

THE NORTH KOREAN NUCLEAR TEST AND FUTURE OF SOUTH KOREA'S ENGAGEMENT POLICY

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South Korean Reaction to North Korean Nuclear Test

North Korea's nuclear test in October 9, 2006 has set in motion a very serious debate about the future of South Korea's engagement policy towards North Korea. Interplay of very complicated domestic political forces has come into play in South Korea. Questions have been raised by various segments of society about the very relevance of the sunshine policy. Some have even gone to the extent of suggesting that South Korea's sunshine policy might have been responsible for North Korea Nuclear test. In this light, this paper explores the future of inter-Korean relations and prospectus of South Korea's sunshine policy in the light of North Korea's nuclear test.

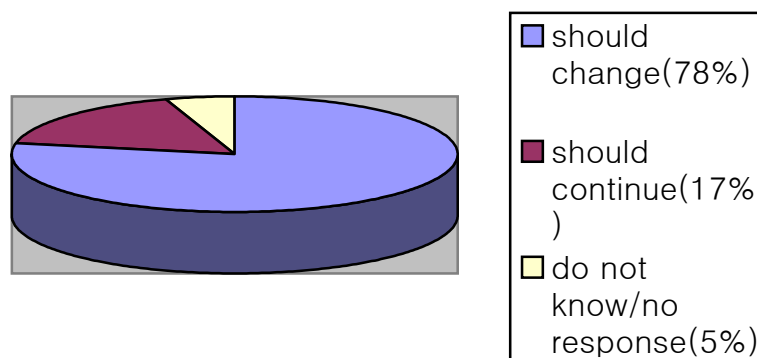
North Korea's nuclear test has divided South Korean public opinion over the future of the sunshine policy. In a survey conducted on October 11, 2006 by the *Joongang* daily

newspaper, 78 percent of the respondents favored that the sunshine policy should be changed or revised (see Figure 1). However in the same survey more than 42 percent of respondents supported inter-Korean economic cooperation projects such as Kungang Mountain Tourism (KMT) and the Kaesong Industrial Complex (KIC). Also around 34 percent of the respondents did not feel any sense of insecurity from the North Korean nuclear test.

Thus, though the majority of South Koreans feel that some adjustment should be made to meet the new realities of a nuclear North Korea on their border, they are not ready to give up the sunshine policy entirely. Majority of the population feels abandoning the engagement policy entirely can do more harm than good. While the progressive camp in the ruling party advocate maintaining the policy, the conservative camp in the opposition has advocated abandoning the policy entirely and is taking a tough approach towards North Korea.

Figure 1. A Survey of Public Opinion

Should the Sunshine Policy be continued?



Source: Percentages from the *Joongang Daily*, October 11, 2006.

Thus the North Korean nuclear test has added one more issue to the ongoing the “South-South Conflict” in South Korea. Thus this paper also explodes the case for continuation of the South Korea’s engagement policy with North Korea in light of the ongoing debate in South Korea.

Seoul’s Relations with Pyongyang Since 2000

Since 1990 the North Korean nuclear program has proved to be one of the greatest obstacles in the development of inter-Korean relations. In 1994 it brought the Korean peninsula to the brink of war. However, things began to change for the better toward reconciliation and cooperation between the two Koreas after the inter-Korean summit and Joint Declaration of June 2000. The summit provided a turning point toward establishing peace on the Korean peninsula and put the North Korean nuclear question on the back burner for some time. After the summit, relations between North Korea and the United States also improved and DPRK National Defense Commission First Vice Chairman Jo Myong-rok visited the United States. This summit meeting led to the first DPRK-U.S. Joint Communiqué, which in turn created a real step toward improving North-South Korean relations. It was hoped that the improved relations between the two countries would help solve some complicated problems facing the region. However, all hopes for better times were dashed when the newly inaugurated administration of President George W. Bush decided to adopt a hard-line approach on North Korea, and all the good work done by President Bill Clinton was turned upside down. With this, the newly emerging relationship between the United States and the DPRK took a turn for the worse, and any chance of solving the nuclear issue through diplomacy and negotiation was lost for good. After this development the North

