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**SOUTH KOREA'S COMMERCIAL LIBERAL APPROACH TO
SECURITY**

by

Cindy Kang

March 2002

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SOUTH KOREA'S COMMERCIAL LIBERAL APPROACH TO SECURITY

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requirements for the degree of

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I. INTRODUCTION

Throughout the Cold War the leaders as well as the general public in South Korea have understood its security environment to be anarchic and hostile.¹ For them, international politics was governed more by force than by international law and morality. The people of South Korea have learned the iron law of survival of the fittest through painful historical experiences: annexation under Japanese colonial rule, national division by the Yalta agreement, and the outbreak of the Korean War and its settlement through an unwanted truce agreement. For them, North Korea's grave promise to liberate South Korea by military force and to instill a communist regime was real. Therefore, South Korea's security measures were based on the realist prescriptions of maximizing military power and mobilizing human and material resources.² However, since the end of the Cold War, growing economic interdependence between countries has increased the necessity for them to cooperate with each other to resolve problems through peaceful means. At present, no country can increase its security by sacrificing the security of other countries. To add to the complexity, economic prosperity cannot be achieved without an effective security policy and vice versa.

Hence, the South Korean leaders have started to view security as comprehensive--to include political, military, and economic concerns. On one hand, the political and military concern was clear as the threat came from the

¹ Moon, Chung-In. "South Korea: Recasting Security Paradigms." Asian Security Practices. Chung-In Moon, ed. Stanford: Stanford University Press, 1998, pp 267.

² Ibid, pp 267.

North Korean regime and the one million-man army it had stationed along the demilitarized zone. On the other hand, the economic threat was harder to identify because globalization had made the South Korean economy interdependent with those of other countries. In light of these comprehensive security concerns, the South Korean leaders needed to adopt a security policy that addressed these factors.³

A. PURPOSE

Therefore, the intent of this thesis is to examine the South Koreans' approach to decrease their security threats by applying the principles of the commercial liberal theory. The theory behind commercial liberalism contends that growing trade and economic interdependence will minimize the negative effects of anarchy and gradually transform the nature of international politics and international relations, moving it in the direction of a "trading world."⁴

B. METHODOLOGY

This thesis will examine analyses written on commercial liberalism. In addition, this thesis will look at sources that demonstrate how the South Korean leaders have applied the principles of commercial liberalism to elicit cooperation from China and North Korea. Furthermore, this thesis will rely on information regarding

³ Changsu Kim indicated that the ROK defense minister recognized that the changing balance on the Korean peninsula warranted a need to think about security in more comprehensive terms, encompassing economic and political as well as military factors. "Competing Security Needs of the Republic of Korea in the 1990s: In Search of a Peaceful Reunification." The U.S.-South Korean Alliance. Doug Bandow & Ted Galen Carpenter, eds. New Brunswick: Transaction Publishers, 1992, pp 60.

⁴ Alagappa, Muthiah. "Introduction." Asian Security Practices. Muthiah Alagappa, ed. Stanford: Stanford University Press: 1998, pp 19.

multilateral institutions, such as the Asia Pacific Economic Cooperation (APEC) group and the Tumen River Area Development Program (TRADP).

C.CHAPTER-BY-CHAPTER SUMMARY

Chapter One: Introduction

Chapter Two: This chapter will begin by addressing what are South Korea's security threats. Then this chapter will examine the theory of commercial liberalism. Finally, this chapter will propose how the South Korean leaders can adopt the principles of commercial liberalism to decrease the ROK's security threats.

Chapter Three: This chapter looks at how South Korea has improved its bilateral relationship with China through the rapidly increasing trade between the two countries. This chapter examines a model for the South Korean leaders to demonstrate how increasing economic interdependence can produce positive results from a former adversary by changing the way it views the Republic of Korea (ROK).

Chapter Four: This chapter will provide a brief history of how Japanese colonization has influenced the economic development on the Korean peninsula. Next, this chapter will depict the economic status of the two Koreas and how the impact of international events has affected both the Democratic People's Republic of Korea (DPRK) and the ROK. Then this chapter will sum up by stating the North Koreans' response to the South's engagement policy.

Chapter Five: This chapter will address the inadequacies of South Korea's bilateral engagement policy toward the North Koreans. Therefore, this chapter will explore South Korea's option of utilizing a multilateral forum to elicit a positive response from the North Koreans

with the aid of the other countries in the region. Thus, this chapter will examine the Asia Pacific Economic Community (APEC) as a viable mechanism to bring the North Koreans into the international community and thereby producing a cooperative response from the DPRK.

Chapter Six: This chapter explains why a limited multilateral forum will be more successful to bring the North Koreans into the international community whereas a fully instituted multilateral organization could not. Therefore, this chapter will demonstrate how the Tumen River Area Development Program (TRADP) can help the North Koreans in a way that APEC has failed to elicit a positive response from the DPRK. Finally, this chapter on the ROK's limited multilateral effort will conclude with policy implications for the ROK-U.S. relations.

Chapter Seven: Conclusion

D.RELEVANCE TO THE UNITED STATES

This thesis is relevant because the United States has played a vital role in the security on the Korean peninsula as well as in Northeast Asia since the end of the Korean War. One of the lessons learned from the Korean War was that the United States recognized a need for more expertise on Korean affairs, especially in the diplomatic and armed services.⁵ Today, the U.S. still remains actively interested in the affairs of the countries in the region and will continue to monitor and be engaged in events in Northeast Asia in the future. Moreover, recent terrorist events in the United States have led American leaders to focus on the North Korean regime. Therefore, any decisions

⁵ Olsen, Edward A. "U.S. Security Policy and the Two Koreas." Korea in the 21st Century. Seung, Ho Joo and Tae Hwan Kwak, eds. Huntington: Nova Science Publishers, Inc, 2001, pp 185.

made by the South Korean decision-makers regarding security matters due to a shift in the security paradigm affects the U.S. and its interests in the region.

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II. SECURITY AND COMMERCIAL LIBERALISM

The theory of commercial liberalism contends that growing trade and economic interdependence will minimize the negative effects of anarchy and gradually transform the nature of international politics.⁶ Consequently, the purpose of this chapter is to examine how South Korea can decrease its security threats by applying the principles of commercial liberalism. Therefore, this chapter will first identify what are South Korea's security threats. Then this chapter will define the theory of commercial liberalism in respect to security. Finally, this chapter will analyze the security benefits that the theory of commercial liberalism offers to the ROK that led the leaders to adopt the ideas embodied in the concept.

A. SOUTH KOREA'S SECURITY THREATS

Since the division of the Korean peninsula, South Korea's main security threat came from the North Korean military positioned along the demilitarized zone. In fact, North Korea's state ideology of *juch'e*, with its component values and professed beliefs that are predominantly nationalistic, was used as the DPRK's weapon in fighting the "legitimacy war."⁷ Although *juch'e* was a declaration of political independence from China and the Soviet Union⁸, Kim Il Sung also adopted this policy to battle the "Western" imperial powers and their "puppet" regime in South Korea.⁹

⁶ Alagappa, Muthiah. "Introduction." Asian Security Practices. Muthiah Alagappa, ed. Stanford: Stanford University Press, 1999, pp 19.

⁷ Park, Han Shik. "North Korea's Ideology and Unification Policy." The Prospects For Korean Unification. Speakman, Jay and Chae-Jin Lee, eds. Claremont: The Keck Center For International and Strategic Studies, 1993, pp 102.

⁸ Oberdorfer, Don. The Two Koreas. New York: Basic Books, 1997, pp 20.

⁹ Park, Han Shik. "North Korea's Ideology and Unification Policy."

This impending threat led the South Korean leaders to adopt a very realist approach toward security. Therefore, the South Korean leaders placed the highest importance on the bilateral alliance treaty with the United States. The bilateral security alliance with the United States started after the Korean War with the 1953 mutual defense treaty. This treaty was aimed at protecting the South Koreans from another North Korean invasion. Officially, the alliance meant that the South Korean leaders acknowledged that the North Korean regime posed a vital threat to the political legitimacy of the South Korean government. Consequently, combating the North Korean military threat meant that the South Korean government needed to dedicate a large portion of its national budget to defend the country.

Initially, allocating money for defense did not constrain South Korea's national budget because the United States provided for the bulk of the strategic finances. This allowed the South Korean government to concentrate on spending money on building up its economic infrastructure. As a result, the South Korean economy began to rapidly develop. However, during the oil-crisis during the mid 1970s, the United States started to feel the weight of financing the ROK's defense. In the 1980s, the United States asked the South Korean government to take on more of the costs of its defense.

In response to the United States' request, the South Korean government developed a phased payment plan that steadily increased its spending on defense.¹⁰ At the time,

The Prospects For Korean Unification. Speakman, Jay and Chae-Jin Lee, eds. Claremont: The Keck Center For International and Strategic Studies, 1993, pp 104.

¹⁰ Olsen, Edward A. "Korean Security: Is Japan's 'Comprehensive Security' Model a Viable Alternative?" The U.S.- South Korean

and into the early postwar period, the South Korean government could afford to allocate more because its economy was in the healthiest state in all of its history.

However, the South Korean government's ability to completely absorb the cost of its defense was seriously crippled by the 1997 Asian financial crisis. Moreover, the economic impact led the South Korean leaders to rethink what constituted "security threats." Before the Asian financial crisis, the South Korean leaders assumed that its main security threat came from the North. Since the 1997 Asian financial crisis, the South Korean leaders have begun more explicitly to view security as comprehensive to include political, military, and economic factors.

Thus, the South Korean leaders needed to adopt an approach to prevent another attack by the North Koreans without putting a strain on the ROK's economy. As a result, the most logical solution for the ROK decision-makers to elicit a positive response from the North Koreans was to perceive security from a commercial liberalist point of view. Therefore, the next section of the chapter will examine the theory of commercial liberalism.

B. THE THEORY OF COMMERCIAL LIBERALISM

Commercial liberals argue that deepening inter-regional market interdependence can reduce the likelihood of conflict while at the same time it will enhance the chances for the formation of a security community.¹¹ The theory of commercial liberalism is important because it can

Alliance. Badow, Doug and Tel Galen Carpenter, eds. New Brunswick: Transaction Publishers, 1992, pp 139.

