

U.S.-Korea Relations:  
**President Kim and His Sunshine Policy:  
Twisting in the Wind**

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As this quarter drew to a close, South Korea endured a domestic political crisis and faced high economic uncertainty for the immediate future. Following a no-confidence vote on Unification Minister Lim Dong-won, President Kim Dae-jung replaced his Cabinet and prepared to govern without his party's control of the National Assembly. This political crisis brought to the surface deep misgivings in South Korean public opinion and among politicians about the president's Sunshine Policy toward North Korea. On top of domestic factors, the terrorist attacks on New York's World Trade Center and the Pentagon in Washington ignited fears about significant international damage to South Korea's economy, which was already in the midst of a slow-down and facing a possible recession. Seoul also fears that Washington's preoccupation with the war on terrorism will further reduce the prospects of a resumption of U.S.-DPRK talks.

Ironically, the South's internal political problems likely influenced North Korea's decision to agree to a new round of inter-Korean talks in mid-September, the first such meeting in five months. While no major progress was reported at that meeting, it appeared to get the inter-Korean peace process back on track, in stark contrast to still-stalled relations between Washington and Pyongyang.

### **International Diplomatic Developments**

The most notable development from July through early September was North Korean efforts to strengthen relations with Russia and China, and thereby obtain greater leverage in future negotiations with the U.S. and South Korea. North Korea held the U.S. at bay during this period, rebuffing the U.S. announcement in June of its willingness to continue negotiations on key security issues.

In mid-July, the State Department officer director for Korea, Ed Dong, met with DPRK representatives at their UN mission in New York to explain the Bush administration's decision to resume negotiations. Although no detailed public statement emerged from this meeting, Dong presumably discussed the diplomatic modalities for getting negotiations underway. This contact took place in the context of a North Korean reaction to the new Bush policy that was less than enthusiastic. In its official media, the DPRK accused the U.S. of attempting to put "conditions" on resumption of negotiations by adding conventional force issues to the negotiating agenda.

In late July, Secretary of State Powell, visiting Seoul, clarified that while conventional forces would be on the *U.S.* agenda, the U.S. was prepared to meet North Korea “without preconditions.” Powell also urged Russian President Vladimir Putin to put pressure on North Korean leader Kim Jong-il to resume negotiations with the U.S. as well as to make a return summit visit to South Korea. Prior to Kim Jong-il’s meeting in Moscow, U.S. Senate Foreign Relations Chairman Joseph Biden also urged the Russian president to provide assistance to Pyongyang on missile verification matters.

In some respects, the joint communiqué issued in Moscow on Aug. 5 clarified North Korea’s response to the new Bush policy. North Korea confirmed its moratorium on the testing of new missiles, but called once again for the withdrawal of all U.S. troops from the Korean Peninsula. In the joint statement, Russia indicated its “understanding” of this North Korean position on troop withdrawals, without fully endorsing it. Presumably, North Korea’s assertion of its standard position on the status of U.S. troops was a response to the U.S. desire to address the issue of conventional forces. The Bush position represented a decided shift from the Clinton administration policy of focusing on missiles and weapons of mass destruction in bilateral U.S.-DPRK negotiations. It may well have caught the North Korean regime by surprise and thus triggered an internal reassessment in North Korea over how to deal with it.

In an overall sense, the Putin meetings with Kim Jong-il in early August underlined the importance Russia gave to allaying a U.S. confrontation with North Korea. Aside from the discussions of security issues, Putin stressed, in general, the importance of economic development and cooperation with North Korea, and in particular, the importance of reconnecting the trans-Siberian railway linking Korea with Russia.

North Korea continued its campaign to build international support through early September when it welcomed Chinese President Jiang Zemin on a three-day visit to Pyongyang. One day before the visit began, Kim Jong-il announced North Korea was prepared to resume inter-Korean talks with South Korea. Presumably, North Korea took this action to show it was acting independently of Chinese pressure, although one of President Jiang’s explicit purposes was to re-start North-South talks as well as to encourage North Korea’s negotiations with the U.S. and Japan. No official joint communiqué emerged from this state visit, although Pyongyang exerted maximum efforts to demonstrate public friendship and a close alliance relationship with Beijing.

In early September, the U.S., Japan, and South Korea conducted another of their regular TCOG (Trilateral Coordination and Oversight Group) meetings. Not unexpectedly, the official statement of the group expressed support for resumption of inter-Korean talks and once again urged Kim Jong-il to make good on his promise to make a return visit to Seoul.