Korean nuclear issue started raising tensions on the peninsula once again.¹

However, despite the setback to U.S.-DPRK relationship, inter-Korean relations have managed to stay on track; both countries have achieved great success and relations between the two countries has increased many fold in recent years. The relationship between the two countries has proved to be immune from the change of governments in Seoul and Washington. The Roh Moo Hyun government has continued with the engagement policy of the previous administration. As a result of this policy continuation, the multi-faceted relationship between the two countries has grown greatly. For example, the total number of people visiting North and South Korea has tripled between 2000 and 2004.² Apart from people to people relations, the relationship between the two governments has also grown steadily since the summit. More than a dozen cabinet-level meetings have been held between the two governments. The two sides have also been holding quasi-governmental (such as Red Cross) meetings two or three times a month on average.³

Inter-Korean trade has also steadily grown to the level of about \$700 million a year. In 2001 South Korea replaced Japan as North Korea's largest trading partner, accounting for 22.3 percent of the latter's total external trade. Last year inter-Korean trade surpassed \$1 billion for the first time. According to a report by the Ministry of

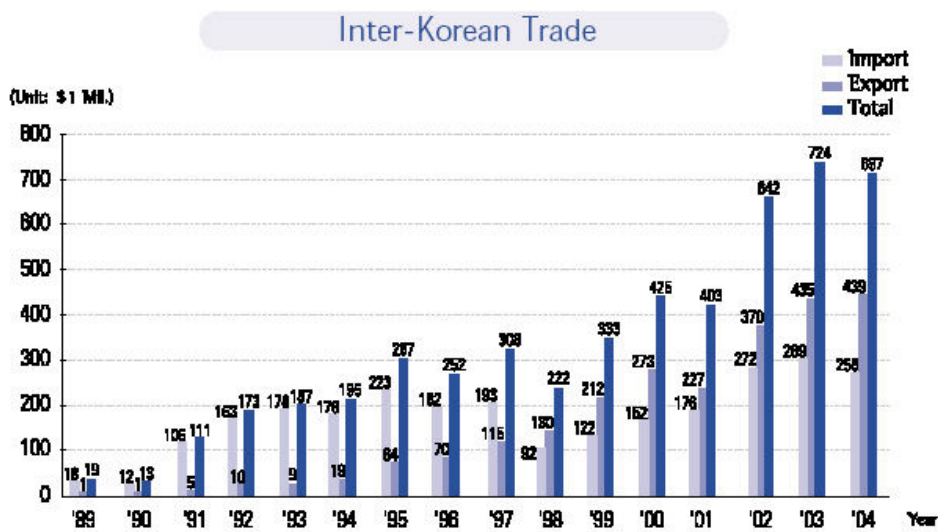
¹ For detail study of the inter-Korean relations see Samuel S Kim, *Inter-Korean Relations: Problems and Prospects*, (Palgrave Macmillan, August 26, 2004).

² Most of this traffic, however, is one-way from South Korea to North Korea. In 2005, for example, South Korean visitors to the North exceeded 78,000, but North Korean visitors to the South totaled a mere 1,071. This does not include South Korean tourists to Kungang Mountain, who vastly outnumber other visitors. Jae Kyu Park, "North Korea Since 2000 and Prospectus for Inter-Korean Relations," IFES Forum No. 06-2-3-1.

³ Ibid.

Commerce, Industry and Energy to parliament, trade between South and North Korea rose sharply this year (2006) despite tensions over the communist country's missile and nuclear programs. Inter-Korean trade rose 12.1 percent year-on-year to \$775.5 million in the first eight months of the year 2006.⁴

Figure 2. Inter-Korean Trade



Source: Unification White Paper 2006, p. 105

Table 1. Commercial and Non-Commercial Transactions Between North and South Korea, 2000-2005 (Unit: Million Dollars\$)

Type of Transactions	2000	2001	2002	2003	2004	2005
Commercial Transactions	256	244	355	425	437	690
Non-Commercial Transactions	169	159	287	299	260	366
Total	425	403	642	724	697	1056

Source: KITA

⁴ The ministry attributed the increase to brisk growth of a joint industrial complex in the North's border city of Kaesong. Inter-Korean trade involving the complex amounted to \$181.6 million, 23.4 percent of the total volume during the January-August period, it said. The trade from Kaesong accounted for 17 percent of last year's total inter-Korean trade volume of \$1 billion.