¹¹ Moon, Chung-in and Yong-ho Kim. "East Asian Security Architecture, Multiple Scenarios, and South Korean Choice." Prepared for presentation at the annual convention of the International Studies Association, Chicago, February 20-24, 2001, pp 3.

serve as the new cornerstone in the ROK's comprehensive security policy. Therefore, this portion of the chapter has two purposes. The first goal of this section is to define the principles of commercial liberalism. The second goal is to relate those principles to security.

First of all, the theory of commercial liberalism is essentially an expansion of the international political economy theory by Robert Gilpin. A synopsis of Gilpin's theory is as follows:

The liberal theory encompasses the principle of comparative advantage, which holds that any and all participating countries may benefit from international trade. Every state regardless of its circumstances can produce certain goods or services relatively efficiently. By supplying to the world market goods and services in which it maintains a comparative advantage and importing what others can produce more efficiently, trading states can find a profitable niche and ensure that their citizens can enjoy favorable price and quality in a wide range of products. Therefore, trading states that are enmeshed in the international economy have strong incentives to avoid military conflict: a state would only hurt itself by making war on its trade and investment partners and the free flow of capital, goods and services among the nations is predicated upon a stable and peaceful international environment.¹²

By and large, Gilpin argues that liberalism stresses the power of market forces to erode and penetrate political boundaries. On those lines, commercial liberalism expounds on the liberal theory because it contends that the growing and inextricable connection between national economic well-being and the global economy will reduce the importance of political independence and relative positions, but they

¹² Gilpin, Robert. The Political Economy Of International Relations. Princeton: Princeton University Press: 1987, pp 25-41.

will do so in the context of interdependence.¹³ Muthiah Alagappa states:

Although the military-security compound will continue to be important, commercial liberalism holds that the growing and inextricable connection between national economic well-being and the global economy will reduce the importance of political independence and territorial integrity. Individual states may still try to improve their relative positions, but they will do so in the context of interdependence. The international disposition and behavior of states in a "trading world" will be influenced by considerations of interdependence rather than by insecurity born of anarchy.¹⁴

Thus, economic interdependence is the main concept of the theory of commercial liberalism that led the South Korean leaders to adopt the ideas embodied in the concept. The next section of this chapter will focus on how the South Korean leaders can apply the commercial liberal theory in respect to its security concerns.

C. APPLYING THE CONCEPT OF COMMERCIAL LIBERALISM

In his inaugural speech on February 25, 1998, President Kim Dae Jung stated that along with the task of bringing about economic recovery from the unprecedented financial crisis in the fall of 1997, he would regard the realization of peaceful coexistence between the two Koreas as one of his government's major political tasks. Hence, the Kim administration adopted an engagement policy toward North Korea commonly known as the "sunshine policy."

¹³ Alagappa, Muthiah. "Introduction." Asian Security Practices. Stanford: Stanford University Press, 1999, pp 18.

¹⁴ Alagappa, Muthiah. "Rethinking Security." Asian Security Practices. Muthiah Alagappa, ed. Stanford: Stanford University Press, 1999, pp 40.

According to Kim Hong Nack, the Kim government's sunshine policy is based on the following assumptions:¹⁵

- Another Korean War can be prevented by helping the North Koreans' desperate economy and thereby ease the anxiety about its survivability.
- The reduction of tensions on the peninsula is essential for Seoul to attract direct foreign investment that is indispensable for weathering the economic repercussions of the 1997 Asian financial crisis.
- In order to encourage North Korean reform and openness, the Kim government believes that increased economic exchanges and cooperation between South and North Korea will be indispensable. The increased contacts with the South will not only expose the North to outside influence, but also will create economic ties and interdependence between the South and North.
- It is best to deal first with economic and cultural exchanges that can be more easily arranged than political or military ones.
- Peaceful coexistence between North and South Korea is a prerequisite to the eventual peaceful reunification of Korea.

Taking these factors into consideration, the theory of commercial liberalism is applicable to South Korea because its security concerns include military defense and the broader effects of globalization. Moreover, the logic behind the South Korean leaders' decision to join a multilateral forum such as APEC can be understood from what

¹⁵ Kim Hong Nack. "The Kim Dae-Jung Government's North Korea Policy." Korea and World Affairs Vol.XXIII, No.4: Winter 1999 pp 522.

Yong Chool Ha and Taehyun Kim call the “global perspective.”

The globalist perspective is characterized by optimism based on the integrating force of the market economy. Its basic tenet is that the uninterrupted operation of the market economy systemically brings about economic growth and prosperity internally, and economic interdependence across nations externally. Such internal and external consequences of the market economy form a fundamental basis for international peace and stability.¹⁶

Furthermore free trade, an international expression of market principles, stimulates international contribution to domestic growth and prosperity as it allows economies of scale. These domestic developments work in favor of international peace in at least three different ways.

- First, they change people’s psychological and social traits. People accustomed to market principles tend to think in a rational way, in terms of cost-benefit calculations. Reason and interests replace passion and emotions, which often drive aggressive behavior.
- Second, they change the calculus of war. As national economies become globalized and the relative importance of land as a factor of production declines, there is less to gain from a war of territorial conquest.
- Third, industrial development leads to changes in political regimes.

Thus, the South Korean leaders can apply the concept of economic interdependence to engage the North Koreans and

¹⁶ Ha, Yong-Chool and Taehyun Kim. “Reflections on APEC: A Korean View.” *From APEC to Xanadu*. Hellman, Donald C. and Kenneth B. Pyle, Eds. Armonk: M.E. Sharpe, 1997, pp 149

to elicit a positive response that will provide mutual benefits to the ROK and its adversary. In other words, since commercial liberalism's relevance is limited to trading states with market economies, the South Korean leaders hope to gradually help North Korean into becoming a market economy.¹⁷ Overtime, the South Koreans hope that the North Koreans' incentive to wage war will dissipate because war will disrupt trade and other economic interactions. In respect to these circumstances, cooperation rather than competition is the more rational approach to national security.¹⁸ Once the positive benefits from trade are established in the economic arena, the positive effects can spillover to other areas such as military security.

Whereas the realist vision is predicated on a rather static and gloomy East Asian regional order, proponents of commercial liberalism project a much more optimistic picture. Furthermore, commercial liberalists intrinsically believe that international cooperation is more than possible because rules, norms, principles, and decision-making procedures embedded in regimes and institutions pose restraints on state behavior and cultivate cooperation among states.¹⁹ Hence, commercial liberalism presents the South Korean leaders with an alternative view towards security that is better than the neo-realist logic in that

¹⁷ Alagappa, Muthiah. "Rethinking Security." Asian Security Practices. Muthiah Alagappa, ed. Stanford: Stanford University Press, 1998, pp 62.

¹⁸ Nishino, Tomoharu. "Commerce and Conflict: Re-examining Commercial Liberalism: Dissertation Abstract," pp.1 www.princeton.edu/~tnishino/cv/abstract.html

¹⁹ Moon, Chung-in and Yong-ho Kim. "East Asian Security Architecture, Multiple Scenarios, and South Korean Choice." Paper prepared for presentation at the annual convention of the International Studies Association, Chicago, February 20-24, 2001, pp 12.

the negative effects of anarchy can be mitigated if not overcome.²⁰ The next chapter will demonstrate how the South Koreans have used the benefits of increasing trade with China to eventually establish diplomatic ties with it in 1992, thereby fostering greater regional interdependence.

²⁰ Alagappa, Muthiah. "Rethinking Security." Asian Security Practices. Muthiah Alagappa, ed. Stanford: Stanford University Press: 1999, pp 59.

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III. ROK-PRC ECONOMIC RELATIONSHIP

Throughout the Cold War, the South Korean government viewed China as an adversary for the following reasons. First of all, China was a communist country on the border of the Korean nation. Second, the Chinese government supported the North Korean regime, the ROK's main security threat. However, starting from the early 1980s the South Korean government started to make cultural and social overtures to China. These overtures made by the South Korean government gradually paved the way for improvements in the relationship between the two countries. In addition, there were economic benefits that also helped pave the way for normalization between Seoul and Beijing in 1992. The economic benefits that changed China's behavior and allowed Beijing to look at the ROK in a more favorable light were based on the following two reasons. First, the ROK provided China with a successful economic development model and second, the ROK offered the Chinese trade goods that it needed for its own economic growth.

Consequently, the importance of this relationship illustrated how the South Koreans were able to elicit a positive response from an adversary. Therefore, the purpose of this chapter is to illustrate how the South Korean government was able to normalize its relationship with China because of the increasing economic interdependence and benefits of trade between the two countries. The first portion of the chapter will give a brief description of the economic development strategy under the Park Chung Hee regime upon which the Chinese have modeled their own economic development strategy. Then this chapter will assess the increasing trading relationship

between the two countries. Finally this chapter will evaluate two examples where China's support of North Korea lessened, in favor of South Korea. The two examples are the admission of two Koreas into the United Nations General Assembly and the Korean peninsula nuclear crisis.

A. THE ROK ECONOMIC DEVELOPMENT MODEL

In the 1970s, South Korea under Park Chung Hee undertook an outward approach to its economy. This meant that the South Korean leaders adopted an export economy with some restrictions on the import of foreign goods.²¹ As a result of the economic liberalization efforts, South Korea saw an increased growth in its GNP at the same time that the country was under authoritarian rule.

This type of economic development strategy that the ROK implemented was seen as applicable to China's own desire for economic growth under Deng Xiaoping's leadership. Referring to the authoritarian ex-general who presided over South Korea's rapid economic growth in 1961-79, Bruce Cumings asserted that "Deng was really nothing more than the Park Chung Hee of China."²² In addition to providing China with an economic developmental model, South Korea offered many trading benefits as well. Thus, this next section will discuss mutual trading benefits between the two countries.

B. ROK-PRC TRADING RELATIONSHIP

The composition of trade between South Korea and China was beneficial to both countries.²³ For example, China

²¹ Zhao, Quansheng. "China's Security Concerns Over The Korean Peninsula." Korea In The 21st Century. Seung, Ho Joo and Tae Hwan Twak, eds. Huntington: Nova Science Publisher, Inc, 2001 pp. 219.

²² Quoted in Roy, Denny. China's Foreign Relations. Lanham: Rowman & Littlefield publisher, Inc, 1998, pp 211.