Shortly before the opening of the Sept. 15 inter-Korean talks in Seoul, the tragic terrorist attack on the World Trade Center and Pentagon occurred. The primary concerns in Korea-related diplomacy were North Korea’s reaction and whether a far tougher U.S. anti-terrorism policy would further disrupt U.S.-North Korea relations. Although North Korea had indicated a willingness to publicly renounce terrorism toward the end of the

Clinton administration (in exchange for being taken off the U.S. list of countries supporting terrorism), that agreement was never consummated. So at least as a technical legal matter and based on its past record of undertaking terrorist acts, North Korea could have been considered a legitimate target of American wrath.

This possibility seemed to dissipate, however, when North Korea issued a strong statement of sympathy for the United States and condemned the terrorist attacks approximately two days after they occurred. President Kim Dae-jung, in voicing support for any U.S. reprisal measures, also called for a joint anti-terrorism declaration by the two Koreas at the resumed inter-Korean talks, presumably as an additional measure to defuse the issue and reassure the United States. On the ground in South Korea, security tightened considerably at all U.S. bases and official offices as part of the global U.S. effort to increase readiness. U.S. Forces Korea put its soldiers on the highest level of alert to deal with any unexpected military provocations.

In order to demonstrate solidarity with the U.S., following the terrorist attacks, Korea announced that it would “provide all necessary assistance to the United States...” The ROK National Security Council initially decided to provide non-combatant support in the way of a military hospital unit and transportation aircraft. The government did not rule out the possibility of sending combat troops to help retaliate against the terrorists, but was said to be leaning to providing the same kind and level of support it provided during the 1991 Persian Gulf War. At that time, Seoul gave \$500 million in aid and sent transportation and medical teams to assist the U.S.

Going into mid-September’s inter-Korean talks, a primary South Korean objective was facilitating a decision by Kim Jong-il to visit Seoul by the end of 2001. Although negotiators did not officially include this item on their agenda, South Korean officials hoped that the leader of the North Korean delegation would have the authority to enter into discussions on this issue.

From the ROK standpoint, the window of opportunity for a return Kim Jong-il visit – with its important goal of advancing the Sunshine Policy and inter-Korean reconciliation – would only last through 2001. After that, a decision by the North Korean leader to visit South Korea would likely expose President Kim Dae-jung to severe domestic political criticism: he could be accused of attempting to manipulate South Korean politics (or allowing Kim Jong-il to do so) in the context of South Korea’s presidential campaign, which begins in earnest in January 2002.

Observers considered the results of the inter-Korean talks positive, but no news emerged about a possible Kim Jong-il visit. Negotiators announced agreement that members of divided families from the Korean War would be able to exchange visits in mid-October. Moreover, their agreement called for close cooperation on the Russian proposal to link the South and North Korean railways with the trans-Siberian railway. Among other measures, they agreed to hold future working-level discussions on constructing the proposed industrial complex in Kaesong, just north of the 38<sup>th</sup> Parallel. In terms of “atmospherics,” observers noted North Korea’s attempt to “hype” the

meaning and significance of the ministerial talks. Upon conclusion of the talks, North Korea commented officially that “the talks confirmed once again the validity and vitality of the historic June 15 North-South Joint Declaration and marked a momentous occasion in opening a new turning phase in developing the inter-Korean relations ... instilling hope and confidence into the fellow countrymen.” Why North Korea rhetorically embraced the significance of the inter-Korean talks was not clear, though some commentators suggested it was an indirect way of seeking shelter from possible U.S. anger toward North Korea over “terrorism.”

### **Domestic Political Turmoil**

South Korea’s resumption of negotiations with North Korea in mid-September followed a month-long period of considerable internal political turmoil in Seoul. Kim Jong-il’s diplomatic strategy of building relations with Russia and China while ignoring South Korea and the United States had the effect of undercutting President Kim in South Korean public opinion. Not in a strong position in the first place because of South Korea’s economic weakness and National Assembly infighting, North Korea’s indefinite suspension of inter-Korean talks further discredited the president’s trademark Sunshine Policy. Critics regularly accused him and his administration of engaging North Korea without adequate reciprocity on Pyongyang’s part and of otherwise showing a naïve faith in taking a largely benign view of North Korea’s policies.

A crisis built in the second half of August within President Kim’s political coalition, which for over two years had allied the president’s own party, the Millennium Democratic Party (MDP), with the United Liberal Democrats (ULD), led by former Prime Minister Kim Jong-pil. During Aug. 15 Independence Day festivities in Pyongyang, South Korean participants broke a specific pledge not to show support for the North Korean regime, and thus violated South Korea’s National Security Law. Following their return, Kim Jong-pil called for the resignation of Unification Minister Lim Dong-won, who had permitted their participation in the North Korean celebration. When President Kim refused to demand the resignation of his minister, who is widely considered the architect of the Sunshine Policy, the National Assembly passed a nearly unprecedented no-confidence motion. At that point, Minister Lim and the entire South Korean Cabinet resigned, opening the way for President Kim to appoint a new government.

