RELATIONS*

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# MAP OF THE KOREAN PENINSULA



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## SUMMARY

These are historic times in Korea, both North and South. In the South, a political system and economy long dominated by a few are beginning to open up. The process of reconciliation between the North and South has been even more dramatic, with new possibilities for relations between the estranged neighbors sparked by the hallmark June 2000 inter-Korean summit.

The transformation of Korea is a work in progress. The forces driving change—from foreign investors and international institutions to Korean entrepreneurs, from the younger generation and new civic groups to Korean-Americans—will see their influence increase, but only gradually. If, as Koreans say, “the first step is half the journey,” the hardest part may be behind them, and following through on what has already been started is what remains. The reshaping of Korea is a task for the long haul, and one full of promise. This report highlights the forces driving the country’s transformation.

**ECONOMIC RESTRUCTURING:** *After creating an export powerhouse, Korea’s challenge is to find its economic niche in Asia amidst tougher competition from abroad.*

South Korea is currently at an economic crossroads. The country has a lot going for it—a high savings rate and a pool of generally well-educated and hard-working people, as well as a rapidly growing and thriving information economy. But traditional business patterns, including cronyism and lack of transparency, are proving difficult to shed. Korea’s economy continues to be dominated by big, often inefficient conglomerates (*chaebols*), and the pain created by bankruptcies and layoffs has made it difficult for the government to build strong support for market-oriented economic reform.

The country’s immediate challenge is to move forward with restructuring to create a more globally competitive, less regulated economy, one that will help Korean companies find their niche in a fast-changing Asian economy. China already offers low-cost, highly skilled labor, and tantalizes investors with a potentially huge market. South Korea, with just 47 million people, is too small to warrant large manufacturing for domestic consumption, and increasing labor costs are eroding its existing manufacturing strengths. The country might aspire to be a regional services center, a kind of “Hong Kong North,” but it will first have to overcome some daunting infrastructure problems.

**POLITICAL REFORM:** *A “grass roots” movement is emerging that will reshape the South’s political system and make it less centralized and less authoritarian.*

Political culture in Korea is highly personalized, authoritarian, and centralized. South Korean governance has been a kind of “elected autocracy,” more the rule of rulers than the rule of law. The judicial system is not independent enough to hold the executive accountable and ensure fairness and equal treatment for all.

While Korean politics has become more open under President Kim Dae Jung, he has squandered opportunities to build democracy by continuing to lead in an autocratic way. Korea’s politics therefore remain deeply divided, in particular over economic policy and the specifics of Kim’s “sunshine policy” of engaging the North.

South Korea's politics still are top-down, but there is beginning to be a "grass roots" movement. Political change will be ratified from the top but driven from the bottom. Perhaps the most important long-term political change will come with the ushering in of a new generation of Koreans, which will prompt differences in attitudes toward authority and toward the United States. Non-governmental organizations (NGOs) are proliferating, and a more aggressive news media have given the NGOs opportunities to spread their messages. The South Korean press is free and openly criticizes the president, which would have been unthinkable just a few years ago. The no-confidence vote against Kim's minister of unification in September 2001—the first such vote in 30 years—is testimony to the changes that are underway.

**THE OPENING OF NORTH KOREA: *Pyongyang's "tactical" responses to difficult circumstances might lead to strategic change over time.***

North Korea remains a mystery despite some opening to foreign humanitarian relief and growing contacts with the South. Although statistics about North Korea are suspect, there is no question that its economy has experienced a stunning collapse. Chairman Kim Jong Il seems to recognize that his country cannot continue as is, but whether or not he has the will for serious reform is uncertain.

Chairman Kim's trips to China suggest that the North Korean leader is looking to the Chinese model of reform for ways to kick-start the economy while retaining Communist Party control. Yet North Korea lacks China's big internal market and ability to feed itself. The Chinese model does suggest that the signpost to watch for is an adjustment in the ideological line—like China's admonition to "seek truth from facts"—that will provide opportunities for reform and reformers.

North Korea has not made the obvious strategic move to improve its economy by taking advantage of its cheap, relatively well-educated work force. Instead, it overprices its labor for political reasons. But that strategy seems obvious within our logic, and one thing we have learned over the last 50 years is that our logic is seldom the same as that of North Korea. More importantly, Pyongyang's short-term "tactical" choices, such as allowing investment from some South Korean entrepreneurs, could cumulate to produce changes with long-term strategic implications over time.

**NORTH-SOUTH RECONCILIATION: *South Korea and its allies need to draw up a road-map that will tell the North precisely what it needs to do and what it can expect to get in return.***

The two Koreas themselves are now driving the process of reconciliation, which is a momentous departure from the history of the last half-century, when the United States, its Asian allies, and China defined the peninsula's possibilities. Nevertheless, South Korea's allies, particularly the United States, still remain critical to that process, and Seoul must work with them to develop a clear road-map that clarifies the expectations for all concerned.

Cooperation between South Korea and other regional players is essential, but complicated. The Bush administration's efforts to broaden the security agenda to include conventional forces and its use of North Korea as a justification for a national missile defense system does not sit well with some South Koreans. Seoul and Washington may also find themselves at odds over North Korean membership in international financial institutions.



South Korea needs to work together with the United States to find common ground and develop a road-map for North Korea, one that specifies what it needs to do to improve its external relations and what it will get in return for such action. Efforts should be made to involve Japan, which stands to play an important role in the economic development of an opened North Korea, as well as China, whose continued influence in Pyongyang was underscored by Kim Jong Il's recent visit to China. A coordinated, united approach and a jointly established set of guidelines would provide clarity, not just for North Korea, but for South Korea's allies as well.

**IMPLICATIONS FOR THE UNITED STATES: *The September 11 terrorist attack provides another opportunity for the U.S. government to reengage North Korea.***

North Korea's condemnation of the terrorist assault on the United States provides an opportunity for a fresh start in troubled bilateral relations. Pyongyang and Washington should reach out to one another and resume a dialogue that was started by the Clinton administration. That would enable the United States to play a leading role in promoting a gradual normalization of North-South relations on the Korean peninsula.

For now, U.S. non-governmental organizations are limited in what they can do in North Korea, but, over time, they can become quiet agents of change, in particular by helping the North gather the expertise to enter the global economy. Finally, as Korean-Americans become more established in their adopted country, they can and shall play a bigger role on the peninsula—as investors, as interlocutors of the U.S. government, and as another force for change in the North. Many Korean-Americans are willing to go to North Korea to teach and to do field work; many more want to help get food and medicine to the North. Ultimately, they can be expected to make direct investments in the impoverished North's economy.



## PREFACE

The Pacific Council on International Policy, a leadership forum focusing primarily on the international trends most salient to those residing in the western region of the United States, organized a project during 2000-2001 to analyze how and why Korea is changing. To undertake this project, the Pacific Council launched a binational Task Force, bringing together people of different professions, regions, generations, and political backgrounds, from the western United States, Canada, and Korea. We succeeded in engaging a truly diverse group of nearly 100 participants, unlikely to come together under other auspices, who worked together to explore Korea's current situation and future prospects. The Task Force met five times—three times in California and twice in Korea—to discuss commissioned memoranda, to hear commentary from experts and prominent leaders, and to exchange information and ideas.

This report takes our collegial process a step further, drawing mainly upon the Task Force's rich and sometimes contentious discussions. It covers most of the topics we discussed and draws amply on our exchanges, but obviously does not and indeed cannot reflect all the diverse and often contradictory views we considered or all the points made in our discussions.

No member of the Task Force, listed at the conclusion of this report, necessarily agrees with every statement in this text, and some take issue with specific points or lament omissions they consider significant. All listed members of the Task Force do agree, however, that this report draws faithfully upon the group's deliberations and that it comprises a thoughtful and balanced assessment of Korea's future, based upon our shared enquiry. All participants affirm that the report is an illuminating and constructive contribution to an enhanced understanding of the key forces driving change in Korea, and all subscribe in general terms to its main findings.

The West Coast, and Los Angeles in particular, is home to the second largest concentration (after China) of ethnic Koreans outside Korea. Korean-Americans have not yet been as important to Korea's reshaping as overseas Chinese have been to China's modernization, but they will ultimately be powerful shapers of Korea's future and will have their own possibilities altered in turn. For this reason, we paid special attention to the role of Korean-Americans.

Korea is more and more important to the United States—as an ally, trading partner, model of economic success, and critical piece of the puzzle of Asia's strategic future. Our review of the underlying drivers, at home and abroad, of Korea's future makes plain, too, just how large the United States figures in that future. For California and other western states, Korea's growing importance outpaces understanding of it. Western businesses, unions, schools, and other institutions all stand to benefit from a better informed and more refined understanding of Korea's dynamics and prospects. It is equally in Korea's interest to improve U.S. understanding of Korea and so avoid the sudden swings in American opinion and policy that can result from fragmentary impressions exacerbated by economic ups and downs.

We and the Pacific Council want to acknowledge the role Gregory F. Treverton, Senior Fellow at the Council, played in directing the project and shepherding its discussions through the final report. Sunhyuk Kim was research director, and Raelyn Campbell managed the project, keeping it together in a thousand small and big ways; without her, there would have been no project. We also thank the other members of the project's steering committee—Chae-Jin Lee, Norman D. Levin, Abraham F. Lowenthal, Kyung-Ae Park, and Scott Snyder—for their wise counsel and practical help.

Special thanks go to Chung-in Moon and his colleagues at Yonsei University's Graduate School of International Studies, which twice provided hospitality, a congenial setting, and invaluable help for Task Force meetings in Seoul.

We are grateful for the critical start-up funding provided by CBOL Corporation and the Pacific Century Institute, and for the major financial support furnished by the Compton Foundation, the Ford Foundation, and the Korea Foundation. To them and their staffs we express our thanks. We also appreciate the support of the U.S. Institute of Peace and the Asia Foundation, which provided logistical help in Seoul and hosted the Task Force's final meeting in San Francisco, and of Anheuser-Busch for providing project support. Korean Air provided in-kind contributions that very much helped in bringing the far-flung Task Force together.

Finally, we want to thank the participants in the project, Korean and American, who made it a fascinating exploration of the historic reshaping of Korea.

*Spencer Kim*  
*Project Co-chair*

*Michael Parks*  
*Project Co-chair*

## INTRODUCTION

History is being made in Korea as the peninsula is reshaped. Forces of change include the international economy, investors and international institutions, and Korea's friends and neighbors, especially the United States, Japan, and China. But it is the Koreans themselves who are playing the biggest role. The most dramatic development is the process of reconciliation between the two Koreas that was set in motion by South Korean President Kim Dae Jung's momentous visit to North Korea in June 2000, which earned him the Nobel Peace Prize. As recently as 2 years ago, the division along the 38th parallel seemed frozen, and 5 years before that the United States and North Korea had come perilously close to war over North Korea's nuclear weapons program.

This report lays out the forces that will drive Korea's reshaping over the next 5 to 10 years. It seeks to advance understanding in order to improve policy, where "policy" is not just what governments do but also actions by private individuals, corporations, and groups. The report is about Korea's future and not, in the first instance, about foreign policy or U.S.-Korean relations. Its perspective is "inside out," focusing first on the drivers of change on the peninsula. It examines Korea's transitions to look beyond daily ups and downs and even past the December 2002 South Korean presidential elections. For the first time in a half-century, it is the Koreans themselves, South and North, who are leading in making their own history. The report then widens its view to ask how the actions of the United States and Korea's neighbors also come to bear on the peninsula.

Just how the September 11 terrorist attacks on the United States will play into the peninsula's transformation remains to be seen, but the events stand to have profound effects on the reshaping process in both Koreas. For instance, North Korea has come out strongly against the attacks, and may be forced to resolve lingering issues about its own involvement with terrorism, which could open the door to new economic assistance.

Korea's reshaping is a work in progress, and what has been accomplished hangs in the balance. If this report, like the conversations that were its backdrop, tends to accentuate what is left to be done, the progress South Korea has made is no less stunning. A mere two generations ago it was poor and largely agricultural, with a per capita gross national product equal to many African countries. Now it is one of the world's industrial nations and was acclaimed as an honors graduate of International Monetary Fund (IMF) tutelage after the 1997-1998 Asian financial crisis. Yet, although the country has made an economic recovery—in economic growth, current account balances, and foreign exchange reserves—the restructuring of the economy to make it more competitive is yet to be completed. Ironically, what reform has been accomplished has come mostly from the top, and so the *dirigiste* state is still alive. As the pain of change has affected more and more South Koreans, restructuring has sputtered in the corporate, financial, labor, and public works sectors.

The first set of drivers thus derives from the distance South Korea has to go to make a real economic transformation despite its impressive success to date. The second set is the reshaping of South Korea's political system, which is still dominated by the "three Kims," including the president, who are older than 70 and have dominated the political landscape for 30 years. President Kim is an advocate of democracy but, like the other Kims, is rigid and authoritarian in style. His administration has not been as scandal ridden as its predecessors, but not a single

postwar Korean president has finished his term without some disgrace. Two recent presidents, Chun Doo Hwan and Roh Tae Woo, have been convicted of fraud, and the last, Kim Young Sam, is not widely respected. When South Korea's politics are reshaped, the change will be ratified at the top but will emanate from the bottom.

Reconciliation between North and South Korea is the third driver making history on the peninsula. The situation remains highly unpredictable, and what has been accomplished is still subject to reversal. Although South Koreans broadly support engaging the North in principle, the specifics of South Korean President Kim's sunshine policy have become more and more controversial among South Korean political leaders and in the United States. The ultimate driver, though, is North Korea, not the South, and that government is hard to fathom: has North Korea under Kim Jong Il embarked on a path of genuine economic and political change? Sections of this report grapple with that key driver, taking up the issue of North Korea's shift of economic model and the puzzle of its politics, then proposing the development of a road-map by South Korea, the United States, and other regional actors to chart the course ahead for relations with Pyongyang.

A brief coda to the report inquires into private action in pursuit of public purpose. In light of other experiences in other regions of the world, how can groups like the Pacific Council or the Task Force speed the process of rapprochement on the Korean peninsula?

## ECONOMIC RESTRUCTURING

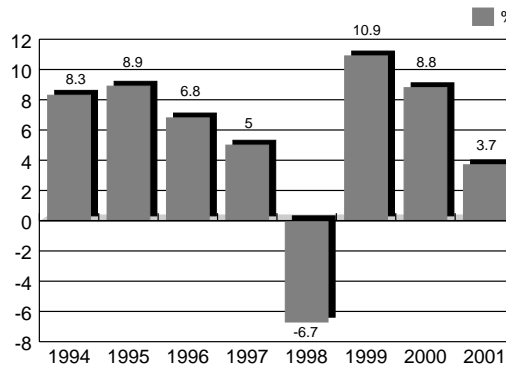
South Korea is at an economic crossroads, confronted by the need to adjust to a new global environment. For all the emphasis on capital markets during the financial crisis of 1997-1998, the underlying failure was in not recognizing the shift in the global economy. As became clear belatedly, South Korea could no longer compete with low-wage countries such as China in global markets for consumer electronics or textiles.

The key issue is not how to change the global economy, which is beyond Korea's control. Rather, it is how Korea frames its integration into that economy. Korea's strengths, in addition to its rapid growth, include its high savings rate, its generally good schooling, and its hard-working people. The South Korean information economy, for all its regulation, has a higher penetration of the Web than most other countries. Over one-third of the population uses the Internet regularly, for an average of over 18 hours per month — the highest figure in the world.<sup>1</sup> Yet, the current restructuring effort has slowed, and the forces driving change—foreign investors, international institutions, and younger Korean entrepreneurs—will have increasing influence, but only over time.