²³ Cha, Victor. "Engaging China: The View From Korea." Engaging

offered the South Koreans resources and inexpensive consumer goods. On the other hand, the South Koreans exported to China large quantities of consumer electronics, including television sets and VCR machines. Additionally, China offered cheap labor for the South Korean industries as South Korea's average wage was 28 times higher than that in China.²⁴ As a result, China began to attract much of South Korea's direct foreign investment as the South Korean labor costs continued to increase.

Arguably, the rapid growth rate of trade between South Korea and China created legitimate reasons for the two countries to establish formal diplomatic ties. For instance by 1995, the two-way trade between South Korea and China increased by nearly 45 percent over the 1994 trade, reaching nearly \$17 billion. Furthermore, by 2001, China became the ROK's third largest trading partner and the second largest country for investment while the ROK became the fourth largest trading partner of China.²⁵

Overall, the comparative advantage of the trade between the two countries was agreeable to both countries and produced a more cooperative relationship. Although both South Korea and China saw the effects of normalization and trading relationship with each other as a positive event, the North Koreans did not. The North Koreans had a legitimate concern when China normalized its diplomatic relations with the ROK in 1992 because this meant that China now officially recognized two Koreas.

China. Johnston, Alastair Iain and Robert S. Ross, Eds. London: Routledge, 1999, pp 37.

²⁴ Roy, Denny. China's Foreign Relations. Lanham: Rowman & Littlefield Publisher, Inc, 1998, pp 212.

²⁵ "Kim Tae-chung, Li Peng on Bilateral Ties, Situation on Korean Peninsula." FBIS 25 May 2001, pp 1.

Since the division of the Korean peninsula, China had been a staunch supporter of North Korea as the legitimate Korean nation. China's support for the DPRK was mainly because it was a communist government and fell in line with China's greater foreign policy of defeating Western imperialism. However, after 1992, China's support for the North Korean regime and its actions was no longer firmly set. The two cases where China did not support North Korea were the admission of two Koreas in the United Nations and the Korean nuclear crisis.

C. THE ADMISSION OF THE TWO KOREAS IN THE UNITED NATIONS

Until the late 1970s there were no contacts between China and South Korea because China recognized North Korea as the only Korean state on the peninsula.²⁶ In addition, prior to 1991, Beijing had a long-established policy opposing dual membership for the two Koreas in the international system. However, by late 1990, concurrent with the establishment of trade offices with South Korea, China's enthusiasm for this policy diminished. Victor Cha wrote:

During Li Peng's visit to Pyongyang in April to May 1991, the Chinese Premier informed North Korean officials that it could not veto an ROK application for membership, and urged the North to apply as well. Li reasoned that dual membership would be an interim measure that did not inhibit unification in the future and that membership would afford the North with international recognition and improved relations with the world. Immediately after Li's visit, the North made its dramatic reversal in policy

²⁶ Kim, Taeho. "Balancing U.S. Alliance & Chinese Cooperation: Korea's Emerging Security Challenge." Paper prepared for the Asia-Pacific Symposium March 7 & 8 2000, cosponsored by the National Defense University and U.S. Pacific Command in Washington D.C. pp 31.

and sought UN membership. Both Beijing and Seoul welcomed this decision.²⁷

The implications of this event illustrated that Seoul's position as an important trading partner formed a foundation for a dramatic shift of China's foreign policy in favor of the South Koreans.²⁸ Another example where China favored the ROK over the DPRK was the 1994 North Korean nuclear crisis.

D. THE 1994 NORTH KOREAN NUCLEAR CRISIS

During the 1994 North Korean nuclear crisis, China supported the United States and South Korea on many issues. The reasons why China did not support the DPRK was because it saw the North Koreans' attempt to acquire a nuclear capability as a direct measure against the stability on the Korean peninsula.

China did not want North Korea to have nuclear capability partly because, if the two Koreas unified, it would become a nuclear nation. Furthermore, the introduction of nuclear weapons onto the Korean peninsula might persuade Japan to develop nuclear weapons.²⁹ Therefore, it backed the ROK and the United States to pressure the DPRK in signing the Agreed Framework that resolved the nuclear dispute.

In general, as the trade amplified between the two countries, South Korea became an increasingly important

²⁷ Cha, Victor. "Engaging China: The View From Korea." Engaging China. Johnston, Alastair Iain and Robert S. Ross, Eds. London: Routledge, 1999 pp 45.

²⁸ Paal, Doug. "The Regional Security Implication of China's Economic Expansion, Military Modernization, and the Rise of Nationalism." The Security Environment In The Asia-Pacific. Tien, Hung-mao and Tun-jen Cheng, eds. Armonk: M.E. Sharpe, 2000, pp 84.

²⁹ Nathan, Andrew & Robert S. Ross. The Great Wall and The Empty Fortress. New York: W.W. Norton & Co., 1997, pp 96.

partner to China. Thus, the shift in Beijing's foreign policy toward the two Koreas was due to the following reasons. One, the South Koreans attempted to engage and gradually improve the bilateral relationship through the mutual benefits of trade and economic interdependence. Second, the friendlier relationship also was in part due to China's own desire to achieve economic development and modernization.³⁰ As a result, South Korea was relatively successful in its attempt to engage China and produce a positive response from Beijing. The next chapter will examine the South Koreans' attempt to engage the North Koreans in the same manner it had with China.

³⁰Zhao, Quansheng. "China's Security Concerns Over The Korean Peninsula." Korea In The 21st Century. Seung, Ho Joo and Tae Hwan Twak, eds. Huntington: Nova Science Publisher, Inc, 2001, pp 219.

IV. ROK-DPRK ECONOMIC DEVELOPMENT MODEL

This chapter will begin by examining the background and the current status of both the North and South Korean economies. This chapter will first outline a brief history of how Japanese colonization had set the stage for economic development on the Korean peninsula. Then this chapter will analyze North Korea's economic policies and how they played into the current DPRK economic crisis. Next, this chapter will assess South Korea's economic policies and how the 1997 Asian financial crisis has affected the ROK decision-makers' view of security. Finally, this chapter will conclude with North Korea's response to South Korea's engagement policy.

A. HISTORICAL BACKGROUND OF THE ROK AND THE DPRK ECONOMIES

The Japanese colonization of the Korean peninsula set the stage for North and South Korean economic development. The Japanese had essentially divided the Korean peninsula into two economic realms. In the northern part of the peninsula, the Japanese had built a heavy industry infrastructure. However, the Japanese let the southern portion of the peninsula remain primarily agricultural. Thus, after the Korean War, the North Koreans had the infrastructure—albeit severely damaged—to restart their economy while the South Koreans had to essentially start from the beginning. Consequently, during the 1950s and early 1960s, the North Korean economy was stronger than its southern counterpart.³¹ However, the North Korean totalitarian political system stymied any economic innovation and it began to fall behind South Korea

³¹ Kwon, Jene K. Korean Economic Development. New York: Greenwood Press, 1990, pp 3.

economically by the mid-1970s.³² As a result, despite the slow start, the economic scale tipped in favor of the South Koreans when Park Chung Hee came into power and it adopted an outward-oriented development strategy accompanied by financial system reforms.³³

Therefore, in order to assess the current economic status, the section will first analyze North Korea's economic development and then this section will look at South Korea's economic progression.

B. DPRK'S ECONOMIC STATUS

In the 1950s, North Korea's agricultural strategy was centrally structured. This meant that the institutions of a market economy—money, prices, and private property rights—were thoroughly suppressed and replaced by bureaucratic control by the central planning apparatus.³⁴ For the most part, the North Korean system worked, at least on its own terms. The planners, following the Stalinist emphasis on heavy industry and the military, were able to mobilize resources, building on the industrial legacy of the colonial period.

However, the North Korean economy began to regress in the 1970s when the North Korean system was unable to successfully make the transition from extensive development through the mobilization of resources to intensive

³² Denoon, David B.H. "Intertwined Destinies. Challenges to U.S. Diplomacy in the Four Party Talks." Bilateralism, Multilateralism and Geopolitics in International Relations: Theory and Practice. Eds. Ryoo, Jae-Kap, Tae-Hoon Kang, Sung-Joo Kim. Seoul, The Korean Association of International Studies, 1999, pp 160.

³³Kwon, Jene K. Korean Economic Development. New York: Greenwood Press, 1990, pp 5.

³⁴ Noland, Marcus. "The Economic Situation In North Korea." The Two Koreas and The United States. Dong, Wonmo, ed. Armonk: M.E. Sharpe, 2000, pp 20.

development through raising the productivity of those resources employed.³⁵

In addition, the organizing principle behind the North Korean economy was *Juche* or self-reliant ideology. Kim Il Sung introduced *Juche* for the economy in 1956, when the North Koreans encountered difficulty receiving economic aid from the Soviet Union and the PRC. The result was the development of the world's most autarkic economy, with an international trade share of roughly 12 percent of GDP. This is well below the 50 to 55 percent observed in South Korea.³⁶ The emphasis on self-reliance was so great that North Korea never joined the other communist countries in the Council for Mutual Economic Assistance (COMECON).³⁷

Furthermore, the immense military burden that the North Korean economy had to carry diverted too many resources away from other projects. According to some estimates, North Korean military expenditures in the early 1990s consumed about one-fifth of its GNP.³⁸ Moreover, the collapse of the Soviet Union and its allies contributed to the downward turn of North Korea's economy.³⁹ Since the Soviet collapse, Russia could no longer provide economic aid and favorable terms of trade to the DPRK, while the PRC began to require hard currency transactions.

³⁵ Ibid, pp 21.

³⁶ Ibid, pp 61.

³⁷ Scalapino, Robert A. "The Major Powers and Korean Reunification." The Prospects For Korean Reunification. Claremont: The Keck Center For International and Strategic Studies, 1993, pp 121.

³⁸ Weede, Erich. "The Political Economy of Asian Reunification Issues." Korea and World Affairs, Winter 1999, pp 573.

³⁹ Kim, WheeGook. "Problems and Remedies of the North Korean Economy: A Strategic Approach." The Korean Journal of Defense Analysis, Vol. VIII, No.2, Winter 1996, pp 225.

It is also important to note that another reason that the North Korean economy is in terrible shape is because there is so little information to study.⁴⁰ The only economic information that the government has regularly released has been the state budget, and even this has not been announced for several years. Mundane data such as the volume and composition of international trade is treated as a state secret.