The North's economic dependence on the South has also grown steadily since the summit of 2000 in non-trade terms, notably humanitarian assistance. In 2005 the South's humanitarian and other assistance to the North totaled \$385 million, including 500,000 tons of rice on a deferred payment basis, which was worth \$150 million. The South, in fact, has provided between 200 and 350-thousand tons of fertilizer and between 400- and 500-thousand tons of food to the North every year since the summit.⁵

Table 2. South Korea's Bilateral Aid to North Korea, 2000-2005 (Unit: thousand metric tons)

Type of Aid	2000	2001	2002	2003	2004	2005
Food	500	-	400	400	400	500
Fertilizer	300	200	300	300	300	350

Source: ROK Ministry of Unification

Inter-Korean cooperative projects have also grown steadily since the summit of June 2000. According to South Korea's Ministry of Unification and the South Korean Trade Association, 379 companies traded with North Korea last year, and 136 companies involved in processing-on-commission, for a total of 515 companies involved in cross-border economic cooperation. In 2006, from January to August, 289 companies traded and 106 were involved in processing-on-commission, for a total of 395 companies involved in cross-border trade. In 2005, \$420 million worth of goods were exchanged between the two Koreas, accounting for 40 percent of North Korea's trade.⁶ This is more than the Kaesong Industrial Complex (16.7 percent) and

⁵ For the impact of food aid to North Korea see "Food Aid to North Korea or How to Ride a Trojan Horse to Death," in Nautilus Institute Policy Forum Online 05-75 A, 13.09.2005, www.nautilus.org/fora/security/0575Frank.html; Discussion by Haggard & Noland and Response by Frank at www.nautilus.org/fora/security/0575ADiscussion.html

⁶ Inter-Korean Projects Face Grave Difficulties Followings Nuclear Test, NK Brief No 06-11-6.

Kumgang Tourist Facilities (8.2 percent) combined.⁷ However, after the nuclear test by North Korea on October 9, 2006, enterprises participating in inter-Korean economic cooperative schemes are said to be facing some difficulties.⁸

Impact of South Korea Engagement Policy on the Peace Process on the Peninsula

The growing relations between the two countries have a great impact on the peace process on the Korean peninsula. For one, it has helped in stabilizing the situation on the Korean peninsula. Deterioration of the DPRK-U.S. relationship has proved to be a blessing in disguise as it has pushed for the mutual cooperation among South Korea, Japan, and the United States, as well as with China and Russia on a regional policy approach toward the denuclearization of the peninsula. It has also helped to evolve the six-party talks approach to find a peaceful and diplomatic solution to the nuclear crisis. It also offered a common platform to tackle the border issues of regional realignment and the new emerging role of China in the region. This mutual accommodation by regional countries of each other's interests has helped minimize the growing uncertainties in the region. It has also helped in reducing the fears of Koreans concerning national security and the international community's anxiety over security on the peninsula.⁹

⁷ North Korea is estimated to have earned around US\$1 billion from these projects since 2000.

⁸ For example, G. Han Shin, a company operating factories in Shinuiju, faces the possibility that the company will run aground due to the political fallout following the experiment. G. Han Sin has invested approximately \$1.7 million in North Korea, most recently in an effort to build a glassware factory near Pyongyang. According to the company, the new government policy -- that inter-Korean economic cooperation will continue, but that projects will be individually reassessed to determine whether government investment will continue -- leaves small-to-medium businesses "hung out to dry." Another company, SJY Textiles, commissioning men's suits and jackets to a factory near Pyongyang, delayed shipments of materials and funds for several weeks following the nuclear test. This was due to concerns that if an overall blockade of North Korea were to occur, then all goods in the factory would be stranded, and operations would face huge difficulties. See Inter-Korean Projects Face Grave Difficulties Followings Nuclear Test. NK Brief No 06-11-6.

⁹ Yang Moo-Jin, "The North Korea Nuclear Issue and Inter-Korean Relations: Prospects and South

Table 3. Dialogues and Contacts at the Governmental Level, 2000~2005

Kind of Dialogues		Total	2000	2001	2002	2003	2004	2005	2006
Political	Summit Talks	1							
	Ministerial Talks	19	4	2	2	4	2	3	2
	Special Envoy	4	1		1	1		1	
Military	Defense Ministerial Talks	1	1						
	General Talks	2					2		
Economy	Inter-Korean Economic Cooperation Promotion Committee Meetings	18	1		2	4	2	5	4
Social	Red Cross Talks	7	2	1	1	1		1	1
	Meetings of Separate Family (cases of meeting)	2,878	406	200	398	598	400	596	280
									(2006.4)

Source: Office of South-North Korea Dialogue, http://dialogue.unikorea.go.kr/data/data/data_dialog.asp

The growing cooperation between North and South has also strengthened people-to-people relations between the two countries. During the last six years, the exchange between the average citizens has grown many folds. As the above table shows more than 2,800 meetings of separate families members has taken place since 2000. The Kaesong Industrial Complex, Kungang Mountain tourism, and construction for the connection of the inter-Korean railways and roads have all helped in strengthening people-to-people contact. As a result of this, the mutual hatred and suspicion of each other's intentions has died down to large an extent.