The challenge for Korean firms in the long run is to find an economic niche among its larger Asian neighbors. Japan, a rich market in which assets can now be bought at or below world market prices, is gradually opening to foreign investors. China offers investors low-cost labor in the short run and a potentially huge market in the long run. With 47 million people, South Korea is too small a market to warrant large manufacturing for domestic consumption, and increasing labor costs are eroding its existing manufacturing strengths. The country might aspire to be a regional services center, a kind of "Hong Kong North," but one problem is its new billion-dollar Incheon airport, which lacks both a convenient rail link to Seoul and the capacity to meet expected demand beyond 2002.

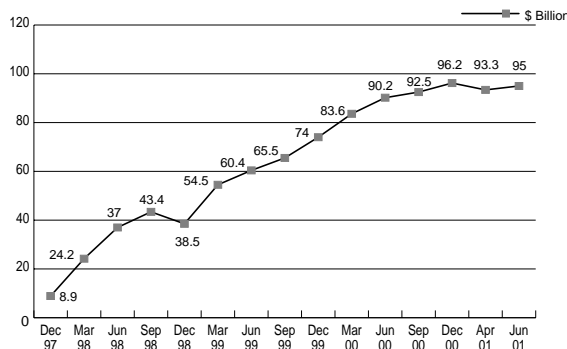
By world standards, the current talk of economic "crisis" in South Korea is dramatically overstated. As the global economy has slowed, so has South Korea's annual growth—from more than 10 percent at the end of 1999 to less than 4 percent in early 2001—still impressive for an economy that contracted by nearly 7 percent in 1998. The South Korean economy is in much better financial shape

**Figure 1: Annual GDP Growth Rates for South Korea**



Source: Bank of Korea  
 Compiled by Korea Economic Institute  
<http://www.keia.com/BasicDataJune.ppt>

**Figure 2: South Korea's Foreign Exchange Reserves**



Source: Bank of Korea  
 Compiled by Korea Economic Institute  
<http://www.keia.com/BasicDataJune.ppt>

*In the initial response to what Koreans call “the IMF crisis,” families sold heirlooms to help restore government finances and citizens ate what they came to call “IMF noodles.”*

now than it was at the time of the crisis in 1997—its foreign exchange reserves were \$95 billion in June 2001, compared to less than \$5 billion in 1997. Since 1998, the country has had very large increases in foreign direct investment (FDI) and portfolio inflows have shifted from debt instruments to equity. Most of the FDI has, however, been mergers

or acquisitions, not new facilities. Recent investment has been a reflection of “fire sale” prices in the wake of the crisis. While FDI inflows

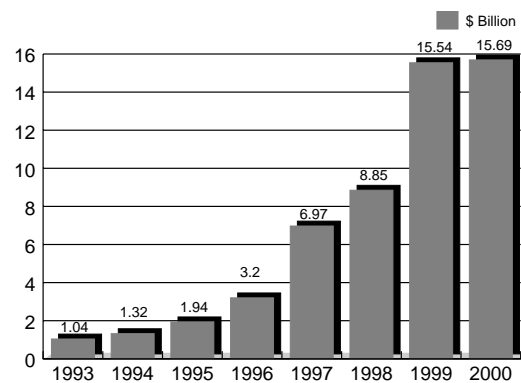
have slowed—the “sale” is ending—the government probably has the wherewithal to fight a panic or a sharp economic deterioration. If the country can manage growth in the range of 5 percent per year, its annual per capita income will rise over a decade to \$20,000 to \$25,000—a promising economy but not a world leader.

Although the country’s situation is fragile, it is not yet at the point of a second crisis that could galvanize action to seriously restructure. It took the 1997-1998 crisis to produce demands for more accountability and to bring in new forces like the IMF. In the initial response to what Koreans call “the IMF crisis,” families sold heirlooms to help restore government finances and citizens ate what they came to call “IMF noodles,” very simple meals rather than grander fare. That phase is now over.

The second phase—restructuring—has been much harder. Official proclamations asserted that restructuring to diminish regulation and the heavy hand of government would be completed soon, but in fact the process is one that will take years, if not decades. It is worth remembering that the restructuring of the U.S. economy took two decades from the beginnings of deregulation in the 1970s and that Japan has been in the economic doldrums for a dozen years without dramatic reform. Critically, too, the process of restructuring has been at odds with the intended result: Although the goal is less regulation and a diminished role for government in the allocation of capital, in the process the government has taken a larger role, and its role may only grow larger in the wake of the September 11 attacks. In banking, for instance, the government now effectively holds a number of insolvent financial institutions that it finds difficult to let go.

Existing patterns—cronyism and lack of transparency among them—are part of a broader Korean cultural context and so are all the more difficult to shed. Korea’s economy continues to be dominated by the *chaebols*, which, like Japan’s *keiretsu*, are interlocking networks of companies built around internal financing and therefore able to invest with little regard for return on investment. Seventeen of the 30 largest *chaebols* have gone bankrupt since the crisis and separate accounting statements are now required for each company within a group. Still, 56 percent of South Korea’s GDP and 70 percent of its exports are generated by the top 10 *chaebols*’ total sales. By contrast, Fortune 500 companies generate only 7 percent of U.S. GDP, and almost a third of U.S. exports are from companies with 30 employees or less. If the changes in the U.S. economy have been more dramatic than they seem, Korea’s may be less so.

Figure 3: South Korea’s Foreign Investment Inflows



Source: Ministry of Commerce, Industry, and Energy  
Compiled by Korea Economic Institute  
<http://www.keia.com/BasicDataJune.ppt>

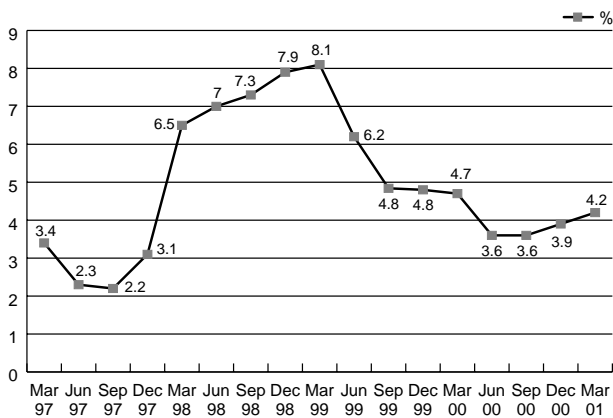


The country continues to suffer from a weak rule of law, including poor protection of intellectual property and some corruption. Koreans are not accustomed to relying on the legal system and bringing lawsuits to settle disputes. Written contracts are not the basis of many business relationships; instead, business people rely on personal connections. In surveys of advanced developing countries, Korea ranks in the middle or below in terms of international competitiveness. Moreover, the language of “reform” is rhetoric; for a state that was “a developmental dictatorship” the meaning of that rhetoric is not always clear.

The four reforms announced by the current government—banking, corporate, labor, and governmental—have slowed, albeit from a rapid initial pace. Implementation is what remains, but there are obstacles. One problem is the government’s failure to build a durable constituency for reform; the pain of each phase in the restructuring has turned yet another group against the process. In a July 2001 poll, big majorities of South Koreans were critical of the economic situation and government economic policies. Over two-thirds thought the economic situation was bad, four-fifths called the government’s economic policies poor, and 9 out of 10 believed the gap between rich and poor was widening.<sup>2</sup> For his part, President Kim has been caught between the vested interests of the country’s economic elite, which deeply distrusts him, and his own constituency, especially labor, which has opposed restructuring for fear of losing jobs.

*South Korea’s economy is caught between paradigms; it is neither a free nor a command economy.*

Figure 4: South Korean Unemployment Rates



Source: Bank of Korea  
 Compiled by Korea Economic Institute  
<http://www.keia.com/BasicDataJune.ppt>

Table 1: Number of Labor Disputes in South Korea

Year	Labor Disputes
1995	88
1996	85
1997	78
1998	129
1999	198

Source: Ministry of Labor

Today, there is talk that reform has gone far enough, which is understandable given the pain of bankruptcies and layoffs. It is argued that banks should not be taken over by foreigners because they would then be less susceptible to direction from the government. South Korea’s economy is caught between paradigms; it is neither a free nor a command economy. Big Korean companies still wait for direction from the government, even if that direction does not always come. For instance, when financial markets collapsed in 1997, companies turned to high-interest debenture bonds, mostly with 3-year maturities. One foreign bank trying to restructure the debt of a major company whose bonds were coming due found that Korean banking colleagues agreed that such action was necessary but held back nonetheless, saying “the government hasn’t told us to act.”

*When change occurs it will come from the bottom, not the top, and be driven by new forces.*

It can be debated whether or not the country needs to move to complete separation of industrial and financial groups, but in either case the reform of the *chaebols* has lost momentum. There is little medium-sized business, and that creates an enormous gap between very uncertain small ventures and the dominant big businesses. The country needs to do more to let the market, not the government, allocate resources, shifting them from the old economy to the new. That new economy puts a premium on flexibility to meet rapidly changing global markets. It is an economy characterized by specialized and rapidly changing products. Yet, in addition to too much government intervention, South Korea suffers from continuing restrictions on foreign investment in key sectors and continuing obstacles to starting and financing small businesses.

For all the talk of letting the market work, the government continues to channel money and there is little transparency to that process. The bailout of the banking system has already cost \$100 billion, and some \$25 billion more is estimated to be necessary to finish the task. In another example, for a long time President Kim's supporters in labor simply believed that the government would rescue Daewoo Motor. Ultimately, however, the company was permitted to go bankrupt and its leaders were taken to court. Granted, Daewoo was a special case, both because its proposed sale to Ford fell through at the eleventh hour and because of the militancy of its labor force. More recently, a long-discussed sale of Daewoo to General Motors is close at hand, with the signing of a memorandum of understanding in October 2001.

Table 2: Number of Trade Unions and Union Members in South Korea

Year	Trade Unions	Union Members
1994	7,025	1,659,011
1995	6,606	1,614,800
1996	6,424	1,598,558
1997	5,733	1,484,194
1998	5,560	1,401,940
1999	5,637	1,480,666

Source: Ministry of Labor

In the United States, the key to restructuring was deregulating capital markets, but after the 1997-1998 crisis the Korean government wound up holding over 50 percent of banking sector capital. It needed to sell banks off, to consolidate them into large U.S.-style financial holding companies, or to permit the *chaebols* to own them—none of which is politically easy. However, with the passage of the financial holding company law in October 2000, South Korea is moving in the direction of large, U.S.-style financial holding companies.

When change occurs it will come from the bottom, not the top, and be driven by new forces. Indeed, this is already happening. It took some opening of the economy to permit foreign investors and international institutions such as the IMF to become a force; FDI has increasing become a positive source for change. When, for instance, Volvo took over Samsung Heavy Industries, it introduced more transparent and efficient management in an effort to transform a hierarchical and bureaucratic corporate culture.

Yet those new drivers of real change will have influence only slowly. There is growing pressure to reform corporate governance, especially by appointing outside board members. The dot-com boom provided hope that the younger generation might break out of the old mold, but with the collapse of that boom, that process will be a long one. Ironically, the collapse of the technology boom has pushed the economy back toward old patterns, and it has increased the pressure on the government to again take up the reform agenda itself. Ultimately, the new forces

should contribute to a more flexible and transparent economy in Korea—and to better governance—but they hardly guarantee them. In the nearer term, the technological forces driving the new economy are also likely to polarize society by increasing the “digital divide”—the gap between those who participate in the new high-tech economy and those who do not.

Restructuring is more urgent because North Korea now affects Korea’s integration in the global economy. The resulting policy dilemma is vivid in Hyundai Asan’s Mt. Kumgang tourism project in the North. The project was begun in 1998 as a way to let South Koreans who were born in the North visit their country of birth. Based on overly optimistic calculations of 500,000 tourists per year and hopes for access to other business opportunities down the road, the company agreed to pay North Korea \$12 million per month for exclusive rights to operate tours to the scenic mountain a few miles north of the demilitarized zone. While over 400,000 South Koreans have traveled by ship to the site, Hyundai Asan was losing \$100 million per year on the project by 2000. In December 2000, it unilaterally cut its \$12 million monthly payment in half, no longer able to make payments at the agreed level.

In economic terms, the project was bankrupt. Yet the major economic initiatives—Mt. Kumgang and the Kaesong industrial park—were part and parcel of the political opening to the North. Kaesong is a proposed industrial complex, also headed by Hyundai, to house factories for footwear, fabrics, electronics, ginseng, and other products. The Korean Land Corporation has agreed to develop the site, but construction was delayed because of the hiatus in the North-South dialogue. In September 2001 the parties agreed to move the project forward. There were thus good national interest reasons for supporting such projects, and so far Mt. Kumgang and Kaesong are very small in comparison to South Korea’s economy. However, subsidizing economic ventures in the North for political reasons cuts against the logic of economic reform and sets a bad example for North Korea. In addition to creating moral hazard problems in South Korea, the project failed to educate the North about the importance of a commercial basis for foreign investment. In any event, if South Korea were to extend such subsidies, it would be preferable to do so transparently, through tax subsidies for investments in the North, for instance.

So far, the government has avoided a visible bailout of Hyundai Asan, although it has provided an indirect subsidy by forming a joint venture between the company and the Korean National Tourist Organization. For its part, North Korea has shown some flexibility. It acquiesced when Hyundai Asan reduced the unpaid royalty by half, and it agreed to change the basis for calculating the royalty from a fixed monthly payment to a charge per tourist, which is what the company had sought in the original negotiations. With 30,000 tourists a month, at a fee of \$200 each, the company could remit \$6 million per month to Pyongyang, North Korea

Table 3: South Korean Tourists to North Korea

Year	Mt. Kumgang	Tours in Connection with Mt. Kumgang	Light-Water Reactor	Humanitarian Aid Activities	Cooperative Economic Projects	Social, Cultural Exchange Programs
1999	148,074	3,474				
2000	213,009	2,257	2,231	751		
2001 (through April 30)	30,003	190	767		289	191

Source: Ministry of Unification  
 Compiled by Korea.net  
[http://www.korea.net/2k/focuson/pub\\_focus/content.asp?cate=02&serial\\_no=786](http://www.korea.net/2k/focuson/pub_focus/content.asp?cate=02&serial_no=786),  
[http://www.korea.net/2k/focuson/pub\\_focus/content.asp?cate=02&serial\\_no=68](http://www.korea.net/2k/focuson/pub_focus/content.asp?cate=02&serial_no=68)

also agreed in principle to allow a direct ground route from Kosung to Mt. Kumgang, reducing the company's costs on cruise liners.

The existing ventures in North Korea are small, and the simple arithmetic of the North's vast need in comparison to the South's finite resources imposes limits on Seoul's ability to subsidize the projects. Despite these limits, however, there remain concerns that Seoul might be tempted to subsidize bad investments in the North for political reasons, thus impeding restructuring and putting the South's economy at risk. That concern is a visible part of the growing controversy over how to implement the opening.

But could the opening be an economic plus? Encouraging reform in the North will lower the cost of reunification when it occurs. In the meantime, could inexpensive Northern labor and Southern know-how combine in a way similar to what happened with southern China and Hong Kong? Could the North be the South's way out of its economic doldrums? Obstacles remain, but there is great promise here, should North Korea choose to make it a reality. If South Korea can provide the legal basis and context for investment, it will then be up to North Korea to learn how to attract it.

The first obstacle is political, for so far the North has been unwilling to allow "foreigners"—including South Koreans—access to its labor at a price near its world market value. Moreover, even if South Korea could get such access, the North Korean labor pool would still be very small by comparison to what southern China provided Hong Kong.

## POLITICS: THE POWER OF PERSONALITY AND THE CENTER

**K**orea's historical and cultural legacy permeates its economics and politics. It colors the prospects for both as well as how Koreans see their role in the world. Korea is a relatively homogeneous culture, with no striking racial or linguistic differences. Other distinctions—regional allegiances or personalities—play a prominent role in political, economic, and social life. Political culture is highly personalized, authoritarian, and centralized. Loyalty to individual leaders is important. Leaders exercise rigid control over their subordinates, and so delegating authority is difficult. The concept of a loyal opposition has still to take root and systems for decentralized decision-making are weak.