In conjunction with a deteriorating economy, the North Koreans have experienced several years of bad weather that caused a famine and culminated in international appeals for food aid in 1995-97.⁴¹ While flooding may have precipitated the immediate crisis, the origins of the DPRK's economic failure lies in decades of mismanagement, starting with the pursuit of food self-sufficiency that was both wrongheaded and unsustainable. The bureaucratic collectivist nature of North Korean agriculture has been proven to be inefficient, and has involved bringing inappropriate land into cultivation and inappropriate application of chemical fertilizers. As a result of the agricultural mismanagement the environmental damage will take decades to repair.

Moreover, the energy situation is similarly clouded by a lack of information. North Korea is reliant on imported oil to generate fuels and fertilizers for use in transportation and agriculture. Oil imports have been

⁴⁰ Noland, Marcus. "The Economic Situation In North Korea." The Two Koreas and The United States. Dong, Wonmo, ed. Armonk: M.E. Sharpe, 2000, pp 21.

⁴¹ After major floods in July and August 1995 North Korea, for the first time in its international life launched a global campaign crying out for help from the United Nations and its related agencies and foreign governments. Kim, Samuel Soonki. "The Future of the Post-Kim Il Sung System in North Korea." The Two Koreas and The United States. Armonk: M.E.Sharpe, 2000, pp 39.

squeezed by foreign exchange shortages and the reduction in subsidized supplies from Russia and China (although recently there have been increased reports of arms-for-oil deals in the Middle East). Electricity is mainly generated using coal and hydropower. Electricity generation is hampered by difficulties in extracting increasingly inaccessible and low quality domestic coal reserves. Beyond the problem of lack of energy inputs, the power grid (largely underground for security purposes) is said to suffer from extraordinarily large transmission losses.⁴²

The energy problems will be partly addressed through the U.S.–North Korea Agreed Framework, which provides for provision of fuel oil during the construction of light-water nuclear reactors and the rehabilitation of the electrical grid. Nevertheless, North Korea will need additional energy inputs beyond those specified in the Framework if it is to re-attain its peak level of electrical consumption.⁴³

Despite the inadequate data on the current situation of the North Korean economy, one study depicted that in 1990, the DPRK's per capita income was probably something on the order of \$1,339 to \$3,897 purchasing power in adjusted dollars per year, with an average estimate of \$2,284.⁴⁴ However, these figures should be taken with large grains of salt—the practical and conceptual leaps necessary to arrive at them are daunting, and the mapping between national income and household welfare is highly uncertain

⁴² Noland, Marcus. "The Economic Situation In North Korea." The Two Koreas and The United States. Dong, Wonmo, ed. Armonk: M.E. Sharpe, 2000, pp 25.

⁴³ Ibid, pp.25

⁴⁴ Ibid, pp.22.

in centrally planned economies (CPEs), especially those devoting huge sums to the military. Since 1990, the economy has undoubtedly shrunk. The Bank of Korea (BOK), the South Korean central bank, estimates a cumulative fall in output at roughly 25 percent through 1995, a figure privately confirmed by DPRK officials.⁴⁵

However, the best statistical indicator of the state of the North Korean economy is the declining volume of international trade.⁴⁶ A healthy economy located in Northeast Asia should exhibit strong increases in trade which can probably be estimated more reliably than income, is falling. Cut off from international capital markets, the DPRK depends on remittances from ethnic Koreans in Japan and nontraditional sources of foreign exchanges, such as counterfeiting, drug trafficking, and arms sales, to cover its financing gap.⁴⁷

The overall impression that one gets from the North Korean economic structure is that it is over-centralized, over-industrialized, plagued by inefficiency and environmental degradation, able to achieve basic needs relatively quickly in the past. It has been unsuccessful since the loss and decline of Soviet and Chinese aid, and is now subject to substantial negative external shocks. However, the real question is whether this economic decay threatens the regime's political stability, and by extension, the interests of other states that would partly bear the burden of an economic and political collapse in North Korea. Before this question can be answered, the next

⁴⁵ Ibid, pp 22.

⁴⁶ Ibid, pp 23.

⁴⁷ Ibid, pp 23

section will discuss whether the South Koreans are in a position to help prevent the North Korean economy from collapsing.

C. THE ROK'S ECONOMIC DEVELOPMENTAL MODEL

After the Korean peninsula was freed from the control of the Japanese, the South Koreans had to struggle to invigorate South Korea's economy. It was during Park's regime that rapid economic development occurred and changed South Korea from basically an agrarian society into an industrial nation.⁴⁸ On January 1, 1962, barely six months after the military takeover, President Park announced the "First Five-Year Economic Development Plan, 1962-1966."⁴⁹ The swiftly drawn first five-year economic development plan was followed up by more carefully crafted economic development plans. Thus, the need for rapid economic growth was clear as South Korea was transformed into a mobilized workplace. A regimented "Confucian" and paternalistic "Korea, Inc." was born.

The main policy features and stages of the Park government's direct involvement in pushing rapid economic growth was summarized as follows:

Active governmental involvement in the economic sphere from the beginning; Heavy emphasis on externally oriented growth from about the Second Five-Year Plan period (1967-1971); Concentration on heavy and chemical industries in the Third Plan period (1972-1976); Emphasis on high-tech development from the Fourth Plan period (1977-1981); and Legal and political support for cost efficiency, including low wages.⁵⁰

⁴⁸ Oh, John Kie-Chiang. Korean Politics. Ithaca: Cornell University Press, 1999, pp 48.

⁴⁹ Ibid, pp 52.

⁵⁰ Ibid, pp 56.

As a result of ROK economic policies, the South Korean economy went from \$82 dollars per capita GNP in 1961 to \$1640 dollars per capita GNP in 1979.⁵¹ However, along with rapid growth in the economy, Park's authoritarian regime paved the way for the future power of *chaebols* (corporate conglomerates).

This is significant because the connection between the family-style *chaebols* and bureaucratic politics have been credited to be one of the main causes for South Korea's economic failure in the 1997 Asian financial crisis. A summary of this is as follows:

The financial crisis in South Korea is regarded as the severest consequence since the beginning of its industrialization in the early 1960s. During the financial crisis, South Korea withstood the harshest economic recession of its entire post-war history. The unemployment rate reached the highest level in 30 years and during the first half of 1998, South Korea's GDP shrunk by 5.3%, marking the largest drop in the past few decades. Corporate bankruptcies soared sharply. 3,197 firms filed for bankruptcy during December of 1997. Industrial production also dropped by as much as 12% between August 1997 and August 1998, and business investment plunged by 28.3% in the third quarter of 1998 as compared to the same period of the previous year. The basic economic problems of South Korea stem from the latent structure of its long-standing economic fundamentals, which can be traced back through the last thirty-five years of the country's rapid economic growth. Working in conjunction with these fundamental weaknesses is the excessive expansion by the *chaebols* based on the "too-big-to fail" premise.⁵²

⁵¹ Ibid, pp 56.

⁵² Ko, Jong-Moon, Yung-Il So, Won-Keun Choi. "New Challenges Of The Korean Economy." The Journal of East Asian Affairs. Vol.XIV, No.2, Fall/Winter 2000,pp 364.

In short, starting in early 1996, South Korea suffered severe terms of trade shocks. As export prices fell, expectations of future corporate earnings were revised down, and the price of stock market shares and land fell.⁵³ From then on, the impressive South Korean economic growth experienced serious setbacks until the Bank of Thailand severed the Thai baht's link to the US dollar in July 1997 that triggered the Asian financial crisis. The South Korean won, which was informally fixed against the US dollar, came under downward pressure. In an attempt to vouchsafe the foreign debts of private institutions and to defend the value of the currency, the Bank of Korea spent tens of billions of dollars in foreign exchange reserves. By the third week of December, the foreign exchange reserves were nearly exhausted, and the country stood on the verge of international default. As a result, the IMF had to step in and bail out the South Korean economy.⁵⁴

The ultimate effect this had on South Korea was to change the ROK decision-makers' view that military factors were the primary threat against the ROK's security. Now the South Korean leaders started to view security comprehensively in that it encompassed political, military, and **economic** factors. These factors contributed to the shift in the way the South Korean leaders viewed security. Consequently, instead of discrediting the North Korean regime, the South Korean leaders wanted to find the means that would bring positive results from the North Koreans.⁵⁵

⁵³ Noland, Marcus. Avoiding The Apocalypse: The Future of The Two Koreas. Washington D.C.: Institute For International Economics, 2000, pp 6.

⁵⁴ Ibid, pp.7

⁵⁵ South Korea wanted to mitigate North Korean hostility through economic cooperation. This was based on the belief that economically

D. ROK ENGAGEMENT STRATEGY TOWARD THE DPRK

The ROK decision-makers developed a strategy to engage the DPRK based on commercial liberal principles. The strategy used to engage the North Koreans was through economic exchanges and cooperation that were initiated by the South Korean government in 1988. At that time, South Korea was preparing for the Summer Olympics in Seoul. One of the concerns of the South Korean government and the international community was to deter North Korea's aggressive behavior toward the South.

Thus, the South Korean leaders hoped that closer inter-Korean economic cooperation would contribute to reducing the tension that existed between the two Koreas. Interlocking the economic welfare of the two Koreas and the day-to-day personal interactions would eventually foster mutual trust and reinforce positive attitudes toward a common goal of unification.⁵⁶

In 1988, the Roh Tae-Woo administration initiated South-North economic exchanges by announcing its intentions to allow South Korean firms to engage in economic transactions with North Korea in the so-called 7.7 declaration.⁵⁷ This initiative was intended to provide a turning point to the confrontational structure of the Cold War and to begin a new era of inter-Korean exchanges and

close political systems are less prone to fight against each other. As a result, South Korea was expecting peaceful effects of economic exchanges. Kim, Kyu-Ryoon. "Establishment of the South-North Economic Community: A South Korean Perspective." International Journal of Korean Unification Studies, Vol.9, No.1, 2000, pp 72.

⁵⁶ Chung, Joseph S. "Inter-Korean Economic Cooperation and Integration: The Process, Forms, and Prospects." The Prospects For Korean Reunification. Speakman, Jay and Chae-Jin Lee, eds. Claremont: The Keck Center For International Strategic Studies, 2000, pp 36.