Growing inter-Korean relations have also helped to establish the military-to-military relations between the two countries. A number of high-level meetings have been held between military officials from both sides. The removal of propaganda within and

Korea's Corresponding Strategy." Online at <http://www.nautilus.org/fora/security/#sect2>.

around the demilitarized zone (DMZ) has also helped in strengthening the military to military dialogue between the two countries.¹⁰

The growing relationship with North Korea has brought some foreign policy-making and management changes in South Korea. There is now more transparency in policy making toward North Korea in the South Korean establishment than before. Earlier most of the dealing with North Korea was done in a closed and secret manner. Members of the general public were never allowed to have much say in policy making towards North Korea. But now South Korea's policy toward North Korea is open to the public view and is discussed by wider sections of Korean society. Thus the growing inter-Korean relations have helped to evolve a more democratic and transparent way of policy making in South Korea. The unification policy domain has moved from South Korean unification ministry officials to members of the general public. This is a big change from the South Korean perspective. The South Korean government has become more responsive to public opinion and needs.

The inter-Korean relations have also helped in bringing change in North Korean political and economic policies. North Koreans have become more inclined to learn about market economy; market concepts like product production, incentives, purchasing, and profit making have been spreading in North Korea; and positive recognition of South Korea also has increased immensely.¹¹ Recently North Korea has also started to send officials to European countries to learn more about capitalism. It has also allowed many European foundations and NGOs to come to North Korea and teach its

¹⁰ Ibid.

¹¹ Ibid.

officials about the running of a capital system. A recent report released by Citigroup claimed that economic reforms have probably proceeded much further than what has been widely recognized. The report said that North Korea has made “significant progress” in improving decision-making independence for enterprises, increasing the role of free markets, liberalizing the exchange rate policy and opening the economy. According to the report, the most obvious evidence of progress in economic reform was the ‘marginalization’ of the State Planning Commission. It is said its key role has shifted from detailed planning to analyzing scenarios.

The report also stated that managers of state-owned enterprises have gained the freedom to decide on output mixes, product prices, and can also set benefits and bonuses even though base salary grades are still set by the government. Free markets also play an important role in allocating resources, with about 90 percent of farm surpluses going directly to them. The 2002 reforms followed years of economic failure and mass famine in the 1990s, with deaths estimated at between 500,000 and two million. Apart from attempts to introduce domestic incentives, authorities also took steps to increase exports and attract foreign investment.¹²

The Future of South Korea’s Engagement Policy

North Korean nuclear test has set a serious debate into motion whether the sunshine policy is the right way to deal with North Korea. The nuclear test has hurt South Korea’s standing with the United States, which now must depend on American

¹² “Economic Reforms Are Changing Hard line North Korea, Some Say,” Seoul (AFP) Sep 10, 2006. at http://www.spacewar.com/reports/Economic_Reforms_Are_Changing_Hardline_North_Korea_Some_Say_999.html

deterrence to defend itself against a North Korean nuclear attack in the absence of its own nuclear defense. Also in its negotiations over the KORUS Free Trade Agreement and the revision of the ROK-U.S. alliance, South Korea will be at a disadvantage, as it has to negotiate from a weakened position.¹³ This changed nature of ROK-U.S. relations can also seriously affect South Korea's independence in dealing with North Korea and other regional countries such as Japan and China. As a result, if the United States and North Korea are not able to find some swift solution to the nuclear crisis, South Korea can be under tremendous pressure not to continue with its sunshine policy in the near future.¹⁴

Discounting with the engagement policy however and adopting the hard-line approach can prove to be counter productive (may do more harm than good) and may not produce the desired results. The full implementation of UN resolution that ask all member countries to prevent North Korea from importing or exporting any material for weapons of mass destruction or ballistic missiles can invite serious and angry responses from North Korea and can complicate the already tense situation in the peninsula.

