



Policy Forum 08-059: Lee Outflanked



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By Aidan Foster-Carter

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I. Introduction

Aidan Foster-Carter, honorary senior research fellow in sociology and modern Korea at Leeds University, England, writes, "Far from being in sync with U.S. policy, at this juncture, a North-South spat is no help to Washington. Rather it risked upsetting the applecart, just when Assistant Secretary of State Christopher Hill was trying to clinch the next stage of the long drawn out - five years, and counting - 6PT process."

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II. Article by Aidan Foster-Carter

- "Lee Outflanked"

By Aidan Foster-Carter

Rarely does the political weather change so abruptly with the calendar as it has in Korea during the past quarter. As we reported in our last issue, North Korea chose April 1 - April Fools' day - to finally break its long silence on the South's new leader Lee Myung-bak, who was elected president last December 19 and took office on February 25. With rare restraint, Pyongyang had kept its counsel for several months since Lee - a former mayor of Seoul, ex-Hyundai CEO and self-described pragmatic conservative - was elected president by a large majority on a platform of mending fences with the U.S. and curbing Seoul's "sunshine" policy of the past decade. Though ready to expand inter-Korean dealings on his own terms - as in his Vision 3000 program, which offered to triple North Korean national income to US\$3,000 per head - Lee insisted on linking any increased cooperation to progress on the North's nuclear disarmament.

Sunshine dimmed

President Lee's new approach to South-North cooperation signalled a distinct break from his predecessors Kim Dae-jung (1998-2003) and Roh Moo-hyun (2003-2008), both of whom - especially the latter - often seemed to operate "sunshine" semi-independently of the multilateral denuclearization effort embodied in the on-off Six-Party Talks (6PT), sometimes to Washington's frustration. Thus, when Pyongyang fired a clutch of missiles in July 2006, followed in October by a nuclear test, Seoul rather oddly applied sanctions to humanitarian aid, but kept business as usual at the two flagship cross border projects in the Mount Kumgang tourist zone on the east coast and the Kaesong Industrial Complex (KIC) north of Seoul.

In the past, North Korea had never hesitated to excoriate Lee Myung-bak's Grand National Party (GNP) as "nation-selling traitors" and "pro-US flunkies." Its long delay in commenting on Lee and his electoral victory bespeaks a debate in Pyongyang over what to make of him. He professed to be a pragmatist, after all and was suspected of being too soft on the North by, among others, the GNP's last and twice-defeated presidential candidate, Lee Hoi-chang. The other Lee duly ran for president as a hard-right independent, taking 15 per cent of the vote and North Korean media trained their fire on him instead.

But it was too good to last. By April 1, Pyongyang had made up its mind and turned the full force of its bellicose rhetoric on Lee Myung-bak, as described in our last report. It continued throughout the quarter and as of early July, all official inter-Korean contacts and institutions were on hold with no sign of how or when the impasse would be broken. Yet, at the same time, in the strange but on balance positive duality which is sunshine's lasting legacy, the Kaesong and Kumgang zones carried on business as usual, although as described below on July 11 a fatal shot rang out that may prompt a rethink.

Lee at bay

As the inter-Korean standoff continued, it became increasingly clear that President Lee had miscalculated. He was and is also beleaguered on the home front, where bizarre protests against resumption of U.S. beef imports, of all things, escalated during May and June into large and sometimes violent street protests. The underlying beef seemed to be against Lee's high-handed style, even though his appeal was precisely as a no-nonsense former captain of industry who pledged CEO-style government.

Whatever the reason, in this volatile - not to say capricious - political atmosphere Lee's popularity plunged from 70 to below 20 per cent. The man formerly known as 'bulldozer' was reduced to grovelling apologies on television, twice; they cut little ice. Although the protests were dying down by July and the new National Assembly elected on April 9 at last convened on July 10 (the center-left opposition had been making hay over beef until then), this whole episode has left South Korea's new leader and government seriously weakened. It will be tough now for Lee to win back respect, either at home or abroad.