⁵⁷ Kim, Kyu-Ryoon. "Establishment of the South-North Economic Community." International Journal of Korean Unification Studies, Vol.9, No.1, 2000, pp 80.

cooperation through liberalization and reconciliation. For example, in 1990, the South Korean government provided a more legal framework: the Intra-Korean Exchanges and Cooperation Act. This act provided South Korean firms with legal foundations, which regard South-North economic exchanges as domestic transactions.

Then the Kim Young Sam administration tried to expand economic exchanges and cooperation but experienced severe fluctuations because of military-security tensions on the Korean peninsula.⁵⁸ In addition, the Kim Young Sam administration's policy was inconsistent in the sense that it tried to use economic transactions as a leverage in dealing with North Korea. In other words, attempting to link economics with politics was destined to fail since North Korea did not have significant economic ties with South Korea. Thus North Korea did not feel threatened by the policy measures of the Kim Young-Sam administration's severing economic ties. To make things worse, the Kim Young-Sam administration reversed its economic policies toward the North several times during his five-year term presidency.⁵⁹

Upon his inauguration in February 1998, South Korean President Kim Dae Jung made his new overtures to North Korea that are commonly referred to as the "sunshine policy." As part of his sunshine policy, the Kim administration has sought to de-link private economic exchanges from political considerations in policy toward

⁵⁸ Ibid, pp 81.

⁵⁹ Ibid, pp 81.

North Korea. This is the first major substantive change from the policy of the previous administration.⁶⁰

The sunshine policy that was designed to procure a positive response from North Koreans was very similar to the engagement strategy that the ROK used toward the PRC. In essence, the South Korean government made economic, cultural, and social overtures to the DPRK in efforts to improve relations.⁶¹

After two years of his presidency, Kim Dae Jung announced his initiative to build a South- North Economic Community in his New Years Message of 2000. He indicated in his speech that the government of South Korea was ready to help North Korea in improving its poor infrastructure and in solving the structural problems of its agricultural sector in a speech, named the 'Berlin Declaration," delivered at the Free University of Berlin on March 9, 2000. He presented four tasks to achieve peace and unification in the Korean peninsula: (1) Assisting North Korean economic recovery through South-North economic cooperation; (2) Ceasing the Cold War in the Korean peninsula; (3) Solving separated family problems; and (4) Promoting official talks between the South and North Korean governments.⁶²

During the initial stage, South-North Korean economic exchanges and cooperation were performed along the lines of

⁶⁰ Snyder, Scott. "Challenges of Building a Korean Peace Process." Washington D.C.: United States Institute of Peace, June 1998, pp 5. www.usip.org/oc/sr/korea.html

⁶¹ Kim, Dae Jung. "Remarks By South Korean President Kim Dae Jung." American Enterprise Institute/Council On Foreign Relations, March 8, 2001, pp 2. www.aei.org/sp/spkim010308.htm.

⁶² Noland, Marcus. "The Economies of Korean National Reconciliation." The Journal of East Asian Affairs Vol.XIV, No.2: Fall/Winter 2000, pp 216.

mere indirect trade. These inter-Korean economic exchanges and cooperation developed further to include processing trade, in which South Korean firms provide capital and North Korean provides labor.

E. THE NORTH KOREAN RESPONSE

Despite the tremendous symbolism of the June 2000 summit meeting between the two Korean leaders, this has not translated into a reduction of military tensions on the Korean peninsula. To the contrary, the Director of Central Intelligence George Tenet testified in February 2001: "we have not yet seen a significant diminution of the threat from the North to American and South Korean interests."⁶³

This is in part because the North Koreans still feared a possible adverse effect of opening up economically. In addition, introducing liberal economic policies may change and undermine one or more pillars of the *juche* belief system. The implementation of serious economic reform in North Korea would require basic changes in the "theopolitical" belief system that shapes and drives the economic system.⁶⁴ In the eyes of those who work to protect *juche*, reform may be considered as "treason," "blasphemy," or even a direct attack on the embalmed Kim Il Sung himself.

In addition, another problem with reforming the economic system is that it would cost party authorities directly.⁶⁵ Economic reforms, such as decentralization of

⁶³ Eberstadt, Nicholas. "Korea." *Strategic Asia:2001-2002*. Ellings, Richard J. and Aaron L.Friedberg, eds. Seattle: The National Bureau of Asian Research, 2001, pp.133.

⁶⁴ Taylor, William J. Jr. "The Korean Peninsula at the Crossroads: Which Way?" *The Two Koreas and The United States*. Wonmo Dong, ed. Armonk: M.E. Sharpe, 2000. pp 222.

⁶⁵ Ibid, pp 223.

bureaucratic planning or permitting self-management of factories, to free industries from unproductive intervention and allow the market to control production, would either weaken or sever the links between the party-government bureaucracy and the masses.

Therefore, if increasing trade did not improve the bilateral relationship and North Koreans firmly held on to their belief in the *Juche* system, then the theory of commercial liberalism would have failed in this situation. However, backing away from North Korea economically is not an option because it is clear that the DPRK's economy is in crisis and that, without significant external assistance, collapse is inevitable.⁶⁶ As a result, the commercial liberalism theory can be modified slightly to fit the circumstances on the Korean peninsula. Thus, this next section will examine the ROK's attempt to engage North Korea on a multilateral basis in order to prevent a crash and to promote a soft-landing for the DPRK.

⁶⁶ Ibid, pp.225.

V. MULTILATERALISM

Multilateralism is the most viable mechanism for the South Koreans to induce Pyongyang to participate in the international system.⁶⁷ This is because the fate of the North Koreans, whether the outcome produces a hard or soft landing, affects not only the two Koreas, but also the other countries in the region. Therefore, it would be in the best interests for all the countries in Northeast Asia to cooperate. However, because the fate of the North Korean regime affects South Korea the most, other than itself, the ROK leaders have taken the initiative to establish dialogue between the concerned countries.

Hence, the main goal of a multilateral forum for the South Koreans is to create a habit of dialogue on a basis of the mutual benefit of not having the North Korean regime collapse (assuming that the other countries do want North Korea to collapse). In addition, the South Korean leaders are advocating multilateralism because it complements the existing bilateral relationships and does not aim to replace them.⁶⁸ In fact, multilateral forums can help facilitate bilateral dialogue among nations and their official or unofficial representatives who, for a variety of reasons, may be unable to deal directly with one another.⁶⁹

Thus, the purpose of this chapter is to assess how a multilateral institution such as the Asia-Pacific Economic

⁶⁷ Song, Young-sun. "The Korea Security Choice: Feasibility of a Multilateral Security System." The Korean Journal of Defense Analysis. Vol.VIII, No.2 Winter 1996, pp 234.

⁶⁸ Cossa, Ralph. "Bilateralism versus Multilateralism: An American Perspective." The Korean Journal Of Defense Analysis Vol.VIII, No.2 Winter 1996, pp 20.

⁶⁹ Ibid, pp 23.

Cooperation (APEC) group can do the following: 1) make the North Korean government more transparent; and 2) induce economic interdependence of North Korea's economy with that of the international system. Eventually the by-product of achieving these goals would prevent the North Korean regime from collapsing in the medium to long term. In the meantime, economic aid given by North Korea's neighbors would stave off collapse in the immediate future. Therefore, this chapter will begin by giving a description of the Asia-Pacific Economic Cooperation (APEC) organization and its benefits that led the South Korean leaders to join the multilateral forum. Next, this chapter will examine how APEC can make the North Korean regime more transparent and make it interdependent with the other countries in the region. Finally, this chapter will conclude with the North Koreans' response to APEC and South Korea's multilateral efforts to engage the DPRK.

A. ASIA-PACIFIC ECONOMIC COOPERATION

The aim of this section is to first give a brief description of APEC. Then this section will demonstrate that the South Korean leaders decided to join APEC as a result of the mutual benefits of economic interdependence.

B. BACKGROUND OF APEC AND SOUTH KOREA'S DECISION TO PARTICIPATE IN APEC

The Asia-Pacific Economic Cooperation (APEC) group was founded in Canberra, November 1989 by a dozen Pacific Rim countries including Australia, New Zealand, the United States, Canada, Japan, the Republic of Korea, and the six ASEAN nations (Indonesia, Malaysia, Singapore, Thailand, Philippines, and Brunei). Later China, Hong Kong, and Taiwan joined in 1991. With the inclusion of Papua New

Guinea, Mexico, Chile in 1994, and Peru, Russia, and Vietnam in 1998, the membership of APEC increased to 21. The APEC members were termed “economies” rather than countries or nations in deference to China’s sensitivities over the participation of Taiwan and Hong Kong.⁷⁰

Despite the fact that APEC was conceived as a loose forum for international dialogue, APEC has steadily progressed toward achieving trade and investment liberalization in the Asia-Pacific region. For example, at the first APEC Economic Leaders’ Meeting (AELM) in Seattle in November 1993, the AELM produced the *Vision Statement* that outlined the following objectives:

- to find cooperative ways to overcome the various obstacles resulting from rapidly changing regional and global economies;
- to support the expansion of the world economy and the open multilateral trading system; and
- to continue the reduction of trade and investment obstacles, permitting goods and services to move freely among the members of APEC.⁷¹

The objectives of these meetings were formed to provide the institutional guidelines that the APEC economies had to abide by. In addition, the establishment of APEC was in direct response to the growing interdependence of the Asia-Pacific economies over the past two decades. Desmond Ball states:

Economic factors, particularly the extraordinary rates of economic growth and the high degree of

⁷⁰ Anwar, Dewi Fortuna. “The Role, Significance, and Prospects of APEC: Contributions to Regional Security.” *The Security of Environment In The Asia-Pacific*. Tien, Hung-mao and Tun-jen Cheng, Eds. Armonk: M.E. Sharpe, 2000 pp 173.

⁷¹ Ibid, pp 176.

economic interdependence, are changing both the structure of security relations and the systemic tendencies toward conflict or peace in the region.⁷²

Although, economic interdependence could potentially make the security of one country vulnerable to another, the members of APEC were optimistic about the economic interdependence because they believed that the economic grouping would contribute to greater prosperity in the Asia-Pacific region through the increasingly free flow of goods, finances, and services among member economies. For example, APEC's intra-regional trade went up from 53.4 percent in 1980 to 63.2 percent in 1992.⁷³ Moreover, in 1993, APEC accounted for 68.7 percent of South Korea's total trade, 81 percent of its incoming foreign investment, and 77 percent of South Korea's outgoing investment.⁷⁴ Therefore, instead of focusing on the negative aspects of interdependence, the members of APEC chose to capitalize on the benefits of increasing trade in the region.