The emphasis on personality is reinforced by a cultural tradition that emphasizes rule by virtue (or men) rather than by law. Legal parameters are often ignored or undermined and institutions are seen as extensions of persons. The importance of personal loyalty tends to foster, even require, factionalism. It militates against building institutions that will exist beyond current personalities. Moreover, the emphasis on “principles” and “face” is so important that compromises are virtually impossible and confrontations between political parties or in the National Assembly are all but obligatory. Negotiations do not begin with much basis of trust. For instance, some of President Kim's opponents saw him as a radical populist; his intention to dismantle the *chaebols* was perceived as ideological revenge, not sensible economics.

The legacy of more recent history is also powerful. In particular, the trauma of the occupation by Japan from 1910 to 1945 runs deep. Relations between the two countries, both American allies, have been strained because of Japanese secondary school history textbooks that gloss over the ugliest features of that colonial period, especially the so-called comfort women, Koreans forced into sexual slavery for Japanese soldiers. South Korea responded by cutting off some exchanges with Japan and by halting the opening of its markets to Japanese cultural products. Japanese occupation and the more general experience of being subject to powerful neighbors are at the root of Korea's desire to “catch up” to the West and especially Japan, and to play a significant role as a major “middle power.”

For some Koreans, the origins of the South's current lack of accountability was its failure to confront those who collaborated with Japan. For them, the roots of the current “culture of impunity” run back that far. That “original sin” hangs over current politics, for it hints at impunity. Some Korean bankers, *chaebol* executives, and politicians were held responsible and punished for Korea's financial chaos. Still, the punishments paled by comparison to those inflicted for America's banking crisis. In this view, if President Kim and his successors are to accomplish a reshaping of the Korean nation they must come to grips with the failure to incorporate accountability at the time of Korea's first nation building.

South Korea's governance has been more the “rule of rulers” than the rule of law, its politics authoritarian, centralized, and rigid. Its politics are top-down; “grass roots” are only beginning to exist. The country still lives in what is called the “era of the three Kims”—Kim Jong Pil, Kim Dae Jung, and Kim Young Sam—towering figures who have dominated South Korean politics since the 1970s. The first two are still active in politics as leaders of major parties. Kim Jong Pil

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was one of the co-conspirators of the 1961 military coup and was a principal member of Park Chung Hee's Democratic Republican Party. He served Park as the first director of the Korea Central Intelligence Agency (KCIA) and as prime minister.

The other two Kims—Kim Dae Jung and Kim Young Sam—were the two leaders of the main opposition party, the New Democratic Party (NDP), during Park's rule, alternately competing and cooperating with each other. Kim Dae Jung was kidnapped by the KCIA in 1973 and placed under house arrest. Kim Young Sam became the official NDP leader, spearheading a massive anti-Park movement in 1978-1979. In the brief democratic intermission of 1979-1980 following Park's assassination in October 1979, the three Kims discussed how to facilitate a democratic transition, an initiative that was dashed by Chun Doo Hwan's military coup that culminated in his taking complete control in May 1980.

*Korea's politics remain deeply divided, especially over economic policy and the specifics of the opening to the North.*

The three Kims became prominent again after the democratic transition in June 1987. In the presidential elections that year, they all ran at the head of their own parties. When the three split the opposition vote, the candidate of the ruling Democratic Justice Party (DJP), Roh Tae Woo, won the election. Three years later, Kim Young Sam and Kim Jong Pil merged their parties with the DJP, creating the Democratic Liberal Party (DLP), leaving Kim Dae Jung's party as the main opposition in South Korean politics. In the 1992 presidential election, Kim Young Sam was elected. In 1997, Kim Dae Jung was elected president after his National Congress for New Politics (NCNP) joined forces with Kim Jong Pil's party—the United Liberal Democrats (ULD)—to form the New Millennium Democratic Party (NMDP).

Korea's politics remain deeply divided, especially over economic policy and the specifics of the opening to the North. Kim did usher in some openness in Korean politics. Yet the president seems to have squandered opportunities to build democracy by continuing to lead in an autocratic way. Because his message was "follow me," he did not really build constituencies for his policies; he diminished his power instead of building it. He thus became something of a lame duck well before the next elections in December 2002. The Nobel Prize he received in December 2000 was controversial beneath the surface in Korea.

In a curious way, the Nobel Prize exaggerated his "lameness" by underscoring how sincerely revered he was abroad by comparison to the high disappointment at home. He was vulnerable to the charge that the two achievements that earned him the Nobel Prize actually are in conflict. He won not just for his historic summit with North Korean leader Kim Jong Il in June 2000 but also for his long-standing commitment to human rights. Yet human rights remain all but nonexistent in the North. Up to 300,000 North Korean refugees have fled into China in recent years. Some, perhaps most, fled as much for economic as for political reasons. Many of them were women who were essentially sold into prostitution or marriage with Chinese men. In 2000, thousands of them seem to have been forcibly repatriated and then punished for having "lost national virginity." To his critics, President Kim seemed to have held his tongue about human rights after the June 2000 summit.

Given that his experience was exile and jail, not governing, Kim tried to govern with a mix of outsiders loyal to him and sitting bureaucrats. The outsiders were inexperienced and so were superseded by the incumbent officials. The talk of the reform agenda, in particular a broad

social-security agenda, was impressive but seemed increasingly disconnected from both the country's political and economic possibilities. The government-initiated tripartite commission (labor, business, and government) has had a mixed record with only intermittent participation from labor associations. Labor believed the government had no coherent policy, a feeling only sharpened by the rough suppression of Daewoo workers in April 2001. The National Assembly elections held in April 2000 did not go well for the government, which lost several seats in its home ground, Cholla. (The seats were later regained when candidates who had run as independents rejoined the governing party).

Although the Grand National Party uses the National Assembly as the focal point for its opposition to the government's handling of the economy or relations with the North, the political system remains overwhelmingly presidential. For all the change, the system still is driven from the top. Checks and balances are weak. The judicial system is not strong and independent enough to hold the executive accountable and ensure fairness and equal treatment for all. As a result, the president acts at times as though he is above the law.

Not surprisingly, old practices are proving hard to break. The ruling party, for example, allegedly used a combination of persuasion, inducements, and threats—for instance, of tax investigations—to try to lure National Assembly members into the governing coalition. The government brought charges of tax fraud in August 2001 against media organizations, including the main opposition paper and long-time Kim foe, *Chosun Ilbo*. Whatever the merits of the charges, they were bound to be seen as political and unacceptable infringements on press freedom. It is worth noting, however, not only that *Chosun Ilbo* increased its circulation during the case, but also that the explicit media criticism of a sitting president would have been unthinkable a few years earlier.

Table 4: South Korean Political Party Strength in the National Assembly

Political Party	Results of April 1996 Elections	Results of April 2000 Elections
Grand National Party (GNP)	139	133
New Millennium Democratic Party (NMDP)	79	115
United Liberal Democrats (ULD)	50	17
Other Parties & Independents	16	8

Source: the World Factbook, 1997 & The World Factbook, 2001  
<http://www.umsl.edu/service/govdocs/wofact97/country-frame.html>  
<http://www.escapeartist.com/world/factbook.htm>

The power of the president clearly has limits, as is also seen in recent legislative gridlock. The ruling coalition, its majority slender, joined together the president's left-of-center NMDP with the conservative ULD party until September 2001, and differences between the two have provided opportunities for the opposition GNP. The authoritarian tradition in Korean politics also works against the virtues of negotiations, bargaining, and compromise among the various parties. The gridlock came to a head in September 2001 when the National Assembly approved an opposition-sponsored no-confidence motion against Unification Minister Lim Dong Won. The vote—the first of its kind in 30 years—triggered resignations by all the sitting Cabinet ministers and the withdrawal of the ULD from the coalition.

The government's troubles, however, do not translate into an automatic victory for the opposition GNP in the December 2002 presidential elections. For one thing, the more than two-thirds of South Korean voters born after the Korean War are less drawn than their parents by the

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left-right ideological divide reflected in the no-confidence vote. They care more about economic issues than about ideology. And Korean politics are dominated by personality, not policy.

Moreover, all seven previous presidents were elected from parties of their own creation, not ones rooted in independent political traditions. The “era of the three Kims” lingers on, and “boss politics” are still strong. Inter-party relationships center on the key personalities, and they are many of the same personalities—Kim Dae Jung, Kim Jong Pil, and Lee Hoi Chang. If precedent is any guide, the 2002 presidential elections will see new parties—as factions grouped around the key personalities—form and re-form coalitions. For instance, President Kim, who is wary of competition, has not anointed Rhee In Je, the popular former governor of Kyonggi province, as his successor as expected. If Rhee does not get the NMDP nomination, he might bolt to form his own party. For its part, the GNP has had difficulty establishing a clear profile. It agrees in general on the need to engage North Korea and seeks to distinguish itself in the details. It would provide less government “charity” in relations with the North—leaving that to civil society—and would give pride of place to reciprocity, transparency, and peace guarantees between the two Koreas.

Finally, for all the rhetoric, who is president does not seem likely to make much difference, nor does considerable continuity in policy seem likely to be upset. The real worry may be stasis—with no strong government and no policy. There is talk of a constitutional amendment to take the system either in a more parliamentary direction or a more American one—with a president, vice president, and an independent legislature. At some point, there may emerge a focal point for genuine change, perhaps a former president who was esteemed after he left office. That change would make the political system less regional and authoritarian, with political parties that are more than personal platforms. When that happens, the formal change will ratify what has been set in motion by new forces already at work in Korean society and politics.



## NEW POLITICAL FORCES ... AND OLD

**Regionalism.** Regional divisions define South Korean politics. It was not always thus, for regionalism was not a conspicuous factor in South Korean politics until the late 1960s. Park Chung Hee first played the regional card in his campaign against Kim Dae Jung in the 1971 presidential election, using Kim's Cholla origins against him and following up by discriminating against the region in industrial policy and government employment. Regionalism was transformed into a specific political force in the 1987 presidential election, when the three Kims all created their own political parties along regional lines. Regional voting patterns have persisted ever since.

Table 5: South Korean National Assembly Election Results, April 2000

	NMDP	%	GNP	%	ULD	%	Total
Seoul	1,819,735	45.06%	1,747,482	43.27%	189,185	4.68%	4,038,289
Pusan	225,160	15.02%	904,040	60.32%	24,356	1.63%	1,498,691
Taegu	101,854	10.93%	585,974	62.89%	95,305	10.23%	931,768
Inchon	368,924	40.61%	378,903	41.71%	110,120	12.12%	908,502
Kwangju	342,888	69.89%	16,144	3.29%	1,503	0.31%	490,588
Taejon	140,745	28.45%	115,186	23.28%	169,683	34.30%	494,751
Ulsan	38,189	9.58%	166,186	41.70%	12,277	3.08%	398,534
Kyonggi	1,365,304	40.90%	1,304,676	39.08%	413,362	12.38%	3,338,248
Kangwon	251,571	36.46%	266,136	38.58%	70,280	10.19%	689,907
N&S Chungchong	441,587	30.57%	334,773	23.18%	504,986	34.96%	1,444,434
N&S Cholla	1,222,159	65.94%	71,726	3.87%	44,704	2.41%	1,853,438
N&S Kyongsang	340,044	13.23%	1,364,510	53.10%	221,979	8.64%	2,569,733
Cheju	122,465	49.41%	109,623	44.23%	1,591	0.64%	247,857
<b>Total</b>	<b>6,780,625</b>	<b>35.87%</b>	<b>7,365,359</b>	<b>38.96%</b>	<b>1,859,331</b>	<b>9.84%</b>	<b>18,904,740</b>

Source: National Election Commission

President Kim's Cholla region in Korea's southwest had been all but left out of national life. So his election in 1997 was a watershed. However, the regional divisions in Korean politics are striking and perhaps growing. The April 2000 elections were a political map of those divisions, one painted in vivid colors: In Pusan, 85 percent of the vote went to opposition parties, including independents (the GNP took 60 percent); in Cholla, by contrast, two-thirds of the vote went to the ruling party.

A national consensus is sorely lacking, on both economic reform and the opening to the North, as the September 2001 no-confidence vote testified. Those who governed South Korea previously and still regard themselves as its rightful rulers view the president and his colleagues with considerable skepticism. Thus, one of Kim Dae Jung's great successes—bringing his downtrodden region, Cholla, into national life for the first time—is also one of his great vulnerabilities. He grew up on the left, which enabled the military governments to tar him as a “communist.” He did not graduate from one of the prestigious Seoul universities, and so he lacked the network of university cohorts that is so important in Korean society. He brought with him a number of colleagues from home who were regarded, perhaps unfairly, as ineffective. At a minimum, the existing ruling elite regarded the newcomers as bumpkins, not quite fit for governing.

*It is a striking symbol of how much has changed that despite the disarray in President Kim's government there was no muttering in Seoul about a military coup.*

The ideological divide over the opening to the North is also intertwined with regional cleavages: Cholla people generally endorse Kim Dae Jung and his North Korea policy, whereas those from Kyongsang oppose it. Yet regional voting has been visible since the late 1980s, and it may be that regional divisions are not getting sharper, only that it has seemed so under the current regime because the president is the first to come from the southwest. Surely, as the Seoul region becomes more and more dominant—it now is home to one-fourth of South Koreans—it will be more and more the focal point for national politics. In certain areas of the country regionalism unites Koreans of different classes, but in other regions class is a factor. In any case, one indicator for the future is the size of the middle class, for historically it has been the foundation for political reform and democratic mobilization, and it has played a stabilizing role.

**The Military.** The military barely is mentioned anymore in conversations about South Korea, but the Korean system is in considerable part the legacy of 80 years of military rule in one form or another, if the period of Japanese occupation from 1910 to 1945 is included. North Korea leads the world in soldiers as a share of the population, and South Korea, which continues to have a draft for all males, still has a proportion that is two to three times that of the other industrial countries. It is a striking symbol of how much has changed that despite the disarray in President Kim's government there was no muttering in Seoul about a military coup. The military has been removed from the center stage of politics, but given his vulnerability to charges of "leftist" or "communist" Kim Dae Jung himself was careful during his campaign to reach out to those associated with past military regimes. He went into a coalition with Kim Jong Pil, and later named him as the government's first prime minister, and he expressed understanding for the accomplishments of his nemesis, Park Chung Hee.

In the disorder of the early years after World War II and Japanese occupation, the military stood as a relatively effective and admired institution. Divisions and factionalization, as well as corruption, emerged in the 1950s, but the military became one of the few channels for upward mobility in South Korean society. The sons of the rich could go to Korea's elite universities or to the United States for study. Meanwhile, the best opportunity available to the sons of the lower middle class or of rural farmers was to seek advancement, if they were bright enough, through military academies and military careers. As elsewhere, the South Korean military was meritocratic before other institutions in society.

In those circumstances, the South Korean people generally tolerated the "developmental dictatorship" of Park Chung Hee. Resistance to Park's administration emerged in the late 1960s, but his government was efficient when most institutions were not, and it was nationalist despite Park's own tainted history of collaboration with Japanese occupation. It also benefited from the international climate of the times, when the cold war seemed to require strong leaders and when the prevailing economic orthodoxy seemed to suggest that discipline, even a certain amount of autocracy, was necessary for development. Military-dominated governments ruled from Brazil to Iberia to Africa.

All of these circumstances changed over time. As South Korean society opened, so did new avenues of advancement for its poorer sons (and daughters). No longer did the best and the brightest among those Koreans seek their futures in the military, and the stature of the military

diminished accordingly over time. And while the military remained both a national symbol and the defender of the nation against North Korean aggression, its image as clean and efficient became tarnished as well. Some of what may have been perfectly reasonable accommodations to the resource scarcities of the early postwar years—such as selling surplus equipment on the black market to finance other needed purchases—came to look more questionable over time. Scandals emerged over the rich “buying” their way out of obligatory service. Kim’s predecessor, Kim Young Sam, quashed the *Hana Hoe*—a self-selected elite within the military that had been a focal point for coup plotting.