Past history of economic sanctions toward the communist state shows that it has been able to bypass such measures.¹⁵ So it follows that it is only a matter of time before it establishes new financial and trade networks to beat the new sanctions. Learning from

¹³ For the significance of FTA to the USA and South Korean Economy see, Kim Jong-hun, "The Significance and Outlook for a Korea-US FTA, *Korean Observations on Foreign Relations*, Vol. 8, No. 1 (August 2006), pp 39-49.

¹⁴ See O Jay-hee, "The Korea-Japan Issue of Past History and the Future of their relationship, *Korean Observations on Foreign Relations*," Vol. 8, No.1 (August 2006), pp. 50-77. Also see Kang Byeong-tae, "Change in the North East Asian Political Situation and Korea's Choice," *Korean Observations on Foreign Relations*, Vol. 8, No. 1 (August 2006), pp.17-38.

¹⁵ For detail study of sanctions on North Korea see, Ruediger Frank, "The Political Economy of Sanctions Against North Korea," *Asian Perspective*, Vol. 30, No. 3 (2006), pp. 5-36.

their past experience however, the North's leaders might make these networks less transparent and more difficult to intercept than previous ones.

Economic sanctions have hurt more legal activities of foreign companies than the so-called illegal and illicit trade activities of North Korea as is clear from the numerous complaints of South Korean and foreign businessmen working inside North Korea. The isolated nation needs hard currency for its legal foreign trade, and economic sanctions hinder the earning of such hard currency by legal means. Pushed into a corner, North Korea may be forced to indulge in more illegal transactions to earn its hard currency. It may also find it more attractive to further engage in trade with narcotics, weapons, and counterfeiting to meet these hard currency needs. The fight against these kinds of activities is usually the official justification of economic sanctions. However, in all likelihood, these sanctions are going to have the opposite effect by simply increasing North Korea's illegal and illicit trade activities.

Further, even though these sanctions look good on paper, they are expected to have very limited impact on North Korea's nuclear program on the ground. The North Korean nuclear program is based on domestic sources, with the North relying very little on outside help for nuclear know-how and other resources. From a technical point of view, North Korea can continue producing nuclear bombs unabated despite these sanctions if its political leadership decides to do so.

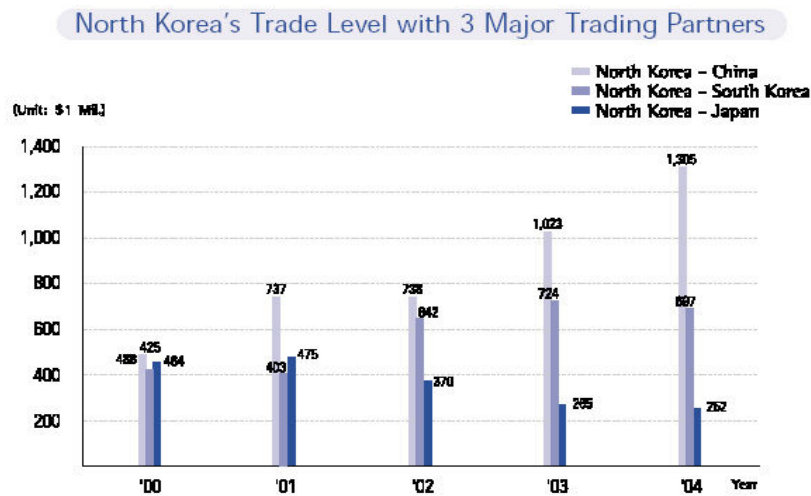
Economic sanctions as a tool of diplomacy has failed to work in most of the cases in the

past.¹⁶ There are many practical reasons why they will not work in case of North Korea. Firstly North Korea's economic relations are mainly consisted of its trade with China, Japan and South Korea. China's unwillingness to participate in the sanctions wholeheartedly will make it more likely that North Korea will never feel the pinch of economic sanctions.¹⁷ Secondly the two governing principles of North Korean social and political system, namely Confucianism and *Juche* (self-reliance) will make the success of economic sanctions less likely. These two principles make people less dependent on foreign countries and emphasize the concept of self-dependence and self-help against all odds. Third, the command economy structure of North Korea also works to relieve the pressure of economic sanctions. By its very nature this system is designed to resist the pressure from outside and foreign sources. There is a built-in mechanism of command and control in this system that minimize the effects of any outside interference in the working of this system. Fourth, the North Korea 'military-first policy' will make it very unlikely that common people will ever complain against the hardship faced due to economic sanctions. With the use of its military North Korea will be easily able to negate the pressure on its regime from its people. Thus it is very likely that a hard-line policy of economic sanctions will not be able to change the behavior of the North Korean regime. The South Korean government should not support a policy that is bound to fail and produce counter productive results.