Along those lines, the APEC members hoped that the economic interdependence from the increasing trade would indirectly contribute to peace and stability in the region because stability was regarded as crucial for economic development as well.⁷⁵ Eventually, the growing economic

⁷² Ball, Desmond. "Multilateral Security Cooperation in the Asia-Pacific Region." The Security Environment In The Asia-Pacific. Tien, Hung-mao and Tun-jen Cheng, Eds. Armonk: M.E. Sharpe, 2000, pp 129.

⁷³ Ha, Yong Chool and Taehyun Kim. "Reflections on APEC: A Korean View." From APEC to Xanadu. Hellman, Donald C. and Kenneth B. Pyle, Eds. Armonk: M.E. Sharpe, 1997, pp 166.

⁷⁴ Ibid, pp 166.

⁷⁵ Anwar, Dewi Fortuna. "The Role, Significance, and Prospects of APEC: Contributions to Regional Security." The Security of Environment In The Asia-Pacific. Tien, Hung-mao and Tun-jen Cheng, Eds. Armonk: M.E. Sharpe, 2000, pp 183.

interdependence among the members of APEC in the long run could transform international relations in the Asia-Pacific from a zero-sum to a positive-sum game. Therefore, based on the mutual benefits of trade, South Korean President Kim Dae Jung is hoping to induce support for the North Koreans to participate in APEC.⁷⁶

Although the mutual benefits of economic interdependence were logical reasons for the South Koreans to join APEC, the question still remained: how could it be applied to the North Korean problem? After all, North Korea is not yet a member of APEC. This seems to pose a dilemma for the South Korean leaders. How can APEC help the North Korean regime to become more transparent as well as prevent it from collapsing? Thus, the next section will discuss how the multilateral forum can be utilized to help the North Korean economic crisis.

C. HOW CAN APEC HELP THE NORTH KOREAN ECONOMIC CRISIS?

Although North Korea is not yet a member of APEC, the multilateral forum still offers many benefits to the North Koreans. One benefit is that a multilateral forum would allow the North Koreans to engage in a dialogue with countries that it is not on best terms. For example, the DPRK can interact with the United States and Japan in an official or unofficial capacity. Earlier in this chapter, this thesis stated that the main goal of APEC for the South Koreans was to create a habit of dialogue to prevent the North Korean regime from collapsing. In essence, the dialogue between North Korea and the APEC members serves as a set of confidence building measures (CBMs).

⁷⁶ "ROK President Kim To Seek Support for Sunshine Policy at APEC Summit." FBIS 11 OCT 2001, pp 1.

These CBMS would have two purposes. One, the dialogue would promote a gradual evolution to transparency between North Korea and the other countries. Two, the continuous dialogue could lead to better appreciation of the concerns, interests, and perceptions of the participating countries. Moreover, the continuous dialogue would lead to mutual understanding and trust, thereby preventing the misinterpretations that could cause tensions or even conflict.⁷⁷ These dialogue meetings between North Korea and the other countries do not have to solely center on economic issues, but can be utilized to discuss unresolved problems.

A case in point where a multilateral forum such as APEC can improve bilateral relationships through dialogue is the relationship between North Korea and Japan. The rapport between the two countries can be described as cautious. This is especially true for the Japanese. Hyung-Kook Kim wrote that the Japanese took a cautious attitude for two reasons.

First of all, the Japanese leaders were searching for an alternative way to contribute to world peace and stability other than "checkbook" diplomacy. Frustrated with the domestic and international criticism of Japan's \$13 billion contribution to the allied forces during the Gulf Crisis, the Japanese leaders were trying to build a new image of Japan as a peacemaker. The second reason for the cautious attitude of Japan has to do with its concern with the possible domino effect of compensation. Japan needs to consider the reaction of other countries, such as the PRC and Southeast Asian countries.⁷⁸

⁷⁷ Ball, Desmond. "Multilateral Security Cooperation in the Asia-Pacific Region." The Security Environment In The Asia-Pacific. Tien, Hung-mao and Tun-jen Cheng, eds. Armonk: M.E. Sharpe, 2000, pp 131.

⁷⁸Kim, Hyung-Kook. "Multilateral Approaches to the Korean Peace Process." Korea in the 21st Century. Joo, Seung -Ho and Tae Hwan Kwak,

In addition, the North Koreans did not improve Japan's attitude toward them with the missile launch over Japan on August 31, 1998. Shocked by the surprise test that illustrated to the world North Korea's long-range missile capabilities, the Japanese became deeply concerned about their security.⁷⁹ As a result of the North Korean missile launch, the Japanese froze economic cooperation with the DPRK. In spite of this event, APEC could help improve the tenuous relationship between North Korea and Japan by allowing the opportunity for more dialogue between the two countries. The opportunity for this can arise during the summit meeting of the APEC members. Although North Korea is not a member, it can be brought in as a guest.

Continuous dialogue is not the only benefit of a multilateral organization. Another advantage is that APEC can further facilitate trade between the members and North Korea. This, in turn, would spur regional economic cooperation. Eventually, this regional cooperation would turn into economic interdependence. Hand in hand with increasing trade, the legal framework for APEC can pave the way for economic liberalization in North Korea. An indication that the mutual benefit of trade is becoming an increasingly important factor to the North Koreans is the value of its trading partners. For instance, Japan and South Korea are the two major export nations of North Korea. According to the North Korea Economy Review issued by Korea Development Institute (KDI) in the ROK

North Korea has exported 36 percent of its total exports worth \$260 million to Japan in 2000, mostly consisting of textiles, smokeless coal and

eds. Huntington: Nova Science Publisher, Inc., 2001, pp 168.

⁷⁹ Ibid, pp.170.

fishery products. Meanwhile South Korea made up 22 percent of North Korea's total exports worth \$150 million, a 25.3 percent increase from last year.⁸⁰

In conjunction, North Korea's major import nations are also APEC economies such as China and Hong Kong. In 2000, the Chinese exported crops and grain products in addition to crude oil worth \$450 million making up 27 percent of the North's whole imports.⁸¹

D. DPRK'S RESPONSE TO APEC

Overall, the ROK's level of success in engaging the DPRK through APEC to solve the North Korean economic problems and help it integrate into the international system was not good for two specific reasons. The first reason was that the North Koreans were ambivalent participants. The North Koreans have refused to mitigate its philosophy of *juche* and half-heartedly fulfilled basic economic reforms. Thus, by refusing to become a more positive player in the East Asian region, the DPRK has practically boxed itself in, to the point where the current government is faced with attempting reforms that would most certainly bring about the forced dismantling of the regime.

The second reason why South Korea's efforts failed to induce North Korea into a multilateral forum was because each country had different interests. On one hand, the ROK wanted to help the DPRK integrate into the international system to prevent it from collapsing as well as to deter them from acting like a rogue state. Unfortunately, the DPRK did not want to relinquish its sovereignty and continued to remain elusive and unpredictable. Although

⁸⁰ "DPRK's Major Export Markets Viewed." FBIS 9 OCT 2001, pp 1.

⁸¹ Ibid. pp.2

the North Koreans wanted to remain autonomous, they were forced to accept help because their economy was rapidly declining and letting the North Korean economy continue to decline into oblivion was not an option because the outcome would lead to regional instability. As a result, the only recourse available to South Korea and the other players in the region was to ensure that North Korea's economic integration into the international economy was as controlled and painless as possible. Therefore, the next chapter will examine the limitations of multilateralism and propose a solution to overcome these limitations.

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VI. LIMITED MULTILATERALISM

This thesis proposes that a multilateral alternative to APEC is the Tumen River Area Development Program (TRADP). The TRADP can be perceived as a limited multilateral vehicle because it provides an opportunity to develop closer relations with North Korea and other Northeast Asian countries without the full legal bindings that APEC had. This way, the South Koreans could utilize TRADP as an effective way to overcome the legalities that APEC imposed on its members and then TRADP could focus solely on the economic development of the countries that are involved in the program, especially the North Korean economy. More importantly, the economic motivation behind TRADP is also based on commercial liberalism principles in that there are mutual economic benefits. In time, economic interdependence will occur and eventually this would lead to a more stable regime.

With this in mind, the South Korean leadership should seriously revamp their efforts in the TRADP. Thus, this chapter will examine the effectiveness of utilizing the Tumen River Program as an economic confidence-building measure (CBM) as the basis for regional stability because trade and security issues have always had a symbiotic relationship.⁸² The goals here are as follows: 1) increase economic trade between North Korea and its regional neighbors; 2) draw the North Koreans into a multilateral setting without the full impact of the legalities of an institution; and 3) increase and improve bilateral relationships between North Korea and the other countries.

⁸² Olsen, Edward. "Tumen Project CBM: An American Strategic Critique." Asian Perspective, Vol.19, No.2, Fall-Winter 1995, pp 53.

In their efforts to fulfill these goals, North Korea would have to adopt a reform program entailing very limited opening and liberalization. Before this paper discusses the goals of the Tumen River Program, this paper will give a brief description of the project.

A. BACKGROUND ON THE TUMEN RIVER AREA DEVELOPMENT PROGRAM

The Tumen River Area Development Program (TRADP) was a regional project of the United Nations Development Program (UNDP) to accelerate the development of the Tumen River area on a multilateral basis.⁸³ Given the immense political and institutional hurdles, UNDP aimed to alleviate the existing obstacles to the expansion of trade and investment, and to create an "enabling environment" in the medium term.⁸⁴ Since, the meeting in Ulan Bator in July 1991, the TRADP has served as a testing ground for the expansion of sub-regional development cooperation among Northeast Asian countries with dissimilar political and economic systems.

The overall objectives of TRADP are to facilitate regional cooperation in trade development, investment promotion and environmental management, and to promote sustainable economic and social development in Northeast Asia and the Tumen River Economic Development Area (TREDA) in

⁸³ In 1990 Dr. Song Jian, Chairman of China's State Science and Technology Commission, and Dr. Lee Jay Cho, Chairman of the Northeast Asia Economic Forum organized the Changchun Conference on Northeast Asia Economic Development which focused on the economic possibilities for the Tumen River area. Based on this conference and general interest of Northeast Asian policy makers, the UNDP implemented a feasibility study of the Tumen River area. This information was quoted from a forward written by Lee Jay Cho for the proceedings of the sixth meeting of the Northeast Asia Economic Forum in Honolulu, Hawaii, January 18-19 1996

⁸⁴ Kim, Icksoo. "Tumen River Area Development Program and The Prospects For Northeast Asian Economic Cooperation." Asian Perspective, Vol. 19, No. 2, Fall-Winter 1995, pp.75.

particular. The TRADP strategy seeks cooperation in the formulation and implementation of practical short-term and medium-term Action Plans that are intended to build confidence in bilateral and multilateral cooperation.