A bungled break

On the inter-Korean front too, Lee now looks to have bungled. In theory, making future sunshine conditional on progress in denuclearization was and is entirely reasonable. But in practice such a linkage has two downsides: one intrinsic, the other contingent on timing. While the old sunshine often looked one-sidedly generous and sometimes put a strain on coordination with the U.S., a realpolitik argument can be made which itself has two strands. South Korea is not just one among five equal interlocutors of the North at the 6PT. Legally, and despite a decade of sunshine, the ROK still formally claims jurisdiction over the entire Korean peninsula - as does the DPRK. As such, it is not only liberal South Koreans, dazzled by sunshine, who assert that Seoul has a special interest in the North: hey, it's their country.

Leverage lost

On this view, one gain of sunshine is that opening up and institutionalizing official North-South contacts gave Seoul its own independent leverage - if anyone can be said to have this - or at least lines of communication in Pyongyang. To insist henceforth on a link to denuclearization arguably threw away any autonomy for the ROK, making future progress in inter-Korean relations both subordinate to U.S.-DPRK ties and a hostage to fortune since the nuclear issue is notoriously difficult and volatile. Better coordination with Washington is one thing, but many South Koreans feel that, as on beef, Lee went too far and too fast.

Second, in any case, this was very bad timing. Far from being in sync with U.S. policy, at this juncture, a North-South spat is no help to Washington. Rather it risked upsetting the applecart, just when Assistant Secretary of State Christopher Hill was trying to clinch the next stage of the long drawn out - five years, and counting - 6PT process. Now that North Korea has finally submitted some kind of nuclear declaration and the 6PT have resumed in Beijing, it takes no crystal ball to predict that Pyongyang will expect rewards all round, such as the half a million tons of U.S. food aid already being delivered in a clear substitute for what Seoul had sent in past years. Meanwhile, the North can afford to cold-shoulder the South.

On July 11, in a striking U-turn, President Lee told the new National Assembly that "full dialogue between the two Koreas must resume" and pledged to implement all accords signed at both inter-Korean summits. Hitherto he had been sceptical of the large-scale plans for economic cooperation agreed by Roh Moo-hyun last October, linking these in particular to nuclear compliance. While Lee's abject climbdown will be duly relished in Pyongyang, somehow one doubts that Kim Jong-il will rush to embrace him just yet.

Trade rises, notwithstanding

The hiatus in official political ties gives an opportunity to look in more depth than usual at other aspects of the North-South relationship, such as its economic dimension. The two governments may be at loggerheads, but business is business. So far both sides have been careful not to let their current political quarrel prevent them from making money.

On June 24, the South's Unification Ministry (MOU) reported that inter-Korean trade in the first five months of 2008 rose 30 percent to \$734.25 million, up from \$562.92 million in January-May last year. Within this, the commercial component - true trade, as opposed to aid - soared by over half (52 per cent) to \$685 million or 93 per cent of the total. Conversely, what MOU coyly calls "non-commercial trade" fell by 56 per cent to \$49.2 million. While this reflects a decline in assistance from the South under Lee Myung-bak, the trend is a healthy one. It means the two sides are doing real business, rather than one-sided hand-outs whose motives are primarily political and which may or may not make economic sense.

The most recent monthly figures suggest that the political row is not unduly hurting the business relationship. Trade in May rose 14 per cent year on year, from \$151.9 million to \$172.7 million. Here again almost 90 per cent (\$153 million) was commercial, up 46 per cent from May 2007. Within this, the contribution of the two flagship joint economic projects just north of the Demilitarized Zone (DMZ) - the Kaesong industrial complex, and the Mt. Kumgang tourism resort on the east coast - more than doubled from \$40.9 million last May to \$89.5 million this May, comprising over half of all trade.