¹⁶ A study by Hufbauer, Schott and Elliott concluded that out of 115 cases studied the sanctions were partially successful only in around 40 cases. For details see Hufbauer, G.C., J.J. Schott, and K.A. Elliott, *Economic Sanctions Reconsidered*, Washington, DC, Institute for International Economics, 1990.

¹⁷ Despite the international pressure China has refused to reduce the supply of oil to North Korea. This continued supply of oil to North Korea has reduced and relieved the pressure of economic sanctions on China to large extent. Other anti USA countries like Iran has also increased their relations with North Korea. Recently in a meeting in Iran North Korea and Iran agreed to take their friendship to higher level.

Figure 3. North Korea's Trade Level with 3 Major Trading Partners



Source: Unification White Paper 2006, p. 105

Many scholars and policy makers in the region expect that America's current approach towards North Korea may end in failure and America might be forced to negotiate with North Korea. As the first nuclear crisis of 1994 showed, pressure and economic sanctions have very limited effect on North Korea. With the victory of democrats in the mid-term elections in the United States, it is widely expected that President Bush's administration might be forced to have a fresh look on its policy towards North Korea. The majority of public opinion, not only in the United States but also in South Korea and other countries in the region, perceive the nuclear test as a failure of President Bush's foreign policy, not South Korea's sunshine policy. With the democratic victory in the U.S. mid-term elections, a new approach towards North Korea is expected.

Keeping in mind the fast changing balance of power in the United States, it will not be wise for South Korea to toe the hard-line policy of the Bush administration. It should wait and see the emerging new dynamics of power in the United States and should not

actively participate in the sanctions or to fundamentally change its policy towards the North. It should continue with its policy of engagement and continue with its inter-Korean projects. There is a very strong possibility that the United States and North Korea might return to negotiation in the near future.¹⁸ South Korea might find itself in an awkward situation later if it changes its policy at this stage. South Korea must continue with its current policy and take a long-term perspective for inter-Korean relations.¹⁹

Conclusion

North Korean nuclear test has put a serious question mark on the future of South Korea's sunshine policy. Interplay of very complicated domestic and international political and economic forces has come into play in South Korea. Questions have been raised by various segments of society about the very relevance of the sunshine policy. Some have even gone to the extent of suggesting that South Korea's sunshine policy might have played some role in North Korean Nuclear test.

However, despite these pulls and pressures from different quarters, the South Korean government should not rush to change its policy towards North Korea. South Korea must have a long-term perspective of inter Korean relations. Any policy change done without keeping a long-term perspective in mind can do more harm than good to South Korea and its neighbors. Countries like Japan and the United States must cease putting

¹⁸ To know more about the changing nature of US-North Korea relations see, Tae-Hwan Kwak, "The Changing International Situation and its Impact on US-North Korea Relations," *Vantage Point*, August 2006, p.13

¹⁹ Jong-dae Shin, "North Korea's Nuclear Test and the Outlook for Inter-Korean Relations," November 06, 2006, IFES Forum No. 06-11-6-1.

pressure on South Korea to change its policy towards North Korea. They must let South Korea choose its own course.

Despite the tensions caused by the nuclear test, the relations between South Korea and North Korea are not doomed to collapse. Everything is not lost between the two Koreas. There is very high possibility that the relations between the two Koreas can be revitalized in 2007 through the resumption of inter-ministerial talks, meetings of separated family members, a test run of the inter-Korean railroad, or even a second summit meeting. Thus South Korea must not do anything to hurt the ongoing peace process under pressure from the current U.S. administration. The current U.S. administration has lost its support with the American public and has already entered into a lame duck phase. South Korea must wait for the outcome of the next presidential elections in the United States and should adjust its policy after the presidential elections. A democratic win in U.S. presidential elections (as is widely expected) should make it much easier for South Korea to continue with its engagement policy with only minor adjustments with its relationship with the United States.

South Korean government should hold its ground and not change its policy under pressure from the United States and other regional countries such as Japan. Alternatives suggested by these countries, such as economic sanctions and a PSI, are not viable options for Korea. As noted above, the engagement policy has been very beneficial to South Korea and the region as a whole in the recent past, and can continue to play a positive role in the future.

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