B. THE ROK AND TRADP

Since July 1991, when the UNDP formally took over the TRADP, the ROK has been actively involved in its discussions. It hosted the first Program Management Committee (PMC) in Seoul in February 1992. The ROK held Working Group meetings on telecommunications and industry, and committed \$5 million (\$1 million every year) in contributions towards the successful conclusion of pre-feasibility studies.⁸⁵ The South Koreans have major motives for their participation as the leaders wish to utilize the multilateral forum to talk with North Korean counterparts in a more open manner, and induce North Korea to shift to a gradual opening of its closed economy. The South Korean leaders hope that frequent and patient dialogue with their North Korean counterparts would help the DPRK to better understand the merits of an open-door policy, as well as to maintain peace and prosperity on the peninsula.

However, it is important that the ROK leaders have acknowledged that there are still many difficulties in making TRADP a successful economic model, such as a lack of resources and investment. Despite these problems, the ROK leaders assert that the project has brought the countries in the region more cooperation.⁸⁶ Therefore, this next

⁸⁵ Ibid, pp 90.

⁸⁶ H.E. Uhm Rak-Yong. "The Tumen Programme: The ROK Perspective" pp 1. www.tumenprogramme.org/tumen/publications/speeches/1999-10%20Tiannjin/utm.

section will outline the goals that the ROK leaders hope to achieve by using the TRADP as an engagement tool to bring the North Koreans into the international community and to solve the North Korean economic crisis.

C. GOALS OF THE TRADP

The first goal of TRADP is to increase economic trade between North Korea and its regional neighbors. Though it is difficult to prove empirically the direct positive correlation between the start of TRADP and the expansion of inter-regional trade, there is evidence that suggests that TRADP has contributed to trade expansion by bringing about increased foreign investment, higher growth, and an improvement of trade supporting mechanisms such as transportation. In particular, one can find a positive causation extending from the improvement of transportation and the opening of new transport routes, to the expansion of inter-regional trade. Moreover, there is evidence that suggests that TRADP has contributed to trade expansion by bringing about increased foreign investment, higher growth, and an improvement of trade supporting mechanisms such as transportation. In particular, one can find a positive causation extending from the improvement of transportation and the opening of new transport routes, to the expansion of transit trade through the Tumen River Economic Development Area (TREDA) ports. The growth of transit trade may eventually contribute to the expansion of formal inter-regional trade among Northeast Asian countries.

This is due to the combination of two effects: First, the increase of TRADP-related infrastructural investments that may reduce transport distance and transport costs. As a result, a substantial proportion of existing trade volume

will be diverted from other ports (e.g Dalian) to TREDAs ports. Second, investment expansion in TREDAs may augment a trade increase. The former effect is supported by the fact that 7,690 tons of cargo was diverted from Dalian to TREDAs ports during 1992, and the volume rose by 39.1 percent to 10,696 tons in 1993. Diversion of Japanese cargo from ocean transportation to the Trans-Siberian Railway (TSR) is also conceivable in the future.⁸⁷

Although it is difficult to measure the exact growth of the yearly transit trade volume among Northeast Asian nations, it is confirmed from various sources that transit trade through major TREDAs ports of Rajin, Chongjin, Zarubino, Vladivostok, and Nakhodka have grown significantly since the establishment of TRADP. This evidence is supported by the significant growth in the volume of transit cargo passing through the road crossings of Tumen, Sanhe, Shatouzi, and Kaishantun. For instance, the total trade through Tumen border post that had been only 1.37 million tons in 1991, grew to 1.84 million tons in 1992, and to 2.4 million tons in 1993.⁸⁸ By 2003, the trade gained through the TREDAs ports is estimated to reach about 59 million tons.⁸⁹ Although the UNDP states the area has attracted \$1.5 billion in investment, the actual figure is believed to be below \$1 billion,⁹⁰ most of it comes from South Korean companies investing on the Chinese side.

⁸⁷ Kim, Icksoo. "Tumen River Area Development Program and The Prospects For Northeast Asian Economic Cooperation." Asian Perspective, Vol.19, No.2, Fall-Winter 1995, pp 94.

⁸⁸ Ibid, pp 94.

⁸⁹ Quoted in Ibid, 95.

⁹⁰ Hutzler, Charles. "U.N. Extends Strained Asia Trade Project." The Wall Street Journal. 2 April 2001, pp 1.
<http://proquest.umi.com/pqdweb?Did=000000070426007&Fmt=3&Deli=1&Mtd=1&I>

The second goal of TRADP is to draw the North Koreans into a multilateral setting without the full impact of the legalities of an institution. This way the North Koreans can start with the minimum structural framework. For example, the North Koreans have stated that they will allocate funds for the required infrastructure in the Rajin-Sonbong Free Trade Zone (FTZ), including industrial estates for key industries, facilities to accommodate a sizable influx of foreigners, local managers and workers, rail and highway links. Then in November 1992, the North Koreans started to put the legal framework into place with a foreign investment law, a joint-venture law, and a foreign corporation law. The emphasis on the series of legal reforms represents concrete CBMs. Moreover, these steps regarding the FTZ are commendable because it definitely represents a break with the past and reveals that the policy-making authorities are serious about the FTZ scheme and desire to overcome the concerns and anxieties of potential foreign investors.⁹¹ The need to attract foreign investment in the area led Kim Si-Jin, Vice Chairman, Korea Committee for Promotion of External Economic Cooperation, DPRK, to express in the ninth Northeast Asia Economic Forum held in Tianjin, China October 1999, that "the Rajin-Sonbong Economic and Trade Zone is an important component of development of the Tumen River Area, and the success in the latter is inconceivable without the Rajin-Sonbong Zone."⁹² In fact, the North

⁹¹ Kuribayashi, Sumio. "North Korea: Development Trends and a New Outward-Oriented Economic Policy." Rethinking Development Strategy in NE Asia. Kuribayashi, Sumio, Ed. Minato-ku: The Sasakawa Peace Foundation, 1993 pp 111.

⁹² Kim, Si-Jin. "The Tumen Programme: The DPRK Perspective, pp 1." www.tumenprogramme.org/tumen/publications/speeches/1999-

Koreans' positive response to the Tumen project is better than its reaction to APEC because the DPRK feels that unlike APEC, the Tumen Project is not threatening to the regime. Wheegook Kim states, "The DPRK's hesitation to open its door to foreigners except in the isolated zone at the mouth of the Tumen River is understandable. Pyongyang fears the attraction of foreign investment and expansion of foreign trade may liberalize the society and cause its regime to be overthrown, as occurred in the East European countries."⁹³ However, despite North Korea's fear of opening its society, the government's participation in the Tumen project illustrates that the country has acknowledged the mutual economic benefits of TRADP and are willing to participate.

The final goal of TRADP is to increase and improve bilateral relationships between North Korea and the other countries. Improving bilateral relations is very important to the success of the TRADP because this has been the main hindering factor of the existing multilateral regimes. On the broad scope, regional political ideologies have improved over time, especially since China normalized its relations with Japan and the United States in the 1970s. Now it is time for the DPRK to normalize with the other countries in the region. This progress can be aided due to the fact that the concept of economic and social development is undergoing a fundamental transformation. The growing economic compatibility and harmonization of different cultures and economic systems plays the role of

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⁹³ Kim, Whee-Gook. "Problems and Remedies of the North Korean Economy: A Strategic Approach." The Korean Journal of Defense Analysis Vol. VIII, No.2 Winter 1996, pp 241.

the strongest security guarantor. Hence, the principles of commercial liberalism are a fundamental factor in the South Korean decision-makers' line of thinking.

D. CONTINUING VIABILITY OF TRADP AND IMPLICATIONS FOR THE ROK-U.S. RELATIONS

The Tumen River Area Development Program (TRADP) has the ingredients to become an effective limited multilateral forum. This is because the evolution of strategies for TRADP has transitioned from "institutional" to "economic" issues. In 1994, an informal meeting between the UNDP and four members countries (absent the DPRK) agreed to place a greater emphasis on the economic rather than the legal and institutional aspects of TRADP.⁹⁴ Since then, the focus of TRADP has been dismantling the institutional barriers to the expansion of trade and investment. This is significant because the "institutionalism" of APEC was one of the reasons why the North Koreans were reluctant to join the organization. However, the North Koreans' lukewarm reaction to APEC does not mean that they will not join APEC in the future. On the contrary, North Korea's participation in TRADP could serve as a starting ground for the DPRK leaders to be involved in a multilateral setting. In fact, Dr. Gaye Christoffersen was quoted as stating that regional economic cooperation regimes such as APEC see the merits of lower-level regimes like TRADP.⁹⁵

Last, but not least, the Tumen River Program has inadvertently helped the ROK's overall reunification goals

⁹⁴ Kim, Icksoo. "Tumen River Development and Economic Cooperation." *Asian Perspective* Vol.19, No.2 Fall-Winter 1995, pp 80.

⁹⁵ Quoted in Blanchard, Jean-Marc F. "The Heyday of Beijing's participation in the Tumen River Area Development Programme, 1990-1995: A Political Explanation." *Journal of Contemporary China*. Princeton; July 2000, pp 10. <http://proquest.umi.com/pqdweb?Did=000000056493658>

as the TRADP's twenty-year scope lets the North Koreans gradually ease themselves toward a market economy. This in turn narrows the differences between the two Koreas as they try to foster unification.

However, in order to make TRADP a success, it needs the support or more likely the financial backing from the United States. Yet, the Tumen River Program has not gained very much interest in the United States for several reasons. First, the location of the project is quite unusual. North Korea has expanded its economic zone hoping for promote investment, but without United States participation, investment in the region is moving slowly. United States investors are not able to invest in the North Korean region according the US law, because of poor diplomatic relations. The restrictions not only limit US investors, but also the recent tensions with North Korea's nuclear weapons create unwanted tension. Investors are more likely to invest in a worry-free area where they do not have to contend with the instability of the country.