Unbalanced

Readers versed in economics will have noticed something missing. Curiously, no breakdown is given of imports or exports, the most basic distinction in any trade statistics. One hopes this is not out of some misguided idea that such vulgar details go against the spirit of inter-Korean cooperation; a notion that might have been entertained under the 'sunshine' policy of the past two ROK governments - which did in fact, however, publish direction of trade statistics - but that the vaunted pragmatist and ex-businessman Lee Myung-bak surely would pooh-pooh.

That this is no mere oversight is suggested by the fact, as we reported last quarter, that an import-export breakdown was similarly missing when MOU reported on annual inter-Korean trade for 2007 in January. The total rose by a third over 2006, from \$1.35 to \$1.79 billion, but again the ministry was silent on which Korea sent how much to the other.

Fortunately, the Bank of Korea (BoK), the South's staunchly independent central bank - as witness its address: bok.or.kr, not .go for government - has now filled the gap. On June 18, BoK published its annual attempt to estimate basic economic magnitudes for North Korea, which has produced no regular economic statistics for over 40 years since the 1960s. While the BoK's methodology has its critics, this annual data series is the best guess that we have. Moreover, any biases if consistent should at least allow yearly changes to show up.

The general picture, unsurprisingly, is one of woe. BoK reckons that North Korea's gross domestic product (GDP) shrank for a second year running by 2.3 per cent, mainly owing to a disastrous harvest. Agriculture still accounts for over a fifth of the Northern economy as against just 3 per cent in the South, even though the latter was the Peninsula's traditional rice bowl, while much of the mountainous North is frankly ill-suited for farming.

A widening chasm

Overall, the inter-Korean chasm grows ever wider. BoK estimates Northern gross national income (GNI, a slightly different measure than GDP) for 2007 at \$24.8 billion, or just over a thousand dollars (\$1,070) per head. Others regard this as way too high. In March, Lee Jong-suk, a former unification minister under Roh Moo-hyun, criticized both BoK's methodology and the Roh government for hushing up a study that he commissioned which computed a lower figure. Now a researcher at the private Sejong Institute, Lee's critique, as reported, seems to be a priori arguing that any method

that credits North Korea with GDP per head of about US\$1,000, close to that of Vietnam, which is a visibly richer and more dynamic economy, must be flawed. Lee puts North Korea's figure at about US\$390, placing it among the poorest countries on the planet.

Either way, the Northern economy, which until the 1970s was of a comparable scale and dynamic to the South's - initially it was even ahead - is now utterly dwarfed by it. Even on BoK's figures, South Korean GNI in 2007 of \$902.5 billion was 36.4 times the North's. Put another way, it takes less than 3 per cent annual growth in the South - recent annual norms have been nearly twice that - to add the equivalent of an entire Northern economy. That will still happen this year with at least 4 per cent GDP growth expected - Lee Myung-bak, unwisely, had boasted of attaining 7 per cent - despite a worsening international outlook reflected in soaring import costs for fuels, minerals, and food. South Koreans grumble at a rate of growth, even in bad times, that the semi-starving North can only envy. On a per capita basis, and again using BoK's arguably generous estimates for Northern GNI, South Koreans on average are 17.4 times richer than North Koreans. Moreover, both the absolute and relative gaps are growing every year. An already wealthy South just keeps on growing, albeit less rapidly than before - while a desperately poor North stagnates or even shrinks.

A year's exports in a day

If the South-North output gap is wide, then for trade it is astronomical. Here too, according to BoK, North Korea lost ground in 2007. Imports were down 1.3 per cent to \$2.02 billion from 2006, while exports fell 3 per cent to US\$920 million, leaving the usual large trade deficit of over a billion dollars - thought to be funded at least in part by illicit activities. The North's total trade of under \$3 billion is overwhelmed by the South's \$728 billion; a staggering ratio of 248:1. For exports, the figure rises to 404:1 - meaning that South Korea sold more to the world on average in a single day than the North managed in the entire year.