Perhaps most important, however, the attitudes of the people changed. Those protesting military rule on the streets of South Korea had learned their tactics in their own military service. The military governments of Park and Chun Doo Hwan that most Koreans endured in the economic conditions of the 1950s into the 1970s would be unimaginable today. It was, in fact, growing intolerance to brutal suppression of opposition after his Yushin constitution that led to Park’s assassination in 1971.

**Generational change.** Not yet very visible, this is perhaps the most important long-term change. It will prompt differences in approaches to authority and to the relationship with the United States. Public opinion polls routinely suggest notable differences between those under the age of 40, particularly those who have received a university education, and older generations. For instance, a June 2001 poll showed a pronounced generation gap concerning reunification. More than three-quarters of those over 50 thought “reunification must happen”; fewer than 60 percent of those in their 20s agreed.<sup>3</sup>

In another recent poll, three-fourths of the students and university graduates under 40 indicated they lacked confidence that the United States would protect South Korea’s interests in its dealings with North Korea, but 51 percent of those over 40 expressed the opposite view. Similarly, only 24 percent of those over 40 expressed an unfavorable opinion of the United States (versus 73 percent of this group who indicated a favorable view), while roughly 45 percent of those under 40 expressed an unfavorable opinion.<sup>4</sup>

This generational change seems likely to occur in two phases. The era of the “three Kims” is still with us, and the leaders who will immediately follow them probably will not be much different in approach. The Kims talked democracy but behaved autocratically; their immediate successors do not seem likely to be much different. People of the old generation—politicians steeped in bossism, regional support, and machine and money politics—will continue to dominate politics. Over a longer time period, however, Korean politics are bound to become more structured, less personalized, and less centralized. The younger generation is also less interested than its elders in politics and military service. There remain pockets of radical politics among students and the labor movement. Younger people, not having experienced war, seem more open to the North, but they are not necessarily less nationalist than their elders.

Of particular note is university reform. Traditionally in Korea, as in other countries, students have been agents of change, often with the support of their professors and the empathy of their parents. That tradition runs back half a millennium in Korea. More recently, student uprisings

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ended the long rule of Rhee Syngman in 1960, and they were the backdrop to Chun Doo Hwan's departure from power in 1988. Now, though, it is not students but rather reform-minded professors and university leaders who are driving change in Korea's universities, especially its dominant one, Seoul National University.

South Korea is all but unique in the world in the dominance of a single university; perhaps as many as three-fourths of the nation's leaders are graduates of Seoul National. The country's pattern of education for its brightest has been more like Japan's than the United States': students work desperately hard to gain admission to the best universities but then can coast, relatively speaking; their future is almost set. In that context, reformers at Seoul National itself have come to worry about so much inbreeding of South Korea's elite as the country confronts a future that will require creativity, agility, and a range of professional specializations.

As a first step in opening up, Seoul National is planning to hire up to 300 new professors from outside its own graduates, and from outside Korea if need be. Yonsei University, the country's second most important, already has begun reaching out for new talent, and Korea University has said it will do Seoul National one better, recruiting a fifth of its teaching faculty from outside Korea.

#### *Non-governmental organizations (NGOs).*

New actors are adding new forces to South Korea's politics. In the economic realm, those new forces are international institutions like the IMF, high-tech entrepreneurs, and foreign investors. As those forces gradually produce more openness and accountability in the economy, their effect will spill into politics as well.

In politics, women are now more of a force, and NGOs are becoming more prominent, benefiting from South Koreans' growing cynicism toward traditional leaders and processes. Women, who now constitute nearly half of lower level civil servants, are thought to be less susceptible to blandishments of money when they enter politics, although the difference may result more from their newness than their gender. The financial crisis of the late 1990s reinforced, rather than challenged, both the power of the center and of the (male) personalities at that center.

In Korea, as in other countries that are opening both politically and economically, NGOs are new and searching for their role. Historically, the church has played a significant role in Korean society, but newer, secular groups are also emerging and gaining influence. The three most prominent civil society groups in South Korea are the People's Solidarity for Participatory Democracy (PSPD), the Citizens' Coalition for Economic Justice (CCEJ) and the Korea Federation for Environmental Movement (KFEM). NGOs have grown sharply in number and visibility, a growth that has resulted from and abetted the country's democratic opening. For instance, the restoration of local autonomy after 30 years of suspension has provided local focal points for organization, and Korean groups have benefited from the growth and activism of NGOs worldwide.

Table 6: Number of Civil Society Groups in South Korea, 1999

Category	Number	Percent
Civic Groups	1013	25.18%
Public Service	743	18.47%
Environmental	287	7.13%
Local Autonomy	222	5.52%
Others	1758	43.70%
Total	4023	100.00%

Source: *Siminui Sinmun* (Citizens' Newspaper)

Indeed, NGOs may seem to be more important than they are, for they have been effective in capitalizing on the poor image of politicians and public institutions. The more the government and politicians are looked down upon as unreliable, inefficient, and untrustworthy, the more NGOs appear a useful counter to the “corrupted establishment”—all the more so because the political system lacks effective checks and balances. And more active news media have given the NGOs new opportunities to spread their messages and portray themselves as reformers pitted against established, conservative political elites. The combination of more aggressive media with watchdog NGOs means that business people no longer can be confident that politicians will protect them in any shady dealings.

As in other countries, those NGOs come in many sizes and shapes—from conservative to activist and from delivering social services to advocating political causes. There has been a trend toward nationwide umbrella organizations, a trend abetted by the Kim Dae Jung government’s guidelines for government subsidies. Size and scope can be a source of strength, but the trend runs the risk of jeopardizing the pluralism of the NGO activities and their autonomy in relation to the state and to each other. Having a government in power that was sympathetic to the aims of many NGOs has been a mixed blessing—useful in substance but worrisome if NGOs begin to avoid criticizing the government or come to look like virtual adjuncts to it.

A steady stream of young, professionally trained, talented leaders who are devoting their full-time careers to NGO work will gradually replace older, established leaders, most of whom have regarded the NGOs as part-time avocations. Despite the current trend toward large organizations, growing social needs will argue for more differentiation and specialization among NGOs and their activities. The future will see more specialized organizations, with single issue-oriented activities and problem solving—on issues such as the environment, women’s political participation, and human rights. An increase in local government autonomy also contributes to more local and differentiated NGOs. Already, several NGOs have endeavored to sponsor candidates in local elections. The need to reach out to North Korea, first in food aid but eventually in technical assistance as well, will also spur the growth of South Korean NGOs.

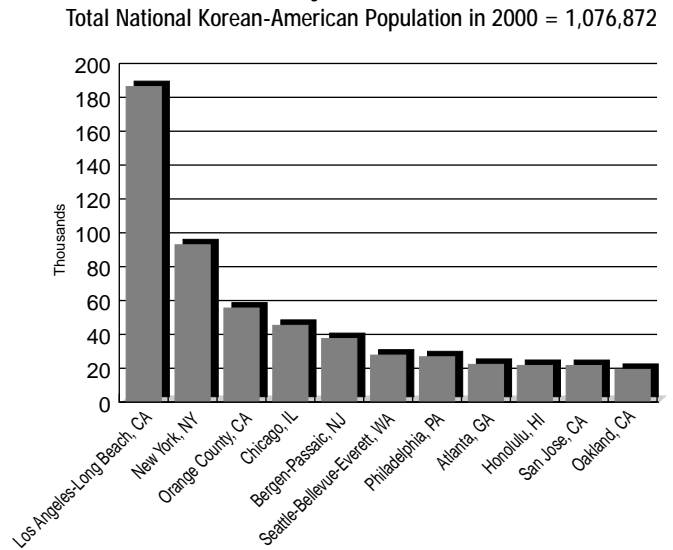
Can the NGOs and other new forces provide a political basis for change? A “yes” answer seems more promising in the long run than the short. To some extent, the “new” forces seem to be adopting “old” practices; there are already scandals about the political contributions of foreign companies. Those with power continue to get the money. Unlike the United States, Korea has only investigated past presidents. An investigation of a sitting president is still barely imaginable. A president in power is above the law. But change is occurring, albeit slowly.

*The more the government and politicians are looked down upon as unreliable, inefficient, and untrustworthy, the more NGOs appear a useful counter to the “corrupted establishment.”*

## THE ROLES OF KOREAN-AMERICANS

In the longer run, too, Korean-Americans will be more and more consequential, if still not as important for Korea as overseas Chinese have been for China. There is relatively little Korean-American investment in South Korea. But the role of Korean-Americans is increasing as they acquire both wealth and some political base in their “new” country. Their roles will be conditioned by how the country itself progresses, but at the very least they will serve as facilitators of connections abroad. Overseas Koreans whose families were split when the peninsula was divided also have a huge stake in the reconciliation process between North and South.

Figure 6: Korean-American Population in Major U.S. Cities



Source: U.S. Census Bureau, Census 2000  
<http://www.census.gov/Press-Release/www/2001/2khus.pdf>

*Korean-Americans speak of unity but also find it elusive because different generations identify themselves with different sides of the hyphen.*

Of the 6 million overseas Koreans, as many as 2 million are in the United States; yet there has been little systematic study of the role of Korean-Americans in the U.S. economy. Korean-American groups estimate the number of Koreans in the United States at between 1.2 million and 2 million, though the 2000 U.S. Census put the figure at about 1 million. The concentration of Korean-Americans in the Los Angeles area—perhaps as many as 650,000 or as few as 200,000—is impressive whatever the number.

Many of those who came in the last decades were middle class. They were unable for language or other reasons to ply their chosen profession in the United States, and the very fact that business back home was all but monopolized by the *chaebols* made it hard to fashion connections to Korea. As a result, many of them built small businesses, especially “mom-and-pop” convenience stores. The fact that they moved “down” in class terms as they moved to their new land is thought to be a reason why they started so many civic and other organizations. If the immigrants could not practice their profession, at least they could have their own organizations. As a result, many in the Korean-American community came to believe that there were too many chiefs, too many leaders without followers.

Surely, they needed a positive identity. In Los Angeles, that need was underscored in the aftermath of the 1992 riots by the images of Korean owners of convenience stores as the uncomprehending targets of African-American rage. That need implied some unified voice and some action lest doing nothing appear to confirm the image of Korean-Americans as the villains.

In those circumstances, Korean-Americans speak of unity but also find it elusive because different generations identify themselves with different sides of the hyphen. Korean-Americans might simply land firmly on the “American” side of the hyphen. The distaste of many younger

Korean-Americans for politics only reflects the more general American distaste. Asian-Americans are penetrating deep into U.S. society; that is visible not just on California campuses but at Ivy League schools as well. They are tugging American culture in an Asian-American direction. In that sense, this stream of immigration is no different from previous ones. The *Los Angeles Times* is opening a bureau in Seoul not just because of Korean-Americans here, but also because non-hyphenated Americans have interests there. Moreover, Korean immigrants bring with them traits, such as strong orientations toward the family, that are at the heart of America's self-image.

Institutions and their roles reflect different stances by different generations with regard to the hyphen. The first generation of postwar migrants, fleeing authoritarianism at home, was hampered by language and tended to think of the Korean-American community as an extension of South Korea. (Korean-Americans speak of the "1.0" generation as those who were born and raised in Korea and do not speak fluent English. The "1.5" generation refers to those who were born in Korea but came to the United States at an early age and so are often bilingual, while the "2.0" generation refers to those who were born in the United States and do not speak Korean well.)

Now the younger generations are making their mark. Previously, the South Korean government-sponsored Advisory Council on Democratic and Peaceful Unification of Korea was a closed, "old boy" network, but now a quarter of its members are second-generation overseas Koreans. The Seoul-based Overseas Koreans Foundation has made a similar transition. The U.S.-based Korean American Coalition was somewhat resented by the older generation as an upstart when it began nearly two decades ago; its members strongly identify with the United States and it has stayed strictly out of Korean politics. The stance of the Los Angeles-based *Koream Journal* is similar; it makes the broader Korean experience accessible in English for those who do not speak Korean.

As with previous immigrant groups, churches are central, but they, too, are touched by the changes across generations. There are an estimated 5,000 Korean churches in the United States and the 20 largest congregations in Los Angeles alone have a total budget of more than \$60 million—testimony to the growing economic success of the community. Some three-quarters of Korean-Americans attend church. For many in the first generation, the church was almost literally a sanctuary, a home in an unfamiliar land. Later, it became an agent of spiritual identity amidst the confusions of a new culture. Now, perhaps, it can be an agent of cultural transition. Otherwise, the "silent exodus" of the "2.0" generation from Korean churches will continue.

Many Korean-Americans also have a direct stake in rapprochement on the peninsula. Some half-million Korean-Americans have relatives in North Korea but so far have been left out of the family reunion process. The first- and second-generation Koreans in the United States have been organizing to get involved and so far have raised a considerable amount of humanitarian aid for the North.

Korean-Americans plainly have stakes—and perhaps advantages—in the peninsula that go beyond relatives. They may differ in views about appropriate policy as much as other Americans, but they know the history of the dispute between North and South. They may not be biased toward either, and so are able to talk to and visit both. At the same time, they know U.S. policy and relevant officials.

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In the longer run, if U.S. relations with North Korea warm significantly, will North and South become competitors for the favor of Korean-Americans? Canada may provide a preview, for its opening of diplomatic relations with Pyongyang will mean a North Korean consular presence in Canada. Already, there are “pro-North” organizations in Canada. Almost certainly, the immediate impact of the North Korean presence will be divisive, especially among the first generation.

For many in the 1.5 and 2.0 generations, who identify themselves primarily with the United States, the South Korean government has only recently become an interlocutor. The Korean American Coalition, for instance, did not have contact with the government until recently. Seoul seemed not to have a good idea how to penetrate the Korean-American community; it has sometimes been condescending in its approach and has assumed it would get more or less automatic support from the community. However, if and when North Korea has a presence in the United States, Korean-Americans will want to work with Pyongyang as well; their connections with and aid to the North will contribute to building peace on the peninsula.

If Korean-Americans gravitate toward the mainstream of American society, they will lose their political identity, though not necessarily their cultural one. Is that bad? Other immigrant groups—Irish, Jewish, Cuban—have retained some political identity only if their domestic political circumstances required it or if perils surrounding their home country or country of concern motivated it. Neither may ultimately be the case for Korean-Americans, with the passing of party machines and, one day, the passing of the North-South tension. If Korean-Americans sought to sustain some political identity, dual citizenship might be attractive. Yet in the short run that would increase tensions with the North, and for that reason is not in favor with the South either. Another tack would be to try to ameliorate divisions through an umbrella organization similar to that in the American Jewish community—the Conference of Presidents of Major Jewish Organizations—perhaps a National Congress of Korean Organizations.

In time, Korean-Americans will move toward the mainstream and perhaps be less divided than they are now. The strong stream of new immigrants in the 1960s and 1970s has since thinned, and the new arrivals are more sophisticated with better English skills. The community is becoming English-speaking. The ambivalence about the hyphen will remain, but the second (and third) generations will have no doubt about which side of the hyphen they identify with. Because they will be successful in America they can be helpful in Korea—as possible investors, as interested interlocutors with the American government, and as an additional force working for change in North Korea.