The break-up of the ruling coalition, together with the no-confidence vote in Unification Minister Lim, cost President Kim his parliamentary majority and conveyed a sense of disarray in the executive branch to the Korean public. These outcomes were considered victories for the opposition Grand National Party (GNP), which is vying to replace the president with its own candidate during the December 2002 national election.

President Kim could take some comfort from the fact that one ULD Blue House official, Prime Minister Lee Han-dong, accepted the president’s request that he remain in the government to ensure continuity and maintain public support. As a conservative politician, Prime Minister Lee broadened the political base of the government and insulated President Kim, to some extent, from attacks for representing minority “leftist” views. For

his decision to remain in office, Prime Minister Lee was ejected from the ULD and branded a “traitor” by his former compatriots.

A new domestic political crisis for President Kim erupted in late September when the main opposition party, the GNP, sought appointment of a special prosecutor to investigate charges of influence-peddling in the president’s home province of Cholla-do. Appointment of a special prosecutor, which requires parliamentary approval, was seen as a test of the new political alliance between the GNP and the ULD.

### **Economic Developments**

Even before the terrorist attack on the United States, there were fears throughout the ROK that the economy would remain stagnant. Primarily because of the slow-down in the United States and the resulting decrease in demand, Korean exports to the U.S. continued to drop during the third quarter. Overall exports for 2001 are expected to be approximately 10 percent below their 2000 levels.

By the end of the quarter, numerous private think tanks were revising downward their 2001 and 2002 growth figures for the economy. In 2001, the economy is now expected to grow less than 2.8 percent. Earlier in the year, the government had suggested the economy could grow by roughly 4-5 percent. In 2002, various think tanks are suggesting growth will be lower than the 5 percent earlier predicted by the government. The government’s projection had been premised on stabilization and growth in the U.S. economy during the first half of 2002.

The terrorist attacks in the United States caused a wave of economic pessimism, based largely on worst-case scenarios that anticipated a sharp contraction of the U.S. economy. With a projected global economic downturn, sharply higher oil prices, further drops in U.S. consumer demand for Korean products, and generally lower industrial output, economists worried that even their scaled-down projections for growth in 2002 were overly optimistic.

In fact, shortly after the terrorist attack, the Korean stock market hit a three-year low and the government decided to institute a package of stabilization measures, including injecting about \$5 billion in public funds into the market, setting up a special fund, and easing various stock regulations. The eased regulations were designed to encourage financial institutions to expand their investments in Korean stocks.

As a consequence of the worsening economic projections, major Korean business conglomerates focused on developing new strategies for the months ahead. To counter a loss of liquidity due to possibly higher oil prices and military conflict in the Middle East, the chaebol encouraged their member companies to build up extra liquidity and supplies of raw materials to support their production base. They were also developing contingency plans for business operations in the event of a sharp economic downturn.

One bit of good economic news was the late September announcement that GM had signed a memorandum of understanding to take over the ailing auto-maker, Daewoo

Motors. The sale of Korea's second largest automobile manufacturer is considered a key element of the Korean government's drive to carry out restructuring of unprofitable enterprises.

### **Prospects for the Future**

As a result of the terrorist attack on the United States, U.S. foreign and defense policy has acquired a new, singular focus. Washington is directing its main regional attention to the Middle East and is striving to build a lasting international coalition, which includes Russia and China, that will endorse tough anti-terrorist measures. As a superpower, the U.S. government is certainly able to "walk and chew gum at the same time" in bureaucratic parlance. But it is not clear whether the administration will be able to devote the degree of attention required in the crucial coming months to launch a new round of productive bilateral negotiations with North Korea and to help foster inter-Korean reconciliation.

Perhaps a greater difficulty and a bigger question mark is the domestic political strength of South Korea's Sunshine Policy. North Korea's determined effort, from March to early September, to suspend inter-Korean talks, ignore South Korea, and enhance diplomatic relations with Russia and China took a political toll on President Kim. North Korea's tactical approach made President Kim look weak and foolish in the eyes of National Assembly members and the South Korean public. That, together with former coalition partner Kim Jong-pil's possible presidential ambitions, made his government vulnerable to the no-confidence motion on Minister Lim and led to the break-up of the president's ruling parliamentary coalition.