In fact, this is not quite accurate. Here, it is BoK's turn to mislead. Maddeningly, and thus belying its vaunted autonomy, like other branches of the ROK government it excludes inter-Korean trade when computing the North's foreign trade on the specious ground that this is internal rather than international. This self-occluding false modesty seriously distorts the figures as it understates the North's overall trade performance and conceals at least one very important fact. (A further tiresome quirk is that BoK, again like many others in Seoul, retains the Korean man-ok system - counting in units of 10,000 and 100 million, where the West uses thousands and millions - even in English language publications. This is not only frustrating but a frequent source of error, should a zero or two go astray in transcription.)

South Korea is the North's top market

Unlike MOU, however, BoK does at least give a directional breakdown of inter-Korean trade going back to 2002. With a slight blip in 2004, this reveals steady progress. In five years North-South trade almost tripled from \$642 million in 2002 to nearly \$1.8 billion last year. In particular, during the past three years, the North's exports to the South have really begun to take off. The 2007 figure of \$765 million was up by almost half on 2006, and well over double the \$340 million in 2005. Moreover - and this is what you might miss, perhaps because they want you to - this \$765 million, while peanuts to Seoul, is enough to make South Korea now the North's largest export market, ahead of China.

For now, Beijing remains Pyongyang's top trade partner overall, given that last year it sent imports worth \$1.392 billion, far exceeding the \$582 million in exports it received from North Korea. But, at this rate, South Korea may soon displace China as North Korea's main trading partner on both sides of the ledger this year or next. It would be ironic indeed if this happened on Lee Myung-bak's watch

and with political relations still frozen. Pace Karl Marx - whose portrait still hangs in Kim Il Sung Square, but whose name North Korea has banished from its Constitution and whose ideas have been largely overlain by a virulent quasi-fascist nationalism - the old doctrine of the economic base determining the political superstructure clearly does not apply. Between the two Koreas these two spheres currently appear pretty much autonomous, each with its separate dynamic.

One country, two planets

As usual BoK also provides comparative figures for sectoral output, which as ever reinforce a sense of "one country, two planets." The North has most of the peninsula's minerals, so it leads the South in coal production by 8:1 and iron ore by 17:1. It also has 5,200 km of railways to the South's 3,400, though how much of this decrepit network actually works is not considered. Everywhere else, the South - which of course has twice as many people, crammed into a smaller area - wins hands down. Thus, staying with infrastructure, South Korea's 103,000 km road network is four times the North's (and in far better condition; the DPRK's are often mere tracks, while even concrete "motorways" are bumpy). Southern port capacity is 18 times that of the North's, with a similar lead (17-fold) in shipping tonnage.

In the energy sphere, despite the North mining more coal, South Korea has ten times more generating capacity - and a 17-fold lead in actual electricity produced since many Northern power stations are in disrepair. The most telling gap is in crude oil imports. South Korea, a major global purchaser, took 873 billion barrels while the North had less than 4 billion: a ratio of 228:1. And so it goes on. In farming, even though this is 21 per cent of the Northern economy and only 3 per cent of the South's, the latter - admittedly with better land - grew more corn (the North's staple crop) and three times as much rice and fish. In industry, gaps vary from large to vast. South Korea produced 8.5 times more cement and fertilizer, 42 times more steel (despite all that iron ore in the North), and 48 times more synthetic fibers.

Such figures may be hard to take in. They have long been unable to fit on a single graph. Yet these are, or were, two halves of the same country; both of which, in theory, remain committed to eventual reunification. While the Koreas have plenty of immediate issues to occupy them - above all, currently, how to re-establish a political working relationship - it is also essential, if terrifying, to peer into the abyss and ask what meaningful reunification is even possible, and how, between two economies and societies that over half a century have diverged so markedly and tragically. Can Humpty Dumpty ever be put back together again?

Dying to meet

One group for whom the current inter-Korean freeze is very bad news is the dwindling band of elderly separated family members. Their hopes were raised by the program of reunions begun after the June 2000 North-South summit only to be dashed as it became clear that most were doomed to disappointment. The snail's pace and small numbers insisted on by Pyongyang meant that only a lucky few would get to meet relatives not seen or heard from in over half a century. For the rest, mortality would take its inexorable course.