## PROSPECTS FOR RAPPROCHEMENT BETWEEN NORTH AND SOUTH

The June 2000 summit made a historic breakthrough, yet it remains to be seen whether North Korea is really committed to internal change. It has been the most enduring totalitarian state, outliving Stalin's and Mao's, and skepticism about its motives is reinforced by the brutality of the last 50 years, including constant infiltration of the South and harassment along the demilitarized zone. The memories go back to the surprise invasion by the North in 1950 and the subsequent brutal, if brief, occupation. More recently, two North Korean agents in 1983 blew up a delegation of South Koreans in Myanmar, killing 17, including several Cabinet ministers and a deputy prime minister. In 1987, two North Korean agents blew up a Korean Air flight from Baghdad to Seoul, killing all 115 passengers.

Just as the saying has it that the Germans were so efficient that they almost made communism work, Koreans have made totalitarianism endure in the form of family dynasty. It took the two Germanys 20 years to come together after the first summit, so the timetable for Korean reconciliation, let alone unification, must be measured in years, not months. That said, the analogy with Germany is flawed, both because East Germany had a patron, the Soviet Union, whereas North Korea does not, and because East Germany began the process of rapprochement 20 years before reunification as a relatively successful state, not an utter failure as is North Korea. Whether North Korea can change is surely in question; what is not in question is that if it does not change, it will die, sooner or later.

Headlines during the summit proclaimed "unification is near." In fact, the opening was premised on Kim Jong Il retaining control in the North and his regime persisting for some time. In that sense, rapprochement and even reconciliation work against reunification because they tend to confer legitimacy on the North Korean regime, not undermine it. With the opening to the North, President Kim Dae Jung was pushed into the position of having to put the best possible face on events, and his optimism opened a gap in perceptions by comparison to the increasing skepticism in South Korea about North Korea's willingness to respond. He did not do well at explaining his sunshine policy or grounding it in the precedents of previous South Korean initiatives. There has been persistent pressure on the South's media and opinion leaders to avoid criticism of the North; for instance, the head of the South Korean Red Cross resigned in December 2000 over that issue.

Virtually all Koreans support rapprochement at the level of rhetoric, but underneath there are growing divisions over the specifics of the sunshine policy—the tone of dealings with the North, how much risk to take, and how much money to spend. Some South Koreans have put an emphasis on reciprocity in the North-South process, including in the security realm that Pyongyang has sought to channel only in its relations with the United States. The rumored arrest in March 2001 of Kim Yong Sun, a key North Korean official working on rapprochement, was taken as a bad sign for the prospect of continuing any quiet or "submerged" discussion.

Public opinion polls in June 2001 indicated the growing divisions and the lack of much middle ground. A Gallup survey quoted in *Chosun Ilbo* put support for Kim's sunshine policy at 34 percent and opposition at 44 percent. By contrast, the *Joongang Ilbo* poll cited earlier, found support for the policy at 55 percent among those South Koreans over 50, ranging up to nearly 62 percent for those

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in their twenties. Polls taken for the government Ministry of Unification routinely found public support for the sunshine policy at above 80 percent.

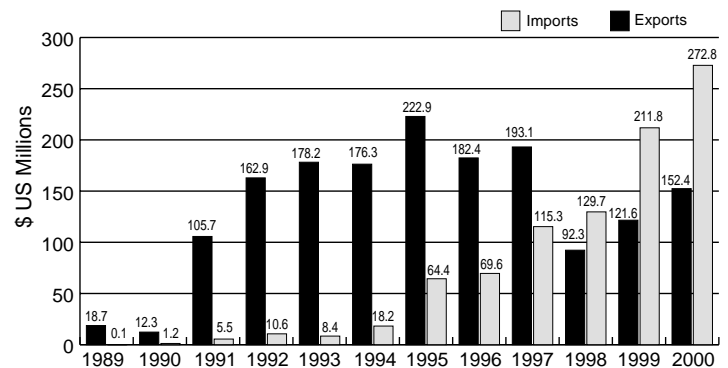
For its part, North Korea has begun reaching out. It has normalized relations with all but two European Union countries. Pyongyang seems to want to engage the outside world—just on its own terms.

One issue is how much to use economic incentives for political purposes. No one has turned a profit from ventures in the North, so the rationale for such economic activity is purely political. Seoul is doing on a small scale what West Germany did with East Germany on a much larger one—paying for reconciliation. While North Korea has not thus far been very expensive for the South, the political, if not economic, limits to what the country can do seem apparent. North Korea is bigger and much poorer by comparison to South Korea than East Germany was in relation to West Germany. At the extreme, spending for the North competes with social security at home; for instance, when South Korea was flush and suffering in the North was visible, as during the floods five years ago, there was a lot of support for providing humanitarian assistance. Harder times at home now make such assistance more controversial.

The second issue is reciprocity. Sustaining a national consensus in the South supporting the opening will require reciprocity from the North. If full “reciprocity” (the word has become more loaded politically) is impossible, then at least real, visible movement from the North, a kind of “progressive reciprocity,” might be an option. In exchange for economic concessions from the South, the North might make enough reciprocal movements in the security field to enable broad progress. There is a potential for disappointment with government-to-government approaches because they can result in large, highly visible projects that North Korea has no capacity to absorb, i.e., “indigestible carrots.” Smaller-scale projects invoke fewer expectations, and may also be able to exist in the gaps of North Korea’s absolute control. It would be cause for serious concern if the South became still more sharply divided politically over its approach to the North, thus diminishing its capacity to negotiate.

North Korean officials still hew to the line that humanitarian assistance is unnecessary or even offensive, but those involved in humanitarian relief in the North report that ordinary citizens are grateful to the point of tears. Those working in the countryside see examples of local ingenuity and enthusiasm. The central party stifles initiatives, but localities are sometimes creative in retaining control and bending central initiatives to fit local circumstances. Some North Koreans are leaving the country for training, and NGOs continue to play a constructive role by trying to stay beneath the radar of intense North Korean government supervision. New

Figure 7: South Korean Trade with North Korea



Note: The figure for 1995 does not include the US \$ 237.2 million in rice aid sent by the South to the North  
 Source: The Ministry of Unification  
 Compiled by Korea Trade Investment Promotion Agency  
<http://www.kotra.or.kr/main/info/nk/eng>

foreign aid programs begin each time a country opens formal diplomatic relations with the North; however small, each is a help to such an impoverished country. As the number of foreigners working in North Korea increases, it becomes harder for the government to watch over all of them. Under the terms of Germany's recognition of North Korea, for instance, German diplomats are supposed to be allowed to travel freely throughout the country.

There are some other positive signs in North Korea. Farmers' markets have been around for some years, but they are now much more open. Chinese traders openly use warehouse space in Rajin-Sonbong, near the border with China, and the price of foodstuffs has been dropping, perishables excepted. New buses and new factories are visible in Pyongyang. Despite the slim opportunities, foreign companies are interested; for example, the multinational power and construction company ABB has agreed to become involved in the North Korean power sector. In addition, North Korea has shown some flexibility in working with Hyundai Asan.

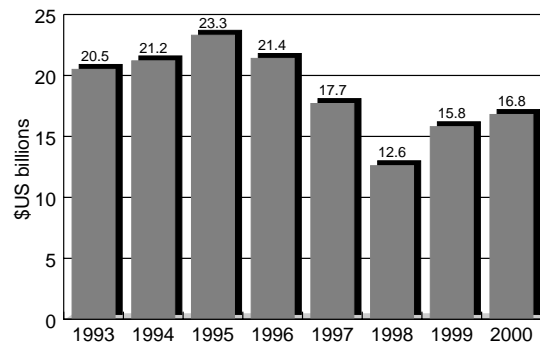
Looking to the immediate future, the first signposts in the reconciliation process will be whether the North implements the measures already agreed upon. Security needs to be integrated into the North-South process. So far, the North has tried to leave security issues to its conversations with the United States. And the challenge will be to build a consensus in the South in support of the policy. If a long process of growing together seems improbable, so, too, most observers regard as improbable the prospect of the North Korean regime's immediate collapse. Thus, continuing a kind of "life support" is a distinct possibility. The South would continue to provide little, and the North would do little; humanitarian and other assistance would keep the North alive but only just. Life support, however, does not reduce the eventual cost of reunification and may increase it if the North Korean economy continues to run down. It does seem likely, though, that any South Korean government would be impelled to keep some opening to the North alive.

## UNDERSTANDING NORTH KOREA'S ECONOMIC SHIFT

One critical factor in determining Korea's future is whether the North's shift in economic course is a real change in strategy or merely a tactical response to hard times. So far, the safest bet seems that the Kim Jong Il regime recognizes it cannot continue as is but does not have the capacity and may not have the will for serious reform. North Korea's policy of self-reliance (*juche*) seems to be at a dead end, but the rhetoric of Chairman Kim Jong Il continues to feature it. The regime shuns the Korean word for "reform" (*kaehyok*), instead using "improvement" (*kaeson*) or "reconstruction" (*jaegon*). As one illustration of how far the country has to go, a delegation of American business leaders from Fortune 500 companies was ready to go to North Korea but could not get an invitation from Pyongyang. For another illustration, a Chinese visitor was asked what year in China the situation in the North Korean countryside now resembled. His answer was "1970"—well before China had begun any liberalization.

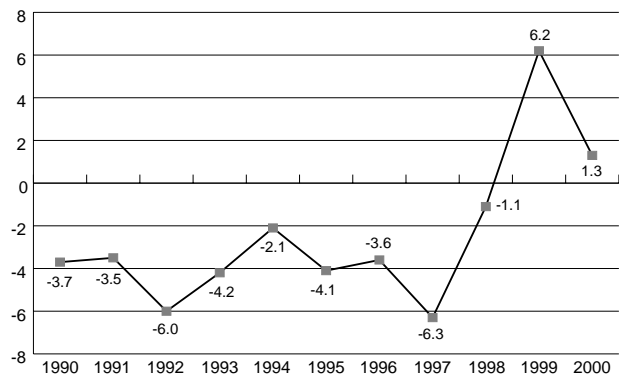
All statistics about North Korea are suspect, but its economic collapse in the 1990s is stunning by any measure. The country's economy began to slow in the 1970s, but things did not become desperate until the 1980s. By its own published numbers, the government budget fell by half between 1994 and 1999, suggesting a commensurate drop in the national economy. Other figures put its national product at about \$23 billion in 1990 and about \$16 billion in 1999; those numbers would imply a drop in per capita product from over \$1,100 to about \$750. No one believes the country grew in 1998 at 6 percent, as claimed by the regime, but perhaps the contraction was halted. Moreover, unlike Eastern Europe or the former Soviet Union, North Korea's contraction came before reform, not afterwards. And the numbers still probably overstate per-capita product. The following calculation would suggest a North Korean per capita GNP of about \$600: North Korea's population is about 22 million (many observers think the population is even smaller), the South Korean economy is about 30 times the size of the North's, and the South has a per capita GNP in the range of \$8,000-9,000.

Figure 8: North Korean GNI



Note: GNI=GNP  
 Source: The Bank of Korea  
 Compiled by Korea Trade Promotion Corporation (KOTRA)  
<http://www.kotra.or.kr/main/info/nk/eng>

Figure 9: North Korean GDP Growth Rates



Source: The Bank of Korea  
 Compiled by Korea Trade Promotion Corporation (KOTRA)  
<http://www.kotra.or.kr/main/info/nk/eng>

Historically, northern Korea had been industrial and southern Korea had been agricultural, so perhaps not surprisingly the last half century of Northern self-reliance represents an abject failure. The country's minimum demand for food grains is probably around 6 million tons per year, but it produces only 4 million. It has not produced more than 5 million for a decade and a half. A million North Koreans, or one in 20, may have starved during the 1990s, and any recent improvement in agriculture has been a result of outside assistance.

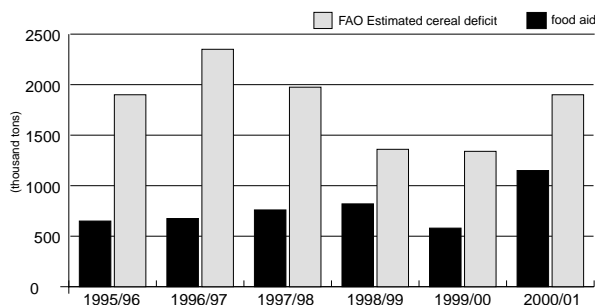
North Korea's electricity generation capacity is 2 million kilowatts below its minimum need. The country's archaic power grid could not handle the nuclear plants it is to receive under the Agreed Framework. Its conventional power source is dirty coal, and there is not even the infrastructure for getting that coal to the power plants.

North Korea has been marginalized by globalization to the point of desperation. It must change in order to avoid being further marginalized. It cannot continue on its previous course. It has to come to terms with South Korea, and it has no choice but to prepare to trade with market economies.

The starting point for North Korea's change of economic course, which is halting and vulnerable to reversal, is that it has "nothing to sell and nothing to trade." To the question of why the economy is in such dire straits, the stock North Korean answer is still to blame outside events—U.S. sanctions, the collapse of its socialist partners, and the burden of military spending. If there is anything new in this formulation, it is that natural disasters are not emphasized. The military is an obstacle to expanding foreign tourism. What is most striking, though, is the country's shortage of economic understanding and trained people. Its infrastructure for economic engagement with the rest of the world is extremely limited.

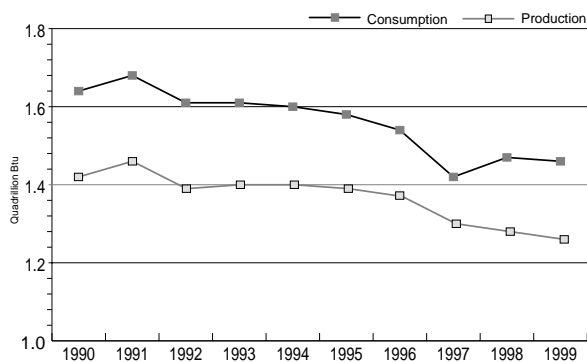
North Korea needs outside help, but the sources of aid are limited. Despite some movement, it remains on the U.S. terrorism list. While Washington could abstain from exercising its veto over any assistance by multilateral development banks such as the World Bank, North Korea is still a long way from meeting the economic requirements for full membership in those institutions. South Korea is not in a position now to help much, and neither are the overseas Koreans.

Figure 10: North Korean Foreign Aid (Food) Statistics



Note: 2000/01 food aid based on November 2000 projections.  
 Source: Food and Agriculture Organization  
 Special Report, North Korea: November 16, 2000  
<http://www.fao.org/WAICENT/faoinfo/economic/gIEWS/english/alertes/2000/SRDRK11.htm>

Figure 11: North Korean Electricity Supply and Consumption



Source: U.S. Department of Energy  
 Last updated on February 1, 2001

The changes needed to attract investment are vast. North Korea is only beginning to send a few people out of the country for technical training, and it is a long way from inviting South Koreans in as trainers. It fails to understand that it is simply not competitive in the global economy.

The time scale for any recovery is long—decades, not years. If there were a case that North Korea could change, it would cite the special economic zones, especially Kaesong but also Rajin-Sonbong, which represent experiments in learning. A total of nine special economic zones are planned or in operation, but the one at Shinuiju on the Chinese border is hampered by lack of infrastructure, and its viability as an alternative zone for trade promotion will depend on cooperation with the Chinese. The Rajin-Sonbong economic zone has no roads to markets and no airport; it is located, presumably for political reasons, far from South Korea.

*Kim Jong Il's visits to China in 2000 and 2001 were significant because he took along senior military officials, suggesting a desire to build an internal constituency for change.*

Kim Jong Il's visits to China in 2000 and 2001 were significant because he took along senior military officials, suggesting a desire to build an internal constituency for change. Chairman Kim talks of the need for "new thinking," identifies the economy as top priority, and has expressed interest in South Korea's development experience under Park Chung Hee.

After 1999, the government acknowledged starvation and gave priority to the economy. Since then, it has purchased some buses and coke for power plants. It is taken as a positive sign that the former prime minister, Yon Hyong Muk, has made a political comeback and is now a member of the powerful, 10-member National Defense Commission. In April 2001, the Supreme Peoples' Assembly passed three laws to broaden trade possibilities and it stressed the need to look outward, not merely cling to *juche*. Although the North temporarily stopped interministerial talks with the South in 2001, there has been no tightening on the economic front; for instance, two North-South information technology ventures are moving forward.