The only "good news" from the standpoint of President Kim is that inter-Korean ministerial talks are now back on track and seem to be making moderate progress. But "moderate progress" may not be enough unless it leads soon to the kind of breakthrough in inter-Korean relations that the president seeks: a new agreement to implement the 1991 North-South agreement that provided for comprehensive reconciliation measures. Once South Korea moves into the presidential campaign season in early 2002, such a breakthrough will prove even more difficult to achieve than it does now. Meanwhile, President Kim's outspoken desire to see some movement in U.S.-DPRK relations could generate strains between Seoul and Washington.

## **Chronology of U.S.-Korea Relations July-September 2001**

**July 1, 2001:** Family of seven North Korean defectors arrives in Seoul. South Korean government reports *chaebol* actual debt ratios exceed 300 percent.

**July 5, 2001:** Sales of foreign cars in South Korea reported to increase by 80 percent in first half of year.

**July 15, 2001:** U.S. official meets North Korean representative in New York to discuss resuming dialogue.

**July 20, 2001:** Korean Development Institute lowers growth estimate to 4 percent for 2001.

**July 25, 2001:** At annual meeting, ASEAN Regional Forum (ARF) urges both Koreas to hold a second summit.

**July 26, 2001:** North Korean leader Kim Jong-il arrives in Vladivostok at beginning of 10-day trip to Russia.

**July 27, 2001:** In Seoul, Secretary of State Powell urges Russia to press Kim Jong-il on resuming negotiations with U.S. and making return visit to South Korea.

**July 28, 2001:** Report of drop in South Korea's industrial output in June, first since October 1998.

**Aug. 1, 2001:** Government reports major drops in South Korean exports and imports.

**Aug. 2, 2001:** IMF recommends major restructuring for the South Korean economy to return to growth in 2002.

**Aug. 5, 2001:** In a joint statement, Russian President Putin and Kim Jong-il confirm North Korea's missile test moratorium; Kim also calls for withdrawal of U.S. forces from Korea.

**Aug. 9, 2001:** U.S. reiterates it seeks talks with North Korea without preconditions.

**Aug. 15, 2001:** In Pyongyang, 100 members of a South Korean delegation participate in event supporting North Korea's concept of reunification, triggering protests in Seoul.

**Aug. 18, 2001:** Seoul announces U.S. Federal Aviation Administration has downgraded South Korea's air safety rating.

**Aug. 21, 2001:** Authorities arrest 16 members of South Korean delegation to Pyongyang for violation of the National Security Law.

**Aug. 24, 2001:** South Korea announces it has fully repaid all IMF loans received during the Asian financial crisis.

**Aug. 30, 2001:** President Kim rejects demand to fire Unification Minister Lim Dong-won for actions of South Korean delegates to North Korean unification event.

**Sept. 2, 2001:** North Korea offers to re-open inter-Korean talks with South Korea.

**Sept. 3, 2001:** National Assembly passes no-confidence motion against Unification Minister Lim, triggering his resignation.

**Sept. 3-5, 2001:** Chinese President Jiang Zemin begins three-day visit to North Korea.

**Sept. 4, 2001:** Trilateral Coordination and Oversight Group meets in Tokyo.

**Sept. 5, 2001:** President Jiang completes visit to Pyongyang, urging an improvement of North Korea's ties with the U.S., Japan, and South Korea.

**Sept. 6, 2001:** South and North Korea reach agreement on resuming inter-Korean dialogue.

**Sept. 7, 2001:** Premier H.D. Lee decides to remain in President Kim's Cabinet.

**Sept. 12, 2001:** KOSDAQ stock index plunges to the lowest point in three years.

**Sept. 13, 2001:** North Korea issues statement denouncing terrorist attack on the U.S.

**Sept. 18, 2001:** At inter-Korean ministerial talks, delegates agree to a new reunion of divided families as well as accelerating preparation of the North-South railway link.

**Sept. 19, 2001:** Conservative opposition parties seek appointment of special prosecutor to investigate President Kim's political allies.

**Sept. 20, 2001:** Bank of Korea says economy grew 0.5 percent during the third quarter, well below prior estimates of 2-3 percent.

**Sept. 21, 2001:** GM signs a Memorandum of Understanding to acquire Daewoo Motors.

**Sept. 24, 2001:** South Korea announces it will provide non-combatant medical support to help the U.S. in a war on terrorism.

**Sept. 25, 2001:** President Bush announces that he will not visit Seoul, Tokyo, and Beijing during his October APEC Leaders' Meeting trip.

**Sept. 27, 2001:** South Korea announces that President Bush and President Kim will hold a summit meeting on the sidelines of the APEC Leaders' Meeting.