In addition, the U.S. leadership is still wary of Kim Jong Il's commitment to improve bilateral relations with its southern neighbor as well as with the other countries in the region. Since President George W. Bush came into office in 2001, his administration has categorized North Korea as a foe.

Moreover, since the Sept 11, 2001 terrorist attacks against the United States, President George W. Bush called the North Korean regime a part of the "axis of evil" along with Iraq and Iran. According to an article written in the Far Eastern Economic Review, the authors observe:

The hardliners in Washington believe Seoul is naively pursuing engagement with an enemy that will not reciprocate its goodwill. "The Sunshine Policy is dead," says Nicholas Eberstadt, a Korea specialist at the American Enterprise Institute, a conservative think-tank. "The autopsy will show that Sunshine was killed by the North Korean government." In addition, in a trip to South Korea, President Bush declared that, "I'm troubled by a regime (North Korea) that tolerates starvation." ⁹⁶

Comments like these from Korea experts in Washington undermine the validity of South Korean President Kim Dae Jung's "Sunshine Policy." In addition, the negative view from the United States also concerns academics in South Korea. For example, Chung Moon-In, an advisor to the ROK government, states that "We don't want war, but the way the U.S. is going might trigger an uncontrollable escalation. America is making a big mistake."⁹⁷ Moreover, not only does the tougher American stance worry the South Koreans, but President Bush's Axis of Evil speech has also put the North Koreans on edge. Ultimately this makes it more difficult for the South Koreans to persuade the North Koreans to participate in multilateral forums that focus on getting the North Koreans to engage in dialogue with the other countries in the region.

The United States is also concerned about the DPRK's continuing to sell weapons of mass destruction. In light of the Bush administration's strong response to terrorism, the United States could support the halt of all economic aid to the North Korea. This unilateral action by the U.S. could seriously cripple the ability of the South Koreans to

⁹⁶ Larkin, John and Murray Hiebert. "Axis Of Uncertainty." Far Eastern Economic Review February 18, 2002 pp 12.

⁹⁷ Ibid, pp 13.

elicit cooperation from the North Koreans on a friendly measure. That is why it is even more important that South Korea utilizes a multilateral forum to ensure that engaging the North Koreans in a cooperative manner will not be swept aside.

E. RECOMMENDATIONS FOR MULTILATERAL EFFORTS IN THE FUTURE

Since his inauguration in February 1998, President Kim Dae Jung has made it evident with his "Sunshine Policy" that the South Koreans are willing to extend the olive branch to their northern neighbors. Although there has been a limited response from the North Koreans to the South Korean effort, the DPRK has begun to see the merits of interacting with the ROK. This is evident from the increasing inter-Korean trade. However, the enormous political and economic price of helping the North Koreans into the international system has demonstrated to the South Koreans that they can not take on this feat alone. Whether the multilateral vehicle for this purpose happens to be APEC or the Tumen Project, it is clear that the South Koreans should be the ones who spearhead the effort. In addition, it is important for the South Korean leaders to stress that APEC and the Tumen Project serve as confidence building measures because they facilitate dialogue between North Korea and the other countries in the region. In the 2001 APEC summit meeting in Shanghai, President Kim Dae Jung continued to seek support from the members for Seoul's engagement policy toward North Korea and to advance trade and investment ties with the DPRK.⁹⁸

⁹⁸ "ROK President Kim To Seek Support For Sunshine Policy At APEC Summit." FBIS 10 OCT 2001, pp.2.

On balance, it is necessary for the South Koreans and the other countries in the region, especially the United States, to have patience for the North Korean regime. After more than fifty years of hardlined ideas ingrained into them, the North Koreans are not going to easily give up their ways and adopt a market economy. Moreover, the health of the North Korean economy is also dependent on the status of the other countries' economies. As a result it could take years and maybe even decades before the North Koreans will recover from their current economic crisis.

Nevertheless, the North Koreans are making some important institutional, if not behavioral, reforms. Chung-in Moon states, "the amended socialist constitution in 1998 has introduced market elements in its economic system by emphasizing the importance of cost, price and profit."⁹⁹ Therefore, the short-term as well as a long range solution for the South Koreans is to continue to get regional cooperation to help the North Koreans from collapsing. If the DPRK regime falls due to an economic crisis, all the countries in the region would agree that it would create future instability on the Korean peninsula, thereby affecting regional security.

⁹⁹ Moon, Chung-in. "Understanding the DJ Doctrine." Kim Dae-jung Government and Sunshine Policy. Chung-in Moon and David I. Steinberg, eds. Seoul: Yonsei University Press, 1999, pp 50.

VII. CONCLUSION

Since the division of the Korean nation into the two Koreas, the DPRK posed the greatest security threat to the ROK. However, the increasing effects of globalism showed that economic factors were also a security concern. Thus, the South Korean leaders shifted away from their realist mentality to that of commercial liberalism in order to better manage their security threats.

In conjunction, throughout the Cold War, the South Korean economy became stronger due to fact that its economy was integrated in the international economy. While integration caused economic growth, it also created vulnerabilities. The 1997 Asian financial crisis demonstrated to the South Korean leaders how vulnerable its economy was to exogenous factors. Because the ROK's own economy had been destabilized in the 1997 Asian financial crisis, it has weakened South Korea's ability to help the North Korean Economy. This means that the chance of the North Korean regime collapsing from its poor economy is greater.

Moreover, the North Koreans were unwilling to engage the South Koreans on a broad-scale bilateral level. This was because the North Korean regime feared that opening up its economy would bring the downfall of its regime. For them, the realist mentality still was relevant. As a result, although the inter-Korean trade brought some improvements in the DPRK economy, it did not change the way that the North Koreans viewed the South Koreans. Due to the fact that the ROK was not successful in engaging the DPRK on a broad-scale bilateral basis, it tried to induce the North Koreans into a multilateral forum. Again, the

South Koreans hoped that integrating the North Korean economy with that of other countries would change the DPRK's behavior. Over time, the ROK leaders hoped that the DPRK would see the benefits from increasing trade and view South Korea and other countries as cooperative partners rather than competitive adversaries. Thus, the ultimate goal was to change North Korea's behavior to become less "roguish" and adhere to the rules on the international society.

In order to make the North Korean regime less "roguish", this thesis examined APEC as a viable multilateral forum. APEC was chosen for several reasons. One reason was because the South Korean leaders hoped that by having the North Koreans participate in a multilateral forum it would make the DPRK regime more transparent. Another reason was because the APEC group focused on the commercial liberal principles such as economic interdependence. In fact, it was the mutual benefits of economic interdependence through increasing trade that led the South Korean leaders themselves to participate in APEC.

Despite the good intentions of the South Koreans and the other countries in the region to induce the North Koreans into APEC, the North Koreans have yet to become members. First of all, the North Koreans are refusing to give up their philosophy of *juche* and want to implement reforms under North Korea's own system. As a result, the DPRK has put itself in a very perilous position. This is because, if the leadership seriously attempts to reform its economy, these actions could most certainly bring about the forced dismantling of the current regime. This in turn

could create a new type of instability on the Korean peninsula.

In addition, South Korea's efforts to induce North Korea into a multilateral forum did not come to fruition because each country had different interests. On one hand, the ROK wanted to help the DPRK integrate into the international system to prevent it from collapsing as well as to deter them from acting like a "rogue" state. On the other hand, the DPRK did not want to relinquish its sovereignty and continued to remain elusive and unpredictable. Moreover, the South Koreans wanted the North Koreans involved in a full-fledged legal institution. Again, the North Koreans showed resistance to legal reforms that would dismantle the regime.

Due to the fact that the North Koreans are resistant to any legal changes in their government, this thesis proposed that the South Koreans focus their efforts upon making the Tumen River Area Development Program (TRADP) a success. TRADP is considered a viable limited multilateral forum because it does not impose the legal reforms that APEC demands of its members. Although the program still faces some difficulties today, mainly due to lack of investment, the South Koreans need to continue to push the development of TRADP. This is especially important in light of the current U.S. administration's tougher stance on the North Koreans. Furthermore, the South Koreans should continue to advocate TRADP because the program itself serves as a crucial confidence-building measure between North Korea and the other countries.

As long as North Korea is in economic decline, the South Koreans must strive to help their northern neighbors

from further deterioration to avoid having to deal with a future collapsed regime and its costs. This means that the South Korean leaders must engage in limited multilateral programs that put emphasis on the economic development of North Korea without destabilizing the current regime. The underlying purpose of the gradual opening up of North Korea is to prevent the regime from collapsing and creating an unstable environment. The problem of instability weighs heavily on the minds of the South Koreans because their own economic situation is still mending from the 1997 Asian financial crisis. In addition, the ROK election is set for December 2002. There is a possibility that the newly elected president will not follow in the footsteps of Kim Dae Jung's "Sunshine Policy." Combined with President Bush's tougher policy, the abandonment of the "Sunshine Policy" could spell serious trouble for the North Koreans.

Certainly, all the countries in the region would agree that the sudden collapse of the North Korean regime whether from economic causes or other factors, would not be good for regional stability. Therefore, the current South Korean administration should continue to press for multilateral efforts that stress the mutual benefits of economic interdependence to engage the North Koreans. President Kim Dae Jung's appeal to the APEC members in Shanghai expressed this thought. In addition, the current government should try to ensure that the future administration pursues multilateral efforts, such as TRADP because these vehicles allow the DPRK to learn how to interact in a multilateral setting without have to undergo radical institutional changes.

In conclusion, this thesis argued that multilateral efforts based on the commercial liberal principle of economic interdependence would decrease the security threat on the Korean peninsula. Although the tension on the peninsula has not gone away, the North Korean government has begun to see the mutual benefits of trade. As North Korea's trade increases with the other countries in the region it is likely to become more interdependent with the other countries in the region. Thus, countries that North Korea has been traditionally adversarial with, such as South Korea and Japan, can become important trading partners for the DPRK.

Ultimately the economic interdependence of these economies would force the North Koreans to acknowledge to themselves, as well as internationally, that it would be self-defeating if the DPRK disturbed the trade by engaging in a conflict. Until that time occurs, it is necessary for the South Koreans to stress patience in dealing with the North Korean regime.

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