Informal markets already exist, and the regime tacitly tolerates them. The effect of outside aid on these markets is not entirely clear. On one hand, there is fear that as the government has more aid to distribute it will clamp down on the markets. On the other hand, food aid may well leak from official channels into the informal markets, thus abetting those markets rather than undermining them. The North Korean government is careful to keep the Korean Peninsula Energy Development Organization (KEDO), which was created to provide fuel and build the reactors called for under the Agreed Framework,<sup>5</sup> out of sight and away from the capital. Still North Koreans are acquiring experience with market prices, including high ones, and with exchange rates. At Rajin-Sonbong, the "free market" exchange rate in 2001 was in the range of 200 North Korean won to the dollar versus the official rate of about two; arbitrage across dollars, Chinese yuan, and other currencies created real exchange rates. Inflation is occurring, along with dollarization, all of which was unthinkable several years ago.

However, the country has not made the obvious strategic move, which would be to take advantage of its cheap, relatively well-educated labor force. If it took that path, it would focus on labor-intensive industries rather than agriculture. South Korea showed the way by beginning with light industry and moving only later to heavier industry; in contrast, North Korea tried to begin with heavy industry. The South's capital, combined with the North's well-educated labor force, could produce growth. To be sure, emulating Bangladesh by taking advantage of its cheap

labor is not appealing, but North Korea prices its labor much too high and it prevents South Korean firms from dealing directly with North Korean workers. When North Korea, for instance, demanded that KEDO pay its workers salaries of \$600 per month, KEDO hired cheaper Uzbekis instead. Infrastructure might also be improved relatively cheaply in the North, to the extent that land and labor are the main inputs. Hyundai, however, has found that government controls make building power plants expensive in the North.

By all accounts, Kim Jong Il is a technology junkie; while in China in January 2001 he visited and admired the Pudong information-technology center in Shanghai. On its face, high technology seems out of the question for North Korea, but perhaps this need not be entirely so. At least high tech is not heavy industry. It does not necessarily require enormous infrastructure. What it requires are well-trained workers, which North Korea appears to have. South Korea's Samsung, for instance, has been impressed by the quality of North Korea's technical education.

Should North Korea follow China's model? Could it do so? The Chinese path does suggest a way to become less authoritarian while still maintaining Communist Party control, and to evolve more peacefully, avoiding an implosion. Moreover, North Korea's diplomatic opening and its move toward Washington are reminiscent of China. North Korea did its own balancing between China and Russia in the 1960s and 1970s, and so China's balancing act with the United States and Soviet Union is not unfamiliar. Yet, in the final analysis, while the Chinese model is enticing, it probably is not replicable in economic terms. China has a big internal market and is capable of feeding itself. Neither is true of North Korea, which has to be oriented outward; northern Korea never was self-sufficient in agriculture.

What is probably most attractive to North Korea about the Chinese model is reform while keeping the ruling party in power. Yet North Korea really has no ruling "party"; rather the regime is a family dynasty and it defines "regime stability" in those terms. Any political reform ended in 1989, when China's Tiananmen uprising frightened North Korean leaders. The regime became more conservative. It will reform only if it feels secure; indeed, a certain amount of political retrogression may occur before major economic change.

Moreover, the North Korean military still feels surrounded by enemies, especially the United States. North Korea's military establishment consumes upwards of a third of the country's budget. North Korea has 1 million soldiers out of a population of 22 million people, by far the highest proportion in the world. It has acquired new fighter aircraft and conducted larger military exercises amidst the nation's economic crisis. When the June 2000 summit resulted in the agreement to re-open rail lines, the South argued for a right-of-way 200 meters wide to allow for a new road. In contrast, the North wanted a strip of 100 meters only and no new construction. Pyongyang was still worried about an invasion.

In the end, the issue is not whether we understand that North Korea has no alternative than to change economic course. Rather, the key issue is whether North Korea itself understands that fact. Passing laws is easy, but creating the conditions for actual business, as opposed to philanthropy, is not. The special economic zone laws go back to the 1970s and still have not amounted to much. Kim Yong Sun might look to us like a relative "reformer," but he has been in favor and out of favor over the past 20 years. High tech, even if not an utter dead end, is not going to make North Korea a success.

*North Korea will reform only if it feels secure; indeed, a certain amount of political retrogression may occur before major economic change.*

Ultimately, the strategic-versus-tactical dichotomy may not be the right way to pose the issue. To us, the logic of another economic course is compelling, and desperation has driven some change. But that is our logic. One thing we have learned over the last 50 years is that our logic is seldom the same as that of North Korea.

A series of “tactical” choices might lead to strategic change. A lot turns on whether the external environment is supportive. Or the opposite is possible: North Korea’s leaders could intend the change as strategic but still find that what they did fell short. In any event, the leaders will use old terms even if—perhaps especially if—they intend real change. *Juche* will not be abandoned, for it is now a “divine” term. Notice that Japan’s leaders a century ago described their path for dramatic change as the “Meiji Restoration.” If a similar transformation comes to North Korea, it will be “*juche* renewal.” And Northern leaders now say adopting foreign high technology is not contrary to *juche*.

For Vietnam, the new term was *doi moi*, or “economic renovation.” Nothing comparable has happened yet in North Korea. The term “new thinking” was introduced in several New Year’s Day editorials in official North Korean newspapers in January 2001, but there still is no conceptual foundation for true reform and little capacity to implement it; indeed, North Korea may not see its plight as so dire that it is compelled to make major change. So far, the North has manipulated the crisis to secure outside assistance. The next years will be crucial because, whatever North Korean leaders intend, the country is nearing the point of no return.

## ASSESSING POLITICAL CHANGE IN NORTH KOREA

*Kim and the military may be mutual captives.*

It is stunning that so much depends on how North Korea acts yet we know so little about its motivation. Most bets about what it will do are simple deductions from how the regime has behaved in the past. The opening to humanitarian assistance and the more recent diplomatic offensive by the North, along with the process of North-South rapprochement, have shed some light on the North. But Pyongyang still has one-man rule and is very different from other communist systems. Kim Jong Il is smart but also impulsive, and his government is, as former U.S. Secretary of State Madeleine Albright put it, a “one-man show.” The military has always been important, and is perhaps increasingly so today—in that sense, Kim and the military may be mutual captives. The leading role of the military is suggested by mottoes like “strong rich state” or the “military first policy,” (the latter is in Kim’s 1998 constitution, which also created the National Defense Commission, chaired by Kim).

Any regime’s power might be reckoned in terms of the attractiveness of its ideas, its success in delivering tangible benefits, and its ability to coerce. By these measures, there has been a drastic decline in the North Korean regime. Its ideology, *juche*, is no longer credible, and Kim Jong Il lacks the charisma of his father, Kim Il Sung, who was a hero in the struggle against Japan. Certainly, the widespread hunger was a blow to North Korea’s image as a workers’ paradise. Even an official newspaper admitted as much in December 1999. Both the famine and the breakdown of such infrastructure as railways testify to the regime’s diminished ability to serve its people. Trying to build legitimacy based on performance may be possible for Kim, but will hardly be easy.



Rather, Kim Jong Il's legitimacy is through genealogy, the connection to his father, and he relies on coercive power as the main pillar of his survival. Because the regime is dynastic, China cannot offer it a political model. The ideological breakthrough in China also included "de-Maoization," but Kim cannot go that route because Kim Il Sung is his legitimization. It is also hard to imagine how North Korea could emulate Chinese leader Deng Xiaoping's "seeking truth from facts." Deng and his successors also promoted bright younger officials. While younger North Korean bureaucrats are now visible, the same older faces reappear, especially in top positions.

Kim does not really trust the people of North Korea. Political education is still routine in the countryside. When President Clinton was photographed in October 2000 shaking hands with North Korean Vice Marshall Jo Myung Rok in Washington, the picture appeared in the U.S. press but not in the official North Korean newspaper. Kim was hoping for a Clinton visit, and if it had occurred pictures with Clinton would have become new icons of the regime. Indeed, the Korean text of the communiqué differed from the English text in that the former treated the Clinton visit as a *fait accompli*.<sup>6</sup>

What might drive Kim and North Korea toward real political change? There is hardly any "civil society" to speak of in North Korea, so pressure from the bottom is not a factor, at least not yet. The most that interviews with defectors through China in the 1990s indicate is that localities are beginning to assert a measure of independence in their dealings with the central government, a phenomenon also noticed by NGOs working in the countryside. Kim sometimes reckons his formal tenure from 1998—in fact, he was in control after his father's death in 1994 and probably well before that—in an effort to take credit for any economic recovery that is afoot and to avoid identification with the worst times.

However, as with economic policy, events can build their own momentum. If Mikhail Gorbachev set out to make fundamental change in the Soviet Union, he certainly did not intend to end the rule of the Communist Party. In North Korea's case, there are as yet no political figures in a position to clearly see and analyze the failure of the system or to communicate it compellingly to Kim. Still, while many of the tentative changes that Chairman Kim has put in place are reversible, it will be increasingly difficult to do so.

For instance, Kim has gone so far as to suggest that U.S. troops might stay on the peninsula. How real a shift that is remains to be seen—Kim's joint statement issued with Russian President Vladimir Putin in August 2001 did call for the removal of U.S. forces. However, with the military balance turning against the North, the presence of U.S. troops might serve as a deterrent to a South Korean attack. As in the economic realm, even if Kim is no Gorbachev, tactical changes can cumulate over time. If, as with the hints of a shift in position on U.S. troops, the original intention is only to use new means toward old ends, those new means eventually can affect goals and priorities.

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## CHARTING THE WAY FORWARD

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The two Koreas themselves are now driving the process of reconciliation, which is a momentous departure from the history of the last half-century. Yet South Korea's allies, Japan and especially the United States, are critical for this process. The North-South process needs the United States. The power, prestige, and money of the United States are required. Yet the allies need to work out what role each is to play, and perhaps some kind of road-map, lest there be confusion in North Korea, not to mention among the allies themselves, about what is expected of the North and what it can expect in return.

In the aftermath of the June 2000 summit, the two Koreas established a number of lines of communication. The most active ones have been ministerial sessions. The North, however, suspended the defense ministerial talks after the first meeting, arguing that the South Korea defense white paper was hostile toward North Korea. The most important channel has been between intelligence services—the National Intelligence Service in the South and the Department of United Front of the Korea Workers' Party in the North—but that channel, too, stalled after March 2001.

Despite the setbacks in the North-South process and the disappointment with North Korea's response since the summit, there have been some accomplishments: tensions have been reduced, there have been no incidents along the demilitarized zone, and the dialogue can resume. Of the 15 European Union (EU) members, all but France and Ireland have established relations with North Korea. The North is now more dependent on foreign aid. Three family reunion meetings occurred in the year after the summit, for a total of about 500 families from each side. South Korea mostly gave priority to older citizens, while the North sent "successful" people, especially those who were voluntary migrants from the South. North Korea finally agreed, in an exchange of letters, to investigate lost family members in the North and to establish a permanent site for reunions. On the economic agenda, lots of projects have been proposed, and in the cultural sphere, expanded tourism and more joint sports teams are under discussion. The Clinton administration was on the verge of a deal with Pyongyang over North Korea's long-range missiles, which might still be there for the taking. North Korea has continued its moratorium on testing.

The security agenda is the thorniest. There had been hopes that a "peace declaration" would be issued when Kim Jong Il paid his return visit to Seoul, but those hopes faded as the visit was delayed. Instead, South Korea planned merely to reiterate the language the two sides had used in 1992, which expressed agreement on reconciliation, non-aggression, exchanges and cooperation between the two Koreas.<sup>7</sup> The incoming Bush administration created a pause while it undertook its own policy review toward North Korea. That review was completed in June 2001 and Washington stated its willingness to resume talks with North Korea. It also insisted, however, that the security agenda be broadened. In contrast to the Clinton administration's focus on missiles, the Bush team stressed that arms control also needed to deal with conventional arms on the peninsula, and it insisted that any missile deal must have extensive provisions for verification.

The broadened agenda raised questions, first, of how North Korea would respond and, second, how South Korea and the United States would divide the negotiating tasks. Seoul has tried to engage the North in arms control in the past but has been rebuffed, and South Korean forces are under U.S. command in wartime.

Beyond security, the agenda is complicated by the lack of money to spend in the North, the lack of consensus on policy in the South and the complications of the change in U.S. administrations. Japan will establish a compensatory fund when it normalizes relations with the North, but that will not occur soon. But because North Korea's economy is so small, several billion dollars in aid would help. If North Korea turns out to be serious about a change of course, then the United Nations Development Program could start—avoiding the need to immediately get North Korea off the U.S. terrorism list—with the IMF and the World Bank coming later. With South Korea's presidential elections coming up in December 2002, the divisions over the sunshine policy will be magnified, with the opposition arguing that the current track is too expensive, too divisive in the South, and too likely to send the wrong signals to the North.

Whether to link the various issues, and how to do so, are also at issue. Security is Pyongyang's last card, one it will not relinquish easily, so it might be tempting to focus first on economics and economic reform. Yet North Korea still thinks of the international financial institutions as "Trojan horses," and opening its books to scrutiny will be difficult. The IMF is the critical institution; once North Korea has joined it, the additional requirements for joining the World Bank or the Asian Development Bank are modest.

At present, perhaps the most that can be done is to start training for a long-run change in North Korea. The Europeans, Canadians, and Australians can play a valuable role with their small technical assistance programs. North Korea needs not just training and technical assistance but also trusted advisors; now, however, the UN mission in Pyongyang is primarily in the business of humanitarian assistance.

Thinking about the impact on, and risks to, South Korea that are inherent in the process of opening requires that economic measures be seen in a broader security context. KEDO is vulnerable to criticism in South Korea and the United States because it does not make economic sense. North Korea's power grid is so outdated that it could not accommodate the promised nuclear reactors even if they ultimately are constructed. In that sense, some linkage between economics and security is natural, a fact of life rather than a strategy. The Agreed Framework was hammered out before the thaw in North-South relations, so broadening the security agenda from missiles and nuclear weapons also is logical.

There is also the question of some non-aggression guarantee from the United States to North Korea, to set North Korea loose from security concerns. The United States is hardly going to invade and it has come close to giving such a guarantee in the past, for instance when Vice Marshall Jo Myung Rok visited Washington at the end of the Clinton administration. Reassurance would be no big thing for the United States but a very big deal for the North. The United States needs to look carefully, but not mechanically, at the military balance in the region. At the least, some guarantee would undercut North Korea's arguments that it has to spend money on defense. If North Korea's GNP is on the order of \$10 billion, then its shortfall of food is only 3 percent of GNP, or a small portion of its defense budget. Even with a U.S. security guarantee, South Korea would remain a rival, even a threat, to the North. In that sense, it would not be entirely surprising if North Korea came to favor the continued presence of U.S. troops on the peninsula as it got weaker.

*North Korea still thinks of the international financial institutions as "Trojan horses," and opening its books to scrutiny will be difficult.*

North Korea still insists on talking directly with the United States, but the existing four-party framework (North and South Korea, the United States, and China) might provide a basis for bilateral or trilateral discussions. More generally, multilateral mechanisms in North Asia are weak, and they are needed for energy, transport, and other issues. Not only would North-South reconciliation facilitate the creation of such mechanisms, but the mechanisms could also aid the process of reconciliation. North Korea has joined the ASEAN Regional Forum (ARF), but its participation has been spotty. The North's view tends to be that it will participate in multilateral arenas if *it* is not specifically the issue. At present, Pyongyang fears that the others will gang up on it, but it did participate in some ARF meetings in 2000 and 2001. Suffice to say that a Northeast Asia Treaty Organization is a long way off.