Figures published by the South's MOU on July 7 confirmed this sad prognosis. As of June, out of a total of 127, 251 applicants for family reunions since 1988 (sic: the date is puzzling, since regular reunions began only in 2000), 35,475 or 28 per cent had already died; more than twice as many as had been reunited with their kin. Four years ago the mortality figure stood at 18 per cent. With a further 3-4,000 persons passing away each year, at this rate the cohort will become extinct before most have the chance to experience even this cruel parody of a true reunion. (The lucky few meet just once, under TV cameras, for a mere three days with no further contact of any kind permitted

thereafter.)

Football: playing games

The two Korean governments may not currently be meeting, but international competition compels their soccer teams to do so. On June 22, North and South met on the football field for the second time in three months in the third qualifying round for the 2010 World Cup. On both occasions the fight was fair and the result was a scoreless draw, sufficient for the ROK to finish top in Asia's Group 3. Both teams will now go through to the next round.

The players' sportsmanship contrasted with the DPRK government's antics. The earlier match on March 28 should have been in Pyongyang, but the North would not let the South fly its flag or play its national anthem. Instead of punishing this clear defiance of its rules, FIFA let the game be moved to Shanghai as a neutral venue. In June, the North tried it on again, claiming Seoul was unsafe and demanding another venue; it said the Southern resort island of Jeju would be acceptable. This time FIFA stood firm, and the game went ahead in Seoul's World Cup stadium before 48,500 fans - a section of whom wore white and waved flags of a united Korea, cheering both teams. The expected anti-North rallies by right-wing groups did not materialize.

These days the actual teams belie any simple division between North and South. One of the DPRK players, midfielder Ahn Young-hak, stayed on in the South; he plays in the domestic K-league for Samsung Suwon Bluewings. Ahn is an ethnic Korean from Japan, as is North Korea's formidable top striker Jong Tae-se. Jong in fact has ROK nationality, but attended Korean schools in Japan run by pro-North Koreans and chose to represent the DPRK.

They shoot people, don't they?

North Korea's routinely fiery rhetoric seems not to faze South Koreans, who have headed North in record numbers. In a useful innovation, MOU's website - largely paralyzed under the new government; the ministry itself was lucky to survive - now keeps a daily score.

Thus, on June 29 some 3,400 South Koreans were on the far side of the DMZ: 2,087 at Mt. Kumgang, 1,323 at Kaesong, and 70 elsewhere. In May, Southern visitors to the two zones totaled 56,957, up three-quarters from last year. The South's news agency, Yonhap, gave no breakdown, but most will have been tourists to Mt. Kumgang - where they can now drive their own cars across the DMZ - with a smaller number of managers, engineers, etc., traveling between Seoul (or Incheon port) and Kaesong. The latter continues to grow with 69 Southern firms now there, employing 24,000 Northern workers to make export goods.

The figures for Kumgang may now dip, or indeed dry up altogether. On July 11 a Northern soldier shot dead a middle-aged female Southern tourist, who had strayed into a restricted area on a pre-dawn walk. One would like to hope that this will remind South Koreans of the real nature of the regime from which the kitsch bubble of the Kumgang enclave normally shields them. The ROK government immediately suspended all tours. The DPRK expressed regret but refused either to apologize or allow entry to an official Southern enquiry. It thus looked even less likely that inter-Korean ties would improve any time soon.

III. Nautilus invites your responses

The Northeast Asia Peace and Security Network invites your responses to this essay. Please send responses to: napsnet-reply@nautilus.org . Responses will be considered for redistribution to the network only if they include the author's name, affiliation, and explicit consent.

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Nautilus Institute

608 San Miguel Ave., Berkeley, CA 94707-1535 | Phone: (510) 423-0372 | Email:

nautilus@nautilus.org