With such complicated and overlapping agendas at issue, some road-map or jointly established guidelines agreed upon by the United States, South Korea, and Japan could be helpful. The United States established one for normalizing relations with Vietnam that served to produce clarity, not just for Vietnam but for U.S. allies as well. Now, North Korea cannot join the international financial institutions until it has satisfied the United States on security, especially the terrorism issue. But what must it do to get removed from the terrorism list? It has already issued a joint statement with the United States in November 2000 in which it renounced terrorism. At present, North Korea feels that the United States has not lived up to its bargain in the Agreed Framework, and it faults South Korean President Kim personally for not delivering on promises to help with infrastructure, power in particular. If the three allies established a road-map, there would be much less chance of misunderstanding among them, or between them and Pyongyang. Such a road-map was precluded in the United States by the guerrilla war between the Clinton administration and the Republicans in Congress, but the Bush team has a fresh opportunity.

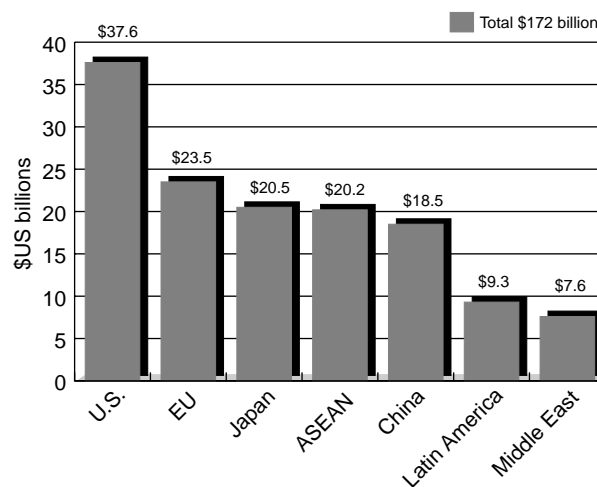
## THE REGIONAL CONTEXT

Korea lives in a tough neighborhood that will condition its future, just as it has shaped its history. Economically, South Korea depends on Japan and still resembles it. Yet it also competes with Japan and China, albeit in different market sectors. Postwar South Korea launched a Japanese-style economic development program. The country is starting to move toward a system more like that of the United States, but Japan still looms large in its economy. The roles of both Japan and China, and also of Russia, will continue to be important. Russia is now a large question mark, but in the longer run it provides the largest new opportunity for trade and commerce in the region, as suggested by Kim Jong Il's visit to Russia in September 2001. Kim Il Sung made an important visit to China in 1991, and Kim Jong Il went to China just before the June 2000 summit. It is also reported that Kim checked with China before he expressed a changed view on the continued presence of U.S. troops.

There is also the question of who will finance Korean reconciliation, a question that involves regional powers, the United States, and Europe. In particular, Japan has floated the idea of a Northeast Asia Development Bank to be based in Seoul and oriented around Korea, northeast China, and beyond, with the specific task of promoting investment flows in North Korea. Its members would be Russia, Japan, China, and the United States, and it would be separate from the Asian Development Bank or the World Bank.

For its part, China has been pursuing "equidistance" between North and South Korea. It is sustaining its traditional connection to North Korea while seeking improved economic links to South Korea. Its policy is *butong buluan* ("neither unification nor war") on the Korean peninsula, and that approach is likely to continue. South Korea will continue to count heavily on China's help in influencing North Korea's behavior. Officials in the South believe that the Chinese leadership, especially President Jiang Zemin and Premier Zhu Rongji, played an important role in persuading Kim Jong Il to accept South Korea's proposal of the summit meeting. As China has improved its connections to the South, it has become still more influential in shaping the dynamics of Korean affairs. South Korea will continue to want China to play a constructive mediating role in inter-Korean relations. At the same time, it will seek to maximize economic gains from China, not only through the deepening of bilateral ties but also through the creation of regional economic cooperative schemes. These might include a Japan-China-South Korea free-trade area, or some form of Asian monetary fund.

Figure 12: South Korea's Major Trade Partners (2000)



Source: The Ministry of Commerce, Industry, and Energy  
Compiled by Korea Trade Investment Promotion Agency  
<http://www.kotra.or.kr/eng/info/main.php3>

On these issues, the Seoul-Beijing connections are complementary. However, there is also a growing concern in South Korea over regional stability. As China grows, it will become more of a model for other nations to follow and a regional leader. Conflict between China and Japan would have reverberations on U.S. policy, which in turn would affect the Korean situation. How Washington deals with China, in particular, will have repercussions for South Korea's ability to manage its relations with the North. The view will remain powerful in South Korea that improved Sino-American ties are essential for regional stability. In that sense, to the extent that the Bush administration's advocacy of national missile defense becomes an irritant in relations with China, Russia, and Japan (as well as South Korea itself), it will be cause for concern. South Korea's own vulnerability to North Korea's military, along with its continuing dependence on U.S. military support, will mitigate this concern but not eliminate it.

For all of Japan's importance to Korea, the legacy of history hangs heavily over South Korean-Japanese relations, which are fragile at best. Kim Dae Jung's government endeavored to develop the best links possible with Japan. It engaged Japan in efforts to open its markets to Japanese goods, to heal the pains of the past, and to build new economic and security cooperation. However, the outrage in South Korea over the treatment of the "comfort women" and other occupation issues in Japanese history textbooks only served as a reminder that Japan has yet to adequately atone for its past offenses. So long as these grievances go untended, they will fan anti-Japanese sentiment.

Moreover, while the selection of Junichiro Koizumi as prime minister was a breath of fresh air in Japanese politics, Koreans are concerned that his government indicates a resurgence of conservative right-wing political forces, in particular those that seek to amend Article 9 of the Japanese "peace constitution" to permit more forward deployment of Japanese soldiers. Even if those engagements might include the defense of South Korea, they still raise old echoes of imperial Japan—echoes that were stirred by Koizumi's visit to Japan's Yasukuni War Memorial Shrine in August 2001, which commemorates Japanese veterans, including war criminals. And to the extent the United States is seen as pressing for an expansion of Japan's military role, however modest in American eyes, there will be greater strain in U.S.-Korean relations as well.

With North Korea as well, Japan's role is complicated. On the one hand, Japan—specifically its community of North Korean residents—remits significant funds, mainly raised through pachinko gambling parlors, to North Korea. Meanwhile, North Korea refuses to respond to Japan's demands that it look into several alleged cases of kidnappings of Japanese nationals from western Japan in the 1970s. This issue continues to be a source of tension.

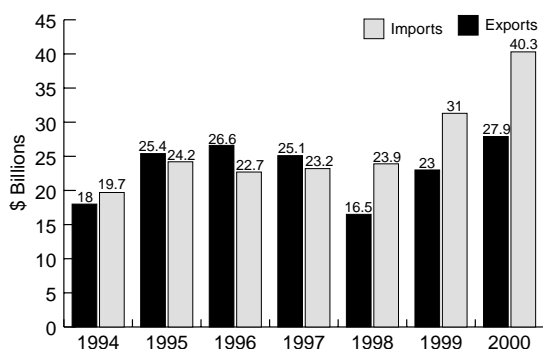
Looking ahead, much will depend on American policy toward South Korea. With a continuing U.S. presence, the fair-weather scenario would be a continuation of the current pattern of regional stability framed around the U.S.-Japan-South Korea axis in loose cooperation with China, North Korea, and Russia. The more pessimistic outcome would be the revival of a cold war-like structure, with the allies (the United States, Japan, and South Korea) confronting a northern tripartite axis of China, Russia, and North Korea. This structure would surely complicate and probably freeze any rapprochement between the Koreans. Again, to the extent that American advocacy of missile defense was perceived, rightly or wrongly, as a driver of the cold war revival, U.S. allies would resent that advocacy. South Koreans across the political spectrum worry that the United States will cast North Korea as a rogue foe to justify the development of a missile defense program. By the same token, a confrontational U.S. line on China would put Seoul (and Tokyo) in the hard position of being forced to choose sides.

If the United States disengaged precipitously from Korea, which hardly seems likely, South Korea would be forced into unpleasant choices. It no doubt would seek some form of collective security or multilateral security cooperation, but it would likely find that neither was on offer, and trying to opt for neutrality would look dangerous given its neighborhood. It would then face the choice of tilting toward China or toward Japan, with the former the more likely course. A unified Korea would be tempted to buy insurance, perhaps even in the form of a nuclear option. In the long run, the question is whether Korea can turn its tough neighborhood to its advantage and become, like Belgium in Europe, a friend and unthreatening interlocutor for its powerful neighbors, including Russia.

## THE SPECIAL ROLE OF THE UNITED STATES

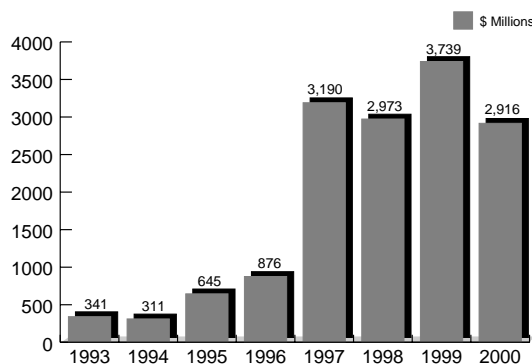
The United States will continue to be the dominant country bearing on Korea's future. Korea has been divided for 50 years and the United States is entwined with every aspect of its life. The United States is South Korea's most important economic partner, followed by Japan and then China.

Figure 13: U.S. Trade with South Korea



Source: U.S. Department of Commerce  
 Compiled by Korea Economic Institute  
<http://www.keia.com/BasicDataJune.ppt>

Figure 14: U.S. Investment in South Korea



Source: Ministry of Commerce, Industry, and Energy  
 Compiled by Korea Economic Institute  
<http://www.keia.com/BasicDataJune.ppt>

On the whole, the United States has benefited from being far away and a friend, unlike Japan, which is nearby and a former colonial power. Yet Korea's military dependence on the United States is an irritant from time to time, and it is not hard to paint a future of U.S. actions—for instance, a hard line on China, coupled with strong support on both theater and national missile defenses—that would stir a backlash of anti-Americanism in the South. Because the United States is so important, those developments that are part of politics as usual in Washington—such as the changed rhetoric of the Bush administration and its pause for a review of its Korea policy—reverberate in South Korea.

The March 2001 summit between Presidents Bush and Kim was premature. The South Koreans were anxious for a meeting. The Bush administration did not want to say no to a close ally, but plainly was not ready. Almost none of its Asia team was in place, and it had not completed its internal policy review.

Although both sides denied disagreements over policy, the meetings were reportedly less than pleasant, and the Korean press loudly protested the press conference held by Secretary of State Colin Powell during the ongoing summit meeting, as well as President Bush's reference to Kim Dae Jung as "this man." Moreover, Koreans felt that the U.S. policy review drained the momentum from the North-South process, but they still endeavored to put the best face on the summit. It did endorse engagement in general and the leading South Korean role in particular, and it emphasized the need for close cooperation between Seoul and Washington. When asked, in June 2001, to identify the obstacles to Kim Jong Il's return visit to Seoul, more South Koreans (about a third) cited U.S. policy toward the North than cited either North Korea's unreasonable demands or its untrustworthiness.<sup>8</sup> The controversy surrounding the summit pushed the Bush administration to complete its review of policy toward North Korea, which it did in June.

The Korean word *han* does not translate well, but its range of meanings—from regret and resentment to spite and hatred—applies to other close and asymmetrical U.S. alliances. The sentiment visible lately in South Korea is probably better described as rising national pride rather than anti-Americanism. It is, in part, a byproduct of North-South reconciliation, and it has been fostered by democratization, the rise of civil society, and, perhaps, by President Kim's own policy. Yet the underlying issues are real, and they reflect the extent to which the bilateral military relationship no longer reflects South Korea's own political and social development.

Those issues run back to the Taft-Katsura secret memorandum of July 1905, which approved Japan's "suzerainty over Korea" and was the backdrop for Japan's annexation of Korea in 1910. In December 1949, the United States unilaterally withdrew its occupation force in the face of ongoing border clashes between North and South and of Northern military superiority. Six months later, 75,000 North Korean troops poured into the South. More recently, the Status of Forces Agreement has come to be seen by Koreans as not equal to those the United States has with other allies, Japan in particular. Other important issues are recently revealed details of the July 1950 incident at No Gun Ri, in which South Korean civilians were killed, allegedly by U.S. "friendly fire"; and environmental mismanagement by the U.S. military, including the dumping of chemicals into the Han River in February 2000.

This history bears on the current issues about how to deal with North Korea—the future of KEDO and the Agreed Framework, reciprocity and verification, the roles of and coordination between Washington and Seoul. The four-party talks are virtually dead and have not met since Fall 1999. The North wants to talk to the United States directly. Meanwhile, the administration speaks of verification, transparency, and reciprocity, but what do those mean? What will they mean? The Agreed Framework is already years behind schedule, and the North Korean electricity grid probably could not be made to accommodate the nuclear plants. However, the case for switching the nuclear reactors provided to the North under the Framework to conventional power plants is not strong, given that the grid would have trouble accommodating a conventional plant as well, and North Korea would likely oppose it, not just for political reasons, but for economic reasons, as well, i.e., it costs more to run one conventional plant than two nuclear plants. North Korea's ability to get the fuel to such a plant is also questionable.<sup>9</sup> In any event, members of the U.S. Congress, especially Republicans, are skeptical of the Framework and might refuse to appropriate money for it or cancel the nuclear reactors, especially now that General Electric has bowed out. The September 11 attacks, and U.S. preoccupation with responding to those attacks, may lead to further disengagement in the process. However, South Korea and Japan remain firmly behind the Framework, and the U.S. financial contribution is a relatively small one.



Given North Korea's firm opposition to any change in the agreement—and its apparent commitment to the promised “nuclear” power plants for symbolic reasons—Seoul and Washington could easily disagree over how hard to press Pyongyang to make a change. Even if North Korea were removed from the U.S. terrorism list, the United States and South Korea could still disagree over North Korea joining international financial institutions. The North's economy would still lack openness and fail to meet the criteria for membership—a fact glossed over by those in Seoul who simply want to “get them in.”

It is worth remembering that it took the Clinton administration several years to become engaged in Korean matters, so some patience is warranted. Moreover, for all of the insistence by William Perry, former defense secretary and Clinton envoy to North Korea, on trilateral coordination among the United States, South Korea, and Japan, major U.S. initiatives still sometimes came as a surprise to the allies.

Dramatic initiatives to tighten the links between the United States and South Korea, such as a free-trade agreement, do not seem to be in the cards. Two-way trade amounted to \$68 billion in 2000 and such an agreement would also provide additional impetus for South Korea's restructuring.<sup>10</sup> However, the roadblocks are visible. For its part, South Korea would be required to open up its agricultural sector, which it has been reluctant to do. And Seoul would want the United States to rein in its use of anti-dumping retaliations against imports from Korea.

Perhaps a more likely area of increased cooperation will be on policy toward the North. There will be no alternative to patient consultation and some form of agreed road-map. With such agreement on an implicit division of labor, a certain amount of the United States playing “bad cop” to South Korea's “good cop” in relations with North Korea could be a good thing.

## CONCLUSION

The history being made by the two Koreas on the peninsula is exciting, but it is a task for the long haul. North Korea might disintegrate rapidly, and both South Korea and its allies would be wise not to discount that possibility. The best bet, though, is that the role North Korea is to play in the peninsula's future will become clear only slowly as the regime makes choices. Therefore South Korea, the United States, and Japan will need to map out a long journey. Only in that way can they increase the chances that the reconciliation process does not lead unwittingly to armed conflict, dire poverty, or continued grievances that would burden the region and its connections to the United States.

By the same token, the reshaping of South Korea's economic structure and political system is full of promise in the longer term despite stalls or even reverses along the way. The country has become relatively rich and democratic. Its fall from 10 percent growth to single-digit growth would be the envy of many other nations. The influence of the drivers of change—from foreign investors and foreign institutions, from domestic entrepreneurs to NGOs to a new generation—will be felt only over time. But it will be felt. And so trying to better understand those drivers of change and how they interact one with another is important for Koreans and for those who care about Korea, Americans in particular.

*It is worth remembering that it took the Clinton administration several years to become engaged in Korean matters, so some patience is warranted.*

## "TRACK II" - PRIVATE ACTION IN PURSUIT OF PUBLIC PURPOSE

However limited our understanding of North Korea, it seems plain that government-to-government negotiations (track I) over nonproliferation and the Agreed Framework are a perilous enterprise. Arguably, then, the greater the stalemates along track I, the greater the need for other forces to broaden and deepen contacts with North Korea. Non-governmental, or track II, contacts were very important in ending the cold war with another closed, ideological society—the Soviet Union. These contacts ranged from informing Soviet citizens about living conditions elsewhere in the world to demonstrating that on-site verification of arms control agreements could be done, thus opening the way for government negotiations.

With regard to the Soviet Union, the track II process began in the Pugwash meetings among scientists from the Soviet Union and the West who shared a common sense of responsibility for weapons, nuclear weapons in particular. Economic development is an area to search for a common vision with regard to North Korea. The California-based Nautilus Institute's training and other programs in North Korea combine energy needs with South Korea's economic strength. These efforts will be philanthropy for some time, as such programs still are in the former Soviet Union. Initiatives with regard to North Korea might begin with roundtable discussions on its economy. While government subsidies may be required, from Seoul or other governments, in the end the driver will be the international economy and, particularly, whether North Korea is prepared to engage in it.

Parallels with the Soviet Union are instructive, but so are the differences. The Soviet Union was a superpower; the United States had to engage it because the nuclear issue was of paramount importance. In the case of North Korea, the relationship is dramatically tilted toward the United States so there is less pressure for engagement. In contrast, it can be argued that North Korea does not have much choice but to move toward the United States.

North Korea seems to have gone through three phases of response to track II initiatives from the United States. In the early 1970s, it invited "friends," people on the left. By the late 1980s, however, it had discovered that those people had no influence at home and turned to the "reactionaries"—former defense officials and academics who were close to administrations in power. Those people were invited individually, not together, and while the host was a bogus North Korean track II operation, the Institute of Disarmament and Peace, the conversations were productive.

Then, in the early 1990s, North Korea began inviting groups, Asia Society delegations for instance, and it did not veto individual participants. Relative hard-liners were included, presumably because North Koreans saw them as potential conduits to Washington. Then, as North Korea began to get direct access to the U.S. government and as its interests shifted to economics and assistance, Pyongyang refashioned its invitations to target, for instance, heads of U.S. foundations, or the Nautilus Institute or Carter Center—groups that offered the promise of practical benefits. North Korea became more interested in small group visits or exchanges in medicine or agriculture and less interested in broad discussions, especially of an academic nature. Specific people in a position to be helpful, such as U.S. Congressman Tony Hall, are given entry often.

In one study of 68 cases of North Korean track II, two goals seem evident. One is the political benefit of impressing visiting South Koreans and Americans. That does not apply to journalists, who seem to be regarded as too risky, although CNN and other journalists accompanying official

government delegations from other countries have gotten in. North Korea watches what visitors say afterwards and it does not invite them back if what they write is negative. The other purpose is economic; the country has started some training abroad, with 400 people<sup>11</sup> sent to various countries since 1998, mostly for short visits and training programs. Exchanges are concentrated in four fields: international law and business, agriculture, medicine, and energy. The last three fields reflect a North Korean priority on restoring its deteriorating economy and public health system, and especially on overcoming severe shortages in hard currency, food, medical supplies, and energy. The more recent inclusion of international law and business transactions suggests some realization of the need to deal with foreign and South Korean business.

Vietnam's track II experiences suggest that contacts can broaden the agenda beyond food aid. The more foreigners, the better, for once there are enough foreigners on the ground they become hard to control and they can engage different parts of the government. They can begin to "loosen the soil," a process that can accelerate in North Korea because most European Union countries, Canada, and Australia have diplomatic relations with the North. The EU has launched a dialogue on human rights and is beginning to address development issues beyond pure humanitarian assistance.

There are now over 100 foreigners in the North as part of NGO operations, but there really are no homegrown counterpart institutions—no genuine local NGOs and no non-official think-tanks. North Korea simply does not know how to react to American foundations; it regards them as simply part of the U.S. government, just as North Korea's Institute for Disarmament and Peace is part of the Foreign Ministry. North Korea's Institute of International Relations, the Association of Social Scientists and the Asia-Pacific Peace Commission are regarded by Pyongyang as NGOs; in reality, they are nothing more than fronts for the regime. They were created to work with NGOs. The Korean Committee for Solidarity with World's People does cultural interchanges. Only a bare opening for more genuine track II operations is visible.

Outsiders might concentrate on one instrument for track II, perhaps the church, which was strong in North Korea's past. Pyongyang was the "Jerusalem of Korea," and Kim Il Sung's mother was a Christian. Now, North Korea has a kind of "official" church, but still the church could play something of the sanctuary role that it played in East Germany. And if the dollars came through that channel, the North would pay attention.

Yet not much can be done without the approval of Kim Jong Il. When, for instance, the Asia Foundation visited North Korean universities in 2000 and proposed exchanges in English teaching or library science, the two North Korean university presidents it met were interested but plainly could not make a decision themselves. Six months later, there was nothing to report. Similarly, the U.S.-based Korea Society wanted to send a very high-powered business delegation to North Korea, and the American Chamber of Commerce in Seoul went so far as to send a delegation to China, only to have it denied entry to the North.

North Korea will respond favorably, just as China did, when the incentives are there, as in the Hyundai projects. It has plenty of "hats" under which it can respond. Overseas Koreans have a role, but the role depends on how much money they bring. One South Korean newspaper had provided North Korea some money in return for permission to send correspondents to the North to cover the sunshine policy. After the Hyundai deal, though, the paper was not admitted.

Compared to the Hyundai project it was too small to matter. Information technology exchanges are political, close to Kim Jong Il's heart, so they do not require money.

At this point, perhaps the most governments can do is not to hinder contacts. Surely the range of the possible is broad if the will is there in North Korea. The U.S. Department of Energy funded an Atlantic Council program to bring Northerners to the United States for energy-related training, and the program came to include doctors and farmers as well. In the case of Russia, the Library of Congress has brought 2,500 politicians from all over the country annually to be hosted by American families. Teacher exchanges, even the Peace Corps, would be possible if the will in Pyongyang were there. Perhaps President Bush can preside over a U.S. opening to North Korea in the way that President Nixon did with China.

To the extent that North Korea really wants to reach out to the United States, the "problem may be us" if our images are limited to the common media impression that Pyongyang is about to launch a missile attack. So perhaps the place to start is with a richer understanding of what is occurring in North Korea and what might ensue in the future. This report is intended as a beginning to that process of better understanding.

## ENDNOTES

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- 1 Kazuhiko Kajiki, *Korea Times*, January 16, 2001.
- 2 *Dong-A Ilbo* (Dong-A Daily) on July 11, 2001.
- 3 *Joongang Ilbo* (Central Daily) on June 12, 2001, conducted on the first anniversary of the June 15 Inter-Korean Summit.
- 4 “South Koreans Value U.S. Ties,” *Opinion Analysis*, United States Information Agency, March 19, 1999.
- 5 For more detail, see [www.kedo.org/Agreements/agreed\\_framework.htm](http://www.kedo.org/Agreements/agreed_framework.htm), and [www.kedo.org/charter.htm](http://www.kedo.org/charter.htm).
- 6 For the communiqués, see [www.kimsoft.com/2000/us-nk10.htm](http://www.kimsoft.com/2000/us-nk10.htm).
- 7 For more detail, see [www.koreatimes.co.kr/project/ktspecial/summit/basic.htm](http://www.koreatimes.co.kr/project/ktspecial/summit/basic.htm).
- 8 *Joongang Ilbo*, cited above.
- 9 For more on this, see [www.nautilus.org/papers/energy/ModernizingAF.pdf](http://www.nautilus.org/papers/energy/ModernizingAF.pdf).
- 10 See [www.ita.doc.gov/td/industry/otea/usfth/aggregate/HL00T07](http://www.ita.doc.gov/td/industry/otea/usfth/aggregate/HL00T07).
- 11 This figure reportedly includes people with a North Korean passport who are not from North Korea, e.g., North Korean residents from Japan.

## KOREAN PENINSULA TIMELINE

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### *1990 - 1998:*

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- Sept. 4, 1990 First inter-Korea high-level talks held in Seoul.
- Sept. 17, 1991 Koreas both join the United Nations.
- Dec. 13, 1991 Agreement on Reconciliation, Nonaggression, and Exchanges and Cooperation (Basic Agreement).
- Feb. 18-21, 1992 Sixth inter-Korea high-level talks are held in Pyongyang. Basic Agreement and Joint Declaration of the Denuclearization of the Korean Peninsula take effect.
- March 18, 1992 First meeting of Inter-Korea Exchanges and Cooperation Committee is held at Panmunjom.
- March 19, 1992 First meeting of Inter-Korea Joint Nuclear Control Commission is held at Panmunjom.
- July 11, 1993 U.S. President Bill Clinton visits Demilitarized Zone (DMZ).
- July 9, 1994 Announcement of Kim Il Sung's death by North Korea.
- October 1994 Agreed Framework concluded. Under the agreement South Korea, the United States, and Japan are to provide two light-water reactors and fuel oil in return for North Korea's suspension of its nuclear program.
- April 16, 1996 President Clinton visits South Korea (Cheju), proposes Four-Party Talks.
- October 8, 1997 Kim Jong Il formally takes role as General Secretary of North Korean Workers' Party.
- February 25, 1998 Kim Dae Jung inaugurated as President of South Korea.
- April 18, 1998 First vice-ministerial inter-Korea talks since 1994, held in Beijing. Talk focus on family reunion issues, but break down.
- August 31, 1998 The North tests Taepodong-1 missile over Japan.
- November 18, 1998 Hyundai sends its first cruise ship of South Korean tourists to Mt. Kumgang.

### *2000:*

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- February 1 First meeting of the Trilateral Coordination and Oversight Group (TCOG), high-level policy coordination group including South Korea, Japan, and the United States, is held.

- March 7 U.S.-North Korean talks begin in New York. Conclude on the 15th without a breakthrough.
- March 9 Berlin Declaration issued by Kim Dae Jung offering to drastically expand economic assistance to the North and to open dialogue between authorities.
- April 8 The South and North announce that they will hold first-ever inter-Korean summit in June.
- June 13-15 Inter-Korean summit held in Pyongyang. June 15th “North-South Joint Declaration” adopted.
- July 28 Secretary of State Albright meets North Korean Foreign Minister Paek Nam Sun in Bangkok, the highest diplomatic contact in the history of the two nations.
- July 29-31 First ministerial-level talks in Seoul between the South’s Unification Minister, Park Jae Kyu, and a senior cabinet counselor from the North, Jon Kum Jin.
- August 14 Inter-Korean liaison offices reopen at Panmunjom.
- August 15-18 First exchange visits for members of separated families, in Seoul and Pyongyang.
- August 23 Hyundai reaches agreement with North Korea on beginning construction of Kaesong industrial park.
- August 29-Sept. 1 Second inter-Korea ministerial-level talks, in Pyongyang. Agreements reached on additional family reunions, letter exchanges, and military meetings. Fail to reach agreement on Kim Jong Il’s reciprocal visit to South Korea.
- September 11-14 Kim Yong Sun, Kim Jong Il’s special envoy, visits Seoul. Chairman Kim visit to Seoul announced for Spring 2001.
- September 15 South and North delegations march into Sydney Olympic Games’ opening ceremony under one flag.
- September 17 President Clinton announces that the United States’ sanctions on the North, which have been in effect nearly 50 years, would be partially lifted.
- September 25-26 Defense minister meeting held between North Korean Armed Forces Minister Vice Marshall Kim Il Chol and South Korean Defense Minister Cho Sung Tae at Cheju. First meeting since Korea split in 1945. Agree to begin clearing mines for railroad construction and to create an area of joint control in the DMZ.

September 27-30	Third inter-Korea ministerial talks agree to increased academic and cultural exchanges, but North Korea asks for a slowdown in the pace of inter-Korea projects.
October 9-12	Vice Marshal Jo Myong Rok visits Washington to set up Secretary Albright's trip to North Korea. (Vice Marshal Jo is the highest-ranking North Korean official to visit Washington. Jo is considered second in command to the country's leader, Kim Jong Il.)
October 13	Kim Dae Jung wins the Nobel Peace Prize.
October 20	Britain, Germany, the Netherlands, and Spain announce plans to establish diplomatic ties with the North.
October 23-24	Secretary Albright visits Kim Jong Il in Pyongyang. Discussions include the North's missile development program.
November 1	Missile talks open between U.S. and North Korea.
November 28	First working-level military officers' meeting (since 1992) is held to discuss railway construction work through the DMZ.
November 30-Dec. 2	Second group of separated family members exchange visits to Seoul and Pyongyang.
December 21	Third inter-Korea working-level military officers' talks held at Panmunjom.  The North is not responsive to South proposals for safeguards to prevent accidental military clashes and the establishment of a military hotline. North Korea again protests its designation as the South's main enemy.
December 27-30	First meeting of Inter-Korean Economic Cooperation Committee held. Agree to discuss joint flood control survey of the DMZ's Imjin River and to prepare a joint inspection of the North's energy situation in January 2001.

### ***2001:***

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January 1	New Year's editorials in three official North Korean newspapers call the rebuilding of the economy the North's top priority, and advocate the need for "new thinking."
January 15-20	Kim Jong Il makes an unannounced trip to China. Itinerary includes stops in Shanghai financial district and in Shenzhen, China's first special economic zone.
February 8	Fifth inter-Korean military officers' talks held at Panmunjom. Agreement on security guarantees in connection with linking railway and road projects.
February 26-28	Third round of inter-Korean visits by separated families.



February 27	Joint communiqué issued by Seoul and Moscow stressing Russia's support for inter-Korea reconciliation.
February 27-Mar. 3	Economic mission from North Korea visits the United States.
March 6-11	Kim Dae Jung visits Washington for summit talks with President Bush. Bush declares that he would not resume missile talks with North Korea anytime soon.
May	Seoul unilaterally offers a gift of 200,000 tons of fertilizer to the North.
May 1	Kim Jong Il's son, Kim Jong Nam, allegedly tries to enter Japan on false passport. Deported on May 4.
May 14	European Union establishes diplomatic ties with North Korea.
June 9	U.S. and North Korea resume joint MIA search.
June 10	Hyundai Asan forms consortium with Korea National Tourism Organization for Mt. Kungang tour business.
August 4-5	Kim Jong Il pays official visit to President Putin in Russia. Results in North Korea-Russia Moscow Declaration.
August 15	More than 300 South Korean civic activists, the largest delegation to date, attend ceremonies in Pyongyang marking Korea's liberation from Japanese rule. Half of the group attend ceremonies at monument to North Korea founder Kim Il Sung's reunification formula, despite promise not to attend political events. The incident infuriates conservative critics of Kim Dae Jung's sunshine policy.
September 4	Unification Minister Lim Dong Won and other cabinet ministers resign in wake of the passage of a no-confidence motion in the National Assembly on September 3.
September 15-18	Fifth inter-Korea cabinet talks held, after six-month hiatus. Joint communiqué issued, calling for a new round of family reunions and for progress on cross-border rail and highway connections.

***2002:***

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June	South Korea holds local elections.
December	South Korea holds presidential elections.

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